



# Take on tomorrow



# Take on tomorrow

HNB Assurance has always offered all our customers the confidence and strength that comes from knowing that whatever they do, wherever they go, we are there beside them. Over the years we have grown our company to be the foundation of many people's hopes and dreams, empowering thousands of Sri Lankans who depend on us to deliver the promise of a better life for all.

This report is a record of another very successful year in our history, one of unprecedented achievements and growth across the board. From market share figures to local and international recognition and a series of developments in products and service deliveries, we have made our mark and delivered on every promise. That is why we know that our reputation is growing and our ability to punch far beyond our weight is gaining strength.

And that is why we say to everyone who comes to us, live your life, dream your dreams. Take on tomorrow.

**HNB Assurance. Take on tomorrow.**

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Read this report  
online

## Highlights of the year

### Non - Life Insurance

	2013	2012	Growth %
GWP (Rs. Mn)	<b>1,863</b>	1,711	9%
Number of Policies	<b>89,824</b>	85,996	4%
Non - Life Fund (Rs. Mn)	<b>1,011</b>	969	4%
Claims Ratio	<b>66%</b>	68%	
Combined Ratio	<b>105%</b>	102%	

### Life Insurance

	2013	2012	Growth %
GWP (Rs. Mn)	<b>2,015</b>	1,500	34%
Number of Policies	<b>100,481</b>	95,738	5%
Life Fund (Rs. Mn)	<b>4,348</b>	3,626	19%
Claims Ratio (with Maturities)	<b>36%</b>	19%	
Combined Ratio (with Maturities)	<b>83%</b>	78%	

### Customers

	2013	2012	Growth %
Claims and Benefits - Incurred (Rs. Mn)	<b>1,568</b>	1,155	35%
Bonus and Dividend for Policyholders (Rs. Mn)	<b>120</b>	91	32%
Number of New Products	<b>9</b>	4	

### Employees

	2013	2012	Growth %
Number of Staff	<b>804</b>	723	11%
Profit per Employee (Rs. Mn)	<b>0.5</b>	0.5	
Training Hours per Employee (hrs)	<b>22</b>	25.8	
Employee Turnover (with Fixed Term Contracts)	<b>22%</b>	25%	

Life GWP (Rs.)  
Growth 34%

**2 Bn.**

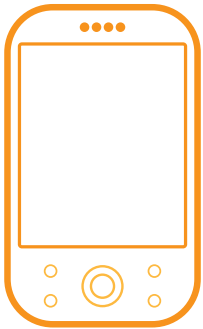
Combined GWP (Rs.)  
Growth 21%

**3.9 Bn.**

Total Assets (Rs.)  
Growth 15%

**8 Bn.**





# Mobile apps

## HNBA launches Mobile apps

Connectivity is key in this technological age. We ensure our customers are connected with us, at all times.

Page 94



**16%**

## Value Added

Growth

● To Life Policyholders	33.64%
● To Intermediaries	22.91%
● To Employees	21.15%
● For Expansion and Growth	14.12%
● To Shareholders	6.38%
● To Government	1.67%
● To Society	0.13%

Page 97

Life Fund (Rs.)  
 Growth 19%

**4.3 Bn.**

Bonus & Dividends for Policyholders (Rs.)  
 Growth 32%

**120 Mn.**

Water Projects  
 Total

**27**

## Our Vision

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

## Our Mission

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

## Our Values

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



Management  
Information

I want to colour the world around me,  
because I believe I hold the power to  
change the world..

**Take on  
tomorrow**

# We are HNB Assurance

We, HNB Assurance PLC (HNBA), are a composite insurer offering both Life and Non - Life insurance solutions within the boundaries of Sri Lanka, under the licence of the Insurance Board of Sri Lanka. Incorporated in 2001 and listed in the Colombo Stock Exchange in 2003, we are a subsidiary of Hatton National Bank PLC, a leading commercial bank in the country.

GRI-G4  
G4-03  
G4-05  
G4-06  
G4-07  
G4-08  
G4-09  
G4-13



**804**  
Employees



**Rs. 2.6 Bn.**  
Market Capitalisation



**Rs. 8 Bn.**  
Total Assets



**100,481**  
Life Insurance  
Policyholders



**Rs. 3.9 Bn.**  
Combined GWP



**89,824**  
Non - Life Insurance  
Policyholders



**Head Office**  
No: 10, Sri Uttarananda  
Mawatha, Colombo 03.



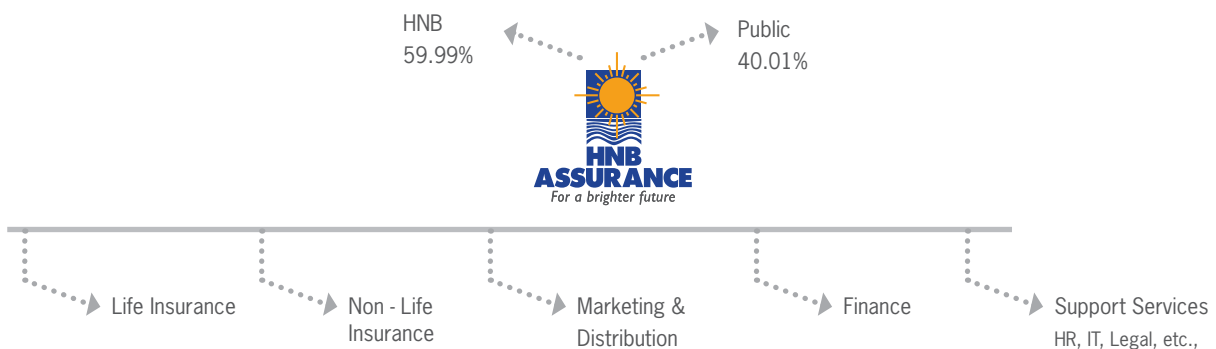
**51**  
Branches

**A** (Ika)

Credit Rating by Fitch Ratings Lanka Ltd.  
National Insurer Financial Strength Rating  
National Long – Term Rating

## Organisation and Ownership Structure

Appearing below is an illustration of the ownership and organisational structure of HNBA. No significant change occurred during the period with regard to the structure, size, ownership, capital formation or the supply chain of the business.





# About this Report

## Report Profile

This Integrated Annual Report of 2013 reflects the continuation of the annual reporting cycle of the Company and aims to present a balanced and unbiased view of our strategy and performance in financial, social and environmental dimensions during the year ended 31st of December 2013. This report also builds on the lessons learnt from our initial attempt at integrated reporting as demonstrated in our most recent previous integrated annual report, published for the year ended 31st of December 2012.

## Guiding Frameworks

Being our second integrated annual report, this has been prepared in line with the Integrated Reporting Framework released by the Integrated Reporting Council in December 2013.

Confirming to our commitment to continuous improvement in reporting on triple bottom-line performance, this report has been prepared 'in accordance' with the Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines and covers the required criteria for a report under the Core Option.

Financial information contained in this report comply with the Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka. Financial and non - financial information presented, where applicable, conform to the requirements of the Companies Act No. 7 of 2007, the Listing Rules of the Colombo Stock Exchange, the Regulation of Insurance Industry Act No. 43 of 2000 and rules and regulations issued by the Insurance Board of Sri Lanka.

The Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka form the basis for compliance on governance related aspects.

## External Assurance and Test of Compliance

KPMG Sri Lanka, whose assurance appears on page 237, has audited the financial statements and notes to the financial statements included in this report.

Further, this report was submitted to GRI for a Materiality Matters Check and was confirmed that at the time of publication of the G4 Guidelines-based report, the General Standard Disclosures G4-17 to G4-27 were correctly located in both the Content Index and in the text of the final report as per the GRI G4 – 'in accordance' – Core Option.



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

## Available Forms

In conformance to our commitment to reducing our carbon footprint, printed copies of this report will be posted only to those of our shareholders who have requested for the same in writing. For all others, we are posting this report in the form of a CD-ROM. Should a shareholder request so, however, we will be pleased to provide with a printed copy.

Sinhala and Tamil language translations of the Chairperson's message, MD's review and Key Financial Statements are also available on request. This report and the said translations could also be accessed online at our website [www.hnbassurance.com](http://www.hnbassurance.com).

## Contact Point

We are pleased to provide clarifications or further information on any matter discussed in this report. Such requests could be directed to:

E-mail : [info@hnbassurance.com](mailto:info@hnbassurance.com)  
 Address : HNB Assurance PLC,  
 No.10, Sri Uttarananda Mawatha,  
 Colombo 3, Sri Lanka.  
 Website : [www.hnbassurance.com](http://www.hnbassurance.com)

## We welcome your feedback

A feedback form is attached with this report.

## GRI-G4

G4-14

G4-28

G4-29

G4-30

G4-31

G4-32

G4-33

## About this Report

### Setting the Boundaries

This report covers the operations of HNB Assurance PLC for the year ended 31st of December 2013, and in the absence of subsidiaries and associates, the audited Financial Statements presented on pages 238 to 337 and other non - financial information presented throughout this report, unless otherwise stated, relate only to HNBA. No material restatements have been made of information provided in previous reports.

### Implementation of Reporting Principles for Defining Report Content

The G4 guidelines issued by GRI for reporting organisations lay down four principles to be followed when defining the report content. The following table illustrates how the Company has endeavoured to establish these principles when defining the content of this report.

GRI-G4

G4-17

G4-18

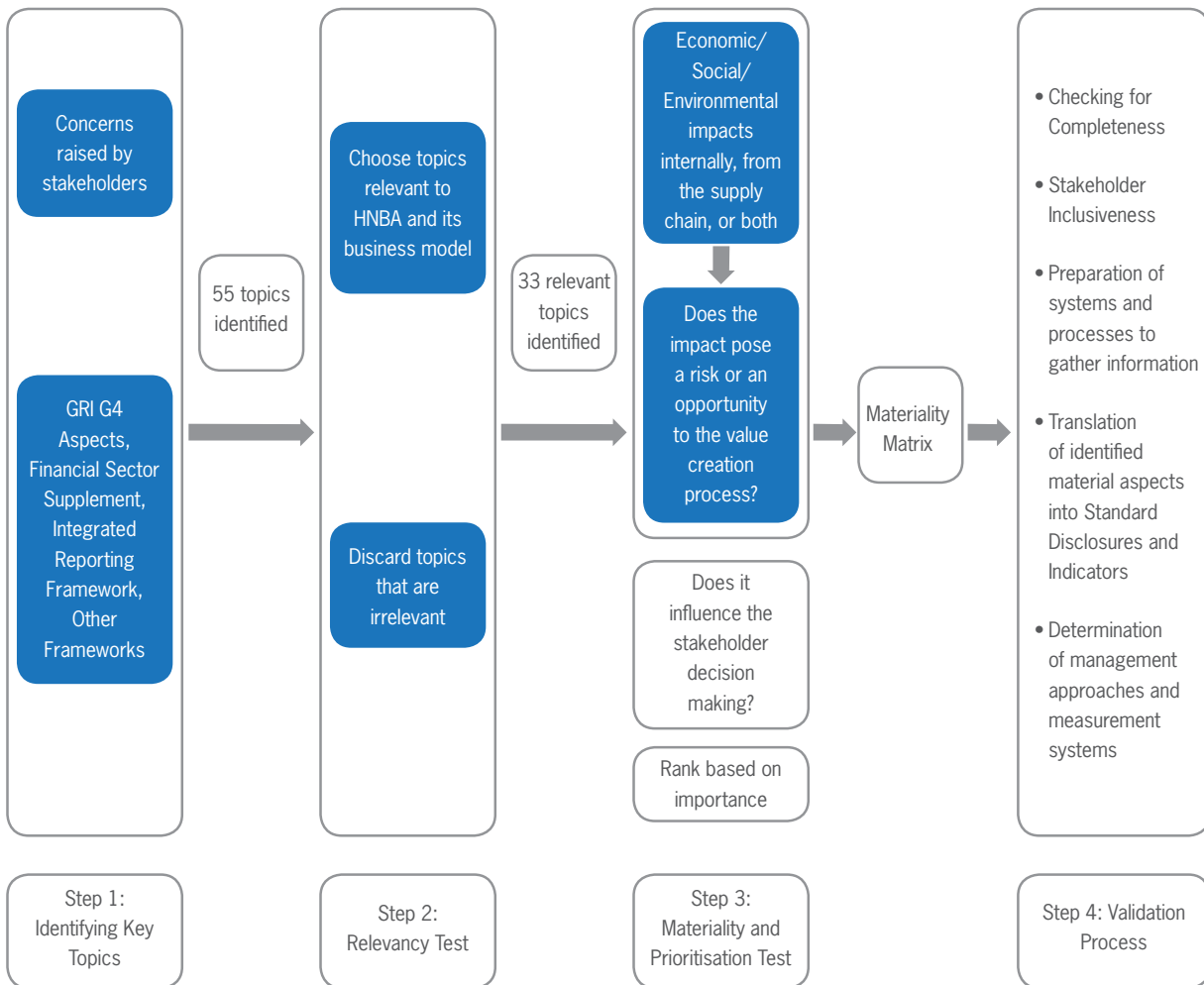
G4-22

Principle Number	Principle	Implementation Methodology
1	Stakeholder Inclusiveness	The Company has followed a comprehensive process for identification of its stakeholders and continuous efforts are made throughout the year to ensure that the needs of the stakeholders are identified and are met through our operations and activities. More information on the stakeholder inclusiveness process is found on page 12.
2	Sustainability Context	The Company places high regard to the sustainability impacts of its operations. Accordingly, numerous efforts have been taken to safeguard the sustainability of our environs, while also ensuring that our business operations bear minimum damage to such sustainability. More details on the Company's endeavours relating to sustainability context appear on pages 39 to 140.
3	Materiality	In determining the content of this report, significant attention was placed on identifying aspects which were sufficiently material, from the perspectives of the Company as well as of the stakeholders. The process followed for this purpose as well as the identified material aspects are found on pages 9 to 11.
4	Completeness	All efforts have been taken to ensure that the report provides complete information and that no material aspects have been excluded from this report.

### Defining Report Content and Aspect Boundaries

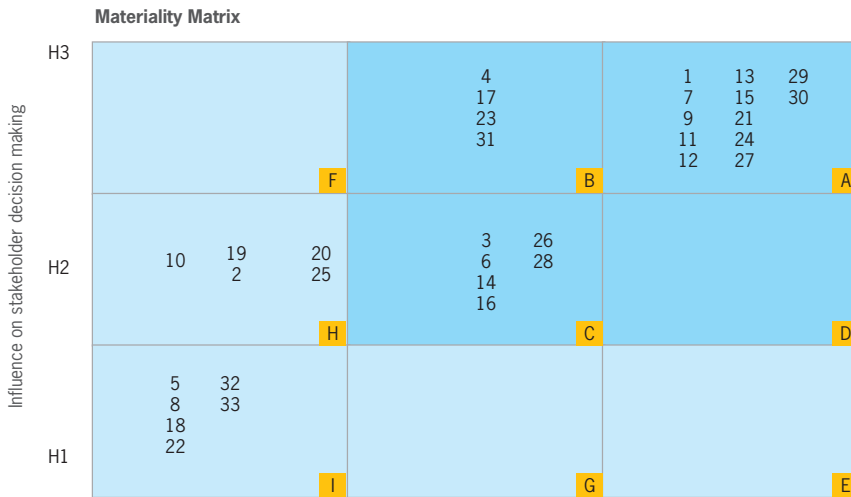
The process used for defining the content of this report is illustrated below.

GRI-G4  
 G4-18



The process outlined above resulted in the plotting of the following aspects on the materiality matrix.

## About this Report



Economic/Social/Environmental impacts within or outside HNBA

**GRI-G4**

G4-18

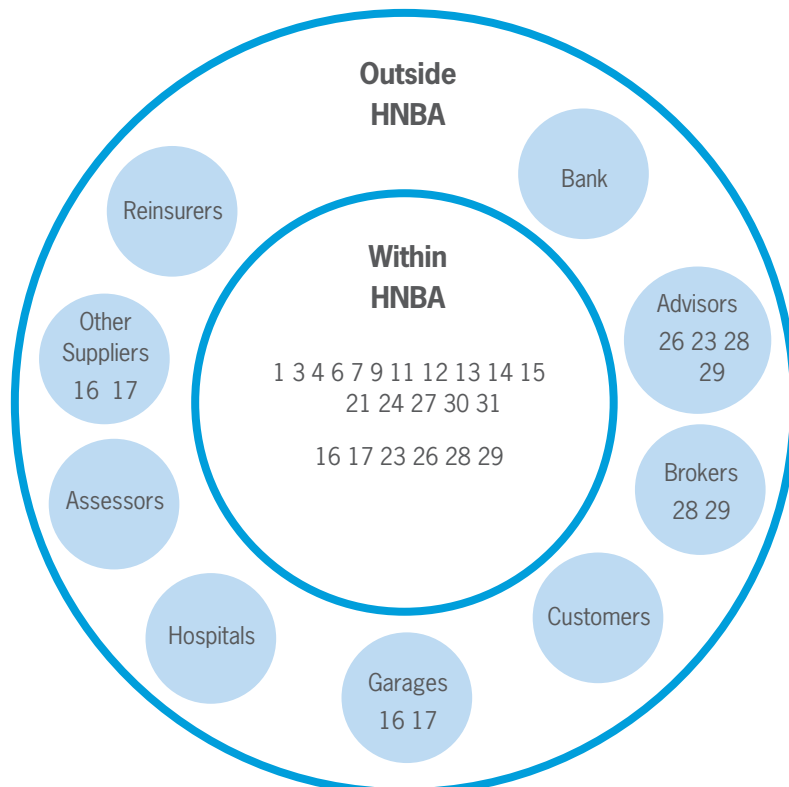
G4-20

G4-21

G4-23

Accordingly, aspects labelled in the quadrants A, B, C and D are deemed to be material and will form the content of this report. From the aspects material within the organisation, information availability was a limitation for disclosure on the aspect, 'Effluents and Waste'. However, for aspects where the impact occurs outside the organisation, information will be disclosed only based on their availability which is again a limitation. Since this report is the first report compiled by the Company under the GRI G4 guidelines, the scope and boundaries of the aspects mentioned are first time adaptations.

The list of material aspects and their boundaries, determined based on where the E/S/E impact occurs, within HNBA or outside HNBA or in both instances, is given below along with an illustration of where the impact occurs.





## List of Material Aspects

GRI-G4

G4-18

G4-19

G4-20

G4-21

Material Topics					
Aspect	Ref.No	Boundary*	Aspect	Ref.No	Boundary*
<b>Economic Performance</b>			<b>Social Performance</b>		
Economic Performance	1	I	<b>Sub Category: Human Rights</b>		
Indirect Economic Impact	3	I	Non-discrimination	15	I
			Child Labour	16	B
<b>Environmental Performance</b>			Forced or Compulsory Labour	17	B
Energy	4	I			
Effluents and Waste	6	I	<b>Sub Category: Society</b>		
Compliance	7	I	Anti-Corruption	21	I
			Anti-competitive Behaviour	23	B
<b>Social Performance</b>			Compliance	24	I
<b>Sub Category: Labour Practices and Decent Work</b>			Grievance Mechanisms for Impact on Society	26	B
Employment	9	I			
Training and Education	11	I	<b>Category: Product Responsibility</b>		
Diversity and Equal Opportunity	12	I	Product and Service Labelling	27	I
Equal Remuneration for Women and Men	13	I	Marketing Communications	28	B
Labour Practices - Grievance Mechanisms	14	I	Customer Privacy	29	B
			Compliance	30	I
			Product Portfolio	31	I
*I - Within HNBA			*B - Both within and outside HNBA		

Topics Determined Not Material for HNBA	Ref.No
Market Presence	2
Water	5
Overall	8
Labour/Management Relations	10
Assessment	18
Human Rights Grievance Mechanisms	19
Local Communities	20
Public Policy	22
Supplier Assessment for Impact on Society	25
Audit	32
Active Ownership	33

## About this Report

### Stakeholder Engagement

We believe that our existence is for and because of our stakeholders. We also believe that our success is determined by our ability to identify and address their concerns.

This is the reason why we endeavour to engage in a continuous and meaningful dialogue with all our stakeholders, all year long. Giving heed to the needs of our stakeholders, and responding to their needs, has enabled HNBA to arrive at win-win solutions all through its lifetime.

### Identification of Stakeholders for Engagement

While we impact and are impacted by numerous stakeholders, we believe that a comprehensive process of prioritising is necessary for the better understanding and monitoring of our stakeholders and their needs.

Hence, HNBA has a process of identifying its stakeholders based on two criteria:

- Parties who possess the ability to influence our value creation process
- Parties who are influenced by our value creation process

The extent of our engagement with our stakeholders is also determinant upon whether we have a legal, financial or ethical responsibility towards them.

The most important stakeholders for HNBA and the extent of engagement, marked on a scale of 1 to 8 (1 being the highest importance and 8 being the lowest), have been plotted on the matrix below.

Accordingly, the Company maintains formal mechanisms to promote active engagement with the stakeholders falling into the categories 1, 2 and 3. Concerns raised through such mechanisms are absorbed into the strategy formulation process of HNBA.

It is important to note that the list of stakeholders thus recognised is reviewed periodically by the management with the objective of maintaining its relevance.

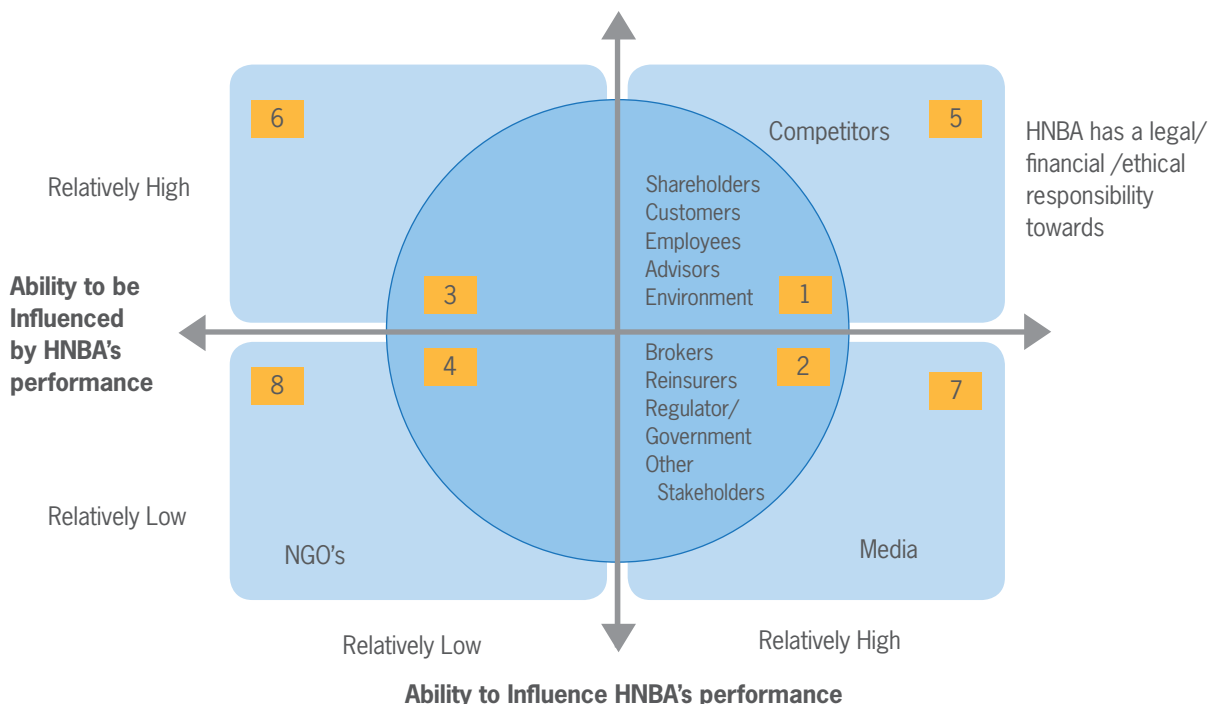
The mechanisms undertaken by the Company for engaging its stakeholders is listed on page 13 – 15. Further, the engagement mechanisms listed were not done for the purpose of preparation of this report.

GRI-G4

G4-24

G4-25

G4-26



GRI-G4

G4-26

G4-27

## Stakeholder Engagement Mechanisms

### Shareholders

Why	How	When	Concerns Raised	Our Responses
<ul style="list-style-type: none"> <li>To provide timely and relevant information on existing/potential investments</li> <li>Make decisions via the exercise of voting rights</li> <li>Raise concerns</li> </ul>	<ul style="list-style-type: none"> <li>Interim financial reports</li> <li>Annual report</li> <li>Annual General Meeting</li> <li>Access to Chairperson/ Managing Director/ Board Secretary via email/letter/telephone</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly</li> <li>Annually</li> <li>Annually</li> <li>Any working day</li> </ul>	<ul style="list-style-type: none"> <li>Attractive dividends</li> <li>Maintaining liquidity of share</li> <li>Clarifications about financial/ operational ratios</li> <li>Information about the Company in other languages</li> </ul>	<ul style="list-style-type: none"> <li>Dividend pay-out increased by 18% in 2013</li> <li>HASU traded 90% of market days</li> <li>Shareholder suggestions taken into account in providing financial/ operational ratios in Annual Report</li> <li>Sinhala and Tamil language translations of Chairperson's Message, Managing Director's Review and key financials are provided with the annual report (Refer pages 99 and 100 for details)</li> </ul>

### Customers

Why	How	When	Concerns Raised	Our Responses
<ul style="list-style-type: none"> <li>To provide information on HNBA products</li> <li>To identify insurance needs</li> <li>To provide a high level of service</li> <li>To provide assistance in the event of a claim</li> <li>To improve customer loyalty</li> </ul>	<ul style="list-style-type: none"> <li>Online help-desk and 24 hour customer hotline</li> <li>Customer Service Centre and 51 branches</li> <li>Customer news- letter</li> <li>Propaganda vehicle travelling island-wide creating product awareness</li> <li>Interactive trilingual website</li> <li>Web inquiries</li> <li>15 SMS services</li> <li>Facebook page</li> <li>Android Applications</li> </ul>	<ul style="list-style-type: none"> <li>365 days x 24 hours</li> <li>On all working days</li> <li>Biannually</li> <li>Visited 217 villages during the year</li> <li>Could be accessed anytime</li> <li>On payment receipt, claims settlement etc.</li> </ul>	<ul style="list-style-type: none"> <li>Assistance during accidents</li> <li>Improve service levels</li> <li>Hassle- free claims settlement</li> <li>Innovative products</li> </ul>	<ul style="list-style-type: none"> <li>A state-of-the-art Customer Service Centre was established at Dharmapala Mawatha</li> <li>Targeted training conducted for all front line staff and Motor assessors</li> <li>Special Customer Service improvement project was carried out to identify areas for improvement and address them through a multi-disciplinary process (Refer pages 101 to 111 for details)</li> </ul>

## About this Report

### Stakeholder Engagement Mechanisms (Contd.)

GRI-G4

G4-26

G4-27

#### Employees

##### Why

- To create and maintain a motivated workforce
- To be a responsible and sought after employer
- To get valued input from employees to improve the value creation process

##### How

- HNBA intranet to provide information
- Staff conference
- Management / Distribution Management meetings to share information and promote discussion
- Employee satisfaction survey
- CEO's forums
- Whistle-blowing policy and process
- Exit interviews
- Open-door culture
- Performance reviews

##### When

- Regularly
- Annually
- Quarterly
- Annually
- Annually
- All employees are educated on policy
- At all exits
- Continuously maintained
- Biannually

##### Concerns Raised

- Attractive remuneration
- Training opportunities
- Work-life balance
- Improved relations between superiors and subordinates

##### Our Responses

- Increased salaries on par with industry
- A wide array of training opportunities provided
- Training provided to management level employees on good HR practices
- Survey results/ exit interview results shared with the management teams for improvements (Refer pages 112 to 124 for details)

#### Business Partners

##### Why

- To maintain win-win relationships with business partners downstream such as Advisors, Assessors, Brokers, Garages, Financial Institutions who directly deal with our customers
- To gain the financial backing of our reinsurers

##### How

- Dissemination of information on our achievements and strategies
- Sales Clinics conducted for Advisors
- Award ceremony for HNB branches
- Training offered to advisors and brokers
- Get-togethers organised for business partners and our own staff
- Communication via email with reinsurers
- Regular meetings with reinsurers

##### When

- Monthly
- Monthly
- Annually
- Based on an agreed training calendar
- Annually or Biannually
- Continuously
- Throughout the year

##### Concerns Raised

- Need for training
- Prompt payments
- Rewards

##### Our Responses

- 271 training programmes done for Advisors
- Payments are made on a monthly basis for advisors and brokers on an agreed date
- Top performing advisors are recognised annually
- Top performing HNB branches are recognised biannually (Refer page 125 to 129 for details)



GRI-G4

G4-26

G4-27

**Regulator**

**Why**

- To ensure strict adherence to rules and regulations
- To receive clarifications on rules and regulations set by them
- Obtain approval for new products

**How**

- Submission of returns as stipulated by IBSL
- Submission of other documentation as per regulator's stipulations e.g. new product details, new advertisements, annual report etc.
- Responses to queries raised by the IBSL

**When**

- As per stipulated dates given by IBSL

**Concerns Raised**

- Clarifications about information provided by us

**Our Responses**

- Prompt response to queries
- Submitting of statutory returns well before target dates (Refer pages 59 to 61 for details)

**Community**

**Why**

- To contribute to the development of the communities of which we are a part
- To discharge our responsibility as a good corporate citizen
- To provide information about our activities

**How**

- Media statements to provide information
- Consultation of community members through our branch network to identify community needs
- Maintaining dialogue with community representative groups such as National Blood Bank, Cultural foundations etc.

**When**

- When there is a need to release information
- On a continuous basis
- On a continuous basis

**Concerns Raised**

- Community needs such as water facilities for schools, equipment needs for hospitals/ sports teams and associations, etc.
- Support needed to conduct academic/ professional conferences, performing arts, music and theatre, publication of books, etc.

**Our Responses**

- Review such requests and fulfil them if they fall in to our CSR criteria (Refer pages 130 to 137 for details)
- Ensure sustainability of our CSR initiatives by keeping in touch with target communities and fulfilling maintenance needs

## Chairperson's Message



***I am pleased to report that HNB Assurance was able to accelerate its pace of growth achieving a 21% growth in combined GWP as compared with the 8% growth in 2012.***

On behalf of the Board of Directors, I am pleased to welcome you to the twelfth Annual General Meeting of the Company and present to you the Annual Report and Accounts for the year ended 31st of December 2013.

### **The Economy**

The country was able to accelerate its GDP growth to 7.2% as against 6.4% in 2012, driven primarily by the Industry sector which grew by 9.6% up to the end of Q3 with the construction, mining and quarrying, electricity, gas and water sub-sectors leading the way with double digit growth. The sharp recovery in the export sector in the last quarter of 2013 significantly contributed to the higher GDP growth although credit growth in the first half has been slow. The gradual relaxation in monetary policy throughout the year

was intended to promote growth and the private sector is expected to respond with greater intensity in 2014 as a conducive environment for investment has now been created through a number of policy measures.

### **The Insurance Industry**

The industry experienced mixed results with the Life Insurance sector growing at a faster rate of 10% compared to 5% achieved in 2012 whereas the Non - Life sector saw a decline in growth from 15% to 9%. While the faster rate of economic growth and low interest rates may have contributed to the higher growth in Life Insurance, the slow growth in private sector credit (estimated to be 8%) was a main factor for the slowdown in Non - Life Insurance.

### Regulatory Framework

As the industry approaches the deadline to meet the statutory requirement to segregate Life and Non - Life Insurance business into two separate companies, we welcome the regulatory move of issuing clear and comprehensive guidelines to facilitate the bifurcation process. The industry also appreciates the extensive consultation process adopted by the Insurance Board of Sri Lanka (IBSL) in formulating guidelines which provided an opportunity to address many of the practical concerns. The 2014 budget speech deals with the issues relating to tax neutrality and the transfer of tax losses in a satisfactory manner. While appreciating this effort, I am hopeful that the remaining issues on tax credits and stamp duty on property transfers will also be resolved in a similar manner.

The bifurcation of insurance business into Life and Non - Life is expected to weed out potentially non-viable companies. However, if the post segregation structure ends up with over 30 small sized companies instead of the 22 we had so far, the industry as a whole will be faced with sustainability issues. Therefore, there is a clear need for a consolidation of the insurance industry similar to that of banking and other financial services. This may require an incentive based comprehensive plan to promote mergers and acquisitions and consolidation.

### Performance

I am pleased to report that HNB Assurance was able to accelerate its pace of growth achieving a 21% growth in combined GWP as compared with the 8% growth in 2012. This was mainly driven by an impressive 34% growth in Life

business followed by a moderate 9% growth in Non - Life business. Both were significantly higher than the GWP growth rates of 16% and 1% respectively of Life and Non - Life businesses in the previous year.

While achieving a significant acceleration in business volumes, HNBA recorded a growth of 11% in its Profit After Tax (PAT), maintaining its impeccable track record of consistent delivery of shareholder value. This is commendable as it was achieved on top of an exceptional growth of 43% in PAT recorded in 2012.

### Dividend

In view of the satisfactory growth recorded in PAT, the Board of Directors is pleased to propose a first and final dividend of Rs. 3.25 per share which is 18% higher than the dividend declared in the previous financial year.

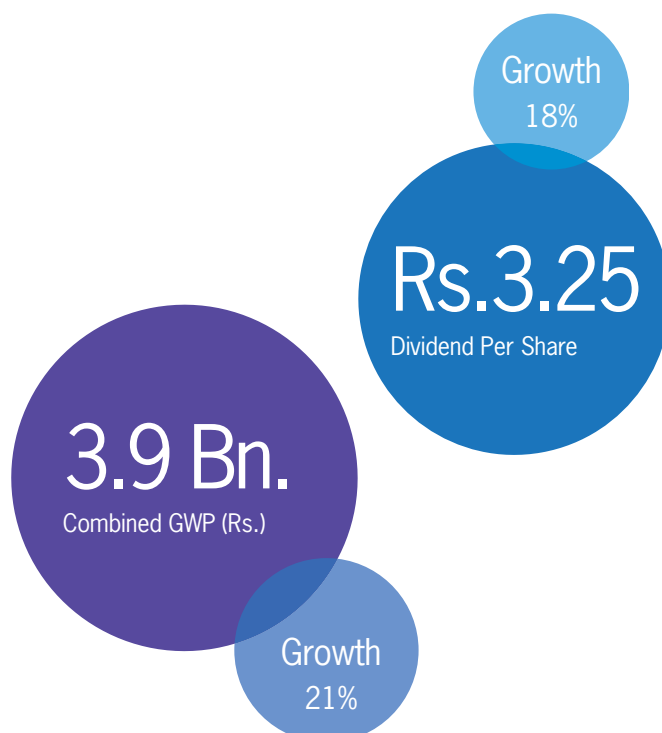
### Sustainability in CSR Projects

A significant milestone was passed in our CSR agenda with the completion of the 25th project to provide access to water to needy schools, a programme we commenced in 2008. HNBA was able to bring relief to a vast number of



### Annual Report Awards

- > Joint Bronze Award for Overall Excellence in Annual Financial Reporting
- > Gold Award in the Insurance Sector at CA Sri Lanka Annual Report Awards 2013



## Chairperson's Message

children, teachers and parents across 27 schools in 20 districts. Another laudable initiative was the successful launch and completion of the 'School to Office (S2O)' programme under which we trained 100 school leavers chosen from over 2,000 applicants on the basic skills required to succeed in the world of work. In addition, many other skill and capacity development activities targeting the Company's diverse stakeholder groups conducted during the year are described in detail elsewhere in this Report.

### Accolades

The winning of a joint bronze award for Overall Excellence in Annual Financial Reporting together with the Gold Award in the Insurance Sector at the Annual Report Awards 2013 held by Chartered Accountants, Sri Lanka recorded as one of the outstanding achievements of the Company in 2013. This is the second consecutive year in which the Company was placed among the top four companies in the Overall category of Excellence. It also marked the first occasion that the Company was able to top the Insurance Sector, confirming its growing stature as a leader within the industry.

During the year, among other accolades, the Company was able to secure many other local and international awards such as, the Celent Model Insurer Asia award, the award for Excellence in Training at the 4th Asia Best Employer Brand Awards and the award for Brand Excellence at the 4th CMO Asia Awards for Excellence in Branding and Marketing. It also retained its place among the list of Top 100 Companies in Sri Lanka compiled by Lanka Monthly Digest (LMD).

### Future Outlook

The year 2014 will be an exciting year for HNBA as it will cease to operate as a single composite insurance company pending segregation. Prior to the turn of 2015, the Company will bi-furcate its Life and Non - Life insurance business into two separate companies in line with the guidelines issued by IBSL and become compliant with regulatory requirements. Implementing this significant process of transformation while ensuring that business performance is maintained at a high level as in any other year will be a challenge, but I am confident that the team at HNBA with its strong commitment and competence will rise to the occasion to meet both these objectives, setting the stage for sustainable growth in value to all its stakeholders in the post-segregation era.

### Acknowledgement

Mr Rajendra Theagarajah resigned from the Board with effect from 1st May 2013 following his retirement from the parent company, Hatton National Bank PLC. The valuable contribution made by him as a Director since 2004 and as Acting Chairman from 1st of April 2011 to 29th of June 2012 is appreciated.

### Appointments

Two new appointments were made during the year increasing the number of directors to 10 and enriching its diversity. I warmly welcome Mr. Dilshan Rodrigo and Ms. Siromi Wickramasinghe who joined the Board in 2013. With the years of knowledge and experience possessed by them in financial services and other fields, I am confident that they will make a significant contribution to steer the Company to new heights.

### Appreciation

I thank the Government of Sri Lanka, the Central Bank of Sri Lanka and the Ministry of Finance for providing the financial services industry a conducive environment to improve business through numerous policy changes which had positive impacts on the insurance industry. I wish to place on record our thanks to the Chairperson, Director General and other officials of the IBSL for their guidance and continued support during 2013. I also wish to appreciate the important contribution made by the Insurance Ombudsman who works closely with the industry for its betterment. I thank my fellow Directors for their excellent support and cooperation at all times. The Managing Director and officials at management level and all other staff members have worked together diligently to deliver commendable results. I wish to recognize and appreciate their commitment.

On behalf of the Board of Directors, I assure you that HNBA will endeavor to end its last year as a composite insurance company on a high note and thereafter continue to generate sustained value to all its stakeholders through a segregated group structure that will be announced shortly.



**Raneer Jayamaha**  
Chairperson

03rd February, 2014



# Managing Director's Review



GRI-G4

G4-1

***The Company was able to achieve a growth in both Profit Before Tax (PBT) and Profit After Tax (PAT) in the year ended 31st of December 2013 while almost doubling its growth in turnover.***

It gives me great pleasure to present this Integrated Annual Report and Statement of Accounts for the year ended 31st of December 2013. This is our second release of an integrated report and we are greatly encouraged by the response we received for our maiden effort. That report produced for the year ended 31st of December 2012 was placed overall third at the Annual Report Awards conducted by CA Sri Lanka and was ranked as the best among insurance companies. We will endeavor through this report to go at least a minute step further in providing information of value to all our key stakeholder groups to whom our efforts are dedicated.

## **Industry Environment**

The insurance industry experienced yet another year of relatively low growth with the market expanding by 9% following an 11% growth in 2012. This is indeed disappointing considering the pressing need to raise insurance penetration in the country. Life sector recorded an improved growth rate of 10% as against 5% achieved in 2012 while the Non - Life Insurance sector experienced a slowdown to a growth rate of 9% from 15% recorded in 2012. The improved growth in life business can be attributed to low interest rates which improved the attractiveness of long-term savings and

## Managing Director's Review

### Profit After Tax (Rs.)

Growth 11%

# 389 Mn.

stimulated an increased demand for housing loans, which gives rise to more sales of Life Insurance products that are linked to them. The Non - Life Insurance market continued its slowdown due to the low growth in vehicle imports and private sector credit disbursements.

#### Overview of Performance

Our key strategic objective in 2013 was to accelerate the pace of growth and I am pleased to state that we were able to accelerate our growth rate in turnover to 21% from just 11% in the previous year. The turnover measured by Gross Written Premium (GWP) from Life Insurance business surpassed the Rs. 2 Billion mark recording an impressive growth rate of 34%. Non - Life Insurance also witnessed a sharp improvement in its growth rate from 1% in 2012 to 9% in 2013 ending the year with a GWP of Rs. 1.86 Billion.

In the highly competitive insurance market in Sri Lanka, it is not an easy task to achieve a growth in profits while adopting an aggressive approach to expand business volumes. However, as done in every single year since 2004, the



Page 2  
Highlights of the year



Page 39 to 146  
Management Discussion and Analysis



Page 220 to 337  
Financial Information

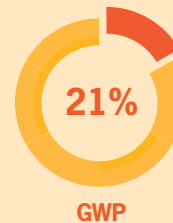
Company was able to achieve a growth in both Profit Before Tax (PBT) and Profit After Tax (PAT) in the year ended 31st of December 2013 while almost doubling its growth in turnover. PBT grew by 8% to reach Rs. 425 Million while PAT registered a growth of 11% to reach Rs. 389.1 Million.

Another striking feature in the Company's performance with regard to profitability is that a similar contribution was made towards PBT and PAT growth by both sectors of business. Dispelling the widely held belief that Non - Life Insurance business has to be subsidized by Life Insurance, the Company's Non - Life Insurance portfolio generated a PAT of Rs. 207.6 Million with a 12% growth over the previous

We delivered a good operating performance in both our Life and Non - Life Insurance businesses.

### Key Highlights

In this 2nd Integrated Annual Report, we have set out the story of HNB Assurance for the year noting key positives and negatives.



### 27 Water Projects

Since 2008, we have completed 27 projects to enhance the community's accessibility to water.

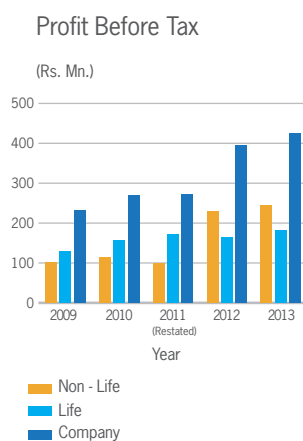


51 Branches

804 Employees

year. Thus it not only made a bigger contribution to the Company's PAT for the second successive year, but recorded a higher growth rate as well. The Life Insurance portfolio also contributed strongly with a PAT of Rs. 181.4 Million recording a growth of 10%. It is interesting to observe that both Non - Life and Life Insurance have contributed in a similar manner to turnover and profit, demonstrating that both lines of business can be operated at a similar level of profitability.

As a result of the growth in PAT, the Company's Earnings Per Share (EPS) grew to Rs. 7.78 while the Return on Equity (ROE) dipped marginally to 18% from 19%.



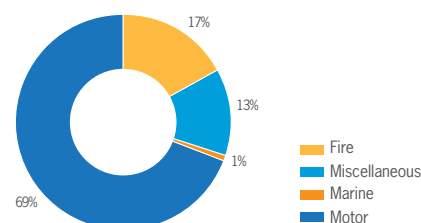
### Non - Life Insurance Sector

Compared to the previous year, the Non - Life Insurance sector achieved a satisfactory growth in business volumes with all classes other than Marine contributing towards it. Fire and Motor classes grew by 7% and 8% respectively while the Miscellaneous class recorded a much stronger growth of 25%. Due to the relatively faster growth in Miscellaneous business, the dominant position of the Motor class reduced marginally from 70% to 69%. It is heartening to note that the Company was able to significantly accelerate its volume growth in Non - Life Insurance business while achieving a reduction in the Net Claims Ratio as planned.

As mentioned above, the Net Claims Ratio (NCR) was reduced further to 66% having reduced it from 69% in 2011 to 68% in 2012. This is directly attributable to the selective underwriting policy adopted by the Company with its prudent approach to pricing. However, due to the GWP growth falling short of targets set, the Expense Ratio increased from 34% to 39% despite expenses being maintained at budgeted levels.

Notable areas of growth in expenses were staff costs, utility costs, rent and advertising expenses. As a consequence, the Combined Ratio increased from 102% to 105%, reversing the declining trend experienced since 2008. Every effort will be made this year to bring it back to about 103% in 2014 by stimulating a faster business growth while minimizing the growth in expenses.

Class-wise GWP -  
Non - Life Insurance 2013



However, with the help of an impressive growth of 19% in Interest and Dividend Income, the Company was able to generate a PBT of Rs. 243.6 Million from Non - Life Insurance with a growth of 7% despite the Underwriting Deficit widening from Rs.23 Million to Rs. 64.3 Million.

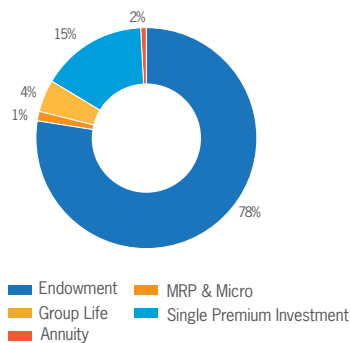
### Life Insurance Sector

The Life Insurance sector had an excellent year recording a growth of 34%, more than double the growth of 16% achieved in 2012. This was also a significant outperformance of the market growth which stood at 10% enabling the Company to improve its market share in a noticeable manner. With this growth, the Life GWP crossed the Rs. 2 Billion mark beating the Non - Life Insurance sector, which was ahead at the end of last year, to this goal.

The exceptional performance in Life turnover is largely attributable to the outstanding success of three single premium investment policies introduced by the Company in 2013. In total, these three products generated a premium income of Rs. 311.3 Million, recording a tenfold increase over the sales of single premium policies in 2012. These policies offered a guaranteed return with the backing of a matched investment providing retail investors who lack access to

## Managing Director's Review

Class-wise GWP -  
Life Insurance 2013



the capital market an opportunity to benefit from a higher investment return coupled with a life cover. As expected, they were well received by the market in a declining interest rate environment.

However, it is noteworthy to mention that the Life Insurance GWP grew at a healthy rate of 16% even when single premium investment policies are excluded. Endowment policies which made up 78% of the Life business also grew at 16% with the collection of renewal premiums driving the growth. A matter for concern is the low growth in First Premium (FP) from the sale of new policies, which will be focused upon in 2014. The growth of 14% achieved from Mortgage Reducing Policies (MRPs) is an encouraging sign as this product had been experiencing negative growth in the recent past. It is attributed to the improvement in housing loan approvals by banks as a result of reducing interest rates towards the second half of the year.

Out of the products recently introduced, 'myfund' stood out, contributing 34% of the Endowment business GWP, while the newly relaunched 'Ranmaga' accounted for 5%. The annuity product, 'myfreedom' showed promise by recording a 65% growth from a low base while Group Life business also showed encouraging signs with a growth of 25%. Micro Insurance was the only category under Life Insurance to record a decline.

The valuation of the Long Term Business carried out at the year-end showed that the Long Term Insurance Fund exceeded the required actuarial reserves by Rs. 510.4 Million. Out of this surplus, Rs. 201.7 Million was used to provide for solvency margin while Rs. 36.8 Million was provided for future

bonus and contingencies. The balance was shared between the Life policyholders and shareholders with Rs. 90.5 Million being distributed as bonus to policyholders and Rs. 181.5 Million being transferred to the shareholders account as a surplus from the Life Insurance business. In addition to the declaration of bonus in respect of policies with participation in profits, the Company also declared a dividend of 9% to 'myfund' policyholders making a provision of Rs. 30 Million for the purpose.

While the transfer of surplus to shareholders grew by 10%, the Company was able to increase the Life Fund by 20% to reach Rs. 4.3 Billion even after the transfer of surplus.

### Investments

The Company obtained a useful contribution from its Investments with Life Interest and Dividend Income growing by 35% and Non - Life Interest and Dividend Income increasing by 19%. It is commendable that these rates of growth have been obtained in the midst of a challenging Investment environment which saw a sharp decline in interest rates and a somewhat stagnant stock-market.

As interest rates kept falling, there were opportunities to realize some capital gains from treasury bonds purchased sometime back. The Company took advantage of the opportunities presented and realized gains of Rs. 45.8 Million by selling bonds mostly towards the year-end. A further Rs. 5.7 Million was realized through the disposal of equity investments. The Company also benefitted from the depreciation of the Sri Lanka Rupee as its foreign currency deposits generated an unrealized gain of Rs. 5.9 Million.

### Capital and Solvency

While supporting the accelerated growth in business without raising any additional capital in 2013, the Company was able to maintain its solvency margins for Life and Non - Life business at 2.04 and 3.89 respectively. It participated in the road tests carried out by IBSL as a prelude to the implementation of the Risk Based Capital (RBC) regime and remains confident of comfortably meeting the target capital adequacy ratios under RBC set by the regulator without any infusion of capital. However, if the need arises to raise more capital, the Company will not hesitate to come before its shareholders to seek the necessary capital by way of a Rights Issue.



## Segregation

In terms of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, all composite insurance companies are required to split their Life and Non - Life Insurance business into two separate legal entities. In consultation with the industry, IBSL has brought forward the deadline to the 1st of January 2015 and has set out a timetable with key milestones leading to the completion of the process by that date. HNB Assurance is totally committed to complying with the stipulated timeframes and guidelines. The Company has already complied with the first milestone by submitting a detailed proposal to IBSL on the proposed model of segregation by the target date, the 31st of December 2013.

The segregation model selected by the Company after due consideration envisages the creation of a fully owned subsidiary under the name 'HNB General Insurance Limited' and the transfer of the Non - Life Insurance business to this Company together with applicable capital, reserves and assets. People who are directly involved in underwriting, reinsurance, claims, customer service and sales of Non - Life Insurance will move into the new subsidiary. HNB Assurance PLC will concentrate on the Life Insurance business while operating certain shared service functions that are permitted by the regulator such as Finance, Human Resource Management, Information Technology and Legal. Since HNB General Insurance Limited will initially be a fully owned subsidiary, the profits of Non - Life Insurance business will flow into this Company in its entirety. However, at a later stage, the Company will need to release 10% – 20% of its holding in the subsidiary in order to get it listed as mandated by the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011.

While both Companies can share the same Managing Director/Chief Executive Officer (MD/CEO) and Chief Financial Officer (CFO), each Company will need to have its own Principal Officer and Specified Officer in terms of the guidelines issued by IBSL. Accordingly, it is proposed to appoint two Chief Operating Officers (COOs) for Life and Non - Life Insurance with the latter being posted to the subsidiary. They will function as both the Principal Officer and Specified Officer for each Company. Both of them along with the CFO and other Heads of Shared Services will report to the MD/CEO.

## Customers

Several new initiatives were launched during the year to expand the scope of our services and to make them accessible to our customers in the manner most convenient to them. A significant extension to the product range was the launch of a series of 'Takaful' products making us the first conventional insurer in Sri Lanka to introduce a 'Takaful' window. These products that have been certified as Sharia compliant by a duly constituted board of Sharia scholars include Motor, Fire, Title and Family Takaful products. Despite being launched towards the latter part of the year, Takaful business generated a premium income exceeding Rs. 16 Million.

Another important development from a customer perspective has been the launch of a fully-fledged Customer Service Center at our new location in Dharmapala Mawatha. This state of the art facility is equipped to serve both Life and Non - Life customers dealing with all their needs from obtaining a quotation to the settlement of claims. In addition, the range of options by which insurance premia can be paid was expanded by adding more collection centers and providing mobile technology enabled platforms such as 'momo' with HNB and 'mCash' with Mobitel.

## Our People

As in previous years, numerous initiatives were taken in 2013 to improve the processes by which we attract and retain talent which we recognize as the key driver of our success and growth. A novel programme titled 'School to Office' (branded as 'S2O') was launched to provide basic competencies needed at work to a selected batch of school leavers. The response we received was tremendous with over 2,000 applicants wanting to join this scheme. Due to logistical reasons, we had to restrict the intake to about 100, but considering the excellent feedback received from both participants and parents, we intend to continue this programme as a regular activity within our Social Responsibility calendar. We were also able to recruit several promising young people out of those who completed this programme.

A workshop titled 'Future of Business: Creativity & Innovation' conducted by Dr. Sunil Erevelles, Professor of Marketing and Chair of the Department of Marketing, University of North Carolina, USA for the Corporate Planning team, an Outbound Training Programme conducted in Dambulla for the

## Managing Director's Review

Management Team and a series of programmes conducted under the theme "Establishing Beliefs" for bancassurance officers by well-known sales trainer Mr. Leelaratne Piyasena were highlights of the varied training and development activities conducted during the year under review. Another noteworthy development was the significant increase in the number of fully qualified professionals in the Company with the number of Chartered Insurers, Chartered Accountants and Chartered Global Management Accountants employed by the Company increasing by 70%.

Our professional development activities were not only directed at our staff, but also extended to our field sales force comprising over 1,507 insurance advisors including field managers. The number of in-house training programmes conducted through our own sales trainers to enhance their skills increased to 217 compared to 172 in the previous year. In addition, two groups of over 100 field managers and advisors had the opportunity to participate in outbound training programmes conducted in Kalutara and Kithulgala. As the only Insurer to have entered into a MOU with the Sri Lanka Institute of Marketing (SLIM) to offer customized professional courses for the development of insurance advisors, the Company encouraged its field force to pursue studies leading to the Preliminary Certificate of Marketing (PCM) and the Diploma in Professional Selling (DPS) with 19 and 32 members completing the two qualifications respectively.

### Community and Environment

Sustainability was the key area of focus in all our community development and environment protection initiatives. Every effort was made to ensure that each activity creates sustainable value to the target community rather than merely addressing an immediate need. For instance, not only did we add 6 more schools to our flagship CSR initiative of providing access to pipe-borne water bringing the total number of schools covered to 27 from 20 districts, we ensured that all previous efforts are in working order attending to minor repairs and other maintenance requirements. Hence, we are in a position to proudly claim that 27 schools from all parts of the country are enjoying this essential resource to this date due to the singular efforts of HNB Assurance PLC and that we will make every effort to ensure its continuity while expanding the coverage.

With similar thinking, we renovated the Children's Park at Dombagoda Vidyalaya located in Thithagalla, Ahangama for

the second time having done it once before in 2010 as it was in need of repairs again. Time and again, we have come back to the same communities to make sure that they are able to enjoy the benefits of what we have done for a prolonged period of time. Even when we stepped forward to felicitate 5 leading artistes from yesteryear at our Sales Convention held in June 2013, we not only gave them a cash grant, but also provided them with a valuable health insurance cover that could be of use at a time of need, at entirely our cost.

The number of CSR activities carried out in the year ended 31st of December 2013 for the betterment of a wide range of target communities is far too numerous to mention here and are covered in detail elsewhere in this Report.

### Other Stakeholders

As a stakeholder focused Company, HNB Assurance PLC has consistently strived to ensure that significant value is created and distributed among all categories of stakeholders. The rewards given in 2013 to the shareholders, customers, employees and the community have already been discussed.

The Company arranged several knowledge sharing programmes for the benefit of our Insurance brokers who are increasingly contributing a significant share of our Non - Life Insurance business. They were also recognized and felicitated at our Annual Beach Rugby Fiesta held at Mount Lavinia Beach, which is an event dedicated to the broker community. A number of similar fellowship events were held to recognize and reward our valued colleagues from the parent company, HNB, who have continuously supported our business development activities over the years.

Last, but not least, the Insurance Board of Sri Lanka (IBSL) as the regulator was provided all the statutory returns on a timely basis and their routine inquiries have been promptly responded.

### Governance

As a Company renowned for its strong governance practices, the Company continued to maintain the highest standards of Corporate Governance in conformity with the applicable codes of best practice. Mr. Rajendra Theagarajah resigned from the Board with effect from 1st May 2013 as a result of his retirement from the parent company. I wish to acknowledge the support and guidance provided by him during his long period of service as a Director of the Company since 2004.

Two new Directors, namely Mr. Dilshan Rodrigo and Ms. Siromi Wickramasinghe joined the Board in 2013 increasing the total number to 10, which is the maximum number allowed as per the Company's Articles of Association. I extend a warm welcome to both of them with the expectation that they will make a significant contribution to take the Company forward.

With the intent of improving the governance framework of the Company further, a separate Risk Management Committee of the Board was formed with Mr. Dilshan Rodrigo as the Chairman. Mr. M.U. de Silva and Mr. K. Balasundaram were appointed as the other members of this Committee which will oversee the risk management activities carried out in the Company. In order to strengthen the Investment Committee, Ms. Siromi Wickramasinghe was added to it towards the end of 2013.

### Appreciation

I wish to thank the Chairperson and the Board of Directors for their constant guidance, involvement and encouragement. I salute the commitment displayed by my team of General Managers, Heads of divisions, Managers, members of staff, field management and insurance advisors, due to whose collective effort we have delivered an excellent overall result yet again. Along with my team, I convey my thanks to all our insurance brokers, managers and staff at HNB branches, other intermediaries, reinsurers, reinsurance brokers and other strategic partners for their wonderful support and understanding.

### Strategic Focus and Future Direction

The year that has just begun will be a momentous year for HNB Assurance for a number of reasons. It will be its last year of existence as a composite insurance company engaged in both Life and Non - Life insurance. By the end of this year, the Company has to complete the segregation process starting the year 2015 as two separate legal entities. The formation of a new subsidiary, obtaining a new license for that Company to conduct Non - Life Insurance business, transferring relevant assets, liabilities and people to the new Company, designing and implementing new organization structures and processes, transferring existing policies, launching a new brand, etc will be key priorities that will require attention during the year. The formulation of new visions, missions and values for both companies through a collective process of deliberation will also be an important aspect. In addition, the Company with

***The year that has just begun will be a momentous year for HNB Assurance for a number of reasons. It will be its last year of existence as a composite insurance company engaged in both Life and Non - Life insurance. By the end of this year, the Company has to complete the segregation process starting the year 2015 as two separate legal entities.***

the rest of its peers has to prepare for the implementation of Risk Based Capital (RBC) which is expected to be mandatory from the year 2016 onwards.

While a considerable amount of management time will have to be diverted to the above tasks, the Management Team with the support of the entire staff and the field force will commit itself to the task of maintaining the accelerated growth trend established during the year under review. In order to do that, the Company will execute a combination of organic and inorganic growth strategies. While the development of new products, channels and strategic partnerships will feature prominently among organic growth strategies, the Company will actively seek M & A opportunities both within the insurance industry as well as other related sectors.

Having delivered consistent value to all our stakeholders through a composite insurance company over a period of twelve years, HNB Assurance will commence a new journey towards creating greater stakeholder value through a new Group structure comprising separate Life and Non - Life insurance companies and possibly other related business entities as well. The Corporate Plan recently formulated for the period 2014 - 16 identifies several such areas of opportunity for consideration by the Management Team, but I can assure all our stakeholders that any strategic move that we take will be determined after a rigorous process of detailed evaluation, adequate consultation and independent deliberation. Hence, I remain confident that the Company will emerge as an even stronger and vibrant force within the financial services sector in the very near future.



**Manjula de Silva**  
 Managing Director

03rd February, 2014

# Board of Directors





**Left - Right >>**

**Dr. Ranee Jayamaha**  
*Chairperson*

**Manjula de Silva**  
*Managing Director*

**Jonathan Alles**  
*Director*

**M U de Silva**  
*Director*

**Pratap Kumar de Silva**  
*Director*

**Sarath Ratwatte**  
*Director*

**Mahendra Jayasekera**  
*Director*

**Ms. Siromi Wickramasinghe**  
*Director*

**Dilshan Rodrigo**  
*Director*

**K Balasundaram**  
*Director*

**Ms. Shiromi Halloluwa**  
*Company Secretary*



## Board of Directors

### *Chairperson*

#### **Dr. Ranees Jayamaha**

BA (Hons) (University of Ceylon, Peradeniya), MSc. (University of Stirling, UK), Ph.D (University of Bradford, UK), Duniv (University of Stirling, UK)

Non – Executive Director and Chairperson since June 2012. She had been the Deputy Governor in charge of Financial System Stability of the Central Bank of Sri Lanka from 2004 up to her retirement at end of May 2009. Over 40 years of extensive experience in the fields of economics, banking, finance, regulation and administration, having held a number of positions in the Central Bank and outside. Currently an Advisor to His Excellency the President of Sri Lanka.

On release from the Central Bank, served as Secretary – Presidential Commission on Finance & Banking, Advisor – Financial Sector Reform Committee, Ministry of Finance and Special Advisor (Economic) – Commonwealth Secretariat, London, U.K.

She has been a Member of the Securities & Exchange Commission of Sri Lanka, the Insurance Board of Sri Lanka, the Chairperson of the Credit Information Bureau of Sri Lanka and the National Payments Council. Has also been a Member of the Working Group on General Payment System Development of the Bank for International Settlements, Member of the Global Payments Forum, Member of the Advisory Panel of the G-8 Remittances Working Group and Member of the Expert Panel of the Safeguard Assessment Policy Review 2010 of the IMF. Has provided advisory services to a number of financial institutions and Central Banks in the Region.

### *Managing Director*

#### **Manjula de Silva**

BA Hons (Colombo), MBA (London Business School, UK), FCMA (UK), CGMA

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

### *Director*

#### **M U de Silva**

FCIB (London)

Non - Executive Director. Retired Senior Deputy General Manager (Administration & Marketing), Hatton National Bank PLC. Counts over 50 years experience in Banking including 15 years at the Corporate Management level of Hatton National Bank PLC. Fellow of the Chartered Institute of Bankers (London). Past President of Association of Professional Bankers, Past President of Chartered Institute of Bankers – Colombo Centre. Presently holds the position of Secretary General – Sri Lanka Banks' Association (Guarantee) Limited, Director – Lanka Financial Services Bureau Ltd. Member – National Payments Council and Financial Systems Stability Consultative Committee of the Central Bank of Sri Lanka.

### *Director*

#### **Pratap Kumar de Silva**

FICM (Sri Lanka), FICM (England)

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

### *Director*

#### **Sarath Ratwatte**

FCMA (UK), CGMA

Non - Executive Director. Over 30 years of private sector experience in the fields of Accounting, Financial & Treasury Management, Project Financing & Development, Investments and Risk Management. Has held senior positions in several multinational organisations and conglomerates in Sri Lanka and overseas. Was employed in the Aitken Spence Group of companies for a period of 18 years up to 2008, in many capacities including that of Group Treasurer/Director - Corporate Finance, Director - Ace Power Embilipitiya (Pvt) Ltd and Director - Aitken Spence (Garments) Ltd. Presently also a Non - Executive Director of Elpitiya Plantations PLC

*Director***Jonathan Alles**

MBA (University of Stirling, UK), AIB (SL)

Non - Executive Director. Managing Director / Chief Executive Officer of Hatton National Bank PLC since 1st July 2013. Member of the Corporate Management of Hatton National Bank PLC since 2010. Counts over 26 years experience in Banking including 15 years of overseas assignments. Also a Director of Sithma Development (Pvt) Ltd, Acuity Partners (Pvt) Ltd, Acuity Stockbrokers (Pvt) Ltd, Lanka Ventures PLC and Lanka Financial Services Bureau Ltd.

*Director***Mahendra Jayasekera**

FCA, BSc Special Hons - (University of Sri Jayewardenepura)

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

*Director***K Balasundaram**

Non - Executive Director. Director/Chief Executive Officer of Mercantile Merchant Bank and Pathfinder Group of Companies. Also serves on the Boards of MMBL Money Transfer Private Limited (Joint Venture with Aitken Spence), Saffron Aviation Private Limited and Sentinel Reality Private Limited (Joint Venture with John Keells), Yarl Hotels Private Limited (Joint Venture with Jetwing), Intertek Lanka Private Limited (Joint Venture with Intertek UK), Energizer Lanka Private Limited (Joint Venture with Energizer USA). Counts over 46 years of experience in Finance and Business Management having worked in Manufacturing and Service Industries including Public Quoted Companies, Board of Investment Companies and Statutory Boards.

*Director***Dilshan Rodrigo**

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

Non - Executive Director. Appointed on 01st July 2013. Chief Operating Officer of Hatton National Bank PLC and Director of Acuity Securities Ltd, Acuity Partners Ltd & Guardian Acuity Asset Management Ltd and Alternate Director for Credit Information Bureau. 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 and a member of the Sri Lanka Institute of Directors. 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. Lecturer and examiner for Strategic Management for the University of Wales affiliated MBA Program in Sri Lanka and a guest lecturer at Postgraduate Institute of Management. Has presented technical papers in various forums locally and overseas on Strategy and Risk Management. A former President of ACCA Sri Lanka Division.

*Director***Ms. Siromi Wickramasinghe**

Attorney-at-Law

Non - Executive Director. Appointed on 02nd October 2013. Presently holds the positions of Chairperson of Housing Development Finance Corporation Bank (HDFC Bank) and Director of Agstar Fertilizers PLC. Also functions as the Head of the Credit Counselling Centre. A Fellow of the Chartered Management Institute, UK. Counts over 32 years of multi-functional and progressive experience in Sri Lankan Banking sector including 12 years at the Corporate Management level of Hatton National Bank PLC. Also held the positions of General Manager/CEO at Lankaputhra Development Bank and Chairperson of Ceybank Asset Management Company, a subsidiary of Bank of Ceylon.

*Company Secretary***Ms. Shiromi Halloluwa**

Attorney-at-Law & Notary Public

Appointed Company Secretary in January 2012. Presently works as the Manager – Legal (Operations) of the Hatton National Bank PLC. Counts over 18 years experience in the Legal Profession and 14 years as a member of the Legal Team of Hatton National Bank PLC.

# Executive Committee



## Standing

### Left - Right >>

#### **Namal Gunawardhane**

BCom Hons (Delhi), BIT (IGNOU)  
*Head of IT*

#### **Nilesh Amarasinghe**

BSc. Hons (Lon(LSE)), M Bus. (Fin) (UTS.Sydney)  
*Head of Investment*

#### **Vipula Dharmapala**

BSc Bus. Admin Sp. (J'pura), ACA  
*Chief Financial Officer*

#### **Ivan Nicholas**

*Head of Distribution*

#### **Dilshan Perera**

B.B.Mgt. (Marketing) Spe. (Hons.) (Kelaniya), MBA (PIM-SriJ)  
Chartered Marketer, Dip.M, MCIM (UK), MSLIM, MIM (SL)  
*Head of Marketing*

#### **Chandana L Aluthgama**

BCom Sp. (Kelaniya), FCMI (UK), MBA (Colombo)  
*Head of Corporate Business Development*

## Seated

### Left - Right >>

#### **Prasanth Fernando**

BSc. Hons (Colombo), ACII (UK), Chartered Insurer  
*General Manager - Life*

#### **Manjula de Silva**

BA Hons (Colombo), MBA (London),  
FCMA (UK), CGMA  
*Managing Director*

#### **Niranjana Manickam**

ACII (UK), Chartered Insurer  
*General Manager - General*

#### **Lalith Fernando**

MSLIM, EDDB (Colombo), CII (Award) UK,  
MCPM, AMSLITAD,  
Certified Professional Marketer (Asia),  
Practising Marketer (SL)  
*General Manager - Marketing and Distribution*

- 1. Manjula de Silva**  
*Managing Director*

Profile appears on page 28.
- 2. Lalith Fernando**  
*General Manager - Marketing and Distribution*

Counting over 23 years' experience in branch and regional management, sales operations, distribution management and marketing within the insurance industry, Lalith is the General Manager, Marketing and Distribution since January 2007. He joined the Company in April 2005 as the Head of Sales and prior to joining HNBA, he served at Ceylinco Insurance PLC and Eagle Insurance PLC. Lalith is a Council Member at Sri Lanka Insurance Institute and a past Chairman of the Marketing and Sales Forum of the Insurance Association of Sri Lanka (IASL). He is also a member of Sri Lanka Italy Business Council of the Ceylon Chamber of Commerce.
- 3. Niranjana Manickam**  
*General Manager - General*

Serving as the General Manager, General Insurance at HNB Assurance for nearly 5 years since joining the Company in April 2009, Niranjana counts over 30 years of local and international experience in handling all classes of Non - Life Insurance. Prior to joining us, he held the position of General Manager, Operations at Aviva NDB Insurance PLC. He is a past Chairman of the General Insurance Forum (GIF) of the Insurance Association of Sri Lanka (IASL) and is a Lecturer at the Sri Lanka Insurance Institute. He also serves as the Specified Officer of the Company.
- 4. Prasantha Fernando**  
*General Manager - Life*

Prasantha joined HNB Assurance in 2012, and serves as the General Manager, Life Insurance. Prior to joining us, he held the position of Assistant General Manager, Life Operations at Aviva NDB Insurance PLC. He counts over 20 years of experience in the Life Insurance Industry and was a lecturer at the Sri Lanka Insurance Institute.
- 5. Vipula Dharmapala**  
*Chief Financial Officer*

Vipula joined HNB Assurance as the Finance Manager in July 2008 and was subsequently promoted as the Head of Finance w.e.f. 1st January 2009. He was again promoted as CFO in January 2014. He has over 10 years of finance and audit experience at the Company and at Ernst & Young. He is the current Chairman of the Finance Technical Sub Committee (FTSC) of the Insurance Association of Sri Lanka (IASL).
- 6. Namal Gunawardhane**  
*Head of IT*

Joined as the Head of IT in June 2008. Namal has over 10 years' experience in his area of specialty - IT. He has served
- as the IT manager at Ceylinco Insurance PLC (General), Group IT Manager at Timex and Fergasam Group of Companies and as Project Manager IT at Asian Aviation Centre prior to joining HNBA.
- 7. Chandana L Aluthgama**  
*Head of Corporate Business Development*

Chandana joined HNBA in 2004 as Business Development Manager and was promoted as the Head of Corporate Business Development in January 2009. He counts over 22 years experience in business development, operations, branch coordination, corporate marketing, bancassurance, and channel management. He is also a visiting Lecturer at Postgraduate Unit of the University of Colombo - Management and Finance Faculty. Chandana served at Eagle Insurance PLC prior to joining HNBA. He currently serves as the Secretary of the Royal College Union (RCU).
- 8. Ivan Nicholas**  
*Head of Distribution*

Ivan joined HNB Assurance on 15th October 2010 as the Head of Distribution. He counts over 30 years' experience in branch and regional management and distribution within the insurance industry. Prior to joining HNBA he has served at Eagle Insurance PLC where he gained multinational exposure and at Union Assurance PLC as AGM – Corporate Business Development.
- 9. Dilshan Perera**  
*Head of Marketing*

Dilshan joined HNB Assurance in 2012 as the Head of Marketing. He has over 10 years' experience in Marketing and Brand Management, Business Development and Customer Relationship Management. Before joining HNB Assurance, Dilshan also worked in three other leading companies namely DFCC Bank, Ceylinco Life and Cargills Ceylon holding responsible positions in the Marketing Management field. Dilshan has undergone extensive training both locally and overseas including at Foundation for Advancement of Life and Insurance around the world (FALIA- Japan) and Spikes Asia Young Marketers Academy in Singapore. He is also a visiting Lecturer at National Institute of Business Management (NIBM).
- 10. Nilesh Amarasinghe**  
*Head of Investment*

Functioning as the Head of Investment since January 2013, Nilesh has over 8 years of experience in Capital Markets in Sri Lanka specializing in investment management/fund management. Having joined HNBA as a Management Trainee in 2005, Nilesh served HNBA as Assistant Manager - Investments and Manager – Investments, prior to being promoted as Head of Investment.

# Management Team



1. **Thilan Perera**  
MBA (USA), NDHRM (SL), Post Grad. TM (UK), MHRP, AMIPM  
*Head of Human Resources*
3. **Jude Weerakoon**  
AMInstCM (UK), ASSM (UK)  
*Zonal Manager - Central*
5. **Jehan Haniff**  
Practicing Marketer (SL), Certified Professional Marketer (Asia),  
Dip. In Training (UK), CII Award (UK), Mgt. Diploma - CHS (SL),  
MCPM (SL), MSLIM, AITD (SL), PM AA-ISP (USA)  
*Manager - Sales Training & Development*
7. **Manikavasakar Puviraj**  
BSc Hons. (Jaffna), Dip in HR (Moratuwa), PM-AAISP (USA)  
Certified Professional Marketer - Asia  
*Zonal Manager - North & East*
2. **Donald Nandalal**  
BSc Eng. Hons (Peradeniya), Pg. Dip. Bus. & Fin. Ad (SL), AMIE (SL)  
*Manager - Motor Claims*
4. **Geethani Saram**  
MBCS, MBA (Australia), PMP  
*Manager - IT Projects*
6. **Hiran Fernandopulle**  
BCom Special (Colombo)  
*Zonal Manager - North Western*
8. **Sajeewa Chandrasena**  
*Zonal Manager – Uva / Sabaragamuwa*





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9. **A R Bazlin Salih**  
*Zonal Manager – Southern*

11. **Hazana Caffoor**  
 Dip. MGT (Peradeniya)  
*Manager – Motor Underwriting*

13. **Sawan Rodrigo**  
 Certified Professional Marketer (Asia), MInstSMM (ISMM)  
 MSc in Strategic Marketing  
*Manager- Branch Operations*

15. **Salinda Perera**  
 MBA (UK), MIM (SL), Dip. in BM (IMSL)  
*Manager – Administration*

10. **Chitparan Vivekanandan**  
 ACMA (UK), CGMA  
*Finance Manager*

12. **Dinesh Udawatta**  
 BSc Hons. (Colombo), FIII (India), MBA (Colombo),  
 ANZIIIF (Snr Assoc) CIP (Australia), ACII (UK), Chartered Insurer  
*Manager - Life Underwriting*

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

16. **Kamini Gunawardene**  
 BA Hons. (Colombo), Dip in Econ (Colombo), MCPM  
*Manager – Marketing Communication*



## Management Team



17. **Sanjeevani Pitadeniya**  
DICCM (UK), DIP (SLII), MCPM, MMICS (UK)  
MCMi (UK), Chartered Manager  
*Manager - Customer Relations*
19. **Padma Dahanayake**  
B.Sc. Hons. (SJP), FIII (India), ACII (UK)  
Chartered Insurer  
*Manager – Life Servicing*
21. **B G Dhanawardena**  
BA Economics Sp. (Colombo)  
*Regional Manager – Colombo South*
23. **P H Ramasinghe**  
B.Sc. Business Management (SUSL)  
*Regional Manager – Panadura*

18. **Sitari Jayasundara**  
Attorney-at-Law & Notary Public  
Pg. Dip. Finance, Banking & Insurance laws.  
*Manager - Legal*
20. **Damayanthi Nelumdeniya**  
BCom. Sp. (Kelaniya)  
*Regional Manager – Anuradhapura*
22. **A L D H Liyanage**  
BCom. Sp. (Peradeniya)  
*Regional Manager - Colombo North*
24. **Rohan Hemantha**  
*Manager – Risk and Compliance*



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25. **M K D J R Miriyagalle**  
 Dip. LIM (USA), LUTCF (USA), Dip Sales Mgt. (SL), AMSLIM.  
 Certified Professional Marketer (Asia)  
 Regional Manager – Gampaha
27. **T Rizapan**  
 PM - AAISP (USA), ACPM (SL), PCM  
 Regional Manager - Trincomalee
29. **Prasad Thambawita**  
 HNDI Insurance Merit (NIBM)  
 Manager – Life Claims
31. **Hify Huzair**  
 BA (Hons), MBA (UK)  
 Manager – Takaful

26. **D M S Gunaratna**  
 AMIM (SL), AIPM (SL), MITD (SL), MSLIM  
 Certified Professional Marketer (Asia)  
 Manager – Bancassurance
28. **Thusitha Nandasiri**  
 ACII (UK), AIII, Dip. M (SL), ANZIIF (Snr. Assoc.),  
 MSLIM, CPM (Asia), Chartered Insurer  
 Manager - Non Motor
30. **Pushpika Seneviratne**  
 B.Sc. Hons (Colombo), M.Sc Actuarial Hons (UK),  
 ASA (US), ACMA (UK), CGMA  
 Associate Actuary

# Journey through Our History



**2003**  
A step ahead...! Initial Public Offering of HNB Assurance shares



**2007**  
A renowned recognition by Fitch Ratings Lanka... the 2nd insurer in Sri Lanka to receive a Fitch Rating...



**2001**  
Launching of HNB Assurance - beginning of a remarkable journey



**2005**  
The first tribute to appreciate service excellence of the staff - Chairman's Awards for Excellence



**2002**  
Commencement of operations as an innovative insurance solutions provider... at initial Head Office in Colpetty



**2004**  
It was truly memorable to celebrate the two new appointments of Chairman & Chief Executive Officer



**2006**  
Celebrating the 5th Birthday as the 'First Insurer in Sri Lanka to achieve an annual turnover of Rs. 1 Billion within 5 years'.





**2013**  
Established a new Customer Service Centre to deliver superior customer service



**2009**  
First International Award received for Best Presented Accounts - Corporate Governance by South Asian Federation of Accountants



**2011**  
A forum with investors to share the past, present & future of a successful journey of 10 years!



**2012**  
Rated among the top 100 companies in the country for the 1st time



**2008**  
Establishment of a fully-fledged Customer Relations Centre with a 24 hour helpline



**2010**  
'mylife' awarded for Excellence in Branding at SLIM Brand Excellence Awards





# Management Discussion and Analysis



I want to sing a song of happiness,  
because I know the world depends  
on me for joy....

# Take on tomorrow

# Management Discussion and Analysis

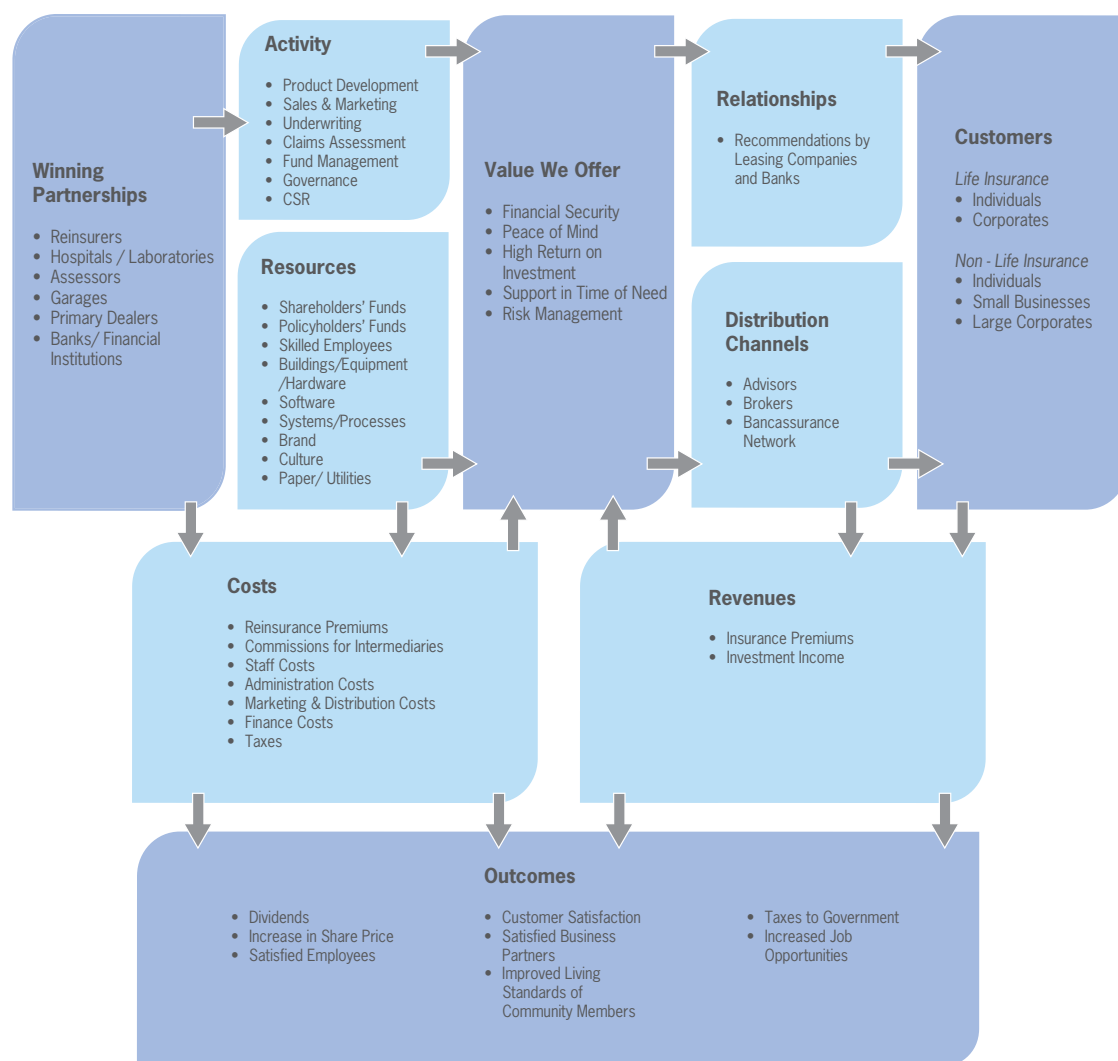
## Creating Value Sustainably

### Business Model

As a composite insurer offering innovative products ranging from life assurance to property, motor and other Non - Life insurance solutions, our primary aim is to provide financial security to our valued customers, thereby enabling them to ‘take on tomorrow’ with confidence. Prudent underwriting practices, fair and speedy claims assessment procedures, robust risk management systems and efficient fund management, backed by a strong governance framework, enable us to create value for customers as well as for all other stakeholders.

Players at various stages of our upstream supply chain, such as the panel of reinsurers who provide us the financial strength to accept risks, assessors, garages and laboratories who aid us in servicing our customers and players in the financial markets with whom we invest our funds, are all invaluable components of our value creation process. Downstream, our skilled advisor force, bancassurance network and insurance brokers, who form and maintain the link between us and our customers, form the linchpin of our value chain. Illustrated below is our business model canvas, our own unique formula for superior value creation.

GRI-G4  
 G4-12





## Management Discussion and Analysis

### Our Approach to Sustainability

Within the business model of HNBA, sustainability is not considered a mere tagline. Rather, it is an integral component of our corporate culture, stemming from our vision, mission and values and deriving importance in every operation conducted.

Being a provider of insurance services, the inherent nature of our activities does not pose a direct threat to the environment or to human life. Nevertheless, we are highly concerned about the economic, social and environmental impact of our operations. This holistic approach is what gets defined on each page of this integrated annual report, symbolising that all components of our business are intrinsically interlinked in delivering sustainable value to our stakeholders.

At HNBA, the managing of economic, social and environmental impact takes a top-down approach. Accordingly, the ultimate responsibility of ensuring that due consideration is afforded to economic, social and environmental performance in the formulation of our goals and strategies and in our decision making process, is vested with the Board of Directors. Under the guidance of the Board, this responsibility is delegated to the Executive Committee and the management team of the Company, in order to be embedded into our business strategy. A detailed description of our strategy formulation process is given on page 44.

As a part of our sustainability initiatives, we endorse the regulations, standards, codes and guidelines stated on page 7, and these have also formed the basis of this report. Additionally, our external commitments extend to the following organisations as well, by virtue of membership.

#### Membership of Associations

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



*“We are a registered Organizational Stakeholder of the Global Reporting Initiative (GRI) and support the mission of the GRI to develop globally accepted sustainability reporting guidelines through a global, multi-stakeholder process.”*

The sustainability impact of HNBA covered through this report, is disclosed based on the GRI G4 guidelines which sets guides and indicators in disclosing on economic, environmental and social performance under three broad categories and four sub-categories. In addition, we have also used the Financial Services Sector Disclosures issued by GRI, which cover the key specific aspects of sustainability performance relevant to companies in the financial services sector such as banks, insurance and asset management companies.

GRI-G4

G4-14

G4-15

G4-16



### Economic Performance

Under the dimension of economic performance of sustainability, focus is placed on the Company's economic impact on stakeholders and economic systems within which it operates. Accordingly, areas such as the flow of capital among different stakeholders and the main economic impact of the organisation on society are important areas that deserve attention.

### Aspects Material to HNBA

- Economic Performance
- Indirect Economic Impacts

GRI-G4  
G4-19



### Environmental Performance

The environmental dimension of sustainability is concerned with the organisation's impact on its surroundings, including both living and non-living natural systems. Thus, areas such as the usage of energy, methods of waste disposal as well as compliance are given attention under this segment.

### Aspects Material to HNBA

- Energy
- Effluents and Waste
- Compliance



### Social Performance

The social dimension of sustainability focuses on the effects placed by the organisation on its social systems. These effects are discussed under four sub-categories;

- Labour Practices and Decent Work
- Human Rights
- Society
- Product Responsibility

### Aspects Material to HNBA

Given under each sub-category

#### Labour Practices and Decent Work

This sub-category covers areas linked with the treatment of labour resources as per internationally recognised guidelines as well as the organisation's societal obligations.

#### Aspects Material to HNBA

- Employment
- Training and Education
- Diversity and Equal Opportunity
- Equal Remuneration for Women and Men
- Labour Practices
- Grievance Mechanisms

#### Human Rights

Under this sub-category, focus is placed on the procedures employed by the organisation on ensuring that the human rights of all its stakeholders are safeguarded at all its business operations.

#### Aspects Material to HNBA

- Non-Discrimination
- Child Labour
- Forced or Compulsory Labour
- Anti-corruption

#### Society

The impact made by the organisation on society and the community within which it operates are considered under this sub-category .

#### Aspects Material to HNBA

- Anticompetitive Behaviour
- Compliance
- Grievance Mechanisms for Impact on Society

#### Product Responsibility

The aspects discussed under this sub-category relate to products and services that directly affect the stakeholders of the organisation.

#### Aspects Material to HNBA

- Product and Service Labeling
- Marketing Communications
- Customer Privacy
- Compliance
- Product Portfolio

## Management Discussion and Analysis

### Key Risks and Opportunities

Factor	Expected Environmental Condition	Opportunities	Responses	Risks	Responses
Political	Stable political environment	Expansion in business and more opportunities for new business	Expanded reach via Bancassurance and other channels	No significant risks expected	N/A
Economic	Low interest rate environment but low private sector credit growth	Capitalise on fund management expertise and launch investment products	Generated Rs.311 Million through investment policies	Low investment income	Strategically increased investments in high yielding corporate debt
	Higher or stable economic growth	Greater opportunities for sale of Non - Life products	Invested in the Company's brand and aggressively promoted Company's products	New competitors entering the market	Establishing Takaful Channel
	Focused development in rural areas	Rural customers having more capacity to spend on insurance	Expanded reach to rural areas through Bancassurance network and other channels		Strengthening the Direct Channel
	High inflation rates			Increase in Claims and Expense Ratios, decrease in purchasing power	Innovative and technology based claims/ expense management strategies, explore new markets
Social	Rise in inequality in income distribution	Increase in middle income segment creating more business opportunities	New product development	High unemployment/ under-employment rate in the country which leads to poverty	Programmes to improve the employability of Youth such as 'S20'
				Low awareness on insurance among the rural community	Provided basic facilities such as drinking water for identified segments in society

Factor	Expected Environmental Condition	Opportunities	Responses	Risks	Responses
Technological	Expanding new technologies rapidly to all segments in the society e.g. mobile technology	Ability to use new technology for service improvements and cost management	Used new technology for operational efficiencies and customer servicing	Increase in technology driven frauds, cyber threats and misappropriations	Improve the control environment by an Integrated System and more Management Information
Environmental	Growing need for 'green' focus in business	Low cost by reducing waste and paper	Progress made towards a paperless environment	Increased natural perils due to global warming and other adverse environmental changes	Move out of paper based processes to automated processes
Regulatory	Changes in regulatory environment	Competitive edge by ensuring full compliance	Ensure 100% compliance all the time	High complexity and cost of managing compliance	Invest in required resources such as human, technological and other
	Requirement to split Company into Life and Non - Life in 2015	Opportunities for mergers and acquisitions after splitting	Search for business expansion opportunities through mergers and acquisitions	High cost of businesses due to duplication of resources after splitting	Consider segregation as a business opportunity to improve performance
	Risk Based Capital (RBC) implementation in 2016	Competitive edge by ensuring full compliance	Build processes in place to ensure full compliance	Possibility of additional capital being required	Searched for business expansion opportunities through mergers and acquisitions

## Management Discussion and Analysis

### Our Strategy

As a responsible corporate entity with a clear idea about its journey, the direction of our short and medium term goals and related strategies are formulated with the ultimate aim of realising our vision and mission, as set out in page 4 of this report.

Our strategy formulation process is one that is formal and participative, and takes into consideration a three-year time horizon. This process is conducted annually at the corporate planning sessions of the Company, and the planning sessions for 2013 saw the active participation of over 30 members of our senior management team, headed by the Managing Director.

The initial step of the planning process is to scan the external environment within which we operate, with the objective of identifying potential threats and opportunities. Secondly, we scan the internal environment to ascertain our strengths and weaknesses. We then proceed to identify our strengths which help exploit opportunities and mitigate potential threats, as well as weaknesses which may hinder our performance or increase the impact of any threat.

After extensive discussion, challenging yet realistic goals are agreed on and strategies are formulated to exploit opportunities and minimise threats, by capitalising on our strengths and mitigating our weaknesses. These goals are then segregated to targets and objectives, which are incorporated into the target achievements of the respective senior, middle and operational management in the next year. Thus, the members of respective management levels are accountable for achievement of the objectives, and their performance measurements and rewards are primarily based on the level of such achievement.

Our performance against the goals thus set for 2013 is tabulated below along with the newly set goals for the year 2014.

Goal for 2013	Progress	Goal for 2014
<b>Financial Performance</b>		
Improve the GWP achievement whilst maintaining profitability	Combined GWP Rs. 3.9 Billion, 21% growth over 2012 compared to industry growth of 9%  Profit After Tax Rs. 389 Million, 11% growth over 2012	Combined GWP over Rs. 4.2 Billion  PAT over Rs. 430 Million
<b>Shareholder Focus</b>		
Generate a considerable increase in profits of the Company	Profit After Tax Rs. 389 Million, 11% growth over 2012	PAT over Rs. 430 Million
Improve the business growth of the Company	Number of policies grew by 5% in Life Insurance and 4% in Non - Life Insurance	Faster growth in business volumes in profitable segments
Enable shareholders to reap higher dividends	Dividend Declared Rs. 3.25 per share, Growth 18% over 2012  Dividend pay-out Rs. 162.5 Million	Maintain Dividend Pay-out above 30%
<b>Regulations</b>		
Complete a significant portion of the RBC implementation work and implement relevant processes	Participated in the Road Test  Structures and processes implemented for RBC	RBC parallel run from 1st Quarter 2014

Goal for 2013	Progress	Goal for 2014
Formulate a plan to deal with the requirement of splitting the Company in to Life and Non - Life Insurance business segments, which is to be completed in 2015 as per the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011	A detailed plan formulated by a specially appointed committee and implementation commenced  Subsidiary company under HNB Assurance PLC was incorporated on 30th January 2014 as HNB General Insurance Ltd.	Complete segregation process operationally in line with the applicable regulations
Ensure 100% compliance with all applicable laws and regulations	No cases on non-compliance on any laws and regulations was reported during the year	Committed to 100% compliance with laws and regulations
<b>Operational Excellence</b>		
<b>Non - Life Insurance</b>		
Accelerate growth in GWP by mainly focusing on the retail segment and the introduction of new products whilst maintaining profitability	GWP Rs. 1.9 Billion, 9% growth over 2012 compared to industry growth of 9%  Introduced four new products  Profit in Non - Life Rs. 208 Million, Growth 12% over 2012	GWP growth over and above industry growth  Introduce new products based on market needs  Improve the Combined Ratio to 103%
Review pricing structures periodically	Motor and Non-Motor pricing reviewed periodically  Selective price reductions given based on profitability	Periodic pricing reviews based on market conditions
Explore new business avenues and introduce new channels	Ventured in to Takaful insurance introducing 4 new products for Non - Life Insurance  Developed alternate channel	Expand on Takaful Insurance  Expand on the Direct Channel started in 2013
Improve renewal retention	Renewal Retention 80%	Renewal Retention to be maintained above 80%
<b>Life Insurance</b>		
Accelerate growth in the GWP mainly from non-participatory products	GWP Rs. 2 Billion, 34% growth over 2012 compared to industry growth of 10%  Rs. 1 Billion GWP from non-participatory products	Higher growth in profitable businesses
Examine the current product portfolio and redesign selected products/ develop new products	'Ranmaga' product was redesigned and launched  Five new products developed during the year	Relaunched few more products  Introduce a few more new products based on the market needs



## Management Discussion and Analysis

Goal for 2013	Progress	Goal for 2014
Explore new business avenues	Ventured in to offering Takaful Insurance introducing one new product	
Maintain premium persistency over the 80% level	Premium persistency 81% compared to 80% in 2012	Premium Persistency to be maintained over 81%
<b>Fund Management</b>		
Enhance investment returns without taking undue risks	Investment Income excluding gains Rs. 785 Million, growth 20% compared to 2012, 34% of portfolio maintained in government securities	Enhance Investment Returns without taking undue risks
<b>Technological Excellence</b>		
Complete the Finance Module and the Non - Life Insurance BI implementation	BI module implemented and in use by Company Finance module in core application abandoned due to impracticality	Oracle ebusiness suite to be implemented in 2014 Actuarial system for Life Business
Consolidate supporting applications drawing on the strengths of the core application	Ancillary modules such as loan management and surrender payment modules implemented	Ancillary modules such as Petty Cash, OT Prior Approval, etc., to be implemented across the country
Implement an Investment Management System	50% of the system is implemented, balance to be completed in 2014	Launch the Investment System in first half of the year
Explore opportunities to enhance customer service through mobile technology	Mobile apps developed to enable customers to view motor accident photos and claim documents	Expand on HNB momo and Mobitel mCash and other internal Android Apps
Reduce the carbon footprint by embracing Green IT	New systems such as workflows, overtime, petty cash, etc., launched reducing paper usage	Continue on reducing the use of paper
<b>Customer Focus</b>		
Focus on developing direct business channels	GWP from Direct business Rs. 389 Million, growth 11%	More growth from the channel
Take measures to significantly improve the productivity of advisors	GWP per advisor Life Rs. 1.22 Million, growth 66%, Non - Life Rs. 1 Million, growth 5%	GWP per advisor to improve over Rs.1.5 Million
Continue to target migrant workers in overseas markets	Expanded our reach to migrants in Italy and Cyprus generating Rs. 32 Million as GWP	Expand our presence in Middle East
Expand the bancassurance channel to cover 40 more HNB branches	Covered 26 branches in 2013	Develop the existing Bancassurance Channel by improving productivity

Goal for 2013	Progress	Goal for 2014
Strengthen the corporate brand and selected product brands	<p>A new corporate campaign 'Take On Tomorrow' was launched and is being successfully carried out</p> <p>Brand awareness enhanced using conventional and contemporary methods such as web and social network sites</p> <p>Advertising on selected key brands was continued through electronic, print and social media</p>	<p>Continue the Corporate Campaign titled "Take on tomorrow"</p> <p>Launch a new campaign towards the latter part of the year targeting on the segregation of Life and Non - Life Businesses</p>
Maintain a prominent presence on the web and in social media to better serve customer expectations	<p>Over 40,000 Facebook fans</p> <p>Effective use of web advertising including YouTube</p>	Over 100,000 Facebook Fans
Develop customer service standards for all divisions to improve customer service	<p>Comprehensive Customer Service Standards developed for 85% of the divisions. Balance to be completed in January 2014</p> <p>Standards monitored by all department/branch managers. Deviations followed up by Manager Customer Relations</p> <p>New Customer Service Centre set up at a convenient location</p>	<p>Finalise the Customer Service Policy</p> <p>Formalise the Customer Service Standard monitoring and share information with all the stakeholders</p>
Re-design the claims process focusing on customers	<p>Entire Motor process analysed by Motor re-design campaign</p> <p>New workflow system introduced to Motor Claims</p> <p>Decentralisation expanded to three more regions increasing total decentralised to five regions</p>	<p>Operationalize the new processes in Underwriting and Claims</p> <p>Ensure effective use of the Workflow Systems in place</p>
Introduce a stronger and effective communication plan to keep our customers up-to-date	Expanded SMS notifications to claims approvals and payments	Provide customers access to their policy details on the mobile phone
<b>Employee Focus</b>		
Take measures to improve retention of employees, thereby reducing employee turnover	<p>Special trainings were organised on people management skills</p> <p>A salary revision was made during the year</p> <p>Grievance handling procedures strengthened</p>	<p>Take initiatives to retain Bancassurance Officers</p> <p>Assign new responsibilities to existing high performing employees to provide career development opportunities together with the segregation process.</p>
Identify and implement emerging trends in people management and best practices in HR	Benchmarked against industry best practices and processes improved accordingly	Find new initiatives to attract and retain good people such as 'S20'.

## Management Discussion and Analysis

Goal for 2013	Progress	Goal for 2014
Carry out focused training and development activities according to a comprehensive plan for learning and development	Learning and development plan approved by Board was implemented	Continue on the approved Learning and Development Plan
Enhance employee engagement	EXCO on tour sessions organised for employees to realise their concerns	Continue the EXCO on Tour
<b>Business Partner Focus</b>		
Place strong focus on improving advisor productivity	271 training programmes were conducted including two outward bound training programmes	More focused training programmes targeting all channels
Build partnerships with new reinsurers	New reinsurance relationships established	Build partnerships with new Banks and Finance Companies
<b>Community Focus</b>		
Organise and sponsor community events for the furtherance of sports, arts and culture, education and social networking	Community investments made in seven different areas	Increase Community Investments on par with growth in profits
<b>Environment Focus</b>		
Expand the use of e-documents and recycled paper to reduce the environmental impact of our activities	e-faxing, document storage via scanning	Promote scanning and e-faxing in all divisions.

## Key Performance Indicators

Indicator	Status	2013	2012	2011	2010	% Growth 2013
<b>Financial Performance</b>						
GWP (Rs. Mn.)	↑	3,878	3,211	2,985	2,428	21%
Interest and Dividend Income (Rs. Mn.)	↑	785	655	479	517	20%
Profit After Tax (Rs. Mn.)	↑	389	351	246	242	11%
Funds Under Management (Rs. Mn.)	↑	6,656	5,806	4,967	3,661	15%
Market Capitalisation (Rs. Mn.)	↑	2,625	2,450	2,845	2,925	7%
Solvency Ratio - Life Insurance (Times)	↓	2.04	2.28	2.89	1.13	
Solvency Ratio - Non - Life Insurance (Times)	↑	3.89	3.48	3.15	2.01	
Market Share	↑	4.0%	3.7%	3.7%	3.6%	
<b>Returns to Investors</b>						
Return on Equity	↓	18.41%	18.79%	15.23%	23.00%	
Earnings Per Share (Rs.)	↑	7.78	7.02	5.14	5.38	11%
Dividends Per Share (Rs.)	↑	3.25	2.75	2.10	1.80	18%
Dividend pay-out (Rs. Mn.)	↑	162.5	137.5	105	67.5	18%
Market Price Per Share VWA (Rs.)	↑	52.5	49.00	56.9	66.31	7%
P/E Ratio (Times)	↓	6.75	6.98	11.07	12.33	
<b>Life Insurance Operations</b>						
GWP (Rs. Mn.)	↑	2,015	1,500	1,291	1,084	34%
Life Fund (Rs. Mn.)	↑	4,348	3,626	3,021	2,415	20%
Number of Policies	↑	100,481	95,738	90,260	79,321	5%
Lapse Ratio (First year)	↓	52.3%	50.0%	49.4%	55%	
Lapse Ratio (Second year)	↓	29.7%	26.5%	26.7%	31%	
Premium Persistency Ratio	↑	81%	80%	79%	81%	
Claims Ratio (with maturities)	↓	36%	19%	5%	6%	
Claims Ratio (without maturities)	↑	5%	8%	4%	4%	
Expense Ratio	↑	47%	59%	57%	59%	
Combined Ratio (with maturities)	↓	83%	78%	62%	65%	
Combined Ratio (without maturities)	↑	52%	67%	61%	63%	
<b>Non - Life Insurance Operations</b>						
GWP (Rs. Mn.)	↑	1,863	1,711	1,694	1,344	9%
Non - Life Fund (Rs. Mn.)	↑	1,011	969	944	743	4%
Number of Policies	↑	89,824	85,996	85,651	76,680	
Claims Ratio	↑	66%	68%	69%	68%	
Expense Ratio	↓	39%	34%	34%	39%	
Combined Ratio	↓	105%	102%	103%	107%	

## Management Discussion and Analysis

Indicator	Status	2013	2012	2011	2010	% Growth 2013
<b>Customer Value</b>						
Claims and benefits - incurred (Rs. Mn.)	↓	1,568	1,154	865	648	36%
Number of Branches	-	51	51	51	51	
Number of new products	↑	9	4	3	3	
% of customer complaints settled	↓	78%	80%	89%	78%	
Bonus for policyholders (Rs. Mn.)	↑	90	83	70	54	19%
Rate of Dividend for Non - Participating policyholders	-	9%	9%	8%	N/A	
Average GWP per branch (Rs. Mn.)	↑	63	53	49	39	8%
Average GWP per Bancassurance officer (Rs. Mn.)	↑	1.78	1.32	1.29	0.94	34%
<b>Employee Benefits</b>						
Number of staff	↑	804	723	662	597	11%
Profit per employee (Rs. Mn.)	-	0.5	0.5	0.4	0.4	(3%)
Training hours per employee (hrs)	↓	20.4	25.8	23.4	25.5	
Employee turnover (with fixed term contract staff)	↑	22%	25%	23%	24%	
Employee turnover (without fixed term contract staff)	↑	14%	17%	13%	17%	
<b>For Our Business Partners</b>						
Number of Advisors	↓	1,507	1,643	1,451	1,401	(8%)
Commission Paid (Rs. Mn.)	↑	494	437	389	310	13%
Average GWP per active Advisor (Rs. Mn.)	↑	1.17	0.83	0.79	0.67	41%
Number of Brokers	↑	52	49	48	46	6%
Commission Paid to Brokers (Rs. Mn.)	↑	62	55	55	44	13%
Number of Assessors	↑	128	106	91	97	21%
Fees paid to Assessors (Rs. Mn.)	↓	14	15	14	11	(7%)
Acquisition cost as a % of GWP	↓	13%	11%	10%	8%	
<b>Community Emphasis</b>						
Number of Micro Insurance Policies	↓	1,663	2,078	2,988	2,141	(20%)
Total Number of school water projects completed (cumulative)	↑	27	21	16	14	29%
Total Investment in Community (Rs. Mn.)	↑	3	2	2	2	
<b>Environment Involvement</b>						
Electricity consumption (units)	↓	1,356,317	1,208,361	Not Available	Not Available	12%
Paper recycled (kg)	↑	14,330	4,524	11,907	904	217%

## Impact from Forces Around Us:

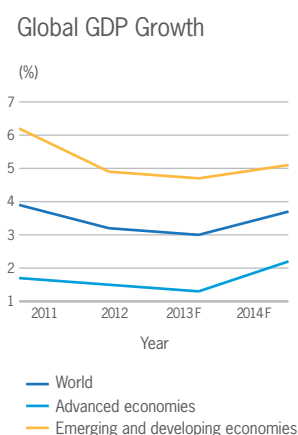
### Economic Review

#### World Economy

##### Reversing Economic Trends

The world economy is witnessing yet another reversal of trends, as the high dependence on emerging market economies in the form of the engine of global growth is gradually diminishing. Focus is returning towards developed economies which are widely forecasted to rise from the ashes, soon, although the growth in emerging economies is still expected to remain higher than their developed counterparts.

The IMF believes that in 2013 the world economy expanded by approximately 3.0%, with advanced economies and emerging economies expanding by 1.3% and 4.7%, respectively. It is optimistic about the direction of the world economy, as indicated by its forecast of the world output as rising by 3.7% in 2014, due to the cumulative effect of a 2.2% growth in developed economies and a 5.1% growth in emerging economies.



Source: IMF

##### Developed Economies Back to the Limelight

In the international economic arena, much focus has been placed on the US, which is expected to reclaim its title as the key player of world economic growth shortly. While certain healthy signals, such as strong private demand, sound business environment and healthy profit rates, have been observed in the US economy, negative signals also loom in the forms of political uncertainty, excessive fiscal consolidation and uncertain developments in the labour market. However on an overall basis, economic

sentiments surrounding the US are optimistic, as tapering of the bond buying programme gradually becomes a reality.

In the Euro zone however, recovery is not so smooth, since the economic battle has yet failed to conquer the burning issues of high unemployment and persisting deflation. Its economy shrank by 0.4% in 2013, and although IMF expects a rebound in 2014, the chances of its occurrence are rather slim.

##### Dual Dilemma for Emerging Economies

Meanwhile, emerging economies find themselves confronted yet again by dual challenges – slow internal growth and a tighter external economic environment. The decline in growth in emerging economies can be attributed to cyclical factors as well as the decline in potential output as global economic conditions tighten. Confronted with these changing conditions, it is believed that governments in emerging markets should focus on structural reforms that will rebalance the economies towards internal stimulation as well as enhanced fiscal discipline.

#### Sri Lankan Economy

##### A Year of Expansion

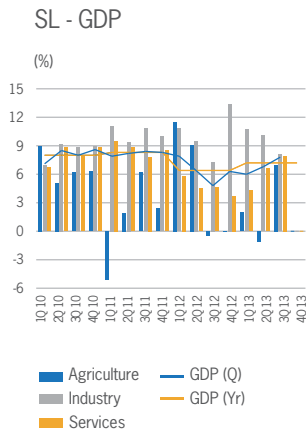
Following the strong contraction of 2012, the policymakers focus in 2013 was directed towards easing their hold on the local economy. Consequently, what prevailed for the majority of the year was a regime of loose monetary policy, as featured by low interest rates and relatively high growth.

##### Economic Growth Back on Track

The key indicator for measuring the economic performance of the country, the gross domestic product, is estimated to have improved by approximately 7.2% in 2013. Considering the curtailed growth of 6.4% recorded in 2012 as well as the challenging external environment, this appears a remarkable achievement. It is estimated that the agriculture sector grew by 4.1%, the industry sector by 9.2% and the services sector by 6.7%, for the year 2013. Growth-conducive macro-economic policies and favourable weather conditions are among the key factors that contributed towards this impressive economic performance of 2013. For 2014, the Central Bank of Sri Lanka (CBSL) expects a further expansion of economic activity, as GDP is forecasted to grow by 7.8%.



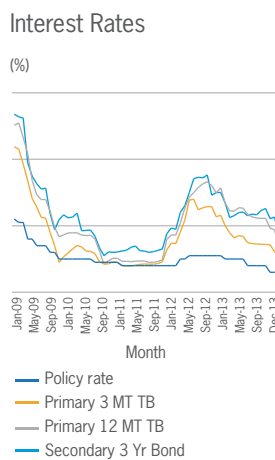
## Management Discussion and Analysis



### Interest Rates on a Downward Trajectory

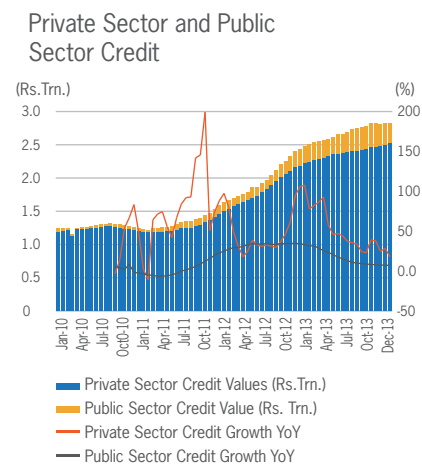
The year saw frequent actions on the part of the monetary authority directed towards lowering policy rates, which was in turn expected to create ripple effects on market interest rates. Accordingly, the year witnessed both the repo and reverse repo being reduced by 100 basis points each. Moreover, the CBSL also utilized the less active tool of monetary policy and lowered the statutory reserve ratio by 200 basis points to 6% in July 2013.

Although the response of the market to such reductions were initially slow, the latter part of the year saw some adjustment, as market interest rates on both deposits and loans declined slightly.



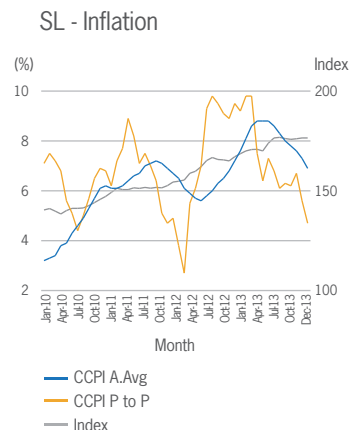
Nevertheless, the anticipated improvement in credit to the private sector did not materialise during the year. Despite the expiry of the credit ceiling on banks, the demand for credit did not escalate. Accordingly, the year-on-year growth of credit extended to the private sector slowed to

7.3% in November 2013, from 17.6% as at end 2012. Improved access to alternate sources of funding such as the corporate debt market and foreign markets, sluggish global growth and stickiness of market interest rates are the most frequently cited reasons for this phenomenon, while statistically, the high base also posed an effect.



### Inflation Continues to Moderate

The rate of inflation remained at single digit levels throughout the year, following the absence of significant pressures from both supply and demand factors. From a supply perspective, favourable weather conditions, moderation of global commodity prices, relatively strong exchange rate and overall positive economic sentiments moved to negate the potential adverse effect of the hike in electricity prices. Meanwhile, from a demand perspective too, no significant pressure was observed, as the market was slow to react to the low interest rates that were being administered.



Accordingly, Annual Average inflation for 2013 stood at 6.90%, while Point-to-Point inflation was recorded at 4.70%. For 2014, the CBSL forecasts that inflation will lie between 4% and 6%.

### Resilient External Sector

The performance of the external sector in 2013 was highly favourable compared with the previous year. It is estimated that export earnings increased by 6.9% during the year to reach US\$ 10,452 Million, primarily due to the gradual economic recovery of the main export destinations. Concurrently, import expenditure is estimated to have declined, albeit marginally, by 0.7%, to reach US\$ 19,046 Million, consequent to lower international commodity prices and favourable weather conditions which lowered reliance on imported items.

Reflecting these developments, the trade balance contracted to targeted levels. Accordingly, the cumulative deficit in the trade account is expected to contract to US\$ 8,594 Million (12.8% of GDP) in 2013, from US\$ 9,409 Million in 2012.

Earnings from tourism and workers' remittances recorded a healthy performance and worked to boost the Services Account of the BOP. During 2013, tourist arrivals increased by 26% to 1,274,593 and as per official data, earnings from tourism for the period January to November 2013 stood at US\$ 1,232.7 Million, at a growth of 36%. Workers' remittances also maintained its high growth momentum, mainly assisted by increased labour migration under professional and skilled categories and the improved awareness on the benefits of remitting money through formal channels.

Consequent to such developments, the current account deficit is expected to come down to US\$ 2.6 Billion or 3.9% of GDP in 2013, from 6.6% in 2012. Concurrently, the BOP is expected to improve from a surplus of US\$ 151 Million in 2012, to a surplus of over US\$ 700 Million in 2013.

### Local Currency Strong Amidst Peer Volatility

One key factor that affected the performance of the LKR during 2013 was the belief that there could be a tapering of quantitative easing in the US. This belief heightened the potential of greater investment return in the US, and hence, investors who had thus far invested in emerging economies sought to exit from such economies and revert to the US, thereby exerting pressure on the currencies of emerging economies.

These developments affected the behaviour of the LKR as well, as it depreciated significantly during mid-2013. However, towards the latter part of the year, there was a slight strengthening as the tapering process in the US got delayed which enabled the LKR to finish the year at Rs. 130.75/USD, recording only a marginal depreciation of 2.7%. This is a commendable performance when considering the significant fluctuations that existed during the year when most currencies, especially those of emerging markets, depreciated heavily amidst market pressure.

### LKR Appreciation/ (Depreciation) for 2013

> USD	(2.7%)
> GBP	(4.7%)
> EUR	(6.8%)
> INR	10.2%
> AUD	13.3%
> JPY	18.8%

### CSE Rebounds

The CSE recorded a rebound after two years of downward trajectory, and the two indices ASPI and S&P SL 20 increased by 4.8% and 5.8%, respectively, during the year. The P/E and P/B ratios for the market as at the year-end were recorded at 15.92x and 1.96x, respectively, and at these values, the CSE looks slightly undervalued.



## Management Discussion and Analysis

Favourable economic performance and the prevailing low interest rate regime exerted positive pressure on the CSE towards the end of 2013. However, despite being positive, this return was considerably lower than what an investor could have received on alternate investments during the year, such as risk free government securities.

Despite the international pressure on investors to exit from emerging economies, the CSE did not witness any large scale outflows. In fact, by the year-end, net cumulative foreign inflows to the stock market amounted to US\$ 264 Million.

In the short term, as interest rates are forecasted to remain low, it is the general anticipation in the market that the CSE holds potential for further growth.

### Fiscal Sector

The overall fiscal deficit is estimated to be at 5.8% of GDP in 2013, down from 6.4% of GDP in 2012, and this curtailment of the budget deficit is considered a major boost to the health of the economy. This achievement has mainly been the result of the rationalisation of recurrent expenditure and in furtherance of this trend, the budget deficit in 2014 is expected to decline further to 5.2% of GDP.

The government has also been successful in maintaining public investment at 6% of GDP, while the Debt to GDP ratio is estimated to improve to around 78% in 2013 compared to 79.1% in 2012.

### The Potential of the Local Economy in 2014

Although the CBSL's intended growth rate of above 7% was achieved during 2013, certain other areas of the economy, such as credit growth, public and private investment, are yet to actively respond to the aggressive monetary policy decisions that were implemented during the year. This fact, coupled with the CBSL's intention of generating real economic growth of over 8% in the medium term, leads to the reasonable belief that the

expansionary policies might be continued in 2014 as well. However, this position might undergo a change if there is a sudden urge on the part of international investors to revert their funds to developed economies, which will necessitate the imposition of higher interest rates, and hence economic contraction.

Thus far Sri Lanka has been fortunate in mitigating the effects of the dual challenges faced by its peers, i.e. slow internal growth and tightening global conditions. If this success is to be continued, much attention needs to be paid to the implementation of accurate and adequate policies and the provision of timely responses to economic shocks, both internal and external. In this regard, policy makers must remain extremely vigilant on preventing a possible overheating of the economy, especially as the lagged effects of monetary easing materialise.

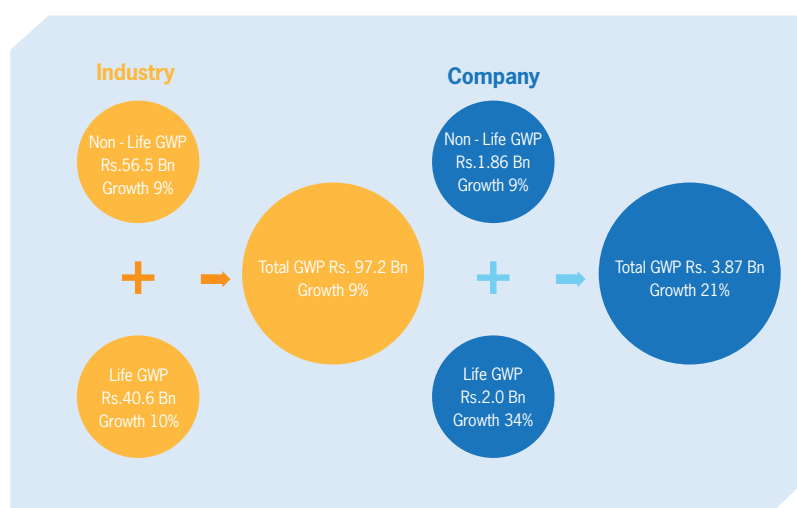
## Intense Competition Testing Business Potential:

### Industry Review

The Sri Lankan insurance industry portrays a highly dynamic atmosphere with escalated tension existing amongst twenty-one industry players. Of these twenty-one, twelve companies, including HNB Assurance PLC, are composite insurers that provide both Life and Non - Life Insurance solutions. Six engage only in the provision of Non - Life Insurance solutions, while the remaining three cater only to Life Insurance customers.

As per the provisional data available, during 2013 the total premium income of the insurance industry is expected to have exceeded Rs.97 Billion, a growth of 9% over the Rs.89 Billion recorded in 2012, and it is noted that this growth rate is lower than the 11% growth rate achieved in 2012.

It is also estimated that in 2013 the Non - Life Insurance GWP has grown by 9%, down from 15% in 2012, whilst the Life Insurance GWP has grown by 10%, up from 5% in the previous year.



### Non - Life Insurance

The GWP composition of the Non - Life Insurance segment of the industry, together with the corresponding information relating to HNBA, is shown in the table below.

Non - Life Insurance	Industry					HNBA				
	2013	2012	Growth	Contribution		2013	2012	Growth	Contribution	
				2013	2012				2013	2012
	Rs. Mn.	Rs. Mn.	%	%	%	Rs. Mn.	Rs. Mn.	%	%	%
Motor	34,367	31,753	8%	61%	61%	1,287	1,204	7%	69%	70%
Fire & Engineering	8,394	7,460	13%	15%	14%	318	295	8%	17%	17%
Marine	1,813	1,673	8%	3%	3%	23	24	(2%)	1%	1%
Medical	5,837	4,962	18%	10%	10%	128	104	23%	7%	6%
General Accident	6,154	5,987	3%	11%	12%	107	84	27%	6%	5%
	56,565	51,835	9%			1,863	1,711	9%		

\*Industry numbers for 2013 are provisional and have been sourced from the Insurance Association of Sri Lanka.

## Management Discussion and Analysis

The Motor Insurance class continued its domination in the Non - Life Insurance industry during 2013, contributing to over 60% of the total industry GWP. This dominant trend is reflected in HNBA as well, with the contribution at a higher level of 69%, although it is noted that this contribution has declined marginally from the previous year's 70%.

The slow growth of 8% in the Motor Insurance class in the industry during 2013, as opposed to the 17% growth in 2012, coupled with the high dominance of this class, may be cited as the chief reason for the overall sluggish growth of the industry. Such slow growth was mainly the consequence of the high import taxes levied on vehicles, whilst the cut-throat competition prevalent in the market also acted as a stimulant in driving premiums downward. Amidst these tough conditions, the growth of the Motor Insurance class of the industry was recorded at 8%, while the growth rate for HNBA was approximately on par with the industry growth.

The 13% growth in the Fire & Engineering class of the industry is noteworthy, as it is a significant improvement over the 8% recorded in the previous year. This achievement could be attributed to the overall expansion in economic activities in the country led by the industry sector and sub-sectors such as construction. HNBA's growth in the Fire and Engineering Class is at a modest 8%, indicating that this class necessitates further attention and improvement in a context where the external environment is offering lucrative opportunities.

Meanwhile, in the class of Medical Insurance, the industry has seen considerable growth, whilst HNBA's growth is at a higher level. Comprising mainly of corporate medical policies and a small portion of individual medical policies, this class shows great potential as demonstrated by the sound growth and reasonable margins recorded over the past few years.

The industry's growth in the Marine Insurance class stood at approximately 8% in 2013, recording a turnaround over the 2% dip of 2012, although it is noted that the growth is yet below the overall industry growth in Non - Life Insurance GWP. However, HNBA's growth in this class has been inadequate. The management intends to proceed with active steps to improve HNBA's share in the Marine Insurance class during 2014, especially considering its high profit potential.

Finally, the industry's growth in the General Accident class at a mere 3% is marginal, despite having recorded 22% growth in 2012. However at HNBA, the highest growth rate has been recorded by this class, at 27%. This growth was the result of careful planning and strategising conducted by HNBA after realising its potential. The Company intends to continue with its endeavours to improve the contribution from this class in the coming years as well.

Accordingly, on an overall basis, HNBA has managed to record a growth of 9% in terms of Non - Life Insurance GWP. This growth is on par with the growth of the industry, and this is considered a significant achievement, especially considering that in 2012 HNBA's growth was a mere 1% in a context where the industry expanded by 15%. It is further noted that HNBA achieved this high growth without compromising profitability; in fact HNBA managed to record an improvement in its Non - Life Insurance Claims Ratio from 68% in 2012 to 66% in 2013. More details on our Non - Life Insurance business performance are given in the Non - Life Insurance review, appearing on pages 83 to 89.

## Life Insurance

The GWP composition of the industry's Life Insurance segment, together with the corresponding information relating to the Company, is shown in the table below.

Life Insurance	Industry					HNBA				
	2013	2012	Growth	Contribution		2013	2012	Growth	Contribution	
				2013	2012				2013	2012
	Rs. Mn.	Rs. Mn.	%	%	%	Rs. Mn.	Rs. Mn.	%	%	%
New Business Premium	9,437	9,629	(2%)	23%	26%	475	448	6%	24%	30%
Renewal Premium	26,537	24,119	10%	65%	65%	1,089	903	21%	54%	60%
Single Premium	3,564	2,408	48%	9%	6%	420	124	239%	21%	8%
Group Life Premium	1,091	890	23%	3%	2%	31	25	25%	2%	2%
	40,629	37,046	10%			2,015	1,500	34%		

\*Industry numbers for 2013 are provisional and have been sourced from the Insurance Association of Sri Lanka.

In the Life Insurance sector of the industry, new business (which includes first premium and first year premium) recorded a negative growth of 2% during the year, compared to the 3% growth recorded in 2012. It is observed that most companies of the industry have recorded a drop in new business during the year and this is considered a matter of serious concern across the industry. Factors such as low disposable income and the poor performance of the equity market, among others, are believed to have yielded these dismal results. Despite such a challenging environment however, HNBA has been successful in generating a noteworthy achievement of 6% growth in new business and it is our intention to develop this segment further in 2014.

Growth in renewal premium in the industry stood at approximately 10% during 2013, at a growth similar to that recorded in 2012. In this segment, HNBA has recorded an outstanding growth of 21%, following focused efforts on renewal premium collections. Expansion of collection centres, promoting standing order payment, implementing payment options via partnership with an extended number of banks and renewal premium collection competitions are a few of the strategies utilised in achieving this growth.

The industry has recorded the highest cluster growth in the single premium cluster, which includes single premium investment policies and Mortgage Reducing Policies (MRP). This is mainly because many companies were involved with the sale of single premium investment policies during the year, identifying the lucrative

opportunity offered by an environment of declining interest rates. HNBA too utilised this opportunity, and recorded an impressive growth of 239% in GWP in the single premium cluster, the highest growth amongst industry players, mainly driven by the sale of single premium investment policies.

Meanwhile, the group life premium cluster of the industry also recorded a solid growth of 23% during the year, compared to the marginal 1% growth recorded in 2012. HNBA also identified the potential in this market, and was able to record a growth of 25%.

Overall, it is observed that HNBA performed exceptionally well during the year in the Life Insurance business, by recording a 34% (2012 – 16%) compared to the 10% (2012 – 5%) growth recorded by the industry. Whilst being proud of this impressive growth, we intend to embark upon steps to achieve a level of performance exceeding the industry's growth, in the coming years as well. More details on our Life Insurance business are given in the Life Insurance review appearing on pages 77 to 82.

## Market Share

HNBA's overall market share is expected to have improved to 4% during 2013, mainly following the impressive performance in Life Insurance. Considering the Company's market share in Life Insurance, a growth from 4% in 2012 to 5% in 2013 is observed. However, the Company's market share in Non - Life Insurance is expected to remain at around 3.3%, since the Company's growth in this segment is on par with the industry's growth.



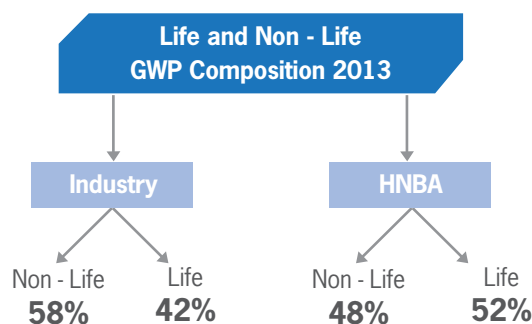
## Management Discussion and Analysis

Industry	2013 *	2012	2011	2010	2009
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Non - Life Insurance	56,565	51,835	45,349	35,101	33,485
Life Insurance	40,629	37,046	35,128	31,152	23,767
Total	97,194	88,881	80,477	66,253	57,252
Non - Life: Life	58:42	58:42	56:44	55:45	58:42
<b>HNBA</b>					
Non - Life Insurance	1,863	1,711	1,694	1,344	1,131
Life Insurance	2,015	1,500	1,291	1,084	985
Total	3,878	3,211	2,985	2,428	2,116
Non - Life: Life	48:52	53:47	57:43	55:45	53:47
<b>Market Share</b>					
Non - Life Insurance	3.3%	3.3%	3.7%	3.8%	3.4%
Life Insurance	5.0%	4.0%	3.7%	3.5%	4.1%
Total	4.0%	3.6%	3.7%	3.7%	3.7%

\*Industry numbers for 2013 are provisional and have been sourced from the Insurance Association of Sri Lanka.

Meanwhile, although the Non - Life: Life GWP composition of the industry has remained unchanged at 58:42, it is noteworthy that the business composition of HNBA has undergone a shift in 2013. Accordingly, the Non - Life: Life business composition of HNBA was recorded at 48:52 in 2013, compared to 53:47 in 2012, indicating that the Life Insurance business has surpassed the contribution of the Non - Life Insurance business.

We consider this too as one of the most significant achievements of the year as this is an outcome for which we have been planning over a period of time. This shift is desirable, mainly because achieving higher growth and profitability is a tough task with the dominance of the Non - Life Insurance business, especially due to its severely price-competitive nature. Hence, this shift is likely to enable HNBA to record considerable growth in volumes as well as profitability in the coming years.



## The Dawn of an Era of Regulatory Changes:

### Regulatory Review

The insurance industry of Sri Lanka is primarily governed by the provisions of the Regulation of Insurance Industry Act No. 43 of 2000 and the rules and determinations issued thereon by the Insurance Board of Sri Lanka (IBSL). Additionally, the industry is also governed by amendments that have been made to this Act through the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011.

### Segregation of Life and Non - Life Insurance Businesses

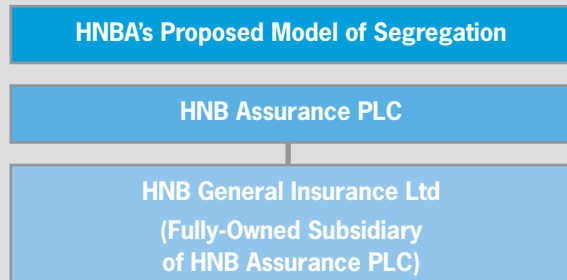
One of the significant changes introduced for the insurance industry via this amendment to the original Act was the requirement for composite insurers to segregate Life and Non - Life insurance businesses into two separate companies by 2015.

As the deadline is fast approaching, during 2013 the Insurance Board of Sri Lanka issued guidelines aimed at assisting insurance companies in conducting this segregation process with the minimum of interruptions. These guidelines are titled "Guidelines on segregation of insurers engaged in carrying on both Long Term and General Insurance Businesses into two separate companies in compliance with Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011".

In line with the said guidelines, the Company has already devised a model that is expected to be followed in the segregation process. Accordingly, the Company has already incorporated a new company, namely "HNB General Insurance Ltd", as a fully-owned subsidiary of HNB Assurance PLC, and intends to transfer the existing Non - Life Insurance business of HNB Assurance PLC to the said subsidiary. Of the available options, this is identified as the most favourable, as there are many underlying advantages, mainly in respect of taxation, transfer of business and subsequent business operations. It is also our intention to minimise costs of operation arising out of the segregation of the businesses, whilst facilitating future business development opportunities.

The Company has submitted the proposed model to the IBSL and the relevant approvals remain pending. We have already incorporated the new company, HNB General Insurance Ltd., and once relevant observations on our model are received from the IBSL, application for the Non - Life Insurance license for the new company can be proceeded with. It is noted that HNBA is operating well within the timelines stipulated in the segregation guidelines and we are confident that the process can be managed without any significant concerns in the future as well.

## Management Discussion and Analysis



Segregation guidelines issued by the IBSL allows certain operations of the businesses to remain shared, whilst certain functions, such as distribution, underwriting, claims management, reinsurance and customer services should be managed separately by the respective business lines.

As per our proposed model, Mr. Manjula de Silva, the existing Managing Director of HNBA, will continue to be the MD/CEO of both companies, while two Chief Operating Officers (COOs) will be appointed to manage the operations of the two entities. The distribution function and operational functions such as underwriting, claims management and reinsurance, will be under the respective COOs. In addition, both businesses will have a support services team specific to each business line, handling functions such as Finance, HR, IT and Marketing.

The proposed model also envisages the establishment of a Group Shared Service function within HNBA directly under the MD/CEO, including functions such as Finance (including the role of the CFO), IT, HR, Marketing, Actuarial, Investments, Legal and Risk & Compliance supporting both business lines.

Costs of the direct functions will be charged directly to the respective business lines, whilst the costs of Group Shared Services will be apportioned on a basis agreed upon by both companies. The cost allocation basis will be communicated to the IBSL on an annual basis, in line with the segregation guidelines.

HNBA has adequate internal capital to invest in the new subsidiary company, while meeting both regulatory and business needs.

The new subsidiary "HNB General Insurance Ltd." will commence its commercial operations with effect from the 1st of January 2015 in line with the guidelines issued by the IBSL.

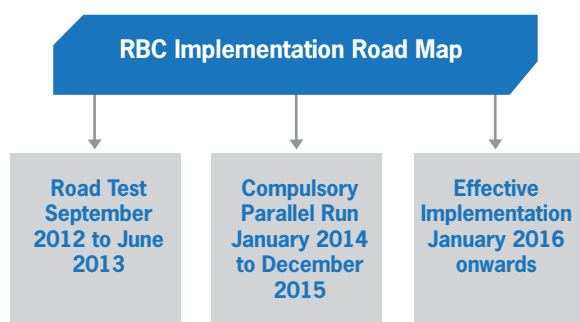
As noted above, HNB General Insurance Ltd. will initially be a 100% owned subsidiary of HNBA. However, necessary steps will be taken to comply with RII (Amendment) Act No. 03 of 2011 requiring the public listing of all insurance companies by 2016.

### Implementation of Risk Based Capital (RBC)

The IBSL has decided to implement a Risk Based Capital (RBC) framework in Sri Lanka to monitor the insurance companies in the country in place of the existing solvency regime. The deadline given by the IBSL for such implementation is January 2016.

In order to ensure the smooth transition from the current solvency regime to RBC, the IBSL launched a RBC Road Test from September 2012 to June 2013. Based on the results of the Road Test, the IBSL issued the final draft of the RBC Framework in October 2013, and it was decided that a compulsory parallel run would be conducted in the years 2014 and 2015 to assist insurers shift to the RBC regime whenever they consider themselves to be ready.

HNBA also participated in the RBC Road test from its inception till the end, and provided all information requested by the IBSL. In preparation for the adoption of the RBC framework, the Company uses two independent and separate actuarial consultants for Life and Non - Life businesses. It is believed that the Company has made considerable progress towards RBC implementation over the last two years and the compulsory parallel run will commence from the year 2014 onwards. Moreover, it is strongly believed that the Company can implement RBC requirements without any significant concerns by the due date.



### Minimum Stated Capital

The minimum stated capital requirement for new insurance companies has been increased under the above amendments, and accordingly all new insurance companies are required to maintain a minimum stated capital of Rs. 500 Million for each line of business, i.e., Rs.500 Million each for Life Insurance and Non - Life Insurance businesses. The minimum stated capital for existing insurance companies is also proposed to be increased to Rs. 500 Million for each line of business.

In view of these developments, the Company increased its stated capital to Rs. 1,172 Million, through a capitalisation of reserves and a rights issue conducted during the year 2011 to ensure early compliance with the proposed rule. Of this amount, Rs. 500 million is allocated to support the Life Insurance Business on a notional basis while the balance Rs. 672 million is currently available for the Non - Life Business.

### Changes in Accounting Standards

The Company implemented the new/revised Sri Lanka Accounting Standards in the year 2012. There were no significant changes to these accounting standards during the year except LKAS 19 – Employee Benefits, and these changes have been applied, as appropriate, in preparing the financial statements for the year 2013.

Meanwhile, we have received an independent confirmation from the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) that the Company's financial statements for the year 2012 bear no material misstatements.

In addition, certain new/revised accounting standards are to become effective from the 1st of January 2014 and information on such standards and their potential impacts are detailed under Accounting Policies, in page 266.

There were no other significant changes in the regulatory environment which bore a significant impact on the Company's operations.

It is the Company's policy to expend maximum efforts to comply with all applicable laws and regulations. We have been successful in achieving full compliance with all the regulatory requirements in the past and are committed to achieving the same in the future.

## Management Discussion and Analysis

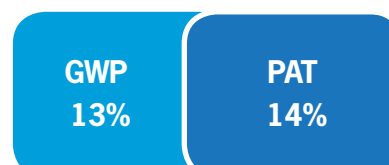
### The Number Evidence:

#### Financial Review

We believe that sound and stable economic performance underpins consistent social and environmental performance and thus it is our ability to deliver stable financial results through the years that has enabled us to deliver positive impacts on our society and environment. The ensuing discussion details our efforts to maintain sustainable financials during the year under review, which in turn create value to all our stakeholders.

Since inception, we have consistently improved our turnover, measured by Gross Written Premium (GWP), as well as Profit After Tax (PAT) every year, and over the past five-year period we have maintained compound annual growth rates of 13% in GWP (industry 11%) and 14% in PAT.

#### Compound Annual Growth Rate (CAGR) 2009-2013



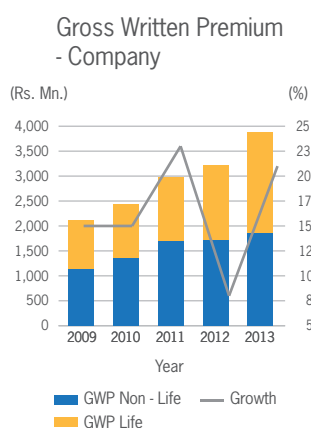
Continuing with this excellent track record, we delivered sound financial results in the year 2013 as well. Despite facing challenging conditions in the market, we continued our growth momentum in all key financial aspects, and ended the year on a triumphant note.

In reading our financials, it is pertinent to note that information presented for the financial years 2013, 2012 and 2011 have been prepared in accordance with the new Sri Lanka Accounting Standards (SLFRS/LKAS) while financial information for the previous years, unless otherwise stated, are as per the old Sri Lanka Accounting Standards (SLAS).

#### Yearly Snapshot of Our Financials

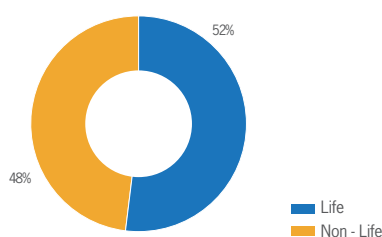
	Rs. Mn.					Growth 2013	CAGR
	2013	2012	2011	2010	2009		
Gross Written Premium	3,878	3,211	2,985	2,428	2,116	21%	13%
Reinsurance	(526)	(520)	(493)	(449)	(454)	1%	3%
Net Change in Unearned Premium Reserves	(83)	6	(142)	(134)	(94)	(1601%)	(3%)
Net Earned Premium	3,269	2,697	2,350	1,844	1,568	21%	16%
Other Revenue including Investment Income	937	737	467	517	469	27%	15%
Net Benefits and Claims (Net)	(1,568)	(1,155)	(865)	(648)	(512)	36%	25%
Underwriting and Net Acquisition Costs	(381)	(348)	(288)	(165)	(150)	10%	20%
Other Operating, Administration and Other Expenses	(1,107)	(981)	(833)	(747)	(651)	13%	11%
Change in Contract Liabilities - Life Fund	(725)	(556)	(558)	(532)	(493)	30%	8%
Profit Before Taxation	425	394	272	270	231	8%	13%
Income Tax Expenses	(36)	(43)	(26)	(28)	(29)	(16%)	4%
Profit for the Year	389	351	246	242	202	11%	14%

## Gross Written Premium



During 2013, we achieved a combined GWP of Rs. 3.9 Billion, recording a 21% growth over the Rs. 3.2 Billion recorded in 2012. The Life Insurance business recorded a GWP of Rs. 2 Billion, and became the Company's first business segment to cross this milestone. Meanwhile, Non - Life Insurance recorded a moderate 9% growth, achieving a GWP of Rs. 1.86 Billion during the year compared to the Rs. 1.7 Billion made in 2012.

Gross Written Premium - Company

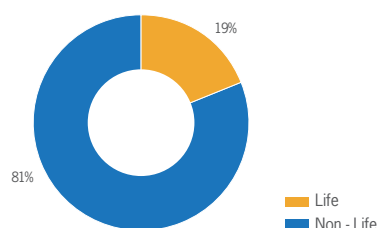


Signifying another important step during the year, the Company's GWP mix underwent a shift with Life Insurance contributing the larger share, unlike in previous years where Non - Life Insurance dominated. Accordingly, Life Insurance contributed 52% of GWP while Non - Life Insurance contributed 48%. A detailed analysis of the GWP of Life Insurance is made on pages 77 to 80 and that of Non - Life Insurance appears on pages 83 to 86.

## Reinsurance

During the year, the Company's reinsurance outgo increased to Rs. 526 Million, recording a 1% increase from the Rs. 520 Million ceded in 2012. Non - Life Insurance, which accounted for 81% of the reinsurance outgo in 2013, marked an 8% growth over 2012 while Life Insurance, which accounted for the balance 19%, decreased by 21% compared to 2012, largely due to a restructuring of our Life reinsurance arrangements.

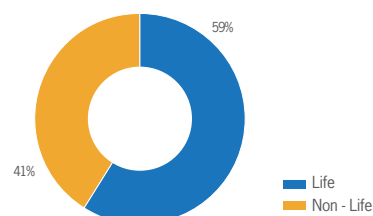
Reinsurance - Company



## Net Earned Premium (NEP)

The NEP of the Company grew by 21% over the previous year, achieving Rs. 3,269 Million as against the Rs. 2,697 Million recorded in 2012. This arose primarily from Life Insurance, which recorded a NEP of Rs. 1,913 Million and accounted for 59% of the combined NEP. Further, the NEP growth in Life Insurance was recorded at 39% over the previous year, and it is observed that the NEP growth rate exceeds the GWP growth rate in Life Insurance due to the lower reinsurance outgo.

Net Earned Premium - Company



On the contrary, NEP on Non - Life Insurance was limited to Rs. 1,356 Million, marking a low growth of 2% compared to the 9% growth in GWP. The main reason for the disparity in growth between Non - Life Insurance GWP and NEP is the higher Non - Life GWP growth in 2013, as against the 1% growth recorded in 2012, which resulted in deferring a part of the GWP achieved to the next year as Unearned Premium Reserves (UPR). The UPR adjustment is made in Non - Life Insurance to match the GWP with the period of insurance cover.



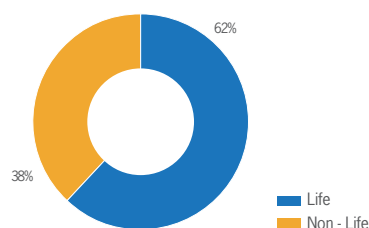
## Management Discussion and Analysis

### Other Revenue

Other Revenue	Rs. Mn.			Growth in 2013
	2013	2012	2011	
Interest and Dividend Income	785	655	479	20%
Net Realised Gains	53	7	1	635%
Net Fair Value Gains / (Losses)	13	(0)	(71)	(14,185%)
Fee and Commission Income	73	72	56	2%
Other Income	13	3	3	280%
<b>Other Revenue</b>	<b>937</b>	<b>737</b>	<b>468</b>	<b>27%</b>

The Company earned Rs. 937 Million as Other Revenue, which comprises Interest and Dividend Income, Fee and Commission Income and Realised/Unrealised Gains from Investments. This achievement was 27% higher than the Rs. 737 Million recorded in 2012, with the key contribution stemming from Interest and Dividend Income which grew by 20% and recorded Rs. 785 Million.

Other Revenue



The Company realised gains worth Rs. 53 Million during 2013, of which Rs. 46 Million was through the sale of treasury securities classified as Available for Sale and Rs. 7 Million from the sale of investments in equity shares and unit trusts classified as Fair Value Through Profit or Loss.

Fair value gains amounting to Rs. 13 Million arose from equity shares and unit trusts classified as Fair Value Through Profit or Loss (amounting to Rs. 7 Million) and foreign exchange deposits (amounting to Rs. 6 Million).

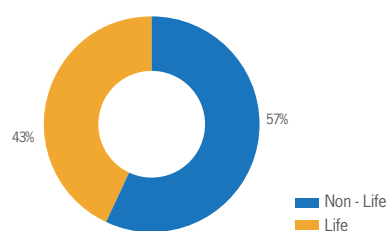
Fee and Commission income, comprising policy fees, profit commissions from reinsurers and profit from the Title Insurance business, increased by just 2%.

### Net Benefits and Claims

During the year under review, the Company incurred Rs. 1,568 Million as claims for Life and Non - Life Insurance customers, marking a 36% increase over the Rs. 1,155 Million incurred in 2012. The increase is primarily due to claims in Life Insurance, which accounted for 43% of total net claims. An increase of 159% was recorded in Life Insurance net claims, largely due to maturity claims that arose from single premium investment policies sold a few years ago.

It is also noted that we have paid out 48% of our NEP as Net Claims and Benefits, a 5% increase compared to 2012.

Claims and Benefits



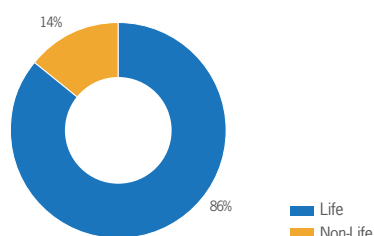
### Underwriting and Net Acquisition Costs

Costs directly linked to acquisition of business such as commissions for distribution channels, net of reinsurance commission and underwriting related costs, amounted to Rs. 381 Million, growing by 10% over 2012. This indicates that during the year, 12% of our NEP was spent on underwriting and acquisition of business, indicating a marginal reduction compared to the 13% spent in 2012, owing to the high NEP levels on Life Insurance.

It is noted that costs from Life Insurance, accounting for 86% of the total, was the key reason for the growth in

underwriting and net acquisition costs, while Non - Life Insurance related costs remained unchanged. This trend, however, is on par with the insurance industry, where the higher acquisition costs in Life Insurance is a normal phenomenon due to the high commissions paid to intermediaries.

Underwriting and Net Acquisition Costs



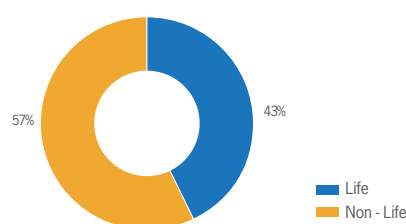
#### Operating, Administration and Other Expenses

The Company spent 29% of its GWP as operational and administration expenses, which amounted to Rs. 1,107 Million. These expenses, consisting of salaries, administration expenses, depreciation, amortisation, investment-related expenses and all other expenses not included under underwriting and net acquisition costs, increased by 13% over the Rs. 981 Million recorded in 2012.

Increase in utility costs such as electricity (due to the hike in prices during the first quarter of 2013) and rent on buildings leased by the Company contributed considerably to this growth. An increase was also experienced in staff costs, due to the revision of salaries to align them with the industry. On the marketing front, increase in costs of marketing campaigns and advertising-related costs also contributed to the increase in operational and administration expenses. If taken as a percentage of NEP however, operating, administration and other expenses for 2013 is at 34%, lower than the 36% recorded in 2012.

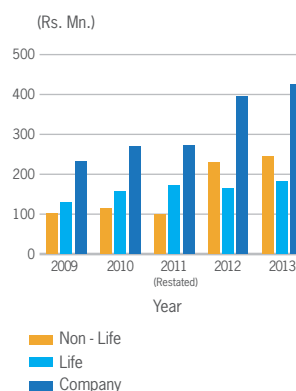
#### Profit Before Tax (PBT)

Profit Before Tax - Company



The Company achieved a PBT of Rs. 425 Million in 2013, recording a modest 8% growth over the Rs. 394 Million achieved in 2012. The main reason for the lower growth rate is attributable to the lower growth in Non - Life Insurance profits. Nevertheless, this year too, the greater contribution to PBT was from Non - Life Insurance, with a profit of Rs. 244 Million, at 57% of total PBT. The balance 43% was received from Life Insurance, which recorded a surplus of Rs. 181 Million.

Profit Before Tax



#### Income Tax Expense

The income tax expense of the Company saw a 16% decrease in 2013, declining to Rs. 36 Million from Rs. 43 Million in 2012. Under the tax regulations of Sri Lanka, Life and Non - Life insurance profits are taxed separately. As such, currently income tax is paid only on Non - Life Insurance profits, since the Life Insurance business is still operating at a tax loss, according to the applicable tax rules. Although the Company's profits are taxed at 28%, our effective tax rate on Non - Life profit stood at 15% in 2013, marking a 4% decrease from 2012. Tax exempted interest income from listed debentures is one of the key reasons for the reduction in the tax expenses for the year.

## Management Discussion and Analysis

In addition, the higher underwriting loss recorded during the year also explains the lower tax cost.

### Profit After Tax (PAT)

Our post-tax profits increased by 11% over 2012 to reach Rs. 389 Million from the Rs. 351 Million achieved in 2012, enabling us to increase our Earnings Per Share from Rs. 7.02 to Rs. 7.78 in 2013.



**Vipula Dharmapala**  
Chief Financial Officer

Since inception, we have consistently improved our turnover, measured by Gross Written Premium (GWP), as well as Profit After Tax (PAT) every year, and over the past five-year period we have maintained compound annual growth rates of 13% in GWP (industry 11%) and 14% in PAT.

During the year, the Company incurred a fair value loss (net of taxes) of Rs. 4 Million, compared to the Rs. 6 Million gain made in 2012. This loss is primarily due to the realisation of gains by trading investments classified as AFS, which are then taken to the calculation of profit.

We have recorded Actuarial Gains/Losses on Employee Benefit Liabilities (Gratuity) also under Other Comprehensive Income w.e.f. the current financial year, in line with the change in the relevant accounting standard, LKAS 19 – Employee Benefits.

### Other Comprehensive Income

Other comprehensive income comprises gains and losses arising from bringing financial assets and liabilities classified as Available For Sale (AFS) to their market values. As per the current accounting standards, these should not be considered for the calculation of profits but be disclosed separately.

## Segmental Review

### Segmental Snapshot of Our Financials

Gross Written Premium		Rs. 3,878 Million		Growth : 21%																																																																																													
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<p>The Miscellaneous class grew by 25%, largely due to growth in the Health class</p> <p>Only a moderate growth was achieved in Motor and Fire classes due to unsupportive market conditions</p> <p>The Marine class recorded negative growth, and needs greater focus</p> <p>The Takaful business (Motor, Fire, Medical and Title) looks promising and recorded Rs. 16 Million despite only commencing during the latter part of 2013</p>			<p>Satisfactory growth was achieved in the Endowment business as the Company focused on renewal collections</p> <p>However, the growth in new business slowed down during the year</p> <p>New Single Premium Policies were extremely successful, signaling an excellent exploitation of market opportunities</p> <p>MRP achieved moderate growth towards the year end</p> <p>Group Life performance improved significantly</p> <p>More focus is needed to improve Micro Insurance</p>																																																																																														
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<p>High import duties on motor vehicles resulted in a negative growth in new motor vehicle registrations</p> <p>Despite low interest rates, the growth in the leasing market was limited</p> <p>Stiff price competition among industry peers led to loss of business</p>			<p>Even though there was a growth in Per Capita GDP, the industry experienced a negative growth in new business</p> <p>Low interest rates created a demand for investment products</p> <p>Low growth in the housing loan market impeded MRP growth in the first half of the year.</p>																																																																																														
<b>Non-Motor</b>																																																																																																	
<p>High growth exists in the construction industry, but our limited access to Government owned/managed projects restricts the growth in the Fire class</p>																																																																																																	

## Management Discussion and Analysis

Gross Written Premium		Rs. 3,878 Million	Growth : 21%
Non - Life Insurance	Life Insurance		
<p><b>Strategies Used</b></p> <p><b>Motor</b></p> <p>Reviewed the pricing structure and implemented price revisions as appropriate, considering profitability</p> <p>Introduced product extensions such as 'MotorGuard' eco insurance</p> <p>Entered into strategic alliances with several leading companies</p> <p><b>Non-Motor</b></p> <p>Reviewed the pricing structure and effected price revisions on a case by case basis, considering client profitability</p>	<p><b>Strategies Used</b></p> <p>Introduction of three new investment products which generated Rs. 311 Million GWP</p> <p>Focusing on new business growth through the Bancassurance channel</p> <p>Improving collection on renewals through new premium payment methods, constant engagement with customers and revival campaigns</p>		

Reinsurance		Rs. 526 Million	Growth : 1%
Non - Life Insurance	Life Insurance		
<p><b>Results</b></p> <p>2013 : Rs. 424 Million</p> <p>2012 : Rs. 392 Million</p> <p>Growth : 8%</p> <p><b>Commentary</b></p> <p>76% of GWP arose from Motor and Medical classes, carrying little or no reinsurance</p>	<p><b>Results</b></p> <p>2013 : Rs. 102 Million</p> <p>2012 : Rs. 128 Million</p> <p>Growth : (21%)</p> <p><b>Commentary</b></p> <p>Restructuring Life reinsurance arrangements resulted in significant savings</p> <p>15% of GWP arose from Single Premium Investment policies bearing a very low reinsurance cover, and thus aided the decrease</p>		

Net Earned Premium		Rs. 3,269 Million	Growth : 21%
Non - Life Insurance	Life Insurance		
<p><b>Results</b></p> <p>2013 : Rs. 1,356 Million</p> <p>2012 : Rs. 1,325 Million</p> <p>Growth : 2%</p> <p><b>Commentary</b></p> <p>Growth rate is low compared to GWP growth of 9%</p> <p>The reason for such low growth is the Rs. 83 Million transfer to Unearned Premium Reserves, compared to a transfer from UPR of Rs. 6 Million in 2012, due to higher GWP growth</p>	<p><b>Results</b></p> <p>2013 : Rs. 1,913 Million</p> <p>2012 : Rs. 1,372 Million</p> <p>Growth : 39%</p> <p><b>Commentary</b></p> <p>Growth is higher than GWP growth due to lower reinsurance outgo</p>		

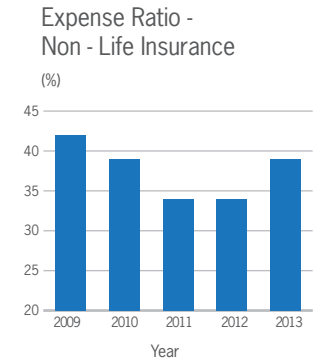
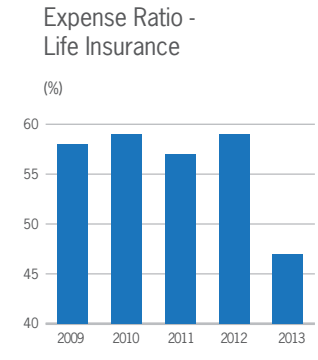
Net Claims and Benefits		Rs. 1,568 Million		Growth : 36%	
Non - Life Insurance			Life Insurance		
<b>Results</b>			<b>Results</b>		
2013 : Rs. 889 Million			2013 : Rs. 679 Million		
2012 : Rs. 893 Million			2012 : Rs. 262 Million		
Growth : 0%			Growth : 159%		
Type	Rs. Mn.		Growth %		
	2013	2012			
Fire	7	11	(39%)		Death
Motor	776	789	(2%)		Maturity
Marine	1	1	30%		Annuity
Miscellaneous	105	92	15%		Surrender
Total	889	893	0%		Hospitalisation & other
					Total
					679
					261
					160%
<b>Commentary</b>			<b>Commentary</b>		
Net claims in the Fire and Motor classes declined compared to 2012 due to prudent underwriting practices of the Company			The significant increase in Life Insurance net claims is due to maturity claims which grew by 262%, due to the maturities of Single Premium Investment Policies		
			All other claims were managed at normal levels		

Net Claims Ratio																			
Non - Life Insurance	Life Insurance																		
<b>Results</b>																			
<p>Claims Ratio Non - Life Insurance (%)</p> <table border="1"> <caption>Claims Ratio Non - Life Insurance (%)</caption> <thead> <tr> <th>Year</th> <th>Claims Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>66</td> </tr> <tr> <td>2010</td> <td>68</td> </tr> <tr> <td>2011</td> <td>69</td> </tr> <tr> <td>2012</td> <td>68</td> </tr> <tr> <td>2013</td> <td>66</td> </tr> </tbody> </table>		Year	Claims Ratio (%)	2009	66	2010	68	2011	69	2012	68	2013	66						
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The Claims Ratio refers to Net Claims as a percentage of Net Earned Premium																			
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<b>Results</b>																			
<p>Claims Ratio - Life Insurance (%)</p> <table border="1"> <caption>Claims Ratio - Life Insurance (%)</caption> <thead> <tr> <th>Year</th> <th>With Maturities (%)</th> <th>Without Maturities (%)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>5</td> <td>5</td> </tr> <tr> <td>2010</td> <td>5</td> <td>5</td> </tr> <tr> <td>2011</td> <td>5</td> <td>5</td> </tr> <tr> <td>2012</td> <td>19</td> <td>8</td> </tr> <tr> <td>2013</td> <td>36</td> <td>5</td> </tr> </tbody> </table>		Year	With Maturities (%)	Without Maturities (%)	2009	5	5	2010	5	5	2011	5	5	2012	19	8	2013	36	5
Year	With Maturities (%)	Without Maturities (%)																	
2009	5	5																	
2010	5	5																	
2011	5	5																	
2012	19	8																	
2013	36	5																	
<b>Commentary</b>																			
Claims Ratio with maturities is Net Claims inclusive of maturity claims as a percentage of Net Earned Premium. The Claims Ratio without maturities excludes claims from policy maturities, and is considered the more appropriate indicator to understand trends																			



## Management Discussion and Analysis

Net Claims Ratio	
Non - Life Insurance	Life Insurance
<p>We have continuously reduced our Claims Ratio from 69% in 2011 to 66% in 2013. The ratio for the year would have been more favourable if our NEP recorded higher growth</p> <p>While paying claims fairly, this was possible through careful underwriting practices and the effective use of management information</p>	<p>In 2012 and 2013, the Claims Ratio with maturities increased due to the maturities of investment policies sold in previous years</p> <p>The ratio excluding maturities reduced to 5% from 8% with the high NEP levels achieved by the Company</p>

Expense Ratio	
Non - Life Insurance	Life Insurance
<p><b>Results</b></p>  <p><b>Commentary</b></p> <p>The Expense Ratio refers to Total Expenses as a percentage of Net Earned Premium</p> <p>The ratio is an indicator of the efficiency of balancing expenses and premiums and is one of the most important KPIs of an insurer</p> <p>In 2013, our Expense Ratio increased by 5% to reach 39% due to the 15% growth in expenses compared to the 2% growth in NEP</p> <p>Low growth in GWP and thereby NEP, is the chief reason for the increase in the Expense Ratio. The total expenses were managed within budgeted levels during the year</p> <p>Increase in administration, staff and marketing expenses could be cited as other reasons for the increase in the Expense Ratio</p>	<p><b>Results</b></p>  <p><b>Commentary</b></p> <p>The Expense Ratio in Life Insurance is calculated similar to Non - Life Insurance.</p> <p>In 2013, the Expense Ratio reduced by 13%, falling to 47% as expenses increased only by 11% while NEP grew by 39%</p> <p>The total expenses were managed well below the budgeted levels during the year</p>

Combined Ratio																															
Non - Life Insurance	Life Insurance																														
<p><b>Results</b></p> <p>Combined Ratio - Non - Life Insurance (%)</p> <table border="1"> <caption>Combined Ratio - Non - Life Insurance (%)</caption> <thead> <tr> <th>Year</th> <th>Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>108</td> </tr> <tr> <td>2010</td> <td>107</td> </tr> <tr> <td>2011</td> <td>103</td> </tr> <tr> <td>2012</td> <td>102</td> </tr> <tr> <td>2013</td> <td>105</td> </tr> </tbody> </table> <p><b>Commentary</b></p> <p>The Combined Ratio refers to the sum of Net Claims and Total Expenses taken as a percentage of Net Earned Premium</p> <p>The ratio is an indicator of the overall efficiency of an insurer, and is a main KPI</p> <p>In 2013, our Combined Ratio increased by 3% to reach 105% although the Net Claims Ratio dropped by 2%, due to the 5% increase in Expense Ratio</p> <p>Greater focus is necessary for reducing this below 100% over the next few years, especially with the requirement to segregate Life and Non - Life Insurance businesses from the year 2015 onwards</p>	Year	Ratio (%)	2009	108	2010	107	2011	103	2012	102	2013	105	<p><b>Results</b></p> <p>Combined Ratio - Life Insurance (%)</p> <table border="1"> <caption>Combined Ratio - Life Insurance (%)</caption> <thead> <tr> <th>Year</th> <th>With Maturities (%)</th> <th>Without Maturities (%)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>65</td> <td>65</td> </tr> <tr> <td>2010</td> <td>65</td> <td>62</td> </tr> <tr> <td>2011</td> <td>62</td> <td>60</td> </tr> <tr> <td>2012</td> <td>78</td> <td>65</td> </tr> <tr> <td>2013</td> <td>82</td> <td>52</td> </tr> </tbody> </table> <p><b>Commentary</b></p> <p>The Combined Ratio in Life Insurance is calculated similar to Non - Life Insurance</p> <p>The ratio without maturities reduced to 52% due to the low growth in expenses and claims and high NEP growth</p>	Year	With Maturities (%)	Without Maturities (%)	2009	65	65	2010	65	62	2011	62	60	2012	78	65	2013	82	52
Year	Ratio (%)																														
2009	108																														
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Profit Before Tax		Rs. 425 Million	Growth: 8%																								
Non - Life Insurance	Life Insurance																										
<p><b>Results</b></p> <p>2013 : Rs. 244 Million            2012 : Rs. 229 Million            Growth : 7%</p> <p>Profit Before Tax - Non - Life Insurance (Rs. Mn.)</p> <table border="1"> <caption>Profit Before Tax - Non - Life Insurance (Rs. Mn.)</caption> <thead> <tr> <th>Year</th> <th>Profit (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>100</td> </tr> <tr> <td>2010</td> <td>115</td> </tr> <tr> <td>2011</td> <td>100</td> </tr> <tr> <td>2012</td> <td>230</td> </tr> <tr> <td>2013</td> <td>244</td> </tr> </tbody> </table>	Year	Profit (Rs. Mn.)	2009	100	2010	115	2011	100	2012	230	2013	244	<p><b>Results</b></p> <p>2013 : Rs. 181 Million            2012 : Rs. 165 Million            Growth : 10%</p> <p>Life Surplus Transfer (Rs. Mn.)</p> <table border="1"> <caption>Life Surplus Transfer (Rs. Mn.)</caption> <thead> <tr> <th>Year</th> <th>Transfer (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>130</td> </tr> <tr> <td>2010</td> <td>155</td> </tr> <tr> <td>2011</td> <td>170</td> </tr> <tr> <td>2012</td> <td>165</td> </tr> <tr> <td>2013</td> <td>181</td> </tr> </tbody> </table>	Year	Transfer (Rs. Mn.)	2009	130	2010	155	2011	170	2012	165	2013	181		
Year	Profit (Rs. Mn.)																										
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## Management Discussion and Analysis

Profit Before Tax		Rs. 425 Million	Growth: 8%
Non - Life Insurance	Life Insurance		
<p><b>Commentary</b></p> <p>Profit from the Non - Life Insurance business reached Rs. 244 Million, recording a 7% growth compared to Rs. 229 Million achieved in 2012</p> <p>In Non - Life Insurance, PBT is made up of underwriting results and investment and other income. Underwriting results in Non - Life Insurance is the balance remaining after incurring Net Claims and Total Expenses from Net Earned Premium. In the Sri Lankan Insurance industry, most insurers are still operating at an underwriting loss</p> <p>Our underwriting results this year recorded a loss of Rs. 64 Million, 181% higher compared to the Rs. 23 Million made in 2012</p> <p>The main reason for this significant loss is the low growth of 2% in Net Earned Premium which was insufficient to cover the 15% growth in Total Expenses despite maintaining Net Claims slightly below the previous year's level</p> <p>Therefore, both NEP and expense management are key focus areas for improvement in the coming year</p>	<p><b>Commentary</b></p> <p>The Life surplus transfer is the share of Life Insurance profit available for shareholders, subsequent to the year-end valuation of the Life Fund by the Consultant Actuary and after reserving due allowances for all liabilities, including bonuses and dividends for Life Insurance policyholders</p> <p>The Life Insurance surplus transfer recovered from its dip in 2012, and recorded a 10% growth to reach Rs. 181 Million</p>		

Returns to Shareholders and Policyholders	
Shareholders	Life Insurance Policyholders
<p><b>Gross Dividend</b></p> <p><b>Results</b></p> <p>2013 : Rs. 162.5 Million 2012 : Rs. 137.5 Million Growth : 18%</p> <p>Gross Dividend (Rs. Mn.)</p> <p><b>Commentary</b></p> <p>Dividends are one key form of return for shareholders</p> <p>Dividends paid to shareholders have continuously increased, and in 2013, Rs. 162.5 Million was declared as dividends, at an 18% increase compared to 2012</p>	<p><b>Annual Bonus/Dividends</b></p> <p><b>Results</b></p> <p>2013 : Rs. 120 Million 2012 : Rs. 91 Million Growth : 32%</p> <p>Policyholder Annual Bonus / Dividends (Rs. Mn.)</p> <p><b>Commentary</b></p> <p>A part of the Life Insurance surplus is declared as an annual bonus for policyholders</p> <p>Rs.90 Million was declared as the annual bonus, 10% higher than in 2012</p> <p>In addition, Rs. 30 Million was declared as dividends for 'myfund' policyholders</p>

## Financial Position

Financial stability is of utmost importance to an insurer, who must hold sufficient assets to meet current and future liabilities to its policyholders. This is displayed through the Statement of Financial Position, a summary of which is given below.

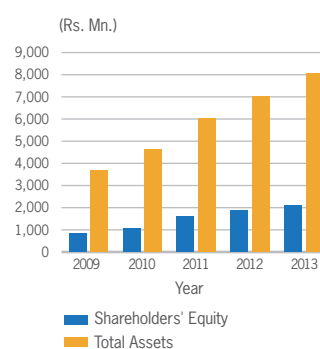
	2013 Rs. Mn.	2012 Rs. Mn.	Growth	Contribution	
				2013 %	2012 %
<b>Assets</b>					
Intangible Assets and Property, Plant & Equipment	191	180	6%	2%	3%
Financial Investments	6,656	5,704	17%	83%	81%
Loans to Life Policyholders	54	30	80%	1%	0%
Reinsurance Receivables	105	163	(35%)	1%	2%
Premium Receivables	301	247	22%	4%	4%
Other Assets	608	502	21%	7%	7%
Cash and Cash Equivalents	144	209	(31%)	2%	3%
<b>Total Assets</b>	<b>8,060</b>	<b>7,035</b>	<b>15%</b>	<b>100%</b>	<b>100%</b>
Total Equity	2,113	1,867	13%	26%	27%
<b>Liabilities</b>					
Insurance Contract Liabilities - Life	4,348	3,626	20%	54%	52%
Insurance Contract Liabilities - Non Life	1,011	969	4%	13%	14%
Reinsurance Creditors	101	83	21%	1%	1%
Other Liabilities	486	489	(1%)	6%	7%
Total Liabilities	5,947	5,168	15%	74%	73%
<b>Total Equity and Liabilities</b>	<b>8,060</b>	<b>7,035</b>	<b>15%</b>	<b>100%</b>	<b>100%</b>

## Total Assets

Continuing our growth momentum, our total assets crossed the Rs. 8 Billion mark in December 2013, recording a 15% growth over the Rs. 7 Billion achieved in 2012.

Total assets in Life Insurance grew by 19%, from Rs. 3,875 Million in 2012 to Rs. 4,598 Million in 2013, while total assets in Non - Life Insurance (including shareholders' funds) reached Rs. 3,462 Million, marking a 10% growth over the Rs. 3,160 Million recorded in 2012.

## Stability

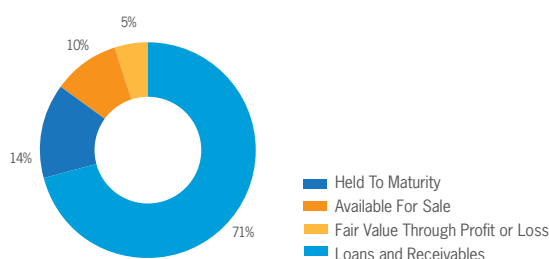


## Management Discussion and Analysis

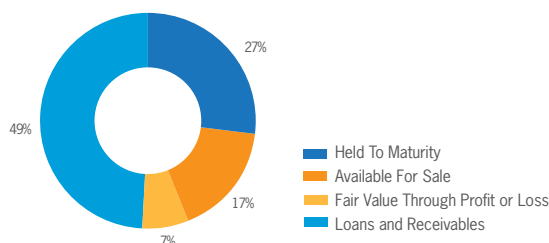
### Financial Investments

Being an insurer, the funds of our policyholders as well as shareholders are held in the form of financial investments. As at the end of 2013, 83% of our total assets were held in financial investments which ranged from Government securities to term deposits and corporate debt, and during the year, financial investments increased by 17% to reach Rs. 6,656 Million, from Rs. 5,704 Million in 2012.

Financial Investments 2013



Financial Investments 2012



As per the present accounting standards, financial investments are classified into four categories, Loans and Receivables (L&R), Fair Value Through Profit or Loss (FVTPL), Held To Maturity (HTM) and Available For Sale (AFS). The graph above gives the composition of our financial investments according to this classification. Further details on financial investments are provided in the Investment Management Review appearing on pages 90 to 92.

### Intangible Assets and Property, Plant & Equipment

We held only 2% of our total assets in Intangible Assets and Property, Plant & Equipment, amounting to Rs. 191 Million (2012: Rs. 180 Million). All such assets are being used for the operations of the Company.

### Policy Loans, Premiums Receivable and Reinsurance Receivables

Policy Loans, which are loans granted to active Life Insurance policyholders, amounted to Rs. 54 Million, accounting for 1% of the total assets. Accordingly, Policy Loans have increased by 80% over 2012, due to the increase in the number of policies eligible for obtaining such a loan.

Premiums receivable from customers, which amounted to Rs. 301 Million grew by 22% due to the higher growth in Non - Life GWP during the latter part of the year.

Amounts receivable from reinsurers decreased by 35% to reach Rs. 105 Million, largely due to higher reinsurance receivables in Life Insurance during 2012 over a few MRP claims which carried high reinsurance coverage.

### Shareholders' Funds

During 2013, the Stated Capital of the Company remained at Rs. 1,171.87 Million while revenue reserves net of Life Policyholders Reserve Fund amounted to Rs. 941 Million. Total Shareholders' Funds grew by 13%, to reach Rs. 2,113 Million by the year end (2012: Rs. 1,867 Million), the growth primarily being attributable to the 11% growth in post-tax profits in 2013.

### Life Insurance Contract Liabilities

The Life Insurance Contract Liabilities, which refers to the reserves made to meet the future claims and maturities of Life Insurance policyholders, grew by 20% to reach Rs. 4,348 Million at the year-end (2012: Rs. 3,626 Million). The report on the valuation of the Life Fund, conducted by the appointed independent Consultant Actuary Mr. M. Poopalanathan from Actuarial and Management Consultants (Pvt) Ltd. appears on page 235. As recommended by the Consultant Actuary, adequate provisions, including those for bonuses and dividends to policyholders, solvency margins and other required reserves, have been made.

In addition, a Liability Adequacy Test (LAT) was performed for the Life Insurance Reserves as required by SLFRS 4 – Insurance Contracts, to identify whether the recorded reserves are adequate to meet future liabilities. The LAT for Life Insurance was performed by Mr. John C Vieren (FSA, MAA), an independent Consultant Actuary from the Pinnacle Consulting Group Ltd. and it has been concluded that the recorded reserves in respect of the Life Insurance

business of the Company as at the 31st of December 2013 are adequate to meet the future liabilities of the business.

### Non - Life Insurance Contract Liabilities

Comprising reserves relating to the Non - Life Insurance business, which includes Net Unearned Premium Reserves, Reserves for Claims Outstanding, Incurred But Not Reported (IBNR) Claims Reserves and Incurred But Not Enough Reported (IBNER) Claims Reserves, the Non - Life Insurance Contract Liabilities crossed the Rs. 1 Billion mark in 2013, to record Rs. 1,011 Million by the year end. This marks a growth of 4% compared to the Rs. 969 Million in 2012.

All reasonable steps have been taken to ensure that adequate provisioning for Claims Outstanding, including provisions for IBNR and IBNER reserves, are maintained. To assist the Company on IBNR and IBNER reserve calculations, an Independent Actuary (NMG Consulting) has been appointed.

Further, we have also performed a Liability Adequacy Test (LAT) for Non - Life Insurance Reserves, as required by SLFRS 4 – Insurance Contracts, to ascertain whether the recorded reserves are adequate in meeting future liabilities. The LAT was also performed by the Independent Actuary of the Company (NMG Consulting) and it has been concluded that the recorded reserves in respect of the Non - Life Insurance business of the Company as at the 31st of December 2013 are adequate to meet the future liabilities of the business.

### Solvency Margins

Insurers need to maintain their asset liability mix adhering to the Solvency Margin criteria, as per the guidelines issued by the Insurance Board of Sri Lanka (IBSL). Further, it is also believed that the Solvency Margin also determines the quality of an insurer's financial position.

It is observed that the Company comfortably met the Solvency Margin criteria throughout the year in both Life Insurance and Non - Life Insurance segments.

### Non - Life Insurance Solvency Margin

As at the year-end of 2013, the admissible assets in Non- Life Insurance amounted to Rs. 2,357 Million (2012: Rs. 2,076 Million) while the total liabilities amounted to Rs. 1,237 Million (2012: Rs. 1,157 Million), resulting in an Available Solvency Margin of Rs. 1,120 Million. As the Required Solvency Margin in Non - Life Insurance amounted to Rs. 288 Million, the Company was able to surpass the Required Solvency Margin by 3.89 times (2012: 3.48 times).

### Life Insurance Solvency Margin

The Company recorded a Solvency Margin Ratio of 2.04 times in Life Insurance (2012: 2.28 times) as at the year-end, by maintaining an Available Solvency Margin of Rs. 412 Million, whereas the Required Solvency Margin was Rs. 202 Million. This achievement was made possible with admissible assets in Life Insurance amounting to Rs. 4,752 Million (2012: 4,042 Million) and the total liabilities amounting to Rs. 4,340 Million (2012: 3,662 Million).

Non - Life Insurance Business			
Line	Item	2013	2012
		Rs. Mn.	Rs. Mn.
1	Value of Admissible Assets	2,357	2,076
2	Amount of Total Liabilities	1,237	1,157
3	Available Solvency Margin [Line 01 minus Line 02]	1,120	918
4	Required Solvency Margin	288	264
5	Solvency Ratio Times [Line 03 divided by Line 04]	3.89	3.48



## Management Discussion and Analysis

Life Insurance Business			
Line	Item	2013	2012
		Rs. Mn.	Rs. Mn.
1	Value of Admissible Assets	4,752	4,042
2	Amount of Liabilities:		
	2.1 Policy Liabilities	4,033	3,332
	2.2 Other Liabilities	307	330
3	ASM [Line 01 divided by Line 02]	412	380
4	Factor	5%	5%
5	RSM (Required Solvency Margin)	202	167
6	Solvency Ratio [Line 03 divided by Line 04]	2.04	2.28

### Approved Assets

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

Statement of Approved Assets			
		2013	2012
<b>Non - Life Insurance Business</b>			
1.	Approved Assets maintained in Non - Life Insurance Business (Rs. Mn)	1,935	1,786
2.	Technical Reserve (Rs. Mn)	925	856
3.	Approved Assets in Excess of the Technical Reserve (Rs. Mn)	1,010	930
4.	Approved Assets as a % of the Technical Reserve	209%	209%
5.	Required Ratio	100%	100%
<b>Life Insurance Business</b>			
1.	Approved Assets maintained in Life Insurance Business (Rs. Mn)	4,350	3,661
2.	Life Insurance Fund (Rs. Mn)	4,272	3,547
3.	Excess in Approved Assets over the Life Insurance Fund (Rs. Mn)	78	114
4.	Approved Assets as a % of Life Insurance Fund	102%	103%
5.	Required Ratio	100%	100%

## Excellence Delivered:

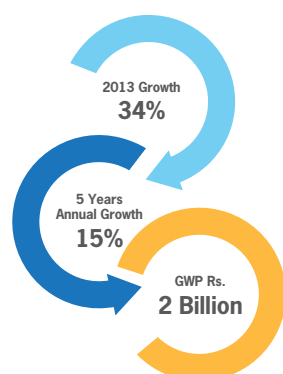
### Life Insurance Operations Review

#### A Competitive Landscape

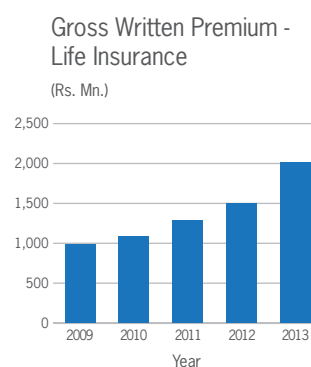
Despite the improvements witnessed in the economic arena, the year 2013 was not a year of glory for the Life Insurance industry. With the prevailing low interest rates and low rates of inflation, it would have been prudent to assume that more economic agents would opt for Life Insurance policies, but this did not materialise.

In particular, the industry experienced very low performance with regard to acquiring new business, and concurrently, the fluctuations in the equity market meant that investment oriented products, such as unit-linked insurance policies, were less attractive in the market. As per currently available information, the generation of new business by the industry experienced a negative growth of 2% during 2013, whilst the overall growth in the industry was recorded at approximately 10%.

However, despite these challenges and slow growth conditions, the Company exhibited unparalleled resilience and immense drive, which enabled it to record exceptional results compared to the market. Details of the excellence we delivered appear below.

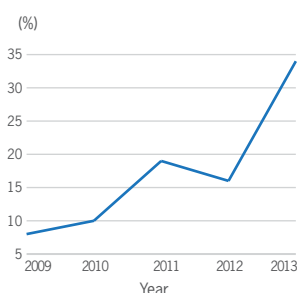


### Gross Written Premium



Year 2013 closed as a remarkable one for our Life Insurance business, with its GWP crossing the Rs. 2 Billion mark, becoming the Company's first business segment to cross this milestone. Life Insurance GWP also attained an outstanding growth of 34% over 2012, the highest annual growth recorded during the past 6 years. This Life Insurance GWP growth is observed as having comfortably outperformed the industry growth, which was recorded at 10%.

#### Gross Written Premium - Life Insurance (Growth)



### Life Insurance Business Mix

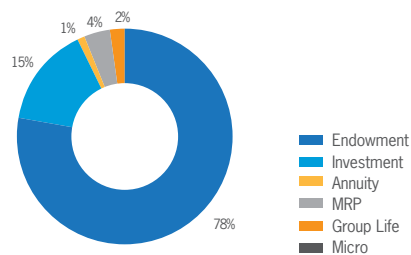
Type	Rs. Mn.		Growth %	% Contribution	
	2013	2012		2013	2012
Endowment New Business	475	448	6%	24%	30%
Endowment Renewal Business	1,089	903	21%	54%	60%
Investment	311	31	897%	15%	2%
Annuity	15	9	65%	1%	1%
MRP	89	78	14%	4%	5%
Group Life	31	25	25%	2%	2%
Micro	5	6	(12%)	0%	0%
Total	2,015	1,500	34%	100%	100%

## Management Discussion and Analysis

### Endowment Policies

Endowment policies continued to be the main premium generator in our product portfolio, contributing 78% of the total Life Insurance GWP. Endowment renewal premiums generated Rs. 1,089 Million, at a growth of 21% over 2012, while new business recorded a premium income of Rs. 475 Million, at a growth of 6%. It is noted with pride that both endowment renewal and endowment new business categories surpassed industry growth, recorded at 10% and negative 2%, respectively.

Class-wise GWP -  
Life Insurance 2013



In 2013, one of the key changes that occurred in our product portfolio was the restructuring of the “Ranmaga” product from a bonus-entitled (Participating) product to a fund-based (Non-Participating) product. This change, while ensuring the balance of our product portfolio, also enabled us to meet the changing needs of society. Accordingly, a policyholder can now use the new “Ranmaga” policy to build a fund for the future while reaping advantages from the surgical rider benefit. Although a slight decline was experienced in new business generation under the “Ranmaga” product during the initial part of the year following this re-structuring, the latter months of the year saw a revival, enabling the product to contribute approximately Rs. 76 Million to the overall GWP.

### Single Premium Policies

In 2013, the Sri Lankan economy experienced a trend of declining interest rates, and this in turn boosted our performance, especially with regard to the sale of single premium policies.

It was observed that the dip in interest rates created an opportunity to offer an attractive investment product, by leveraging on the synergies achieved by the Company’s investment management function. Accordingly, three new single premium investment policies were introduced during the year and the attractive rates offered enabled us to generate Rs. 311 Million via these three products. Consequently, the contribution of the investment policies to the overall GWP increased from 2% in 2012 to 15% in 2013.

Meanwhile, the decline in interest rates increased borrowings in the economy, especially in the form of mortgages, which enabled the mortgage reducing policies (MRP) offered by the Company to record a growth of 14% in 2013 and contributed 4% towards of the Life Insurance GWP. Simultaneously, the Company’s annuity product also recorded a 65% growth over the previous year. Group business maintained a consistent growth of 25%, while micro insurance reported a negative growth of 12% during the year.

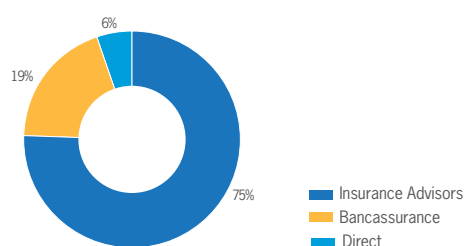


**Prasantha Fernando**  
General Manager - Life

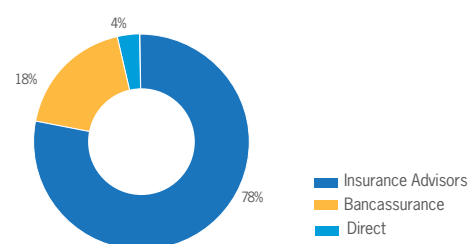
Year 2013 closed as a remarkable one for our Life Insurance business, with its GWP crossing the Rs. 2 Billion mark, becoming the Company’s first business segment to cross this milestone. Life Insurance GWP also attained an outstanding growth of 34% over 2012 and comfortably outperformed the industry growth, which was only 10%.

## Channel Mix

Channel-wise GWP -  
Life Insurance 2013



Channel-wise GWP -  
Life Insurance 2012



When considering the contribution of the various channels to the Life Insurance GWP performance, it is observed that the advisor channel maintained its dominance, despite its share reducing slightly from 78% in 2012 to 75% in 2013. Such reduction is partly attributable to the Company's efforts to strengthen the bancassurance channel, as evidenced by the 42% growth recorded by

this channel, contributing approximately Rs. 390 Million inclusive of MRP business channeled through HNB branches towards Life Insurance GWP. Further, GWP from the bancassurance channel excluding MRP business marked an impressive 59% growth adding Rs. 310 Million to Life GWP. Direct and other alternative channel also doubled their contribution showing great potential for the future.

Channel	2013	2012	Growth %	Contribution %	
	Rs. Mn.	Rs. Mn.	2013	2013	2012
Insurance Advisors	1,516	1,174	29%	75%	78%
Bancassurance	390	274	42%	19%	18%
Direct & Alternate Channels	109	52	111%	6%	4%
Total	2,015	1,500	34%	100%	100%

## Channel Productivity

### GWP per Advisor

	2013	2012	2011	Growth 2013
Active Insurance Advisors	1,245	1,455	1,314	(14%)
Advisors' GWP (Rs. Mn.)	1,516	1,174	973	29%
GWP per Advisor (Rs. Mn.)	1.22	0.81	0.74	51%

Although the number of active advisors dipped during the year 2013 due to the Company's decision to retain only the performing advisors, overall GWP generated by the advisor channel recorded a healthy growth of 29%. This is an indication that the Company's initiatives to improve the productivity of advisors yielded anticipated results, where GWP per advisor improved to Rs. 1.22 Million during year 2013 from Rs. 0.81 Million for the year 2012.

## Management Discussion and Analysis

### GWP per Bancassurance Officer

	Contribution			Growth
	2013	2012	2011	2013
Bancassurance Officers	174	148	120	18%
Bancassurance GWP including MRP (Rs. Mn.)	390	274	267	42%
Bancassurance GWP excluding MRP (Rs. Mn.)	310	195	155	59%
GWP excluding MRP per Bancassurance Officer (Rs. Mn.)	1.78	1.32	1.29	35%

The Company's efforts in developing the bancassurance channel are clearly reflected through the continued increase in its productivity. With the continued expansion of the bancassurance network during the year, the number of bancassurance officers increased by 18%, from 148 in 2012 to 174 in 2013. Meanwhile, the GWP achieved by the bancassurance channel (excluding MRP) grew by 59%, and the average GWP per bancassurance officer increased to Rs. 1.78 Million in 2013 from Rs.1.32 Million in 2012, at a growth of 35% over the year

### New Product Initiatives

In addition to the three new single premium investment policies introduced during the year 2013, the Company introduced a new product under its new business segment, namely Takaful Mortgage Reducing Policies (Takaful MRP). The product was developed and offered after seeking consultation with Takaful business experts (both locally and globally) and the Company's Sharia Council with the agreement of the Insurance Board of Sri Lanka (IBSL). The Takaful business portfolio is backed by the strength of Munich Retakaful, a member of the Munich Re Group.

The Company believes that there is considerable potential in the Takaful market and thus expects to develop this segment further by introducing innovative Life Insurance Takaful (Family Takaful) products in the future.

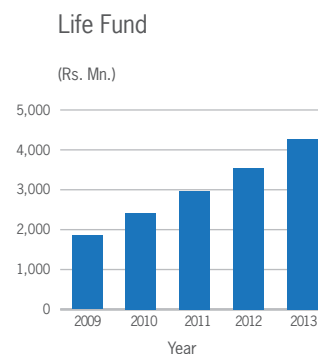
#### New Products

- > Three Single Premium Investment Policies
- > MRP Takaful
- > Key Person Insurance

### New Services

HNBA, known for its innovation and people-oriented services, offered a novel service to the market in 2013, through the provisioning of an emergency ambulance service and out-of-hospital medical care services, via its partnership with Falck, a global leader in emergency services. Under this service, customers are offered the flexibility to choose from a range of emergency-related services, as per their requirements.

### Life Fund



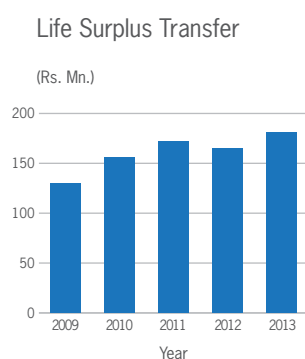
The Life Fund, which has recorded steady and consistent growth over the years, crossed the Rs. 4 Billion milestone during the year 2013. The sound development in the Life Fund indicates the increasing financial strength and stability of the Company as it matures over time.

Life Fund  
Rs 4 Bn.

### Life Surplus Transfer to Shareholders

With the remarkable expansion of its business operations, the Company was able to uphold its promise to the shareholders, and the Life insurance surplus transfer to shareholders, which is equivalent to the Profit generated from the Life Insurance business, saw a 10% increase from Rs. 165 Million in 2012 to Rs. 181 Million in 2013. This surplus transfer was determined based on the

recommendation of our Consultant Actuary, Mr. M. Poopalanathan, FIA from Actuarial and Management Consultants (Pvt) Ltd; after the performance of the year end actuarial valuation and after retaining adequate surplus amounts for the purposes of solvency margin requirements and other possible future liabilities.



### Bonus to Policyholders

The Company also delivered its promise to the loyal policyholders by declaring an annual bonus worth Rs. 90 Million for the year 2013, at a 9% growth when compared with the Rs.83 Million declared for the year 2012. The bonus entitlement depends on the type of the product and the year of purchase of the policy, and accordingly, the highest bonus rate of Rs.55 per Rs.1,000 sum assured is enjoyed by policyholders who have purchased policies from 2002 to 2004.

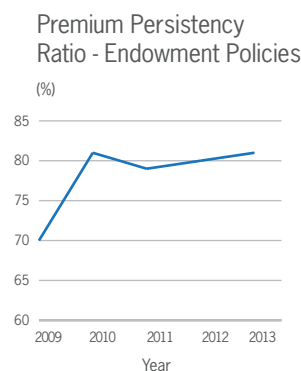
### Dividends to Policyholders

When analysing the contribution of the different products to the GWP, it is observed that one of the key contributors was the “myfund” product, which delivered Rs. 533 Million of GWP during the year 2013. Accordingly, the Company rewarded the “myfund” policyholders by declaring a dividend of 9% for the year 2013 (2012: 9%). The total amount of dividends declared for the year 2013 is approximately Rs. 30 Million (2012: Rs. 8 Million).

### Premium Persistency and Policy Retention

The Company paid special attention during the year towards maintaining a healthy rate of Premium Persistency. Consequently, the Premium Persistency ratio improved from 79.7% in 2012 to 81.2% in 2013. This level of premium persistency is identified to be a commendable achievement when compared with the industry, and the Company intends to take all possible steps to improve this level further in the coming years.

With regard to policy retention, one key challenge for the industry is the management of the lapse ratio. Thus, from the part of the Company too, much attention and effort have been placed on reducing lapses. Despite such measures however, it is observed on a negative note that the 1st year and 2nd year lapse ratios increased during the year. Nevertheless, the Company considers the necessity of reducing lapse ratios as being of utmost importance and hence this will be a key area of focus during the year 2014.



### Lapse Ratios

Year	2013	2012	2011	2010
1st Year	52%	50%	49%	55%
2nd Year	30%	27%	27%	31%

### Strengthening Service Standards and Operations

We at HNBA believe that elevated customer service standards are a key component in sustainable business growth. Hence, in view of reaching and maintaining this goal, new work flow management systems had been initiated during 2012 for new business underwriting, issuance and servicing of business functions. During the year 2013, this initiative was expanded to the claims payment and MRP business functions as well.

Moreover, the Company recognises the importance of continuous enhancement in the informed decision making process, and for this purpose, numerous analyses are conducted via complex models built by the Company. This in turn enables accurate forecasting of Life Insurance-related obligations, leading to the better alignment of the business operations with the Company's growth objectives.



## Management Discussion and Analysis

### Improvements

- > Process Improvements
- > New Forecasting Models

### Liability Adequacy Test and Preparations towards a “Risk Based Capital” Framework

Keeping in line with the requirements of SLFRS 4 – Insurance Contracts, the Company conducted a Liability Adequacy Test (LAT) for the Life Insurance business, based on a cash-flow based valuation method. This task was performed internally with the assistance of an international Actuary, Mr. John Vieren, FIA from Pinnacle Consulting Group Limited. The LAT results illustrated that the Company satisfies the requirement by a considerable margin.

As a progressive step towards better risk management and to keep up with global advancements, the Insurance Board of Sri Lanka (IBSL) has proposed the implementation of a “Risk Based Capital (RBC) Framework” from 2016, in place of the currently practiced Solvency Margin regime. One of the initial steps of this implementation process required all players to participate in a “RBC Road test”, which took place on a quarterly basis for a period of one year, from the end of the 3rd quarter of 2012 to the end of the 2nd quarter 2013. Having successfully completed the road-test requirements, the Company is already working towards developing knowledge, skills and systems to successfully adopt a “Risk Based Capital” regime, by end 2015.

### Towards the Future

One of the main goals that the Company will work towards during the next year is the expansion and strengthening of its profitable business areas. To this end, the Company intends to carefully monitor and keenly focus on a few key areas such as the products offered to the market, expansion of new business channels, improvements in policy retention and productivity enhancement of agents.

The Company also intends to focus greater attention on discovering avenues that will lead to the designing of products to suit the changing needs and lifestyles of consumers. In this regard, the provision of convenience-based insurance solutions is identified to be of utmost importance, and this will be a focal point for innovation in the upcoming year.

In addition to these enhancements, the Company will simultaneously focus on expanding its Takaful product range, thereby delivering novelty and greater flexibility for customers to choose products that best suit their requirements.

Concurrently, the Company also intends to work towards implementing a smooth process of transition to the “Risk Based Capital (RBC) regime”, which becomes mandatory from the year 2016.

### Takaful Insurance



Treading along our continuous journey of overcoming challenges and exploring new business avenues, in 2013 we ventured into the business of providing Takaful Insurance, which we identified as a market niche with a low level of penetration due to limited service. Our business model encompassed this segment in the form of a ‘window’ operating alongside the conventional Life and Non - Life Insurance lines of business, allowing us to serve both retail and corporate clients, and in turn becoming the second Takaful Insurance service provider in the country.

We cater to both Life and Non - Life Takaful needs of our clients, while every single product maintains full compliance with the Sharia Law and is launched only with the approval of our Sharia Supervisory Board. Our Takaful window is headed by a separate Manager and he ensures that all related processes, including underwriting, servicing, fund management and accounting, are carried out in compliance with the Sharia principles.

Our Takaful product line offers;

- Motor Takaful
- Fire Takaful
- Title Takaful
- Medical Takaful
- MRP Takaful

The Sharia Supervisory Board reviewed our Takaful Financial Statements for the year together with business, accounting and investment processes and have confirmed that HNB Assurance Takaful Window has been operated in line with Sharia Principles during the period.

## Excellence Delivered:

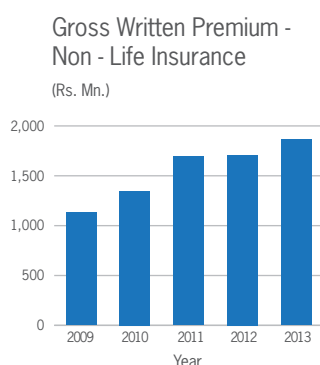
### Non - Life Insurance Operations Review

#### A Competitive Landscape

Year 2013 transpired to be a challenging one for Non - Life Insurance business with high import levies and low growth in private sector credit negatively affecting Motor Insurance business. The expectations of economic growth creating opportunities for the Non-Motor business, too did not materialise. As per currently available information, Non - Motor industry growth was limited to 9% during 2013 compared to the 12% growth marked in 2012, with Motor Insurance marking a 8% growth compared to 16% in 2012.

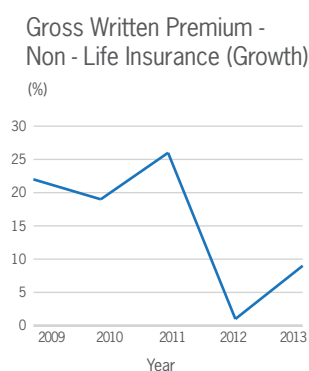
However, for the Non - Life Insurance business segment of the Company, the year 2013 marked a furtherance of its journey in seeking continuous improvement. The rather low growth rate seen in 2012 called for a vibrant performance this year, and for this objective to be realised, keen focus was required to be placed on many key areas. The management worked diligently to improve the performance of this business segment, which brought success in terms of high growth rates in income. However, curtailing of operational costs proved to be challenging, and hence the Non - Life Insurance business produced mixed sentiments at the end of the year.

#### Gross Written Premium (GWP)



Despite the unfavourable environment that prevailed in the market during the year, the Company was able to achieve a GWP of Rs. 1,863 Million as against the Rs. 1,711 Million achieved in the previous year. This is a highly satisfactory achievement, considering that the growth rate rose from a low 1% in 2012 to 9% in 2013. This is on par with the industry growth for 2013. This growth is the result of our consistent attention towards market trends and continuous improvements in distribution channels,

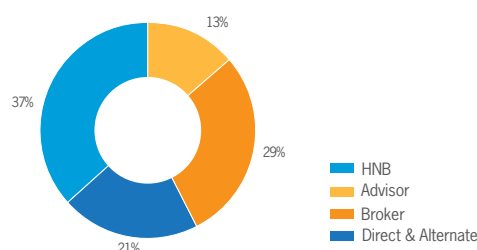
especially the broker, agent and alternate channels, which enabled the attraction of new customers while supporting our long term strategy of retaining the highly valued existing customers.



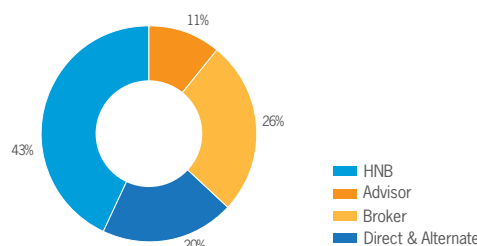
#### Channel Mix

The Non - Life Insurance business segment of the Company generates GWP from four main channels; i.e. HNB, brokers, advisors, direct & other alternate channels, all of which contribute significantly to the Non - Life topline.

Channel-wise GWP - Non - Life Insurance 2013



Channel-wise GWP - Non - Life Insurance 2012



## Management Discussion and Analysis

Channel	2013	2012	Growth %	Contribution %	
	Rs. Mn.	Rs. Mn.	2013	2013	2012
HNB	685	735	(7%)	37%	43%
Brokers	537	437	23%	29%	26%
Advisors	252	189	33%	13%	11%
Direct & Alternate Channels	389	350	11%	21%	20%
Total	1,863	1,711	9%	100%	100%

### HNB

Our association with HNB continues to add value to our performance, with business generated through the bank remaining the biggest contributor to the Non - Life Insurance GWP. During the year, 37% of our GWP, amounting to Rs. 685 Million, was channelled through HNB. However, the slump experienced in the leasing market during the year had an adverse effect on business sourced, which meant that business sourced via HNB reported a negative growth of 7% during the year. Further details of our partnership with HNB are discussed on page 128.

### Brokers

The second-highest contributor to Non - Life Insurance GWP is the broker channel, which generated a GWP worth Rs. 537 Million during the year, recording a 23% growth over the Rs. 437 Million achieved in 2012. By virtue of this growth rate, the broker channel emerged as a key source of Non - Life Insurance business in 2013. Continuous expansion by tying up with new brokers and enhancing rapport with existing brokers are identified as the key factors that contributed towards this growth.

### Advisors

Strong focus was placed during the year on developing the advisor force through recruitments supported by training and developmental activities. These endeavours yielded favourable results, as the advisor channel recorded a growth of 33% during the year, adding GWP worth Rs. 252 Million to the Non - Life Insurance business of the Company.

### Direct Business

It is also interesting to note that the direct channel recorded a significant improvement during the year, showing a growth of 11% as opposed to the 4% contraction recorded in 2012. GWP worth Rs. 389 Million was generated as direct business, largely due to new initiatives implemented by the management to strengthen the channel, for example by recruiting a new team of Sales Executives and by launching successful interactive awareness campaigns such as motor care campaigns and social media advertising.

## Non - Life Insurance Performance by Class

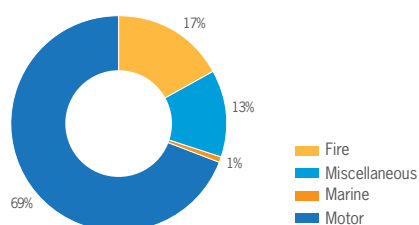
### Motor

Rs. Mn.	2013	2012	2011	2010	2009
GWP	1,287	1,204	1,189	916	740
GWP Growth	7%	1%	30%	24%	25%
Contribution to Non - Life GWP	69%	70%	70%	68%	65%
Net Earned Premium	1,186	1,174	1,035	770	614
Net Claims	776	789	696	502	404
Claims Ratio	65%	67%	67%	65%	66%

Motor Insurance continued to be the predominant contributor to the Non - Life Insurance GWP, accounting for 69% (2012:70%) of the total GWP. However, due to the continuation of high import levies and low growth in private sector credit, this class experienced only a moderate growth of 7%, while its contribution to the GWP declined from 70% in 2012 to 69% in 2013.

As Motor Insurance is the most dominant class of business in Non - Life Insurance, managing the Claims Ratio of this class is a vital component in controlling the overall claims cost. One of our key achievements in this regard during the year was the reduction of the Claims Ratio of Motor Insurance to 65%. The improvements made to the claims management process through measures such as the introduction of workflows, an assessor management system, enhanced instant picture upload capability, effective early and dormant claim tracking and the expanded garage and spare parts supplier networks, assisted greatly in managing the Claims Ratio within desired levels.

Class-wise GWP -  
Non - Life Insurance 2013



### Fire Class

Rs. Mn.	2013	2012	2011	2010	2009
GWP	318	295	303	288	304
GWP Growth	8%	(3%)	5%	(5%)	18%
Contribution to Non - Life GWP	17%	17%	18%	21%	27%
Net Earned Premium	36	34	32	30	29
Net Claims	7	11	11	11	5
Claims Ratio	20%	34%	33%	37%	17%

In 2013, the second highest GWP contribution for the Non - Life Insurance business segment was derived from the Fire class, which generated 17% of the Non - Life Insurance GWP (2012: 17%), and recorded a growth of 8% to recover from the slump in 2012. However, it is noted that the anticipated positive impact on this insurance class from the country's economic boom did

### Non - Motor

The contribution of Non - Motor business towards Non - Life Insurance GWP increased during the year, with the achievement of a GWP worth Rs. 577 Million, at a growth of 14% over 2012.

In terms of profitability, it was possible to maintain Claim Ratios at acceptable levels, mainly due to the absence of major natural catastrophes as well as due to our excellent reinsurance arrangements.



**Chandana L. Aluthgama**  
 Head of Corporate Business  
 Development

The broker channel emerged as a key source of Non - Life Insurance business in 2013, recording a 23% growth and generating Rs. 100 Million over the 2012 achievement.

The main classes under the Non-Motor business line are discussed below in detail.

not materialise, especially because the main development projects are insured by government owned insurers. Nevertheless, the Fire class maintains its profitable stance, due to its relatively low claims experience, as demonstrated by the low Claims Ratio of 20% for 2013, as well as its strong reinsurance backing.

## Management Discussion and Analysis

### Miscellaneous Class

Rs. Mn.	2013	2012	2011	2010	2009
GWP	235	188	177	115	63
GWP Growth	25%	6%	54%	83%	24%
Contribution to Non - Life GWP	13%	11%	10%	9%	6%
Net Earned Premium	132	113	90	54	28
Net Claims	104	91	94	74	39
Claims Ratio	79%	81%	104%	136%	139%

The Miscellaneous class, which also includes Health Insurance, reported the highest growth in the Non - Life insurance business segment, achieving a 25% growth with a GWP achievement of Rs. 235 Million. The contribution from this class has continuously grown over the past few years, and reached 13% of the total GWP in 2013. Profitability of this class, which was a serious concern

to the Company a few years back, has also improved considerably, mainly through corrective measures implemented, such as prudent underwriting practices and conducting client profitability analyses prior to accepting and renewing business. Thus, the Company succeeded in reducing the Claims Ratio of the class to 79% in 2013 from 81% in 2012, and plans are underway to improve this ratio further in the coming years.

### Marine Class

Rs. Mn.	2013	2012	2011	2010	2009
GWP	23	24	25	24	23
GWP Growth	(2%)	(6%)	4%	5%	(14%)
Contribution to Non - Life GWP	1%	1%	1%	2%	2%
Net Earned Premium	4	4	5	4	4
Net Claims	1	1	2	1	0
Claims Ratio	35%	22%	41%	34%	12%

The Marine class recorded a dip in its GWP of 2%, consequent to the negative market conditions that prevailed during the year. Accordingly, GWP of Rs. 23 Million was achieved in 2013, as opposed to Rs. 24 Million achieved in 2012. It is noted that although a few high claims were also experienced by this class, the impact to our bottom-line was low due to reinsurance backing. The Company believes that this class possesses considerable growth potential and hence greater focus will be placed on its improvement in the future.



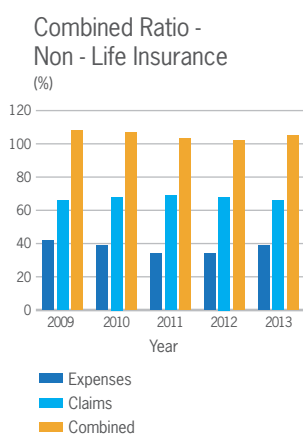
**Niranjan Manickam**  
General Manager - General

Along with the growth in business, it was equally important that we engaged in prudent management of our claims costs and expenses and increase our underwriting profits, in order to optimise the improved performance of the topline. Hence, much focus was placed on these aspects during the year and on an overall basis, the Company was able to reduce its Claims Ratio by 2% from the previous year, to record 66%.

## Profitability

### Underwriting Profitability

Along with the growth in business, it was equally important that we engaged in prudent management of our claims costs and expenses and increase our underwriting profits, in order to optimise the improved performance of the topline.



Hence, much focus was placed on these aspects during the year and on an overall basis, the Company was able to reduce its Claims Ratio by 2% from the previous year, to record 66%. As noted previously, the management of claims in Motor Insurance was a key contributor towards this achievement. However, we see further potential for improvement of this ratio through measures such as enhancement of Net Earned Premiums, selective price revisions (as were conducted during the year) and prudent underwriting practices, and we intend to utilise these measures further in the coming years.

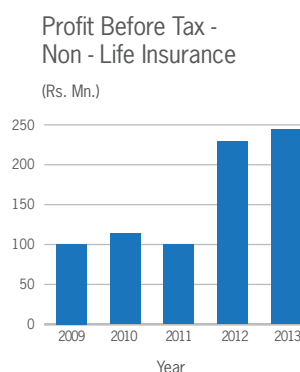
Expense management is another important area of our business. Escalating costs in respect of utility, business acquisition, staff and advertising, compounded by lower profit commissions from our reinsurance programmes, resulted in our total operational expenses increasing considerably, by 15% during the year. This, coupled with the low growth in Net Earned Premiums which only increased by 2% over 2012, resulted in the Expense Ratio rising 5% above the levels recorded in 2012, to reach 39%.

Consequently, our Combined Ratio also increased to 105%, marking a 3% increase over 2012. This in turn translated to a 181% growth in the underwriting deficit, which reached Rs. 64 Million during 2013 compared to Rs. 23 Million in 2012.

The Company has conducted analyses on what needs to be done in order to improve these results and it is noted that Net Earned Premiums should be enhanced through growth in topline and that expense growth should be aligned with the growth in the topline, in order to improve underwriting results in the coming year.

### Profit Before Tax – Non - Life Insurance

Despite the increase in the underwriting deficit, the Non - Life Insurance business segment of the Company was able to post growth in profits through higher investment and other income, which recorded a 22% growth over 2012, achieving Rs. 308 Million. Accordingly, the Non - Life Insurance business segment achieved a PBT of Rs. 244 Million, marking a 7% growth compared to the Rs. 229 Million recorded in 2012.



## Operational Developments

### Reinsurance Arrangements

Through a combination of good underwriting and claims management we were yet again able to deliver positive results on our reinsurance arrangements in 2013, and this in turn enabled us to secure better terms from our reinsurers for 2014 as well.

Accordingly, during the year we were able to increase our Fire Insurance and Engineering Insurance treaty capacities by 10% and 20%, respectively. Further we were also able to arrange a Marine Hull facility which, along with the freight forwarders' liability facility, is the new inclusion to the programme this year. Armed with this facility, we are now able to approach a client segment which was previously closed to us and thus, we are now confident of our ability to open and maintain new business relationships with such clients.



## Management Discussion and Analysis

Another feature of our reinsurance programme was the agreement of the current reinsurers to support us on our new business venture, Takaful Insurance. This has therefore escalated us to a privileged position of being able to offer a Takaful solution for all our products.

Our commitment to maintain relationships with reinsurers of the highest calibre is reflected by the fact that all reinsurers in our panel have been rated 'A' or above (Superior/Excellent) by A M Best, except for one reinsurer which possesses a rating of 'B++' (Good) from the same rating agency. Moreover, highlighting the interest shown by top rated reinsurers to be associated with our operations, during the year we were able to successfully enlist two new 'A' rated reinsurers on to our panel.

### Claims Assessment

As managing claims is another important aspect of our business, in 2013 we recognised the value of appointing motor engineers in five key regional towns along with two in-house assessors to handle motor claims. This was a deviation from the previous practice of having a centralised claims operation with motor assessors employed solely on a freelance basis. The new method has helped offer expeditious service to the customers while also facilitating a better rapport between the Company and the client. Buoyed by this success, we intend to expand this operation further by recruiting qualified assessors and deploying more persons as full time in-house assessors. In addition, we also plan to expand the motor garage and supplier network, with a grading mechanism proposed to be introduced to monitor the quality of the work being performed and the quality of the spare parts being supplied by these companies.

During the year we also appointed NMG Consulting Ltd as our actuarial consultants in respect of Non - Life business and their involvement and advice on building our business based on a Risk Based Capital structure has added much value to our operations.

### Product Development

Continuing to journey along the path of innovation, during the year we introduced a special product for hybrid vehicles, which is an emerging market consisting of eco-conscious customers. Before the introduction of this product we observed this segment as being under-served in the market, and identifying this gap we launched the

Motor Guard Eco Insurance product, and the response for this product has been extremely high, with the product attracting many customers despite being new. This product was yet another first in the market, adding greater weightage to our distinction as being the 'most innovative insurance provider' in the country.

### New Market Development

During the year, we obtained the consent of the Insurance Board of Sri Lanka (IBSL) to offer Takaful Insurance Products to the market. With this venture, we are now able to offer our discerning customers a choice of arranging their insurance needs on either the conventional or the Takaful platform, which is yet again a first in Sri Lanka.

We have observed this segment as showing rapid growth potential, and we have already entered into agreements with leading financial companies to receive business. The management is confident that the Takaful segment will further incentivise our growth towards a higher level, and hence is seeking to expand its operations further in the coming years.

### MotorGuard



With the objective of enhancing positive environmental impacts of our business, we introduced a product delivering a specific environmental benefit through MotorGuard 'Eco Insurance'. An extension to our existing MotorGuard policy, this is specially designed as a tribute to users of eco-friendly hybrid cars. This policy offers all hybrid vehicle users a competitive and affordable premium with a special discount rate. Other offers include the highest no claim bonus of up to 75%, 24 hour Green-line on 011 4677 099 for inquiries and motor claims, on-site inspection, a cash grant of Rs. 250,000 towards children's education in case of an accidental death and lease rental for two months if repairs to the vehicle exceed 30 days, and many more benefits.

### Service Enhancements

Customer service is a focal point of our operations, and accordingly, continuous efforts were made to introduce measures to enhance the services delivered by us to our valued customers island-wide.

In order to provide an enhanced service to the customer by expediting the acceptance of business and issuance of policies, we have embarked upon a mechanism of delegating greater authority from the centre to the regions with regard to underwriting practices. For this purpose, we conduct an on-going programme of improving the underwriting skills of employees, especially in the regions, and fast tracking the capabilities of selected persons. This programme is expected to be further enhanced in the coming years, enabling us to consistently improve our service standards to ensure that the customers receive the best service standards at all times.

### Looking Ahead with Raised Eyes

#### Operational Changes

In an ever-changing environment, every new year dawns with a new set of challenges and opportunities. The ability to navigate through these issues whilst maximising the possibilities that beckon us is the secret of success of many companies. Such a successful outcome in turn epitomises their ability to be flexible and adjust to changes around them.

The macroeconomic environment forecasted for 2014 indicates that the progressive trends in the economy of Sri Lanka are likely to remain the same. This picture promises a steady growth opportunity for insurers, but it is also simultaneously noted that it does not create enough excitement to plan for exceptionally high organic growth rates.

Exploiting the opportunities that may arise due to the new regulatory guidelines being issued by the Central Bank of Sri Lanka for the consolidation of the banking and financial services sector is also in our plans. We hope to leverage further on our relationship with HNB to maximise the opportunities emanating from these changes.

With the issuing of new insurance broker licenses temporarily suspended by Insurance Board of Sri Lanka, the number of brokers operating in the market has remained unchanged during the year. However, we observe that our business relationship with some of them is very limited and hence, plan to work towards

establishing and expanding relationships, thereby growing our broker operations network.

We also see great potential in signing up business agreements with direct vehicle dealers acting as agents or importers. We believe that the initiative on the part of finance companies in utilising their client database to augment their income by allowing insurers to market off-the-shelf insurance products to their clientele, is a signal of the dawn of a new selling option for insurers, and thus this is an area we intend to exploit in the coming year.

#### Structural Changes

All insurance companies have been instructed to segregate their Life and Non - Life Insurance business into separate entities by 2015. This poses a major challenge for insurers, as it would require people, especially those in the regions, being assigned to one of the two entities, renaming the Company based on the segregation model to be adopted as well as changing all documentation including brochures, policy schedules, marketing material and reinsurance contracts.

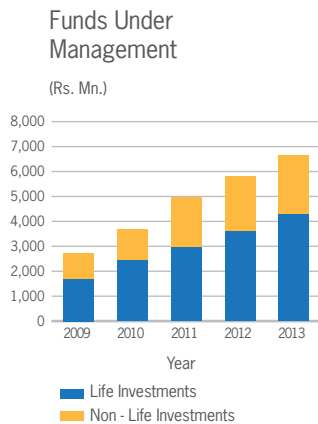
The Company has prepared a plan mapping out the changes that need to be conducted so that the regulatory deadlines could be met and ensure that the changeover happens in a smooth manner. These changes would also necessitate a review of our current operational structures in all areas including branch operations, sales and marketing, underwriting, claims as well as support services such as IT, Finance, Administration and HR. Simultaneously, a change management process needs to be conducted, whilst also ensuring that the plans and goals we have set for ourselves in 2014 are achieved in a manner meeting all stakeholders' expectations.

## Management Discussion and Analysis

### Superior Returns Yielded:

#### Investment Management Review

We are cognizant of the important role that investment management can play in enhancing our financial position and hence all efforts are taken to reap maximum returns by conducting lucrative investments from funds generated via the ordinary course of our business. Accordingly, the objective of our investment management function is to maximise risk-adjusted investment returns whilst meeting stipulated guidelines, both internal and external. Having worked diligently with this objective in mind we were able to swim upstream amidst challenging market conditions to generate superior returns in the year 2013 as well.



#### Funds Under Management Significantly Enhanced

As at the year end of 2013, the internal fund management team of the Company managed five investment portfolios; the Life Fund, the Non - Life Fund and the Life Shareholder's Fund were maintained for the purposes of conventional insurance business, while the Non - Life Takaful Fund and the Family Takaful Fund related to the Takaful insurance business launched during the year under review.

With the significant growth of our business operations, a simultaneous improvement was observed in funds under management as well, and accordingly, the Life Fund recorded a YoY growth of 18% to reach Rs. 4.3 Billion, while the Non - Life Fund expanded by 9% to reach Rs. 2.4 Billion. The cumulative effect of this development was that the Company's total funds under management crossed the Rs. 6 Billion milestone, growing by 15% YoY to reach Rs. 6.7 Billion.

#### Asset Allocation Optimally Altered

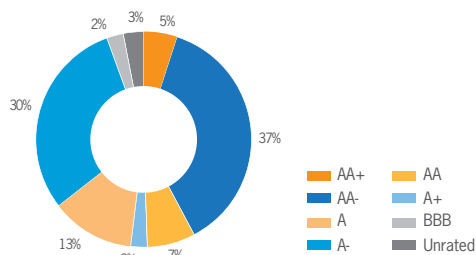
In order to deliver superior risk-adjusted returns on investments, it is essential to adopt tactical strategies to cope up with the challenging dynamics generated through the highly volatile business environment. With this necessity in mind and with the guidance and approval of the Investment Committee, the fund management team reviewed the Company's asset allocation guidelines during the year in order to ensure that the Company was not confined by limitations already rendered superfluous by market conditions.

One major development that occurred in this regard was the increase in the Company's exposure to corporate debt instruments. The investment team noted that the exemptions granted via Budget 2013 for listed corporate debt instruments from both income tax and withholding tax augur well for the financial performance of the Company and hence the guidelines on investments in corporate debt instruments were loosened to reap such benefits.

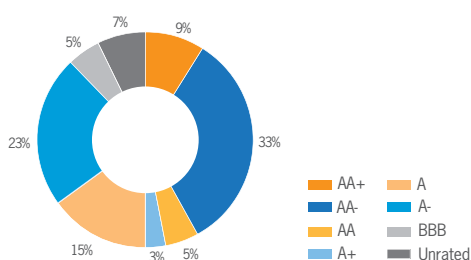
Accordingly, the Company opted to invest in 18 of the 28 debenture issues which were listed on the CSE during 2013 and each such investment was backed by a justification that included a comprehensive analysis from all relevant perspectives, to ensure that the investment portrays no undue risk to the Company. Further, all debentures invested by the Company carried a credit rating that was in line with the Company's risk appetite.

Following these new developments therefore, by the end of year 2013, exposure to corporate debt investments in the Life Fund had increased to 30% from 17% in the previous year, while the exposure of the Non - Life Fund had increased to 39% from 20% reported a year ago.

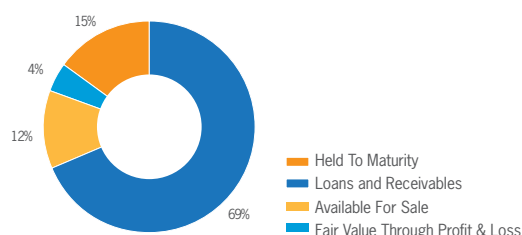
Corporate Bond Rating - Non - Life Insurance



Corporate Bond Rating -  
Life Insurance



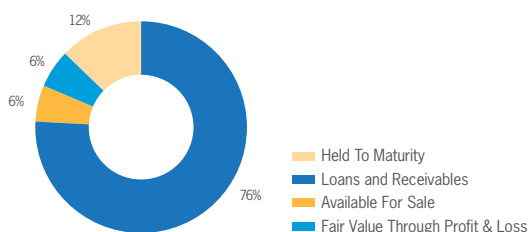
Asset Categorisation -  
Life Fund



Concurrent to the above alteration in the asset mix, a slight decline was witnessed in the Company's holding of securities issued/guaranteed by the government. In the Life Fund, taken cumulatively with the Family Takaful Portfolio, the decline was from 58% at end 2012 to 38% at end 2013. The Non - Life Fund (including Non - Life Takaful and Life Shareholder's Portfolios) too reported a decline from 48% in 2012 to 32% as at end 2013. However, it must be noted that our exposure to government securities is well above the minimum regulatory limits. Accordingly, exposure to government securities in Life Fund accounted for 36% (minimum 30% of Life Fund as per Solvency Margin Rules) and the exposure in Non - Life Fund was 78% of the Technical Reserve (minimum 20% of Technical Reserves as per Solvency Margin Rules).

Meanwhile, due to the extremely volatile stock market performance witnessed during the year, steps were taken to further trim down our exposure on equity. Consequently, the equity allocation in the Life and Non - Life Funds at the end of 2013 stood at 2.7% and 3.1%, respectively.

Asset Categorisation -  
Non - Life Fund



### Superlative Investment Performance during the Year

The aforementioned prudent investment management strategies enabled HNBA to deliver yet another remarkable year in terms of both investment income and investment returns. The cumulative income from all funds during the year was recorded at Rs. 852 Million, significantly higher than Rs. 662 Million reported for the year 2012. The growth was received from both Life and Non - Life aspects; the Life Fund, including the Family Takaful Fund, reported an income of Rs. 557 Million at a growth of 35%, while the Non - Life Fund, including the Non - Life Takaful Fund, generated an income of Rs. 295 Million at a growth of 19%.

The importance of these superlative results become more prominent when considering the challenging environment that persisted during the year. Interest rates continued to tread down towards extremely low levels, as demonstrated by the benchmark twelve-month T Bill rate declining by approximately 300 bps during the year, which in turn threatened the sustainability of high interest income. Nevertheless, prudent forecasting and efficient fund allocation enabled us to improve the income generated via interest bearing instruments by an impressive 20% to Rs. 767 Million during 2013, mainly assisted by investments made in corporate debt instruments and term deposits. On a positive note, it is also observed that the lower interest rates enabled us to realise capital gains worth approximately Rs. 46 Million through disposals made from our treasury bond portfolio.

The reversal of the negative trend which had persisted for two prior years at the Colombo Stock Exchange also contributed towards the enhanced investment income. During the year, the All Share Price Index recorded a growth of 4.7% and through close monitoring and timely decision-making we were able to realise a total sum of Rs. 5.7 Million in the form of capital gains via the divestment

## Management Discussion and Analysis



**Nileshe Amarasinghe**  
Head of Investment

Adopting active and dynamic fund management strategies enabled HNBA to deliver yet another remarkable year in terms of both investment income and investment returns, greatly assisting the Company's overall profitability. The importance of these superlative results become more prominent when considering the challenging environment that persisted during the year.

of selected equity holdings. Moreover, the Company also earned a dividend income of Rs. 8.5 Million and accounted for an unrealised gain of Rs. 1.1 Million by the year end.

Following such developments, and in continuation of the impressive returns delivered in the previous years, the average investment returns on both Life and Non - Life Funds for 2013 improved to 13.88% and 12.26%, respectively. Generating such high returns amidst the consistent decline in the risk free rates amply demonstrate the ability of the investment management function to respond to changes in the external environment in a timely and appropriate manner, with the objective of working towards the best interest of the Company.

### Active Management of Investment Risk

Managing risk is a fundamental component of our approach to investing, which necessitates that risk and return be analysed through multiple perspectives as we navigate in a highly complex and volatile environment. Our investment management strategy therefore necessitates the employment of a fundamental, research-driven approach in managing the Funds in order to strike a balance between risk and return. In this regard, the investment management function is assisted by the Risk and Compliance Department, which provides critical, unbiased insights on the risk profiles of each portfolio.

A detailed report of the risks faced by the Company with regard to investments and measures employed to eliminate or minimize such risks, is given under the Risk Management section appearing on pages 208 to 218.

### Investments: The Way Forward

From the perspective of Investments, the key challenge that the Company will need to weather during 2014 will be the prevailing and expected low interest rate regime. Therefore, the investment management function expects to remain alert and vigilant on any investment opportunity that will yield a greater return than those generated by traditional interest-bearing investments.

Nevertheless, it is noted with appreciation that the Government has introduced a series of steps to strengthen and develop the country's capital market, for example through the tax concessions granted for the listed corporate debt and new equity listings. Further, the capital market watchdog, the Securities and Exchange Commission (SEC) has issued a directive on minimum public float as a continuous listing requirement. Being a stakeholder in the capital market, we welcome this move, as it will promote a liquid and transparent market with a better price discovery mechanism. It is expected that the Parliament will pass the Bill on the amended SEC Act during 2014, which will give SEC the authority to exercise civil sanctions.

Meanwhile, the Central Bank of Sri Lanka has embarked on a programme to consolidate the non-bank finance industry, which we believe is an essential pre-requisite to build sufficient resilience in the financial sector through mergers and acquisitions that would reinforce the capital and asset bases of financial institutions.

Such measures, coupled with a low interest rate regime, are expected to drive the stock market further into the positive territory during 2014. Hence, we maintain a bullish stance on the stock market and our investment strategies will be adjusted towards reaping the maximum benefits from such an outcome.

## Seeking a Competitive Edge:

### Information Technology Review

We recognise that information technology has a key role to play in enabling a corporate entity to gain a competitive edge over its peers and this understanding necessitates the placing of considerable attention on the IT function. Within our short period of existence, we have carefully reaped all benefits thrown our way via technology. The year 2013 was no exception.

### Our IT Strategy

With a centralised core application and numerous peripheral applications, the challenge for 2013 was to mainly lay down an IT roadmap that enabled greater consolidation of applications and processes while maintaining an IT environment conforming to a standard topology and a higher return on investment. In overcoming this challenge, HNBA IT was able to successfully harness the opportunities presented via technological advancements by implementing solutions that provided new mediums and channels for business growth, while augmenting expected levels of compliance.

Accordingly, 2013 saw further consolidation and collaboration for IT. For this purpose, peripheral applications were taken to the next level, where they encapsulated information and bridged gaps in the information and process flows, enabling a 360° view of information to supplement better customer service.

Meanwhile, mobile as well as infrastructure enhancements were used to facilitate higher availability and timely access to information, providing enhanced customer service and strengthened information security. Advancements in mobile technology were also harnessed to provide better, cost effective and simpler solutions for intermediaries, such as advisors and assessors, as well as policyholders.

### Service Enhancements during 2013

The year saw the further strengthening of the core application with the introduction of loan management, surrender and medical payment modules, enabling the completed automation of the entire Life Insurance servicing functionality. In the products sphere, automating the new dividend-based product strengthened the product portfolio of Life Insurance, while in Non - Life Insurance the MotorGuard Extra product was added to the portfolio.

With the view of enhancing the seamless nature of the information flow within the Company, HNBA IT adopted Microsoft SharePoint as our intranet application in order to create a collaborative IT environment. With this development, it is now possible to view the online presence of employees via the intranet as well as through the Microsoft Lync communication platform, facilitating the quick sharing of information. The Microsoft Lync platform was also utilised by the Company for the purposes of conducting further advancements to the online learning facility launched in 2012, to set up online training centres at our regional branch offices.

Another prominent initiative undertaken by the IT function during the year was the provision of an entirely new look to the Company's intranet. With this makeover, the human resource information system, OT prior approval system and all other peripheral systems are now linked to the intranet, along with a window to disseminate new information about the Company among staff members. All the procedural manuals of the Company have also been made available on the intranet, further facilitating a seamless information flow and also enabling the reduced usage of paper. In demonstrating our passion for continuous development, we are currently in the process of conducting the next level of developments in the intranet, which include intranet personal pages and internal approval processes and these are expected to come into operation during the coming year.

Due to our venturing in to a new business segment, namely Takaful operations, a separate system dedicated to this venture was necessitated, and this was yet another important development that took place during the year. This system currently facilitates all Takaful Insurance related operations, while further improvements are also being conducted.

Moreover, with the introduction of the "Prime Circle" customer base, a new application enhancement was introduced to enable our staff to identify these customers separately, in order to deliver the defined level of services.

### Technology for Sales Force Management and Activity Monitoring

The pilot project which commenced in 2012 for sales force management achieved full maturity during the year, by expanding its scope to include the entire bancassurance network and corporate sales units as well. Simultaneously, information availability was further strengthened by integrating the core application with the



## Management Discussion and Analysis



**Namal Gunawardhane**  
Head of IT

HNBA IT was able to successfully harness the opportunities presented via technological advancements by implementing solutions that provided new mediums and channels for business growth, while augmenting expected levels of compliance

workflow systems for better transparency and more agile monitoring of sales conversions and follow-ups. The feature of automated ranking and monitoring included in this system has led to higher sales conversions and pending updates while reducing lapses in renewal premium, while the sales diary maintained within the application provides another dimension for business growth by monitoring sales activity.

### Android Mobile Applications Targeted at Better Customer Service

During the year HNBA mobile apps were upgraded with inquiry options and quick dial options, enabling both Life and Non - Life Insurance customers to contact service centre representatives immediately. Mobile apps have also brought transparency in claims settlements by providing

the facility to the policyholder to view the accident images and claim documents, and this is proudly recognised as the first occasion an insurer has shared such information with customers.

### Technology to Improve Collection Methods

As another component of our strategy of continuously upgrading our systems, during the year we utilised many forms of sophisticated technology linked to premium payment methods, to provide greater convenience for our valued customers.

The “momo” device introduced by our parent Hatton National Bank, is one such innovative addition to our collection methods, which enabled our advisors to accept premium payments made by customers via credit or debit cards and to issue a receipt via a Bluetooth printer. This service is identified to be a function with great potential as the economy moves gradually towards increased cashless transactions, while also giving our customers the opportunity of conducting payments at the comfort of their homes or work places.

Another initiative to enhance methods of premium payment was our partnership with the eZcash process of Dialog Axiata PLC, which enabled our customers the opportunity to make premium payments through mobile phones. We also partnered with Mobitel (Pvt) Ltd. to provide premium payment options via Mobitel mCash.

Moreover, in order to expand our presence in rural areas of the country, we partnered with the e-Sri Lanka project





of the Information and Technology Agency (ICTA) Sri Lanka to connect some of its Nanasala IT centers as our collection centers. All collections made at selected Nanasala centers are transferred through Dialog eZcash.

### Self-Service Portals for Customers and Intermediaries

Taking customer convenience to another dimension, during the year we opened up the internet as a sales medium for several products. Accordingly, for key products such as Travel Max and eMarine, our customers have the opportunity of obtaining policies online, enabling the delivery of a faster and more efficient service.

Accordingly, Travel Max, one of our key travel insurance products, by virtue of being available online, enables customers the convenience of purchasing travel protection at the time of obtaining the airline ticket from the travel agent. In addition eMarine enables customers who purchase Marine Open cover policies the opportunity of obtaining insurance certificates for each shipment up to the sum insured of the open cover policy, thus granting the privilege of printing the marine cover certificates with minimum hassle, at the customers' convenience.

### Augmenting Service Standards and Compliance

During the year, we established workflows in Life Insurance underwriting and servicing departments, motor engineering and claims departments and the payments unit of the finance division. These workflows include facilities such as information dash boards, automated SMS and e-mail reminder facilities and also the escalation of incomplete tasks to the supervisor level, thereby enabling the improvement of service standards of the Company. These workflows are taken as a major source

of quantified data for evaluating employee performance and hence it has become an integral component in improving employee productivity, turnaround time of service delivery and sales conversions.

Meanwhile, concurrent to paying our attention to progressing with cutting-edge technology, we also focused on strengthening the security and compliance standards of the Company. For this purpose, several IT policies were reviewed and updated to be on par with the compliance guidelines and to mitigate new threats identified within the IT industry. Another initiative undertaken for the purpose of ensuring greater compliance was the implementation of the iTop change management solution. This application enables us to accurately monitor and track all the changes which are being made to applications of HNBA, in line with the relevant rules and regulations on IT compliance.

Simultaneously, steps were taken to strengthen the alternate disaster recovery site to cater to a sudden total unavailability of the primary site. Several mock drills were conducted with the objective of identifying shortcomings in the business continuation process. Consequently, business continuation and disaster recovery plans were updated with the findings and a companywide business continuity drill was conducted successfully.

### Cost Savings via Technological Assistance

EFax, a cost effective alternative to traditional fax machines, was introduced to the motor claims process during the year. This initiative has resulted in the immediate reduction of costs incurred on fax paper and printing, while in the long term too reductions are expected to be achieved via reduced replacement and repair costs. This solution will be extended to other departments as well, in the coming years.

Meanwhile, scanning of all policy and claim related documents, which had commenced in previous years, continued throughout 2013 as well, and accordingly documents pertaining to Life Insurance new business and claims were fully converted to electronic form. The majority of the documents of the Non - Life Insurance business have already been converted to electronic form, and the remainder is expected to be completed shortly. This process has resulted in significant cost savings, while decision making has also been made more effective and efficient.

## Management Discussion and Analysis

In order to better manage staff related costs such as overtime and travelling too, proper authorisation and control have been granted through the introduction of systems such as the OT prior approval system and the travelling claim system. Simultaneously, the introduction of biometric scanners for marking attendance, at head office and at 27 branches, has increased the accuracy and management of staff OT costs while the automation of the process has reduced the paper usage as well.

Automation has also been introduced to functions such as petty cash management and reimbursement, again resulting in reduced paper usage and reduction in costs of manual information transfer, and it is our intention to extend the automated petty cash system to the entire network during early 2014.

### Automated Processes



### Future Outlook: IT Vision for 2014

In 2014, the Company will be mainly concentrating on strengthening IT compliance and the unification of peripheral applications, based on research carried out during the previous years. Introduction of a common enterprise communications platform will take precedence among such development activities. In addition, peripheral systems such as OT prior approval, petty cash management and attendance monitoring systems will be introduced to remaining branch offices during 2014.

The introduction of the Oracle eBusiness Suite as the finance application is currently in progress, and operations in the Oracle system commenced on the 1st of January 2014.

Converting R&D on context computing to provide better service to internal and external customers will commence in the coming year as another IT initiative.

Further in 2014, we intend to start the offering of Life Insurance policies via electronic sales mediums, where customers can obtain a simple life insurance product online in four simple steps via an application that is equipped with the latest technology, enabling it to provide greater convenience for the users.

Strengthening IT governance and practices in view of the changes prescribed for coming years will be another key initiative that we intend to embark on from the year 2014 onwards.

## Greater Value to Stakeholders

### Our Policy on Economic Performance

We strive to add value to all our stakeholders by generating sustainable economic returns. Thus, we take measures to ensure that nothing inhibits the generation of economic value. Notwithstanding the generation of healthy financial results, we continued to deliver returns to all our stakeholders as in the previous years. Our focus, therefore, is to generate the maximum possible value in total terms, incorporating both economic and non-economic panes. While the ultimate responsibility for economic performance lies with the Board, the management team headed by the Managing Director is entrusted with the responsibility of adding value to all stakeholders.

During the year we added Rs. 2,155 Million as value to all our stakeholders, improving our value addition by 15.95% over the Rs. 1,858 Million added in 2012. Value addition towards our shareholders, in the form of dividends, contributed towards 6.38% of total value generated (2012: 5.65%), increasing significantly from the previous year. Value added to life policyholders, amounting to 33.64% of total value added, stood at Rs. 725 Million (2012: Rs. 556 Million), and accounted for the largest portion in the overall value added. Employees were allocated a 21.15% share of the total value added (2012: 22.39%), while the value generated for our intermediaries was 22.91% (2012: 23.52%) of the total. Additionally, value added to the government in the form of income tax accounted for 1.67% of the total (2011: 2.30%), while the same for the society in the form of donations and CSR activities stood at 0.13% (2012: 0.12%).

	2013 Rs. '000		2012 Rs. '000		Growth %
Net Earned Premium	3,269,181		2,697,024		21.21
Investment and Other Income	864,517		665,136		29.98
	4,133,698		3,362,160		22.95
Net Claims & Benefits	( 1,568,208 )		( 1,154,521 )		35.83
Cost of External Services	( 410,759 )		( 349,343 )		17.58
<b>Value Addition</b>	<b>2,154,731</b>		<b>1,858,296</b>		<b>15.95</b>
<b>Distribution of Value Added</b>					
		%		%	
<b>To Employees</b>					
Salaries and Other Benefits	455,640	21.15	416,154	22.39	9.49
<b>To Intermediaries</b>					
Commission Cost	493,579	22.91	437,130	23.52	12.91
<b>To Government</b>					
Income Tax	35,972	1.67	42,726	2.30	(15.81)
<b>To Life Policyholders</b>					
Increase in Life Insurance Fund	724,829	33.64	555,909	29.91	30.39
<b>To Shareholders</b>					
Dividend Paid	137,500	6.38	105,000	5.65	30.95
<b>To Society</b>					
CSR Activities & Donations	2,754	0.13	1,911	0.12	44.11
<b>For Expansion and Growth</b>					
Retained as Depreciation and Amortisation	52,836	2.44	53,326	2.86	(0.92)
Retained in Reserve	251,622	11.68	246,140	13.25	2.23
	2,154,732	100.00	1,858,296	100.00	15.95



## Management Discussion and Analysis

### Awards and Accolades

For the successful introduction and implementation of a claims management system which automates the entire claim process including the customer relations centre component and mobile component, HNB Assurance was awarded the Celent Model Insurer Asia Award at the 'Celent Model Insurer Asia Summit 2013' held in Singapore.



Our Integrated Annual Report for the financial year 2012 received the award for the Best Annual Report in the Insurance Sector at the 'Annual Report Awards' organised by the Institute of Chartered Accountants of Sri Lanka. It was also placed third in the overall category.



Through conscious improvements to our people management processes, we were able to be placed 9th at 'Asia's Best Employer Brand Awards', held in Singapore. Also we won the 'Excellence in Training' Award for our commitment to People Development.



Our brand management activities were felicitated through the Award for 'Brand Excellence' at the '4th CMO Asia Awards for Excellence in Branding and Marketing', held in Singapore.



## Maximising Wealth:

### Investor Review

As a responsible Company listed on the Colombo Stock Exchange (Code:HASU), we are committed to create maximum value to our shareholders, and to uphold their confidence and satisfaction in having invested with HASU. As such, the Company persistently strives to improve the returns derived by our shareholders and to deliver them with sustainability in their earnings.

HASU Performance vs Market (over 5 years)



### HASU in 2013

2013 proved to be a successful year for our valued shareholders as HASU retained its growth momentum by delivering a price enhancement of 7.1% on a YoY basis. These results indicate that HASU outperformed not only the All Share and S&P SL 20 indices, but also the Bank, Finance and Insurance Sector index, which recorded growth rates of 4.8%, 5.8%, and 5.9%, respectively, over the period.

HASU Share Volumes and Relative Performance vs Market



Accordingly, as at the year-end, the share price stood at Rs.52.50. The highest price for the year was recorded on 20th May 2013, at Rs. 57.00, while the lowest was reported on 8th April 2013, at Rs. 47.00.

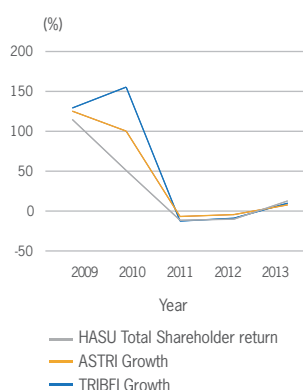
In terms of liquidity too, HASU performed well during the year, trading on 219 days out of a total of 242 market days, while the average daily turnover was recorded at Rs. 1.1 Million. Meanwhile, the Company also complied with the directive issued by the SEC to ensure a minimum public float of 20%, by maintaining a public float of 39.76%.

### Total Return for Investors

The Total Return Index measures the performance of a share over a specified period by assuming that all cash distributions are re-invested, in addition to tracking the capital appreciation of the share.

For the financial year ended 31st December 2013, HASU reported a total return of 12.76% for its shareholders, outperforming the growth reported on return indices calculated on All Share Index, S&P SL 20 Index and the Banking, Finance and Insurance Sector Index.

Total Shareholder Return



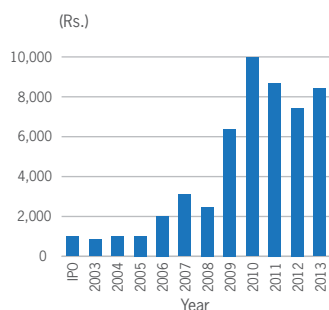


## Management Discussion and Analysis

### Value of Rs. 1,000 Invested at HASU IPO

With these developments, it is observed that an investment worth Rs. 1,000 made at the Initial Public Offering of HNBA back in 2003 would have grown to Rs. 8,416 by the end of 2013, corresponding to an annual effective rate of return of 21.4%.

Rs.1,000/- Invested at HASU IPO

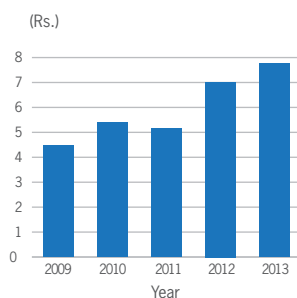


### Earnings Per Share

Earnings Per share (EPS) is an important measure of the profitability of an organisation, as it represents the portion of the Company's distributable profits allocated to each outstanding ordinary share. During the year under review, EPS of the Company grew by 11% to reach Rs. 7.78 per share, compared to the EPS of Rs. 7.02 reported at the end of the financial year of 2012.

Meanwhile the earnings yield, which indicates EPS as a percentage of the closing price of the share, improved to 14.8% during the year under review (2012 – 14.3%), reaching well above the one year gross risk-free rate of 8% for the relevant period.

Earnings Per Share



### Dividends Per Share

The dividend policy followed by HASU ensures that a dividend pay-out corresponding with the growth in its net income takes place, while ensuring that the Company retains sufficient funds for future investments. This, in turn, is expected to facilitate the creation of sustainable value for our shareholders.

As such, the Board of Directors proposed a first and final dividend of Rs. 3.25 per share to be distributed among shareholders for the financial year 2013 (2012 : Rs. 2.75 per share), which is the highest dividend per share proposed by the Company in its history. Moreover, the proposed dividend converts to a dividend pay-out of 42%, compared to 39% reported for the year 2012.

Accordingly, HASU raised the bar on dividend yield to 6.2% (in comparison to 5.6% reported in 2012), which is significantly higher than the market dividend yield of 2.9% for the year.

### Net Asset Value per Share

Reflecting the commitment of the Company to be a value creator for its shareholders, in 2013 the net asset value per share, or the funds attributable per outstanding ordinary share, increased to Rs. 42.26 in comparison to Rs. 32.32 reported as at 31st December 2012.

### Prospects for 2014 for Investors

Over the past dozen years, HASU has proved that it has the potential to create significant value to its shareholders. The management processes deployed by the Company are aligned to focus on the key drivers of shareholder wealth maximisation, in compliance with all the relevant rules and regulations. Accordingly, we believe that 2014 would be another successful period for the Company, as it continues with its efforts in serving its shareholders.

## Delivering Promises of Care:

### Customer Review

During the 12 years that have passed since our inception, we have acquired for ourselves a reputation of being one of the most caring players in the industry and it is this reputation that has enabled us to successfully attract a strong base of loyal customers. Through all our activities, we strive to gradually reach towards the realisation of our vision of becoming 'Sri Lanka's most admired and trusted partner in meeting insurance needs professionally, with a spirit of caring', and we are cognizant of the fact that such an outcome is a mere mirage without the trust, confidence, admiration and support of our customers.

As a player operating in the insurance industry, our business model itself revolves around delivering promises of care. Promises are meaningless when given by an untrustworthy party, and this is why the trust of our customers forms an integral component of our business. However, trust and reputation are not built overnight; rather they are the consequences of long and arduous efforts. Our ability to have emerged as one of the most trusted insurance services providers in the domestic sphere, with a loyal base of customers, indicates that we have delivered our promises of care, and our continuous efforts are to consistently uphold the trustworthiness of our brand to deliver only the best for our loyal customers through an efficient business model.

### Our Customer Strategy

Our strategy on customers, which is aligned with the corporate strategy, recognises the important role that customers play in sustaining our business model. Aware of this importance, and of the role that trust and delivery play in the customer-insurer relationship, we place

significant focus on customer relationship management as a key component of our customer strategy. Thus, we have continuously committed ourselves towards enhancing and strengthening the customer experience we deliver, under the highest standards of professionalism blended with our own unique 'spirit of caring' as we believe that this superior customer experience has the potential to strengthen the relationship we share with our customers.

### Our Brand: The Symbol of Our Delivery

A brand is typically identified as a perception held in the mind of a customer. For an insurer, this perception is invaluable, for it primarily defines its level of acceptance by the customers. Our careful strategies directed at optimum management of our brand have instilled in the minds of our customers a symbol of trust, and at HNBA continuous efforts are taken to escalate this trust to higher levels.

### 'Take on tomorrow' Campaign

One of the most prominent brand management activities conducted during the year under review was the 'Take on tomorrow' campaign, which addressed the value of life and family in inspiring people to follow their dreams. This campaign, aimed primarily at enhancing the corporate brand, delivered a message of trust and confidence to the customers, letting them know that they can bank on our support as they take on their tomorrow.

### Innovative Branding Techniques

We have realised the importance of being up-to-date with technology in our marketing initiatives and hence all efforts are taken to engage in creative and novel tools in communicating our message to our valued customers.



# Take on tomorrow

There's always a person in your life who stand beside you. No matter what, and helps you achieve the best in life. We are by your side to take care of everything that's important to you. So don't let anything hold you back. Take on tomorrow.

**We are HNB Assurance**  
 Your Motor, General, Life Insurance Solutions Provider.

## Management Discussion and Analysis

Cognizant of the important role that social media plays in delivering messages rapidly to the community in this modern day and age, we use it in multiple ways in our marketing activities. Our Facebook page currently has received the admiration of more than 40,000 fans and through this page we conduct various interactive games and competitions, which have been well-received. We have also embarked upon various brand awareness campaigns using the internet, as well as through the popular YouTube website.

Moreover, we use various interactive tools to build and maintain a congenial rapport with our customers, including quiz competitions conducted via SMS, seeking to achieve effective customer engagement and participation. Meanwhile, our mobile propaganda vehicle also continued to contribute to our brand management efforts during the year, reaching our customers in 217 different villages around the country and publicising details on the products offered by the Company. Other channels, such as the HNBA website, newsletters, Customer Service Centre (CSC) and the HNBA mobile app, also contributed towards the effectiveness of our brand management activities during the year.

### Brand Image Enhanced

Over the past few years, we have worked tirelessly to enhance our brand image, which essentially forms our intellectual capital, and during the year we received ample proof that these efforts have yielded anticipated results. One such remarkable achievement was the receipt of a prestigious Award for Brand Excellence at the fourth CMO Asia Awards for Excellence in Branding and Marketing, held in Singapore. Moreover, as per the latest valuation of Sri Lanka's leading brands by Lanka Monthly Digest (LMD), HNBA was placed among the top 100 brands of the country for the 6th successive year, reiterating the effectiveness and consistency of our brand management activities.



**Dilshan Perera**  
Head of Marketing

One of the most prominent brand management activities conducted during the year under review was the 'Take on tomorrow' campaign, which addressed the value of life and family in inspiring people to follow their dreams. This campaign, aimed primarily at enhancing the corporate brand, delivered a message of trust and confidence to the customers, letting them know that they can bank on our support as they take on their tomorrow.

### Liya Harasara: A Tribute to Women

In recognising the important role that women of all ages and vocations play in uplifting the welfare of society, a special tributary initiative targeting them was launched by HNBA as the Liya Harasara campaign. Through this campaign, we acknowledged the worth of every woman and the important societal role that they play and rewarded them with valuable insurance policies. Launched on a grand scale parallel to the International Women's Day, the campaign witnessed the distribution of free Life Insurance covers up to One Million Rupees to 1,317 customers.



### 'Motor Care'

HNBA, in its efforts to stimulate and enhance loyalty among customers, conducted an extensive promotion campaign targeting Motor Insurance customers captioned 'Motor Care' during the year. The special feature of this campaign was the opportunity given to customers to conduct a 'health check' on vehicles free of charge. These campaigns held in three different locations, received the enthusiastic participation of our customers and members of the



community. It was indeed a celebrative get-together of many of our stakeholders, assessors, garage partners, customers, staff and management, while our technical staff and other specialists also contributed immensely to the success of this campaign.

### Our Policy on Product Portfolio and Compliance

Being an insurer that takes great pride in being able to feel the pulse of the people, we are focused on meeting the exact needs of our valued customers through novel products. Our product development process, involving the active participation of both technical and operational experts in various functional areas of the Company, is designed to deliver the best value to our customers, whilst being profitable to the Company.

Accordingly, the General Manager of the relevant operational division, either Life or Non - Life Insurance, CFO, Head of Marketing and Manager - Legal are responsible for the product development process. After following this comprehensive process of scrutinising customer needs, market conditions and our internal strengths, this year too we successfully launched nine new products. When developing products we maintain strict vigilance on compliance with laws and regulations governing the insurance industry and as a result none of our products have been banned or subjected to public debate.

<b>New Products</b>	Three Single Premium Investment Policies
	Key Person Insurance
	MRP Takaful
	Motor Takaful
	Fire Takaful
	Title Takaful
	Medical Takaful

### Our Policy on Product Labelling and Marketing Communications

We believe that providing customers with accurate information is vital to the sustainability of our business model, particularly because our products involve financial security, return on investment and peace of mind for our customers. This, in turn, makes product and service labeling and marketing communication, material topics for our business. The responsibility regarding the provision of correct information on products is vested with the

operational General Managers as well as the Heads of Distribution and the Marketing Division. Moreover, in order to safeguard the best interest of our customers, all our employees are compulsorily required to abide by our code of ethics in product development and information dissemination.

We have taken measures to communicate transparently all necessary information relating to our products to customers through our promotional material such as brochures, and by educating our distribution channels about such details in order to ensure that our customers are well informed about our products when purchasing. Information on products is also accessible via our website, while customers can make inquiries through our dedicated customer helpline as well. The responsibility for providing accurate information on marketing material lies with the Head of Marketing and his team and this is also linked to their performance reviews.

When developing products and in providing product information, we maintain strict vigilance on compliance with laws and regulations governing the insurance industry. Accordingly, no incidents of non-compliance with regulations relating to product information, marketing communication, or the provision and use of products and services, were reported during the year.

### Processes for Monitoring Social Requirements in Insurance Agreements

In our business, which typically takes the form of an agreement between us, the insurer, and our customer, the insured, transparency and compliance with policy details is imperative for customer satisfaction. We acknowledge that such transparency and compliance must be derived from both the insurer and the insured, and from our part, we ensure full compliance with all policy conditions as required by laws and regulations applicable for us. We also have processes in place to ensure that our customers too fulfill their obligations, and given below are the details in this regard.

## Management Discussion and Analysis

Life Insurance	Non - Life Insurance
Carrying out a need analysis to identify exact needs of the customer	Conducting pre-underwriting inspections for Motor Insurance by qualified assessors
Clear explanation of policy conditions	Conducting pre-underwriting inspections for Non - Motor Insurance for policies with a large sum assured, by a qualified risk engineer
Medical checks for customers prior to policy issuance	Sending renewal notices to customers 30 days prior to the due date
Sending renewal notices one month before the premium due date in the language of customers' choice	Sending premium payment reminders to distribution channels
Sending a summary of premium received annually	Sending a notice of cancellation if the policy is due for cancellation due to non - payment of premium
Sending lapsed notices one month before the premium due date in the language of customers' choice	Sending reminders for documents required for processing of claims
Sending reminders in - writing for documents required for processing claims in the language of customers' choice	

To ensure that our staff is competent in following such procedures, we conduct on-the-job training on procedures and service standards. One of the basic trainings given to advisors is on conducting need analyses. In the event the customers do not make payments on time however, we are required to cancel the policy in accordance with regulations.

### Products to Deliver Social Benefit

We believe it is our responsibility to offer products to cater to all the diverse segments of our society and especially for societal segments that deserve our assistance. Hence, through our product portfolio, we take maximum efforts to deliver such benefits, particularly to the less influential segments of our society.

#### Micro Insurance

- Life Insurance and Mortgage Protection cover for HNB's Gami Pubuduwa customers
- Issued 1,663 policies (2012: 2,078) and generated Rs. 5 Million GWP ( 2012: Rs. 5.7 Million)
- Accounted for 0.3% of total Life Insurance GWP (2012: 0.4%)

#### Ran Aswanu

- A policy that never lapses specifically designed for seasonal income earners.
- Life cover inbuilt with Total Permanent Disability and Partial Permanent Disability covers
- Policies in issue 62 (2012:44); Generated Rs. 8.2 Million GWP ( 2012:Rs. 4.9 Million)

### Our Policy on Customer Service

Customers being the key to our business model, we place high importance on ensuring that in all aspects of our business we treat each customer with the most superior standard of service. Our employees have been amply trained to greet, treat and serve customers in a manner that delivers them the maximum level of satisfaction. These superior service standards, while forming an important component of our competitive advantage, also enables us to uphold the loyalty of our customer base.

### Developing Customer Service Standards

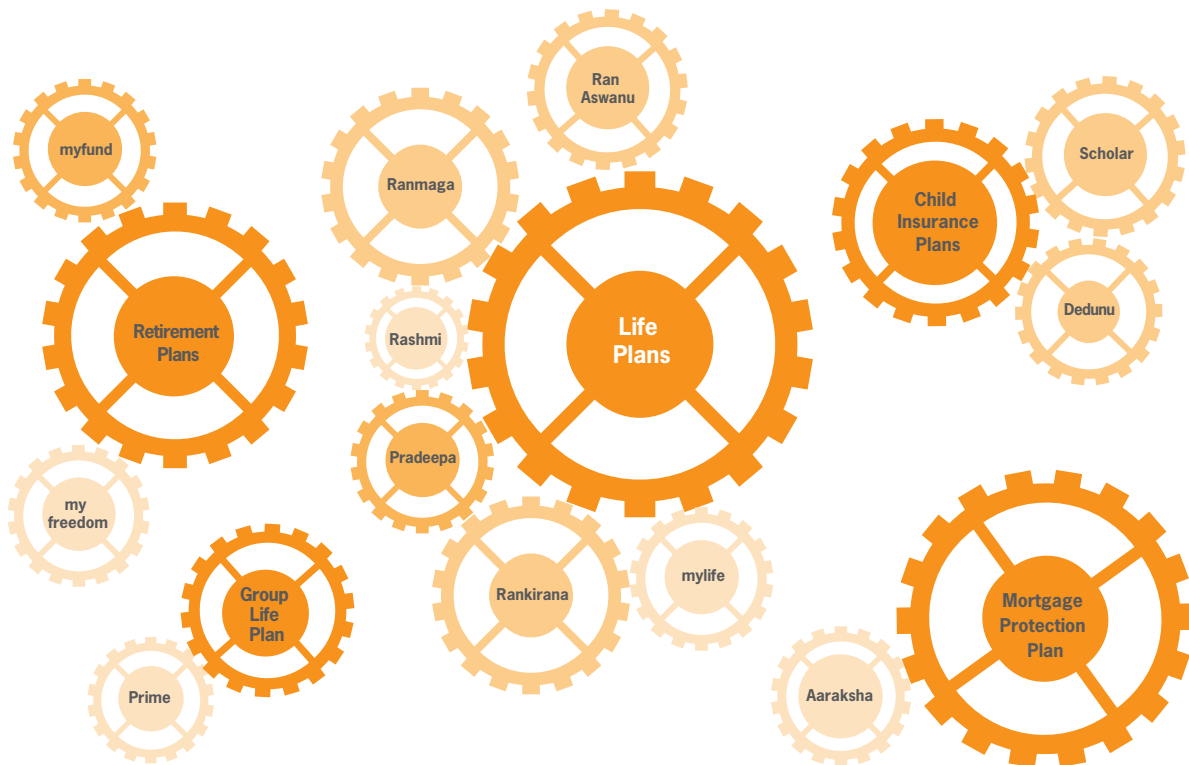
Stemming from our intense focus on continuously improving standards, customer service was identified as a key priority to be addressed during the year 2013. Previously, during 2012, we had set for ourselves a goal of developing comprehensive customer service standards for all divisions of HNBA. In pursuing this goal, a special committee comprising representatives of all divisions worked diligently during 2013 to formally adopt customer service standards and to review them against both internal and external customer needs.

Subsequent to rigorous reviews, including benchmarking with peers, by the year-end we had succeeded in developing comprehensive standards for 85% of the Company's divisions, and the balance is to be completed in early 2014. Training was also provided to key staff of all divisions on the implementation of these standards, and it is intended to provide all our employees with access to such standards by publishing them on the Company's intranet in early 2014.



**Our Products**

GRI-G4  
 G4-04



**Life Plans**



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



Total protection for your life.



A comprehensive Life cover for the entire family.



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



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



A unique plan for the youth.

**Retirement Plans**



A hassle-free and enjoyable retirement fund building plan.



A guaranteed monthly income for a happy retirement.

**Child Insurance Plans**



The best way to secure your child's future.



Ensures uninterrupted support for your child's education.

**Group Life Plan**



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

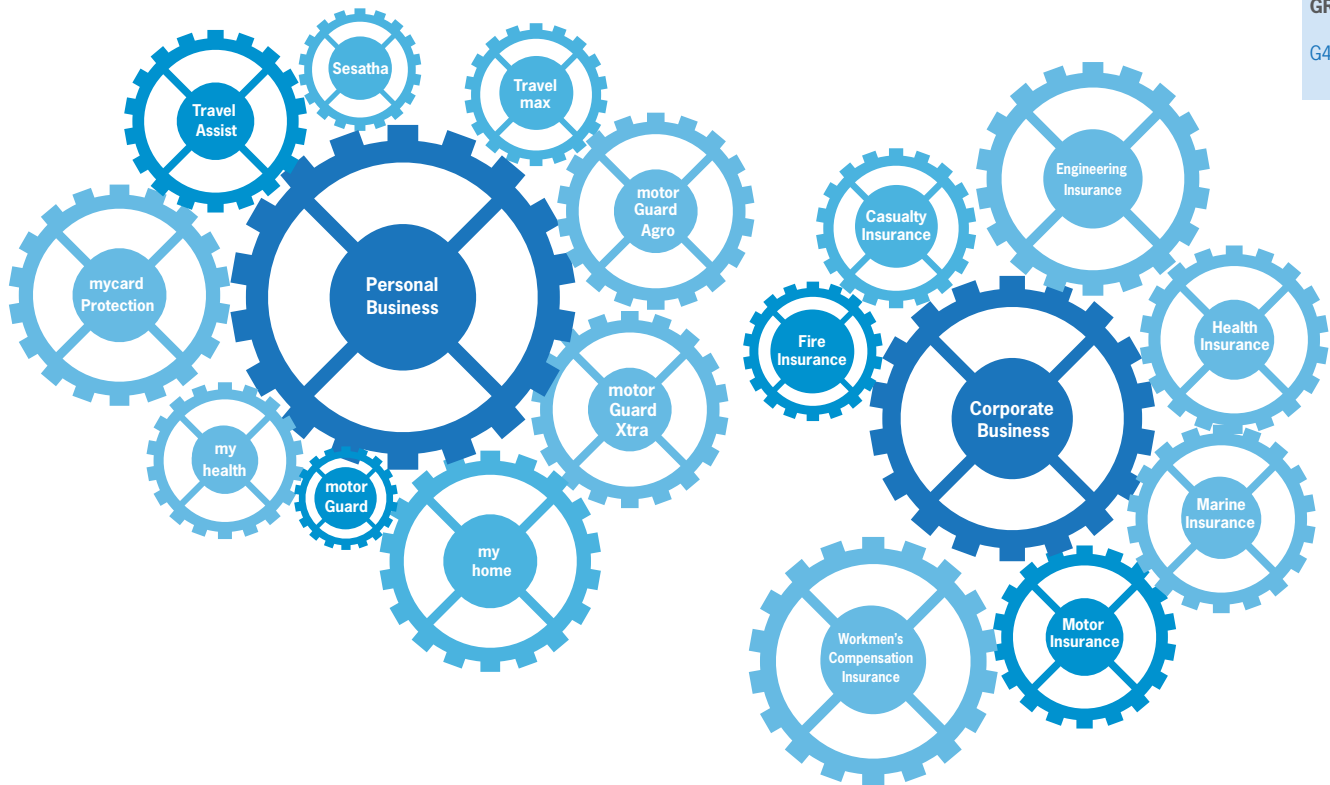
**Mortgage Protection Plan**



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

# Management Discussion and Analysis

GRI-G4  
G4-04



### Personal Business

- 

A comprehensive Motor Insurance policy which offers the highest no claim bonus within the shortest period.

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- 

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

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- 

Total protection for agricultural vehicles.

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- 

A Travel Insurance policy that covers up to the age of 70 years.

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- 

A Travel Insurance policy that goes beyond insurance.

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- 

A comprehensive policy that provides the right protection for your home.

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- 

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

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- 

A unique insurance policy for HNB credit card holders.

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- 

A comprehensive shop insurance plan.

### Corporate Business

- 

A comprehensive Motor Insurance Policy for corporate fleets and individual vehicles.

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- 

Covers transportation of goods from source to destination.

---

- 

Covers unforeseen damages in construction/erection projects.

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- 

Protection against fire, riots and weather perils.

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- 

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

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- 

Reimburses the medical expenses of the employees and their families.

---

- 

Covers employer's liabilities to employees.



### Enhancing Accessibility of Customers

We consider the expansion of our customer access points to be a vital component in devising an effective process of customer service. For an insurer in particular, expansion of collection points is a significant positive factor, as it would enable customers to make premium payments with greater convenience.

Thus, in addition to the payment collection points maintained through our own branch network, advisors and other channels, we have given our customers the facility of paying premiums via cash or standing orders through our collaboration with five leading commercial banks in the country. Web-based payments, Dialog eZ cash service and Mobitel mCash Service are also available for the convenience of our customers.

Adding more to our expansion strategy, we have collaborated with our parent HNB in their latest “momo” technological initiative by introducing “momo” devices to our insurance advisors as methods to facilitate payments by credit and debit cards. Further, a large number of new receipting machines were distributed among advisors to improve customer convenience by enabling the issuance of a receipt online using mobile connectivity.

### ‘Prime Circle’ of Customers

Another important venture relating to customer services in 2013 was the setting up of the ‘Prime Circle’, which is a mechanism for identifying and delivering specialised services for strategically important customers. Inclusions to the circle are made on the recommendation of the channel heads or the EXCO and superior service standards are set for these customers.

In order to ensure the effectiveness of this process, specialised training was imparted to all divisions on the service levels to be delivered to such customers, while our internal systems and processes have also been changed across the Company. Manager – Customer Relations holds the primary responsibility in assuring the delivery of the quality of service as stipulated.

### Customer Service Centre

Escalating our customer focus to new heights, during 2013 we embarked on a novel venture and commenced providing superior customer services at a new state-of-the-art Customer Services Centre.



### Customer Service Centre (CSC)

We at HNBA, are now equipped to serve you better than ever before through our new Customer Service Centre established as a tribute to your worth.



All your insurance needs can now be met with no hassle through our Motor, General and Life Insurance solutions offered under one roof. Located in a convenient access point at the very heart of the capital city, our Customer Service Centre (CSC) is fully equipped to provide quotations, issue insurance policies, provide insurance loans and surrenders, make policy alterations, approve claims estimates and make speedy claim payments. We also accept premium payments and are ready to assist with any inquiry. Further, our dedicated and friendly customer service team is available to answer all your insurance queries and provide you with clear guidance.

## Management Discussion and Analysis

### 'Motor Redesign'

In furthering our endeavors to enhance levels of customer service, another initiative was made on the Motor front. The essence of the 'Motor Redesign' campaign was exactly as per its literal meaning; to redesign the entire Motor Insurance process, commencing from the point of sale to underwriting and claims handling. Via this exercise, all customer contact points were identified, processes were reconsidered and efficiency enhancements on Motor claims handling implemented during the year. We intend to expand this to other processes of our business model during 2014.

Amongst other efficiency enhancements implemented during the year with the objective of delivering a superior customer experience, most prominent was the introduction of a workflow system to the motor claims department to expedite the claims process and to enable the tracking of the status of a claim at any time. Other benefits that stemmed from this process were the improved speed of transferring information from branches due to the document upload facility, the ability to send a SMS to a customer informing of pending documents and the ability to send a SMS to a customer upon claim approval. Comprehensive training was provided to staff in order to reap the maximum benefits from the implementation of this system.

Further, the Company's initiatives in increasing the number of in-house assessors and the number of zonal engineers, and the appointment of a dedicated officer for handling on-site claims contributed towards the enhancement of efficiency levels within the Company. Efforts were also made towards strengthening our relationships with garages, one of our key categories of suppliers, through frequent visits to garages across the country, and this strengthened relationship, in turn, is expected to enable the customer to receive a superior service at a time of need.

Additionally, during the year we continued with our endeavour of decentralising the claims processes, which had begun in the previous year. Accordingly, we successfully expanded the decentralisation to three more branches, thus increasing the total number of branches equipped with this facility to five.



**Lalith Fernando**  
General Manager - Marketing  
and Distribution

With the tough economic environment and fiscal conditions prevailing in the market we firmly focused on continuing the business as planned, while recognising the importance of understanding the changing landscape in the insurance industry as well as the changes in the regulatory environment and equipping ourselves to face the future. The company will continue to identify the bottlenecks in the current processes whilst introducing technology driven products to better cater to the needs of the customers.

### Motor Claims Decentralised to 5 Branches

- > Anuradhapura
- > Ratnapura
- > Negombo \*
- > Matara \*
- > Kandy \*

\* additions in 2013

### Market Research

We believe conducting research on the market within which we operate has the potential to allow us to become more focused and to achieve a higher level of customer focus. Accordingly, the Company engages in rigorous market research activities, both internally and externally. For example, our internal research activity of conducting service quality check calls and implementing the suggestions forwarded by our valued customers has improved the claims settlement process significantly.

On the external front, we work closely with reputed research companies in conducting advanced customer research, with the objective of gaining insights in to various areas such as trends in behavioural patterns, customer and product life cycles and dynamics of the domestic insurance environment. The insights so gained are absorbed into our processes where relevant, thereby ensuring that we deliver an optimum service to our customers.

### Our Policy on Grievance Mechanisms for Impacts on Society

The main form of grievance that may arise from the society regarding our business operations would be via customers who feel unjustly treated, either through an act of the Company or an insurance advisor acting on behalf of the Company. Since we place high importance on delivering a gratifying service to our customers and since a grievance entails the failure of fulfilling such objective, we consider this as a highly material aspect that needs to be addressed through a formal, well-established process.

First of all, in order to prevent such occurrences, we strive to ensure that no adverse impact arises to customers due to the actions of the Company, its employees or its business partners. Where a customer grievance does arise, it is channelled to the relevant units established for the resolution of such grievances. Accordingly, grievances related to advisors are channelled to the Sales Administration Department, while other customer complaints are channelled to the relevant operational divisions.

However, to deliver a superior level of customer service it is recognised that customer grievances should be channelled through a centralised mechanism by which they are handled and resolved. In order for our customers to avail of this opportunity, we have set up a Customer Grievance Management Unit (CGMU), to which all customer grievances are channelled. This unit is responsible for informing the relevant division regarding the complaint and following-up on necessary action impartially until such grievance is satisfactorily resolved. Manager - Customer Relations is responsible for the effective functioning of this system.

For claims-related grievances, a special mechanism is in place where the CGMU will direct them to the Life Insurance and Non - Life Insurance claims panels via the two divisions. These panels comprise the relevant General Managers for Life or Non - Life, the CFO and the



**Ivan Nicholas**  
 Head of Distribution

HNBA, in its efforts at reaching deeper and wider into the Insurance market of Sri Lanka, is continuously widening its distribution network and the efficiency of the distribution channels, an exercise which has increased the level of accessibility of its services by the public.

HNBA has adopted a multi-channel distribution network where insurance advisors, bancassurance officers, brokers and direct sales staff play a key role in bringing insurance business to the company.

Managing Director who will make an impartial review. Through such mechanisms, all possible measures are taken to ensure impartial and speedy resolution of customer grievances, while disciplinary action is taken against advisors or employees who are found guilty of misappropriation of funds or misrepresentation of facts. These claims panels are assisted by several sub-panels comprising senior managers from relevant divisions.

During the year 237 complaints were received, of which 186 were resolved. It is noted that this is a very small number considering that over 64,222 policies have been issued and over 26,280 claims have been settled during the year.

### Our Policy on Anti-Competitive Behaviour

We greatly respect our customers' freedom in comparing products available in the market and selecting those that best suit their needs, and this understanding therefore makes it a material aspect. Thus, all efforts are taken to ensure that we refrain from engaging in anti-competitive behaviour. Consequently, no legal action was filed against the Company for anti-competitive behaviour during the year (2012:0).

## Management Discussion and Analysis

### Our Policy on Customer Privacy

We strive to ensure that our employees and business partners who have access to our customer details maintain strict confidentiality of the information entrusted to them. These are included in the Code of Ethics for employees and have also been included in training programmes for our Advisors. All managers are responsible for safeguarding information on customers. Our processes have been effective, as we have not received any complaints on loss of customer information (2012:0).

### Distribution Network

HNBA, in its efforts at reaching deeper and wider into the Insurance market of Sri Lanka, is continuously widening its distribution network and the efficiency of the distribution channels, an exercise which has increased the level of accessibility of its services by the public.

HNBA has adopted a multi-channel distribution network where insurance advisors, bancassurance officers, brokers and direct sales staff play a key role in bringing insurance business to the company. We constantly review our branch structure, which led us to carry out a restructuring at our Polonnaruwa and Puttalam branches to accommodate the increase in customer footfall. All our branch employees are well-trained and knowledgeable, always ready and equipped to provide a seamless service to customers.

Our bancassurance channel assumes high importance within our overall distribution network as it bridges HNBA with its Parent. This is considered as a key driving force with respect to performance of both the parties, in housing insurance needs as well as banking needs under

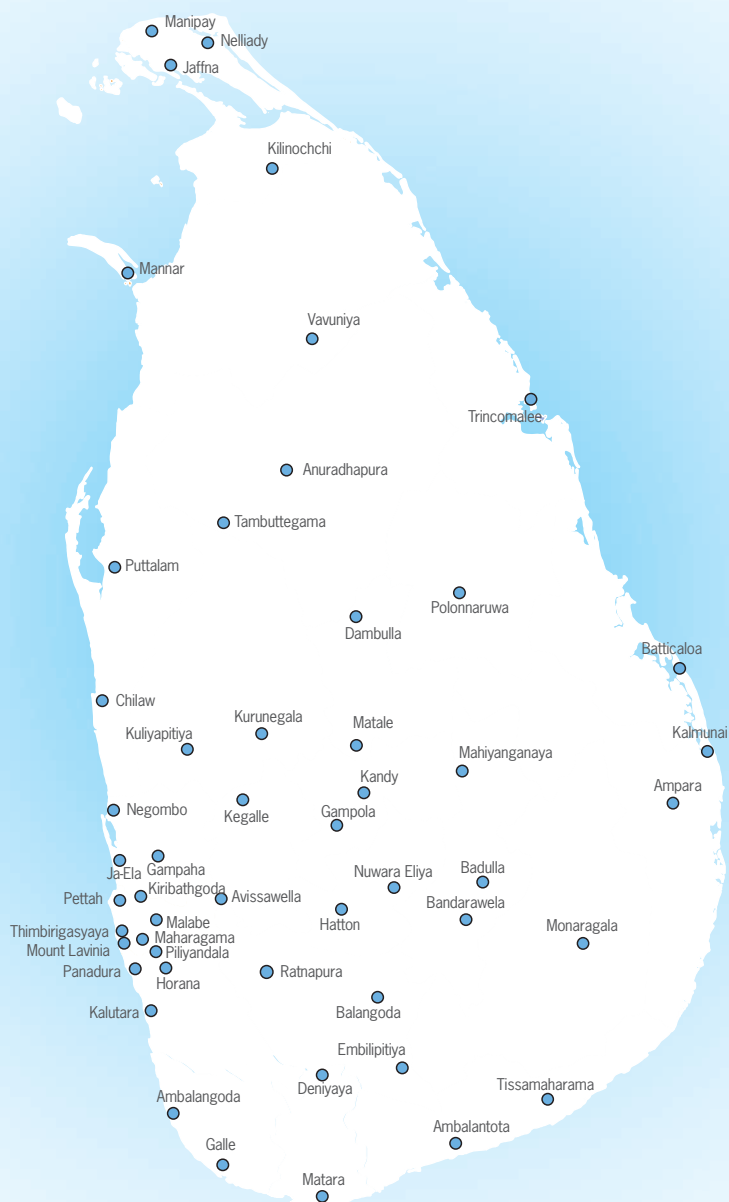
one roof. Considerable weightage has been put on the development of the bancassurance channel. Thus by the year end 174 bancassurance officers were located at HNB branches island-wide. (2012:148)

Our insurance advisor force, which is a major contributor to the performance of the value chain, consisted of 1,507 advisors (inclusive of field management) by the year-end, while our relationship with insurance brokers also flourished during the year, with both parties reaping mutual benefits.

### Challenges Faced and Future Outlook

Despite these favourable conditions however, challenges frequently faced by all other insurance companies truly affected HNBA as well. With the tough economic environment and fiscal conditions prevailing in the market we firmly focused on continuing the business as planned, while recognising the importance of understanding the changing landscape in the insurance industry as well as the changes in the regulatory environment and equipping ourselves to face the future. The company will continue to identify the bottlenecks in the current processes whilst introducing technology driven products to better cater to the needs of the customers. The Company is planning to streamline its Life and Non - Life Insurance business with the upcoming split affecting the insurance sector, thus detailed planning is currently in progress. However, we will continue to serve our customers in the best possible manner and ensure that they will face no hassle by the segregation process.

## Distribution Network



GRI-G4

G4-08

	Number of Locations	Number of Bancassurance Units	GWP		Number of Staff	Number of Advisors	Number of Assessors
			Contribution (Rs.Mn)	%			
Central Province	6	16	324	8%	60	175	12
Eastern Province	4	20	172	4%	44	130	5
North Central Province	3	7	113	3%	23	70	9
North Western Province	4	13	248	6%	36	153	12
Northern Province	6	16	271	7%	45	210	5
Sabaragamuwa Province	4	11	232	6%	36	95	11
Southern Province	6	15	329	8%	49	161	10
Uva Province	4	6	181	5%	28	87	5
Western Province	14	68	1,355	35%	171	424	39
	51	172	3,225	83%	492	1,505	108
Head Office and CSC	2	2	653	17%	312	2	20
Company	53	174	3,878	100%	804	1,507	128



## Management Discussion and Analysis

### “A Place Where You Can Shine”:

#### Employee Review

Being a provider of services in the highly competitive domestic insurance industry, the skills and abilities of our employees form a key component in our competitive advantage, for ultimately it is the imprint we make upon the customers in our service delivery that determines the sustainability of our business model. Moreover, the Company’s attitude in handling employee-related issues also affects the societal image of the Company and is perceived as a fair indicator of its societal performance.

Thus, the ensuing discussion attempts to convey to our stakeholders our social performance relating to employees, and this discussion is based on ten aspects deemed material as per our materiality check, under GRI G4 guidelines.

#### Our Policy on Human Resources: Employment, Diversity and Equal Opportunity

We recognise that employees form the vital link between the Company and its web of stakeholders, in delighting, satisfying and driving these stakeholders towards the success of the Company. As such, human capital is, in our view, of utmost importance and hence, the recruitment, nurturing, development and retention of this capital are considered as a top priority within the domain of HNBA.

Further, in performing our role as a responsible corporate citizen, we aim to contribute to the development of the country by providing employment opportunities to individuals across the island. As a Company which fosters diversity as a corporate strength, all such opportunities are made available without considering differentiation in the form of race, faith or gender. Thus, employment and diversity and equal opportunity are important material aspects which are covered through this report.

Our policy on the employment of individuals at HNBA is clearly documented in the Human Resource Manual, which sets out the guidelines, policies and procedures relating to recruitment and selection, remuneration and benefits, training and development, performance reviews, grievance-handling and cessation of employment.

The long-term human resource strategy of the Company draws upon our vision, mission and values as well as both local and global best human resource practices, while short and medium term strategies are determined at the annual corporate planning sessions. These strategies

relate to all areas of human resources including attraction, retention, development, rewards and recognition, performance reviews, work-life balance, health, safety and welfare, and ensuring a pleasant work environment.

The overall responsibility of strengthening human resources within HNBA lies with the Head of Human Resources and the Human Resources Division, who seek to provide rewarding employment prospects to individuals while fostering diversity and equal opportunity. In order to make the human resource processes more effective, responsibility in this regard has been linked to the performance of the Human Resources Division, and additionally, all department and branch managers are made equally responsible for fair treatment and retention of their staff, which in turn translate to a criterion in their own performance review.

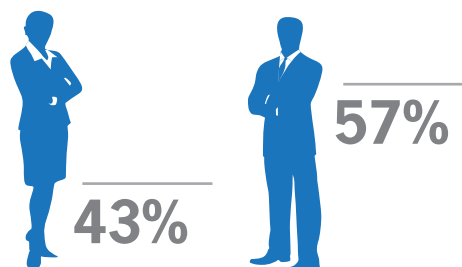
#### The Story Unfolds: Key Statistics

By the end of the year 2013, we provided employment to 804 individuals (2012: 723) recruited from all provinces of the country. This translates into an 11% growth in our total cadre when compared to 2012, and is mainly attributable to the expansion of our bancassurance network and direct business channels. No other significant variation occurred with regard to the numbers in our cadre during the year. None of our employees are covered under collective bargaining agreements.

The key statistics of the Company relating to employment, diversity and equal opportunity are given below.

- We strive to maintain a balance in the gender mix of our cadre and in comparison to the previous year, we have increased the female participation by another 1%, improving such contribution to 43% of the total cadre by end 2013 (2012:42%). Also 20% of our Board comprise females and 80% males.

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



GRI-G4  
G4-10  
G4-11

- 86% of our total cadre (2012: 86%) are permanent employees while 14% (2012: 14%) are employed on fixed term contracts, mainly consisting of bancassurance officers located at HNB branches. All our employees are engaged on a full-time basis, irrespective of the contract type. Although no supervised workers were employed by us as at

the year end, a substantial portion of our sales is generated by insurance advisors, who are agents of the Company and do not fall under the category of employees. In consideration of the enormity of their contribution, details of our advisor force are discussed separately in the Business Partner Review appearing on pages 125 to 129.

GRI-G4  
G4-10

Staff Category	2013					2012				
	Male	Female	Total	Male %	Female %	Male	Female	Total	Male %	Female %
Permanent employees	430	264	694	62%	38%	383	236	619	62%	38%
Fixed Term Contract	32	78	110	29%	71%	38	66	104	37%	63%
<b>Total</b>	<b>462</b>	<b>342</b>	<b>804</b>	<b>57%</b>	<b>43%</b>	<b>421</b>	<b>302</b>	<b>723</b>	<b>58%</b>	<b>42%</b>

- When considering the gender mix of the different staff categories, it is sadly noted that female representation in the Executive category has plunged during the year. However on a positive note we note that the gender mix of the Non-Executive category is moving towards the optimum balance, an improvement over the previous year.
- 60% (2012: 60%) of our staff is based in the Western Province while 40% (2012: 40%) is from other provinces.

Staff Category	2013					2012	
	Male	Female	Total	Male %	Female %	Male %	Female %
EXCO	10	-	10	100%	0%	100%	0%
Managers and Assistant Managers	60	14	74	81%	19%	81%	19%
Executives	106	42	148	72%	28%	69%	31%
Non - Executives	286	286	572	50%	50%	52%	48%
<b>Total</b>	<b>462</b>	<b>342</b>	<b>804</b>	<b>57%</b>	<b>43%</b>	<b>58%</b>	<b>42%</b>

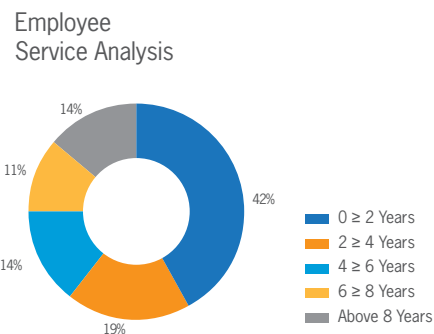
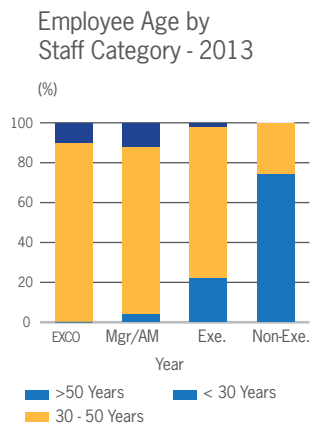
Staff Category	2013									2012								
	Age Group									Age Group								
	<30			30-50			>50			<30			30-50			>50		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
EXCO	0	0	0	9	0	9	1	0	1	0	0	0	7	0	7	1	0	1
Managers and Assistant Managers	1	2	3	50	12	62	9	0	9	3	3	6	49	11	60	7	0	7
Executives	23	10	33	81	31	112	2	1	3	20	10	30	67	27	94	1	2	3
Non Executives	181	240	421	105	46	151	0	0	0	181	214	395	85	35	120	0	0	0
<b>Total</b>	<b>205</b>	<b>252</b>	<b>457</b>	<b>245</b>	<b>89</b>	<b>334</b>	<b>12</b>	<b>1</b>	<b>13</b>	<b>204</b>	<b>227</b>	<b>431</b>	<b>208</b>	<b>73</b>	<b>281</b>	<b>9</b>	<b>2</b>	<b>11</b>



## Management Discussion and Analysis

GRI-G4  
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Province	2013					2012				
	Male	Female	Total	Male%	Female%	Male	Female	Total	Male%	Female%
Western	277	206	483	57%	43%	246	187	433	57%	43%
North Central	11	12	23	48%	52%	12	8	20	60%	40%
Central	34	26	60	57%	43%	33	26	59	56%	44%
Southern	26	23	49	53%	47%	25	20	45	56%	44%
North	25	20	45	56%	44%	26	17	43	60%	40%
Eastern	29	15	44	66%	34%	23	12	35	66%	34%
North Western	19	17	36	53%	47%	20	14	34	59%	41%
Uva	17	11	28	61%	39%	16	9	25	64%	36%
Sabaragamuwa	24	12	36	67%	33%	20	9	29	69%	31%
<b>Total</b>	<b>462</b>	<b>342</b>	<b>804</b>	<b>57%</b>	<b>43%</b>	<b>421</b>	<b>302</b>	<b>723</b>	<b>58%</b>	<b>42%</b>



- The vibrancy of our Company is reflected through our young team members, with 57% of our cadre being below the age of 30 years.
- While the youth of the team is amply maintained, we are proud to declare that our employees are also highly loyal and well-experienced, as reflected by 39% of our

staff having worked with us for more than 4 years while 25% of our employees have been with us for 6 or more years.

- Upholding our commitment towards maintaining equal opportunity, we have also recruited a differently-abled employee and all necessary facilities have been provided for her at the workplace.

Service Range	No. of Employees 2013	2013 %	No. of Employees 2012	2012 %
0 ≥ 2 Years	338	42%	300	41%
2 ≥ 4 Years	151	19%	152	21%
4 ≥ 6 Years	114	14%	106	15%
6 ≥ 8 Years	91	11%	73	10%
Above 8 Years	110	14%	92	13%
<b>Total</b>	<b>804</b>	<b>100%</b>	<b>723</b>	<b>100%</b>

### The Process of Recruitment

As an equal opportunity employer, our recruitments are based on competencies alone and no consideration is granted for race, ethnicity, gender, religion or any other discriminatory factor. Our focus is placed on sourcing people with a passion for excellence, professionalism, integrity and those who can be expected to uphold our values.

The recruitment and selection process of the Company is highly formal and transparent. We utilise a diverse range of sourcing methods, including, but not limited to, print, web and social media advertisements, internal referrals, career fairs and university/ professional institute placement schemes. Our selection process is comprehensive, where applicants are initially shortlisted based on the minimum requirements specified, impartially

interviewed by all layers of the management relevant to the post and screened through background verification via referee checks. The recruitment process ends upon notification to the identified best-suited candidate and the completion of required documentation.

Apart from these norms related to recruitment, we have taken further innovative measures to become an employer of choice. One such measure was the enhancement of our employer brand. The effectiveness and efficiency of our efforts are manifested by us being internationally ranked at the 9th place at "Asia's Best Employer Brand Awards" held in Singapore in 2013.

Given below is the number and percentage of new recruitments made during 2013 and comparatives from the previous year.

Percentage of New Employee Hires	2013		2012	
	Number of New Hires	As a % of Average Staff	Number of New Hires	As a % of Average Staff
Male	140	32%	122	30%
Female	112	35%	110	39%
<b>Total</b>	<b>252</b>	<b>33%</b>	<b>232</b>	<b>34%</b>

Category	2013		2012	
	Number of New Hires	As a % of Average Staff	Number of New Hires	As a % of Average Staff
EXCO	0	0%	1	12%
Management	3	4%	8	11%
Executive	18	13%	20	15%
Non - Executive	231	43%	203	43%
<b>Total</b>	<b>252</b>	<b>33%</b>	<b>232</b>	<b>34%</b>

Province	2013		2012	
	Number of New Hires	As a % of Average Staff	Number of New Hires	As a % of Average Staff
North Central	11	48%	10	45%
Western	129	28%	121	30%
Central	15	26%	15	23%
North Western	10	29%	12	39%
Sabaragamuwa	12	37%	8	28%
Uva	12	45%	8	32%
Southern	26	55%	18	43%
North	14	32%	26	72%
Eastern	23	58%	14	41%
<b>Total</b>	<b>252</b>	<b>33%</b>	<b>232</b>	<b>34%</b>

## Management Discussion and Analysis

### Onboarding Our New Recruits

The Company's process of onboarding takes place every other month, with the objectives of providing the recruits with a solid ground knowledge of the Company, familiarising them to the new working environment and introducing them to the management team, Heads of Divisions and the Managing Director. Commencing with a one day engagement programme, new recruits are then enrolled in a 10 day orientation and familiarisation programme where technical knowledge required to execute their job at all key divisions of the Company is imparted. They are then afforded on-the-job training at the relevant division or branch to which they are attached, and to further smoothen the onboarding experience, each new recruit is assigned a buddy who assists in adapting to the new environment.

### Retaining Our People

In this highly competitive industry, especially with many new players entering the market seeking experienced staff from existing players, one main challenge for human

resource management is the retention of competent staff members. It is believed that the retention level is also a good indicator of staff satisfaction and the effectiveness of a company's human resource strategies.

During the year under review, we placed significant emphasis on staff retention by revising salary scales to be on par with the industry and also by conducting specific training programmes for the management team to enhance their people management skills. We are pleased to note that these initiatives yielded favourable results, with our staff turnover decreasing to 22% in 2013, from the 25% recorded in 2012. Turnover rates of both male and female staff categories have also decreased, by 2% each.

Turnover by Gender	2013	2012	2011
Male	22%	24%	21%
Female	23%	25%	23%
<b>Total</b>	<b>22%</b>	<b>25%</b>	<b>23%</b>

Province	2013		2012	
	Number of Resignations	Turnover Ratio	Number of Resignations	Turnover Ratio
North Central	7	30%	8	36%
Western	81	18%	98	24%
Central	15	26%	9	14%
North Western	8	23%	6	20%
Sabaragamuwa	5	15%	11	38%
Uva	11	42%	9	36%
Southern	20	43%	13	31%
North	12	27%	10	28%
Eastern	12	30%	12	35%
<b>Total</b>	<b>171</b>	<b>22%</b>	<b>176</b>	<b>25%</b>

Turnover by Staff Category	2013		2012	
	Number of Resignations	Turnover Ratio	Number of Resignations	Turnover Ratio
EXCO	-	0%	-	0%
Managers and Assistant Managers	4	5%	5	7%
Executives	11	8%	28	24%
Non - Executives	156	29%	143	29%
<b>Total</b>	<b>171</b>	<b>22%</b>	<b>176</b>	<b>25%</b>

## Our Policy on Training and Development

Another key belief that drives our human resource management function is that the continuous improvement of one's knowledge, skills and attitudes improves one's performance. Hence, we consider training and development to be a material aspect. We strive to invest in training and development opportunities of the highest calibre and encourage our employees to reap the maximum benefits from such investments. The learning culture we foster at HNBA, in compliance with a strict policy on training, is clearly documented in our HR Manual.

Our policy on training and development is therefore to conduct continuous investments in the development of our people in technical, functional and managerial competencies and in-house processes. We endeavour to train and develop all employees at all levels and in different functions, to enable them to perform their duties better and to prepare them for future responsibilities. This idea is also reflected in our training policy, which aims to achieve the Company's business objectives by encouraging employees to achieve their fullest potential. This in turn ensures that the employees deliver their best, whilst enhancing their personal development, and thereby contribute to the overall growth of the Company.

The overall responsibility of training and developing staff lies with the Head of Human Resources and the Human Resources Division and to ensure the effective discharge of this responsibility, this criterion is used in evaluating their performance. However, each line manager holds the responsibility for the nurturing of relevant subordinates. Moreover, each employee is also encouraged and held responsible to portray a continuous interest in self-development and this too is monitored at the performance evaluation of the employees.

In order to further the delivery of equal opportunity among all layers of employees, our training focus is placed on all layers of staff, from the clerical level to the top management.

Typically, we follow a five-step process for training;



**Thilan Perera**  
 Head of Human Resources

We recognise that employees form the vital link between the Company and its web of stakeholders, in delighting, satisfying and driving these stakeholders towards the success of the Company. As such, human capital is, in our view, of utmost importance and hence, the recruitment, nurturing, development and retention of this capital are considered as a top priority within the domain of HNBA.

As the identification of training and development needs is one of the critical success factors in gaining the desired outcome, measures have been implemented to identify such needs at various levels. Needs of the Company as a whole or as per the specific needs of a division/ branch are generally identified at the annual corporate planning sessions and through feedback at CEO's forums or employee discussions with General Managers and Heads of Divisions, while performance reviews of employees are also used as a source in identifying individual training needs. The Training and Development Plan, developed consequent to such identification, is then validated by the EXCO as well as the Board, and implemented by the Human Resources Division and divisional heads.

The identified training and development programmes are typically delivered through a mix of internal as well as external resources and take the form of internal, external or overseas trainings. Moreover, in view of encouraging our learning culture, knowledge sharing sessions are organised to impart knowledge gained by employees who attend external and foreign trainings, with their fellow staff members.



## Management Discussion and Analysis

During the year under review, 193 training programmes were offered to 1,791 employees, indicating that each employee completed an average of 20.4 training hours for the year (2012: 25.8 hrs). The composition of training programmes by type and training hours per employee category are given below. Since we currently do not maintain a gender break-up of trainings offered, this information is currently not available, although measures will be taken to include this information in our next integrated annual report.

Number of Programmes	2013	2012
Internal Training	44	46
External Training	137	85
Overseas Training	12	9
Total Programmes	193	140

	2013	2012
Training Hours Per Employee	hrs	hrs
Management	40.7	39.4
Executives	29.8	22.6
Non - Executives	13.5	28.31
All Staff	20.4	25.8

### Training and Development Highlights of 2013

- A full day workshop titled “Future of Business: Creativity & Innovation” was conducted by Dr. Sunil Erevelles, Professor of Marketing and Chair of the Department of Marketing, University of North Carolina, USA, for the Corporate Planning Team
- An outward bound training programme was conducted for the Management Team at Sigiriya, under the patronage of the Sri Lanka Business Development Centre



- Annual divisional outward bound training programmes were held to improve teamwork and support within divisions
- A business English course was conducted by an internal trainer for junior staff members
- A training titled ‘Attracting and Retaining the Best Talent’ was conducted for the Middle Management Team by an external resource person

### Initiatives for Personal and Professional Development of Employees

As an employer that seeks the continuous improvement of its employees, we have created clear career paths for each layer of staff, encouraging their professional development. Another focus of our plans to develop our employees personally and professionally is to equip our staff with technical and managerial skills. As such, we consider education to be of utmost importance and we strive to instil the value of education into the minds of employees and encourage them to follow courses of study that are of importance to their field of work.

Understanding the value of developing our people, we have also made available numerous other benefits to our people.

- We offer duty leave and study leave for examinations
- An interest-free loan scheme is in place for educational purposes while a scheme is also available for the reimbursement of fees upon the successful completion of selected exams
- We offer honorarium payments for employees who become professionally qualified
- The Company bears the annual subscriptions of employees who hold membership of specified professional bodies



- Our in-house library, which is constantly updated with new additions, and an e-learning system, are available for employees to enhance their knowledge on a variety of areas
- Our employees also can use the corporate membership of the British Council Library
- We are engaged in a partnership with Sri Lanka Institute of Marketing (SLIM) which enables the sales and marketing employees to receive many benefits and obtain a recognised professional qualification
- We recognise professionally qualified employees through internal and external communication channels

## Professional Achievers



2013 saw seven of our staff members obtaining professional qualifications, adding much glamour to our existing pool of professionals. Two of these individuals gained Associate Membership of the Chartered Insurance Institute, while four received the Associate membership of recognised accountancy bodies, one as Associate Member of the Institute of Chartered Accountants of Sri Lanka and another three as Associate Members of the Chartered Institute of Management Accountants, UK. In addition, we also boast of a fully qualified actuary in our team, with one of our staff gaining Associate Membership of the Society of Actuaries, USA.

With the above seven staff members completing their professional qualifications in 2013, the Company is now endowed with 6 Chartered Insurers, 3 Chartered Accountants and 8 Chartered Global Management Accountants in addition to one fully qualified Actuary.

Concurrently, personal development of our employees is also encouraged by the Company through the discovery and the development of different talents that lie within our people. With this objective in mind, we organised a Talent Show and a Sports Day during the year, and in both these events, active participation was seen by our employees based both at head office as well as at branches. In addition, our staff commemorated Vesak by participating in the Company's Vesak Lantern and Bhakthi Gee Competition while they unified to celebrate Christmas by singing Christmas carols and participating in a Christmas Decorations Competition.

## Providing Due Recognition

We believe that recognition of exemplary performance is one way of motivating our people, and we therefore do not hesitate in motivating our employees through this manner wherever possible. One of the most prestigious recognitions offered by the Company to an employee is the "Chairman's Award for Excellence", which is bestowed upon those who have performed beyond the call of duty. During the year under review, seven outstanding performers were honoured with this award at our Annual Staff Conference. In addition, we also recognise the loyalty of our employees by presenting long service awards to those who have served the Company for five and ten years.

In terms of external recognition, Mr. Harindra Ramasinghe, Regional Manager – Panadura, won the Gold Award in the Territory Manager Category and Mr. Chaminda Soysa won the Bronze Award in the Supervisor (Executive) Category at the National Sales Congress (NASCO) 2013 organised by the Sri Lanka Institute of Marketing.





## Management Discussion and Analysis

Further, bringing international fame to themselves and the Company, Mr. Namal Gunawardhane, Head of IT, won the IT Leadership Award at the 3rd Celent's Asia Insurance Technology Awards 2013 held in Singapore while Mr. Thusitha Nandasiri, Manager- Non Motor was elected as the Vice President of the Council of SLII for the year 2013/2014. Further, Mr. Thilan Perera, Head of Human Resources was elected Chairman of the HR Sub-committee of the IASL and was also awarded the HR Leadership Award at the "4th Asia's Best Employer Brand Awards" held in Singapore. Ms. Sanjeevani Pitadeniya, Manager-Customer Relations won the International Service Excellence Award for Best Customer Service Manager of the Year 2013 organised by the Customer Service Institute of America.

### Performance Evaluation

For us, the importance of the performance evaluation process is twofold. As described in page 44, the Company's overall goals and objectives trickle down to the lower levels as objectives for individual employees. We believe that the achievement of such individual objectives enables the Company to achieve its overall objectives. Such objectives are linked to individual employee rewards, pushing employees towards positive achievement. Performance reviews also act as a good engagement opportunity for staff and is a source of identifying training and development needs as well.

Members of the management team conduct impartial performance reviews for all permanent employees bi-annually, and provide employees with valuable feedback on their performance, recognising achievements and identifying areas for improvement. In 2013, 596 employees participated in performance reviews, and this number translates to 74% of the total employees (2012: 69% of total staff). Probationary employees are excluded from the Company's above-mentioned overall performance appraisal mechanism, but are also subjected to two appraisals, one during the interim period of their probation, and another at the end of such period, with the objective of assessing their eligibility for confirmation.

### Our Policy on Equal Remuneration

We offer lucrative levels of remuneration that are on par with the industry, with the view of attracting and retaining people of high calibre. We also ensure that an equitable

remuneration policy is followed, with no discrimination being allowed based on gender, race, faith or any other identity maker. Accordingly, there is no difference between the basic salaries of men and women in any employment category.

Remuneration consists of three components; a fixed component comprising salary, a variable component comprising bonuses and other monetary and non-monetary benefits. Following a salary survey conducted in 2012, a salary scale revision was made to the fixed component of remuneration during the year, with the objective of aligning salaries on par with the industry. As a consequence of this change, the total salary cost increased by 10% during the year.

Remuneration of our employees is primarily based on their performance, because we believe that performance is an expression of personal competence and the satisfaction that comes with achievement is its own reward.

All salary increments, bonuses and promotions are recommended by the Company based on performance levels achieved, which are evaluated at the year-end

### Benefits available for full-time employees

- > Life Insurance cover and a personal accident cover, the sum assured of which depends on the employee's basic salary
- > Staff surgical and hospitalisation scheme for the employee, spouse and children
- > Float family cover scheme for the employee, spouse and children
- > OPD scheme for employee and family
- > Critical illness cover for employees
- > Vehicle loans at concessionary interest rates for employees of senior grades
- > Emergency loans, wedding loans and educational loans for permanent employees
- > Free membership of a gym, swimming pool and badminton courts
- > Company holiday bungalow for employees of senior grades
- > Leave facilities as per statutory requirements
- > Retirement benefits as per statutory requirements

appraisals of employees. This process of performance-linked increment/bonus applies to employees of all categories, inclusive of the EXCO. Recommended increments and promotions are reviewed and approved by the Remuneration Committee. However, the Board holds the ultimate responsibility for formulating formal and transparent procedures to implement the remuneration policy and setting remuneration packages. The report of the Remuneration Committee is given on pages 200 to 202.

### Our Policy on Retirement Benefits

We strictly abide by the laws of the country regarding retirement benefits and ensure that all such payments are made accurately and on time, to the funds in the case of the defined contribution plans, and to the employees in the case of defined benefit plans. Ensuring that such payments are made accurately and on time is the responsibility of the Chief Financial Officer.

Rs. Mn.	2013	2012	2011
EPF	35.17	28.16	23.84
ETF	8.80	7.04	5.96

Retirement benefits available to our employees include the two compulsory defined contribution plans denoted under the Employees' Provident Fund Act No. 15 of 1958 (and its subsequent amendments) and the Employees' Trust Fund Act No. 46 of 1980 (and its subsequent amendments). Accordingly, the Company contributes 12% of an employees' basic salary to the Employee Provident Fund (EPF) and 3% of an employees' basic salary to the Employee Trust Fund (ETF), on behalf of each of its employees. The contributions so made by the Company for the year are duly paid to the relevant authorities and details are given below, along with comparative information for the previous year.

### Gratuity Liability Using the Projected Unit Credit (PUC) Method

Rs. Mn.	2013	2012	2011
Opening Liability	42.36	34.13	25.08
Additional Provision made for the year	18.74	11.39	10.66
Actuarial gain during the year	(2.17)	-	-
Payments during the year	(2.29)	(3.16)	(1.61)
Closing Liability	56.64	42.36	34.13

In addition to the contribution of the Company, the employee also contributes 8% of his/her basic salary to the Employees' Provident Fund (EPF).

As per the requirements of the Payment of Gratuity Act No. 12 of 1983, all permanent employees are further entitled to a defined benefit plan, by virtue of which employees, upon the completion of five years of service, are entitled to receive a retirement gratuity amounting to half a month's basic salary for each year served at HNBA. The gratuity liability of the Company is valued by a Consultant Actuary Mr. Hugh Terry - Fellow of the Institute of Actuaries, U.K., each year, using the Projected Unit Credit (PUC) method.

### Our Policy on Succession Planning

We recognise that a clear succession plan is an essential pre-requisite for a Company's long-term sustainability, ensuring the continuation of the operations of the Company. Accordingly, successors for all key management positions have been identified to guarantee a smooth transition of operations in the event a management position falls vacant. The identified individuals are given technical and managerial training to effectively take-up the role on such date. Effective formulation and implementation of the plan is a key responsibility of the Head of Human Resources and the Managing Director.

Building a strong second and third layer of management to take-up future positions of the Company is also a key component of our human resource strategy. As such, individuals have been identified for the Management Development Pool and Executive Development Pool formed by the Company, and these individuals are provided with necessary training to develop required competencies and skills to undertake their potential future responsibilities.

## Management Discussion and Analysis



### Our Policy on Employee Health, Safety and Welfare

Providing a safe and pleasant work environment is essential for a healthy and productive workforce.

Conscious of the important role this aspect plays in the domain of a company, we have embarked upon numerous ventures to uphold the health and safety standards of our employees. The primary responsibility in this regard lies with the Head of Human Resources. Additionally a First Aid Committee has been formed, inclusive of representatives from each division, and the members of this Committee have been provided with the necessary training to assist their colleagues at any health related emergency, while first-aid boxes have been placed at each division for the use of employees. The Company also maintains a sick room for the use of its employees.

The Company provides free medical advice for its employees by arranging a doctor to visit the Company once a month, while basic health checks are also arranged annually for staff members. The Company also organised an eye care awareness session followed by



eye check-ups conducted by the Eye Care Institute of Sri Lanka for the benefit of our employees. A safe driving training was also organised for the drivers and other staff who were interested.

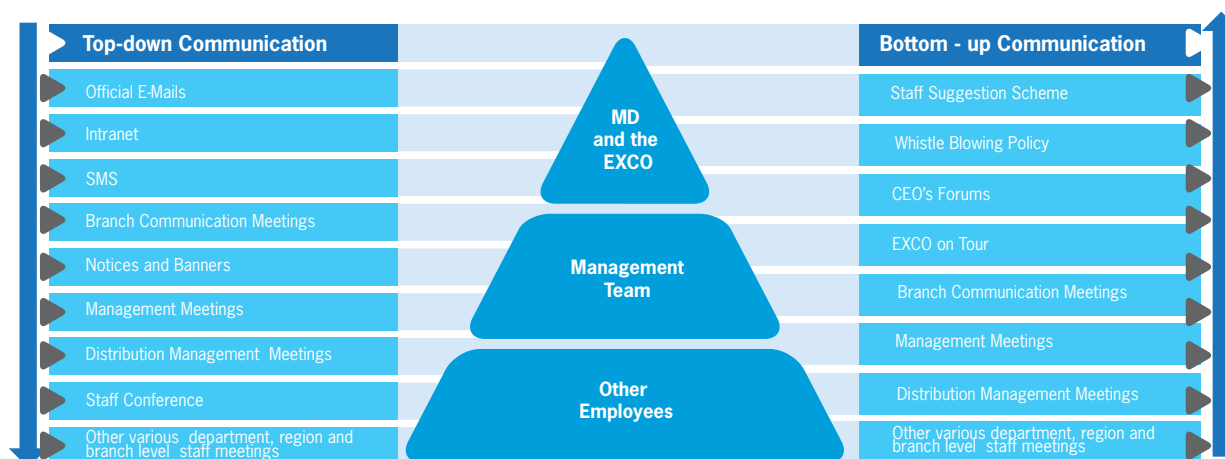
In upholding the safety of our employees, efforts have been made to arrange the work places in a safe manner. Accordingly, during the year a large campaign was conducted to improve the cleanliness of the workplace. Moreover, signposts are displayed at all necessary locations to guide employees and visitors towards desired destinations. Further, under the evacuation process in place, evacuation drills are conducted routinely to train our staff on the safe evacuation procedure.

In terms of staff welfare, the key role is played by the Staff Welfare Society which organised numerous events throughout the year. The most prominent of such events was the annual trip organised for the enjoyment of our employees and their families at several star class hotels located on the southern coast of the country. This event saw the active participation of our employees, both from the head office and the branch network, as well as their families.



### Our Policy on Culture and Communication

We strive to maintain a friendly and open culture that nurtures learning and development. The open door policy maintained by our management allows any employee to raise his/her concerns to any manager, EXCO member or the Managing Director with maximum ease and least discomfort. Moreover, the 'EXCO on Tour' sessions organised during the year, in which the members of the EXCO visited the zonal offices, was a good opportunity for employees attached to zones to voice their concerns and obtain immediate feedback. In addition the CEO's forums and the whistle blowing process are two other means available for the staff to convey any concerns they have to the top management team. Other modes of frequent communication are the intranet, emails through which we



communicate health and safety messages, and special activities of the Company, etc.

### Our Policy on Labour Practices Grievance Mechanisms

A fair and sound grievance handling policy and procedure is a pre-requisite for good human resource practices and healthy employee-employer relations. Accordingly, Grievance Mechanisms is a material topic discussed in this report.

Our grievance policy is aimed at allowing employees to bring to the attention of the management of the Company any dissatisfaction or feeling of injustice which may exist at the workplace. It is a formal process offering employees different levels of solving a grievance issue, aiding to maintain a fair and cordial working environment.

In order to encourage employees to step forward with their grievances, we ensure that no employee will be subject to discrimination for participation in the grievance handling procedure.

The grievance handling procedure operative at HNBA is clearly documented in our HR manual and is also available to any employee through our intranet. With a view to improving comprehension of the policy, during the year we took steps to translate the policy to the two main languages used in Sri Lanka, i.e. Sinhala and Tamil, and accordingly our employees can now access the policy in the language they are most comfortable with.

Steps are taken to educate the new employees of the Company regarding the availability and utilisation of this

procedure during their induction process, while other employees are made aware of the same via frequent training programmes.

The responsibility of fairly resolving grievances lies with all managers, heads of divisions and the Head of Human Resources.

During the year, no grievances were reported (2012:0).

### Our Policy on Non-Discrimination, Child Labour and Compulsory Labour

We consider upholding human rights in our workplace and in all our dealings as a key obligation, and hence non-discrimination, child labour and compulsory labour are material issues worthy of discussion.

We earnestly believe in the fair treatment of employees, regardless of their age, gender, position or any other diversity factor. Accordingly, our management and employees are expected to adhere to a strict code of ethics in relation to favouritism and all forms of discrimination.

Our stance on labour is to employ individuals over 18 years of age at their own free will. Thus, no forced or compulsory labour is entertained at our workplace. All recruitments are handled centrally at the Human Resources Division. Work hours and leave utilisation are also monitored by the Human Resources Division, ensuring the existence of no significant risk in the occurrence of child or forced/ compulsory labour within our premises. However, with regard to our supply chain, risks on child/ forced/ compulsory labour may exist, and this is discussed on page 129.

## Management Discussion and Analysis

During the year under review, no cases of discrimination, child labour or forced/compulsory labour were reported in the operations of HNBA or of any of its suppliers (2012: 0). Further, no cases of violation of human rights were reported during the year.

### Our Policy on Resignations, Terminations and Transfer

Our policy and procedure on cessation of services is clearly laid out in our HR manual. Employees may resign from the Company subject to the terms and conditions set in their appointment letters, while retirement of employees would be at the age of 55.

All employees are required to participate in an exit interview conducted by the Human Resources Division upon resignation, and information gathered at the exit interviews are used for the refining of the Company's human resource policies and procedures as well as to identify areas in need of improvement. The Company may terminate the services of an employee due to reasons specified in the Manual, but should such a situation occur, a fair and equitable procedure will be followed.

### Our Policy on Compliance with Laws and Anti-Corruption

We maintain maximum adherence to all laws applicable within the jurisdiction of Sri Lanka. Our senior management, along with the Human Resources Division and Legal and Risk and Compliance Departments maintain strict vigilance in this regard. No fines or monetary sanctions were levied on the Company for non-compliance with laws and regulations during 2013 (2012: 0).

Further, all employees are expected to maintain strict adherence with the following internally developed policies, which are clearly communicated and made available to all employees through the Company's intranet.

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

The Staff Hand Book and the Code of Ethics provide guidance on desired behaviour of employees and the need to abstain from corruption. Our Whistle-Blowing Policy provides guidance on the procedure for employees to bring any issues relating to corruption, misuse of powers, improper conduct or unethical behaviour, environmental damage etc., to the notice of the management under the guarantee of confidentiality and of not being subjected to discrimination. The other policies in place also specify the desired behaviour to minimise the risk of corruption. Further details on these policies are discussed in page 191 - 194 in the Enterprise Governance section.

With regard to the general policies applicable to the Company, awareness and training have been provided to all employees, while in the case of policies applicable to employees in specified functions, the relevant employees have been provided special training on the said policies.

All our business units have been analysed for risks related to corruption. No incidents of corruption with regard to employees or the Company were recorded during the year, and no court cases were reported. The Human Resources Division, Legal and Risk and Compliance Departments monitor corruption-related risks and take due action where necessary.

### Future Prospects for Our Employees

At HNBA we strive to uphold the reputation we have gathered as an equitable and rewarding employer, and this reputation will guide us in the next years as well. We intend to expand our efforts in terms of all key employee-related issues, such as fair treatment, health and safety and rewards, while also focusing on novel and attractive means of training and developing our employees to realise their full potential. All such activities will therefore be conducted with the objective of endorsing our human resources theme, in making HNBA 'A Place Where You Can Shine'.

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G4-56

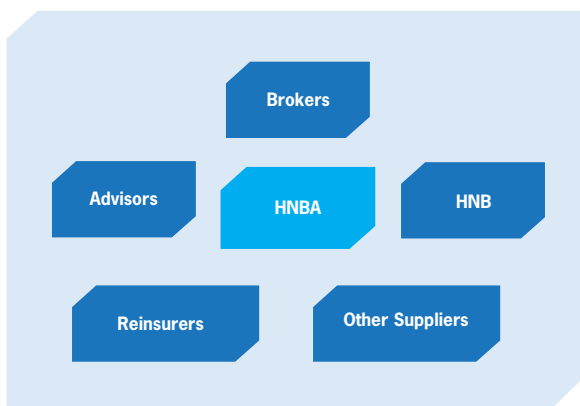


## Integral Components of Our Value Chain:

### Business Partner Review

At HNBA, we place great importance on our process of value creation, as this defines the superiority of the experience we deliver to our customers. We also understand that delivering a seamless and superior service to our customers is impossible without an efficient and effective supply chain driven by this common objective. Hence, we recognise the vital role our business partners play within our business model and we strive to nurture strong and loyal relationships that lead to a win-win outcome for both parties.

While many stakeholders may be considered as constituents of our supply chain, considering the materiality of the relationship to our business model, we identify the following groups as the key business partners.



### Our Strategy towards Business Partners

The experience gained by the Company in the domestic insurance industry during the past twelve years, amidst intense rivalry, indicates the utmost importance that must be placed on our business relationships, if we are to succeed in achieving our objectives. However we also note that achieving such objectives is impossible without the establishment of win-win relationships that deliver the optimum outcome for both ourselves as well as our business partners. This, therefore, is the strategy that guides our relationships.

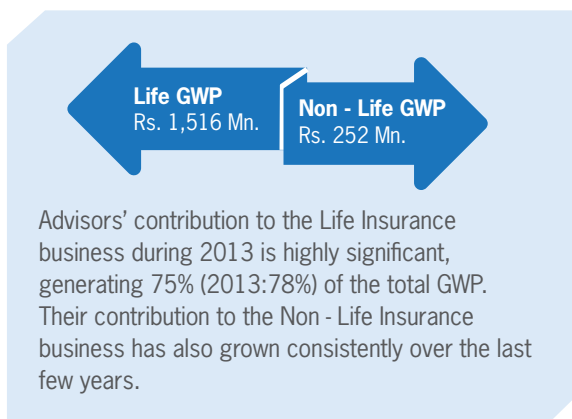
<b>What we Offer</b>	Attractive rewards and timely payments
	Sharing business information
	Training/ support to build competencies
	Sustainable business practices
	Opportunity for networking and recreation

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Accordingly, while internal procedures and policies have been established to guide us and our business partners towards optimum outcomes, maximum efforts are also taken to ensure the maintenance of compliance with laws, regulations and ethical standards. For this purpose, we have in place affirmed engagement guidelines, agreements and qualifying criteria, and the Code of Business Ethics established by the Company provides further guidance on maintaining integrity and ethical practices in these relationships.

### Insurance Advisors

A strong team of insurance advisors is an essential component for the success of any insurance company and for us too this is no exception. Consisting of 1,507 advisors and field management (2012: 1,643), our insurance advisors have consistently and enormously contributed towards the growth of our business, while also acting as the link between us and our valued customers. The reduction in advisor force numbers by 10% in 2013, is due to our strategic initiative of retaining only productive advisor force members and developing them further to improve their productivity.

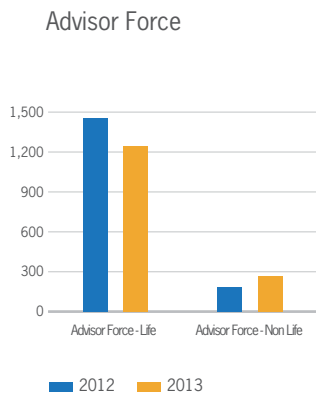


Advisors' contribution to the Life Insurance business during 2013 is highly significant, generating 75% (2013:78%) of the total GWP. Their contribution to the Non - Life Insurance business has also grown consistently over the last few years.



## Management Discussion and Analysis

We recognise the vitality of their services in our business operations and ensure that we absorb the best talent available in the market. We also place significant emphasis on them having obtained the pre-requisite qualifications, such as a pass in the Technical Competence Course in Life Insurance for Life Insurance advisors and a pass in the Technical Competence Course in Non - Life Insurance for Non - Life Insurance advisors. We strive to ensure that the advisors recruited by us receive ample opportunity to merge with and adapt to the Company's culture, so that they feel their importance within this vibrant team.



### Stimulants for Productivity Enhancement

Having recognised their importance within the value chain, we place great emphasis on developing the skills and capabilities of our advisors, which in turn enhances their productivity levels. For such development, we have consistently conducted numerous training programmes from which we expect to see higher achievements coming our way from our sales people in the highly competitive and dynamic industry in which we operate.

The core responsibility with regard to the skill enhancement of our advisors lies with the Sales Training and Development Department of the Company, which ensures that a series of value adding training Programmes, covering a variety of areas, is conducted under a well-planned training schedule.

### 271 trainings conducted in 2013 (2012: 156)

The success of these trainings is evident in the significant improvement of efficiency of our advisors.

7 internal trainers are currently utilised by the Company to impart knowledge on our advisors and to ensure that they are constantly updated on the latest developments in the industry. In order to improve the accessibility of our internal trainers, in 2013 we stationed them at different geographical locations in our distribution network, and thus, advisors can now seek the assistance of these trainers with greater convenience. This also encourages the conducting of more focused trainings based on the different requirements of advisor groups.

It is noted that apart from training programmes related to products and sales, outward bound training programmes are also conducted for our field management staff and advisors, with the intention of providing them with a platform to demonstrate and sharpen their skills and competencies.

Moreover, during the year we entered into a partnership with the London Centre of Marketing to provide our advisors with a professional qualification in marketing, and this is expected to enhance the skills of our advisors further, in the coming years. Meanwhile, the "Knowledge Star" competition, which focuses on knowledge improvement of the members of the field management was held for the 2nd consecutive year during 2013, and a very high level of enthusiasm was witnessed at this competition. Additional recreational opportunities are also organised for the advisors, along with their families, to develop their camaraderie and sportsmanship.

### Creating the Imprint of Professionalism

During 2013, numerous initiatives were undertaken by the Company to increase the professionalism of our insurance advisors, which is identified as a critical success factor in acquiring business, as they represent the Company at the door-steps of our customers. Accordingly, advisors with good judgment, relationship skills and polite behaviour possess the ability to create a positive mindset in the customers, and thus it is essential that our advisors be armed with such skills.

We also believe that equal attention should also be placed on promoting integrity in order to eliminate misconduct and misappropriation, and thus, we ensure that all reported incidents on such issues are duly investigated and that proper action is taken to deliver justice to affected parties. Where such investigations prove that the advisor has in fact engaged in a fraudulent activity, his/her services are terminated immediately and updated on the industry website maintained by the Insurance Association of Sri Lanka (IASL).

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## Highlights

Qualified in Diploma in Professional Selling

Participants at Million Dollar Round Table

Qualified in Preliminary Certificate in Marketing

### NASCO 2013

Harendra Ramasinghe - Gold Award in the Insurance Sector - Territory Manager

Chaminda Soysa - Bronze Award - Supervisor (Executive) Category

Chamara Mendis - Silver Award - Front-liner Category

Shyamalie Egodage - Bronze Award - Front-liner Category



## Lucrative Rewards for Untiring Efforts

In appraising the efforts of our advisors, we ensure they receive highly lucrative commission rates for their contribution, in line with the regulatory parameters within which we operate. Moreover, at our Annual Sales Convention, which takes the form of a gala event, we pay due tribute to our top-achieving advisors. This year too, the Sales Convention was held at the Cinnamon Grand Hotel in Colombo, with the participation of 339 advisors and field management members who were recognised and rewarded with bronze, silver, gold and super gold awards.

As a further incentive, on an annual basis we grant our top-achieving advisors, along with their families, the opportunity to engage in a foreign tour. This year too this fantastic experience was received by 63 of our best performers who were offered a trip to Vietnam and Malaysia.



With the welfare of our advisors in mind, we offer them Life and Surgical Insurance schemes, while they are also entitled to a terminal benefit scheme based on contributions from the advisor as well as the Company. Additionally, they are entitled to loan facilities at concessionary rates and in case of a cash emergency, can receive the due sales commission two weeks in advance.

Moreover, we have developed a mechanism whereby our advisors can escalate themselves to positions in the senior management of the Company through the appraisal of various measures such as their performance, individually and as a team, behavioural pattern, leadership skills and commitment.

## Brokers

Our widespread network of insurance brokers, another key category within our portfolio of business partners, also plays a significant role in generating value within our business model.

Reflecting our commitment to adhere to the pertaining regulations, we ensure that we deal only with brokers registered with the IBSL, and these partnerships are typically formed with the objective of nurturing a long term relationship that will be beneficial for both parties.

In order to strengthen this relationship, we embark upon numerous activities. For instance, 2 training programmes were conducted for our brokers during 2013, to enhance their knowledge on our Company and products, with

## Management Discussion and Analysis



special focus being placed on the newly introduced eco-insurance product. Moreover, during the year we continued with our tradition of conducting the annual Beach Rugby Fiesta for the brokers, and this event received the enthusiastic support of our brokers, with 8 teams participating in true sportsmanship.

### Contributed 29% of Non - Life GWP

(2012: 26%)

#### HNB Group

Being a subsidiary of one of the sturdiest commercial banks in Sri Lanka, we enjoy a strong competitive advantage which enables us to rise high above our peers. While our parent always backs our endeavours with advice and guidance, the parent's support has also been instrumental in developing our bancassurance channel, which is gradually maturing in to prominence. The opportunity granted for us to locate our officers within HNB branches has amply contributed to the growth of our customer base.



Hence, we recognise the important role played by HNB within our value creation process and all efforts are taken to uphold and strengthen this unique bond we share. In recognition of the support rendered to us at HNB branches therefore, we organise mid-year and year-end awards on an annual basis where the best performing branches are rewarded. Moreover, we also extend sponsorships for selected events conducted by sports clubs of HNB Branches.

We strongly believe that the stability and the soundness of our business model derives significant support through this intimate understanding we maintain with the HNB group, and with this understanding we will continue to further this relationship in the coming years.

#### Reinsurers

As an insurer, who accepts risks faced by economic agents in return for a premium, our ability to accept large risks flows from the reinsurance arrangements we have in place with our panel of reinsurers. Their technical strength, claims paying ability and global reach provides us the security to accept risks that are many times the total value of our assets and to offer terms as a competitive player in the market place.

A reinsurer's technical strength and claims paying ability is generally demonstrated by high financial strength ratings. HNBA has only entered into reinsurance arrangements with reinsurers having financial strength ratings of 'A' or above (Superior/Excellent) by A M Best except for one reinsurer who possess a rating of 'B++' (Good) from the same rating agency. Additionally, we also place due attention on their financial soundness, service standards and reputation in the industry. A list of our panel of reinsurers, along with their financial ratings, appears on page 317.

#### Other Suppliers

Similar to the vital role played by our other business partners, we believe that suppliers also have a crucial role to play in enhancing our value creation process. Hence, we strive to maintain win-win relationships with them as well, while ensuring that our suppliers abide by the highest standards of business conduct, strictest adherence to laws, and maximum delivery in terms of quality and service.

During the initial supplier screening process, we conduct rigorous checks to ensure that best suppliers are selected

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and there is a mutual understanding between parties that the suppliers bind themselves to high ethical standards and adhere to good labor practices. Moreover, while our partnership continues, we make frequent inspections (in particular of garages and medical labs) to ensure that the services and ethical standards delivered by the suppliers are continuing as intended.

One main category of suppliers within our business model is claims assessors, the first to reach the customers in the unfortunate event of an accident. Currently we deal with 125 well-qualified and experienced external assessors who operate on a free-lance basis, and 3 in-house assessors. In order to equip them for the delivery of an efficient service, we have taken steps to provide them with the latest technological devices, including camera phones which were distributed amongst 70 assessors by the end of 2013. Further, with a view of enhancing the efficiency and effectiveness of the service we deliver to our customers, during the year we established three new decentralised motor claims units in Negombo, Matara and Kandy.

Being a composite insurer offering both Life and Non - Life Insurance products, it is imperative that we maintain a strong co-ordination with another important segment of our suppliers, i.e. garages, laboratories and hospitals. We enhanced the relationship with garages during the year by expanding our network of Cashless Repair Agreements, whilst also taking steps to display a banner of the Company at the garage as a key customer attracting strategy. Meanwhile, our relationship with laboratories and hospitals also strengthened during the year, and by the end of the year, we had a network consisting of 119 hospitals and labs.

From the different suppliers we partner with, garages are considered as our only supplier to have a significant risk of child labour, while outsourced janitorial services and security services are identified as having a significant risk of forced or compulsory labour. Fair pay, working hours and conformance to labour laws are key criteria considered in our supplier selection process for janitorial and security services, which are also the methods we use to prevent forced or compulsory labour. Although, we currently do not have a stipulated criterion for child labour in garage selection process we will be implementing this from year 2014 onwards.

### The Future of Our Business Relationships

As the above discussion indicates, the value derived by our business model through the relationships formed with our partners is immeasurable and is a critical success factor that underlies our performance. As a sensible business entity we are cognizant of this fact and thus, in the coming years too, we intend to take all measures within our grasp to ensure that we maintain win-win relationships that augur well for all parties.

## Management Discussion and Analysis

### Nurturing Positive Change around Us: Community Review

#### Our Passion towards the Community

As a responsible corporate citizen, it is our honest belief that through our accomplishments we can create a significant impact on the community within which we operate. Strengthened by this belief, we take a holistic approach towards the society, that seeks to unlock opportunities, nourish lives, assure wellbeing and open doors for the future. Throughout our journey we are humbly proud to have assisted many endeavours where the hearts of our people were interlocked with our very own passion to serve them. In return, we have earned the admiration and trust of the community, motivating us further to progress steadfastly with our passion to serve our beloved country.

### Community Investment Policy

Our approach towards community investments seeks to cater to the needs of different sections of the community with the aim of giving back some value to the society, and is devoid of an intention of deriving commercial benefits in return.

The broad areas covered by our community investments and the benefits we aim to endow upon the society are listed below.

### The Identification Process

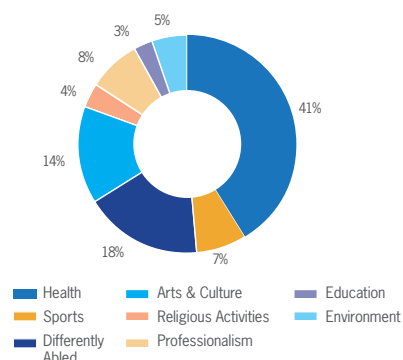
The process followed by the Company for the identification of the needs of the community is one that is formal and transparent, initiated by community members who bring their needs to the attention of our

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	<b>Health &amp; Well-being</b>	<ul style="list-style-type: none"> <li>Helping people regain their health</li> <li>Improving the well-being of the elderly</li> </ul>
	<b>Sports</b>	<ul style="list-style-type: none"> <li>Helping sportsmen and sportswomen excel in their fields</li> <li>Improving the standard of sports in the Country</li> </ul>
	<b>Differently-Abled</b>	<ul style="list-style-type: none"> <li>Securing a brighter tomorrow for differently abled children, youth and women</li> </ul>
	<b>Arts and Culture</b>	<ul style="list-style-type: none"> <li>Recognising veteran artistes who have contributed to uplift the standards of Arts and culture</li> </ul>
	<b>Places of Worship</b>	<ul style="list-style-type: none"> <li>Treating different religions equally by allocating donations</li> </ul>
	<b>Professionalism</b>	<ul style="list-style-type: none"> <li>Improving professionalism and employability of young people</li> </ul>
	<b>Education</b>	<ul style="list-style-type: none"> <li>Providing access to clean water for school children</li> <li>Improving educational facilities for children</li> </ul>

branch managers/CSR Unit, or by HNBA staff members who notify the CSR Unit of the burning needs in their communities. Such requests are then screened via a need analysis and a cost-benefit analysis, and recommendations are made to the CSR Committee, which is headed by the Managing Director. The Committee considers the recommended projects and grants their approval after paying due attention to a variety of factors such as the magnitude of the impact on the community and the Company's CSR Policy. Projects receiving such approval are then implemented under the initiative of the Marketing Division and the relevant HNBA branch in the locality.

Investments in Community





## Health and Well-being

### Access to Water for a Better Tomorrow

Improving the health and well-being of our people is one of the key long-term community investment goals of HNBA, and most importantly, we have focused our attention on providing accessibility to safe drinking water by establishing proper water systems for selected schools. This endeavour, which was initiated in 2008 as a consequence of the countless number of requests received from schools in many areas of the country, involves the key societal investment element of the Company. Over these past six years, we are humbly proud to have assisted the needy children of 27 schools in 20 districts of the country through this initiative. In a further reflection of our drive to create sustainable well-being of our people, we ensure that frequent re-visits are made to these schools and that restorations are conducted where necessary.

In continuation of our committed endeavours of the past, during 2013 too we quenched the thirst of many students by assisting 6 schools located in remote areas of the country.

Almeida Vidyalaya, located in Urumuththa in the Matara District is a rural school with nearly 500 students and 30



teachers, all of whom underwent great difficulty due to their limited access to clean water. Our humble efforts in establishing a safe water access facility saw the fulfilment of this very basic need, which had persisted for many years.

Natpathu Vaddai Vipulanantha Vidyalaya in Kokkaddicholai, a school housing approximately 190 students and 16 teachers, is another such school which had been deprived of clean drinking water, with the students having to travel a long distance to obtain water to quench their thirst. Here too, we managed to bring them comfort in the form of easily accessible clean water.

Almeida Vidyalaya	Urumuththa Matara District	500 students and 30 teachers
Natpathu Vaddai Vipulanantha Vidyalaya	Kokkaddicholai, Batticaloa District	190 students and 16 teachers
Maithree Vidyalaya	Padawiya, Anuradhapura District	200 students and 15 teachers
Niyuguna Saddathissa Primary School	Damana, Ampara District	48 students and 6 teachers
Galapitagala Vidyalaya	Uhana, Ampara District	300 students and 24 teachers
St. Anthony's Maha Vidyalaya	Muriyakadawala, Matale District	284 students and 21 teachers

Maithree Vidyalaya in Padawiya, is a rural school with a population of 200 students, located in a community which has been severely hampered by kidney diseases over the years due to water contamination. We therefore identified this as a school greatly in need of our helping hand and in addition to providing access to pipe borne water we provided them with a water purifying system as well. It is also noteworthy that we were able to commemorate World Children's Day with these children.

Another school that benefitted from this initiative during the year under review is Niyuguna Saddathissa Primary School located in Damana in the Ampara District. This is, yet again, a school in a remote village battling with immense poverty and barely having access to drinking water. We had no hesitation in providing them with our assistance by establishing safe water facilities.



## Management Discussion and Analysis



Another under-privileged school in the Ampara District which had suffered under the brutal three-decade war, is Galapitagala Vidyalaya in Uhana, which houses a population of 300 students. This school also received our support. We dug a well and renovated the school's sanitary system.

Meanwhile, A/St. Anthony's Maha Vidyalaya in Muriyakadawala in the Dambulla area also benefited from our patronage during the year in review. This was yet another rural school crushed with poverty and without the financial means of obtaining access to water reserves. Our team provided these students with a tube well and a water tank.

Buoyed by the immense number of requests we receive and truly humbled by the tears of gratitude that flow at each water facility we declare open, our intention is to further our endeavour in enhancing our school children's ability to access clean drinking water, so that their learning experience will be pleasant and productive.

### Delivering Our Promise of Care

At HNBA, community reach is in no way confined to one area. Rather, we attempt to reach and serve society through diverse ways, because we feel the pulse of the different kinds of needy people around us. Thus, in reflection of our continued commitment to extend our helping hand to the senior citizens of our community, we helped the Bolawalana Senior Citizens' Association for yet another year with their celebrations of the World Elders' Day, by offering attractive parcels of dry rations.

We also saluted the brave soldiers who were disabled while serving the motherland, by donating exercise equipment and material for the construction of a sanitary system for a Rehabilitation Centre at Kuruvita, Ratnapura, maintained by the Gemunu Regiment and currently housing approximately 380 disabled soldiers.

Further, we obtained corporate membership of the National Stroke Association of Sri Lanka for a five year period, supporting their efforts to promote public awareness on strokes, especially focusing on how to recognise a stroke and how to deal with it.

### Towards the Betterment of Health

Our annual blood donation campaign, organised for the 8th consecutive year, drew over 210 enthusiastic donors. This venture is one of our key initiatives directed at the welfare of the society and strongly supplements our commitment to protect human lives, with the whole-hearted support and priceless contribution of our donors.

In yet another endeavour directed at the betterment of health standards of our community, we directed our attention to supporting Thalassaemia patients, who



undergo many a difficulty due to their illness. While their illness prevents them from earning a livelihood, it also requires them to obtain continuous medical treatment throughout their lives. Thus, we realised that these patients are in dire need of financial support and hence extended our helping hand to the Adolescent and Adult Thalassaemia Care Unit of the North Colombo Teaching Hospital, by sponsoring the treatment of five needy patients for a full year.

Moreover, when it was brought to our notice that the Paediatric Ward of the National Cancer Institute, which provides treatment to about 300 patients, was undergoing a serious operational problem due to the lack of essential equipment to treat the large number of child patients requiring daily care, we stepped in and donated medical equipment to be used for this purpose. We also extended our support to by making a monetary contribution to 'The Colours of Courage Trust' for the construction of the Paediatric Cancer Ward at the Jaffna General Hospital.



### Promoting Victory in Sports

During the year 2013, we embarked upon several initiatives that were directed at uplifting the standard of sports in our society. Accordingly, our assistance was received by the weight-lifting team of Habarana Maha Vidyalaya, located in Polonnaruwa, which is an aspiring team of determined youngsters which had won the National Weight-lifting Championship in 2013, despite having access to only minimum of resources. We comprehended their potential and commitment and voluntarily gifted them with weight-lifting equipment and gear, to aid them in gaining more victories in the future.



In extending our support to another victorious team, we are humbly proud to have become the official travel partner for the National Women's 7's Rugby team, who brought immense glory to our nation by emerging the Plate Champions at the Asian Sevens series held in Thailand in 2013. This was the first time that a Women's Rugby Team from Sri Lanka received international level recognition. This team was handpicked for our support due to the need to promote women's sports which unfortunately has not received the same level of support and attention as men's sports.

### Artistes Felicitated

- > Mr. Harun Lanthra
- > Mr. Ivor Dennis
- > Mr. Suriyakumar Muththalage
- > Mr. Paul Fernando
- > Mrs. Irene De Alwis

### Rewarding Artistic Souls

We firmly believe that aesthetics nurture a healthy and balanced society and this belief guides our efforts in uplifting arts and culture. Hence during the year, we felicitated five senior artistes of the country who have contributed immensely towards the domestic aesthetic arena during their youth. Despite their efforts to bring joy to the people of our country, their days are now being spent under difficult health and financial conditions and hence, we rewarded them with financial support and a medical insurance policy, to light up their lives.

Moreover, we sponsored the book launch of 'Sonduru Sarisara Sarawak Nadiya Dige', a travelogue by Saman Athaudahetti recognising the challenges faced by our authors in such endeavours.

### Driving the Dreams of Tomorrow

Children, the future leaders of the world, are the most noteworthy component of a society, and we at HNBA believe it is our responsibility to build a fostering environment for them. It was this belief that led our many attempts to assist children during the year.

In continuation of our commitment from the previous years, we tendered our sponsorship for the 68th UN

## Management Discussion and Analysis

Day Celebration for the 8th consecutive occasion. This is a prominent event in the country which offers equal opportunities for both rural and urban students to reveal their talents in the areas of speech, essay and quiz competitions, and our participation at this event further strengthens the furthering of greater opportunities for school children.



We also believe that excellence in a personality is not woven from knowledge alone, but through the skills and attitudes nurtured within as well. With this in mind, we helped renovate the Children's Park of Dombagoda Vidyalaya located in Thithagalla in Ahangama, in the Galle District, a school which had experienced the repugnant Tsunami disaster. This was in 2010. Three years later, in 2013, we renovated the park again, in continuing the sustainability of our endeavours, and our efforts brought a smile to many innocent faces for the second time.

### Opening Doors for the Future

The year 2013 saw us progressing to yet another level in our commitment towards society with the initiation of our School to Office (S2O) programme. This endeavour was mainly the result of the skill and knowledge gap we had observed amongst our youth when stepping up to employment at the completion of formal education.



### 'School to Office'

With the aim of improving the level of professionalism and employability of the Sri Lankan youth, during the year we launched a unique programme titled 'School to Office', more famously known as 'S2O'. Targeting job-seeking youth, the main objective of 'S2O' was to train and develop 100 school leavers/ job seekers by equipping them with the necessary skills required to be a professional and to perform well in the world of work.



We witnessed much enthusiasm for the programme, receiving over 2,000 applications, from which 100 school leavers were selected through a written assessment. Those selected underwent a 6 week program covering 100 lecture hours and practical exposure to work life. The programme covered 10 key modules and included topics ranging from transformation from student to professional, the world of work, business English, IT and numerical skills, communication and presentation skills, leadership and teamwork, service excellence, workplace ethics and etiquette, etc.

Our senior management team shared their work life experiences with the participants, while an outward bound training was also offered as a unique experience. Several reputed external trainers were also brought in to provide training on skills and competencies useful to transform these school leavers to those who are ready to enter the world of work. At the end of the programme, an assessment was conducted to evaluate the participants, which was followed by an Award Ceremony at which the best performer of the S2O program was selected and 86 successful completers were awarded a Certificate and Transcript to acknowledge their participation.



### Unlocking Prospects for the Differently-Abled

We firmly trust that every citizen plays a vital role in the betterment of the country, irrespective of their level of physical or mental health. In furtherance of this belief, the Sunera Foundation, which functions with the aim of uplifting the lives of the differently-abled youth, received our support during the year. The foundation conducts workshops on drama, arts and speech therapy for these youngsters while also providing counselling for their parents. Our support was extended in the form of a sponsorship for a series of workshops conducted in Panadura over a period of one year, and we believe that our efforts helped create a brighter tomorrow for these youngsters.



Meanwhile, we also extended our assistance for visually handicapped ladies registered under the Society of the Handicapped Women's Limited, by sponsoring 200 white canes at the International White Cane Safety Day Commemoration. Moreover, the Meth Sewa Foundation in Handapanagala in the Monaragala District, which provides care for the poverty-ridden differently-abled children and adults of the area, also benefited through our endeavours during the year, when we assisted them by building a sanitary system for their use. Furthermore, by sponsoring the event "Dirijaya Prathiba 2013" organised by Enable the Disabled (ETD), the CSR arm of the Management Club of the Chartered Management Institute - UK, we provided an opportunity for differently-abled citizens to unleash their talents in different ways.

### For Places of Worship

As in the previous years, we also extended our sincere support to places of worship belonging to all four major religions in the country equally. Accordingly, Sri



Jinaratana Bhikkhu Abhyasa Vidyalaya, Holy Rosary Church, Arulmihu Sivasubramaniya Swamy Kovil and Wekande Jummah Masjid in the neighbourhood of our Head Office benefited through this endeavour, while Kottegoda Siriwardanaramaya in Gampaha, Walanagoda Church in Minuwangoda, Sri Pasupatheswara Devasthanam Administrative Saba in Akkaraipattu and Jumma Grand Mosque in Ampara are the places of worship outside of Colombo that benefited from this programme.

### Building Professionalism and Empowering Innovation

#### Driving Tomorrow's Leaders

Following our dream of supporting young leaders of the society by developing their leadership and communication skills, we partnered with the Sri Lanka Division of the Chartered Institute of Management Accountants (CIMA) by coming forward as the Platinum Sponsor of the CIMA Toastmasters' Quiz 2013. At this event, where over 82 toastmasters' clubs from across the country participated,

## Management Discussion and Analysis

an array of fresh skills and perspectives were displayed, and we consider ourselves fortunate to have assisted these rising stars of tomorrow.

With the view of increasing the calibre and skills of our future leaders, we extended our support to several projects for professional development. The Annual Management Conference of Colombo MBA Alumni under the theme 'Transcending Failure: a story of success', the National HR Conference 2013 and 'Excellence in Action 2013', an inspiring Career Development Seminar organised by Royal College Class of 72, thus received our support. We also extended our sponsorship for the International Marketing Conference organised by the Sri Lanka Institute of Marketing (SLIM).

### Empowering Innovation

Reflecting our passion to empower innovators, we rendered our financial support to the national exhibition "Sahasak Nimewum", which was organised by Sri Lanka Inventors' Commission. The primary objective of this event was to strengthen the innovative thinking of school children, university students, technical colleges and the community as a whole, in order to realise the dream of achieving a better tomorrow for our nation. Our contribution was afforded as the Silver Sponsor of the "Safety and Security of the School" category of this exhibition, and we are humbly proud to have supported this worthy cause which has the potential to direct our country to a new era of innovation.



### Supplementing People's Choices

We strongly recognise that the voice of the people is the most powerful force in the community and, it was with the objective of letting this voice be heard that we extended our support to the People's Awards 2013, organised

jointly by the Sri Lanka Institute of Marketing (SLIM) and the Nielsen Research Agency in Sri Lanka. This annual event is a result of the need to encourage companies to embrace the needs and wants of the people within their corporate strategies, and through our involvement as the Gold Sponsor, we facilitated the delivering of this message to all corporates operative within the country.

### Initiatives to enhance financial literacy and inclusion

During the year under review, the Company also took measures to contribute towards enhancing the financial literacy of community groups, with the pure intention of imparting benefits to the public and with no intention of reaping commercial benefits. This took the form of a seminar conducted by the General Manager - Marketing and Distribution, for 350 families connected to employees of the armed forces, some of whom had either sacrificed their lives or become disabled due to the war. These families have suffered great pains and are struggling to stand strong amidst difficult financial and social conditions. Approximately 1,000 members belonging to these 350 families, residing in Jayavirugama, Kekirawa in the Anuradhapura District, received valuable guidance on financial literacy and the optimum planning of their financial resources through this seminar, which covered aspects such as the importance of financial planning and saving for the future, techniques for financial planning in daily lives and methods to generate greater savings. This seminar was well-received by the participants, who expressed their deep gratitude to the Company's efforts in shedding light to their lives through invaluable advice.

## Nourishing Our Surroundings:

### Environment Review

#### Sustaining our Mother Nature

As a responsible corporate citizen that has the power to make an impact on the environment, we recognise that we have an immense role to play in sustaining our Mother Nature. We also believe that the sustenance of Mother Nature will in turn lead to the sustenance of all living beings on the planet and hence, we provide full commitment to engage in activities that are within our power and capacity to safeguard her; for after all, it is indeed Mother Nature who has bestowed on us all the natural resources that we use in our daily operations.

The ensuing discussion attempts to document our efforts in this regard, keeping in line with the GRI guidelines. Since the very nature of our business operations has only a limited impact on the environment, upon scrutiny of the G4 guidelines it was deemed that only three aspects of the Environmental Performance Category were material for us under our materiality check. Listed below are the material aspects covered in this review.

### Environment

Energy

Effluents and Waste

Compliance

#### Our Policy on Energy

As a financial service provider, the main forms of energy used by us are electricity and fuel. While electricity is used for the functioning of our offices, both at the head office and the branch network, fuel is used by employees for business travelling. In addition, our advisors, who form a significant portion of our portfolio of business partners, also consume fuel for business travelling and thus this aspect is material, both inside and outside our organisation.



**243**  
Fully Grown Trees



**25,149**  
Oil Litres



**455,407**  
Water Litres

We recognise that maximum efforts are needed to reduce consumption of energy and our approach in this regard is to reduce the negative impact through energy conservation. Managers of each department and branch are entrusted with the responsibility of reducing energy consumption. Details of energy saving initiatives are discussed below.

Note: Because capturing data on business travelling by advisors is difficult due to the nature of the business, information disclosed in this report on energy consumption excludes impacts made outside HNBA.

#### Awareness at the Workplace

As with previous years, numerous steps were embarked upon by the Company to reduce energy consumed both by the Company as a whole and on an individual basis.

Awareness was generated among employees through e-mails on the need to reduce electricity consumption. All unnecessary lights and air-conditioners are switched off after working hours. To improve the efficiency of fuel usage, stringent measures such as fixing standard times for transportation of staff after late working hours and careful monitoring of business travel, are utilised.

Moreover, this year too we continued with our initiative of saving energy related to information technology. Accordingly, 11 desktop computers were replaced with energy-efficient laptop computers while 60 high energy-consuming CRT monitors were replaced with energy-efficient LED screen monitors. Additionally, lights used at the data centre were converted from fluorescent to LED, which in turn led to the decline in power usage by 31%.

Energy Saving Initiatives	2013	2012	2011
No. of laptop computers purchased	11	18	21
No. of flat screen computers purchased	60	55	75
No. of SMS based services	20	31	21
Server Virtualisations	39	32	25



## Management Discussion and Analysis

Additionally, during the year we replaced high energy-consuming air-conditioning units with more energy-efficient alternatives, with the objective of reducing energy consumption. Thirteen of such units belonged to the head office, while seven belonged to branches.

Energy consumption at HNBA, in terms of electricity consumed both at the head office and the branch network, and fuel used for the running of Company vehicles, business travel and commuting by employees of Company is given below.

Energy consumption by HNBA	% For electricity	2013	% For electricity	2012
Fuel used for Company (Litres)		375,434		319,121
Energy from Fuel GJ		13,067.83		11,107.63
Electricity Consumed (kWh)		1,356,317		1,208,361
Energy from Electricity GJ		4,882.74		4,350.10
Total Energy used GJ		17,950.57		15,457.73
Non-Renewable GJ	30%	14,556.89	64%	13,878.26
Renewable GJ	70%	3,393.68	36%	1,579.47

### Our Policy on Effluents and Waste

As a financial service provider, the main form of waste that emanates from our business operations is paper. Having identified this fact, and because we are committed to reducing the negative impact of our business on the environment, all possible measures are taken at all levels to reduce the usage of paper as well as to reuse and recycle paper.

While the need to reduce paper wastage is communicated to all staff members and active measures are taken by each employee, the overall responsibility of reducing paper usage lies with the managers of the relevant branches and departments. Details of measures taken towards this are discussed below.

### Another Step Closer towards a Paperless Workplace

During the year we continued with our endeavour of gradually converting the workplace to a paperless environment. One of the most prominent activities conducted in this regard was the investment on modern technology to be used in daily operations at the head office as well as in branches. These technological enhancements have considerably reduced the amount of paper and other printing material used by the Company.

It is regrettably noted that the total electricity consumption has increased by 12% and total energy consumption increased by 16% in 2013 compared to 2012. As a response, we have decided to initiate an energy audit during early 2014 and implement the actions recommended actions by energy auditors to reduce energy consumption in the future.

Meanwhile, the usage of electronic communication and e-manuals has further strengthened this initiative and the Company also made continuous efforts in this regard by introducing numerous new applications and systems to replace manual functions which used vast quantities of paper.

Moreover, the initiative of scanning and storing documents in soft form, which started with the Life Insurance Division back in 2011 continued in 2013 as well. Accordingly, by the year-end, this concept was implemented by certain functions of the Life Insurance and Non - Life Insurance Divisions, which usually consume the largest quantity of paper in the Company.

In the Life Insurance Division, the claims and new business departments have fully embraced this concept while the life servicing department has completed 56% of the process. Meanwhile in the Non - Life Insurance Division, this initiative has been fully implemented in the Motor Insurance department, while a 50% completion has been achieved in the Takaful business unit which commenced operations recently.

A fresh initiative implemented by the Company during the year is the replacement of the old technology fax machines with PCs equipped with the eFax solution. As of the year-end, this initiative had been successfully implemented in the Motor Claims Department, where a 5% reduction in paper and printing material usage has been achieved. Due to the success of this endeavour, the Company intends to continue with such replacements in the coming year as well.

Additionally, an online system for overtime approvals was implemented during the year with the collaboration of the Human Resources and IT Divisions, and this has in turn helped immensely in reducing the amount of printouts taken daily for overtime approvals. During the year, the online overtime approval system was successfully implemented at the head office and 27 branches and further expansion of the coverage is expected to take place in the coming year.

Meanwhile, the workflow system, which enables employees to view the current status and all other relevant information pertaining to a policy and thereby leads to reductions in paper usage, also continued to expand its coverage during 2013.

Furthermore, the Company's prominent tools for reducing paper usage, such as the accident image search system, SMS-based services, alternative methods of making payments instead of through cheques, also continued to grow during the year.

Reflecting our efforts to protect the environment, this year too, we will be publishing our annual report in a CD-ROM format, which will in turn lead to a significant reduction in paper usage, especially considering that the number of shareholders exceed 4,000. Printed copies of the annual report will be sent to shareholders and employees only on request.

In addition to the significant initiatives discussed above, the Company also continued with its simple methods of waste reduction, which have been practiced continuously in the previous years. Accordingly, for internal documentation purposes re-used envelopes and both sides of paper are used. Further, text messages and e-mails are used for internal communication wherever possible, and hard copies are obtained only where it is absolutely necessary.

Due to the difficulty in quantifying reused paper, no disclosure is possible to be made in this regard. However, it is noted that the main method by which we dispose of waste paper is via recycling, and for this purpose we have arrived at an agreement with Neptune Papers (Pvt) Ltd. The table below provides details of this venture along with the quantity of paper recycled and the environmental savings obtained.

Savings	2013	2012	2011
Paper Recycled (kg)	14,330*	4,524	11,907*
Fully Grown Trees	243	77	202
Water (Litres)	455,407	143,773	378,404
Electricity (kWh)	57,320	18,096	47,628
Oil (Litres)	25,149	7,940	20,896
Land Fill (Cubic meters)	43	14	35
Reduced Green House Gas Emission by Carbon Equivalent of (kg)	14,330	4,525	11,907

\* Increase due to the waste disposed following the implementation of the 5'S' Programme during the year.

## Management Discussion and Analysis

### Thinking Green

With the objective of embedding the concept into the minds of our employees, we adopted the theme “eco-friendliness” to all the staff events held during the year. Following the previous year’s habit, eco-friendliness was emphasised in decorations during the Vesak and Christmas competitions, where the judges considered it to be a major criterion when deciding on the winners. Further, for the first time in the history of the Company, the theme “eco-friendliness” was embedded to our 2013 Sports Day as well, where the eco-friendliness of the tents erected by teams was given due recognition when deciding on the winners.

### Our Policy on Compliance

We maintain a strict policy of remaining compliant with all applicable laws and regulations relating to the environment. While the ultimate responsibility in this regard lies with the Managing Director, all managers of departments and branches are strictly required to consider and comply with regulations pertaining to the environment with regard to all their actions, and they can receive specialised advice from Legal and Risk and Compliance Departments.

In demonstrating the effectiveness of this mechanism, it is observed that no fines were levied on the Company during 2013 for non-compliance with environment-related regulations (2012:0).

### Sustainable Care

Mother Nature needs protection, and the protection we afford to her now will sustain generations to come, making it our obligation to assist her safety in whatever way possible. Led by this belief, we identified the importance of nurturing our future generation with pro-environment ideals and thus, decided to support a school which has demonstrated utmost enthusiasm and commitment towards protecting the environment.

Thus, we selected Ku/ Udadalawa Sudarshana Maha Vidyalaya, in Maspota, a school which has done a significant amount of work in terms of environmental preservation, and has also won many awards for their environmental activities, including a presidential award and extended our financial sponsorship for their endeavours in preserving the environment. The support extended by us enabled the children to take initiatives on prevention of soil erosion including planting trees around the school, which helped them to enhance the positive impact they

have on the environment. Placing name boards for easy identification of trees and plants was another initiative of this programme, which aided the education of the children whilst making them more environmentally conscious. Our support also enabled them to construct a biodegradable waste disposal system to maintain the eco-friendliness of the school.



### Environmental Endeavours for 2014

Since our inception, we have attempted to fulfill our role as a responsible corporate citizen and thus, many endeavours aimed towards preserving the environment have been embarked upon by us. As we matured over time and as our business volumes expanded year by year, we increased our commitment in this regard. Going forward, there will be no wavering of our commitment; rather, our intention is to expand our efforts on environmental preservation. For this purpose, internal efforts in further polishing the processes and procedures of the Company will continue, as we attempt to save energy, reduce waste and maintain maximum compliance. Concurrently, with an external focus, our efforts will also be directed towards generating awareness within the community regarding the importance of safeguarding the environment.



GRI content index for “in accordance” - Core

GRI-G4

G4-32

GENERAL STANDARD DISCLOSURES			
General Standard Disclosures		Page	External Assurance
<b>STRATEGY AND ANALYSIS</b>			
G4-1	Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	19 - 25	None
<b>ORGANIZATIONAL PROFILE</b>			
G4-3	Report the name of the organization.	6	None
G4-4	Report the primary brands, products, and services.	105 - 106	None
G4-5	Report the location of the organization's headquarters.	6	None
G4-6	Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	6	None
G4-7	Report the nature of ownership and legal form.	6	None
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	6, 111	None
G4-9	Report the scale of the organization, including:	6	None
a.	Total number of employees		
b.	Total number of operations		
c.	Net sales (for private sector organizations) or net revenues (for public sector organizations)		
d.	Total capitalization broken down in terms of debt and equity (for private sector organizations)		
e.	Quantity of products or services provided		
G4-10	Report the composition of the workforce, including:	112	None
a.	Report the total number of employees by employment contract and gender.		
b.	Report the total number of permanent employees by employment type and gender.		
c.	Report the total workforce by employees and supervised workers and by gender.		
d.	Report the total workforce by region and gender.		
e.	Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors.		
f.	Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	112	
G4-11	Report the percentage of total employees covered by collective bargaining agreements.	112	None
G4-12	Describe the organization's supply chain.	39	None

## Management Discussion and Analysis

GENERAL STANDARD DISCLOSURES			
General Standard Disclosures		Page	External Assurance
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including:		
a.	Changes in the location of, or changes in, operations, including facility openings, closings, and expansions	6	None
b.	Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations)	6	
c.	Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	125 - 129	
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	40	None
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	7, 40	None
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization:		
	Holds a position on the governance body		
	Participates in projects or committees	40	None
	Provides substantive funding beyond routine membership dues		
	Views membership as strategic		
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17			
a.	List all entities included in the organization's consolidated financial statements or equivalent documents.	8	None
b.	Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.		
G4-18			
a.	Explain the process for defining the report content and the Aspect Boundaries.	8 - 11	None
b.	Explain how the organization has implemented the Reporting Principles for Defining Report Content.		
G4-19	List all the material Aspects identified in the process for defining report content.	11, 41	None
G4-20	For each material Aspect, report the Aspect Boundary within the organization, as follows:		
	Report whether the Aspect is material within the organization	11	None
	If the Aspect is not material for all entities within the organization (as described in G4-17), select one of the following two approaches and report either: The list of entities or groups of entities included in G4-17 for which the Aspect is not material or		
	The list of entities or groups of entities included in G4-17 for which the Aspects is material	10	
	Report any specific limitation regarding the Aspect Boundary within the organization	10	

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<b>GENERAL STANDARD DISCLOSURES</b>			
<b>General Standard Disclosures</b>		<b>Page</b>	<b>External Assurance</b>
G4-21	For each material Aspect, report the Aspect Boundary outside the organization, as follows:		
	Report whether the Aspect is material outside of the organization	10 - 11	
	If the Aspect is material outside of the organization, identify the entities, groups of entities or elements for which the Aspect is material. In addition, describe the geographical location where the Aspect is material for the entities identified	10	None
	Report any specific limitation regarding the Aspect Boundary outside the organization	10	
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	8	None
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	10	None
<b>STAKEHOLDER ENGAGEMENT</b>			
G4-24	Provide a list of stakeholder groups engaged by the organization.	12	None
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	12	None
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	12 - 15	None
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	13 - 15	None
<b>REPORT PROFILE</b>			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	7	None
G4-29	Date of most recent previous report (if any).	7	None
G4-30	Reporting cycle (such as annual, biennial).	7	None
G4-31	Provide the contact point for questions regarding the report or its contents.	7	None
G4-32	"In accordance" option:		
a.	Report the 'in accordance' option the organization has chosen.	7	
b.	Report the GRI Content Index for the chosen option.	141 - 147	None
c.	Report the reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines.	7	
G4-33	Assurance:		
a.	Report the organization's policy and current practice with regard to seeking external assurance for the report.	7	
b.	If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided.	N/A	None
c.	Report the relationship between the organization and the assurance providers.	N/A	
d.	Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report.	N/A	



## Management Discussion and Analysis

GRI-G4

G4-32

GENERAL STANDARD DISCLOSURES			
General Standard Disclosures		Page	External Assurance
<b>GOVERNANCE</b>			
G4-34	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	130, 150	None
<b>ETHICS AND INTEGRITY</b>			
G4-56	Describe the organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	4, 124	None

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	DMA and Indicators	Page	Omissions	External Assurance
<b>Economic Performance</b>				
Economic	DMA	97, 130	None	None
	G4-EC1 Direct economic value generated and distributed	97, 130	None	None
	G4-EC3 Coverage of the organization's defined benefit plan obligations	121	None	None
Indirect Economic Impacts	DMA	130	None	None
	G4-EC7 Development and impact of infrastructure investments and services supported	130 - 132	None	None
<b>Environmental Performance</b>				
Energy	DMA	137	None	None
	G4-EN3 Energy consumption within the organization	138	None	None
Effluents and Waste	DMA	138	None	None
	G4-EN23 Total weight of waste by type and disposal method	139	None	None
Compliance	DMA	140	None	None
	G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	140	None	None
<b>Social Performance</b>				
<b>Labour Practices and Decent Work</b>				
Employment	DMA	112	None	None
	G4-LA1 Total number and rates of new employee hires and employee turnover by age group, gender and region	115, 116	None	None
	G4-LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	120	None	None

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SPECIFIC STANDARD DISCLOSURES				
Material Aspects	DMA and Indicators	Page	Omissions	External Assurance
Training and Education	DMA	117	None	None
	G4-LA9 Average hours of training per year per employee by gender, and by employee category	118	None	None
	G4-LA11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	120	None	None
Diversity and Equal Opportunity	DMA	112	None	None
	G4-LA12 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	112 - 114	None	None
Equal Remuneration for Women and Men	DMA	120	None	None
	G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	120	None	None
Labour Practices Grievance Mechanisms	DMA	123	None	None
	G4-LA16 Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	123	None	None
<b>Human Rights</b>				
Non-Discrimination	DMA	123	None	None
	G4-HR3 Total number of incidents of discrimination and corrective actions taken	124	None	None
Child Labour	DMA	123, 129	None	None
	G4-HR5 Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	123, 129	None	None
Forced or Compulsory Labour	DMA	123, 129	None	None
	G4-HR6 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	123, 129	None	None
<b>Society</b>				
Anti-Corruption	DMA	124	None	None
	G4-SO4 Communication and training on anti-corruption policies and procedures	124	None	None
	G4-SO5 Confirmed incidents of corruption and actions taken	124	None	None

## Management Discussion and Analysis

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	DMA and Indicators	Page	Omissions	External Assurance
Anti-competitive Behaviour	DMA	109	None	None
	G4-S07 Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	109	None	None
Compliance	DMA	124	None	None
	G4-S08 Monetary value of significant fines and total number of non-monetary sanctions for non compliance with laws and regulations	124	None	None
Grievance Mechanisms for Impacts on Society	DMA	109	None	None
	G4-S011 Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	109	None	None
<b>Product Responsibility</b>				
Product and Service Labelling	DMA	103, 139	None	None
	G4-PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	103	None	None
Marketing Communications	DMA	103	None	None
	G4-PR6 Sale of banned or disputed products	103	None	None
	G4-PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	103	None	None
Customer Privacy	DMA	110	None	None
	G4-PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	110	None	None
Compliance	DMA	103	None	None
	G4-PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	103	None	None
Product Portfolio	DMA	103	None	None
	G4-FS7 Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	103	None	None
	G4-FS8 Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	88	None	None

Enterprise  
Governance

I want to learn the basics, because  
I must have a good foundation...

**Take on  
tomorrow**

# Corporate Governance

Corporate Governance at HNB Assurance is all about promoting corporate impartiality, transparency and accountability in directing and controlling the Company. All structures, principles and policies are focused on ensuring that the Company is governed in a manner that safeguards the best interest of all stakeholders, and this report aims to provide the details of how this is done in practice.

## HNB Assurance's Belief and Commitment towards Corporate Governance

We firmly believe that good corporate governance is not only fundamental in ensuring that the Company is well-managed in the interest of all its stakeholders, but is also essential to attain long-term sustainable growth. In our eyes, corporate governance is of utmost importance in driving the Company towards success. Hence, the Board is committed towards maintaining its high standards of corporate governance in managing the Company in an ethical, efficient and effective manner whilst fostering an entrepreneurial culture.

## Compliance with Corporate Governance Codes

HNB Assurance's practices are consistent with the requirements given in the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) as well as Rule Number 7.10 of Listing Rules issued on Corporate Governance by the Colombo Stock Exchange (CSE). The principles set out in these codes have been adopted by us to shape our corporate governance structure.

However, we wish to state at the outset that our commitment to good corporate governance is not solely based on the need to comply with such requirements, but also on our recognition of good Corporate Governance as an effective management tool.

## Statement of Compliance

HNB Assurance PLC is fully compliant with the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC. In addition, we have achieved the status of 'fully compliant' with the applicable sections of the Listing Rules issued on Corporate Governance by the CSE.

Our status of compliance with each section of the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC appears on pages 173 to 185. We have also included a table which summarises the status of compliance with Rule No. 7.10 of the Listing Rules of the CSE, on pages 188 to 190.

## Our Corporate Governance Framework

HNB Assurance is guided by a resolute commitment to uphold moral values and ethical business practices at all levels of the Company. Comprehensive corporate governance policies and practices adopted by the Board of Directors, including specific charters for sub-committees of the Board, reinforce this commitment.

These corporate governance policies, charters and values, together with the laws applicable to the Company, constitute the corporate governance framework of the Company.

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

- The need to adopt and improve corporate governance principles and practices continuously, in light of our experiences, regulatory requirements, international developments and stakeholder expectations

- The need to comprehensively disclose the Company’s corporate governance principles and practices

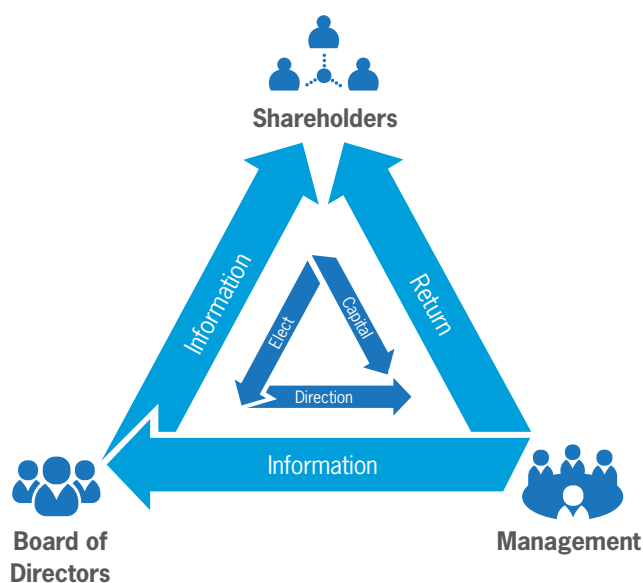
Accordingly, this report aims to provide an overview of the corporate governance framework of the Company, including the structure, principles, policies and practices of corporate governance at HNB Assurance.

**CORPORATE GOVERNANCE AT HNB ASSURANCE PLC**

**Corporate Governance Structure**

A standard corporate governance model interconnects the dynamic relation between three key stakeholders - the shareholders, the Board of Directors and the management. The roles of these stakeholders are distinct but complementary to the core objectives and functioning of the institution.

Accordingly, HNB Assurance’s corporate governance structure is modeled to establish the fundamental relationship among the shareholders, the Board, management, and other stakeholders. Policies, charters and procedures, through which the ethical values and corporate objectives are set and the plans for achieving those objectives as determined, also form an integral component of the structure.



**CORPORATE GOVERNANCE**

Monitors those parties within the Company who control the resources owned by investors

**Methods of Achievement:**

- Ensures the existence of a suitable balance of power in the Board of Directors
- Ensures fair remuneration to Executive Directors
- Establishes responsibility for monitoring and managing risk with the Board of Directors
- Ensures the independence of External Auditors
- Addresses other issues. (eg) corporate social responsibility, protection of whistle-blowers, etc.

Contributes to improved corporate performance and accountability in creating long-term shareholder value

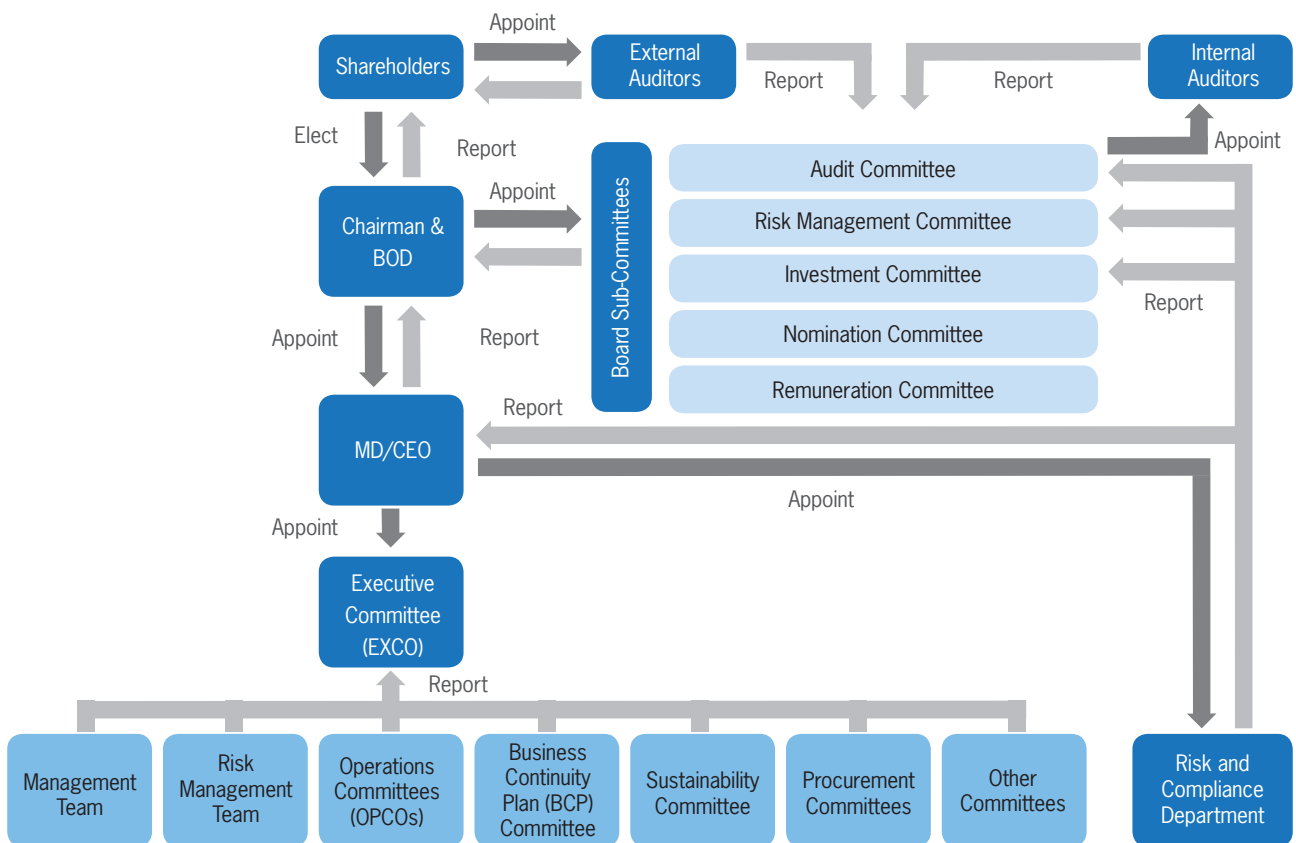
**Methods of Achievement:**

- Controls the controllers by improving reporting and disclosure to all stakeholders
- Increases the level of confidence in the Company activities within the minds of existing and potential investors and thus promotes growth
- Ensures the governance of the Company in a legal and ethical manner
- Embeds control at the apex of the hierarchy and enables it to cascade to the lower levels



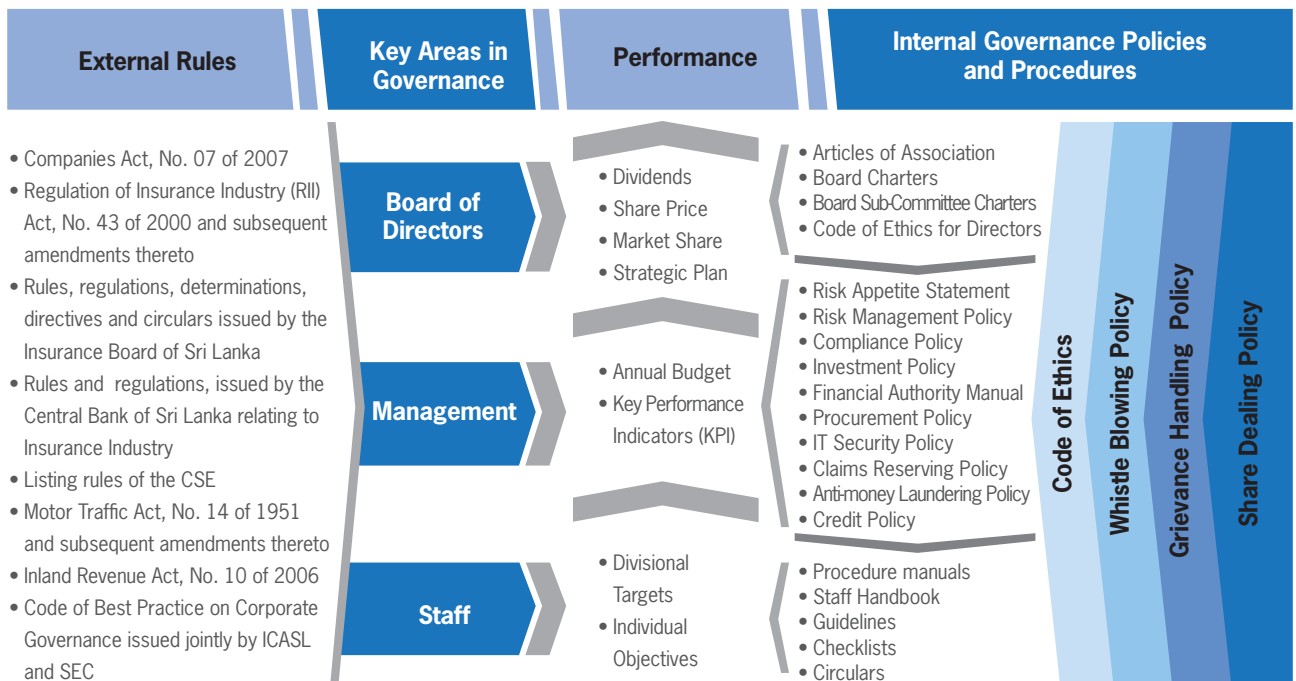
## Corporate Governance

### The Governance Structure of HNBA



GRI-G4  
G4-34

### Governance Policy Framework of HNBA



## SHAREHOLDERS

The Board and the senior management acknowledge their responsibility to represent the interests of all shareholders and to maximise shareholder value. Therefore, one of the main objectives of the Board is to represent, formulate and realise the interests and expectations of shareholders, who are the owners of the Company. In fulfilling the expectations of the shareholders, the Company has the following primary objectives;

- Provide a reasonable return to shareholders maintaining a satisfactory Return on Equity
- Provide a satisfactory distribution of dividends out of the profits earned
- Communicate effectively and efficiently with the shareholders in order to inform them regarding the affairs of the Company

### Return to Shareholders

Please refer pages 99 and 100 of this Annual Report under 'Management Discussion and Analysis' for details of our policies and action taken in this regard.

### Communication with Shareholders

HNB Assurance PLC uses numerous channels to keep its shareholders informed of the performance and operations of the Company.

### Annual Report

The annual report is the main document the Company uses to inform its shareholders on the affairs of the Company. Moreover, efforts are also made to include a significant amount of important non-financial information that extends beyond regulatory requirements in the annual report.

Our efforts in providing a comprehensive report have been recognised at numerous awards ceremonies, both local and international.

### Awards Won by the 2012 Annual Report

*49th Annual Report Awards conducted by CA Sri Lanka*

- Bronze Award - Overall Excellence in Annual Financial Reporting
- Gold Award - Insurance Companies Sector

### Awards Won by the 2011 Annual Report

*48th Annual Report Awards conducted by CA Sri Lanka*

- Bronze Award - Overall Excellence in Annual Financial Reporting
- Bronze Award - Corporate Governance Disclosure
- Silver Award - Insurance Companies Sector

*ACCA Sustainability Reporting Awards*

- Winner – Medium Scale

*South Asian Federation of Accountants (SAFA) Best Presented Annual Report Awards*

- Winner – Insurance Sector

### Equitable Treatment to All Shareholders

The Company has consistently ensured that all shareholders are treated equitably. Accordingly, both Sinhala and Tamil language translations of the Chairperson's Message, the Managing Director's Review, Statement of Financial Position, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity were distributed along with the annual reports of 2011 and 2012. The Company will continue the distribution of above reports in Sinhala and Tamil languages, along with the annual report of 2013.

### Timely Communication of Financial Statements

In addition to enhancing the quality of the information provided in the annual report, the Company also believes in the efficient and timely communication of the annual report to the shareholders. Therefore, all possible measures are taken to present the annual report before the statutory deadline.

## Corporate Governance

The table below demonstrates the dates on which the Annual Report has been released to the CSE.

Annual Report	Date of Submission to the Colombo Stock Exchange (CSE)
Annual Report – 2012	01st of March 2013
Annual Report – 2011	28th of February 2012
Annual Report – 2010	01st of March 2011
Annual Report – 2009	24th of February 2010
Annual Report – 2008	25th of February 2009

### Interim Financial Statements

As per the Listing Rules of the CSE, the obligation of the Company extends only to the submission of interim financial statements to the CSE which, in turn, will release it to the public. However, as a self-imposed best practice, the Company also communicates the interim financial statements to the public through the following methods;

- Circulating printed copies of interim financial statements amongst all shareholders
- Publishing interim financial statements in print media
- Publishing interim financial statements on the Company's website

All efforts are taken to ensure the accuracy of information published, and accordingly, a voluntary interim audit was performed for the 6 months period ended 30th of June 2013. This enabled the receipt of an independent opinion from the External Auditors and hence, the interim financial statements published and circulated amongst the shareholders for the period ended on 30th of June 2013 were based on audited numbers.

### Website

Our corporate website provides an additional channel for shareholders, customers and other stakeholders to access information about the Company. Financial statements, details of the Company, information on new products, news and announcements are available on this website, which could be accessed at [www.hnbassurance.com](http://www.hnbassurance.com).

### Communication with Institutional Shareholders

We are committed to maintaining a constant dialogue with institutional investors, brokers and financial analysts in order to improve their understanding of our operations, strategy and plans, thereby enabling them to raise any concerns which may linger in their minds, and which may in turn affect their perceived value of the Company. However, the Board and the management strictly adhere to the statutory and ethical guidelines regarding their responsibility of maintaining confidentiality of price sensitive information.

### Submission of Information to the Colombo Stock Exchange/Shareholders

The Company acknowledges the importance of publishing essential information with the CSE as required by the Listing Rules and ensures that all such requirements are met in a timely manner. Further, we ensure that all relevant information is provided to shareholders, even beyond regulatory requirements. The table on page 153 demonstrates the dates on which important information was released to the CSE/ shareholders during the year 2013.

### Important CSE/Shareholder Communications during 2013

Nature of the Information	Date in 2013
Dividend announcement to CSE	06th February
Submission of unaudited interim financial statements for the year ended 31st December 2012 to CSE	07th February
Circulation of unaudited financial statements for the year ended 31st December 2012 to shareholders	14th February
Publication of unaudited financial statements for the year ended 31st December 2012 in the print media (Daily FT)	14th February
Submission of audited financial statements (Annual Report) for the year ended 31st December 2012 to CSE	01st March
Circulation of audited financial statements (Annual Report) for the year ended 31st December 2012 to shareholders	04th March
Circulation of the Notice of Annual General Meeting to shareholders	04th March
Annual General Meeting (AGM)	27th March
Announcement to CSE on the resignation of Mr. Rajendra Theagarajah from the Board	06th May
Submission of unaudited interim financial statements for the 1st quarter (31st March 2013) to CSE	08th May
Circulation of unaudited interim financial statements for the 1st quarter (31st March 2013) to shareholders	10th May
Publication of unaudited interim financial statements for the 1st quarter (31st March 2013) in the print media (Daily FT)	14th May
Announcement to CSE on the appointment of Mr. Dilshan Rodrigo to the Board	01st July
Submission of audited interim financial statements for the 2nd quarter (30th June 2013) to CSE	07th August
Circulation of audited interim financial statements for the 2nd quarter (30th June 2013) to shareholders	12th August
Publication of audited interim financial statements for the 2nd quarter (30th June 2013) in the print media (Daily FT)	13th August
Announcement to CSE on the appointment of Ms. Siromi Wickramasinghe to the Board	02nd October
Submission of unaudited interim financial statements for the 3rd quarter (30th September 2013) to CSE	04th November
Circulation of unaudited interim financial statements for the 3rd quarter (30th September 2013) to shareholders.	07th November
Publication of unaudited interim financial statements for the 3rd quarter (30th September 2013) in the print media (Daily FT)	12th November

## Corporate Governance

### Meetings with Shareholders

#### Annual General Meeting (AGM)

The AGM is the most awaited meeting of the Company's shareholders since it provides an opportunity for direct communication between themselves and the Board of Directors.

Notice of the AGM is circulated to all shareholders 15 working days ahead, in accordance with the requirements of the Companies Act.

All members of the Board and the Senior Management make an effort to attend the AGM and answer questions and concerns raised by the shareholders. A representative (usually the engagement partner) of the External Auditors also attends the AGM and takes questions from shareholders relating to their audit of the Company's financial statements, if required.

The most recent shareholders' meeting was the 11th Annual General Meeting (AGM) of the Company held on 27th of March 2013, at the Auditorium on Level 22 of "HNB Towers", at No: 479, T.B. Jayah Mawatha, Colombo 10.

The main items discussed and the percentages of votes cast in favour of the resolutions relating to those items are set out below:

Resolution	Percentage of Votes
Declaration of a dividend of Rs. 2.75 per share	100%
Re-election of Dr. Raneey Jayamaha as a Director of the Company	100%
Re-election of Mr. A J Alles as a Director of the Company	100%
Re-election of Mr. J A P M Jayasekera as a Director of the Company	100%
Re-election of Mr. K Balasundaram as a Director of the Company	100%
Re-election of Mr. S C Ratwatte as a Director of the Company	100%
Re-appointment of Mr. M U de Silva as a Director of the Company	100%
Re-appointment of Mr. J E P A de Silva as a Director of the Company	100%

Resolution	Percentage of Votes
Re-appointment of the External Auditors for the ensuing year and authorising the Directors to fix their remuneration	100%
Authorising the Directors to determine payments for charitable and other purposes	100%

#### 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 inquired whether the splitting of the Company into Life and Non - Life companies as a regulatory requirement will be vertical or horizontal.

#### Response:

The Company must comply with the regulations on splitting the Company into a Life Company and a Non - Life Company by 2015. The planning process has already been initiated, although it is noted that the insurance industry as a whole is faced with a few issues with regard to the implementation of this regulation. Thus, the industry is in a process of discussion with the regulator (IBSL) to arrive at a sensible model for the implementation of the proposal and due to this reason, the Company has not yet decided on the manner in which the split should be carried out.

#### Updated Response:

The IBSL has, as of now, issued guidelines on the splitting process, including information on the functions to be segregated, timelines and other related matters. Accordingly, the Company has developed a model for segregation based on the given guidelines and has submitted a proposal to the IBSL regarding the same. Further information on the splitting process is given in the Managing Director's Review on page 23.

- A shareholder requested the Company to send Notes of Appreciation to Directors who resigned during 2012 in recognition of their contribution to the Company.

*Response:*

The Chairperson confirmed that Notes of Appreciation have already been sent to the respective Directors.

- A shareholder, while thanking the Board of Directors and the management for convening the AGM on 27th March, suggested that in the future too, the AGM be convened at a date convenient to all shareholders.

*Response:*

The Chairperson undertook the responsibility of providing due consideration for this suggestion when scheduling future meetings.

*Updated Response:*

In consideration of this request, the 12th AGM of the Company is scheduled to be held on 27th March 2014.

- A shareholder inquired about the total monetary consideration granted for the Company's main CSR initiative, i.e. the projects to provide pipe-borne water to needy schools, as well as for CSR as a whole. He further referred to paper articles published in the newspapers and commended the management for their main CSR initiative and noted that the coverage given in the annual report for this important endeavour was insufficient.

*Response:*

The total amount spent on CSR activities is approximately Rs. 2 Million, and the Company has provided pipe-borne water to 5 schools during the year, at a cost of approximately Rs. 500,000/-, and accordingly the total number of schools covered under this initiative since its inception has risen to 21. Further, it was noted that a full page coverage regarding the water supply projects conducted by the Company is given in the annual report of 2012.

### Minimum Public Float

The Company's shares are listed on the main board of the Colombo Stock Exchange (CSE). A majority of the shareholders are Sri Lankan residents, while the bulk of the shares are held by institutional shareholders. Details of the top 20 shareholders and other related information are provided on pages 339 to 342.

In December 2013, the Securities and Exchange Commission of Sri Lanka issued a directive to all public quoted companies

to adopt the rules on minimum public float as a continuing listing requirement. Accordingly all companies listed on the main board are directed to maintain

- a minimum of 20% of total listed ordinary voting shares in the hands of a minimum of 750 public shareholders; or
- a market capitalisation of Rs. 5 Billion of its public holding in the hands of a minimum of 500 public shareholders while maintaining a minimum public holding of 10%.

The Company has consistently maintained its minimum public shareholding well within these regulations and the Company's public shareholding over the last five years is given in the following table.

Year	Public Shareholding	
	Percentage	No. of shareholders
2013	39.76%	3,662
2012	39.86%	3,773
2011	39.77%	3,957
2010	39.80%	3,655
2009	39.81%	3,836

### Feedback from Shareholders

In reflection of its commitment to pay heed to the needs of shareholders, the Company introduced an Investor Feedback Form in its annual report from the year 2010.

All shareholders have been encouraged to use the Form and provide their comments regarding the Company. The feedback so received is attended to by the Board or the management as appropriate. Please refer page 351 for the Investor Feedback Form.

### Enquiries by Shareholders

Shareholders are encouraged to maintain direct communication with the Company. They may raise inquiries and concerns with the Board by contacting the Company Secretary, Ms. Shiromi Halloluwa, through the following channels;

Telephone - +94 11 2661856  
 E-mail - Shiromi.Halloluwa@hnb.lk  
 Address - Board Secretary – HNB Assurance PLC  
 No. 479, T. B. Jayah Mawatha,  
 Colombo 10, Sri Lanka.



## Corporate Governance

### BOARD OF DIRECTORS

The Company's commitment to uphold the highest standards of corporate governance is driven by the Board of Directors which, led by the Chairperson, assumes overall responsibility for the governance of the Company. Each Director identifies himself/herself with a duty to act in good faith and in the best interest of the Company.

There are four major components in the Board governance framework of HNB Assurance PLC.

- Key roles of the Board - the role of the Board and key players in the Board governance activities
- Board functions - the activities that the Board performs in discharging its responsibilities
- Board procedures – the administrative functions and the processes of the Board
- Governance activities - the procedures and processes which lay the foundation for continued improvement in good governance

### Key Roles of the Board

The fundamental role of the Board is to provide entrepreneurial and coherent leadership within a framework of prudent and efficient controls, which enables risks to be assessed and managed. The Board seeks to achieve this through setting out its strategy, monitoring its strategic objectives and providing oversight of its implementation by the management team.

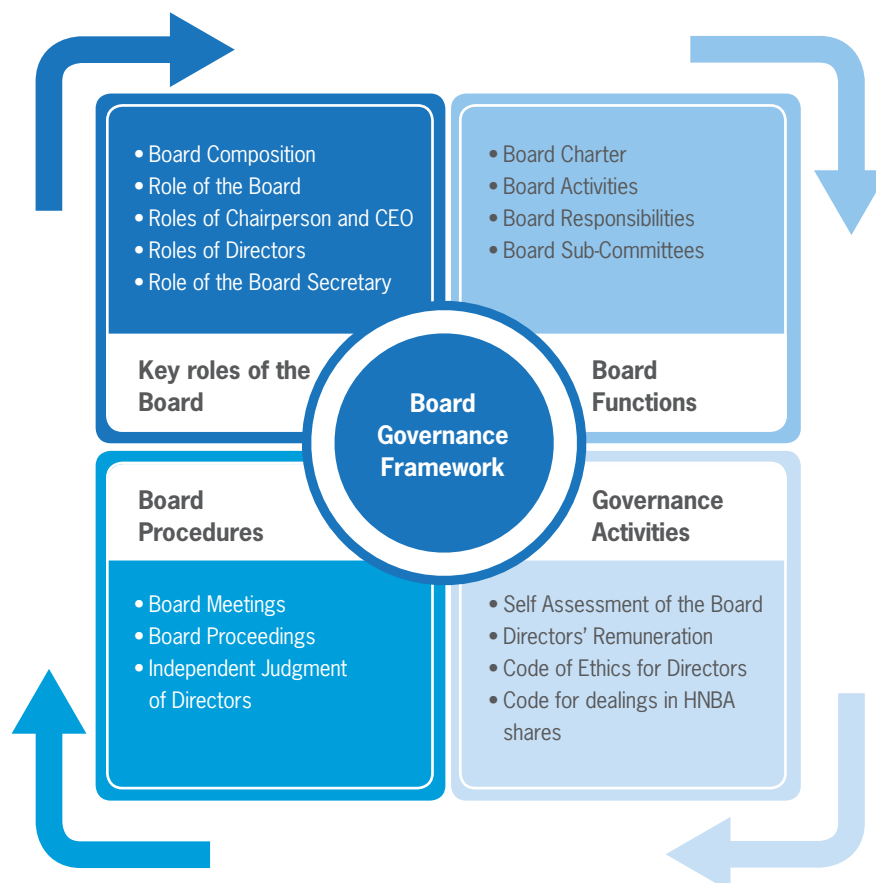
### Board Composition

The Board portrays a balance between Executive and Non-Executive Directors each of whom brings a strong and in-depth mix of knowledge, business skills and experience to the Board's deliberations.

### Board Balance

By the end of the year, the Board comprised ten Directors and all, except the Managing Director, are non-executive, thereby promoting critical review and control.

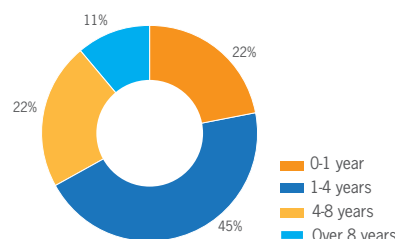
Please refer pages 28 and 29 for profiles of the members of the Board of Directors.



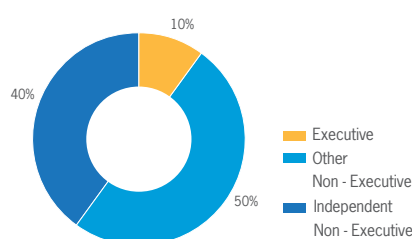
The Board has nine Non-Executive Directors, and this number is in excess of the provisions in the Code of Best Practice on Corporate Governance and Listing Rules, which require that one third of the total number of Directors should be non-executive.

Of the nine Non-Executive Directors, five Directors are not considered independent, due to their association with Hatton National Bank PLC, the parent company which possesses a substantial interest (59.99%) in the Company.

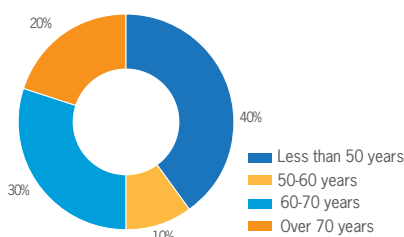
Length of Tenure of Non-Executive Directors



Composition of the Board



Age of the Directors

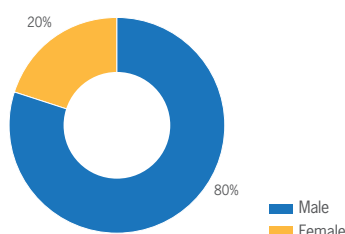


**Board Diversity**

In line with one of the Company’s core values, “foster diversity as a corporate strength”, the Board recognises the benefits of diversity in its widest sense – i.e. both at Board level and throughout all levels of the Company. As a general objective, the Board ensures that it is composed of directors with diverse backgrounds and personal traits as well as competencies and expertise that add value to the Company. This diversity enriches the debates and dialogues within the boardroom.

Continuous efforts have been taken by the Board to enhance its diversity and accordingly the percentage of female participants in the Board increased to 20% during the year following the appointment of Ms. Siromi Wickramasinghe.

Board Gender Split



**Appointments and Re-election of Directors**

We recognise the importance of having a Board equipped with the skills and experience necessary for the proper discharge of its responsibilities in order to ensure the continued effective oversight of the Company’s operations as well as for effective and timely decision making. Hence, we are committed to conducting Board renewals to ensure that fresh perspectives are infused periodically and that it continues to possess the skills and experience required to govern amidst a highly dynamic operating environment.

*Appointments*

According to Section 92 of the Articles of Association of the Company, the Board possesses the power to appoint any person, at any time, as a Director, either to fill a casual vacancy or as an additional member of the Board. Any Director so appointed, shall hold office until the next Annual General Meeting where he/she is then eligible for re-election.

## Corporate Governance

In line with these guidelines and in upholding the best interest of the Company, steps are taken to ensure that all new appointments of independent directors to the Board are made following a formal and transparent procedure through the Nomination Committee. Nominees of the parent company are nominated by its Board.

Accordingly during the year, the names of Mr. Dilshan Rodrigo and Ms. Siromi Wickramasinghe were recommended by the Board of Directors of HNB to be appointed as Non-Executive Directors to the Board and these recommendations were approved by the Board of Directors unanimously. Accordingly Mr. Dilshan Rodrigo and Ms. Siromi Wickramasinghe are eligible for re-election by the shareholders at the Annual General Meeting (AGM) to be held on the 27th of March 2014.

### *Re-election*

According to Section 86 of the Articles of Association of the Company, directors other than the Chairman, the Managing Director and Nominee Directors have to retire by rotation at least once every three years.

As per Sections 210 and 211 of the Companies Act, No 7 of 2007, a director who has attained the age of seventy years has to retire and his re-appointment is required to be approved by a resolution passed at a General Meeting. Accordingly, the re-appointments of Mr. M U de Silva and Mr. Pratapkumar de Silva are subject to such approval at the Annual General Meeting to be held on the 27th of March 2014.

Please refer the Notice of Meeting on page 348 for more information in this regard.

### **Disclosure Relating to the Appointment of New Directors**

All appointments of new directors are informed to the shareholders, with sufficient details, via immediate notification to the CSE.

In addition, according to the terms of the Regulation of Insurance Industry Act, prior approval from the Insurance Board of Sri Lanka (IBSL) is obtained for all new appointments.

Moreover, the annual report also carries details of new appointments of Directors.

### **Assessment of the Board Composition**

The composition of the Board is subject to continuous review by the Nomination Committee, especially in line with the changes in the environment and regulations. The Committee then makes recommendations for new appointments where necessary.

### **Roles of Chairperson and Chief Executive Officer (CEO)**

The posts of Chairperson and MD/CEO were held separately by Dr. Ranee Jayamaha and Mr. Manjula de Silva, respectively. This segregation ensures a clear distinction between the Chairperson's responsibility to manage the Board and the CEO's responsibility to manage the Company's business, and thereby ensures the balance of power and authority.

### **Role of the Chairperson**

The Non-Executive Chairperson is responsible for chairing and managing the operations of the Board, as well as for monitoring the performance of the MD/CEO and the Company. The Chairperson provides leadership to the Board, and ensures that opinions of all Directors are appropriately considered in decision making. She fulfills this function by facilitating and encouraging all Directors, particularly the Independent Non-Executive Directors and other Non-Executive Directors to voice their views and concerns openly. She also ensures the formation of constructive relations between Executive and Non-Executive Directors so that the decisions made by the Board fairly reflect a consensus. A summary of the responsibilities of the Chairperson is given below:

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

### **Role of the Chief Executive Officer**

As the only Executive Director represented on the Board, the MD/CEO, is responsible to the Board for managing the business of the Company. He is responsible for effective implementation of the strategies and policies agreed by the Board, and for leading the management to fulfill the objectives set by the Board. The Board has given the Chief Executive Officer broad authority to conduct the business and he is accountable to and reports to the Board on the performance of the business. A summary of the responsibilities of the MD/CEO is given below;

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

The Chief Executive Officer is supported by the Executive Committee, which provides the Board with high quality information and recommendations, to help yield informed decisions on all areas regarding the strategies of the Company.

### **Role of Non-Executive Directors**

The Non-Executive Directors scrutinise the management's performance in achieving agreed corporate goals and objectives and monitor the reporting of the Company's performance.

They also assure clarity and accuracy on the reporting of financial information, and ensure that controls and systems of risk management are effectively in place. They constructively challenge the management in all areas, which is vital for upholding objectivity.

### **Role of Independent Non-Executive Directors**

Four Non-Executive Directors of the Company, namely Mr. Pratapkumar de Silva, Mr. Sarath Ratwatte, Mr. J A P M Jayasekera and Mr. K Balasundaram, operate as Independent Non-Executive Directors. In addition to their expertise and fresh perspectives, these directors also bring independent judgement to the Board and take an unbiased stance in situations where conflicts of interest may arise.

Further information on the determination of independence of directors and declarations of independence are given on page 177 under section A.5.3, A.5.4 and A.5.5

### **Role of the Board Secretary**

Ms. Shiromi Halloluwa, an Attorney-at-Law by profession, serves as the Board Secretary. Her role is to support the Chairperson, the Board and the Sub-Committees of the Board by ensuring a proper flow of information and also by ensuring that Board policies and procedures are followed.

The Board Secretary is an employee of the parent company, Hatton National Bank PLC and was appointed by the Board. Although the Board Secretary reports to the Chairperson, all Directors may call upon her at any time for advice and assistance in respect of their duties and the effective operation of the Board and Board Sub-Committees. The Board Secretary also plays a critical role in maintaining the relationship between the Company and its shareholders and regulators, including assisting the Board in discharging its obligations to shareholders.

### **Board Functions**

The Board is working towards the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each director has a duty to act in good faith and in the best interest of the Company. The directors are aware of their collective and individual responsibilities to the shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

The functions of the Board are governed by a Board Charter, which sets out the direction and the main responsibilities of the Board.

## Corporate Governance

### Summary of the Board Charter

#### The Board

- Role of the Board
- Board composition and Board proceedings
- Diversity of the Board
- Appointment of new directors
- Contribution to the corporate strategy
- Performance monitoring
- Self-evaluation
- Orientation for new directors
- Obligations towards its shareholders, employees and other stakeholders
- Compliance with laws, rules, directions and regulations

#### The Directors

- Duties of directors
- Dealings with shares of HNB Assurance PLC
- Information to directors
- Confidentiality of non-public information
- Independent advice at the expense of the Company
- Other Board appointments

#### Duties and responsibilities of the Chairperson

#### Duties and responsibilities of the Managing Director/ Chief Executive Officer and the Senior Management

#### Committees of the Board

#### Role of the Secretary to the Board

#### Code of Ethics for the Board of Directors

### Board Activities

Board activities are structured to assist the Board in achieving its goal of supporting and advising the senior management on the delivery of the Company's strategy, within a transparent governance framework.

During the year 2013, a total of 12 Board meetings were held. The routine items tabled at Board meetings included reports from the CFO on financial performance, reports from General Managers of the Life and Non - Life Divisions and minutes of the Board sub-committee meetings held prior to the Board meetings.

In addition to these regular reports, the Board considered and/or resolved the following non-routine matters during the year:

- Resignation of Mr. R Theagarajah from the Board
- Appointment of Mr. Dilshan Rodrigo and Ms. Siromi Wickramasinghe as directors of the Company
- Establishing the Risk Management Committee to oversee the Risk Management activities of the Company
- Adopting the Board Charter
- Adopting the Code of Ethics for Directors
- Adopting the Auditor Rotation Policy
- Approving the Life and Non - Life insurance Business Segregation Model tabled by the management as required by the RII (Amendment) Act to be effective from the year 2015.

### Responsibilities of the Board

The Board's responsibilities are given in the following areas of this Annual Report;

- Board's responsibility over the day to day operations of the Company: section A.1.2 from pages 173 to 175
- Board's responsibility over the accountability and the audit of the Company: section A.1.2 from pages 173 to 175
- Board's responsibility for the preparation and presentation of financial statements: page 232

### Roles and Responsibilities of the Board Sub-Committees

The Board has delegated certain responsibilities to five Board sub-committees namely, Nomination Committee, Audit Committee, Remuneration Committee, Risk Management Committee and Investment Committee, to assist it in carrying out its function of ensuring independent oversight.

All Board sub-committees follow the same principles and procedures as those of the Board and are provided with sufficient resources to perform their duties. The Board sub-committees will report to the Board on a regular basis, and will keep the Board informed of their decisions and recommendations.

The following tables describe the responsibilities of each sub-committee during 2013 and up to the date of this report and provide a summary of the work undertaken on behalf of the Board.

### Audit Committee

Criteria	Comment
Membership	Three Non-Executive Directors (two of whom are independent)
Chairman	J A P M Jayasekera (FCA), Independent Non-Executive Director
Other Members	S C Ratwatte - Independent Non-Executive Director A J Alles - Non-Executive Director
Secretary	Board Secretary
Invitees	Managing Director, Chief Financial Officer, Other EXCO Members, Finance Manager, Manager - Risk and Compliance, External & Internal Auditors and Consultant Actuaries
Minimum Meeting Frequency	Quarterly (06 meetings were held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	<p>The Committee's responsibilities are clearly defined in the Audit Committee Charter which is reviewed annually. Some such key responsibilities are:</p> <ul style="list-style-type: none"> <li>Overseeing the process of preparation and presentation of the financial statements (both interim and annual)</li> <li>Reviewing the Company's internal control and risk management process</li> <li>Monitoring and reviewing the effectiveness of the external and internal audit function</li> <li>Making recommendations to the Board on the remuneration, appointment, re-appointment and removal of External and Internal Auditors</li> <li>Continuous review of the Company's compliance with financial reporting requirements such as Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act, Regulation of Insurance Industry Act and other regulations of the Insurance Board of Sri Lanka.</li> </ul> <p>Please refer the Audit Committee Report on pages 195 to 199 for more details.</p>

### Nomination Committee

Criteria	Comment
Membership	Four Directors (including the Chairperson and the Managing Director)
Chairman	Dr. Raneer Jayamaha, Chairperson / Non-Executive Director
Other Members	Manjula de Silva – Managing Director M U de Silva - Non-Executive Director A J Alles - Non-Executive Director
Secretary	Board Secretary
Invitees	None
Minimum Meeting Frequency	As and when necessary (01 meeting was held during the year)
Circulation of Agenda and Papers	As and when necessary
Main Functions of the Committee	Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise



## Corporate Governance

### Remuneration Committee

Criteria	Comment
Membership	Three Non-Executive Directors (two of whom are independent)
Chairman	M U de Silva, Non-Executive Director
Other Members	S C Ratwatte - Independent Non-Executive Director K Balasundaram - Independent Non-Executive Director
Secretary	Board Secretary
Invitees	Managing Director and Head of HR
Minimum Meeting Frequency	Once a year (01 meeting was held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	<p>The Committee's responsibilities are clearly defined in the Remuneration Committee Charter which is reviewed annually. Some such key responsibilities are:</p> <p>Reviewing and recommending to the Board on the remuneration package for the MD/CEO, top management and other employees of the Company</p> <p>Reviewing and making recommendations to the Board on annual increments, promotions, etc.</p> <p>Reviewing and ensuring that the Company has a sound performance appraisal process for employees at all levels</p> <p>Reviewing the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the market place</p> <p>Please refer the Remuneration Committee Report on pages 200 to 202 for more details.</p>

### Investment Committee

Criteria	Comment
Membership	Two Directors and an external expert
Chairman	S C Ratwatte, Independent Non-Executive Director
Other Members	Manjula de Silva – Managing Director Rajive Dissanayake – Senior Manager Strategic Planning at HNB PLC
Secretary	Chief Financial Officer
Invitees	Head of Investment, Manager - Risk and Compliance and Assistant Managers - Investments
Minimum Meeting Frequency	Quarterly (04 meetings were held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	<p>Developing and setting guidelines and policies to manage the investment portfolios of the Company</p> <p>Making recommendations on investment strategies by evaluating and reviewing the performance of the investment portfolios</p> <p>Monitoring compliance with laws, regulations and internal guidelines relating to investments</p> <p>Monitoring the implementation of the Investment Policy of the Company.</p> <p>Please refer the Investment Committee Report on pages 203 and 204 for more details.</p>

## Risk Management Committee

Criteria	Comment
Membership	Three Non-Executive Directors
Chairman	Dilshan Rodrigo, Non-Executive Director
Other Members	M U de Silva – Non-Executive Director K Balasundaram – Independent Non-Executive Director
Secretary	Manager – Risk and Compliance
Invitees	Managing Director, Chief Financial Officer and other EXCO Members
Minimum Meeting Frequency	Quarterly (the Committee was formed in July 2013 and therefore only two meetings were held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	<p>The Committee's responsibilities are clearly defined in the Risk Management Committee Charter. Some such key responsibilities are:</p> <p>Reviewing the Company's risk management framework, including significant policies, processes and systems, as well as risk measurement methodologies and approaches to stress testing</p> <p>Reviewing and approving the Company's Risk Assessment Report and receiving reports on the Company's adherence to significant risk limits</p> <p>Developing a risk appetite statement for the Company and reviewing the same with the management by periodically assessing the performance against the established risk appetite</p> <p>Receiving reports from, review with, and provide feedback to, the management on the categories of various risks the Company faces.</p> <p>Ascertaining whether the decisions relating to functions with high risks are taken in accordance with established delegated authorities.</p> <p>Reviewing and discussing the progress of the implementation of the Risk Based Capital (RBC) framework in the Company as required by the Insurance Board of Sri Lanka.</p> <p>Please refer the Risk Management Committee Report on page 205 for more details.</p>

## Corporate Governance

### Board Procedures

#### Board Meetings

The full Board meets monthly to review the Company's performance and to determine whether its strategies and business practices are in line with the expectations of the Board. In addition, sub-committee meetings are held, depending on the requirement.

The Board Secretary draws up the agenda in consultation with the Directors prior to each Board meeting, as delegated by the Chairperson. Comprehensive Board papers are sent to all Directors seven days in advance of each Board meeting in order that they have sufficient time to review the affairs to be discussed.

During the meetings and at regular intervals, all Directors are given, in a timely manner, adequate information which is accurate, clear, complete and reliable. This is in order for them to maintain effective control over the strategic, financial, operational, compliance and corporate governance issues of the Company.

The Board Secretary keeps detailed minutes of each meeting, and records all matters considered by the Board, the decisions reached and any concerns raised or dissenting views expressed by each Director. Draft and final versions of minutes are sent to all Directors in a timely manner for their comments and record.

Similar processes apply to Board sub-committee meetings as well.

The number of Board meetings and Sub-Committee meetings held during 2013, together with individual attendance, is given on page 225.

#### Board Proceedings

- The directors are supplied with all relevant documentation and financial information in a timely manner, to assist them in the discharge of their duties. Please refer section A.6 on page 178 for more information on the supply of information.
- Members of the Senior Management are invited to attend Board meetings where appropriate, to report on matters relating to their areas of responsibility, and also to brief and present details to the directors on recommendations submitted for the Board's consideration. Additional information or clarification may be sought by the Board, particularly with respect to complex and technical issues tabled.
- The Board meets with the Senior Management specifically to discuss the implementation of the Corporate Plan of the Company and to monitor the progress of the plan periodically.
- All directors have direct access to the Board Secretary who is responsible for advising the Board on corporate governance and compliance issues.
- The Board Charter permits all directors to seek independent professional advice, at the Company's expense, if considered appropriate and necessary, at any time. However, no such advice has been taken by any of the Directors during 2013.

### Independent Judgment of Directors

#### Avoiding Conflicts of Interest

All directors of the Company are expected to make decisions objectively and in the best interest of the Company, while the Board is conscious of its obligation to ensure that Directors avoid conflicts, between their duty towards the Company and towards their other interests.

Members of the Board are therefore required to disclose all transactions with the Company, including those of their close family members, as obligatory under the Sri Lanka Accounting Standards 24 – Related Party Disclosures and the Companies Act, No. 7 of 2007. This has been fully complied with and adequately disclosed in this Annual Report.

Please refer pages 303 to 306 and 231 for information on related party disclosures and Directors' interests in contracts respectively.

#### Dedication of Adequate Time and Effort by the Directors

Directors ensure that they are able to render sufficient time and attention to the affairs of the Company and a confirmation to that effect is included in their Letters of Appointment.

Name of the Director	Number of Board seats held other than in HNBA	
	Listed	Non Listed
Dr. Ranee Jayamaha	2	2
Manjula de Silva*	-	-
M U de Silva	-	2
J E P A de Silva	-	6
Sarath Ratwatte	1	-
Jonathan Alles	2	4
J A P M Jayasekera	4	3
K Balasundaram	-	29
Dilshan Rodrigo	-	4
Siromi Wickramasinghe	2	-

\* The Executive Director does not hold a directorship in any other company, but is encouraged to participate in professional, public and community organisations and dialogues.

#### **Board Meeting without the Presence of the Executive Director**

The Board meets at least once a year without the presence of MD/CEO. A key area of focus of this meeting is the performance of MD/CEO and his remuneration package. Any other such meeting would be held as and when the need arises.

#### **Recording of Concerns which are not Unanimously Resolved in Board Meetings**

During the year, there were no resolutions that were arrived at without the unanimous consent of the Board. However if such concerns do arise, the Company's policy is to record them accordingly.

### **Governance Activities**

#### **Evaluation of the Board**

During the year, the Board conducted a self-evaluation of its performance, using a checklist which covered a range of areas including, but not limited to, the composition of the Board, skills and experience of the members, adequacy of sub-committees, proceedings of meetings and quality of reports and materials submitted. Each director filled the checklist and submitted to the Board Secretary, who in turn compiled and tabled a summary with the Board for

discussion. The objective of this evaluation was to improve the performance of the Board to support the achievement of the Company's objectives.

#### **Evaluation of the Audit Committee**

The Audit Committee also continued its self-assessment process from the previous years to ensure it functions effectively and efficiently and discharges all its responsibilities as outlined in the Charter of the Audit Committee.

In addition, the management also assessed the performance of the Audit Committee using a checklist, which was prepared so as to cover the responsibilities of the Committee, derived from its Charter.

The results of both the self-assessment and the Management's assessment of the Audit Committee were tabled at the Board and are expected to be used to further enhance the effectiveness of the Audit Committee. Moreover, the Company envisages expanding this process of evaluating the Audit Committee to a 360 degree appraisal in 2014, involving both Internal and External Auditors as well.

#### **Appraisal of MD/CEO**

##### *Setting Annual Targets for the MD/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.

These corporate objectives are included in the Corporate Plan for the year, which is in turn, reviewed and approved by the Board. The main focus areas of the Corporate Plan 2013 were;

- Market Share
- Gross Written Premium for Life and Non - Life Insurance
- Underwriting Results
- Profitability
- Premium Persistency
- Dividend Payout
- Remuneration of Employees

The Board monitored the achievement of these targets throughout the year and provided guidance to the MD/CEO where necessary.

## Corporate Governance

### *Performance Evaluation of the MD/CEO*

The performance of the MD/CEO is evaluated by the Board at the end of each year, based on the agreed objectives described above. Remuneration for the MD/CEO is determined based on the achievement of these set targets.

### **Training for New and Existing Directors**

The Board acknowledges the need for continuous development and expansion of knowledge and skills of new and existing directors.

Accordingly, new directors are inducted to the Board by providing them with a comprehensive understanding of their duties and responsibilities. Moreover, adequate knowledge sharing opportunities are provided to both new and existing directors on a continuous basis at the Company's cost in respect of matters relating to the general aspects of directorship as well as matters specific to the industry and the Company.

The directors are also constantly updated on the latest trends and issues facing the Company and the insurance industry.

### **Directors' Remuneration**

Please refer to pages 180 and 181 under Section B for information relating to the remuneration procedure and page 226 for the details on Directors' remuneration.

### **Code of Conduct & Ethics**

A Code of Conduct and Ethics for directors was introduced during the year with the intention of providing guidance on recognising and handling areas of ethical issues, information on how to report unethical conduct and to help foster a culture of openness and accountability.

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

**Conflict of Interest** - Directors should avoid conflict of interest and the code provides examples of common conflicts.

**Corporate Opportunities** - Directors are prohibited from taking for themselves or their own companies or other companies with which they have a fiduciary relationship, any opportunities arising as a result of the director holding a directorship in the Company, unless such opportunities are fully disclosed by the interested director and approved by the disinterested directors.

**Confidentiality** - Directors must maintain the confidentiality of non public proprietary information entrusted to them by the Company or its customers or other parties with whom the Company does business, except when such disclosure is authorised or legally required. This principle applies to all communications, whether oral, written or electronic.

**Dealings with Third Parties** – Only the persons named in the Code are authorised to deal with third parties on behalf of the Company.

**Compliance with Laws and Regulations and Fair Dealing** - Directors are expected to carry out their responsibilities in compliance with all laws, rules and regulations applicable to the Company and with the highest standards of business ethics.

**Encouraging the Reporting of Any Illegal or Unethical 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.

### Dealing with Shares of the Company

In view of strengthening governance, a Share Dealing Policy and Code has been adopted by the Company. This Code is applicable to the following officers and employees;

- Chairperson
- Managing Director/ Chief Executive Officer (Executive Director)
- All Non-Executive Directors
- Board Secretary
- Members of the Executive Committee (EXCO)
- Members of the Finance Division
- Members of the Investment Division
- Members of the Risk and Compliance Department
- Members of the Actuarial Department attached to the Life Division, and
- All other employees in possession of any insider information

### Key Restrictions as per the Policy

The following key restrictions are applicable for persons identified in the policy, when dealing with shares of the Company.

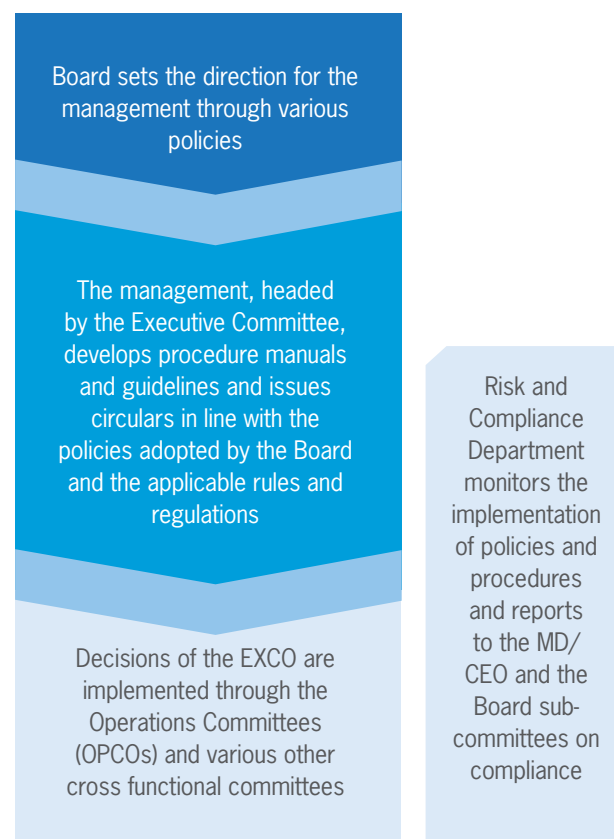
- Clearance should always be sought before dealing in shares of the Company, even during open periods.
- The “Open Periods” commence after four (4) market days upon announcing the quarterly results of the Company and terminates after the 15th day of the last month of each quarter.
- If clearance is given, dealing must be completed within five market days. A fresh clearance must be sought if dealing is not completed within this period.
- Dealing in Company shares should not be based on short-term considerations. Generally, such shares should not be sold within six months of purchase and purchases should not be made within six months of any sale.
- Dealing in shares of any listed company within the HNB Group at any time, when in possession of unpublished price sensitive information in relation to those shares, should not be done.
- The terms of this Policy applies to all connected/related persons of persons named in this policy.

### Management and Staff

The Board, while monitoring the performance of the Company, relies on the management for the day-to-day operation of the business, and holds the management accountable for the achievement of set objectives. Further, the Board works closely with the management in formulating the Company’s strategy, direction as well as action plans to deal with the various opportunities and risks faced by the Company.

Accordingly, both the management and the staff play a major role in the governance structure of the Company. Their primary task is the successful implementation of the strategy as determined by the Board in terms of directions agreed upon. In doing so, they apply business principles and ethics which are consistent with those anticipated by the Board, the Company’s shareholders and other stakeholders.

### Management Governance Framework



### Governance Activities Relating to the Management

The Company has adopted various policies, procedures and guidelines in order to strengthen its governance structure. Additionally, various committees have been appointed to overlook the management function.



## Corporate Governance

### Governance Structure of the Management

#### Managing Director/CEO

As the only Executive Director represented on the Board, the MD/CEO, is responsible to the Board for managing the business of the Company.

#### Executive Committee

The MD/CEO has appointed an Executive Committee (EXCO) to support him in managing the Company according to the directions set by the Board. Accordingly, the Company's management function is headed by the EXCO chaired by the Managing Director/CEO and consists of 9 other members. Names and brief profiles of the members of the Executive Committee are given on page 31.

#### Operations Committees

The decisions taken at the EXCO are communicated and implemented through various divisional Operations Committees (OPCOs). OPCOs are headed by the General Managers or the Heads of Divisions, and comprise members of the senior management teams of the respective divisions. Existing OPCOs and their areas of responsibility are given below.

Operations Committee	Area of Responsibility
Marketing and Distribution OPCO	Sales and distribution including the operations of the branch network and the marketing function
Corporate Business Development OPCO	Corporate business development
Non - Life Insurance OPCO	Underwriting, claims and reinsurance of Non - Life Insurance
Life Insurance OPCO	Underwriting, claims and reinsurance of Life Insurance
Finance and Administration OPCO	Financial reporting, financial management, investment back office and administration
Information Technology OPCO	System development, IT infrastructure and IT security
Corporate Services OPCO	Investment front office, HR management, legal, risk and compliance

### Other Committees

In order to strengthen the Governance structure of the Company, various cross-functional committees, such as the Business Continuity Plan (BCP) Committee, product development committees, procurement committees, etc. are formed to complete tasks that require the support of various divisions.

#### Risk and Compliance Department

It is in view of the need to strengthen governance over its internal controls that the Company has established the Risk and Compliance Department. The tasks of the Risk and Compliance Department include:

- Monitoring the effective implementation of internal controls of the Company and the adherence to such controls
- Co-ordination with Internal Auditors, External Auditors, management and the Audit Committee and ensuring the Auditors' recommendations are properly implemented
- Conducting special reviews on areas of concern identified by the management or the Audit Committee
- Ensuring that an effective risk management process is in place to identify, measure and manage the risks faced by the Company and following up on actions required to mitigate identified risks
- Ensuring that the Company's activities are within the limits set in the Risk Appetite Statement
- Ensuring that the Company's risk management and compliance activities are carried out in line with the Risk Management Policy and Compliance Policy
- Monitoring the Company's compliance with all applicable laws and regulations
- Ensuring that the Company has an effective Business Continuity Plan (BCP) and monitoring the implementation of the same

Manager - Risk and Compliance submits reports to the Board sub-committees on the compliance activities relating to the respective areas.

Manager - Risk and Compliance reports directly to the Managing Director and the Chairman of the Audit Committee and has the right to consult the Audit Committee without reference to the management.

### Internal Control

A system of effective internal controls is fundamental for the safe and sound management of an institution. Internal control procedures keep the Company on course toward achieving its mission and objectives while minimising the impact of surprises along the way.

The Company's internal control process has been designed to achieve the following objectives:

- Effective and efficient operations
- Effective risk management systems
- Reliable financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of Company's assets

While the Company acknowledges that internal control is to a large degree everyone's responsibility, the primary responsibility of establishing, maintaining and operating an effective system of internal controls lies with the Board of Directors and the senior management. The Audit Committee also performs a supervisory role in this regard, via the frequent review of the effectiveness of the Company's system of internal controls as well as the review of reports submitted by the Internal Auditors and the management regarding the same. The Board's statement on internal control is given on pages 206 and 207.

### EXTERNAL AUDITORS

The Company's External Auditors are Messrs. KPMG.

#### Independence of External Auditors

In order to maintain their independence, the External Auditors are not employed for non-audit work unless such work has been pre-approved by the Audit Committee. Moreover, steps are taken to ensure that there are clear efficiencies and value-added benefits to the Company from such tasks undertaken by the External Auditors with no adverse effect on the independence of their audit work or the perception of such independence.

During the year, the External Auditors provided the following audit and permissible non-audit services to the Company:

- Year End Audit as at the 31st of December 2013
- Special Purpose Audit as at the 30th of June 2013
- Certification of Solvency Report for the purpose of dividend declaration
- Certification of Insurance Solvency

Details regarding the fees paid to External Auditors appears on page 222.

### Initiatives during the Year to Strengthen the Corporate Governance Activities of the Company

- Appointed a Risk Management Committee to oversee the risk management activities of the Company
- Introduced a Charter for the Board of Directors
- Introduced a Code of Conduct and Ethics for the Directors
- Adopted an Auditor Rotation Policy
- The Board proposed to change the Company's External Auditors, Messrs. KPMG who were the Company's external auditors from the inception of the Company to Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants, subject to the approval of the shareholders at the AGM
- Adopted a Risk Management Policy
- Adopted a Compliance Policy
- Increased the total number of directors to 10 with the appointments of Mr. Dilshan Rodrigo and Ms. Siromi Wickramasinghe to the Board
- Improved the female participation on the Board to 20% from 11% in the year before, with the appointment of Ms. Siromi Wickramasinghe
- Revised the IT Security Policy
- Conducted several Business Continuity Plan drills

## Corporate Governance

With a view to improving transparency, the External Auditors were given the opportunity to meet the Audit Committee without the presence of the management during the current year as well.

### Auditor Rotation Policy

During the year, the Company adopted an Auditor Rotation Policy, whereby the Company's External Auditor is required to be changed every five years. Therefore, the Company's current Auditor Messrs. KPMG, who has been functioning in this capacity since the inception of the Company, will be changed from the financial year 2014 onwards.

### External Auditor Selection Process

The Company called for Requests for Proposals (RFPs) from two leading audit firms in the country other than KPMG who was not considered for re-election in terms of the Auditor Rotation Policy described above. The RFPs were evaluated based on the criteria set by the Audit Committee and accordingly, Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants was recommended to the Board to be appointed as the Company's External Auditors. The Board accepted this recommendation subject to the approval of the shareholders at the AGM.

### INTERNAL AUDITORS

Internal auditors of the Company play a vital role in the Governance structure of the Company. They monitor the Company's adherence to the procedures and guidelines which are developed based on the policies adopted by the Company as well as the compliance with laws and regulations. In order to strengthen the independence of the internal audit function, the Company's internal audit function has been outsourced to Messrs. Ernst & Young Advisory Services (Pvt) Ltd.

During 2013, the Internal Auditors issued 13 reports to the Senior Management and the Audit Committee covering various operational and financial aspects of the Company, including the operation of the branch network.

Similar to the opportunity granted to External Auditors, the Internal Auditors were also given the opportunity during the year to meet with the Audit Committee without the presence of the Management.

### OTHER STAKEHOLDERS

Good governance requires due regard to the impact of business decisions both on shareholders and other key stakeholders. The 'Management Discussion and Analysis' given on pages 39 to 146 explains how we discharge our responsibilities towards all our stakeholders i.e. investors, employees, customers, business partners, the community and the environment within which we operate.

### REGULATORS

The Board and the management recognise their responsibility and duty in ensuring that business is conducted in accordance with applicable laws, rules and regulations. Hence, the Company has taken all possible steps to ensure compliance with laws and best practices relating to corporate governance.

A compliance checklist, covering all applicable laws and regulations, is signed-off by the management on a monthly basis and is tabled at meetings of the Audit Committee and the Risk Management Committee.

Additionally, Manager - Risk and Compliance, who possesses an accounting background, monitors compliance with all applicable laws, rules and regulations. Compliance reports prepared by him are thereby presented to the Audit Committee and the Investment Committee on a regular basis.

Upholding the Company's commitment to abide by the rules set out by the regulator, the Company submitted all returns to the IBSL within the stipulated time limits. Further, all IBSL returns were subject to the review of the Risk and Compliance Department and the Audit Committee prior to their release.

The Company has submitted the following returns and payments to the Insurance Board of Sri Lanka (IBSL), Colombo Stock Exchange (CSE), Department of Inland Revenue, Central Bank of Sri Lanka, Registrar General of Companies, National Council for Road Safety and Commissioner of Motor Traffic within the stipulated time period.

Information	Frequency of submission	Compliance Status
IBSL		
Annual Fee	Annually	√
CESS	Quarterly	√
CSE		
Listing Fee	Annually	√
Inland Revenue		
Income Tax Payment and Return	Annually	√
PAYE Tax Payment	Monthly	√
PAYE Tax Return	Annually	√
Value Added Tax (VAT) Payment	Every 15 days	√
Value Added Tax (VAT) Return	Quarterly	√
Stamp Duty Payment and Return	Quarterly	√
Nation Building Tax (NBT) Payment	Monthly	√
Nation Building Tax (NBT) Return	Quarterly	√
Central Bank		
EPF Payment and Return	Monthly	√
ETF Payment	Monthly	√
ETF Return	Half Yearly	√
Registrar General of Companies		
Annual Accounts	Annually	√
Annual Returns	Annually	√
Change of Directors and Company Secretary (Form 20)	As required	√
National Council for Road Safety		
Contribution to Road Safety Fund	Monthly	√
Commissioner of Motor Traffic		
Luxury and Semi Luxury Tax	Monthly	√

## Corporate Governance

Submissions to IBSL	Date of submission	Deadline set by IBSL
Annual Audited Financial Statement for year ended 31st December 2012	04th March 2013	30th June 2013
Annual Statutory Returns for the year ended 31st December 2012	24th June 2013	30th June 2013
Circular 29 Auditor's Compliance Certificate	24th June 2013	30th June 2013
Risk Assessment Summary	28th March 2013	31st March 2013
Quarterly Returns for 2013		
- 31st March 2013 (1st Quarter)	10th May 2013	15th May 2013
- 30th June 2013 (2nd Quarter)	15th August 2013	15th August 2013
- 30th September 2013 (3rd Quarter)	13th November 2013	15th November 2013
- 31st December 2013 (4th Quarter)	13th February 2014	15th February 2014
Statement of Reinsurance Arrangements		
- Life	15th March 2013	15th March 2013
- Non - Life	15th March 2013	15th March 2013
Actuarial Report and Abstract in respect of Long Term insurance business	24th June 2013	30th June 2013
Management Letter issued by the External Auditors	27th June 2013	30th June 2013

### COMPLIANCE WITH CODES OF CORPORATE GOVERNANCE

#### Code of Best Practice on Corporate Governance Issued Jointly by ICASL and SEC

This Code was issued in 2008, with the primary objective of establishing good corporate governance practices in Sri Lanka, and deals with six key areas a company should focus on when developing its corporate governance structure.

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

During the year, this Code was revised, and certain amendments came into effect from 01st January 2014 onwards. Impact to the Company of the revised code of Corporate Governance is given on pages 186 and 187.

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

Section Number	Principle	Compliance Status	Company's Commitment
<b>1</b>	<b>THE COMPANY</b>		
<b>A</b>	<b>DIRECTORS</b>		
<b>A.1</b>	<b>THE BOARD</b>		
Principle A.1	<p>Every public company should be headed by an effective Board.</p> <p>The Company is headed by an effective Board. The role of the Board and its members, Board functions, Board procedures and governance activities are discussed in detail from pages 156 to 167.</p>		
A.1.1	Frequency of Board meetings (at least once every quarter)	Compliant	<p>The full Board meets monthly, mainly to review the Company's performance and to determine whether its strategies and business practices are in line with the expectations of the Board. In addition, Board sub-committee meetings are held periodically to handle the specific responsibilities assigned to them. The number of Board meetings and Board sub-committee meetings held during 2013, together with individual attendance, is given on page 225.</p>
A.1.2	Responsibilities of the Board;  Ensure formulation and implementation of a sound business strategy	Compliant	<p>The Board assumes the primary responsibility for the overall success of the Company. The Board is involved in formulating the overall strategy and in ensuring that the same is implemented through the MD/CEO. The MD/CEO, together with the management team, develops corporate strategies, annual budgets, and action plans to implement corporate strategies, on an annual basis. The corporate plan and the annual budget are approved by the Board every year, and achievement of the objectives set in the plan is monitored closely by the Board.</p>
	Ensure that the MD/CEO and the management team possess the necessary skills, experience and knowledge for effective implementation of the strategy	Compliant	<p>The Board actively works to ensure that the MD/CEO and the management team continue to have the right balance of skills, experience and knowledge necessary to discharge their responsibilities in accordance with the highest standards of governance. The Board gets involved in the recruitment of the senior management, paying due attention to knowledge, skills and experience. The profiles of the MD/CEO, the members of the Executive Committee (EXCO) and the members of the management team are provided on pages 30 to 35.</p>
	Adopt effective CEO and senior management succession strategy	Compliant	<p>Succession plans are in place for the CEO and for other key managerial positions, and are monitored continuously by the Remuneration Committee. The key aspect of succession plans is to develop people internally, so that there are adequate internal options available for replacement of key management personnel, as and when required, ensuring a smooth transition and business continuity.</p>



## Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
A.1.2 (Contd.)	Ensure that effective systems are in place to secure integrity of information, internal controls, business continuity and risk management	Compliant	Effective systems and procedures are in place to ensure the integrity of information, internal controls and information security. Such systems are continuously monitored by the management, Internal and External Auditors, and at times by independent experts.
	<p>The Company has a Business Continuity Plan (BCP) which is implemented through the BCP team led by the Chief Financial Officer. During the year two BCP drills were conducted and the results of the testing were submitted to the Audit Committee and the Board.</p> <p>Effective mechanisms are also in place to identify, assess and manage/mitigate risks faced by the Company. During the year, a Risk Management Committee was formed to strengthen this aspect. Please refer the Risk Management section on pages 208 to 218 and Risk Management Committee Report on page 205 for further information in this regard.</p>		
	Ensure that the Company's activities are conducted in compliance with laws, regulations and ethical standards	Compliant	The Board has adopted a Compliance Policy to give direction to the management with regard to compliance activities. The Company has also issued a Code of Ethics applicable to all employees and Directors.
	<p>The Company has appointed a Manager – Risk and Compliance, reporting to the Managing Director and the Chairman of the Audit Committee for the continuous monitoring of compliance with laws and regulations.</p> <p>Please refer pages 170 to 172 for more details on the Company's actions on compliance activities.</p>		
	Ensure that all stakeholder interests are considered in corporate decisions	Compliant	The Board ensures that the interests of all stakeholders are considered and safeguarded in making corporate decisions. Further details in this regard are discussed in the Management Discussion and Analysis on pages 39 to 146.
	Recognise sustainable business development in corporate strategy, decisions and activities	Compliant	The Board recognises the necessity of sustainable business development in the corporate strategy, decisions and activities. Please refer Management Discussion and Analysis for more information on the Company's activities with regard to sustainable business development.
	<p>Indicating the Company's success in this regard, the Company was adjudged the winner in the medium scale category at the ACCA Annual Sustainability Reporting Awards 2012.</p>		
	Ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations	Compliant	<p>The Company's accounting policies are fully in line with Sri Lanka Accounting Standards (SLFRS/LKAS) which was adopted from the financial year 2012. Further, the accounting policies are reviewed annually to be in line with the changing business requirements and best practices in the industry.</p> <p>Please refer the Independent Auditor's Report, which affirms that the Company's financial statements are in line with Sri Lanka Accounting Standards, given on page 237.</p>

Section Number	Principle	Compliance Status	Company's Commitment
A.1.2 (Contd.)	Fulfill other Board functions that are vital, given the scale, nature and complexity of the business concerned	Compliant	The Board takes all its decisions paying due attention to the interests of all stakeholders. The Board also intervenes, where necessary, in any other functions that are vital, given the scale, nature and the complexity of the Company's business.
	During the year, the Board reviewed the proposal submitted by the Management on the segregation of the Company as required by the RII (Amendment) Act and gave its concurrence.		
A.1.3	Compliance with laws and access to independent professional advice	Compliant	The Board Charter and the Code of Conduct and Ethics for Directors have identified the importance of the Directors' commitment towards complying with all applicable laws and regulations. Please refer
	pages 160 and 166 for summaries of these documents.		
	The Board Charter has permitted all Directors to seek independent professional advice, at the Company's expense, if considered appropriate and necessary, at any time. However, no such advice has been taken by any of the Directors during the period.		
A.1.4	Advice and Services of the Company Secretary	Compliant	The Company Secretary, who is an Attorney-at-Law by profession, is accessible to any Director for the services of the Company. The Company Secretary advises the Board and ensures that matters
	concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. She also serves as the Secretary to the Audit Committee and the Remuneration Committee.		
A.1.5	Independent Judgment of Directors	Compliant	All directors exercise independent judgement in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.
A.1.6	Dedicating adequate time and effort by the Directors	Compliant	Please refer pages 164 and 165 for details of the Directors' commitments to the matters of the Board and the Company.
A.1.7	Training for New and Existing Directors	Compliant	Please refer page 166 for details of training for New and Existing Directors.
<b>A.2</b>	<b>CHAIRPERSON AND CHIEF EXECUTIVE OFFICER (CEO)</b>		
<i>Principle A.2</i>	<i>Division of responsibilities at the head of the Company</i>		
	<i>The functions of the Chairperson and the Managing Director/ CEO are clearly separated, to ensure balance of power and authority. Please refer pages 158 and 159 for details of the separate responsibilities of the Chairperson and the MD/CEO.</i>		
A.2.1	Disclosure required if the positions of the Chairman and the CEO are combined	Not Applicable	The positions of the Chairperson and the MD/CEO are separated.

## Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
<b>A.3</b>	<b>CHAIRPERSON'S ROLE</b>		
Principle A.3	<p><i>The Chairperson's role in preserving good Corporate Governance</i></p> <p><i>The Chairperson is responsible for leading the Board and ensuring that it operates under the highest standards of governance. She presided over all 12 board meetings held during the year. Please refer page 158 for further details on the role of the Chairperson.</i></p>		
A.3.1	Role of the Chairperson	Compliant	Please refer page 158 for the details on the role of the Chairperson
<b>A.4</b>	<b>FINANCIAL ACUMEN</b>		
Principle A.4	<p><i>Availability of sufficient financial acumen and knowledge to offer guidance on matters of finance</i></p> <p><i>The Board is made up of knowledgeable and experienced individuals who can provide guidance on matters of finance. All Directors possess qualifications and/or experience in accounting and finance.</i></p> <p><i>Members of our Board and their experience in finance are given below:</i></p> <ul style="list-style-type: none"> <li>- Dr. Ranees Jayamaha B.A. Hons (University of Ceylon, Peradeniya), MSc. (University of Stirling, U.K.), Ph.D (University of Bradford, U.K.), Duniv (University of Stirling, U.K.) - Chairperson and Non-Executive Director (Former Deputy Governor in charge of Financial System Stability of the Central Bank of Sri Lanka with over 40 years of extensive experience in the fields of Economics, Banking, Finance, Regulation and Administration)</li> <li>- Manjula de Silva BA Hons (University of Colombo), MBA (London Business School, U.K), FCMA (UK), CGMA - Managing Director (Chartered Global Management Accountant with over 24 years of experience in Fund Management, Insurance and General Management)</li> <li>- M U De Silva FCIB (London) – Non-Executive Director (Banker with over 50 years of experience)</li> <li>- Pratapkumar de Silva FICM (Sri Lanka), FICM (England) – Independent Non-Executive Director (Fellow of the Institute of Credit Management with over 50 years of experience in the Finance sector)</li> <li>- Sarath Ratwatte FCMA (UK), CGMA - Independent Non-Executive Director (Chartered Global Management Accountant and experienced Treasurer)</li> <li>- A J Alles MBA (University of Stirling – Scotland), AIB (SL) - Non-Executive Director (Banker with over 25 years of experience)</li> <li>- J A P M Jayasekera FCA, BSc Special Hons - (University of Sri Jayawardenapura) - Independent Non-Executive Director (Chartered Accountant with over 18 years of experience in Accounting, Capital Markets and General Management)</li> <li>- K Balasundaram - Independent Non-Executive Director (45 years of experience in Finance)</li> <li>- Dilshan Rodrigo MBA (Cranfield University, UK) FCMA (UK), FCCA (UK), CGMA – Non-Executive Director (A fellow of CIMA and ACCA and a senior banker with extensive experience in Banking sector)</li> <li>- Siromi Wickramasinghe Attorney –at – Law – Non-Executive Director (Banker with over 32 years of multi-functional and progressive experience in the Sri Lankan Banking sector)</li> </ul>		

Section Number	Principle	Compliance Status	Company's Commitment
<b>A.5</b>	<b>BOARD BALANCE</b>		
Principle A.5	<p>The Board should have a balance of Executive and Non-Executive Directors.</p> <p>By the end of the year, the Board comprised ten Directors and all, except the Managing Director, are non-executive, thereby promoting critical review and control.</p> <p>Please refer pages 28 and 29 for the profiles of the Directors.</p>		
A.5.1	Presence of Non-Executive Directors	Compliant	Nine of the ten Board members are Non-Executive, which is in excess of one third of the total number of Directors.
A.5.2	Independent Directors	Compliant	Of the nine Non-Executive Directors of the Company, Mr. Pratapkumar de Silva, Mr. Sarath Ratwatte, Mr. J. A. P. M Jayasekera and Mr. K Balasundaram are Independent Non-Executive Directors. Therefore, the number of Independent Non- Executive Directors is in excess of one third of Non-Executive Directors as required by the Code.
A.5.3	Criteria to evaluate "independence" of Non - Executive Directors	Compliant	All four Independent Non-Executive Directors meet the criteria for independence as per the Code of Best Practice on Corporate Governance (Code) and Listing Rules and are deemed to be independent of management and free of business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.
A.5.4	Annual declaration of Non-Executive Directors	Compliant	All Non-Executive Directors have submitted the declaration of independence or non-independence as per the Code.
A.5.5	Annual determination of 'Independence' of Non-Executive Directors by the Board	Compliant	The Board, on page 224 of this Annual Report, has determined the independence or non-independence of each Director. This was declared at the Board Meeting held on 03rd February 2014.
A.5.6	Appointment and disclosure of "Senior Independent Director"	Not Applicable	Since the roles of the Chairperson and the CEO of the Company are separated, this requirement does not arise.
A.5.7	Availability of the Senior Independent Director for confidential discussions with other Directors	Not Applicable	Since the roles of the Chairman and the CEO of the Company are separated, this requirement does not arise.
A.5.8	Meeting without the presence of the Executive Directors at least once each year	Compliant	<p>The Chairperson meets other Non-Executive Directors at least once a year, without the presence of MD/ CEO. One of the main areas of focus at this meeting is the performance of MD/CEO and his remuneration package.</p> <p>Any other such meeting would be held as and when the need arises.</p>

## Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
A.5.9	Recording of concerns which cannot be unanimously resolved in Board Minutes	Compliant	All decisions of the Board were taken unanimously and there were no concerns raised by the Directors during the year which needed to be recorded in the Board Minutes. However if such concerns do arise, the Company's policy is to record them accordingly.
<b>A.6</b>	<b>SUPPLY OF INFORMATION</b>		
<i>Principle A.6</i>	<i>The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.</i>		
	<i>Financial and non-financial information are analysed and presented to the Board to make informed and accurate decisions.</i>		
A.6.1	Management's responsibility to provide the Board with appropriate and timely information	Compliant	The management ensures that a set of timely, accurate, relevant and comprehensive information is provided to the Directors before the Board meeting every month, with adequate time for them to review the same and prepare for discussions. All significant financial and non - financial information for the period are included in these analyses.  In addition, the Board requests additional information with respect to areas such as the Company's operations, industry and competitors, risk management, laws and regulations and corporate governance, as the need arises.
A.6.2	Adequate time for effective Board meetings	Compliant	All Board papers and papers for sub-committee meetings are circulated at least one week (seven days) prior to such meetings.
<b>A.7</b>	<b>APPOINTMENTS TO THE BOARD</b>		
<i>Principle A.7</i>	<i>There should be a formal and transparent procedure for the appointment of new Directors to the Board.</i>		
	<i>All new appointments to the Board are made following a formal and transparent procedure through the Nomination Committee. Details and the process of new appointments are given on pages 157 and 158.</i>		
A.7.1	Presence of a Nomination Committee	Compliant	The Nomination Committee comprises four Directors including the Chairperson and the MD/CEO.  The composition, responsibilities and other information of the Nomination Committee are disclosed on the table given on page 161.
A.7.2	Annual assessment of the Board composition	Compliant	The composition of the Board is subject to continuous review by the Nomination Committee, especially with regard to changes in the environment and regulations.  The Committee makes recommendations for new appointments where necessary.
A.7.3	Disclosure of details of new Directors to shareholders	Compliant	All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the CSE.  In addition, according to the terms of the Regulation of Insurance Industry Act, prior approval from the Insurance Board of Sri Lanka (IBSL) is obtained for all new appointments.  The Annual Report of the Board of Directors also carries details of new appointments of Directors. Please refer page 224 for details of the new appointments.

Section Number	Principle	Compliance Status	Company's Commitment
<b>A.8</b>	<b>RE-ELECTION</b>		
Principle A.8	<p>All Directors should be required to submit themselves for re-election at regular intervals and at least once every three years.</p> <p>Please refer page 158 for details on the Company's procedure for re-election of Directors.</p>		
A.8.1	Appointment and re-election of Non-Executive Directors	Compliant	Please refer pages 157 and 158 for the Company's procedure of appointment and re-election of Directors.
A.8.2	Election of Directors by the shareholders	Compliant	Please refer pages 157 and 158 for the Company's procedure of re-election and re-appointment of Directors.
<b>A.9</b>	<b>APPRAISAL OF BOARD PERFORMANCE</b>		
Principle A.9	<p>The Board should periodically appraise its own performance in order to ensure that Board responsibilities are satisfactorily discharged.</p> <p>Please refer page 165 for details on the Board evaluation process.</p>		
A.9.1	Appraisal of Board performance	Compliant	Please refer page 165 for details of the Board evaluation.
A.9.2	Annual self-evaluation of the Board and its Committees	Compliant	The Board of Directors and the Audit Committee carried out a self-evaluation during the year.
A.9.3	Disclosure of evaluation procedure	Compliant	Please refer page 165 for details on the process followed with regard to the evaluation of the Board.
<b>A.10</b>	<b>DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS</b>		
Principle A.10	Shareholders should be kept advised of relevant details in respect of Directors.		
A.10.1	Disclosures on Directors in the Annual Report	Compliant	<p>Required information with respect to Directors is disclosed in this Annual Report, where relevant.</p> <p>Names, qualifications and profiles, including expertise in relevant functional areas, of all Board members are provided on pages 28 and 29.</p> <p>Details of Directors' Interest in Contracts are provided on page 231.</p> <p>Details of Related Party Transactions are provided on pages 303 to 306.</p> <p>The composition of Board sub-committees and attendance at Board meetings and Board sub-committee meetings by each Director are provided on page 225.</p> <p>Total number of other Board seats in listed and unlisted companies held by each Director are provided on page 165.</p>



## Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
<b>A.11</b>	<b>APPRAISAL OF MD/CEO</b>		
Principle A.11	The Board should be required, at least annually, to assess the performance of the MD/CEO.  Please refer pages 165 and 166 for details on the evaluation of MD/CEO's performance.		
A.11.1	Setting annual targets for MD/CEO	Compliant	Please refer page 165 for details on setting targets for the MD/CEO.
A.11.2	Evaluation of the performance of the MD/CEO	Compliant	Please refer pages 165 and 166 for details on the MD/CEOs evaluation.
<b>B</b>	<b>DIRECTORS' REMUNERATION</b>		
<b>B.1</b>	<b>REMUNERATION PROCEDURE</b>		
Principle B.1	Companies should establish a formal and transparent procedure for developing policies on executive remuneration and for fixing the remuneration packages of individual Directors.  No Director should be involved in deciding his/her own remuneration.		
B.1.1	Presence of a Remuneration Committee	Compliant	A Remuneration Committee has been appointed and functions within agreed terms of reference.  Please refer pages 200 to 202 for the Remuneration Committee Report. In addition, the table on page 162 provides a brief description of the membership and the functions of the Remuneration Committee.
B.1.2	Composition of the Remuneration Committee	Compliant	Please refer page 162 for details of the composition of the Remuneration Committee.
B.1.3	Disclosure of the members of the Remuneration Committee in the Annual Report	Compliant	Members, responsibilities and other information in respect of the Remuneration Committee are disclosed on page 162.
B.1.4	Determination of remuneration of Non-Executive Directors	Compliant	Non-Executive Directors who are nominees of the parent company are paid a nominal fee for their attendance at the Board and sub-committee meetings.  Other Non-Executive Directors are remunerated in line with market practices, based on attendance at Board and sub-committee meetings.
B.1.5	Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee	Compliant	The Committee consults the Chairman and the MD/CEO, where necessary, and has access to professional advice from within and outside the Company.
<b>B.2</b>	<b>THE LEVEL AND MAKE UP OF REMUNERATION</b>		
Principle B.2	The levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of the Executive Directors' remuneration should be structured to link with corporate and individual performance.		
B.2.1	Remuneration packages of Executive Directors	Compliant	The 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.

Section Number	Principle	Compliance Status	Company's Commitment
B.2.2	Comparison of remuneration with other companies	Compliant	The Remuneration Committee compares the remuneration levels of the Company with such packages of comparable companies in the industry and is sensitive to changes in the remuneration levels.  It reviews reports of salary surveys periodically to get an indication of comparable industry standards. A survey carried out by Messrs. KPMG was taken into consideration when deciding on changes to remuneration levels at the beginning of 2013. A salary survey was conducted by Messrs. KPMG in mid 2013 as well.
B.2.3	Comparison of remuneration with other companies in the Group	Compliant	The Remuneration Committee considers remuneration levels of the Group when deciding HNBA's remuneration packages.
B.2.4	Performance-based remuneration of Executive Directors	Compliant	The performance-related elements of the remuneration package of MD/CEO and other Executive employees are linked to corporate and individual performance.
B.2.5	Executive share options	Not Applicable	The Company does not have any share option scheme for the Directors or employees at present.
B.2.6	Designing performance-based remuneration of Executive Directors	Compliant	Objectives for the MD/CEO, who is the only Executive Director on the Board, 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.  The Company does not have any long term incentive schemes, including share option schemes.  Performance-related remuneration schemes are not applied retrospectively.  Non-Executive Directors are not eligible for performance based remuneration schemes
B.2.7 & B.2.8	Compensation commitments on early termination	Not Applicable	Termination of the Executive Director (MD/CEO) is governed by his contract of service/employment.
B.2.9	Remuneration of Non-Executive Directors	Compliant	Non-Executive Directors are paid only on their attendance at meetings. Non-Executive Directors who are nominees of the parent company are paid a nominal fee for their services. Other Non-Executive Directors are remunerated in line with market practices.
<b>B.3</b>	<b>DISCLOSURE OF REMUNERATION</b>		
<i>Principle B.3</i>	<i>The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.</i>		
B.3.1	Disclosure of Remuneration	Compliant	The aggregate remuneration paid to the MD/CEO and Non-Executive Directors is disclosed on page 226 of this Report. The Remuneration Committee's Report, which highlights the Remuneration Policy of the Company is given on pages 200 to 202.

## Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
<b>C</b>	<b>RELATIONS WITH SHAREHOLDERS</b>		
<b>C.1</b>	<b>CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS</b>		
<i>Principle C.1</i>	<i>The Board should use the AGM to communicate with shareholders and should encourage their participation.</i>  <i>Please refer pages 154 and 155 for details of the Annual General Meeting.</i>		
C.1.1	Use of proxy votes	Compliant	The Company has in place a mechanism to count all proxy votes to indicate to the Chairperson the level of proxies lodged on each resolution and the number of votes for and against such resolution.
C.1.2	Separate resolutions for substantially separate issues and adoption of annual report and accounts	Compliant	Each substantially separate issue is proposed as a separate resolution. The adoption of the Annual Report of the Board of Directors, along with the financial statements, is also proposed as a separate resolution.
C.1.3	Availability of Chairmen of Board committees at the AGM	Compliant	The Chairperson of the Board ensures that the Chairmen of Board sub-committees are present at the AGM to answer any query by shareholders.  No queries were raised by shareholders to the Chairmen of the Board sub-committees at the last AGM held on 27th March 2013.
C.1.4	Adequate notice of the AGM	Compliant	The Annual Report, together with Notice of Meeting and related documents and other resolutions, if any, is circulated to the shareholders at least 15 working days prior to the date of the AGM.  The Annual Report of 2012 was submitted to the CSE on 01st March 2013 and was posted to all shareholders by 04th March 2013. The AGM was held on 27th March 2013.  Please refer page 348 for the Notice of Meeting of the 12th AGM to be held on 27th March 2014.
C.1.5	Summary of procedures governing voting at the General Meeting	Compliant	The proxy form, which includes a summary of the procedures governing voting at the General Meetings, is circulated to all shareholders.
<b>C.2</b>	<b>MAJOR AND MATERIAL TRANSACTIONS</b>		
<i>Principle C.2</i>	<i>All material transactions i.e. which if entered into, would materially alter/vary the net asset value of the Company, should be disclosed.</i>		
	Disclosures on proposed major transactions	Not Applicable	There were no major transactions during the year. However, if any such transactions do occur, it is the policy of the Company to disclose them in the quarterly and annual financial statements in accordance with relevant Sri Lanka Accounting Standards and the Companies Act.

Section Number	Principle	Compliance Status	Company's Commitment
<b>D</b>	<b>ACCOUNTABILITY AND AUDIT</b>		
<b>D.1</b>	<b>FINANCIAL REPORTING</b>		
<i>Principle D.1</i>	<i>The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.</i>		
D.1.1	Board responsibility for statutory and regulatory reporting	Compliant	The Company presents its financial statements in line with Sri Lanka Accounting Standards (SLFRS/LKAS) and other applicable laws and regulations.  The Board's responsibility for financial reporting is given on page 232. Further, the interim annual financial statements were published on a timely basis during 2013. All regulatory reports were filed by the due dates and price sensitive information was disclosed to the CSE on a timely basis during the year. Dates of releasing information to the CSE during 2013 are disclosed on page 153.
D.1.2	Declarations by Directors in the Directors' Report.	Compliant	The Directors have made all required declarations in the 'Annual Report of the Board of Directors on the Affairs of the Company' which is given on pages 221 to 230.
D.1.3	Statements by Directors and Auditors on responsibility for financial reporting	Compliant	Page 232 contains the statement setting out the responsibilities of the board for the preparation and presentation of financial statements.  The Auditor's Report is provided on page 237.
D.1.4	Management Discussion and Analysis	Compliant	The Management Discussion and Analysis (MD&A), appearing in pages 39 to 146 of this Annual Report, covers all relevant areas. MD & A is presented as an integrated report covering all aspects.
D.1.5	Declaration by the Board on the going concern of the Business	Compliant	The Board, after conducting necessary reviews and enquiries, decided to apply the 'Going Concern' assumption in preparing the Company's financial statements for the year 2013. The declaration of the Company as a 'Going Concern' is given in the Directors' Report on page 221.
D.1.6	Requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss of capital	Not Applicable	Although the likelihood of such a situation is remote, if it arises, an EGM would be called to inform shareholders.
<b>D.2</b>	<b>INTERNAL CONTROL</b>		
<i>Principle D. 2</i>	<i>The Board should maintain a sound system of internal controls to safeguard shareholders' investments and the Company's assets.</i>		
D.2.1	Directors to conduct an annual review of internal controls	Compliant	The Board has overall responsibility for the system of internal controls and has delegated some of these responsibilities to the Audit Committee, Risk Management Committee and the Investment Committee. Summary of the functions of each committee is given on pages 161 to 163. The details of the work carried out by each Board sub-committee are given on their reports, appearing on pages 195 to 205.

## Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
D.2.2	The need for an internal audit function	Compliant	The Company has appointed M/S Ernst & Young Advisory Services (Pvt) Ltd as the Internal Auditors of the Company. All reports by the Internal Auditors are tabled at the Audit Committee meetings.  Please refer page 170 for more details on the internal audit function.
<b>D.3</b>	<b>AUDIT COMMITTEE</b>		
<i>Principle D.3</i>	<i>The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintain an appropriate relationship with the Company's auditors.</i>		
D.3.1	Composition of the Audit Committee	Compliant	The Audit Committee comprises three Directors, all of whom are Non-Executive. Two Directors of the Committee are Independent Non-Executive Directors.  Please refer the Audit Committee Report on pages 195 to 199 for details on the functions of the Audit Committee.
D.3.2	Duties of the Audit Committee on the review of objectivity of the External Auditor	Compliant	The Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.  During the year, the Company adopted an Auditor Rotation Policy, according to which the Company intends to change its external auditors on a periodic basis subject to the approval of shareholders at the AGM.  Further, the Company's External Auditor for 2013, M/S KPMG has given a declaration of its independence to the Audit Committee as per the relevant rules.
D.3.3	Terms of reference of the Audit Committee	Compliant	The Audit Committee operates with clearly defined terms of reference which are reviewed annually. Main areas of focus in the Audit Committee Charter are;  <ul style="list-style-type: none"> <li>- Composition</li> <li>- Meetings</li> <li>- Financial reporting</li> <li>- Risk management and internal control</li> <li>- Related Party transactions</li> <li>- Internal audit</li> <li>- External audit</li> <li>- Compliance and litigation</li> <li>- Reporting responsibilities</li> <li>- Other responsibilities</li> </ul> A summary of the functions of the Committee is provided on page 161.
D.3.4	Disclosure of names of the members of the Audit Committee	Compliant	Names of the Directors comprising the Audit Committee are set out on page 161 of the Annual Report.
<b>D.4</b>	<b>CODE OF BUSINESS CONDUCT &amp; ETHICS</b>		
<i>Principle D.4</i>	<i>Companies must adopt a Code of Business Conduct &amp; Ethics for Directors and members of the senior management team and must promptly disclose any waivers of the Code by Directors or others.</i>		
D.4.1	Disclosures on presence of Code of Business Conduct and Ethics	Compliant	The Company introduced a Code of Business Conduct and Ethics for Directors during the year.  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.

Section Number	Principle	Compliance Status	Company's Commitment
D.4.2	Affirmation by the Chairperson that there is no violation of the Code of Business Conduct & Ethics	Compliant	The Annual Report of the Board of Directors on page 230 provides an affirmative statement in this regard.
<b>D.5</b>	<b>CORPORATE GOVERNANCE DISCLOSURE</b>		
<i>Principle D.5</i>	<i>Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.</i>		
D.5.1	Disclosure of Compliance with the Corporate Governance Code.	Compliant	Pages 173 to 185 set out the manner and extent to which the Company has complied with the principles and provisions of the Code of Best Practice on Corporate Governance issued jointly by the SEC and the ICASL (Code).  Further, pages 186 and 187 provide details of the Company's compliance with the revised sections of the Code, which will be effective from 01st January 2014.
<b>2</b>	<b>SHAREHOLDERS</b>		
<b>E</b>	<b>INSTITUTIONAL INVESTORS</b>		
<b>E.1</b>	<b>Shareholder Voting</b>		
<i>Principle E.1</i>	<i>Should ensure institutional shareholders' voting intentions are translated into practice</i>		
E.1.1	Communication with Shareholders	Compliant	Please refer page 151 to 155 for details on shareholder communication.
<b>E.2</b>	<b>Evaluation of Governance Disclosures</b>		
<i>Principle E.2</i>	<i>Institutional investors should be encouraged to give due weight to the relevant governance arrangements.</i>  <i>Sufficient attention has been given to the interests of institutional investors. The Company's corporate governance structure is discussed in detail from pages 148 - 172.</i>		
<b>F</b>	<b>OTHER INVESTORS</b>		
<b>F.1</b>	<b>Investing/ Divesting Decisions</b>		
<i>Principle F.1</i>	<i>Individual shareholders are encouraged to seek independent advice on investing or divesting decisions.</i>  <i>Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions. The Annual Report contains sufficient information to make an informed decision.</i>		
<b>F.2</b>	<b>Shareholder Voting</b>		
<i>Principle F.2</i>	<i>The Company must encourage individual shareholders to participate in General Meetings and exercise voting rights.</i>  <i>All shareholders are encouraged to participate at General Meetings and cast their votes.</i>		



## Corporate Governance

### Code of Best Practice on Corporate Governance 2013 issued jointly by the SEC and the ICASL

The Code of Best Practice on Corporate Governance issued jointly by the SEC and the ICASL was revised in 2013 and the revised code is effective from 01st January 2014 onwards. The revision has introduced certain new sections to the Code, and it is noted that the Company has already satisfied the requirements of some of these new sections. It is the

intention of the Company to take appropriate action to fully implement the new sections in the revised Code to ensure full compliance with the revised Code too.

The Company's level of compliance with the requirements of the new sections in the revised Code is given below.

Section reference (new)	Principle	Company's Compliance
A.5.6	Criteria for Alternate Directors	The Company does not have any Alternate Directors.
C.2	Communication with shareholders	<p>The main documents used for sharing of information with the shareholders are the Annual Report and the Interim Financial Statements. Any other details are informed to Colombo Stock Exchange (CSE), which in return informs the same to the public.</p> <p>Further, all shareholders can obtain information or raise any matter relating to the Company through the Company Secretary. The contact information appears on page 155.</p> <p>Information relating to shareholder communication is given on pages 151 to 155.</p> <p>The Company intends to formulate a shareholder communication process in 2014, as required by the Code. Relevant details will be disclosed in the Annual Report 2014.</p>
D.1.7	Disclosure of related party transactions	<p>The Company maintains records of related party transactions.</p> <p>All Directors provide declarations on related party transactions on an annual basis.</p> <p>The details of the related party transactions are disclosed on pages 303 to 306.</p> <p>The Company will implement the procedures, such as obtaining related party declarations on a quarterly basis from Directors and submitting a report by the Related Party Transaction Review Committee (to be formed) to the Board on related party transactions, as required by the Code from the year 2014 onwards.</p>

Section reference (new)	Principle	Company's Compliance
D.2.2	Companies to have an internal audit function	The Company currently complies with this principle. The Company's internal audit function is outsourced to M/S Ernst & Young Auditory Services (Pvt) Ltd.
D.2.3	Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls and document to the Board	<p>The Audit Committee reviews the process and the effectiveness of the risk management functions and internal controls during its meetings. The Audit Committee Charter has a separate section on Risk Management and Internal Control.</p> <p>The minutes of the meetings of the Audit Committee are tabled at the Board for review.</p>
D.2.4	Report/Statement on internal control in the Annual Report	A report on internal control is given on pages 206 and 207.
G	Sustainability Reporting	This Annual Report has been prepared in the form of an integrated report that covers all sustainability reporting parameters as identified by the Global Reporting Initiative (GRI).
Schedule - D	Specimen Remuneration Committee Report	The Remuneration Committee Report, given on pages 200 to 202, is prepared based on the specimen given in the Code.
Schedule - F	Role of the Company Secretary	The Company Secretary's role includes the functions given in the Code. Please refer page 159 for details.
Schedule - K	The responsibilities of Directors in maintaining a sound system of internal controls	<p>The Board assumes the responsibility of maintaining a sound system of internal controls. The Board has established four Board sub-committees to ensure that the Company has an effective internal control system.</p> <p>Please refer pages 206 and 207 for the report on Internal Controls.</p>

## Corporate Governance

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

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

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.1	Non-Executive Directors	Two or one-third of the total number of Directors, whichever is higher, shall be Non-Executive Directors.	Compliant	Nine out of ten Directors of HNBA function as Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors appointed to the board, whichever is higher, shall be independent.	Compliant	Four out of nine Non-Executive Directors are independent.
7.10.2 (b)		Each Non-Executive Director shall submit a declaration of independence/non-independence in the prescribed format.	Compliant	Non-Executive Directors have submitted declarations during 2013.
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 224 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 28 and 29.
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Exchange for dissemination to the public.	Compliant	The announcements to the Exchange were made as follows;  Appointment of Mr. Dilshan Rodrigo to the Board – 01st July 2013  Appointment of Ms. Siromi Wickramasinghe to the Board – 02nd October 2013.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee.	Compliant	Details of the Remuneration Committee are given on pages 200 to 202.
7.10.5 (a)		<p>The Remuneration Committee shall comprise Non-Executive Directors, a majority of whom shall be independent.</p> <p>One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors.</p>	Compliant	<p>The Remuneration Committee comprises three Non-Executive Directors out of whom two are Independent Non- Executive Directors.</p> <p>Mr. M U de Silva (Non-Executive Director) functions as the Chairman of the Remuneration Committee.</p>
7.10.5 (b)		The Remuneration Committee shall recommend the remuneration of the Managing Director/Chief Executive Officer.	Compliant	Please refer the functions of the Remuneration Committee on page 162.
7.10.5 (c)		<p>The Annual Report should set out names of the Directors serving in the Remuneration Committee</p> <p>Statement of Remuneration Policy</p> <p>Aggregate remuneration paid to Executive and Non-Executive Directors</p>	Compliant	<p>Please refer page 162 for the composition of the Remuneration Committee.</p> <p>Please refer the Remuneration Committee Report on pages 200 to 202.</p> <p>Please refer page 226 of the Annual Report of the Board of Directors.</p>

## Corporate Governance

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.6	Audit Committee	A listed entity shall have an Audit Committee.	Compliant	Details of the Audit Committee are given on pages 195 to 199.
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 shall attend Audit Committee meetings.	Compliant	Both the MD/CEO and the Chief Financial Officer attend the meetings by invitation.
		Chairman or one member of the Committee should be a member of a recognised professional accounting body.	Compliant	Two members including the Chairman are members of recognised professional accounting bodies. Please refer page 195 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
7.10.6 (c)	The Annual Report should set out:-  Names of the Directors serving in the Audit Committee  The Committee's determination of the independence of the Auditors and the basis for such determination  A Report by the Audit Committee setting out the manner of compliance with the requirements set out in section 7.10 of the Listing Rules.	Compliant	Please refer page 161 for the composition of the Audit Committee.  Please refer page 197 for the Report of the Audit Committee.  Please refer page 199 for the Report of the Audit Committee.	

## 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 functions through its appointed sub-committees, i.e. Audit Committee, Investment Committee, Remuneration Committee and Risk Management Committee, which concentrate on designated areas of performance governance.

The Company engages in a comprehensive process of corporate planning, which takes place annually, targeting the performance of the next three year time horizon. The corporate planning team, under the aegis of the Managing Director, conducts an analysis of both the external and internal environments and derives corporate objectives which are to provide direction for the Company over the planning period.

The Corporate Plan is then submitted to the Board of Directors for their approval. Following this approval, the corporate objectives thus formed become the foundation of the performance objectives of the management team, and are trickled down to the lower levels thereon.

Throughout the year, close monitoring of these performance objectives, along with compliance with relevant policies and procedures, takes place in order to direct the overall Company towards achieving the pre-agreed corporate objectives.

The Company's Key Performance Indicators (KPIs) appear on pages 49 and 50.

The following table provides more details regarding the performance governance mechanism of the Company.

Main Operations	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Development and implementation of Corporate Plan and Budgets	Vision and Mission Strategic Plan	Corporate planning team consisting of EXCO members and key operational managers  Review and approval of the Corporate Plan by the Board of Directors	Review of the Corporate Plan by the Board Corporate plan review system (dashboard) Budget review meetings with operational departments Performance review by EXCO on a monthly basis via a special EXCO Meeting Independent follow up by Risk and Compliance Department Review of actual results against the budgets by the Board on a monthly basis
Underwriting and Reinsurance	Risk Appetite Statement Underwriting Procedure Manuals Guidelines Credit Policy Anti-Money Laundering Policy	Operations Committee - Life  Operations Committee - Non-Life	Implementation of system controls in line with procedure manuals, wherever possible  Updating of procedure manuals and guidelines based on changes in the environment  Immediate notification to responsible officers via SMS and e-mail, in the event policies are issued beyond reinsurance limits



## Performance Governance

Main Operations	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Claims Management	<p>Procedure Manuals</p> <p>Guidelines</p> <p>Claims Reserving Policy</p> <p>Manual of Financial Authority</p> <p>Customer Service Standards</p>	<p>Operations Committee - Life</p> <p>Operations Committee - Non-Life</p> <p>Claims Panel</p> <p>Claims Sub-Panel</p>	<p>Monitoring of customer service standards by OPCOs and EXCO</p> <p>Closed Files Review (CFR) process to identify any claims leakages</p> <p>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</p> <p>Paying due concern to customer claim appeals via Claims Panels and Claims Sub-Panels</p>
Sales and Distribution	<p>Company Budget</p> <p>Annual Targets</p> <p>Individual Objectives</p>	<p>OPCO – Marketing &amp; Distribution</p> <p>OPCO – Corporate Business Development</p> <p>Management Team</p> <p>EXCO</p>	<p>Distribution Managers Meetings</p> <p>Renewal Review Meetings</p> <p>Performance review at OPCOs, EXCO and the Board</p> <p>Sales convention and various competitions and rewards including foreign tours</p> <p>Visits to Zonal Offices by the entire EXCO team to address issues faced by distribution staff</p>
Product Development	<p>Product Development Policy</p>	<p>Product Development Committees</p>	<p>Appointment of product owners for each new product</p> <p>Conducting post-launch evaluations by a multi-disciplinary team</p> <p>Conducting market research on products</p>
Finance-Related Areas	<p>Financial Authority Manual</p> <p>Procedure Manuals</p> <p>Guidelines</p> <p>Procurement Policy and Procedures</p> <p>Annual Budget</p>	<p>OPCO – Finance and Administration</p> <p>Procurement Committees</p>	<p>Budget Review Meetings</p> <p>Forecasting results to check possibility of achieving the budgeted targets</p> <p>Monthly checklists on compliance with procedures and guidelines</p>

Main Operations	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Investment Management	Investment Policy Financial Authority Manual	Segregation of Investment Front Office and Back Office to ensure compliance with set policies  Investment Committee	Monthly meetings with CEO and CFO  Providing frequent updates of investment related KPIs and KRIs  Independent monitoring by the Risk and Compliance department  Quarterly review by Investment Committee
Use of Information Technology and IT Governance	IT Security Policy Disaster Recovery Plan	IT OPCO  Segregation of IT operations and IT system development	Regular meetings with other departments to obtain user feedback  IT Help Desk  Employment of separate personnel to ensure IT security
Human Resources	Remuneration Policy Code of Ethics Share Dealing Policy Staff Hand Book Whistle Blowing Policy Grievance Handling Policy Performance Appraisal Process	CEO's forums to provide opportunities for the operational staff to raise their concerns directly with the MD without the presence of the management  Whistle Blowing Policy to enable employees to raise concerns with the top management, including the Chairperson of the Board and the Chairman of the Audit Committee  Remuneration Committee	Communication of 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  Visit by the Head of HR to branches to identify HR related issues  Frequent dissemination of information on HR policies and practices through 'HR Notices'  Review of annual staff increments and promotions by the Remuneration Committee.

## Performance Governance

Main Operations	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Risk Management	Risk Management Policy Business Continuity Plan	Risk Management Team Business Continuity Plan (BCP) Committee Risk Management Committee	Preparation of a Risk Assessment Report 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 by the management  Conducting BCP drills to identify gaps in the BCP  Preparation of "What Could Go Wrong" questionnaires to identify risks associated with business operations  Obtaining independent opinions from external parties on the prepared "What Could Go Wrong" questionnaires
Legal and Compliance	Compliance Policy Document Retention Policy	OPCO – Corporate Services Division Audit Committee	Tabling a compliance report at the Audit Committee meeting on a quarterly basis by Manager – Risk and Compliance  Preparation of a monthly compliance checklist on all applicable regulations  Checking of all compliance reports by the Risk and Compliance Department and review of such reports by the Audit Committee prior to submission to the regulator  Review of all outstanding litigations annually by the Audit Committee
Corporate Social Responsibility	Corporate Plan Annual Budgets	Sustainability Committee	A detailed review of the Company's actions towards Corporate Social Responsibility is given on pages 130 to 140.

# Audit Committee Report

## Composition

The Audit Committee of HNB Assurance PLC, appointed by and responsible to the Board of Directors, comprises three Non-Executive Directors, two of whom are independent. The members bring a multitude of varied expertise and knowledge to the Audit Committee, which enables effective conduct of operations.

Members of the Committee during the year were:

Name	Nature	Date of appointment to the Committee	Qualifications
Mahendra Jayasekera - <i>Chairman</i>	Independent Non-Executive Director	11th of December 2012	FCA, BSc Special (Hons), (University of Sri Jayawardenapura)
Sarath Ratwatte - Member	Independent Non-Executive Director	30th of January 2009	FCMA (UK), CGMA
Jonathan Alles - Member	Non-Executive Director	11th of December 2012	MBA (University of Stirling – Scotland), AIB (SL)

A brief profile of each member is given on pages 28 and 29 of this Annual Report.

The Board Secretary functions as the Secretary to the Audit Committee.

The Managing Director (CEO) and Chief Financial Officer attend all meetings by invitation. Other Executive Committee Members, Finance Manager, Manager – Risk and Compliance and other members of the management are also invited to attend these meetings where necessary. Additionally, Internal and External Auditors attend meetings by invitation when required.

## Meetings of the Audit Committee

The Committee met six (6) times during the financial year under review, and the attendance of each member at these meetings is given on page 225.

Agendas of the meetings, along with appropriate briefing material, were prepared and distributed amongst the members with sufficient notice.

Apart from the formal meetings, several other informal discussions and communications also took place during the year, involving the Chairman and other members of the Committee, Internal and External Auditors, members of the Executive Committee and the management.

## Objective and Authority

The Audit Committee primarily seeks to assist the Board of Directors in performing its duties effectively and efficiently. Accordingly, the key objectives of the Audit Committee can be described in detail as follows:

- To ensure the existence of a financial reporting system that is able to present accurate and timely financial information to the Board of Directors, regulators and shareholders
- To ensure that the financial statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS), Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto, Companies Act, No. 07 of 2007 and other relevant laws and regulations
- To ensure the existence of effective risk management processes that enable the proper identification and mitigation of risks
- To review the design and implementation of the internal control systems and take steps to strengthen them where necessary
- To ensure that the conduct of the business is in compliance with the applicable laws and regulations of the country and the policies and procedures of the Company
- To monitor the processes established for the maintenance of compliance with laws and regulations
- To assess the independence of the External Auditors and to monitor the performance of both Internal and External Auditors
- To evaluate the Company's ability to continue as a going concern into the foreseeable future

Whilst acknowledging that all three members of the Committee are collectively responsible with regard to the achievement of these objectives, the members have segregated the key responsibilities of the Committee among

## Audit Committee Report

themselves in order to improve the focus of the Committee. Such segregated areas are;

- Financial Reporting and External Audit
- Internal Control, Risk Management and Internal Audit
- Compliance and Other

The Audit Committee is empowered to seek any information it so desires from the management and staff of the Company or from external parties. It is also authorised to meet the management and staff, External and Internal Auditors, Consultant Actuaries, regulators or outside counsel, in order to achieve the objectives stated above.

The functions of the Audit Committee are also governed by the Charter of the Audit Committee, which is reviewed annually.

### Activities and Responsibilities

The Committee conducted the following activities during the year.

### Financial Reporting

The Committee, in recognition of its responsibility to oversee the Company's process of financial reporting on behalf of the Board of Directors, reviewed the following areas in consultation with the External Auditors and the management where necessary;

- Significant accounting and reporting issues
- Developments in the financial reporting framework (Sri Lanka Accounting Standards - SLFRS/LKAS)
- Consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Financial Reporting Standards (SLFRS/LKAS)
- Disclosure requirements and other applicable accounting and financial reporting requirements such as the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto

It is the Company's policy to review and approve interim and annual financial statements prior to publishing and accordingly the Committee reviewed all four (4) interim financial statements and the annual financial statements for the year 2013 before publishing, and recommended their adoption to the Board.

### Implementation of New/Revised Sri Lanka Accounting Standards (SLFRS/LKAS)

The Company implemented the new/revised Sri Lanka Accounting Standards in the year 2012 and has received an independent confirmation from the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) that these financial statements bear no material misstatements.

In the absence of significant changes in accounting standards, it is noted that there were no material changes to the Company's accounting policies in the year 2013.

### Compliance with Laws and Regulation

The Company has a practice of signing-off a comprehensive compliance checklist which covers all the compliance requirements as per the prevailing laws and regulations. With effect from July 2013, the frequency of going through this checklist was increased from a quarterly to a monthly basis. During the year the Committee reviewed four (4) such compliance checklists in order to monitor compliance with all rules and regulations applicable to the Company.

Additionally, the Committee also reviewed four (4) compliance reports submitted by the Manager - Risk and Compliance, with a view to ensuring that the Company has complied with all statutory requirements, including those set out by the Regulation of Insurance Industry Act, No. 43 of 2000.

### Statutory Reporting to the Insurance Board of Sri Lanka (IBSL)

The Committee reviewed and approved all quarterly and annual returns submitted during the year to the Insurance Board of Sri Lanka (IBSL) under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

### External Audit

During the year, the Committee continued to review the external audit plan and the methodology, with the objective of understanding the quality control/assurance processes adopted by the External Auditors. Moreover, the Committee conducted meetings with the External Auditors to discuss the audit scope and plan. Discussions were also held between the Committee, the management and the External Auditors regarding the co-ordination of the audit effort and to ensure that the External Auditors receive the required information and assistance from all relevant parties.

Furthermore, the Committee perused the Report of the Auditors and the Management Letters issued by them, in consultation with both the External Auditors and the management, and continuously monitored the actions taken

by the management to implement the recommendations made.

The Audit Committee met the External Auditors without the presence of the management on one occasion during the year. Additionally, the External Auditors were given adequate access to the Audit Committee as well as to all relevant information required.

The Audit Committee also reviewed and recommended for approval to the Board the fees payable to the statutory auditors for the interim and final audits for the financial year ending 31st of December 2013.

#### **Independence of External Auditors**

The services provided by the External Auditors are segregated as those requiring an independent view, such as audit and assurance services, and other advisory services, such as consultancy services. The Audit Committee reviews these audit and non-audit functions of the External Auditors before such services are assigned in order to ensure that the provision of such services does not impair independence and that work is assigned in such a manner as to prevent any conflict of interest.

The Committee has received a declaration, as required under the Companies Act, No. 7 of 2007, from Messrs. KPMG confirming the absence of any relationship with the Company which may have a bearing on their independence within the meaning of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) as well as the Guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka (SEC).

#### **Provision of Non-Audit Services**

The Committee is responsible for reviewing the nature of non-audit services the External Auditor may undertake to provide, in order to ensure that auditor independence is not impaired. Accordingly, no advisory services were provided by Messrs. KPMG to the Company during the financial year under review.

#### **External Auditor Rotation**

During the year, the Company adopted a comprehensive Auditor Rotation Policy, to become effective from the financial year ending 31st of December 2014. According to this Policy, the Company's External Auditor shall be rotated every five (5) years, subject to approval of the shareholders, and the existing auditor is not eligible to be selected immediately

after the completion of its five (5) year tenure. Thus, Messrs. KPMG, the existing auditor, is not eligible to be reappointed as the Company's auditor for the next year.

Beginning from 2014, the Audit Committee will make an annual recommendation to the Board regarding the appointment of the Company's External Auditors. Accordingly, in order to select the External Auditor for the financial year ending 31st of December 2014, Requests for Proposals were dispatched to two (2) multinational audit firms practicing in the country. After the due evaluation based on specified criteria mentioned in the Requests for Proposals, the Committee has recommended to the Board of Directors to propose Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants be appointed as the External Auditors of the Company for the financial year ending 31st of December 2014. Such appointment is subject to the approval of the shareholders at the Annual General Meeting to be held on the 27th of March 2014.

#### **Internal Audit**

The Committee monitors the effectiveness of the internal audit function and is responsible for approving the appointment or removal of the Internal Auditors. The Committee is also responsible for reviewing and approving the internal audit plan, scope, and reporting requirements of the Company annually. During the year, the Committee requested the Internal Auditors, Messrs. Ernst & Young Advisory Services (Pvt) Ltd, to align their audit approach with the Company's Risk Assessment Report and to prioritise the audit work based on the identified risks.

Additionally, during 2013, the Committee reviewed 13 internal audit reports covering the operations of 50 branch locations and several head office functions i.e. underwriting, claims, reinsurance, credit control, finance, investments, etc. Audit findings presented in the reports were then prioritised based on the level of risk, and the progress of the implementation of internal audit recommendations was also monitored regularly by the Committee. The Committee took steps to make the internal audit reports available to the External Auditors as well.

Moreover, the Committee is also tasked with approving the fees for the Internal Auditors on an annual basis.

The Audit Committee met the Internal Auditors without the presence of the management, once during the year.

In line with rotation of External Auditors, the Company intends to implement a rotation policy for the Internal Auditors as well, with effect from April 2014.



## Audit Committee Report

### Reports of External Actuaries

The Audit Committee received written reports from the Life and Non - Life Independent External Actuaries, which included observations and comments with regard to the valuation of Life Insurance Policyholder Liabilities, Non - Life Insurance Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER).

The Committee reviewed the assumptions used by the Actuaries in valuing insurance contract liabilities and discussed with the management about the rationality of such assumptions. The Committee also checked whether such valuations are performed as per the regulations and guidelines issued by the Insurance Board of Sri Lanka (IBSL).

During the year, the Committee also supervised the conducting of the Liability Adequacy Tests (LAT), as required by SLFRS 4 – Insurance Contracts, with the support of External Actuaries, and was able to conclude that the recorded insurance contract liabilities for both Life and Non - Life Insurance businesses as at 31st of December 2013 are adequate. Please refer Note 18.1 and 19.7 on pages 285 and 287 respectively of the financial statements for a detailed disclosure on LAT.

In addition, the Committee reviewed the Gratuity Valuation Report produced by the appointed Actuary (as required by LKAS 19 – Employee Benefits) and discussed the methodology and the rationality of assumptions used by the Actuary with the management.

All reports produced by External Actuaries were made available for the review of the External Auditors.

### Internal Control and Risk Management

The Committee evaluated the effectiveness of the Company's internal controls and risk management processes, mainly via the reports furnished by the management, and the reports received from the External and Internal Auditors.

Finance, Non - Life and Life Divisions sign-off monthly procedure checklists covering all the operational controls in the respective Divisions and report the same to the Audit Committee. During the year, the Company implemented a similar procedure for branch operations as well.

Manager - Risk and Compliance also reviews the internal control procedures of the Company and reports any variations to both the Executive Committee and the Audit Committee.

During the year, the Committee reviewed all reports published by the Internal and External Auditors and followed up on the implementation of recommended actions.

The Committee received two (2) Risk Assessment Reports during the year, which included significant risks identified by the Risk Management Team of the Company. Following such reports, the Committee reviewed the process for identification, evaluation and management of significant risks throughout the Company and the effectiveness of the mitigating actions taken/to be taken by the management.

The Committee supervised the Company's endeavours to strengthen its internal controls via the continuous conducting of the questionnaires based on the "What Could Go Wrong" model, and accordingly this year, the Life Insurance, General Insurance, Finance and Investment related processes were subjected to this exercise. These questionnaires were prepared by senior officers in respective Divisions with the guidance of Manager- Risk and Compliance, and have been shared with the Internal Auditors for testing purposes.

### IT Risk and Control Assessment

The Committee pays significant attention to the IT related risks of the Company.

Messrs. KPMG performed a detailed review on the general and application controls of the IT function during the year, as a part of their external audit process, and shared their report with the management and the Audit Committee. The Committee, together with the management and the External Auditors, reviewed the report in detail and followed up regarding the implementation of actions recommended.

The Committee reviewed the comments made by Internal Auditors in respect of general controls related to IT systems and discussed with the management regarding the appropriate actions required to mitigate identified risks.

### Fraud Risk

Numerous control procedures are in place to mitigate the risk of fraud, such as;

- The Procurement Policy, which has been adopted by the Board, and which is to be complied within all procurement activities
- Procurement Committees comprising members from functions other than the Department/Division which initiates the procurement activity
- The formal Whistle Blowing Policy, which enables employees to raise concerns on fraudulent activities on the condition of anonymity

Manager - Risk and Compliance, Internal Auditors and External Auditors review all processes of the Company continuously to identify and mitigate the risk of fraud.

The Audit Committee makes a conscious effort to ensure the risk of fraud is minimised and hereby reports that no material fraudulent activities were reported during the year.

### Formation of a Risk Management Committee

During the year, a new Board sub-committee for risk management was established in order to improve the risk management practices within the Company. This Risk Management Committee comprises three (3) Non-Executive Directors and the Committee had two (2) meetings during the year.

Thus, some of the responsibilities that were assigned to the Audit Committee previously in respect of risk management, have now been assigned to the Risk Management Committee.

However, as the Audit Committee continues to be responsible for establishing a sound risk management framework, the Risk Management Committee will share the minutes of its meetings and any other important information with the Audit Committee, to keep it up to date with the ongoing developments. Similarly, the Audit Committee will also keep the Risk Management Committee informed of any areas that require its attention.

A detailed report of the Risk Management Committee, highlighting its role and responsibilities, appears on page 205.

### Whistle Blowing

The Company, under the guidance of the Audit Committee, has implemented a formal Whistle Blowing Policy and the same has been communicated to all members of the staff. Through this policy, the Company encourages any employee who suspects wrongdoing at work - whether by the management, peers, or any other employee - to raise his/her concerns directly with the following nominated members of the Company.

- Manager - Risk and Compliance
- Head of Human Resources
- Managing Director
- Chairman of the Audit Committee
- Board Chairperson

Concerns raised are investigated as per the policy and the identity of the person raising the concern is kept confidential.

No complaints under the Whistle Blowing Policy were received by any of the above parties during the year.

### Compliance with the Listing Rules of the CSE and the Code of Best Practice on Corporate Governance

The Company is fully compliant with the Corporate Governance Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE). Please refer pages 188 to 190 for more information in this regard.

Additionally, the Company is also fully compliant with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL). Please refer pages 173 to 185 for more information in this regard.

### Performance Evaluation of the Committee

The ultimate objective of the evaluation of the Committee is to improve the effectiveness of its activities and enhance its support to the management and the Board of Directors.

Therefore, based on a checklist approved by the Committee, a self-evaluation of the performance of the Audit Committee was conducted for the fourth consecutive year. In addition, the Executive Committee of the Company also evaluated the performance of the Audit Committee using a set checklist and the results were shared with the Committee. These checklists cover all the responsibilities of the Committee, which are derived from the Charter of the Audit Committee.

The summary of the feedback received through the self-evaluation of the Committee together with the management evaluation were tabled and discussed at the Board meeting.

### Conclusion

The Committee is satisfied that the Company's internal controls are effectively implemented as designed, and that the Company's assets are adequately safeguarded. The Company's Internal and External Auditors have been effective and independent throughout the year.

The Committee is also satisfied that the operational controls and the application of appropriate accounting policies provide reasonable assurance that the financial statements of the Company are true and fair.



**Mahendra Jayasekera**  
 Chairman - Audit Committee

Colombo, Sri Lanka.  
 03rd February 2014

# Remuneration Committee Report

The Remuneration Committee operates within the agreed terms of reference and is committed to the principles of accountability and transparency, and ensuring that rewards and remuneration align with the performance of the Company and individual performance.

## Responsibilities of the Remuneration Committee:

- Maintaining a competitive, attractive and reasonable remuneration package for employees at all levels on par with industry standards bearing in mind business performance and long term shareholder returns.
- Making sure that the remuneration packages of employees are linked to individual performance, responsibility, expertise and contribution.
- Formulating formal and transparent procedures in implementing the remuneration policy of the Company.
- Recommending annual increments, and changes in perquisites and incentives.
- Reviewing the management development plan of the Management Team and the Succession Plan.
- Ensuring that no Director is involved in setting his own remuneration package.

## Composition and Charter of the Remuneration Committee;

The Remuneration Committee comprises 3 Non-Executive Directors and two of them are independent in conformity with the requirements of Corporate Governance. Members of the Committee are shown in the table below;

Name of the Member	Position	Category	Date of appointment to the Committee
Mr. M U de Silva	Chairman	Non-Executive Director	29th of March 2005
Mr. Sarath Ratwatte	Member	Independent Non-Executive Director	25th of February 2009
Mr. K Balasundaram	Member	Independent Non-Executive Director	11th of December 2012

A brief profile of each member is given on pages 28 and 29 of this Annual Report

The Board Secretary functions as the Secretary to the Remuneration Committee.

The Managing Director and Head of Human Resources attend all meetings by invitation and assist the Committee by providing information required for its decision making process.

## Remuneration Principles

The remuneration policy of the Company;

- should be reasonable, attractive, competitive and linked to individual performance, and
- should be in line with both industry standards and the Company's performance

## Remuneration Package

### Employees

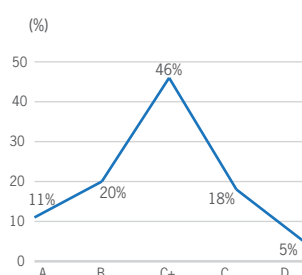
The remuneration packages of employees consist of a fixed component and a variable component. In addition, some other benefits are also available to employees as noted below.

### Fixed Component

Basic salary is the fixed component in the package which is based on the scope and complexity of the role and is reviewed annually. Annual performance appraisals are conducted and increments and promotions are granted purely based on results

of such exercises. Distribution of performance grading in the year-end appraisal process is shown in the graph below. Overall competence and performance are key factors that determine an individual's base pay.

Distribution of Appraisal Grades



### Variable Component

The main component of our variable pay is the annual bonus to employees at all levels based on individual performance as evaluated at the annual performance appraisals and the performance of the Company. In addition, the Distribution Management Team, other marketing personnel in the distribution network and Bancassurance Officers are entitled to a production bonus scheme based on achievement of business targets under pre-determined criteria.

### Other Employee Benefits

Benefits provided to employees include vehicle loans, educational loans, other loans, various insurance benefits including the Staff Health Insurance Cover, Critical Illness Cover and the Personal Accident Cover, regular health check-ups and free doctor consultations through a reputed medical services provider.

Fixed Component	Variable Component	Other Benefits and Facilities
Basic Salary	Annual bonus for all staff	Vehicle Loans (selected categories of staff)
		Educational Loans and Education Assistance Scheme
		Professional Membership Subscription Scheme
	Production Bonus for Distribution Management Team, other Marketing Personnel and Bancassurance Officers	Other Loans (Emergency, Wedding, etc.)
		Insurance Benefits
		Holiday Bungalow (selected categories of staff) and recreational facilities

### Retirement Benefits

As per the regulatory requirements, a defined contribution plan is made available for employees where the Company contributes to EPF and ETF. In addition, employees who have completed 5 years of service are entitled to Gratuity. There are no retirement benefits to employees other than the above.

### Board of Directors

No remuneration is paid to Non-Executive Directors other than the fees paid based on their participation at Board and Sub Committee meetings. The Managing Director's remuneration is decided by the Board annually on the recommendation of the Remuneration Committee based on the achievement of Company objectives and individual performance. Total fees and remuneration paid to all Directors is disclosed on page 226. Non-Executive Directors are not entitled to retirement benefits. The Managing Director is entitled to gratuity as all other employees.

### Key Management Personnel (KMPs)

The Committee places special emphasis on the review of performance of KMPs and the determination of their remuneration packages. Their recruitment, management, development and succession planning are also areas receiving the Committee's attention.

## Remuneration Committee Report

### **Share Ownership Plans for Directors and KMPs**

The Company does not have a share ownership plan for Directors and KMPs.

### **Directors' Shareholding**

The shareholdings of Directors are provided on page 226.

### **Personal Loans for Directors**

No Director is entitled to Company loans.

### **Remuneration Committee Meetings**

The Committee met once during the financial year under review.

The attendance of each member is given on page 225. Agendas of the meetings were prepared and distributed sufficiently in advance to members, along with appropriate briefing material.

The minutes of the meetings are circulated to the Board.



**M U de Silva**

Chairman - Remuneration Committee

Colombo, Sri Lanka  
03rd February 2014

# Investment Committee Report

## Composition of the Investment Committee

The Investment Committee of HNB Assurance PLC, appointed by and responsible to the Board of Directors, consists of the following members, all of whom possess expertise in numerous relevant areas including, but not limited to, investments, risk management, fund management and finance.

### Member

Name	Nature	Qualifications
Sarath Ratwatte - Chairman	Independent Non-Executive Director	FCMA (UK), CGMA
Manjula de Silva	MD/CEO	BA Hons (Colombo), MBA (London), FCMA (UK), CGMA
Rajive Dissanayake	Senior Manager, Strategic Planning (HNB)	BBA (Colombo), ACMA (UK), CGMA, CFA (USA)

The Chief Financial Officer functions as the Secretary to the Investment Committee.

Head of Investment, Manager – Risk and Compliance and Assistant Managers attached to the Investment Division attend meetings by invitation.

## Investment Committee Meetings

The Committee met on four (4) occasions during the year 2013, with the objective of discussing in detail the performance of the investment portfolios of the Company as well as to dispense advice and guidance on the formulation and implementation of investment strategies.

In order to keep the Board of Directors updated as to the proceedings of the investment function of the Company, minutes of the Investment Committee meetings were tabled at each Board Meeting immediately following a meeting of the Investment Committee. Guidance and advice of the Board of Directors were also bestowed upon the investment function continuously throughout the year.

Moreover, the Committee maintained regular communication with the management, discussing matters as and when they arose in order to identify the optimum course of action that should be embarked upon.

## Functions of the Investment Committee

The Investment Committee continued to be guided by the Investment Policy for the Life Insurance, Non - Life Insurance and Life Shareholder's Funds, which has been approved by the Board of Directors.

Accordingly, the main functions of the Committee include, but are not limited to;

- Development and formulation of guidelines for the management of the investment portfolios of the Company

- Devising strategies to be followed by the investment function after evaluation and review of the investment portfolios
- Ensuring compliance of the investment function with applicable laws and regulations
- Ensuring compliance of the investment function with the Investment Policy of the Company
- Provision of recommendations for Board approval of any changes to the Investment Policy deemed by the Committee to be necessary
- Evaluation and the granting of approval for any investment activities which require specific approval of the Committee as per the Investment Policy

## Activities Conducted during the Year

- Guidance was provided by the Committee in devising a strategic framework within which the investment function could operate, after paying due consideration to all relevant aspects.
- Committee meetings were held at the end of each quarter where information on investment portfolios, the macro-economic outlook and the investment strategy were discussed.
- Accordingly, at each meeting the Committee reviewed in detail the performance of the investment function during the past quarter as well as on a cumulative basis.
- At such meetings, the Committee provided guidance on the investment strategy to be followed in the next quarter, after considering a variety of factors, such as the fund growth, market trends, solvency ratios and compliance requirements, amongst others.



## Investment Committee Report

- The Committee's outlook on the investment strategy was guided by extensive discussions on economic, political and social environment that were conducted during such meetings.
- In setting the parameters of the investment policy and strategies, the Committee also paid due consideration to the types of institutions, types of instruments/assets, ratings attached to instruments/institutions, strength and reputation of the institutions and other factors deemed relevant by the members.
- Committee members extended their advice on asset and liability management of the funds, in order to ensure that the budgeted investment income for the period was achieved without compromising on compliance with both internal rules and controls (as set out in the Investment Policy) and external regulations (as set out in the legislations applicable to the Company).
- The Committee received an assurance of such compliance from Manager – Risk and Compliance, who tabled a report depicting the status of compliance at each meeting.
- During the year, following the Company's commencement of Takaful business operations, the Investment Committee reviewed and endorsed the arrangements made by the management to invest Family Takaful and Non - Life Takaful Funds in line with Sharia requirements. These funds are kept entirely separate from the other funds of the Company and investments are only made in permissible instruments, as per Sharia requirements. A Takaful Investment Policy was drafted for this purpose, with the advice of the Sharia Council of the Company, and this Policy was approved by both the Investment Committee and the Board. This Policy is followed by the management in all its investments related to these funds.

### Conclusion

It is the opinion of the Investment Committee, after careful scrutiny of the activities conducted during the year, that the performance of the Life Insurance, Non - Life Insurance, Life Shareholder's, Family Takaful and Non - Life Takaful funds during 2013 is as per expectations and in compliance with all applicable regulations.



**Sarath Ratwatte**  
Chairman - Investment Committee

Colombo, Sri Lanka  
03rd February, 2014

# Risk Management Committee Report

## Objective

The Risk Management Committee (the "Committee") of HNB Assurance PLC ("the Company" or "HNBA") is a standing committee of the Board of Directors ("Board"). The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to oversight of HNBA's risk management framework, including the significant policies and practices used in managing risks.

## Authority

In order to discharge the duties and responsibilities effectively and efficiently, the Committee has been empowered to have direct access to, and receive regular reports from, management, and be provided with any information it requests relating to its responsibilities. The Committee has the authority to engage independent professional advisors on matters within its purview.

## Composition

The Risk Management Committee of HNB Assurance PLC, comprises three Non-Executive Directors. The members of the Committee have vast experience in risk management, finance, banking and business management. The members of the Committee are;

- Mr. Dilshan Rodrigo - Chairman (Non-Executive Director)
- Mr. M U De Silva - Member (Non-Executive Director)
- Mr. K Balasundaram - Member (Independent Non-Executive Director)

Brief profiles of the Directors representing the Committee are given on pages 28 and 29 of this Annual Report.

The Manager – Risk and Compliance, functions as the Secretary to the Risk Management Committee.

The Managing Director, Chief Financial Officer, and Other Executive Committee members attend the meetings by invitation.

## Charter of the Risk Management Committee

The Risk Management Committee Charter clearly sets out the purpose, membership, authority and the duties and responsibilities of the Committee. The following main responsibilities have been set out in the Charter;

- Review the Company's risk management framework, including significant policies, processes and systems that Management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing.
- Review and approve the Company's Risk Assessment Report and receive reports on the Company's adherence to significant risk limits.

- Develop a risk appetite statement for the Company and review same with the management by periodically assessing the performance with the established risk appetite.
- Review and discuss with management on issues raised by Internal/External Auditors that impact upon the Risk Management framework of the Company.
- Monitor whether the decisions relating to functions with high risks are taken in accordance with established delegated authorities.
- Review and discuss the progress on Risk Based Capital (RBC) implementation of the Company as required by the Insurance Board of Sri Lanka.

## Meetings

After the formation of the Committee in July 2013, the Committee held two meetings on a quarterly basis during the year under review. Attendance at meetings is given in table on page 225 of this Annual Report.

## Activities of the Committee

In order to discharge the above duties and responsibilities, the committee carried out the following activities during the year.

- Discussed the Risk Management Structure of the Company.
- Reviewed the Risk Assessment Report and discussed the actions taken on the main risks faced by the Company.
- Reviewed the Compliance checklists prepared confirming the compliance with all applicable laws and regulations.
- Examined the impact to the Company from the events arising from the external environment including developments in new regulations and changes in the reinsurance ratings.
- Evaluated the Company's progress in implementing the Risk Based Capital (RBC) framework which will be in effect from 2016.
- Recommended to the Board, the adoption of the Company's Compliance and Risk Management policies.
- Initiated the development of the Company's Risk Appetite statement and the Key Risk Indicators.

On behalf of the Risk Management Committee



**Dilshan Rodrigo**  
 Chairman - Risk Management Committee

Colombo, Sri Lanka.  
 03rd February 2014

# Board's Statement on Internal Control

## 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"). However, in view of the inherent limitations in any system, such system of internal control is 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 losses or fraud. The system of internal control covers risk management and financial, organisational, operational and compliance controls.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. This process has been put in place for the year and is reviewed periodically by the Board through its Audit Committee and Risk Management Committee which is supported by the Internal Auditors.

The management assists the Board in the implementation of the Board's 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 and control 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 principles and regulatory requirements.

## Key features of the process adopted in applying in reviewing the design and effectiveness of the internal control system over financial reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various Committees are established by the Board to assist the Board in ensuring the effectiveness of Company's daily operations and that the Company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Company's internal audit function has been outsourced to Messrs. Ernst & Young Advisory Services (Pvt) Ltd. 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 non-compliance. Audits are carried out covering main areas of the operations and branches island wide, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Internal Auditors report their findings to the Audit Committee and the reports are discussed at the periodic Audit Committee meetings.
- The Audit Committee of the Company reviews internal control issues identified by the internal auditors, the external auditors, regulatory authorities and 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 of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled at the Board meetings for the information of the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Audit Committee Report on pages 195 to 199.
- The Risk Management Committee was established during the year to assist the Board to oversee the management of the Risk Management framework of the Company.
- In assessing the internal control system, the relevant senior officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the financial statements using the "What Could Go Wrong" question model. Accordingly this year, the Life Insurance, General Insurance, Finance and Investment related processes were subjected to this exercise. These were shared with the Internal Auditors to check the appropriateness and effectiveness on an on-going basis.
- A compliance checklist, covering all applicable laws and regulations, is signed-off by the management on a monthly basis and is tabled at Audit Committee meetings. Compliance reports prepared by the Manager – Risk and Compliance are also presented to the Audit Committee and the Investment Committee on a regular basis.

### 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 and the preparation of Financial Statements for external purposes has been done in accordance with the Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL), Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto.

By order of the Board,



**Manjula de Silva**

*Managing Director / Chief Executive Officer*



**Mahendra Jayasekera**

*Chairman - Audit Committee*



**Dr. Raneer Jayamaha**

*Chairperson*

Colombo, Sri Lanka  
03rd February 2014

# Risk Management

Risk management refers to activities that are undertaken to reduce an entity’s exposure to loss. Risk management is a fundamental aspect of the business activities of insurance companies because insurance is necessarily the business of accepting risks. This section describes the risk management programme of the Company.

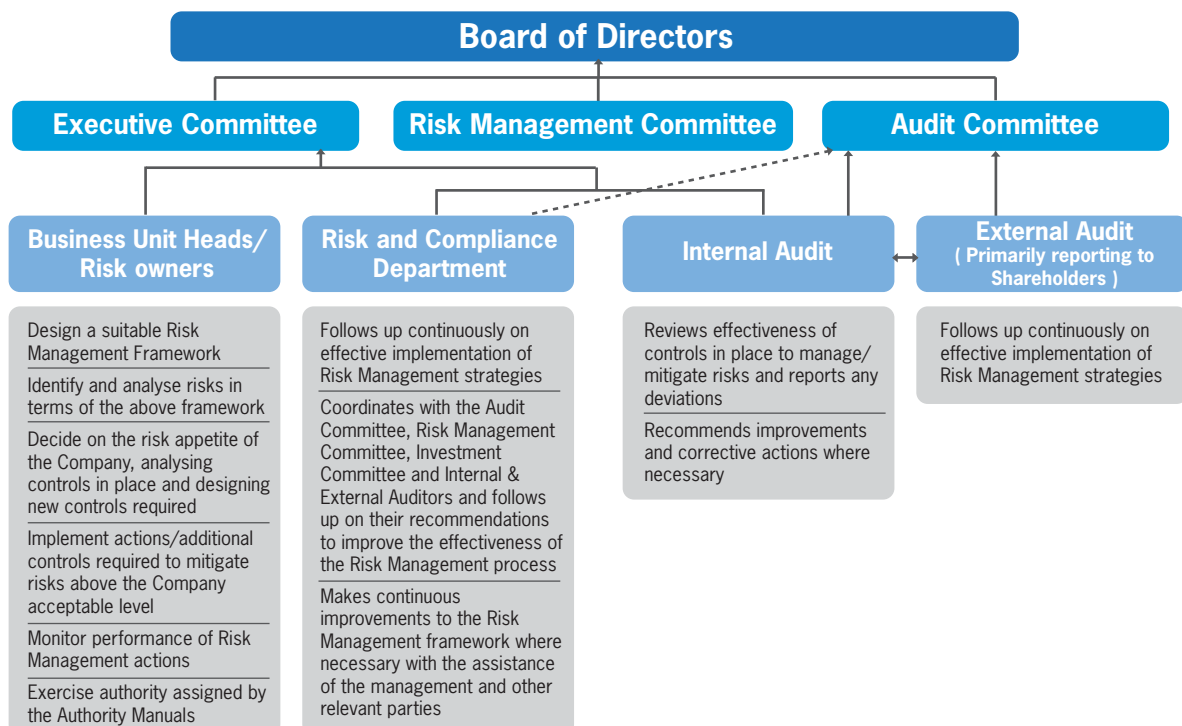
### Risk Management in the Insurance Industry

The insurance industry is experiencing a significant and rapid change. This calls for superior, focused risk management processes. It has become a vital task which has never been more important than in today’s context. Intense competition, escalating claims, low investment income due to low interest rates, changes in insurance laws and regulations and technological advances are all challenging insurers to compete efficiently and effectively to manage uncertainty and protect stakeholder value.

### Risk Management Objectives

The Board of Directors and the Management recognize that a comprehensive risk management programme is essential to effectively manage the risks faced by the Company. The Company’s Risk Management programme is designed to achieve the following objectives:

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



### Risk Management Structure and Responsibilities

The Company adopts a risk management structure that is commensurate with its size and the nature of its activities.

#### The Board and Board Sub Committees

**The Board of Directors** is ultimately responsible for the sound and prudent management of the Company and thus their approval is necessary for the risk management strategy and risk policies pertaining to all activities of the Company. Further, the Board also ensures that adequate resources, expertise and support are provided for the effective implementation of the risk management strategy, policies and procedures of the Company.

**The Audit Committee** is responsible for assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of risk management and internal control, the audit process, and the monitoring process for compliance with laws and regulations.

**The Risk Management Committee** is responsible for assisting the Board in fulfilling its responsibility with respect to oversight of HNBA's risk management framework, including the significant policies and practices used in managing risks. The Committee reviews the Company's risk profile as well as its risk management framework, including the significant policies and practices employed to manage both risks in the Company's business and the overall adequacy of the Risk Management function.

**The Investment Committee** is responsible for assisting the Board in fulfilling its responsibility to manage the Investment risks of the Company. The Committee reviews the investment activities of the Company, its compliance with asset and liability management, liquidity and investment policies, interest rate risk guidelines and capital guidelines.

**The Remuneration Committee** is responsible for assisting the Board in fulfilling its responsibility in managing the HR risks of the Company. The Committee ensures that remuneration arrangements support the strategic aims of the Company and the Company adopts, monitors and applies appropriate policies and procedures to avoid HR related risks such as drain or loss of personnel, deterioration of morale, inadequate development of human resources, etc.

#### 1st Line of Defense

**Business Unit Heads** are charged with employing personnel with the appropriate skills and experience to identify, measure, monitor and control risks within the areas of their expertise. To aid them in fulfilling their risk management responsibilities, management has established an internal Risk Management Team.

**Risk Management Team** is responsible for the overall assessment and management of risks throughout the Company. The team is also charged with the responsibility of proposing ways to mitigate or manage risks of the Company. The team is headed by the Managing Director and includes members of the Executive Committee and heads of key departments, in addition to other selected members of the management

#### 2nd Line of Defense

**Risk and Compliance Department** is primarily responsible for developing the Company's risk management policies and procedures as well as ensuring compliance. This department is also responsible for ensuring that changes in regulations are disseminated to the appropriate business units. Business unit managers maintain procedures and systems to ensure that regulations and guidelines are followed.

#### 3rd Line of Defense

**The Internal Auditor** is responsible for ensuring the adequacy of the overall risk management and internal control processes of the Company. They report their findings to the management on a monthly basis and to the Audit Committee on a quarterly basis.

**The External Auditor** also reports on internal control weaknesses that affect the financial reporting process identified during the audit.

#### Our Approach to Risk Management

Product development, pricing, underwriting, claims management, reinsurance management, investment management and financial and regulatory reporting represent the core activities conducted by our Company. In carrying out these core activities, the Company is faced with a wide range of risks which are often interlinked and, if not properly managed, could threaten the ability of the Company to achieve its objectives. The Company therefore adopts a holistic approach to correctly identify, measure, monitor and control these risks.



## Risk Management



### Risk Identification

The Company has developed a Risk Assessment report identifying the key risks faced by the Company. Considering both core and supporting activities of the business, the risks the Company faces can be broadly divided into seven main categories.

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

The Risk Assessment Report that was initially prepared in the year 2009 was updated this year too by the Risk Management Team. The Team brainstormed on the risks faced by the Company based on both internal and external environment changes. This year 17 risks were identified as new risks and 7 risks were removed as no longer relevant from the Risk Assessment report.

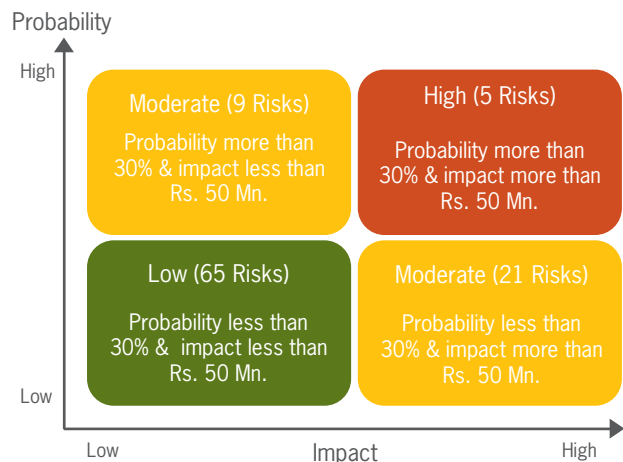
In addition to the brainstorming process, the Company has developed "What Could Go Wrong" questionnaires covering the main areas of operations. The objective of these questionnaires is to critically evaluate the existing controls and identify any areas of risk which are not controlled by the existing policies and procedures. Further, opinions of external

experts have also been obtained on the questionnaires prepared in order to ensure that all relevant risks are addressed.

### Risk Measurement

All identified risks are analysed in terms of the probability of occurrence and impact. A risk matrix has been developed based on the probability and impact providing a quantitative background to the process based on our prior experience. This year, the risk measurement process led to a change in the weighting of 32 risks identified. Of them, 6 risks were upgraded while 26 risks were downgraded. All identified risks were documented in the risk schedule and plotted on the risk grid and ranked as Low, Medium and High based on the Company's risk grid given below.

**HNBA Risk Grid**



### Risk Monitoring

The Risk Assessment report includes the risk management actions taken by the Company for all identified risks. As a matter of routine, a follow-up on the risk assessment report is carried out by the Risk and Compliance Department in order to ensure that all agreed actions have been implemented and also to update the risk profile of the Company to suit the changing environment.

In addition, Internal Auditors have developed their internal audit plan to ensure that all controls identified in the Risk Assessment Report are effectively implemented. Therefore, any control lapses identified during audits are reported in their audit reports which are tabled at the Audit Committee meetings.

During the year a new board sub-committee, namely the Risk Management Committee, was established to further strengthen the risk monitoring aspect of the Company. The details of the Risk Management Committee are given on page 205.

Further, the Risk Management Team has identified Key Risk Indicators (KRIs) on all major risks faced by the Company during the year. All identified KRIs were monitored on a continuous basis and the results were reported at the Risk Management Committee meetings.

During the year, the Company continued to report to the 'Board Integrated Risk Management Committee' (BIRMC) of Hatton National Bank PLC (HNB), the parent Company. Accordingly, four reports providing details of the Company's risk management activities were submitted to the said committee.

### Risk Control

All identified risks in the Risk Assessment report are evaluated at the Risk Management Team meetings to check the adequacy of existing controls. If the existing controls are adequate to mitigate/manage the risk identified, no additional controls are established. However, if the Risk Management Team is of the view that the existing controls are not adequate, further action is discussed and agreed upon. Relevant members of the Risk Management Team are given the responsibility to ensure that new controls agreed upon are implemented to mitigate/manage the identified risks within a given timeframe.

A description of the main risks faced by the Company and controls implemented to mitigate/manage such risks are given below;

## INSURANCE RISK

### Nature of the Risk

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

- Underwriting Risk
- Reinsurance Risk
- Claims Reserving Risk
- Credit Risk

### Underwriting Risk

#### Nature of the risk

This refers to the risk of accepting insurance business that carries an unacceptably high exposure to the risk of claims and accepting risks at rates that do not contain an adequate risk premium. Underwriting risk could also arise due to a lack of understanding regarding changes in the environment such as the effect of climate change due to global warming.

#### HNB Assurance's strategy to manage Underwriting Risk

- An adequate level of segregation of duties is ensured.
- Strict adherence to the Manual of Financial Authority is maintained and the same is reviewed and updated regularly.
- Underwriting is conducted selectively considering both the risk and return, instead of solely focusing on growth in the top line (GWP).

#### Specific to Non - Life Insurance

- Significant investments are made for training and development of underwriting and claims management staff, including those attached to the distribution network.
- Both the underwriters and the distribution managers are assigned Key Performance Indicators on both turnover and profitability.
- Statistical databases are maintained on loss making clients to ensure such clients are strategically declined.
- Adequate reinsurance arrangements have been put in place and the Company consciously reviews the adequacy of these covers in light of catastrophic/extreme events.
- There are strict controls to ensure that no insurance cover is issued without a proper reinsurance arrangement backing the cover except in the case of certain selected classes.

#### Specific to Life Insurance

- Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are adequately priced.
- An in-house Actuarial Department headed by a qualified actuary is in place to review Life Insurance business more closely and guide the management to take more informed pricing decisions.

## Risk Management

- Only registered laboratories are used when obtaining medical reports and regular visits are made by the management to such laboratories to monitor the quality of service.
- Focused training is provided on proper selling in Sinhala, Tamil and English to Insurance Advisors.
- A Customer Need Analysis Form is used to identify customer requirements and sell the most appropriate policy.

### Reinsurance Risk

#### Nature of the risk

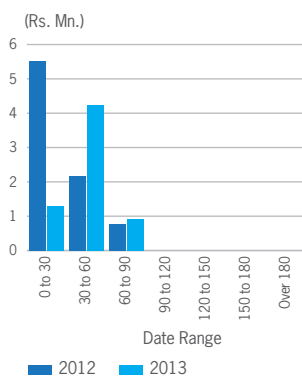
Reinsurance risk refers to:

- retaining risks beyond the Company's net retention capacity without having adequate reinsurance; or
- the inability of reinsurers to meet their commitments due to insufficient financial strength.

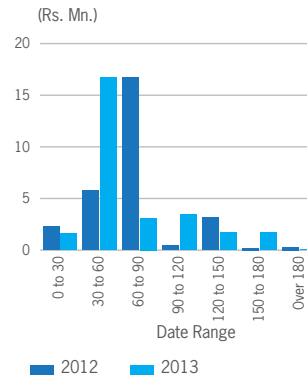
#### HNB Assurance's strategy to manage Reinsurance Risk

- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- A very close and professional relationship is maintained with all reinsurers and reinsurance brokers.
- No cover is issued without a confirmed reinsurance in place, except in the case of some selected classes.
- Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Standard & Poor's or A.M. Best is used. Please refer page 317 for the Credit Ratings of the Company's Reinsurer Portfolio.
- Changes to the ratings of reinsurance companies are continuously monitored and any adverse changes

RI Receivables -  
Life Insurance



RI Receivables -  
Non - Life Insurance



are brought to the notice of the EXCO and the Risk Management Committee.

### Claim Reserving Risk

#### Nature of the risk

Claim reserving risk refers to the non-provision of adequate reserves to meet future obligations arising from claims in the Non - Life Insurance business and claims including maturities in the Life Insurance business.

#### HNB Assurance's strategy to manage Claim Reserving Risk

##### Specific to Non - Life Insurance

- Claim intimation is conducted through a 24-hour fully fledged Customer helpline.
- Assessments are carried out by an independent expert panel of assessors/loss adjustors working throughout the island on a 24 hour basis. They are supplemented by 3 assessors who have been employed by the Company on a full time basis as members of staff.
- Comprehensive estimation of costs and a high quality service to customers are granted through certified garages located island-wide.
- Claims are assessed immediately upon intimation and reserved accordingly.
- The Non - Life Claims Panel (comprising Managing Director, General Manager - General Insurance and Chief Financial Officer) makes decisions on significant/problematic claims and appeals made in respect of Non - Life claims.
- Significant outstanding claims are subjected to monthly reviews by the management.

- The service of a qualified Independent Actuary is obtained bi-annually to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- All third party claim intimations are separately reviewed with the support of the Manager – Legal.
- Closed Files Reviews are carried out by a team led by the Manager – Risk and Compliance to identify any control lapses.

#### Specific to Life Insurance

- An Independent Actuary is engaged to carry out a valuation of the Life Fund twice a year.
- An in-house Actuarial Department headed by a qualified actuary is in place to review reserving in 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.
- The Life Claims Panel (comprising Managing Director, General Manager – Life Insurance and Chief Financial Officer) is involved in taking decisions on significant/problematic claims and appeals made in respect of Life claims.

#### Credit Risk

##### Nature of the risk

Credit risk is identified as the risk pertaining to uncertainty on the debtors' ability to meet obligations due to the Company.

##### HNB Assurance's strategy to manage Credit Risk

- Premium Payment Warranty (PPW) is strictly implemented and all Non - Life Insurance policies with payments outstanding for more than 60 days are cancelled.
- Follow-up meetings on debt collection are conducted with the participation of finance, distribution and underwriting staff on a monthly basis.
- Information regarding policies cancelled due to non-payment of premiums is submitted to the industry database on a routine basis.
- Claim settlements are processed only after reviewing the position of outstanding receivables.
- All other receivables, including reinsurance receivables, are reviewed on a monthly basis and recoveries made on time.

- From 2012, the Company started recording Life Insurance premiums too on credit basis. However, all life policies for which premium is not collected within 30 days are lapsed as per the Company policy.

Please refer page 319 for the age analysis of Premium and Reinsurance Receivables of the Company as at 31st December 2013. Further, the Company has not made any bad debt provisions for receivables from policyholders or reinsurers during the financial year under review.

The impact of the Insurance Risk to the Company's operations is further discussed on pages 310 to 317.

#### INVESTMENT RISK

##### Nature of the Risk

Investment risk refers to the various types of risks associated with the significant portfolio of investments managed by the Company.

- Concentration Risk
- Interest Rate Risk
- Investment Credit Risk
- Liquidity Risk
- Market Risk

#### Concentration Risk

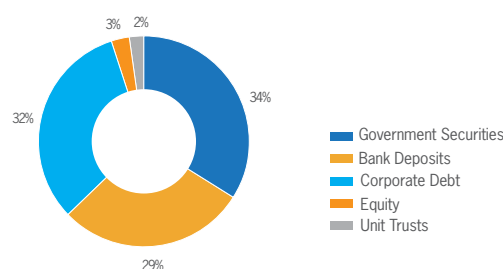
##### Nature of the risk

The risk of over-exposure to a particular company or sector due to lack of diversification in the investment portfolio is referred to as the concentration risk.

##### HNB Assurance's strategy to manage Concentration Risk

- Target asset allocations are set by the Investment Committee in consultation with the management and are

Asset Allocation of Consolidated Investments



## Risk Management

regularly reviewed in accordance with changes in the environment. In particular, the Company's exposure to Equity and Corporate Debt are regularly reviewed and updated.

- The investment portfolio is reviewed by the Managing Director and Chief Financial Officer on a monthly basis with the participation of both front office and back office investment staff. GM - General and GM - Life also participates at these meetings.
- A comprehensive checklist is used to verify the compliance of all new placements other than Government Securities with all applicable rules and guidelines.
- The Investment Committee meets on a quarterly basis and reviews the investment portfolios, investment strategy and the future outlook.
- The Company's compliance with set policies and best practices is reviewed by the internal auditors and the Risk and Compliance Department.

### Credit Risk in investments

#### Nature of the Risk

This relates to the risk of not being able to recover the capital and/or interest relating to investments. This is mainly applicable to investments in Corporate Debt and Fixed Deposits.

#### **HNB Assurance's strategy to manage Credit Risk in Investments**

- A list of entities approved by the Investment Committee consisting of companies which, in the opinion of the Committee, carry minimal credit risk is adopted.
- 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 the investment for approval by the Head of Investment, Managing Director 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 the Company works with 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.

Credit Ratings of Company's Investment Portfolio are given on page 318.

### Interest Rate Risk

#### Nature of the risk

This refers to the risk of the Company being unable to earn adequate returns to meet promised liabilities due to a fall in interest rates or being unable to meet solvency standards as a result of a fall in bond prices due to a rise in interest rates.

#### **HNB Assurance's strategy to manage Interest Rate Risk**

- Market interest rates and other macro-economic indicators and their impact on the Company's Investment Portfolio are monitored closely by both the management and the Investment Committee and necessary changes are made to the asset allocation and the maturity mix of investments on a periodic basis.

### Liquidity Risk

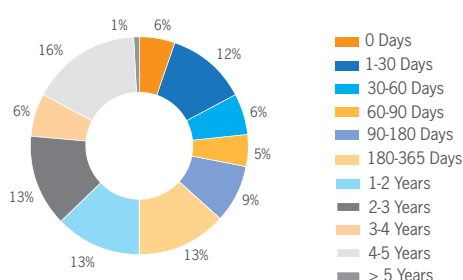
#### Nature of the Risk

Liquidity risk refers to the inability of the Company to meet contractual obligations such as claim settlements and payments to reinsurers and other creditors due to the insufficient availability of cash and other liquid investments.

#### **HNB Assurance's strategy to manage Liquidity Risk**

- The maturity mix of the investment portfolio is reviewed and agreed upon by the management and the Investment Committee on a regular basis.
- All large cash outflows are planned in advance and necessary arrangements are made to ensure the availability of funds to meet such outflows.
- Life Insurance policies sold with a guaranteed return are fully backed by corresponding investments for a higher return and a similar tenure.

Maturity Mix - Consolidated



The maturity mix of the Investment Portfolio is given on page 325.

## Market Risk

### Nature of the Risk

Market risk refers to changes in the value of investments due to volatility of stock and bond prices. The Company's fixed income investment portfolios are also exposed to market risk due to volatility in interest rates as a result of the adoption of new Sri Lanka Accounting Standards (SLFRS/LKAS).

### HNB Assurance's strategy to manage Market Risk in Investments

- Investments are classified into different categories as required by new Sri Lanka Accounting Standards (SLFRS/LKAS) following a systematic basis considering both intention and ability of the Company to hold such investments as per the classification.
- A target portfolio of equities has been developed based on their performance in the market and growth potential.
- Investments are made only in selected companies which are identified after an in-depth research and evaluation process.
- The investment portfolio is reviewed by the Managing Director and Chief Financial Officer on a monthly basis with the participation of both front office and back office investment staff. GM - General and GM - Life also participate at these meetings.
- Meetings are arranged with the Investment Committee on a quarterly basis to discuss investment portfolios, investment strategy and future outlook.

The fair values of the Company's asset portfolios are given on page 300.

In addition, further details of the investment related risks are discussed on pages 317 to 325 as a part of the financial statements.

## STRATEGIC RISK

### Nature of the Risk

Strategic or business risk is the risk associated with the Company's future business plans and strategies, and includes instances such as the failure of future business plans, unexpected threats from rivals or new entrants and the inadequate expansion of service levels and infrastructure in areas such as information technology or networking. In other words, strategic risk refers to the non-achievement of set objectives and the risk of the Corporate Plan and budgets becoming irrelevant/obsolete due to unexpected changes in the external and internal environments.

### HNB Assurance's strategy to manage Strategic Risk

- A Corporate Plan is prepared every year by the corporate planning team, addressing potential risks and including plans for the next three years, and is subsequently approved by the Board after careful review. Based on the agreed plan, objectives for the year are set for all employees in the 'Junior-Executive' category and above.
- A summary of key financial information is reported to the Board on a monthly basis together with appropriate clarifications, interpretations and actions to be taken if there is a deviation from the set objectives.
- The Board reviews the achievement of the Corporate Plan against the set targets on a periodic basis.
- A mid-year review of the Company's Corporate Plan and budgets is carried out to ensure that they are in line with changes in the environment within which the Company operates, and necessary revisions are done with the approval of the Board, if required.
- Performance appraisals of all employees above the Junior-Executive category are conducted twice a year, primarily based on the achievement of the targets set.
- A management information system has been introduced to monitor the status of the agreed activities of the corporate plan on a continuous basis.



## Risk Management

### REGULATORY RISK

#### Nature of the Risk

Regulatory risk may arise if the Company is unable to comply with regulatory requirements which may change periodically.

#### **HNB Assurance's strategy to manage Regulatory Risk**

- All employees are encouraged to commit to the goal of 100% compliance with applicable laws and regulations.
- A compliance checklist, covering all the laws and regulations applicable to the Company, is prepared on a monthly basis, and a sign-off is obtained from all relevant members of the management. This checklist is tabled at Audit Committee Meetings and Risk Management Committee meetings.
- A report is submitted by the Manager – Risk and Compliance to the Audit Committee on a quarterly basis highlighting the Company's compliance with applicable laws and regulations.
- Financial reports, statutory returns to IBSL and information to the CSE are reviewed and approved by the Audit Committee before submission.
- Special care is taken when handling employee-related concerns, in order to pre-empt labour law related issues.
- Internal Auditors have been requested to review and report on any instance of non-compliance with laws and regulations, if any, to both the management and the Audit Committee.
- A Committee was appointed to design the process of segregation of Life and Non - Life businesses into two separate entities. The Committee presented their recommendations to the Corporate Planning team and the same with amendments was presented to the Board. The Board approved the proposed plan for the segregation of Life and Non - Life Insurance businesses into two different companies by forming a subsidiary and transferring the Non - Life Insurance business to it. The Company as at the date of this report is waiting for the observations from the Insurance Board of Sri Lanka (IBSL) on the proposal submitted.
- Working with the industry and submitting necessary information to IBSL with regard to implementation of the Risk Based Capital Framework from 2016 onwards.

The Company maintained its 100% compliance status with all applicable laws and regulations in the country during the year 2013 too. Please refer page 170 for the Regulatory Review. We have also presented a compliance table summarizing compliance with applicable laws and regulations on page 171.

### OPERATIONAL RISK

This refers to operational failures due to inadequate or failed internal processes, people and systems or external events, and includes:

- Business Continuity Risk
- Fraud Risk
- Information Security Risk
- Human Resource Risk

#### Business Continuity Risk

##### Nature of the Risk

This is the risk of business operations being disrupted due to an unexpected occurrence.

#### **HNB Assurance's strategy to manage Business Continuity Risk**

- The continuous updating and effective implementation of the Business Continuity Plan (BCP) is our main strategy to counter this risk. The Company carried out two BCP testings during the year covering all the operational areas of the Company. The results of the testing were tabled at the Audit Committee and the Board. No major concerns were identified after these tests which would have an impact on the business continuity.
- IT infrastructure is made available to support the virtual operation of the Company in a situation where the Head Office or a branch is not accessible and this too was tested once during the year.

#### Fraud Risk

##### Nature of the Risk

This refers to the risk of fraud being perpetrated in the Company's operations due to inadequate internal controls.

#### **HNB Assurance's strategy to manage Fraud Risk**

- Strict adherence is maintained to the Manual of Financial Authority (MOFA), which has been approved by the Board of Directors.
- A stringent Procurement Policy covering all procurement related activities of the Company has been introduced and is strictly implemented at all levels.
- A comprehensive Whistle Blowing Policy is in place, allowing employees at all levels to communicate any wrongdoing, misappropriation or misconduct by any

employee directly to the top management, Audit Committee and the Board confidentially.

- Responsibilities for all positions have been properly delegated through a clearly defined organizational structure.
- Duties regarding all significant operations have been clearly segregated to prevent the concentration of authority.
- A strong control environment, subjected to periodic monitoring by an independent internal audit team (M/S Ernst & Young Advisory Services (Pvt) Ltd), is maintained within the Company.
- External Auditors have been requested to perform a detailed internal control review in their Interim Audit and report any issues to the management and the Audit Committee.
- Monthly reports submitted by the internal auditors are reviewed by the Audit Committee, which also monitors the implementation of all agreed follow-up actions.
- A Code of Best Practice and Ethics has been made applicable to employees at all levels without exception.
- Any complaints or indications whatsoever regarding possible fraud or misappropriation by employees or members of the agency force are investigated immediately and appropriate action is taken promptly. There is zero tolerance of fraud within the Company.
- Many initiatives are promoted to minimize dependence on manual controls and documents, especially through the implementation of information systems. No significant frauds were identified during the year.

### Information Security Risk

#### Nature of the Risk

This refers to losses incurred as a result of the improper use of information systems or as a result of a disaster or a breakdown causing loss of vital data or a lack of access to business critical IT systems.

#### **HNB Assurance's strategy to manage Information Security Risk**

- Adequate investments have been made on IT infrastructure to improve both access and applications controls.
- The IT Security Policy is strictly applied and is communicated to all employees.
- Firewalls and security initiatives, access controls and back-up controls are in place and are reviewed and improved continuously to face future challenges.

- IT security audits/penetration tests are carried out periodically to ensure the Company's systems are well secured and not exposed to hacking.
- A Disaster Recovery Centre with adequate support of IT infrastructure has been set up.
- An Information Security Administrator has been appointed to monitor the IT security aspect of the Company.

### Human Resource Risk

#### Nature of the risk

The main risk in the area of human resources is the inadequacy of professionally qualified personnel in the industry, which has resulted in relatively high staff turnover ratios.

#### **HNB Assurance's strategy to manage Human Resource Risk**

- The Company's HR policy is aimed at supporting the continuous education and development of employees at all levels. As a result of these efforts, 7 more employees qualified as chartered insurers, accountants and actuaries during 2013.
- At every opportunity, employees at all levels are provided with in-house, external and other training, to enhance their knowledge and develop their skills.
- Remuneration packages are aimed to be in line with the industry to retain and attract qualified and talented staff.
- Salary surveys are conducted periodically to ensure competitive wages are given to the staff.
- Industry initiatives to address the training and development needs of employees and advisors are well supported by the Company.
- Opportunities are given to the staff to meet the Managing Director and exchange ideas without the presence of their superiors, through CEO's forums.
- An 'open-door' culture is promoted to enable any employee to access the highest levels of management in order to report or discuss issues requiring their attention.
- Exit interviews are carried out when a member of the staff resigns, in order to identify the causes for leaving. Summarized results of the exit interviews are shared with the members of EXCO to take necessary action if required.
- Employee surveys are carried out on a periodic basis with the help of external facilitators to assess satisfaction levels and to identify areas for improvement.

## Risk Management

- A grievance policy has been adopted to raise any grievances directly with the HR Division and the management.
- Investments are made on staff welfare through the Welfare Society and the HR Division. These are supplemented by relevant divisional activities aimed at motivating staff.
- Regular management meetings and distribution management meetings are conducted to convey the key decisions taken at the top management level and to communicate what is happening in the Company to all members of the management team.
- An annual staff conference is held with the participation of the entire staff and it is used as a forum to brief the staff on the Company's performance in the previous accounting year and the plans due to be executed during the year in progress.

Please refer Human Resources Review from pages 112 to 124 for details of action taken to attract, develop and retain the best talent.

### REPUTATIONAL RISK

#### Nature of the risk

This refers to the impairment of the corporate image and goodwill of the Company due to a particular event or behavior.

#### HNB Assurance's Strategy to manage Reputational Risk

- A sound system of internal controls is in place and is regularly monitored by various parties such as the Manager – Risk and Compliance, Internal and External Auditors, IT Internal Auditors, etc.
- 100% commitment is maintained to be in full compliance with all laws and regulations applicable to the Company's operations.
- All employees and advisors of the Company are required to show a high level of integrity and professionalism at all times. Serious action is taken against any misconduct or misappropriation irrespective of performance or designation.
- Good relations are maintained by the management with regulators, other players in the industry and all other stakeholders in order to ensure that any potential risk is identified in advance and addressed adequately.
- The Code of Business Conduct and Ethics adopted by the Company is expected to be followed by all employees without exception.

- The release of all financial information to the public is subject to approval by the Audit Committee and the Board of Directors.
- All media reports, both traditional and digital, about the Company are closely monitored by the Marketing Division.

No significant reputational risks were identified or materialized during the year.

### SOCIO-ECONOMIC AND POLITICAL RISKS

#### Nature of the risks

Socio-economic and political factors have a direct impact on the insurance business as well as on the investment activities of the Company. This was clearly evident at the height of the conflict and during periods of economic downturn.

#### HNB Assurance's Strategy to manage Socio-Economic and Political Risks

- Significant attention is paid to socio-economic and political factors at the Corporate Planning Sessions on an annual basis.
- Advice is sought from independent specialists such as economists when necessary to identify trends and to understand their financial implications.
- Senior members of the Management Team including the Managing Director, Chief Financial Officer and Head of Investment regularly attend seminars and presentations dealing with macro-economic trends and developments.
- The Company has engaged the services of an economic research and consultancy firm, Frontier Research (Pvt) Ltd., that provides reports on a periodic basis on global and local economic developments.
- Both global and local economic indicators are discussed in detail at quarterly Investment Committee meetings and monthly investment reviews, and necessary actions are taken to mitigate/manage potential risks.
- Pricing of insurance policies is reviewed in light of inflation, fluctuations in interest rates, changes in competitive actions, etc.
- Actions are taken to minimize lapses in Life Insurance, which are likely to increase in unstable economic conditions.

No significant socio-economic or political risks were identified or materialized during the year.

## Financial Information



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## Financial Calendar

SUBMISSION OF STATUTORY RETURNS TO IBSL	Date of submission	Deadline set by IBSL
Annual audited Financial Statements for the year ended 31st December 2012	04th March 2013	30th June 2013
Annual Statutory Returns for the year ended 31st December 2012	24th June 2013	30th June 2013
Quarterly Returns for 2013 1st Quarter (ended 31st March) 2nd Quarter (ended 30th June) 3rd Quarter (ended 30th September) 4th Quarter (ended 31st December)	10th May 2013 15th August 2013 13th November 2013 13th February 2014	15th May 2013 15th August 2013 15th November 2013 15th February 2014
All IBSL submissions were made within the stipulated time lines.		

FINANCIAL CALENDAR	Target set for 2014	Achievements in 2013
<b>Interim Financial Statements</b> 1st Quarter (ended 31st March) - Unaudited 2nd Quarter (ended 30th June) - Audited 3rd Quarter (ended 30th September) - Unaudited 4th Quarter (ended 31st December) - Unaudited	May 2014 August 2014 November 2014 February 2014	08th May 2013 07th August 2013 04th November 2013 05th February 2014
<b>Annual Report and Financial Statements to shareholders</b> 2012 2013	February 2014	04th March 2013
<b>Dividend Payments to shareholders</b> First and Final dividend for 2012 First and Final dividend for 2013	07th April 2014	08th April 2013
<b>Annual General Meetings</b> 11th Annual General Meeting 12th Annual General Meeting	27th March 2014	27th March 2013



# Annual Report of the Board of Directors on the Affairs of the Company

## ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY AND STATEMENT OF COMPLIANCE OF THE CONTENTS OF THE ANNUAL REPORT AS REQUIRED BY SECTION 168 OF THE COMPANIES ACT NO. 07 OF 2007.

### General

The Board of Directors of HNB Assurance PLC (the Company) has pleasure in presenting its Report with the audited Financial Statements for the year ended 31st of December 2013 and the Auditors' Report thereon. The Financial Statements were accepted and approved by the Board of Directors at its meeting held on the 03rd of February 2014.

HNB Assurance PLC is a public quoted company domiciled in Sri Lanka and incorporated on the 23rd of August 2001 under limited liability. The registered office of the Company is situated at No. 479, T B Jayah Mawatha, Colombo 10, while its principal location of business is No. 10, Sri Uttarananda Mawatha, Colombo 3.

The ordinary shares of the Company are listed on the Colombo Stock Exchange (CSE).

### Principal Activities

Non - Life Insurance and Life Insurance businesses remained the principal activities of the Company and no significant changes occurred in this regard during the financial year under review. We also declare that the Company has not engaged in any activities which contravene laws and regulations of the country.

During the year, the Company started providing Takaful products to the market with the consent of the Insurance Board of Sri Lanka (IBSL). Accordingly, the Company provides both the Non - Life Takaful and Family (Life) Takaful products to the market. The Takaful operation, structured as a window unit, is considered a part of the Company's operations for financial and regulatory reporting purposes.

### Review of Performance

A review of the Company's financial and operational performance during the year is contained in the Chairperson's Message (pages 16 to 18), the Managing Director's Review (pages 19 to 25) and the Management Discussion and Analysis (pages 39 to 146). These reports, together with the Financial Statements, reflect the state of affairs of the Company and form an integral part of this report.

### Future Developments

An overview of the future development plans of the Company is given in the Chairperson's Message (pages 16 to 18), the Managing Director's Review (pages 19 to 25) and the Management Discussion and Analysis (pages 39 to 146).

### Financial Statements

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and in compliance with the requirements of the Companies Act, No. 7 of 2007. They also provide the information required under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, the listing rules of the Colombo Stock Exchange (CSE) and other Rules and Regulations of the Insurance Board of Sri Lanka (IBSL).

The Financial Statements of the Company for the year ended 31st of December 2013, duly signed by two Directors and the Chief Financial Officer of the Company, are given on pages 238 to 337 and form an integral part of this report.

### Significant Accounting Policies

The significant accounting policies adopted in the preparation of these Financial Statements are given on pages 248 to 267.

The Company implemented the new/revised Sri Lanka Accounting Standards in the year 2012 and has received an independent confirmation from the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) that 2012 Financial Statements bear no material misstatements.

In the absence of significant changes in accounting standards, it is noted that there were no material changes to the Company's accounting policies in the year 2013.

### Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation and presentation of these Financial Statements of the Company in a manner that reflects a true and fair view of its state of affairs. The Statement of Directors' Responsibility for Financial Reporting is given on page 232 and forms an integral part of this report.

### Going Concern

The Board has conducted necessary reviews and inquiries to assess the Company's ability to apply the assumption of going concern in the preparation of these Financial Statements. These included, amongst others, a review of the Company's budget and Corporate Plan for ensuing years, future prospects and



## Annual Report of the Board of Directors on the Affairs of the Company

risks, capital expenditure requirements and cash flows. Following such review, the Board is satisfied that the Company possesses adequate resources to continue its operations into the foreseeable future and hence endorses the continuous adoption of the assumption of going concern.

### Auditors' Report

The Financial Statements for the year ended 31st of December 2013 have been audited by Messrs. KPMG, a firm of Chartered Accountants, and their report on the Financial Statements which forms an integral part of the Report of the Board of Directors, is given on page 237 of this report.

### Appointment of Auditors for the Financial Year 2014

During the year, the Company adopted a comprehensive Auditor Rotation Policy, to become effective from the financial year ending 31st of December 2014. According to this Policy, the Company's External Auditor shall be rotated once every five (5) years, subject to approval of the shareholders, with the existing auditor not being eligible to be selected immediately after the completion of its tenure. Thus, Messrs. KPMG, the existing auditor, will not be eligible to be reappointed as the Company's auditor for the next year, in accordance with the Auditor Rotation Policy.

Accordingly, in order to select the External Auditor for the financial year ending 31st of December 2014, Requests for Proposals were dispatched to two (2) leading audit firms practicing in the country. After the due evaluation based on specified criteria mentioned in the Requests for Proposals, the Audit Committee has recommended to the Board of Directors that Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants, be appointed as the External Auditors of the Company for the financial year ending 31st of December 2014. The Board having accepted such recommendation, proposes that Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants, be appointed as the External Auditors of the Company at the Annual General Meeting to be held on the 27th of March 2014.

In accordance with the Companies Act, No. 7 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 2014.

### Auditors' Fees and Expenses

The External Auditors of the Company were Messrs. KPMG, Chartered Accountants during the period under review. The fee amount paid/ payable for the services provided to the Company during the year, together with corresponding figures for the previous year, is presented below.

	2013 Rs. '000	2012 Rs. '000
Audit Fees and Expenses	1,356	1,155
Audit - Related Fees and Expenses	1,116	1,058
Non Audit Fees	-	635
<b>Total</b>	<b>2,472</b>	<b>2,848</b>

Note: Audit - related fees and expenses consist of fees for the interim audit and fees for reports issued to the Commissioner General of Inland Revenue (CGIR) and Insurance Board of Sri Lanka (IBSL), etc.

### Independence of Auditors

Based on the declaration provided by Messrs. KPMG, and to the extent that the Directors are aware, the Auditors do not have any relationship with (other than that of the Auditor) or interest in the Company which, in our judgment, may reasonably be thought to have a bearing on their independence.

### Risk and Internal Control

The Board understands that strong internal controls are integral to the sound management of the Company and therefore is committed to maintain strict financial, operational and risk management controls.

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is sought to be designed to minimise rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

In order to strengthen the risk management practices of the Company, the Board decided to set up a new Board sub-committee for risk management during the year. Thus, the responsibility for the design and implementation of a sound risk management framework is now under the purview of the Risk Management Committee and some of the responsibilities that were previously assigned to the Audit Committee in respect of risk management have now been transferred to the Risk Management Committee. This Risk Management Committee comprises three (3) Non-Executive Directors of the Board and held two (2) meetings during the year.

The Company has an ongoing process for identifying, evaluating and managing risks faced, and during the year the Directors reviewed this process through the Audit Committee and the Risk Management Committee. The Board is satisfied with the

effectiveness of the system of internal control for the year under review and up to the date of approval of the Annual Report and Financial Statements.

A detailed report of the Risk Management Committee, highlighting its roles and the responsibilities, appears on page 205.

### Corporate Governance

The Board of Directors is committed to maintain an effective corporate governance structure and process and to be in compliance with all relevant rules, regulations and best practices on corporate governance, extending beyond regulatory requirements.

The Company, being listed on the main board of the Colombo Stock Exchange (CSE), is fully compliant with the rules on Corporate Governance under the Listing Rules. In addition, the Company is in compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL).

A report on the enterprise governance endeavours of the Company is given on pages 148 to 218.

### Turnover / Gross Written Premium (GWP)

The total turnover of the Company is identified as Gross Written Premium (GWP). The table below shows the GWP for each line of business for the current year, together with the comparative figures for the previous year.

Line of Business	2013	2012
	Rs. Million	Rs. Million
Non - Life Insurance	1,863	1,711
Life Insurance	2,015	1,500
<b>Total</b>	<b>3,878</b>	<b>3,211</b>

A detailed analysis of the total GWP recorded by the Company is given in Note 24 to the Financial Statements on page 290.

### Financial Results and Appropriations

The Statement of Comprehensive Income of the Company is given on page 239. Transfers to/from reserves of the Company are shown in the Statement of Changes in Equity appearing on page 240.

	2013	2012
	Rs. '000	Rs. '000
Profit Before Taxation (PBT)	425,093	393,866
Income tax expenses	(35,970)	(42,726)
<b>Profit for the year</b>	<b>389,123</b>	<b>351,140</b>
Unappropriated profit brought forward	690,197	444,057
Profits available for appropriation	1,079,320	795,197
Dividends paid	(137,500)	(105,000)
<b>Unappropriated profit carried forward</b>	<b>941,820</b>	<b>690,197</b>

### Dividends

The Board of Directors is satisfied with the Solvency Test in terms of the provisions of the Companies Act, No. 7 of 2007, immediately after the distribution of the first and final dividends proposed and to be paid on the 07th of April 2014.

The Statement of Solvency prepared by the Board was audited by Messrs. KPMG.

The Board of Directors recommends a first and final dividend of Rs. 3.25 (2012 - Rs. 2.75) per share payable on the 07th of April 2014 to holders of issued and paid-up ordinary shares of the Company, as at the close of business on the 27th of March 2014.

The dividend will be paid partly out of dividends received and partly out of taxable profits of the Company. The dividends to be paid out of profits will be subject to withholding tax.

### The Board of Directors

The Board of Directors of the Company consists of ten (10) Directors (2012 – Nine Directors) each of whom possesses wide financial and commercial knowledge and experience.

The following Directors held office during the year and their brief profiles are given on pages 28 and 29 of this report.

## Annual Report of the Board of Directors on the Affairs of the Company

Name of the Director	Executive/Non - Executive	Independent/Non - Independent
Dr. Raneer Jayamaha – Chairperson	Non-Executive Director	Non Independent
Manjula de Silva – Managing Director	Executive Director	Non Independent
R Theagarajah (resigned w.e.f. 1st May 2013)	Non-Executive Director	Non Independent
M U de Silva	Non-Executive Director	Non Independent
Pratapkumar de Silva	Non-Executive Director	Independent
Sarath Ratwatte	Non-Executive Director	Independent
A J Alles	Non-Executive Director	Non Independent
J A P M Jayasekera	Non-Executive Director	Independent
K Balasundaram	Non-Executive Director	Independent
Dilshan Rodrigo (appointed w.e.f. 1st July 2013)	Non-Executive Director	Non Independent
Siromi Wickramasinghe (appointed w.e.f. 2nd October 2013)	Non-Executive Director	Non Independent

### Appointment of Directors

Mr. Dilshan Rodrigo and Ms. Siromi Wickramasinghe were appointed to the Board as Non-Executive Directors with effect from the 1st of July 2013 and the 2nd of October 2013 respectively in terms of Article 92 of the Articles of Association of the Company.

### Resignation of Directors

Mr. R Theagarajah (Non-Independent, Non-Executive Director) resigned from the directorship of the Company on the 1st of May 2013.

### Retirement and Re-Election/ Re-appointment of Directors Recommended

Mr. Dilshan Rodrigo and Ms. Siromi Wickramasinghe retire at the AGM under Article 92 of the Articles of Association of the Company and offer themselves for re-election under the said Article.

In terms of the provisions of the Companies Act, a Director of a public company who is over 70 years of age and who continues to be a member of the Board has to be re-appointed by the shareholders annually. Accordingly, two separate resolutions will be proposed for the re-appointment of Mr. M U de Silva and Mr. Pratapkumar de Silva, Directors of the Company, notwithstanding the age limit of 70 years stipulated by Section 210 of the Companies Act, No. 7 of 2007.

The re-election/re-appointment of the aforesaid Directors has the unanimous support of the Board.

### Board Sub-Committees

The Board, while assuming the overall responsibility and accountability for the management of the Company, has also appointed Board sub-committees to ensure more effective control over certain affairs of the Company, conforming to the Corporate Governance Standards of the Listing Rules of the Colombo Stock Exchange (CSE) and adopting best practices. Accordingly, the following Board sub-committees have been constituted by the Board.

- Audit Committee
- Remuneration Committee
- Nomination Committee

In addition to the above, the Board has also appointed an Investment Committee, comprising members of the Board and an outside expert to oversee control over investments. Moreover, the Board appointed a Risk Management Committee during the year in order to oversee the design and implementation of risk management practices of the Company.

The composition of each Board sub-committee is given on page 225 which is a part of the Annual Report of the Board.

### Directors' Meetings

The number of Directors' meetings, which comprise Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings, Investment Committee meetings and Risk Management Committee meetings, together with the attendance of each Director at these meetings during the year are tabulated below.

Name of the Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings		Investment Committee Meetings		Risk Management Committee Meetings	
	A	B	A	B	A	B	A	B	A	B	A	B
Dr. Ranee Jayamaha (Chairperson)	12	12					1	1				
Manjula de Silva (Managing Director)	12	12					1	1	4	4		
R Theagarajah (resigned w.e.f. 1st May 2013)	4	4										
M U de Silva	12	12			1	1	1	1			2	2
Pratap Kumar de Silva	12	10										
Sarath Ratwatte	12	12	6	6	1	1			4	4		
A J Alles	12	10	6	6			1	1				
J A P M Jayasekera	12	10	6	6								
K Balasundaram	12	10			1	0					2	2
D P N Rodrigo (appointed w.e.f. 1st July 2013)	6	5									2	2
Siromi Wickramasinghe (appointed w.e.f. 2nd October 2013)	3	3										

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

B = Number of meetings attended

### Directors' Interest Register

The Company maintains a Directors' Interest Register conforming to the provisions of the Companies Act No. 7 of 2007. All Directors of the Company have disclosed their interests in other Companies to the Board and those interests are recorded in the Directors' Interest Register, conforming to the provisions of the Companies Act No. 7 of 2007.

The particulars of those entries are set out on page 231 of the Financial Statements, which forms an integral part of the Annual Report of the Board of Directors.

### Directors' Interest in Contracts

No Director has had direct or indirect interests in any contracts or proposed contracts with the Company other than those disclosed on page 231.

### Directors' Interest in Shares as at the Reporting Date

The following table discloses the Directors' interest in shares of the Company.

## Annual Report of the Board of Directors on the Affairs of the Company

Directors	Number of Shares	
	As at 31st Dec 2013	As at 31st Dec 2012
Dr. Raneer Jayamaha – Chairperson	100	Nil
Manjula de Silva – Managing Director	38,332	38,332
R Theagarajah	(resigned w.e.f. 1st May 2013)	8,332
M U de Silva	3,000	3,000
Pratap Kumar de Silva	1,332	1,332
Sarath Ratwatte	14,666	14,666
A J Alles	1,000	Nil
J A P M Jayasekera	5,000	Nil
K Balasundaram	10,000	10,000
D P N Rodrigo (appointed w.e.f. 1st July 2013)	180	NA
Siromi Wickramasinghe (appointed w.e.f. 2nd October 2013)	52,500	NA

There has been no change in their interest in shares between the 31st of December 2013 and the 03rd of February 2014, the latter being the date of this Report.

### Directors' Remuneration and Other Benefits

The details of the Directors' fees and emoluments, including post-employment benefits, for the financial year ended 31st of December 2013 are given below.

	2013 Rs. '000	2012 Rs. '000
Short - term employee benefits	23,220	17,039
Post - employment benefits	8,387	4,930
<b>Total</b>	<b>31,607</b>	<b>21,969</b>

Directors are not entitled to obtain loans of any kind from the Company.

The Managing Director's remuneration is decided by the Board with the recommendation of the Remuneration Committee, in consideration of the individual and Company performance. Due attention is also paid to industry standards, inflationary factors and future plans when deciding the remuneration package of the Managing Director.

No remuneration is paid to Non- Executive Directors other than the fees paid in line with the attendance of each Director at Board and sub-committee meetings.

### Related Party Transactions

The Directors have disclosed the transactions with related parties in terms of Sri Lanka Accounting Standard (LKAS) 24 - Related Party Disclosures, which has been adopted in the preparation of these Financial Statements.

Such transactions disclosed by the Directors are given in Note 41 to the Financial Statements on pages 303 to 306 and form a part of the Annual Report of the Board.

### Share Information

Information relating to earnings, dividends, net assets market price per share and information on share trading appears on page 344 of this report.

### Shareholding

The number of registered shareholders of the Company as at the 31st of December 2013 was 3,673 (2012 - 3,811). The distribution and analysis of shareholdings appear on page 344.

### Equitable Treatment of All Shareholders

The Company has at all times ensured that all shareholders are treated equitably. Accordingly, while this annual report together with the Financial Statements is primarily prepared and presented in the English language, Sinhala and Tamil language translations of the Chairperson's Message, Managing Director's Review, Statement of Financial Position, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity, are available on request.

### Major Shareholders

Information on the twenty largest shareholders of the Company as at the 31st of December 2013, together with comparative shareholding as at the 31st of December 2012, is given on page 339.

Hatton National Bank PLC owns 59.99% (2012 - 59.99%) shares of HNB Assurance PLC. Dr. Raneey Jayamaha, Chairperson, Mr. Jonathan Alles, Managing Director/ Chief Executive Officer, Mr. Dilshan Rodrigo, Chief Operating Officer of Hatton National Bank PLC and Ms. Siromi Wickramasinghe represent the main shareholder in the Company's Board.

### Corporate Donations

The Company made charitable donations amounting to Rs. 300,000/- (2012 - Rs. 300,000/-) during the year. This included providing medical trolleys and medical trays to the Children's Ward of the Cancer Hospital – Maharagama, as per the request of the hospital officers.

The Company also donated an exercise machine (treadmill) and material to construct a bathroom for the use of disabled soldiers at the Rehabilitation Center of the Gamunu Regiment of the Sri Lanka Army at Kuruvita. This special Medical Center currently treats approximately 380 disabled soldiers.

The total cost of the above donations amounted to Rs. 200,000/- . In line with past practice, the Company donated a sum of Rs. 100,000/- to eight religious institutions representing the four main religions. These donations were made to support a specific activity in each religious institution chosen.

It must be noted that no donations were made by the Company to political parties or for politically influential activities.

### Taxation

Income taxes are computed based on rates enacted or substantively enacted as at the Reporting Date. The income tax rate applicable to the Company's operations for the year under review is 28% (2012 - 28%).

The income tax expense of the Company is given in Note 37 to the Financial Statements, appearing on pages 296 and 298.

As further explained in Note 37.6.b to the Financial Statements, no deferred tax asset is recognised in Life Insurance since it is not probable that future taxable profits will be adequate to utilise the available tax losses fully in the foreseeable future.

The Company has utilised tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences in the Life division. The unrecognised Deferred Tax asset as at 31st December 2013 in Life Business amounted to Rs. 575.3 Million. (2012 Rs. 465.5 Million.)

However, the Company has utilised tax losses to recognise a deferred tax asset in Non - Life Insurance Business.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits.

### Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government, the Insurance Board of Sri Lanka (IBSL) and the employees have been made on time.

### Compliance with Laws and Regulations

The Company has complied with all applicable laws and regulations. A compliance checklist is signed-off on a monthly basis by responsible officers and reported to the Audit Committee.

The Company has submitted all returns and other required details to the relevant regulators on or before the due dates.

### Segregation of Insurance Companies

The Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 requires insurance companies engaged in both long term (Life) insurance business and general insurance (Non - Life) business to segregate themselves into two separate companies by the year 2015. Subsequent to the publishing of this requirement in the Act, the Insurance Board of Sri Lanka (IBSL) has issued guidelines to assist insurance companies to conduct the segregation process with minimum interruptions. These are titled "Guidelines on segregation of insurers engaged in carrying on both Long Term and General Insurance Businesses into two separate companies in compliance with Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011".

In line with the said guidelines, the Company has incorporated a new company namely "HNB General Insurance Ltd" as a fully owned subsidiary of HNB Assurance PLC and intends to transfer the General Insurance business of HNB Assurance PLC to the said subsidiary. When compared with other available options, many advantages underlie this option, mainly in respect of taxation, transfer of business and subsequent business operations. It is



## Annual Report of the Board of Directors on the Affairs of the Company

also our intention to minimise the costs of operation arising out of the segregation of the businesses, whilst facilitating future business development opportunities.

The Company has submitted the proposed model to the IBSL and the relevant approvals are pending. Accordingly, the Company is currently in the process of applying for a license for the newly incorporated company to carry out Non – Life Insurance business.

The Board of Directors recommends the transfer of the Non - Life insurance business (including all assets and liabilities relating to that part of the business) to the subsidiary company, subject to such transfer being approved by the shareholders of the Company at the Annual General Meeting to be held on the 27th of March 2014.

The new subsidiary “HNB General Insurance Ltd” will commence its commercial operations with effect from the 1st of January 2015 in line with the guidelines issued by IBSL.

### Implementation of Risk Based Capital (RBC)

The Insurance Board of Sri Lanka (IBSL) has decided to implement a Risk Based Capital (RBC) framework in Sri Lanka to monitor insurance companies in the country, replacing the existing solvency regime. The deadline given by the IBSL for implementation of RBC is January 2016.

In order to ensure the smooth transition from the current solvency regime to RBC, the IBSL launched the RBC Road Test from September 2012 to June 2013. Based on the results of the Road Test, the IBSL issued the final draft of the RBC framework in October 2013 and it was decided that a compulsory parallel run would be conducted in 2014 and 2015 to help insurers to shift to the RBC regime whenever they consider themselves to be ready.

HNB Assurance PLC participated in the RBC Road test from its inception till the end and provided all information required by the IBSL. In preparation for the adoption of the RBC framework, the Company uses two independent and separate actuarial consultants for Life and Non - Life businesses. It is believed that the Company has made considerable progress towards RBC implementation over the last two years and the compulsory parallel run will commence from the year 2014 onwards. Moreover, it is strongly believed that the Company can implement RBC requirements without any significant concerns by the due date.

### Financial Investments

Financial investments mainly comprise the Company's investment portfolios, which have been segregated into different categories as required by Sri Lanka Accounting Standards (SLFRS/LKAS).

The amount of financial investments held by the Company as at 31st of December 2013 amounted to Rs. 6,656.4 Million (2012 - Rs. 5,703.9 Million).

A detailed description of the financial investments is enclosed in Note 06 to the Financial Statements on pages 271 to 278.

### Property, Plant and Equipment (PPE)

The capital expenditure on acquisition of Property, Plant and Equipment during the year amounted to Rs.56.0 Million (2012 - Rs. 37.8 Million). The carrying value of Property, Plant and Equipment as at the Reporting Date amounted to Rs. 137 Million (2012 - Rs. 118.4 Million).

An analysis of the Property, Plant and Equipment of the Company, additions and disposals made, together with the depreciation charge for the year, is set out in Note 05 to the Financial Statements on pages 269 and 270.

Following their initial recognition, Property, Plant and Equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

### Intangible Assets

The capital expenditure on acquisition of intangible assets during the year amounted to Rs. 8.8 Million (2012 - Rs. 25.4 Million), which mainly includes the expenditure incurred on the acquisition of computer software. The carrying value of intangible assets as at the Reporting Date amounted to Rs. 53.8 Million (2012 - Rs. 61.1 Million).

Movement of intangible assets from the balance as at the 1st of January 2013 to the balance as at the 31st of December 2013, additions and disposals made, together with the amortisation charge for the year, are set out in Note 04 to the Financial Statements on page 268.

Following their initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

### Capital Commitments

The amount of capital expenditure approved and contracted, for which no provision has been made in the Financial Statements as at 31st December 2013, is Rs. 6.5 Million (2012 - Nil).

### Liabilities and Provisions

The Directors have taken all reasonable steps to ensure the adequate provisioning of all known liabilities. Accordingly, adequate provisions have been made for unearned premiums and claims outstanding, including provisions for Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) in Non - Life Insurance. The Directors have also consulted an independent Actuary in the process of valuing IBNR and IBNER reserves and his report is given on page 234.

Moreover, the Directors have arranged a Consultant Actuary to value the Life Fund and the relevant report is given on page 235.

The Company also carried out the Liability Adequacy Test (LAT) in respect of both Life and Non - Life Insurance Contract Liabilities (Insurance Provisions) as required by SLFRS 4 - Insurance Contracts with the assistance of External Actuaries and was able to conclude that the recorded liabilities are adequate to meet future obligations arising from the insurance contracts. The Company has decided to perform the LAT on an annual basis.

The gratuity liability was also valued by an independent Actuary as required by the Sri Lanka Accounting Standards No 19 - Employee Benefits (Revised 2013).

As at the date of this report, the Directors are not aware of any circumstances which would render inadequate provisions made in the Financial Statements.

### Contingencies

After due consultation of the Lawyers of the Company, the Directors are of the opinion that litigation currently pending against the Company would not have a material impact on the reported financial results of the Company. All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

### Events Occurring after the Reporting Date

The Board of Directors has recommended the payment of a first and final dividend of Rs.3.25 per share for the year ended 31st December 2013 (2012 - Rs. 2.75 per share) which is to be approved at the Annual General Meeting to be held on 27th March 2014. More information with respect to a dividend declaration is given on Note 39.

The Company has already incorporated a fully owned subsidiary, HNB General Insurance Ltd, on 30th January 2014 in order to transfer the General Insurance (Non - Life Insurance) business w.e.f. 1st January 2015 in line with the requirement to segregate Life and General Insurance (Non - Life Insurance) business by Regulation of Insurance Industry (Amendment) Act No. 03 of 2011.

Except for the above mentioned events after the Reporting Date there have been no material events occurring after the Reporting Date that require adjustments to or disclosure in the Financial Statements.

### Stated Capital and Reserves

The stated capital of the Company as at the 31st of December 2013 was Rs. 1,171,875,000/- (2012 - Rs. 1,171,875,000/-) comprising 50,000,000 ordinary shares.

There were no changes in the stated capital during the year.

The total retained earnings of the Company as at the 31st of December 2013 amounted to Rs. 941.8 Million (2012 - Rs. 690.2 Million). The movement of reserves is shown in the Statement of Changes in Equity on page 240.

### Minimum Capital Requirements to continue Non - Life and Life Insurance Businesses

Section 13 (b) of the Regulation of Insurance Industry Act, No. 43 of 2000 requires a minimum stated capital of Rs. 100 Million for each line of insurance business, i.e. Non - Life and Life Insurance. However, the Insurance Board of Sri Lanka (IBSL) has indicated that they anticipate increasing the stated capital per line of business to Rs. 500 Million. In fact, the IBSL has already increased the minimum capital requirement for new companies to Rs.500 Million with effect from the 24th of June 2011. Therefore, a composite insurance company will soon be required to have a stated capital of Rs. 1 Billion. These rules have been issued in line with the Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011 issued in February 2011.

HNB Assurance PLC has an issued and fully paid stated capital of Rs. 1,171.9 Million (2012 - Rs. 1,171.9 Million) and therefore has already fulfilled this proposed statutory requirement.

The Company has set aside Rs. 500 Million (2012 - Rs. 500 Million) out of Shareholders' funds and invested in a separate fund, namely the Life Shareholder's Fund, which is dedicated to the solvency requirements of the Life Insurance business.

### Environment

The Company's activities can have direct or indirect effects on the environment. It is the policy of the Company to minimise any such adverse effects by recycling resources as much as possible and creating awareness among its staff on current global environmental threats. The Company does its best to comply with the relevant environmental laws and regulations and has not engaged in any activity that is harmful or hazardous to the environment.

## Annual Report of the Board of Directors on the Affairs of the Company

Activities carried out to protect the environment by the Company are described in detail on pages 137 to 140.

### Human Resources

The employment strategies of the Company are framed to recruit, train, develop and retain the best talent available within the industry. In order to facilitate the process of matching people to jobs, the Company's employment policy is structured to include recruitment from external sources as well as through internal promotions. The Company always respects the merits of the individual and provides career opportunities irrespective of gender, race or religion. The island wide distribution network of the Company helps in providing employment opportunities to youth from almost all parts of the country, including the north and the east.

Recruitment levels are determined by the staff requirements forecast, which is updated every year. The annual staff requirements forecast is prepared by considering the projected growth and expansion of the distribution network, profitability, expense ratio, level of automation of activities, productivity, work volumes, multiple skills, etc.

Medical and Life Insurance benefits are available for all employees of the Company, irrespective of their level or period of service.

The Company encourages sports and recreational activities by supporting the Employees' Welfare Society, which organises such activities, in addition to those organised by the Company's Human Resources Division.

A brief description of the Company's HR Policy and the Remuneration Methodology are given in the Remuneration Committee Report on pages 200 to 202.

### Code of Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without any exception. There were no material violations of the Code during the year, except certain insignificant violations noted at the operational level, for which appropriate action has been taken.

### Whistle Blowing

A Whistle Blowing Policy is operative within the Company and the same had been communicated to all members of the staff. This enables any member of the Company to raise issues with the management and the Board, in order to identify possible risks faced by the Company at an early stage.

No serious concerns were raised through this medium during the year.

### Vision, Mission and Corporate Conduct

The Company's vision and mission are provided on page 4 of this report. In view of realising its vision and being committed to its mission, all Directors and employees conduct their activities maintaining the highest levels of ethical standards and integrity, as set out in the Code of Business conduct, Ethics and in conformity with the values of the Company stated on page 4 of this report.

### Reports of the Audit Committee, Remuneration Committee, Investment Committee and the Risk Management Committee

The table below provides the report references of the committees.

Committee	Page No.
Audit Committee	195
Remuneration Committee	200
Investment Committee	203
Risk Management Committee	205

### Annual General Meeting

The twelfth 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 Thursday, the 27th day of March 2014 at 10.00 in the forenoon. The Notice of the twelfth Annual General Meeting is on page 348 of the Annual Report.

For and on behalf of the Board



Chairperson



Managing Director



Board Secretary

Colombo, Sri Lanka  
03rd February 2014

## Directors' Interest in contracts with the Company

Related Party Disclosures as per Sri Lanka Accounting Standard - LKAS 24 on Related Party Disclosures are detailed in Note 41 to the Financial Statements on pages 303 to 306 of this Annual Report.

In addition, the Company carries out transactions in the ordinary course of business on an arm's length basis with entities where the Chairperson or a Director of the Company is the Chairperson or Chairman or a Director of such entities, as detailed below:

Company	Name of Director	Nature of Transaction	Insurance Segment	2013 Rs. '000	2012 Rs. '000
The HDFC Bank of Sri Lanka	Siromi Wickramasinghe	Investment in Debentures and Term Deposits	Non - Life	65,970	70,707
			Life	118,946	54,453
		Investment Income	Non - Life	7,929	5,707
			Life	9,091	4,453
Guardian Acuity Asset Management Ltd.	D P N Rodrigo	Investment in Units	Non - Life	11,658	11,009
			Life	11,658	11,009

## Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Company, prepared in accordance with the provisions of the Companies Act, No. 7 of 2007, is set out in the following statement. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the Auditors, given on page 237 of this Annual Report.

As per the provisions of the Companies Act, No. 7 of 2007 the Directors are required to prepare Financial Statements for each financial year and place them before a general meeting. The Financial Statements comprise Statement of Financial Position as at 31st of December 2013, the Statement of Comprehensive Income, Statement of Changes in Equity and the Cash Flow Statement for the year then ended and notes thereto.

The Financial Statements of the Company give a true and fair view of:

1. The state of affairs of the Company as at the date of the Statement of Financial Position; and
2. The Financial Performance of the Company for the financial year ended 31st December 2013.

In preparing these Financial Statements, the Directors are required to ensure that:

1. Appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgments and estimates have been made and that they are reasonable and prudent;
3. All applicable accounting standards as relevant have been followed; and
4. Information required by and otherwise comply with the Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43, of 2000 and subsequent amendments thereto and the Listing Rules of the Colombo Stock Exchange (CSE) or requirements of any other regulatory authority are provided in full.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparation of these Financial Statements.

The Directors also have a responsibility to ensure that the Company maintains sufficient accounting records to disclose with reasonable accuracy the financial position of the Company.

These Financial Statements which have been prepared and presented in the Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, Regulation of Insurance Industry Act, No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

The Directors have also taken reasonable steps to establish and maintain appropriate systems of internal controls to safeguard the assets of the Company, prevent and detect fraud and other irregularities, and to secure as far as practicable the accuracy and reliability of records.

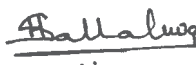
Directors are required to prepare the Financial Statements and to provide the Company's External Auditors, Messrs KPMG, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary to express their independent audit opinion on the Financial Statements (Page No. 238 - 241)

Further, as required by the Section 56(2) of the Companies Act, No. 7 of 2007, the Board of Directors has confirmed that the Company, based on the information available, would satisfy the solvency test immediately after the distribution of dividends, in accordance with the Section 57 of the Companies Act, No. 7 of 2007, and has obtained a certificate from the Auditors, prior to declaring a final dividend of Rs. 3.25 per share for this year, to be paid on 07th April 2014.

The Directors, also wish to confirm that to the best of their knowledge and belief, they are satisfied that all statutory payments including taxes and duties in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the Reporting Date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



**Shiromi Halloluwa**  
Board Secretary

Colombo, Sri Lanka  
03rd February 2014

## CEO's and CFO's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL), the requirements of the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto.

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the Financial Statements.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to these Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Company's state of affairs is reasonably presented. To ensure this, the Company has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by Messrs. KPMG, Chartered Accountants, the Independent Auditors.

The Audit Committee of the Company meets periodically with the Internal Auditors and the External Auditors to review the manner in which these Auditors are performing their responsibilities, and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

We confirm that the Company has complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the Company other than those arising in the normal course of conducting insurance business.

Also taxes, duties and all statutory payments by the Company and in respect of the employees of the Company as at the Reporting Date have been paid or where relevant accrued.



**Manjula de Silva**  
Managing Director/Chief Executive Officer



**Vipula Dharmapala**  
Chief Financial Officer

Colombo, Sri Lanka  
03rd February 2014



## Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserve



24 January 2014

To the shareholders of HNB Assurance PLC

HNB Assurance PLC 31 December 2013 Net IBNR and LAT Certification

I hereby certify that the discounted Central Estimate of IBNR provision of Rs.27,368,678, is adequate in relation to the Claim Liabilities of HNB Assurance PLC as at the 31<sup>st</sup> December 2013, net of reinsurance. This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate to meet the future liabilities in respect of the Company's reported claims obligations as at 31st December 2013, 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 Rs.753,236,590 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of HNB Assurance PLC as at 31st December 2013, 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 reasonability of the data.

A handwritten signature in black ink, appearing to read 'Matthew Maguire'.

Matthew Maguire  
Fellow of the Institute of Actuaries of Australia (FIAA)  
For and on behalf of NMG Consulting  
Dated 24 January 2014

## Report of the Life Actuary



Actuarial & Management  
Consultants (Pvt) Limited

1st Floor, 434, R.A. De Mel Mawatha, Colombo 03, Sri Lanka. Telephone (94)112575280/ (94)112301079 Fax: (94) 112301079

03 February 2014

**To the Shareholders of HNB Assurance PLC.**

### **ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER, 2013**

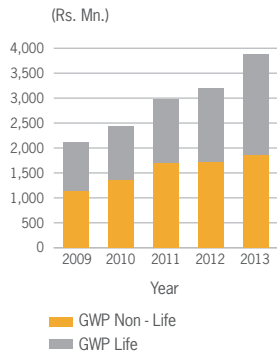
We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2013. We hereby certify that, in our opinion,

- 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, 2013, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date;
- 3) The Long Term Insurance Fund as included in the audited accounts exceed the required actuarial reserves as at 31 December, 2013 by Rs.510,400 million, before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders.
- 4) The solvency margin required under the Regulation of Insurance Industry Act No. 43 of 2000 is Rs.201.666 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2013.

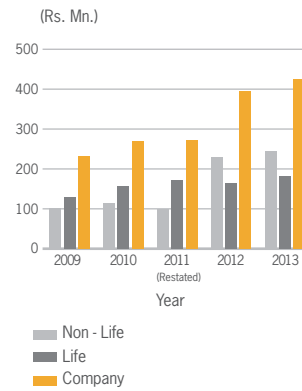
**M POOPALANATHAN  
ACTUARY**

# Financial Highlights

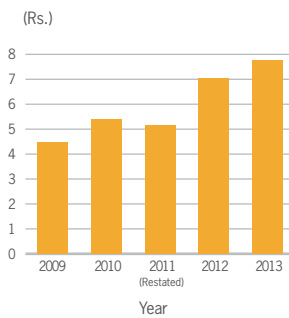
Gross Written Premium (GWP)  
- Company



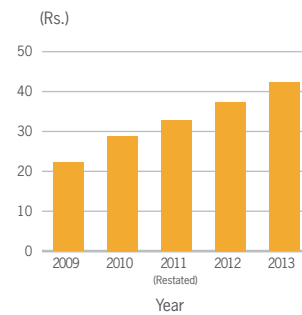
Profit Before Tax



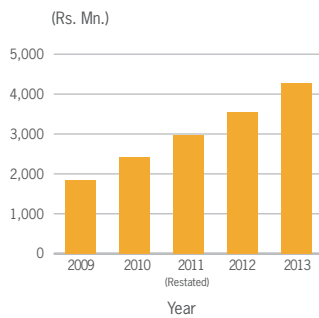
Earnings Per Share (EPS)



Net Asset Value  
Per Share



Insurance Contract  
Liabilities - Life



Insurance Contract  
Liabilities - Non - Life



## Independent Auditors' Report



<b>KPMG</b> (Chartered Accountants) 32A, Sir Mohamed Macan Markar Mawatha, P. O. Box 186, Colombo 00300, Sri Lanka.	Tel : +94 - 11 542 6426 Fax : +94 - 11 244 5872 +94 - 11 244 6058 +94 - 11 254 1249 +94 - 11 230 7345 Internet : www.lk.kpmg.com
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### INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HNB ASSURANCE PLC

#### Report on the Financial Statements

We have audited the accompanying Financial Statements of HNB Assurance PLC ("the Company"), which comprise the Statement of Financial Position as at December 31, 2013, the statements of comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 238 to 337 of the annual report.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

#### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2013 and the Financial Statements give a true and fair view of the financial position of the Company as at December 31, 2013, and of its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Report on Other Legal and Regulatory Requirements

These Financial Statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007. Pursuant to Regulation of Insurance Industry Act, No. 43 of 2000 Section 47 (2), we also report, so far as appear from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

#### CHARTERED ACCOUNTANTS

Colombo  
3rd February 2014

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne ACA	S.T.D.L. Perera FCA
G.A.U. Karunaratne ACA	R.M.D.B. Rajapakse ACA	Ms. B.K.D.T.N. Rodrigo ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

## Statement of Financial Position

As at 31st December,	Note	Page No.	2013 Rs.'000	2012 Rs.'000
<b>Assets</b>				
Intangible Assets	4	268	53,807	61,068
Property, Plant and Equipment	5	269	137,009	118,447
Deferred Tax Assets	37	296	2	-
Financial Investments	6	271	6,656,438	5,703,866
Loans to Life Policyholders	7	278	53,656	29,888
Reinsurance Receivables	8	279	105,390	162,715
Premium Receivables	9	280	301,182	247,417
Other Assets	10	281	575,180	482,216
Insurance Contract - Deferred Expenses	11	283	32,912	19,968
Cash and Cash Equivalents	12	283	144,087	209,293
<b>Total Assets</b>			<b>8,059,663</b>	<b>7,034,878</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Stated Capital	13	283	1,171,875	1,171,875
Retained Earnings	14	284	941,820	690,197
Available for Sale Reserves	15	284	1,427	6,209
Other Reserves	16	284	2,172	-
Life Policyholders' Reserve Fund	17	284	(4,182)	(1,191)
<b>Total Equity</b>			<b>2,113,112</b>	<b>1,867,090</b>
<b>Liabilities</b>				
Insurance Contract Liabilities - Life	18	284	4,348,490	3,626,239
Insurance Contract Liabilities - Non Life	19	286	1,011,102	969,443
Employee Benefits	20	287	56,637	42,360
Current Tax Liabilities	21	289	35,143	42,950
Reinsurance Creditors	22	289	100,881	83,253
Other Liabilities	23	289	394,298	403,543
<b>Total Liabilities</b>			<b>5,946,551</b>	<b>5,167,788</b>
<b>Total Equity and Liabilities</b>			<b>8,059,663</b>	<b>7,034,878</b>

The Notes to the Financial Statements as set out on pages 248 to 337 form an integral part of these Financial Statements. These Financial Statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.



**Vipula Dharmapala**  
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed and on behalf of the Board;



**Dr. Raneer Jayamaha**  
Chairperson



**Manjula de Silva**  
Managing Director / Chief Executive Officer

## Statement of Comprehensive Income

For the Year Ended 31st December,	Note	Page No.	2013 Rs.'000	2012 Rs.'000	Change %
Gross Written Premium	24	290	3,877,730	3,211,232	21
Premium Ceded to Reinsurers	25	290	(526,005)	(519,709)	1
Net Written Premium			3,351,725	2,691,523	25
Net Change in Reserves for Unearned Premium	26	290	(82,544)	5,501	(1,601)
<b>Net Earned Premium</b>	27	291	3,269,181	2,697,024	21
<b>Other Revenue</b>					
Interest and Dividend Income	28	291	785,177	654,584	20
Net Realised Gains	29	293	53,411	7,271	635
Net Fair Value Gains / (Losses)	30	293	13,099	(93)	(14,185)
Fee and Commission Income	31	294	72,900	71,674	2
Other Income	32	294	12,830	3,374	280
			937,417	736,810	27
<b>Net Income</b>			4,206,598	3,433,834	23
<b>Net Benefits, Claims and Expenses</b>					
Net Insurance Benefits and Claims Paid	33	294	(1,558,659)	(1,090,721)	43
Net Change in Insurance Claims Outstanding	34	295	(9,549)	(63,800)	(85)
Change in Contract Liabilities - Life Fund	18	284	(724,829)	(555,909)	30
Other Operating and Administration Expenses	35	295	(1,084,148)	(966,573)	12
Underwriting and Net Acquisition Costs	36	296	(381,259)	(348,108)	10
Other Insurance Related Costs			(23,061)	(14,857)	55
Total Benefits, Claims and Expenses			(3,781,505)	(3,039,968)	24
<b>Profit Before Taxation</b>			425,093	393,866	8
Income Tax Expenses	37	296	(35,970)	(42,726)	(16)
<b>Profit for the Year</b>			389,123	351,140	11
<b>Other Comprehensive Income</b>					
- Net Change in fair value of available-for-sale financial assets			38,065	34,815	9
- Realized Gains transferred to Income Statement			(45,838)	(7,271)	530
- Net Change in fair value of available-for-sale financial assets transferred (to)/from Life Policyholders reserve			2,991	(21,335)	(114)
Actuarial Gains on Defined Benefit Plans			2,172	-	100
<b>Total Other Comprehensive Income for the year</b>			(2,610)	6,209	(142)
<b>Total Comprehensive Income for the year</b>			386,513	357,349	8
<b>Profit attributable to:</b>					
Equity Holders of the Company			389,123	351,140	11
<b>Total Comprehensive Income Attributable to:</b>					
Equity Holders of the Company			386,513	357,349	8
<b>Earnings Per Share</b>	38	299			
Basic Earnings Per Share (Rs.)			7.78	7.02	11
Diluted Earnings Per Share (Rs.)			7.78	7.02	11
Dividend Per Share (Rs.)	39	299	3.25	2.75	18

The Notes to the Financial Statements as set out on pages 248 to 337 form an integral part of these Financial Statements.



## Statement of Changes in Equity

For the year ended 31st December 2013	Stated Capital	Retained Earnings	Available for Sale Reserves	Other Reserves	Life Policy- holder Reserves Fund	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Balance as at 01st January 2012</b>	1,171,875	444,057	-	-	(22,526)	1,593,406
<b>Total Comprehensive Income for the year</b>						
Profit for the Year	-	351,140	-	-	-	351,140
<b>Other Comprehensive Income for the Year</b>						
Net Change in fair value of available-for-sale financial assets	-	-	27,544	-	-	27,544
Net Change in fair value of available-for-sale financial assets transferred (to)/from Profit or Loss - Life Fund	-	-	(21,335)	-	21,335	-
<b>Total Other Comprehensive Income for the year</b>	-	-	6,209	-	21,335	27,544
<b>Total Comprehensive Income for the year</b>	-	351,140	6,209	-	21,335	378,684
<b>Transactions with owners recorded directly in equity</b>						
<b>Distributions to owners of the Company</b>						
Dividend Paid to equity holders for 2011	-	(105,000)	-	-	-	(105,000)
<b>Total Distributions to owners of the Company</b>	-	(105,000)	-	-	-	(105,000)
<b>Balance as at 31st December 2012</b>	1,171,875	690,197	6,209	-	(1,191)	1,867,090
<b>Balance as at 01st January 2013</b>	1,171,875	690,197	6,209	-	(1,191)	1,867,090
<b>Total Comprehensive Income for the year</b>						
Profit for the Year	-	389,123	-	-	-	389,123
<b>Other Comprehensive Income for the Year</b>						
Net Change in fair value of available-for-sale financial assets	-	-	(7,773)	-	-	(7,773)
Net Change in fair value of available-for-sale financial assets transferred (to)/from Profit or Loss - Life Fund	-	-	2,991	-	(2,991)	-
Actuarial Gains on Defined Benefit Plans	-	-	-	2,172	-	2,172
<b>Total Other Comprehensive Income for the year</b>	-	-	(4,782)	2,172	(2,991)	(5,601)
<b>Total Comprehensive Income for the year</b>	-	389,123	(4,782)	2,172	(2,991)	383,522
<b>Transactions with owners recorded directly in equity</b>						
<b>Distributions to owners of the Company</b>						
Dividend Paid to equity holders for 2012	-	(137,500)	-	-	-	(137,500)
<b>Total Distributions to owners of the Company</b>	-	(137,500)	-	-	-	(137,500)
<b>Balance as at 31st December 2013</b>	1,171,875	941,820	1,427	2,172	(4,182)	2,113,112

The Notes to the Financial Statements as set out on pages 248 to 337 form an integral part of these Financial Statements.

## Cash Flow Statement

For the Year Ended 31st December,

	Note	2013 Rs.'000	2012 Rs.'000
<b>Cash Flow From Operating Activities</b>			
Profit Before Taxation		425,093	393,866
<b>Adjustments for:</b>			
Interest Income		(766,566)	(641,379)
Dividend Income		(18,611)	(13,205)
Amortisation of Intangible Assets		16,029	13,172
Depreciation		36,808	40,154
Provision for Employee Benefits		18,739	11,386
Net Fair Value (Gains)/Losses		(13,099)	93
Net Realised Gains		(53,411)	(7,271)
(Profit)/Loss on Sale of Property, Plant and Equipment		(3,188)	170
		(358,206)	(203,014)
Change in Operating Assets	A	(164,559)	(199,235)
Change in Operating Liabilities	B	761,451	708,365
Cash Flows from Operating Activities		238,686	306,116
Gratuity Paid		(2,290)	(3,155)
Net Cash Generated from Operating Activities		236,396	302,961
<b>Cash Flows from Investing Activities</b>			
Net Acquisition of Investment Securities		(1,048,380)	(803,168)
Interest Received		921,111	659,666
Dividend Received		18,168	13,205
Acquisition of Intangible Assets (Including Capital Work in Progress)		(5,092)	(16,644)
Acquisition of Property, Plant and Equipment		(54,238)	(32,690)
Proceeds from the Sale of Property, Plant and Equipment		4,329	608
Net Cash Used in Investing Activities		(164,102)	(179,023)
<b>Cash Flows from Financing Activities</b>			
Dividend Paid		(137,500)	(105,000)
Net Cash Used in Financing Activities		(137,500)	(105,000)
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>		(65,206)	18,938
Cash and Cash Equivalents at the beginning of the Year		209,293	190,355
<b>Cash and Cash Equivalents at the end of the Year</b>	12	144,087	209,293
<b>Notes to the Cash Flow Statement</b>			
<b>A. Change in Operating Assets</b>			
(Increase)/Decrease in Deferred Expenses		(12,944)	91
Increase in Loans to Life Policyholders		(23,768)	(9,791)
Decrease /(Increase) in Reinsurance Receivables		57,325	(31,848)
Increase in Premium Receivables		(53,765)	(16,032)
Increase in Other Assets		(131,407)	(141,655)
		(164,559)	(199,235)
<b>B. Change in Operating Liabilities</b>			
(Decrease)/Increase in Other Liabilities		(20,087)	98,338
Increase in Insurance Contract Liabilities - Non - Life		41,659	25,122
Increase in Insurance Contract Liabilities - Life		722,251	604,908
Increase/(Decrease) in Reinsurance Creditors		17,628	(20,003)
		761,451	708,365
<b>C. Increase / (Decrease) in Cash and Cash Equivalents</b>			
Net Cash and Cash Equivalents at the end of the Year		144,087	209,293
Less: Net Cash and Cash Equivalents at the beginning of the Year		209,293	190,355
Net (Decrease) / Increase in Cash and Cash Equivalents		(65,206)	18,938

The Notes to the Financial Statements as set out on pages 248 to 337 form an integral part of these Financial Statements.

## Statement of Financial Position - Segmental Review - 2013

As at 31st December 2013,	Non Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
<b>Assets</b>			
Intangible Assets	53,807	-	53,807
Property, Plant and Equipment	137,009	-	137,009
Deferred Tax Assets	2	-	2
Financial Investments	2,386,222	4,270,216	6,656,438
Loans to Life Policyholders	-	53,656	53,656
Reinsurance Receivables	81,764	23,626	105,390
Premium Receivables	294,472	6,710	301,182
Other Assets	406,148	169,032	575,180
Insurance Contract - Deferred Expenses	32,912	-	32,912
Cash and Cash Equivalents	69,382	74,705	144,087
<b>Total Assets</b>	<b>3,461,718</b>	<b>4,597,945</b>	<b>8,059,663</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Stated Capital	1,171,875	-	1,171,875
Retained Earnings	941,820	-	941,820
Available for Sale Reserves	1,427	-	1,427
Other Reserves	1,244	928	2,172
Life Policyholders' Reserve Fund	-	(4,182)	(4,182)
<b>Total Equity</b>	<b>2,116,366</b>	<b>(3,254)</b>	<b>2,113,112</b>
<b>Liabilities</b>			
Insurance Contract Liabilities - Life	-	4,348,490	4,348,490
Insurance Contract Liabilities - Non Life	1,011,102	-	1,011,102
Employee Benefits	49,890	6,747	56,637
Current Tax Liabilities	35,143	-	35,143
Reinsurance Creditors	76,032	24,849	100,881
Other Liabilities	173,185	221,113	394,298
<b>Total Liabilities</b>	<b>1,345,352</b>	<b>4,601,199</b>	<b>5,946,551</b>
<b>Total Equity and Liabilities</b>	<b>3,461,718</b>	<b>4,597,945</b>	<b>8,059,663</b>

The Notes to the Financial Statements as set out on pages 248 to 337 form an integral part of these Financial Statements.

## Statement of Financial Position - Segmental Review - 2012

As at 31st December 2012,	Non Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
<b>Assets</b>			
Intangible Assets	61,068	-	61,068
Property, Plant and Equipment	118,447	-	118,447
Financial Investments	2,176,444	3,527,422	5,703,866
Loans to Life Policyholders	-	29,888	29,888
Reinsurance Receivables	121,999	40,716	162,715
Premium Receivables	237,844	9,573	247,417
Other Assets	344,421	137,795	482,216
Insurance Contract - Deferred Expenses	19,968	-	19,968
Cash and Cash Equivalents	79,377	129,916	209,293
<b>Total Assets</b>	<b>3,159,568</b>	<b>3,875,310</b>	<b>7,034,878</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Stated Capital	1,171,875	-	1,171,875
Retained Earnings	690,197	-	690,197
Available for Sale Reserves	6,209	-	6,209
Life Policyholders' Reserve Fund	-	(1,191)	(1,191)
<b>Total Equity</b>	<b>1,868,281</b>	<b>(1,191)</b>	<b>1,867,090</b>
<b>Liabilities</b>			
Insurance Contract Liabilities - Life	-	3,626,239	3,626,239
Insurance Contract Liabilities - Non Life	969,443	-	969,443
Employee Benefits	37,417	4,943	42,360
Current Tax Liabilities	42,950	-	42,950
Reinsurance Creditors	53,325	29,928	83,253
Other Liabilities	188,152	215,391	403,543
<b>Total Liabilities</b>	<b>1,291,287</b>	<b>3,876,501</b>	<b>5,167,788</b>
<b>Total Equity and Liabilities</b>	<b>3,159,568</b>	<b>3,875,310</b>	<b>7,034,878</b>

The Notes to the Financial Statements as set out on pages 248 to 337 form an integral part of these Financial Statements.

## Statement of Comprehensive Income - Segmental Review 2013

For the Year Ended 31st December 2013,	Non Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Gross Written Premium	1,863,183	2,014,547	3,877,730
Premium Ceded to Reinsurers	(424,207)	(101,798)	(526,005)
Net Written Premium	1,438,976	1,912,749	3,351,725
Net Change in Reserves for Unearned Premium	(82,544)	-	(82,544)
<b>Net Earned Premium</b>	<b>1,356,432</b>	<b>1,912,749</b>	<b>3,269,181</b>
<b>Other Revenue</b>			
Interest and Dividend Income	273,379	511,798	785,177
Net Realised Gains	12,563	40,848	53,411
Net Fair Value Gains	9,104	3,995	13,099
Fee and Commission Income	50,651	22,249	72,900
Other Income	12,830	-	12,830
	358,527	578,890	937,417
<b>Net Income</b>	<b>1,714,959</b>	<b>2,491,639</b>	<b>4,206,598</b>
<b>Net Benefits, Claims and Expenses</b>			
Net Insurance Benefits and Claims Paid	(892,026)	(666,633)	(1,558,659)
Net Change in Insurance Claims Outstanding	2,954	(12,503)	(9,549)
Change in Contract Liabilities - Life Fund	-	(724,829)	(724,829)
Other Operating and Administration Expenses	(515,360)	(568,788)	(1,084,148)
Underwriting and Net Acquisition Costs	(53,401)	(327,858)	(381,259)
Other Insurance Related Costs	(13,522)	(9,539)	(23,061)
Total Benefits, Claims and Expenses	(1,471,355)	(2,310,150)	(3,781,505)
<b>Profit Before Taxation</b>	<b>243,604</b>	<b>181,489</b>	<b>425,093</b>
Income Tax Expenses	(35,970)	-	(35,970)
<b>Profit for the Year</b>	<b>207,634</b>	<b>181,489</b>	<b>389,123</b>

The Notes to the Financial Statements as set out on pages 248 to 337 form an integral part of these Financial Statements.

## Statement of Comprehensive Income - Segmental Review 2012

For the Year Ended 31st December 2012,	Non Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Gross Written Premium	1,711,204	1,500,028	3,211,232
Premium Ceded to Reinsurers	(391,633)	(128,076)	(519,709)
Net Written Premium	1,319,571	1,371,952	2,691,523
Net Change in Reserves for Unearned Premium	5,501	-	5,501
<b>Net Earned Premium</b>	<b>1,325,072</b>	<b>1,371,952</b>	<b>2,697,024</b>
<b>Other Revenue</b>			
Interest and Dividend Income	231,033	423,551	654,584
Net Realised Gains	7,271	-	7,271
Net Fair Value Gains / (Losses)	9,864	(9,957)	(93)
Fee and Commission Income	56,638	15,036	71,674
Other Income	3,374	-	3,374
	308,180	428,630	736,810
<b>Net Income</b>	<b>1,633,252</b>	<b>1,800,582</b>	<b>3,433,834</b>
<b>Net Benefits, Claims and Expenses</b>			
Net Insurance Benefits and Claims Paid	(861,858)	(228,863)	(1,090,721)
Net Change in Insurance Claims Outstanding	(30,892)	(32,908)	(63,800)
Change in Contract Liabilities - Life Fund	-	(555,909)	(555,909)
Other Operating and Administration Expenses	(450,741)	(515,832)	(966,573)
Underwriting and Net Acquisition Costs	(53,652)	(294,456)	(348,108)
Other Insurance Related Costs	(7,468)	(7,389)	(14,857)
Total Benefits, Claims and Expenses	(1,404,611)	(1,635,357)	(3,039,968)
<b>Profit Before Taxation</b>	<b>228,641</b>	<b>165,225</b>	<b>393,866</b>
Income Tax Expenses	(42,726)	-	(42,726)
<b>Profit for the Year</b>	<b>185,915</b>	<b>165,225</b>	<b>351,140</b>

The Notes to the Financial Statements as set out on pages 248 to 337 form an integral part of these Financial Statements.



## Cash Flow Statement - Segmental Review 2013

For the Year Ended 31st December 2013,

	Note	Non Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
<b>Cash Flow From Operating Activities</b>				
Profit Before Taxation		243,604	181,489	425,093
<i>Adjustments for:</i>				
Interest Income		(265,096)	(501,470)	(766,566)
Dividend Income		(8,283)	(10,328)	(18,611)
Transfer of Profit		181,489	(181,489)	-
Amortisation of Intangible Assets		16,029	-	16,029
Depreciation		36,808	-	36,808
Provision for Employee Benefits		15,670	3,069	18,739
Net Fair Value Gains		(9,104)	(3,995)	(13,099)
Net Realised Gains		(12,563)	(40,848)	(53,411)
Profit on Sale of Property, Plant and Equipment		(3,188)	-	(3,188)
		195,366	(553,572)	(358,206)
Change in Operating Assets	A	(129,950)	(34,609)	(164,559)
Change in Operating Liabilities	B	38,557	722,894	761,451
Cash Flows from Operating Activities		103,973	134,713	238,686
Gratuity Paid		(1,953)	(337)	(2,290)
Net Cash Generated from Operating Activities		102,020	134,376	236,396
<b>Cash Flows from Investing Activities</b>				
Net Acquisition of Investment Securities		(169,822)	(878,558)	(1,048,380)
Interest Received		242,025	679,086	921,111
Dividend Received		8,283	9,885	18,168
Acquisition of Intangible Assets (Including Capital Work in Progress)		(5,092)	-	(5,092)
Acquisition of Property, Plant and Equipment		(54,238)	-	(54,238)
Proceeds from the Sale of Property, Plant and Equipment		4,329	-	4,329
Net Cash Generated/(Used) in Investing Activities		25,485	(189,587)	(164,102)
<b>Cash Flows from Financing Activities</b>				
Dividend Paid		(137,500)	-	(137,500)
Net Cash Used in Financing Activities		(137,500)	-	(137,500)
<b>Net Decrease in Cash and Cash Equivalents</b>				
		(9,995)	(55,211)	(65,206)
Cash and Cash Equivalents at the beginning of the Year		79,377	129,916	209,293
<b>Cash and Cash Equivalents at the end of the Year</b>	12	69,382	74,705	144,087
<b>Notes to the Cash Flow Statement</b>				
<b>A. Change in Operating Assets</b>				
Increase in Deferred Expenses		(12,944)	-	(12,944)
Increase in Loans to Life Policyholders		-	(23,768)	(23,768)
Decrease in Reinsurance Receivables		40,235	17,090	57,325
(Increase)/Decrease in Premium Receivables		(56,628)	2,863	(53,765)
Increase in Other Assets		(100,613)	(30,794)	(131,407)
		(129,950)	(34,609)	(164,559)
<b>B. Change in Operating Liabilities</b>				
(Decrease)/Increase in Other Liabilities		(25,809)	5,722	(20,087)
Increase in Insurance Contract Liabilities - Non - Life		41,659	-	41,659
Increase in Insurance Contract Liabilities - Life		-	722,251	722,251
Increase/(Decrease) in Reinsurance Creditors		22,707	(5,079)	17,628
		38,557	722,894	761,451
<b>C. Decrease in Cash and Cash Equivalents</b>				
Net Cash and Cash Equivalents at the end of the Year		69,382	74,705	144,087
Less: Net Cash and Cash Equivalents at the beginning of the Year		79,377	129,916	209,293
Net Decrease in Cash and Cash Equivalents		(9,995)	(55,211)	(65,206)

The Notes to the Financial Statements as set out on pages 248 to 337 form an integral part of these Financial Statements.

## Cash Flow Statement - Segmental Review 2012

For the Year Ended 31st December 2012,	Note	Non Life Insurance Restated Rs.'000	Life Insurance Restated Rs.'000	Total Rs.'000
<b>Cash Flow From Operating Activities</b>				
Profit Before Taxation		228,640	165,226	393,866
<i>Adjustments for:</i>				
Interest Income		(225,223)	(416,156)	(641,379)
Dividend Income		(5,810)	(7,395)	(13,205)
Transfer of Profit		165,226	(165,226)	-
Amortisation of Intangible Assets		11,383	1,789	13,172
Depreciation		39,441	713	40,154
Provision for Employee Benefits		9,877	1,509	11,386
Net Fair Value (Gains)/Losses		(9,864)	9,957	93
Net Realised Gains		(7,271)	-	(7,271)
Loss on Sale of Property, Plant and Equipment		170	-	170
		206,569	(409,583)	(203,014)
Change in Operating Assets	A	(158,431)	(40,804)	(199,235)
Change in Operating Liabilities	B	32,393	675,972	708,365
Cash Flows from Operating Activities		80,531	225,585	306,116
Gratuity Paid		(2,024)	(1,131)	(3,155)
Net Cash Generated from Operating Activities		78,507	224,454	302,961
<b>Cash Flows from Investing Activities</b>				
Net Acquisition of Investment Securities		(201,967)	(601,201)	(803,168)
Interest Received		222,866	436,800	659,666
Dividend Received		5,810	7,395	13,205
Acquisition of Intangible Assets (Including Capital Work in Progress)		(16,644)	-	(16,644)
Acquisition of Property, Plant and Equipment		(32,690)	-	(32,690)
Proceeds from the Sale of Property, Plant and Equipment		608	-	608
Net Cash Used in Investing Activities		(22,017)	(157,006)	(179,023)
<b>Cash Flows from Financing Activities</b>				
Dividend Paid		(105,000)	-	(105,000)
Net Cash Used in Financing Activities		(105,000)	-	(105,000)
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>		(48,510)	67,448	18,938
Cash and Cash Equivalents at the beginning of the Year		127,887	62,468	190,355
<b>Cash and Cash Equivalents at the end of the Year</b>	12	79,377	129,916	209,293
<b>Notes to the Cash Flow Statement</b>				
<b>A. Change in Operating Assets</b>				
Decrease in Deferred Expenses		91	-	91
Increase in Loans to Life Policyholders		-	(9,791)	(9,791)
Increase in Reinsurance Receivables		(18,980)	(12,868)	(31,848)
Increase in Premium Receivables		(6,459)	(9,573)	(16,032)
Increase in Other Assets		(133,083)	(8,572)	(141,655)
		(158,431)	(40,804)	(199,235)
<b>B. Change in Operating Liabilities</b>				
Increase in Other Liabilities		29,096	69,242	98,338
Increase in Insurance Contract Liabilities - Non - Life		25,122	-	25,122
Increase in Insurance Contract Liabilities - Life		-	604,908	604,908
Increase/(Decrease) in Reinsurance Creditors		(21,825)	1,822	(20,003)
		32,393	675,972	708,365
<b>C. Increase / (Decrease) in Cash and Cash Equivalents</b>				
Net Cash and Cash Equivalents at the end of the Year		79,377	129,916	209,293
Less: Net Cash and Cash Equivalents at the beginning of the Year		127,887	62,468	190,355
Net (Decrease)/Increase in Cash and Cash Equivalents		(48,510)	67,448	18,938

The Notes to the Financial Statements as set out on pages 248 to 337 form an integral part of these Financial Statements.

## Notes to the Financial Statements

### 1. Reporting Entity

#### 1.1 Corporate Information

HNB Assurance PLC ("the Company") is a Listed Company incorporated on 23rd August 2001 with limited liability and domiciled in Sri Lanka. The registered office of the Company is situated at No. 479, T B Jayah Mawatha, Colombo 10 and the principal place of business is situated at No. 10, Sri Uttarananda Mawatha, Colombo 3. The Ordinary Shares of the Company are listed on the Colombo Stock Exchange (CSE).

#### 1.2 Principal Activities and Nature of Operations

The principal activity of the Company continued to be carrying on insurance business (both Life and Non - Life Insurance). There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

#### 1.3 Parent Entity and Ultimate Parent Entity

The Company's parent entity is Hatton National Bank PLC. In the opinion of the Directors, the Company's ultimate parent undertaking and controlling party is Hatton National Bank PLC which is incorporated in Sri Lanka.

#### 1.4 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements.

#### 1.5 Number of Employees

The staff strength of the Company as at 31st December 2013 is 804 (2012 – 723)

### 2. Basis of Preparation

#### 2.1 Statement of compliance

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Companies Act, No. 7 of 2007, the Regulation of Insurance Industry Act, No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.

These Financial Statements include the following components:

- a Statement of Financial Position providing the information on the financial position of the Company as at the year-end (Refer page 238);
- a Statement of Comprehensive Income providing the information on the financial performance of the Company for the year under review (Refer page 239);
- a Statement of Changes in Equity depicting all changes in shareholders' Equity (Refer pages 240);
- a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilise those cash flows (Refer pages 241); and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 248 to 337).

#### 2.2 Date of authorization of issue

The Financial Statements were authorized for issue by the Board of Directors on 03rd February 2014.

#### 2.3 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

Item and basis of measurement	Note No.	Page reference
Financial instruments at fair value through profit or loss are measured at fair value	3.3.1.b	252
Available-for-sale financial assets are measured at fair value	3.3.1.b	252
The net defined benefit liability is recognised as the present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.	3.12.3	262

The Company presents its Statement of Financial Position broadly in order of liquidity. No adjustments have been made for inflationary factors affecting the Financial Statements.

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 liability simultaneously.

### **2.3.a Supplementary Statements - Statement of Financial Position of the Life Insurance**

Supplementary Statement of Financial Position of the Life Insurance Fund together with the notes are disclosed in page numbers 328 to 337 continuing the past practice which is a requirement of the Statement of Recommended Practice (SoRP) for Insurance Contracts then applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

### **2.3.b Functional and presentation currency**

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional currency.

Except as indicated, financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

## **2.4 Use of Estimates and Judgments**

The preparation of the Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are included in the following notes:

### **2.4.a Going concern**

The management has made an assessment of the Company ability to continue as a going concern and is satisfied 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 on a going concern basis.

### **2.4.b Insurance contract liabilities – Life Insurance**

The valuation of the Long Term insurance business as at 31st December 2013 was carried out by the Consultant Actuary based on the assumptions set out in Note No. 18 to the Financial Statements on Page 284.

All Life Insurance contracts are subject to the Liability Adequacy Test (LAT) as required by SLFRS 4 – Insurance Contracts. The LAT was carried out by Mr. John C. Vieren, FSA MAA, of Messrs. Pinnacle Consulting Group Ltd. Hong - Kong. For further details please refer to the Note No. 18.1 to the Financial Statements on Page 285.

### **2.4.c Insurance contract liabilities – Non - Life Insurance**

For Non - Life Insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the Reporting Date and for the expected ultimate cost of claims incurred, but not yet reported, at the Reporting Date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

All Non - Life Insurance contracts are subject to a Liability Adequacy Test (LAT). The LAT was carried out by Messrs. NMG Consulting Pte Ltd, Singapore. For further details please refer to the Note No. 19.7 to the Financial Statements on Page 287.

## Notes to the Financial Statements

### 2.4.d Valuation of Employee Benefit Obligation - Gratuity

The cost of defined benefit plans which is gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates.

Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each Reporting Date. Details of the key assumptions used by the actuary in the estimates are contained in Note 20.3.

### 2.4.e Deferred tax assets and liabilities

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates based on the tax laws and interpretations.

### 2.4.f Assessment of Impairment

The Company assesses whether there are any indicators of impairment for an asset or a cash - generating unit at each Reporting Date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'value in use' of such individual assets or the cash - generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash - generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

### 2.4.g 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.

### 2.4.h Deferred Acquisition Cost (DAC)

An impairment review is performed on DAC 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 the Statement of Comprehensive Income. No such indication of impairment was experienced during the year.

DAC is derecognised when the related contracts are either settled or disposed of.

### 2.4.i Provisions for Liabilities and Contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

The table below provides the reference for different locations in the report which discusses the estimates in detail.

Significant Accounting Estimate/Judgment	Disclosure Reference	
	Note No.	Page No.
Going concern	2.4.a	249
<i>Insurance contract liabilities</i>		
Life Insurance	2.4.b	249
Non - Life Insurance	2.4.c	249
<i>Liability Adequacy Test (LAT)</i>		
Life Insurance	2.4.c	249
Non - Life Insurance	2.4.b	249
Valuation of Employee Benefit		
Obligation - Gratuity	3.12.3	262
Deferred tax assets and liabilities		
	3.23.2	264
Assessment of Impairment	3.10	260
Fair Value of Financial Instruments		
	3.3.6	255
Deferred Acquisition Cost	2.4.h	250
Provisions for Liabilities and Contingencies		
	3.13	262

## 2.5 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.

### 3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the Reporting Date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in Other Comprehensive Income.

### 3.2 Insurance contracts

As permitted by SLFRS 4 Insurance Contracts, the Company continues to apply the existing accounting policies for Insurance Contracts that were applied prior to the adoption of SLFRS.

## Product classification

SLFRS 4 requires contracts written by insurers to be classified as either “insurance contracts” or “investment contracts” depending on the level of insurance risk transferred.

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

All the products sold by the Company are insurance contracts and therefore classified as Insurance contracts under the SLFRS 4 – Insurance Contracts. Thus, the Company does not have any investment contracts within its product portfolio as at the Reporting Date.



## Notes to the Financial Statements

### 3.3 Financial assets and financial liabilities

#### 3.3.1 Non-derivative financial assets

##### 3.3.1.a Initial recognition and measurement

The Company initially recognises loans and receivables and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

At inception a financial asset was classified under one of the following categories:

1. Fair value through profit or loss (FVTPL);
2. Loans and receivables (L&R);
3. Held to maturity investments (HTM); and
4. Available-for-sale (AFS) financial assets, as appropriate.

The Company determines the classification of its financial assets at initial recognition.

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the Company's ability to hold. Financial assets are classified as at fair value through profit or loss where the Company's investment strategy is to manage financial investments on a fair value basis. The available-for-sale and held to maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortised cost.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the settlement date, i.e., the date that the Company 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 recognize/derecognise the asset.

The Company's existing types of financial assets and their possible classifications are shown in the table below.

Financial Asset	Category
Treasury Bonds	Fair Value Through Profit or Loss, Available For Sale, Held to Maturity
Treasury Bills	Fair Value Through Profit or Loss, Available For Sale, Held to Maturity
Listed Equity Shares	Fair Value Through Profit or Loss
Unit Trusts	Fair Value Through Profit or Loss
Corporate Debt	Loans and Receivables
Term Deposits	Loans and Receivables
Loans to Policyholders	Loans and Receivables
Staff and Advisor Loans	Loans and Receivables
Reinsurance Receivable	Loans and Receivables
Premium Receivable	Loans and Receivables
Other Receivables	Loans and Receivables
Cash and Cash Equivalents	Loans and Receivables

##### 3.3.1.b Subsequent measurement

###### **Financial assets at Fair Value Through Profit or Loss (FVTPL)**

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

For investments designated as at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces

the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or

- The assets and liabilities are part of a Company's financial assets, financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with the Company's investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Fair value gains and losses' in the Statement of Comprehensive Income.

Interest is accrued and presented in 'Interest and Dividend Income' or 'Finance cost', respectively, using the Effective Interest Rate (EIR). Dividend income is recorded in the 'Interest and Dividend Income' when the right to the payment has been established.

The Company evaluates its financial assets at fair value through profit or loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset.

#### **Available-for-Sale financial assets (AFS)**

Available-for-sale financial investments include equity and debt securities (Government Securities and Corporate Debt). Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in Other Comprehensive Income (OCI) in the available-for-sale reserve.

Interest earned whilst holding available-for-sale investments is reported as 'Interest and Dividend Income' using the EIR. Dividends earned whilst holding available-for-sale investments are recognised in the Statement of Comprehensive Income as 'Interest and Dividend Income' when the right of the payment has been established. When the asset is derecognized, the cumulative gain or loss is recognised in the Interest and Dividend Income.

If the asset is determined to be impaired, the cumulative loss is recognised in the Statement of Comprehensive Income in the 'Interest and Dividend Income' and removed from the available-for-sale reserve.

The Company 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 Company 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 Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

Where financial asset is reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the Effective Interest Rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the Statement of Comprehensive Income.

#### **Loans and Receivables (L&R)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise investments in unquoted debentures, commercial papers, reverse repos, policy loans and other loans, reinsurance receivables, premium receivables, cash and cash equivalents. The Company classifies quoted Corporate Debt under this category since there is no active market for these instruments even if such instruments are listed.

## Notes to the Financial Statements

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the EIR, less allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest and Dividend Income' in the Statement of Comprehensive Income.

Gains and losses are recognised in the Statement of Comprehensive Income when the investments are derecognised or impaired, as well as through the amortisation process.

### **a. Premium Receivables**

Insurance receivables from Non - Life Insurance are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Collectability of premiums is reviewed on an ongoing basis.

According to the Premium Payment Warranty (PPW) directive issued by the Insurance Board of Sri Lanka (IBSL), all Non - Life insurance policies are issued subject to PPW and are cancelled upon the expiry of 60 days if not settled.

Due Life Insurance premiums (only the premiums due in the 30 day grace period) are recognized at each Reporting Date and will be reversed if the premiums are not settled during the subsequent month, and thus the policies will be lapsed as per the Company policy.

### **b. Other Receivables and Dues from Related Parties**

Other receivables and dues from Related Parties are recognised at cost less allowances for bad and doubtful receivables.

### **c. Cash and Cash Equivalents**

Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Bank overdrafts, if any, which form an integral part of cash management, are included as a component of cash and cash equivalents for the purposes of the Statement of Cash Flows. In the Statement of Financial Position, bank overdrafts are included under liabilities.

### **Held to Maturity financial assets (HTM)**

Non - derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the intention and ability to hold until maturity. Held - to - maturity financial assets comprise treasury bills and treasury bonds. After initial measurement, held to maturity financial assets are measured at amortised cost, using the EIR, less impairment.

The EIR amortisation is included in 'Interest and Dividend Income' in the Statement of Comprehensive Income.

Gains and losses are recognised in the Statement of Comprehensive Income when the investments are derecognised or impaired, as well as through the amortisation process.

### **3.3.2 Non-derivative financial liabilities**

The Company initially recognises financial liabilities (including liabilities designated at fair value through profit or loss) on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the Effective Interest Rate (EIR).

Other financial liabilities comprise insurance payables, other liabilities including amounts due to related parties and bank overdrafts.

### **3.3.3 Derecognition**

#### **3.3.3.a Financial Assets**

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of

ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability in the Statement of Financial Position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

### 3.3.3.b Financial Liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

### 3.3.4 Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLASs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

### 3.3.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### 3.3.6 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument (Categorized as Level 1). A market

is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique (Categorized as Level 2). Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market - related rate for a similar instrument. The use of different pricing models and assumptions could produce materially different estimates of fair values.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability (Categorized as Level 3). All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters

## Notes to the Financial Statements

is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

The table below highlights the different basis used assessing the fair value of financial instruments.

Instrument Category	Fair Value Basis	Fair Value Hierarchy
<b>Government Securities</b>		
Treasury Bonds	Valued using the market yield	Level 1
Treasury Bills	Valued using the market yield	Level 1
Repos/Overnight Repos	Carrying Value (Cost + Accrued Interest)	Level 3
<b>Investment in Listed Shares</b>	Volume Weighted Average (VWA) prices	Level 1
<b>Unit Trusts</b>		
Listed Unit Trusts	Published Market Prices (VWA)	Level 1
Unlisted Redeemable Unit Trusts	Published Net Asset Values (NAV)	Level 2
Close ended Irredeemable Unit Trusts	Net Asset Value (NAV)	Level 2

Instrument Category	Fair Value Basis	Fair Value Hierarchy
<b>Corporate Debt</b>		
Listed	Published Market Prices	Level 1
Unlisted Fixed Rate	Discounted Cash Flow (DCF) Method Using current Treasury Bond/ Treasury Bill rates for similar maturity plus a risk premium. The risk premium is determined based on the credit rating of the instrument	Level 3
Unlisted Floating Rate	Cost plus interest	Level 3
Commercial Paper & Promissory Note	Cost plus interest	Level 3
<b>Fixed and Term Deposits</b>		
Deposit Less than 1 year	Cost plus interest	Level 3
Deposit more than 1 year	Discounted Cash Flow (DCF) Method Using Treasury Bond rates for similar maturity plus a risk premium. The risk premium is determined based on the credit rating of the institution	Level 2
Foreign Exchange Deposits	Cost plus interest	Level 3

### 3.3.7 Identification and measurement of impairment

The Company assesses at each Reporting Date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the

group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### 3.3.7.a Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company 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 Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original Effective Interest Rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current Effective Interest Rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. 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 a part of 'Interest and Dividend Income' in the Statement of Comprehensive Income.

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 Company. 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 'Interest and Dividend Income' in the Statement of Comprehensive Income.

The Company has not experienced any indication of impairment and thus no impairment losses were recognized during the financial year.

### 3.3.7.b Available-for-sale financial investments (AFS)

For available-for-sale financial investments, the Company assesses at each Reporting Date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the Statement of Comprehensive Income.

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 a part of 'Interest and Dividend Income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

## 3.4 Intangible assets

### Software

#### Basis of recognition

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the



## Notes to the Financial Statements

asset will flow to the Company and the cost of the asset can be measured reliably.

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

### **Subsequent Expenditure**

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### **Amortisation**

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is six years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### **De-recognition**

An Intangible Asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of such Intangible Assets is included in the Statement of Comprehensive Income when the item is derecognised.

## **3.5 Property, Plant and Equipment**

### **Basis of Recognition**

Property, Plant and Equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property, Plant and Equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be measured reliably.

### **Measurement**

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

The Company applies the cost model to Property, Plant and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. The Company does not own any property.

### **Subsequent Costs**

The cost of replacing a part of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The cost of day to day servicing of Property, Plant and Equipment are charged to the Statement of Comprehensive Income as incurred.

### **Repairs and maintenance**

Repairs and maintenance are charged to the Statement of Comprehensive Income 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 Company 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 Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

The estimated useful lives for the current and comparative years as follow:

Office equipment	5 years
Computer hardware	6 years
Furniture and fittings	10 years
Motor vehicles	4 years
Lease hold improvements (Fixtures)	Based on Lease Agreement period

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each Reporting Date.

### De-recognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment is included in the Statement of Comprehensive Income when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is derecognised.

### Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in Property, Plant and Equipment, awaiting capitalisation.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as a part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing

costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

However, no borrowing costs were incurred in the Company during the financial periods under review.

### 3.6 Leased assets – Lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date.

#### Finance Leases

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the Statement of Comprehensive Income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

#### Operating Leases

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term.

### 3.7 Deferred acquisition costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred and amortised over the period in which the related revenues are earned. All other acquisition costs are recognised as an expense when incurred.

The DAC is applicable only to Non - Life Insurance Contracts. No DAC is calculated for Life Insurance Contracts as the acquisition costs are incurred in line with the revenues earned.

## Notes to the Financial Statements

In line with the available regulatory guidelines from the Insurance Board of Sri Lanka (IBSL), the DAC is calculated based on the 1/24th basis.

An impairment review is performed at each Reporting Date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Comprehensive Income. No such indication of impairment was experienced during the year.

DAC is derecognised when the related contracts are either settled or disposed of.

### 3.8 Reinsurance

The Company cedes insurance risk in the normal course of business to recognised reinsurers through formal reinsurance arrangements.

Reinsurance assets include the balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance is recorded gross in the Statement of Financial Position unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each Reporting Date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company 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 Company will receive from the reinsurer. The impairment loss, if any is recorded in the Statement of Financial Position.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

### 3.9 Other Assets

#### 3.9.1 Advance Paid for Software

Advance paid for Software is stated at cost. These are expenses directly incurred in the development of Computer Software, awaiting capitalisation

#### 3.9.2 Inventories

Inventories include all consumable items which are stated at lower of cost and net realisable value.

#### 3.10 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each Reporting Date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset 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.

Impairment losses are recognised in profit or loss.

### Liabilities and Provisions

#### 3.11 Insurance contract liabilities

##### 3.11.1 Insurance Provision – Life Insurance

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method as specified by the Insurance Board of Sri Lanka (IBSL) based on the recommendation of the Independent Consultant Actuary. The liability is determined as the sum of the discounted value of the expected future benefits, less the discounted value of the expected future premiums that would be required to meet the future cash outflows based on the valuation assumptions

used. The liability is computed based on IBSL specified guidelines and current assumptions which vary based on the contract type.

Furthermore, adjustments are performed to capture the likely liabilities that may arise due to currently lapsed contracts reviving in the future.

#### **Liability Adequacy Test (LAT)**

As required by SLFRS 4 –Insurance Contracts, the Company performed a Liability Adequacy Test (LAT) in respect of Life Insurance contract liabilities with the assistance of an external actuary. In performing the LAT, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as Interest and Dividend Income from assets backing such liabilities, are used.

#### **3.11.2 Insurance Provision – Non - Life Insurance**

Non - Life Insurance contract liabilities include the outstanding claims provision including IBNR and IBNER, the provision for unearned premium and the provision for premium deficiency.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the Reporting Date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the Reporting Date.

The valuation of Unearned Premium Reserve are measured in accordance with guidelines of the Regulation of Insurance Industry Act, No. 43 of 2000 (i.e. based on the 1/24th basis).

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims reserve are actuarially computed.

No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

#### **Liability Adequacy Test (LAT)**

As required by SLFRS 4 –Insurance Contracts, the Company performed a Liability Adequacy Test (LAT) in respect of Non - Life Insurance contract liabilities with the assistance of the external actuary.

#### **3.11.3 Title Insurance Reserve**

Title insurance reserve is maintained by the Company to pay potential claims arising from the Title Insurance policies. Title Insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised in the first year of the policy given the relatively higher probability of claims occurring in the first year. From the 2nd year onwards, profit is recognised by amortising the premium received and will be distributed throughout the remaining period of the policy using the straight line method. Profit in the first year will be recognised in the 2nd year and thereafter it is periodically recognised.

If the corresponding loan of the Title Insurance Policy issued is settled before the maturity, full premium of such policies remaining as at the date of settlement of such loan is recognised in profits upon confirmation of the same by the respective Bank.

#### **3.12 Employee benefits**

##### **3.12.1 Short - term benefits**

Short - term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short - term cash bonus or profit-sharing plans if the Company 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.

##### **3.12.2 Defined contribution plans**

A defined contribution plan is a post - employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in profit and loss when incurred.

#### **Employee Provident Fund (EPF)**

All employees of the Company are member of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary to EPF.

## Notes to the Financial Statements

### **Employees Trust Fund (ETF)**

All employees of the Company are members of the Employees' Trust Fund (ETF). The Company contributes 3% of the salary of each employee to ETF.

### **3.12.3 Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the Reporting Date. The defined benefit obligation is calculated by a qualified actuary as at the Reporting Date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - 'Employee Benefits'. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans, such estimates are subject to significant uncertainty.

The Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in Other Comprehensive Income.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded.

### **3.13 Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### **3.14 Revenue Recognition**

#### **3.14.1 Insurance Premiums**

##### **Life insurance business**

Gross recurring premiums on life insurance contracts are recognised as revenue when payable by the policyholder (policies within the 30 day grace period are considered

as due). Premiums received in advance are not recorded as revenue and recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognized as income. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

##### **Non - Life Insurance business**

Gross Non - Life insurance written premiums comprise the total premiums received /receivable for the whole period of cover provided by contracts entered into during the accounting period. Gross Written Premium (GWP) is generally recognized as written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro - rata basis over the term of the related policy coverage.

Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the Reporting Date. Unearned premiums are calculated on 1/24th basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums which is included under liabilities.

#### **3.14.2 Reinsurance premiums**

Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Reinsurance premiums are decided based on rates agreed with reinsurers.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the Reporting Date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts using 1/24th basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000.

### 3.14.3 Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or become due.

### 3.15 Interest

Interest income and expenses are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the Effective Interest Rate, the Company 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 and points paid or received that are an integral part of the Effective Interest Rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

### 3.16 Dividends

Dividend income is recognised when the right to receive income is established. Usually this, occurs on the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment.

### 3.17 Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

### 3.18 Profit / Loss on Sale of Property, Plant and Equipment

Profit / loss on Sale of Property, Plant and Equipment is recognised in the Statement of Comprehensive Income in the period in which the sale occurs and is classified under other income.

### 3.19 Benefits, Claims and Expenses

#### a. Gross benefits and claims

##### Life insurance business

Claims by death and maturity are charged against revenue on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

Expenses on Life Insurance relates to the acquisition expenses and expenses for maintenance of Life Insurance business, investment related expenses not treated as a part of the capital cost of investment, etc. which are accounted on accrual basis.

##### Non - Life Insurance business

Non - Life Insurance claims include all claims occurring during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

The provision in respect of Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) is actuarially valued to ensure a more realistic estimation of the future liability based on the past experience and trends. Actuarial valuations are performed on a semi-annual basis.

Whilst the Directors consider that the provisions for claims are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such amounts are reflected in the Financial Statements for that period.



## Notes to the Financial Statements

The methods used to estimate claims and the estimates made are reviewed regularly.

### **b. Reinsurance claims**

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

### **3.20 Net Deferred Acquisition Expenses**

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned.

Reinsurance commission is also treated in the same manner within deferred acquisition costs.

### **3.21 Actuarial Valuation of Life Insurance Fund**

The Directors agree to the long term insurance provision for the Company at the year-end on the recommendations of the Independent Consultant Actuary following his annual investigation of the Life Insurance business. The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the Independent Consultant Actuary.

### **3.22 Other Expenses**

Other expenses are recognised on accrual basis. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment has been charged to the Statement of Comprehensive Income.

Share issue expenses are charged against the reserves in the Statement of Changes in Equity.

### **3.23 Income Tax Expense**

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

#### **3.23.1 Current Tax**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the Reporting Date, and any adjustment to tax payable in respect of previous years. Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and the amendments thereto.

Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the Statement of Comprehensive Income.

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.

#### **3.23.2 Deferred Tax**

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount substantively enacted by the Reporting Date.

Deferred tax liabilities are recognised for all taxable temporary differences. As at the date of the Statement of Financial Position, the Company has deferred tax liabilities arising from Property Plant and Equipment only.

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.

### **3.23.3 Premium Income (GWP) and other Sundry Sales related taxes**

Revenue, expenses and assets are recognised net of the amount of sales taxes and premium taxes except where the premium or sales tax incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as a part of the cost of acquisition of the asset or as a part of the expense item, as applicable.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority are included as a part of receivables or payables in the Statement of Financial Position.

### **3.23.4 Withholding Tax on Dividends**

Withholding tax that arises from the distribution of dividends by the Company is recognised at the same time as the liability to pay the related dividend is recognised.

### **3.23.5 Economic Service Charge (ESC)**

As per the provisions of the Economic Service Charge Act, No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed receivable ESC amount can be carried forward and set off against the income tax payable as per the relevant provisions in the Act.

However with the amendment made by Inland Revenue to the Act, if the Company in relation to any relevant quarter commencing on or after April 01, 2012, where such part of the taxable income as consists of profits from any trade, business, profession or vocation assessed under the provisions of Inland Revenue Act No, 10 of 2006 for the year of assessment 2011/2012, is more than zero, the relevant turnover for such quarter shall be deemed to be zero.

## **3.24 Segmental Reporting**

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Company's primary format for segment reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Accordingly, segmental information of the Company reflects Non - Life Insurance and Life Insurance. Inter-segment transfers are based on fair market prices.

## **3.25 Capital Commitments and Contingencies**

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

## **3.26 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.

## **3.27 Proposed Dividends**

Dividend proposed by the Board of Directors after the Balance Sheet date is not recognised as a liability and is only disclosed as a Note to the Financial Statements (Note 39.2 in page No 299). Provision for dividend is recognised only at the time the dividend proposed by the Board of Directors is approved by the shareholders at the Annual General Meeting.

## Notes to the Financial Statements

### 3.28 Earnings Per Share (EPS)

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by 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.

### 3.29 Cash Flow Statement

The Cash Flow Statement has been prepared using the Indirect Method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Interest and dividend received are classified as operating cash flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

### 3.30 New Accounting Standards Issued but not Effective as at the Reporting Date.

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2014/ 2015.

Accordingly, these Standards have not been applied in preparing these Financial Statements.

#### 3.30.1 Sri Lanka Accounting Standards – SLFRS 10 “Consolidated Financial Statements”

The objective of this SLFRS is to establish principles for the presentation and preparation of consolidated Financial Statements when an entity controls one or more other entities.

SLFRS 10 is effective from 1 January 2014.

#### 3.30.2 Sri Lanka Accounting Standards – SLFRS 11 “Joint Arrangements”

The objective of this SLFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

SLFRS 11 is effective from 1 January 2014.

#### 3.30.3 Sri Lanka Accounting Standard - SLFRS 12 “Disclosure of Interests in Other Entities”

SLFRS 10, 11 and 12 will be applicable only to groups and joint arrangements. The Company is a single entity as of now but will become a Group after incorporating a subsidiary company to transfer one line of business (Non - Life Insurance Business) to comply with the business segregation requirement. The Company has already incorporated a new subsidiary company in 2014 for this purpose. The impact of the said standards may have to be assessed with the change in the company structure from 2014 onwards.

SLFRS 12 will become effective from 1 January 2014.

#### 3.30.4 Sri Lanka Accounting Standard - SLFRS 13, “Fair Value Measurement”

The objective of this standard is to define the fair value, set out a framework for measuring fair value and finally to identify the disclosure requirements in respect of fair value in a single SLFRS.

This SLFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before initial application of this SLFRS.

The Company has started the process of evaluating the potential effect of this. Although many of the SLFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of SLFRS 13 will require the Company to provide additional disclosures. Given the nature of the Company's operations, this standard is not expected to have a pervasive impact on the Company's Financial Statements.

This SLFRS will become effective from 1 January 2014.

### 3.30.5 Sri Lanka Accounting Standard – SLFRS 9 “Financial Instruments”

The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of Financial Statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 Financial Instruments: Recognition and Measurement.

Effective date of this SLFRS has been deferred.

The Company is currently evaluating the potential effect of the adoption of this standard.

## Notes to the Financial Statements

### 4. Intangible Assets

As at 31st December,	2013 Rs.'000	2012 Rs.'000
<b>Computer Software</b>		
<b>Cost</b>		
Balance as at 01st January	128,775	103,411
Acquisitions /Capitalised during the year	8,768	25,364
Impairment during the year	-	-
Balance as at 31st December	137,543	128,775
<b>Accumulated Amortisation and Impairment Losses</b>		
Balance as at 01st January	67,707	54,535
Amortisation for the year	16,029	13,172
Impairment during the year	-	-
Balance as at 31st December	83,736	67,707
<b>Carrying amount as at 31st December</b>	<b>53,807</b>	<b>61,068</b>

#### 4.1 Acquisition of Intangible Assets during the year

During the financial year, the Company acquired/capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 8.8 Million (2012 - Rs. 25.4 Million). Cash payments (Including Advances paid on Software) amounting to Rs. 5.1 Million (2012 - Rs. 16.6 Million) were made during the year for purchase of Intangible Assets (Computer Software).

#### 4.2 Fully amortised Intangible Assets in use

Intangible Assets include fully depreciated Computer Software which are in the use of normal business activities having gross carrying amounts of Rs. 38.6 Million (2012 - Rs. 32.5 Million).

#### 4.3 Title restriction on Intangible Assets

There are no restrictions that existed on the title of the Intangible Assets of the Company as at the Reporting Date. There were no items pledged as securities for liabilities.

#### 4.4 Assessment of impairment of Intangible Assets

The Board of Directors has assessed potential impairment loss of intangible assets as at 31st December 2013. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the Reporting Date in respect of Intangible Assets.

#### 4.5 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of Intangible Assets during the year (2012 - Nil).

## 5. Property, Plant and Equipment (PPE)

	Computer Hardware	Motor Vehicles	Office Equipment	Furniture and Fittings	Fixtures	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cost</b>						
Balance as at 01st January 2012	121,980	17,467	46,763	35,353	45,406	266,969
Additions during the year	18,011	-	5,573	5,415	8,811	37,810
Disposals during the year	(4,267)	-	(754)	(899)	(2,041)	(7,961)
Balance as at 31st December 2012	135,724	17,467	51,582	39,869	52,176	296,818
Balance as at 01st January 2013	135,724	17,467	51,582	39,869	52,176	296,818
Additions during the year	16,446	16,071	5,587	4,754	13,187	56,045
Disposals during the year	(2,247)	(12,150)	(2,870)	(706)	(3,797)	(21,770)
<b>Balance as at 31st December 2013</b>	<b>149,923</b>	<b>21,388</b>	<b>54,299</b>	<b>43,917</b>	<b>61,566</b>	<b>331,093</b>
<b>Accumulated Depreciation and Impairment Losses</b>						
Balance as at 01st January 2012	69,262	13,543	31,288	15,445	15,863	145,401
Depreciation for the year	14,845	3,571	5,999	3,515	12,224	40,154
Depreciation on Disposals	(4,019)	-	(730)	(703)	(1,732)	(7,184)
Balance as at 31st December 2012	80,088	17,114	36,557	18,257	26,355	178,371
Balance as at 01st January 2013	80,088	17,114	36,557	18,257	26,355	178,371
Depreciation for the year	16,829	1,998	5,941	3,871	8,169	36,808
Depreciation on disposals	(2,197)	(12,150)	(2,515)	(521)	(3,712)	(21,095)
<b>Balance as at 31st December 2013</b>	<b>94,720</b>	<b>6,962</b>	<b>39,983</b>	<b>21,607</b>	<b>30,812</b>	<b>194,084</b>
<b>Carrying Value as at 31st December 2013</b>	<b>55,203</b>	<b>14,426</b>	<b>14,316</b>	<b>22,310</b>	<b>30,754</b>	<b>137,009</b>
Carrying Value as at 31st December 2012	55,636	353	15,025	21,612	25,821	118,447

### 5.1 Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs. 56 Million (2012- Rs. 37.8 Million). Cash payments amounting to Rs.54.2 Million (2012 - Rs. 32.7 Million) were made during the year for purchase of PPE.



## Notes to the Financial Statements

### 5. Property, Plant and Equipment (PPE) (Contd.)

#### 5.2 Fully depreciated PPE in use

PPE includes fully depreciated assets which are in the use of normal business activities having a gross carrying amount of Rs. 47.2 Million (2012 - Rs. 28.2 Million)

The initial cost of fully depreciated PPE which are still in use as at Reporting Date, is as follows :

As at 31st December	2013 Rs.'000	2012 Rs.'000
Computer Hardware	42,646	36,909
Office Equipment	24,629	17,849
Fixtures	10,256	8,506
Furniture and Fittings	3,150	1,487
	80,681	64,751

#### 5.3 PPE pledged as security for Liabilities

There were no items of Property, Plant and Equipment pledged as securities for liabilities during the year (2012 - Nil).

#### 5.4 Permanent fall in value of PPE

There has been no permanent fall in the value of PPE which require a provision in the Financial Statements.

#### 5.5 Title restriction on PPE

There are no restrictions that existed on the title of the PPE of the Company as at the Reporting Date.

#### 5.6 Assessment of Impairment

The Board of Directors has assessed the potential impairment loss of PPE as at 31st December 2013. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the Reporting Date in respect of PPE.

#### 5.7 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of Property, Plant and Equipment during the year (2012 - Nil).

#### 5.8 Temporarily idle Property, Plant and Equipment

There were no temporarily idle PPE as at the year ended 31st December 2013 (2012 - Nil).

## 6. Financial Investments

As at 31st December,		2013 Rs.'000	2012 Rs.'000
Held To Maturity (HTM)	(Note 6.1)	931,680	1,567,968
Loans and Receivable (L & R)	(Note 6.2)	4,745,790	2,747,869
Available For Sale (AFS)	(Note 6.3)	644,889	973,680
Fair Value Through Profit or Loss (FVTPL)	(Note 6.4)	334,079	414,349
<b>Total Financial Investments</b>		<b>6,656,438</b>	<b>5,703,866</b>

The following table consists of the fair values of the financial investments together with their carrying values

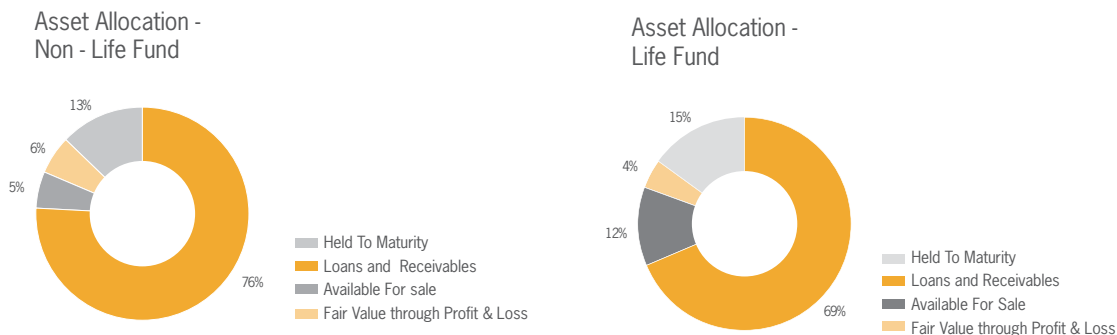
As at 31st December,		2013		2012	
		Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Held To Maturity (HTM)	(Note 6.1)	931,680	948,081	1,567,968	1,533,502
Loans and Receivable (L & R)	(Note 6.2)	4,745,790	4,694,916	2,747,869	2,723,252
Available For Sale (AFS)	(Note 6.3)	644,889	644,889	973,680	973,680
Fair Value Through Profit or Loss (FVTPL)	(Note 6.4)	334,079	334,079	414,349	414,349
<b>Total Financial Investments</b>		<b>6,656,438</b>	<b>6,621,965</b>	<b>5,703,866</b>	<b>5,644,783</b>

		2013		2012	
		Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
<b>6.1</b>	<b>Held to Maturity (HTM)</b>				
	- Treasury Bonds	931,680	948,081	1,533,066	1,498,605
	- Treasury Bills	-	-	34,902	34,897
		<b>931,680</b>	<b>948,081</b>	<b>1,567,968</b>	<b>1,533,502</b>
<b>6.2</b>	<b>Loans and Receivable (L &amp; R)</b>				
	- Treasury Bills - Repo	383,332	383,332	292,539	292,539
	- Treasury Bills - Overnight Repo	318,116	318,115	157,181	157,181
	- Term Deposits (Note 6.5)	1,890,296	1,908,957	1,255,703	1,256,458
	- Corporate Debt (Note 6.6)	2,154,046	2,084,512	1,042,446	1,017,074
		<b>4,745,790</b>	<b>4,694,916</b>	<b>2,747,869</b>	<b>2,723,252</b>
<b>6.3</b>	<b>Available For Sale (AFS)</b>				
	- Treasury Bonds	480,353	480,353	767,221	767,221
	- Treasury Bills	164,536	164,536	206,459	206,459
		<b>644,889</b>	<b>644,889</b>	<b>973,680</b>	<b>973,680</b>
<b>6.4</b>	<b>Fair Value Through Profit or Loss (FVTPL)</b>				
	- Treasury Bonds	-	-	51,290	51,290
	- Equity Shares (Note 6.7)	195,141	195,141	215,668	215,668
	- Unit Trusts (Note 6.8)	138,938	138,938	147,391	147,391
		<b>334,079</b>	<b>334,079</b>	<b>414,349</b>	<b>414,349</b>

Fair Value Through Profit or Loss investments and Available For Sale investments have been valued at fair value. Held to Maturity investments and Loans and Receivable investments are valued at amortised cost.

## Notes to the Financial Statements

## 6. Financial Investments (Contd.)



As at 31st December,

	2013		2012	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
<b>6.5. Term Deposits</b>				
Long term and medium term deposits with,				
Licensed Commercial Banks (Note 6.5.1)	999,801	1,005,367	739,883	738,006
Licensed Specialised Banks	308,686	317,546	231,587	232,692
Registered Finance Companies	581,809	586,044	284,233	285,760
	<b>1,890,296</b>	<b>1,908,957</b>	<b>1,255,703</b>	<b>1,256,458</b>
<b>6.5.1 Licensed Commercial Banks</b>				
Term Deposits with Related Parties				
- Hatton National Bank PLC	146,604	147,618	150,324	150,155
Other Banks	853,197	857,749	589,559	587,851
	<b>999,801</b>	<b>1,005,367</b>	<b>739,883</b>	<b>738,006</b>

As at 31st December,

	2013		2012	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
<b>6.6 Corporate Debt</b>				
Debentures - Quoted (Note 6.6.1)	1,835,515	1,756,077	548,638	521,947
Debentures - Unquoted (Note 6.6.2)	258,159	267,129	340,059	339,625
Commercial Paper (Note 6.6.3)	60,372	61,306	141,855	143,510
Promissory Notes (Note 6.6.4)	-	-	11,894	11,992
	<b>2,154,046</b>	<b>2,084,512</b>	<b>1,042,446</b>	<b>1,017,074</b>

## 6. Financial Investments (Contd.)

	Redeemable Date	No. of Debentures	2013			Coupon Rate (Per Annum)	No. of Debentures	2012		
			Carrying Value	Fair Value	Fair Value			Carrying Value	Fair Value	Coupon Rate
			Rs.'000	Rs.'000	Rs.'000			Rs.'000	Rs.'000	(Per Annum)
<b>6.6.1 Debentures - Quoted</b>										
DFCC Bank	26/09/16	5,000	5,698	5,000	14.00%	5,000	5,698	5,000	14.00%	
Hatton National Bank PLC	31/03/21	75,000	16,865	7,500	11.00%	75,000	15,195	7,500	11.00%	
Lanka Orix Leasing Company PLC	30/06/16	750,000	79,475	75,000	11.90%	750,000	79,475	75,000	11.90%	
Merchant Bank of Sri Lanka PLC	15/11/15	675,000	71,515	67,500	11.80%	675,000	71,515	67,500	11.80%	
Sampath Bank PLC	11/10/17	283,100	32,971	28,310	16.50%	283,100	29,334	28,310	16.50%	
Singer Sri Lanka PLC	30/09/15	302,170	30,476	30,211	17.00%	302,170	30,217	30,217	17.00%	
Bank of Ceylon	28/06/15	150,000	15,873	15,000	6 Months	150,000	15,012	15,000	6 Months	
					Gross T/Bill+ 0.75%				Gross T/Bill+ 0.75% p.a	
Bank of Ceylon	28/06/15	200,000	21,178	20,000	11.50%	200,000	21,178	19,000	11.50%	
Bank of Ceylon	07/12/16	150,000	15,108	15,000	11.00%	150,000	15,108	15,000	11.00%	
Bank of Ceylon	29/11/17	1,100,000	111,495	110,000	16.00%	1,100,000	111,495	110,000	16.00%	
Urban Development Authority	05/10/15	1,124,200	115,401	112,319	11.00%	1,124,200	115,401	112,420	11.00%	
Hatton National Bank PLC	29/08/23	276,614	19,591	18,732	8.00%	-	-	-	-	
Hatton National Bank PLC	12/06/18	538,417	57,993	53,842	14.00%	-	-	-	-	
Merchant Bank of Sri Lanka PLC	16/12/17	400,000	40,219	40,000	14.25%	-	-	-	-	
Merchant Bank of Sri Lanka PLC	27/03/18	197,100	21,863	19,710	17.50%	-	-	-	-	
Merchant Bank of Sri Lanka PLC	27/03/18	112,600	12,203	11,260	16.70%	-	-	-	-	
Sampath Bank PLC	04/12/18	877,700	88,640	88,531	13.40%	-	-	-	-	
Singer Sri Lanka PLC	29/05/15	180,000	18,658	18,000	14.50%	-	-	-	-	
Singer Sri Lanka PLC	29/05/16	270,000	27,987	27,000	14.50%	-	-	-	-	
Nations Trust Bank PLC	19/12/18	581,500	58,399	58,150	13.00%	-	-	-	-	
Abans (Pvt) Limited	20/12/16	100,000	10,042	10,000	14.00%	-	-	-	-	
Abans (Pvt) Limited	20/12/17	750,000	75,321	75,000	14.25%	-	-	-	-	
Abans (Pvt) Limited	20/12/18	550,000	55,240	55,000	14.50%	-	-	-	-	
Central Finance Company PLC	18/06/16	11,400	11,809	11,400	14.25%	-	-	-	-	
Central Finance Company PLC	18/06/18	44,100	45,740	44,100	14.75%	-	-	-	-	
Hayleys PLC	09/07/16	110,000	113,951	110,000	14.25%	-	-	-	-	
The HDFC Bank of Sri Lanka	23/10/18	600,000	61,733	60,000	15.50%	-	-	-	-	
The HDFC Bank of Sri Lanka	23/10/17	198,900	20,446	19,890	15.00%	-	-	-	-	
LB Finance PLC	28/11/18	621,300	62,947	62,130	15.00%	-	-	-	-	
LB Finance PLC	28/11/18	229,700	23,272	22,970	15.00%	-	-	-	-	
The Lion Brewery (Ceylon) PLC	17/06/16	28,800	29,780	28,800	13.50%	-	-	-	-	
The Lion Brewery (Ceylon) PLC	17/06/17	28,800	29,798	28,800	13.75%	-	-	-	-	
The Lion Brewery (Ceylon) PLC	17/06/18	38,400	39,755	38,400	14.00%	-	-	-	-	
National Development Bank PLC	19/12/18	184,600	18,541	18,460	13.40%	-	-	-	-	
National Development Bank PLC	19/12/18	125,900	12,644	12,590	13.00%	-	-	-	-	
National Development Bank PLC	19/12/23	187,500	18,836	18,750	13.90%	-	-	-	-	
Nawaloka Hospitals PLC	30/09/18	550,000	56,962	55,000	14.15%	-	-	-	-	
People's Leasing and Finance PLC	26/03/18	300,000	33,898	30,000	17.00%	-	-	-	-	
People's Leasing and Finance PLC	26/03/18	200,000	21,680	21,722	16.75%	-	-	-	-	
Seylan Bank PLC	21/02/18	1,200,000	135,899	120,000	15.50%	-	-	-	-	
Softlogic Holdings PLC	09/09/16	920,000	95,613	92,000	15.75%	-	-	-	-	
Bank of Ceylon	-	-	-	-	-	200,000	20,246	20,000	Weighted Average 6 Month Gross T Bill rate + 0.75%	
Nations Trust Bank PLC	-	-	-	-	-	17,000	18,764	17,000	20.53%	
<b>Total Investment in Quoted Debentures</b>			1,835,515	1,756,077			548,638	521,947		

## Notes to the Financial Statements

## 6. Financial Investments (Contd.)

As at 31st December,

	Redeemable Date	No. of Debentures	Carrying Value Rs.'000	2013		No. of Debentures	2012		Coupon Rate
				Fair Value Rs.'000	Coupon Rate (Per Annum)		Carrying Value Rs.'000	Fair Value Rs.'000	
<b>6.6.2 Debentures - Unquoted</b>									
People's Leasing & Finance PLC	30/06/15	750,000	79,424	80,757	11.70%	750,000	75,000	75,000	11.70%
Abans (Pvt) Limited	01/03/16	25,000	25,927	26,491	13.50%	25,000	25,841	24,591	13.50%
National Development Bank PLC	30/06/16	40,000	40,100	40,669	03 Month Gross T. Bill Rate +1% p.a	40,000	41,233	41,233	03 Month Gross T. Bill Rate +1% p.a
Singer Sri Lanka PLC	09/05/15	490,000	50,268	53,027	15.50%	490,000	50,248	51,236	15.50%
Siyapatha Finance Limited	31/12/15	27,500	24,518	25,813	12.25%	35,000	35,003	35,000	12.25%
Siyapatha Finance Limited	31/07/15	350,000	37,922	40,372	16.65%	350,000	37,507	39,074	16.65%
Abans (Pvt) Limited	-	-	-	-	-	75,000	75,227	73,491	12.00%
<b>Total Investment in Unquoted Debentures</b>			258,159	267,129			340,059	339,625	
<b>6.6.3 Commercial Paper</b>									
People's Leasing & Finance PLC			16,655	16,885	15.10%		30,980	31,146	16.50%
Merchant Bank of Sri Lanka PLC			43,717	44,421	17.25%		15,157	15,394	17.50%
People's Leasing & Finance PLC			-	-	-		40,690	41,571	17.25%
Merchant Bank of Sri Lanka PLC			-	-	-		55,028	55,399	16.25%
<b>Total Investment in Commercial Paper</b>			60,372	61,306			141,855	143,510	
<b>6.6.4 Promissory Notes</b>									
People's Leasing & Finance PLC			-	-	-		11,894	11,992	16.50%
<b>Total Investment in Promissory Notes</b>			-	-			11,894	11,992	
<b>Total Investments in Corporate Debt</b>			2,154,046	2,084,512			1,042,446	1,017,074	

## 6. Financial Investments (Contd.)

As at 31st December,

	2013		2012	
	No. of Shares	Carrying Value/ Fair Value Rs.'000	No. of Shares	Carrying Value/ Fair Value Rs.'000
<b>6.7. Equity Shares</b>				
<b><i>Banks, Finance and Insurance</i></b>				
National Development Bank PLC	78,200	12,551	78,200	10,784
Commercial Bank of Ceylon PLC	34,627	4,169	147,164	15,158
Sampath Bank PLC	78,422	13,480	76,125	15,263
Nations Trust Bank PLC	275,000	17,105	275,000	15,400
DFCC Bank	30,000	3,870	43,000	4,855
Peoples Leasing & Finance PLC	932,800	12,500	1,162,800	15,347
Seylan Bank PLC - (Non Voting)	410,283	12,719	399,999	14,040
<b>Sector Total</b>		<b>76,394</b>		<b>90,847</b>
<b><i>Diversified Holdings</i></b>				
John Keells Holdings PLC	91,794	20,865	87,556	19,254
Richard Pieris and Company PLC	1,375,000	8,663	1,375,000	10,725
Hemas Holdings PLC	321,000	10,913	321,000	8,667
John Keells Holdings PLC - Warrants 2015	4,078	326	-	-
John Keells Holdings PLC - Warrants 2016	4,078	385	-	-
Vallibel One PLC	375,000	6,188	-	-
<b>Sector Total</b>		<b>47,340</b>		<b>38,646</b>
<b><i>Telecommunications</i></b>				
Dialog Axiata PLC	-	-	217,500	1,805
<b>Sector Total</b>		<b>-</b>		<b>1,805</b>
<b><i>Manufacturing</i></b>				
Royal Ceramics Lanka PLC	183,000	15,482	183,000	18,117
Dipped Products PLC	19,500	1,755	19,500	2,145
Chevron Lubricants Lanka PLC	12,599	3,374	24,000	4,848
ACL Cables PLC	50,000	3,245	50,000	3,370
Tokyo Cement Company (Lanka) PLC	443,202	12,631	402,912	11,523
Kelani Cables PLC	44,300	3,278	44,300	3,106
Textured Jersey Lanka PLC	-	-	428,500	3,813
<b>Sector Total</b>		<b>39,765</b>		<b>46,922</b>



## Notes to the Financial Statements

## 6. Financial Investments (Contd.)

As at 31st December,

	2013		2012	
	No. of Shares	Carrying Value/ Fair Value Rs.'000	No. of Shares	Carrying Value/ Fair Value Rs.'000
<b>6.7. Equity Shares (Contd.)</b>				
<b>Hotels and Travels</b>				
Dolphin Hotels PLC	59,900	2,690	149,900	5,471
John Keells Hotels PLC	92,700	1,158	92,700	1,280
Palm Garden Hotels PLC	23,000	1,440	23,000	3,220
The Lighthouse Hotel PLC	21,400	942	21,400	1,137
<b>Sector Total</b>		6,230		11,108
<b>Chemicals and Pharmaceuticals</b>				
CIC Holdings PLC	95,000	4,551	95,000	6,109
Haycarb PLC	20,500	3,890	20,500	3,507
<b>Sector Total</b>		8,441		9,616
<b>Power and Energy</b>				
Laugfs Gas PLC	135,000	3,834	175,000	4,480
<b>Sector Total</b>		3,834		4,480
<b>Beverage, Food and Tobacco</b>				
Distilleries Company of Sri Lanka PLC	60,000	11,580	60,000	9,960
<b>Sector Total</b>		11,580		9,960
<b>Information Technology</b>				
PC House PLC	-	-	82,820	447
<b>Sector Total</b>			-	447
<b>Investment Trusts</b>				
Renuka Holdings PLC	50,877	1,557	50,877	1,837
<b>Sector Total</b>		1,557		1,837
<b>Carrying Value of total Investment in Quoted Shares</b>		195,141		215,668

## 6. Financial Investments (Contd.)

### 6.8 Unit Trusts

As at 31st December,

	2013		2012	
	No. of Units	Carrying Value/ Fair Value Rs.'000	No. of Units	Carrying Value/ Fair Value Rs.'000
<b>Fair Value Through Profit or Loss (FVTPL)</b>				
<b>Quoted</b>				
NAMAL Acuity Value Fund	114,400	7,608	114,400	7,550
<b>Total Investment in Quoted Unit Trusts</b>	-	7,608	-	7,550
	No. of Units	Carrying Value Rs.'000	No. of Units	Carrying Value Rs.'000
<b>Unquoted</b>				
Ceybank Savings plus Money Market Fund	1,800,000	19,164	1,800,000	19,602
Ceylon Income Fund	2,686,703	35,481	2,686,703	34,470
First Capital Wealth Fund	3,851	4,420	3,851	4,349
NAMAL High Yield Fund	2,686,567	34,389	2,686,567	30,251
Eagle Income Fund	969,932	10,436	969,932	10,417
Comtrust Money Market Fund	383,877	4,123	383,877	4,131
Guardian Acuity Fixed Income Fund	1,998,002	23,317	1,998,002	22,018
Ceylon Financial Sector Fund	-	-	664,622	4,333
Namal IPO Fund	-	-	1,000,000	10,270
<b>Total Investment in Unquoted Unit Trusts</b>				
<b>Carried at FVTPL</b>		131,330		139,841
<b>Total Investments in Unit Trusts</b>		138,938		147,391

## Notes to the Financial Statements

### 6. Financial Investments (Contd.)

#### 6.9 Movement in the Carrying Values of Financial Investments

	Fair Value Through Profit or Loss Rs.'000	Loans and Receivable Rs.'000	Held to Maturity Rs.'000	Available for Sale Rs.'000	Total Rs.'000
As at 1st January 2012	769,177	2,438,458	1,579,941	96,686	4,884,262
Purchases	188,168	62,441,713	267,974	1,020,809	63,918,664
Maturities	(502,673)	(62,322,156)	(466,362)	(159,076)	(63,450,267)
Disposals	(43,036)	(120,785)	-	(84,216)	(248,037)
Fair value gains recorded in the Income Statement	(14,573)	-	-	3,118	(11,455)
Fair value gains recorded in Other Comprehensive Income Statement	-	-	-	27,544	27,544
Amortisation adjustment	17,286	310,639	186,415	68,815	583,155
As at 31st December 2012	414,349	2,747,869	1,567,968	973,680	5,703,866
As at 1st January 2013	414,349	2,747,869	1,567,968	973,680	5,703,866
Purchases	8,936	74,560,466	-	692,313	75,261,715
Maturities	(52,625)	(73,011,129)	(759,469)	(440,074)	(74,263,297)
Disposals	(51,833)	-	-	(737,761)	(789,594)
Fair value gains recorded in the Income Statement	13,871	4,982	-	45,838	64,691
Fair value gains recorded in Other Comprehensive Income Statement	-	-	-	(7,773)	(7,773)
Amortisation adjustment	1,381	443,602	123,181	118,666	686,830
<b>As at 31st December 2013</b>	<b>334,079</b>	<b>4,745,790</b>	<b>931,680</b>	<b>644,889</b>	<b>6,656,438</b>

### 7. Loans to Life Policyholders

As at 31st December,	2013 Rs.'000	2012 Rs.'000
Balance as at 1st January	26,158	17,530
Loans Granted during the year	30,175	15,926
Repayments during the year	(9,125)	(7,298)
Balance as at 31st December	47,208	26,158
Interest Receivable	6,448	3,730
	53,656	29,888

## 7. Loans to Life Policyholders (Contd.)

- 7.1** The surrender value of the policy loans granted as at 31st December 2013 amounted to Rs. 88.2 Million (2012: Rs. 50.5 Million).

If the total receivable of the loan, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Company has a first lien on all policies which are subject to policy loans. This mitigates the Company's credit exposure on Policy Loans.

The Company grants policy loans at a rate equivalent to the market rate, hence initial recognition is at Fair Value.

- 7.2** Number of Policy Loans due as at 31st December 2013 was 1,460 (2012 - 980).

### 7.3 Impairment Losses on Loans to Life Policyholders

The Board of Directors has assessed potential impairment loss of Loans to Life Policyholders as at 31st December 2013. 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.

## 8. Reinsurance Receivables

As at 31st December,		2013 Rs.'000	2012 Rs.'000
Reinsurance Receivables on Outstanding Claims	(Note 8.1)	70,655	126,092
Reinsurance Receivables on Settled Claims	(Note 8.2)	34,735	36,623
<b>Total Reinsurance Receivables</b>		<b>105,390</b>	<b>162,715</b>

- 8.1** The reinsurance portion of the receivable has not been materialised, since the insurance claim has not been paid as at the Reporting Date.

### 8.2 The age analysis of the Reinsurance Receivable on settled claims is as follows:

As at 31st December,		2013 Rs.'000	2012 Rs.'000
Up to 30 days		2,917	7,833
31 to 60 days		20,979	7,937
61 to 90 days		4,012	17,202
91 to 180 days		6,766	3,344
181 to 365 days		61	307
		<b>34,735</b>	<b>36,623</b>

- 8.3** The Carrying value of reinsurance receivables approximate the fair value at the Reporting Date.

### 8.4 Impairment Losses on Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of reinsurance receivables as at 31st December 2013. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the Reporting Date in respect of Reinsurance Receivables. Please refer note no. 42.1.3 (Page 316) for Reinsurance rating analysis.

## Notes to the Financial Statements

## 9. Premium Receivables

As at 31st December,		2013 Rs.'000	2012 Rs.'000
Premium Receivable from;			
Non - Life Insurance			
Policyholders		157,771	57,337
Related Parties	(Note 9.1)	11,563	15,264
Agents, Brokers and Intermediaries		125,138	165,243
		294,472	237,844
Life Insurance			
Policyholders	(Note 9.2)	14,204	18,097
Provision for Premium Default		(7,494)	(8,524)
		6,710	9,573
<b>Total Premium Receivables</b>		<b>301,182</b>	<b>247,417</b>

## 9.1 Premium Receivable from Related Parties

## Non - Life Insurance

Hatton National Bank PLC		11,342	14,715
Acuity Stock Brokers (Pvt) Limited		-	285
Others		221	264
<b>Total</b>		<b>11,563</b>	<b>15,264</b>

9.2 The Company has opted to record the Life Insurance premium on an accrual basis in terms of Sri Lanka Financial Reporting Standard No. 4 - Insurance Contracts from the year ended 31st December 2012. The Life Insurance premiums for policies within the 30 day grace period are considered as due premium, subject to a provision for premium default. Premium Default ratio is computed by analyzing the default history.

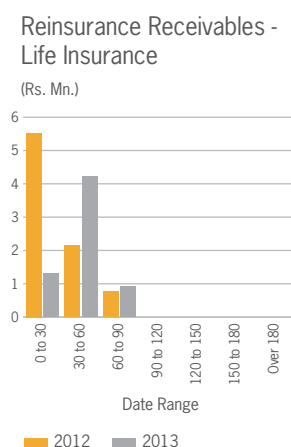
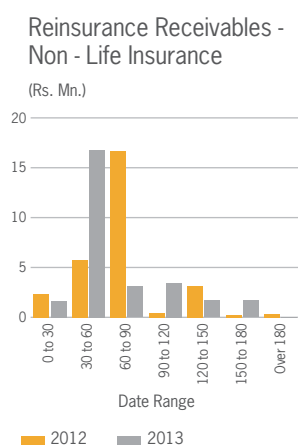
Commission cost and reinsurance premium relating to that accrued income are also recorded in the same manner.

## 9.3 Impairment Losses on Premium Receivables

The Board of Directors has assessed potential impairment loss of premium receivable as at 31st December 2013. Since the Company adopts the Premium Payment Warranty (PPW) ruling issued by Insurance Board of Sri Lanka (IBSL), no long outstanding balances are left in Premium Receivables. Thus, there is no need for an additional impairment loss provision. The age analysis of these premium receivables is as follows:

As at 31st December,		2013 Rs.'000	2012 Rs.'000
Up to 30 days		209,190	171,513
31 to 60 days		91,755	72,219
61 to 90 days		237	3,685
		301,182	247,417

Premium Receivables over 60 days totally comprise of Non - Life Premium Receivable, which has been recovered in full subsequent to the Reporting Date.



## 10. Other Assets

As at 31st December,		2013	2012
		Rs.'000	Rs.'000
Staff and Agent Loans	(Note 10.1)	239,445	195,021
Advance Payments		73,536	57,916
Advance paid for Acquisition of Software		16,089	16,394
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note 10.2)	232,590	208,320
Co - Insurance Receivables		5,575	697
Inventories		1,009	1,043
Other receivables		6,936	2,825
<b>Total Other Assets</b>		<b>575,180</b>	<b>482,216</b>

As at 31st December,		2013	2012
		Rs.'000	Rs.'000
<b>10.1. Staff and Agent Loans</b>			
Staff Loans	(Note 10.1.b.)	208,292	169,069
Agent Loans	(Note 10.1.c.)	31,153	25,952
		<b>239,445</b>	<b>195,021</b>

**10.1.a.** The carrying value of the staff and agent loans has been computed based on the market interest rates which prevailed at the time of granting the loan, and the fair value of same has been computed based on the interest rates that prevailed at the Reporting Date.



## Notes to the Financial Statements

**10. Other Assets (Contd.)****10.1.b. Staff Loans**

<b>As at 31st December,</b>	<b>2013</b>	<b>2012</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>
Balance as at 1st January	161,350	131,850
Loans granted during the year	132,639	112,144
	293,989	243,994
Repayments during the year	(94,075)	(82,644)
Balance as at 31st December	199,914	161,350
Allowance for Impairment Losses	(1,513)	(1,478)
Fair Value Adjustment on Staff Loan	9,891	9,197
Fair value of the loans as at 31st December	208,292	169,069

**10.1.c. Agent Loans**

Balance as at 1st January	26,920	21,936
Loans granted during the year	26,267	25,917
	53,187	47,853
Repayments during the year	(21,156)	(20,933)
Balance as at 31st December	32,031	26,920
Allowance for Impairment Losses	(487)	(465)
Fair Value Adjustment on Advisor Loan	(391)	(503)
Fair value of the loans as at 31st December	31,153	25,952

**10.1.d.** No loans have been granted to the Directors of the Company.

**10.2 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)**

Withholding Tax Recoverable (WHT)	70,247	35,322
Economic Service Charge (ESC) and Other Taxes Recoverable	-	45
Value Added Tax Recoverable	932	-
Notional Tax on Government Securities (Note 10.2.a.)	161,411	172,953
	232,590	208,320

**10.2.a Notional Tax on Government Securities**

Balance as at 1st January	172,953	137,902
Notional tax additions during the year	32,192	35,051
Notional tax utilised during the year	(43,734)	-
Balance as at 31st December	161,411	172,953

## 11 Insurance Contract - Deferred Expenses

As at 31st December,	2013 Rs.'000	2012 Rs.'000
<b>Reserve for Net Deferred Acquisition Expenses</b>		
<b>Reserve for Deferred Acquisition Expenses</b>		
Balance as at 1st January	70,871	72,553
Decrease in Deferred Acquisition Expenses	(849)	(1,682)
Balance as at 31st December	70,022	70,871
<b>Reserve for Deferred Reinsurance Commission</b>		
Balance as at 1st January	(50,903)	(52,494)
Decrease in Deferred Acquisition Expenses	13,793	1,591
Balance as at 31st December	(37,110)	(50,903)
<b>Total Reserve for Net Deferred Acquisition Expenses</b>	<b>32,912</b>	<b>19,968</b>

## 12. Cash and Cash Equivalents

As at 31st December,	2013 Rs.'000	2012 Rs.'000
Cash in Hand	1,007	1,007
Cash at Bank with Licensed Commercial Banks	118,520	86,272
Cash at Bank with Related Parties - Hatton National Bank PLC	21,156	20,155
	140,683	107,434
Short Term Deposits (Note 12.1)	3,404	101,859
<b>Total Cash and Cash Equivalents</b>	<b>144,087</b>	<b>209,293</b>

### 12.1 Short Term Deposits

With Other Licensed Commercial Banks	-	93,504
With Related Parties - Hatton National Bank PLC	210	8,355
Others	3,194	-
<b>Total</b>	<b>3,404</b>	<b>101,859</b>

## 13 Stated Capital

As at 31st December,	2013		2012	
	Number of Shares	Rs.'000	Number of Shares	Rs.'000
Balance as at 1st January	50,000,000	1,171,875	50,000,000	1,171,875
Balance as at 31st December	50,000,000	1,171,875	50,000,000	1,171,875

### 13.1 Rights of Ordinary Shareholders

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the members of the Company.

## Notes to the Financial Statements

**14. Retained Earnings**

<b>As at 31st December,</b>	<b>2013 Rs.'000</b>	<b>2012 Rs.'000</b>
Balance as at 1st January	690,197	444,057
Profit for the Year	389,123	351,140
Dividend Paid for Previous Year	(137,500)	(105,000)
Balance as at 31st December	941,820	690,197

**15. Available For Sale Reserves**

	<b>2013 Rs.'000</b>	<b>2012 Rs.'000</b>
Balance as at 1st January	6,209	-
Other Comprehensive Income for the Year (Net)	(7,773)	27,544
Transferred to Life Policyholders Reserve Fund	2,991	(21,335)
Balance as at 31st December	1,427	6,209

Available For Sales Reserves comprise of the impact arising from the changes in market values of Financial Assets classified under Available For Sale (AFS).

**16. Other Reserves**

	<b>2013 Rs.'000</b>	<b>2012 Rs.'000</b>
Balance as at 1st January	-	-
Actuarial Gains - Gratuity	2,172	-
Balance as at 31st December	2,172	-

Other Reserves Comprise of the Actuarial Gains arising from valuation of Gratuity Liabilities as required by LKAS 19 – Employee Benefits (Effective w.e.f. 1st January 2013).

**17. Life Policyholders' Reserve Fund**

<b>As at 31st December,</b>	<b>2013 Rs.'000</b>	<b>2012 Rs.'000</b>
Balance as at 1st January	(1,191)	(22,526)
Other Comprehensive Income for the Year	(2,991)	21,335
Balance as at 31st December	(4,182)	(1,191)

The Life Policyholder Reserve Fund includes the initial impact of the implementation of SLFRS/LKAS's w.e.f. 1st January 2012 and the Other Comprehensive Income in respect of Life Insurance related to Available For Sale financial assets since then.

**18. Insurance Contract Liabilities - Life**

<b>As at 31st December,</b>		<b>2013 Rs.'000</b>	<b>2012 Rs.'000</b>
Life Insurance Fund	(Note 18.a)	4,271,736	3,546,907
Claims Outstanding		76,754	79,332
<b>Total Insurance Contract Liabilities - Life</b>		<b>4,348,490</b>	<b>3,626,239</b>

## 18. Insurance Contract Liabilities - Life (Contd.)

### 18.a. Life Insurance Fund

	2013 Rs.'000	2012 Rs.'000
The movement in the Life Insurance Fund is as follows:		
Balance as at 1st January	3,546,907	2,990,998
Change in Contract Liabilities Life Fund		
- Increase in Life Insurance Fund before Surplus Distribution to Shareholders	906,318	721,132
- Surplus distributed to Shareholders	(181,489)	(165,223)
Increase in Life Insurance Fund	724,829	555,909
Balance as at 31st December	4,271,736	3,546,907

Long duration contract liabilities included in the Life Insurance Fund, result primarily from traditional participating and non-participating Life Insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products. The actuarial reserves have been established based upon the following.

- Interest rates which vary by product and as required by regulations issued by the Insurance Board of Sri Lanka.
- Mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the Insurance Board of Sri Lanka
- Surrender rates based upon actual experience.

The valuation of the Life Insurance business as at 31st December 2013 was made by Mr. M Poopalanathan, AIA, of M/S Actuarial and Management Consultants (Pvt.) Ltd. In accordance with the Consultant Actuary's report, the reserve for the year amounted to Rs. 3,942.8 Million (2012 - Rs. 3,249.2 Million). In the opinion of the Consultant Actuary, the reserve is adequate to cover the liabilities pertaining to the Life Insurance business.

In the opinion of the Actuary, the Life Insurance Fund as included in the Audited Financial Statements exceeds the required actuarial reserves as at 31st December 2013 by Rs. 510.4 Million (2012 - Rs. 462.2 Million) before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders. As recommended by the Consultant Actuary a sum of Rs. 181.5 Million (2012 - Rs.165.2 Million) has been transferred from the Life Insurance Fund to the Shareholders fund for the year 2013.

Further, the Actuary has estimated that the solvency margin required (including the solvency margin for the new reversionary bonus allotted as at 31st December 2013) under the Regulation of Insurance Industry Act, No. 43 of 2000 as Rs. 201.7 Million (2012 - Rs. 166.6 Million).

#### 18.1 Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Life Insurance Contract Liability was carried out by Mr. John C.Vieren, FSA, MAA, of M/S The Pinnacle Consulting Group Limited as at 31st December 2013 as required by SLFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compares this amount with the carrying value of the liability. According to the Consultant Actuary's report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31st December 2013. No additional provision was required against the LAT as at 31st December 2013.

## Notes to the Financial Statements

**19. Insurance Contract Liabilities - Non Life**

<b>As at 31st December,</b>	<b>2013</b>	<b>2012</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>
The Non - Life Insurance Reserves as shown in the Statement of Financial Position represents the following:		
Reserves for Net Unearned Premium (Note 19.1)	753,237	675,644
Reserves for Title Insurance (Note 19.2)	22,370	20,526
Reserves for Gross Outstanding Claims (Note 19.3)	235,495	273,273
<b>Total Insurance Contract Liabilities - Non Life</b>	<b>1,011,102</b>	<b>969,443</b>
<b>19.1 Reserves for Net Unearned Premium</b>		
<b>19.1.a. Reserves for Unearned Premium</b>		
Balance as at 1st January	845,279	897,425
Transfer during the Year (Note 26)	91,004	(52,146)
Balance as at 31st December	936,283	845,279
<b>19.1.b. Reserves for Unearned Reinsurance Premium</b>		
Balance as at 1st January	(169,635)	(212,097)
Transfer during the Year (Note 26)	(13,411)	42,462
Balance as at 31st December	(183,046)	(169,635)
<b>Total Reserves for Net Unearned Premium</b>	<b>753,237</b>	<b>675,644</b>
<b>19.2 Reserves for Title Insurance and Other Reserves</b>		
Balance as at 1st January	20,446	20,030
Transfer to Title Insurance Reserve (Note 26)	4,951	4,183
Recognition of Title Insurance Profit	(3,027)	(3,767)
Balance as at 31st December	22,370	20,446
Other Reserves	-	80
<b>Total Reserves for Title Insurance and Other Reserves</b>	<b>22,370</b>	<b>20,526</b>
<b>19.3 Reserves for Gross Outstanding Claims</b>		
Balance as at 1st January	240,350	211,524
Claims Incurred during the Year	943,036	982,765
Claims Paid during the Year	(1,001,238)	(953,939)
Balance as at 31st December	182,148	240,350
IBNR / IBNER balance as at 1st January	32,923	27,260
Increase in IBNR / IBNER	20,424	5,663
IBNR / IBNER balance as at 31st December	53,347	32,923
<b>Total Reserves for Gross Outstanding Claims</b>	<b>235,495</b>	<b>273,273</b>

## 19. Insurance Contract Liabilities - Non Life (Contd.)

As at 31st December,	2013 Rs.'000	2012 Rs.'000
<b>19.4 Reconciliation between Insurance Provision and Technical Reserves</b>		
Insurance Provision	1,011,102	969,443
Reserve for Net Deferred Acquisition Expenses	(32,912)	(19,968)
Reinsurance on Claims Reserves	(27,499)	(85,716)
Reinsurance on Claims Reserves IBNR/IBNER	(25,979)	(8,118)
Technical Reserves	924,712	855,641

**19.5** Net Written Premium on Title Insurance after deducting acquisition cost has been transferred to the Title Reserves account to pay potential claims arising from the Title insurance policies. During the year, the Company recognised Rs. 3 Million (2012: Rs. 3.8 Million) as profit from Title Insurance. (Please refer Note 3.11.3 for the Accounting Policy on Title Insurance).

**19.6** Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the Reporting Date. The Reserves are determined based on the information currently available. However, it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent developments.

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserves as at 31st December 2013 has been actuarially computed by Mr. Matthew Maguire, FIAA, for and on behalf of NMG Financial Services Consulting Pte Limited. The valuation is based on internationally accepted actuarial methods and is performed on a semi annual basis.

### 19.7 Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Non - Life insurance contract liability was carried out by Mr. Matthew Maguire, FIAA, for and on behalf of NMG Financial Services Consulting Pte Limited as at 31st December 2013 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31st December 2013. No additional provision was required against the LAT as at 31st December 2013.

## 20. Employee Benefits

### 20.1 Defined Contribution Plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

As at 31st December,	2013 Rs.'000	2012 Rs.'000
Employees' Provident Fund		
Employer's contribution (12%)	35,196	28,156
Employees' contribution (8%)	23,464	18,771
Employees' Trust Fund (3%)	8,799	7,039



## Notes to the Financial Statements

**20. Employee Benefits (Contd.)**

<b>As at 31st December,</b>		<b>2013</b>	<b>2012</b>
		<b>Rs.'000</b>	<b>Rs.'000</b>
<b>20.2</b>	<b>Defined Benefit Plans - Provision for Employee Benefits</b>		
	Present Value of Unfunded Obligation (Note 20.2.1)	56,637	42,360
	Present Value of Funded Obligation	-	-
	<b>Total</b>	<b>56,637</b>	<b>42,360</b>
<b>20.2.1</b>	<b>Movement in the Present Value of the Employee Benefits</b>		
	<b>Unfunded Obligation</b>		
	Balance as at 1st January	42,360	34,129
	Provision recognised during the Year (Note 20.2.1.a)	18,739	11,386
	Actuarial gain during the plan Year (Note 20.2.1.b)	(2,172)	-
		58,927	45,515
	Payments during the Year	(2,290)	(3,155)
	<b>Balance as at 31st December</b>	<b>56,637</b>	<b>42,360</b>
<b>20.2.1.a</b>	<b>Provision Recognised in the Statement of Comprehensive Income</b>		
	Current Service Cost	13,789	6,797
	Interest on Obligation	4,950	4,589
		18,739	11,386
<b>20.2.1.b</b>	<b>Provision Recognised in the Statement of Other Comprehensive Income</b>		
	Actuarial gain during the plan year (Note 20.2.2)	(2,172)	-
		(2,172)	-

As at 31st December 2013, the Gratuity liability was actuarially valued under the Projected Unit Credit (PUC) method by Mr. Hugh Terry (Fellow of the Institute of Actuaries, U.K.), Consultant Actuary as required by Sri Lanka Accounting Standard (LKAS) 19 - Employee Benefits.

**20.2.2.** Upto the year ended 31st December 2012, the Company recognised all actuarial gains and losses arising from defined benefit plans immediately against profit or loss in the Statement of Comprehensive Income including all expenses related to defined benefit plans in employee benefit expense. With the adoption of revised Employee Benefit LKAS-19 which became effective from 1 January 2013, the re-measurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised in Other Comprehensive Income. The comparative has not been adjusted as the impact due to change in classification (Rs. 5.9 Million) is immaterial.

**20.3 Principal assumptions used**

	<b>2013</b>	<b>2012</b>
(a) Discount Rate	10%	12%
(b) Future Salary Increase Rate	9%	11%
(c) Early withdrawal through resignations		
- i) Less than 5 years	18%	18%
- ii) More than 5 years	7.5%	7.5%
(d) Retirement Age	55 years	55 years

*The Gratuity Liability is not externally funded.*

## 21. Current Tax Liabilities

As at 31st December,	2013 Rs.'000	2012 Rs.'000
Balance as at 1st January	42,950	25,998
Current tax for the year	35,143	42,691
Under provision pertaining to previous year	829	35
	78,922	68,724
<b>Tax set off during the year</b>		
Economic service charge	(45)	(17,977)
Withholding tax	-	(7,797)
Notional tax on Government securities	(43,734)	-
Balance as at 31st December	35,143	42,950

## 22. Reinsurance Creditors

As at 31st December,	2013 Rs.'000	2012 Rs.'000
Domestic Reinsurer - National Insurance Trust Fund (NITF)	50,232	21,859
Foreign Reinsurers	50,649	61,394
<b>Total Reinsurance Creditors</b>	100,881	83,253

## 23. Other Liabilities

As at 31st December,	2013 Rs.'000	2012 Rs.'000
Policyholders Advance Payments	62,207	69,263
Acquisition Cost Payable	67,339	50,154
Advisor Terminal Benefit Scheme (Note 23.1)	95,135	77,731
Government Levies	28,285	28,357
Amounts due to Related Parties (Note 23.2)	6,758	11,041
Accrued Expenses	19,266	29,354
Co - Insurance Payable	1,639	1,780
Claims payable	173	-
Others	113,496	135,863
<b>Total Other Liabilities</b>	394,298	403,543

### 23.1 Advisor Terminal Benefit Scheme

Life Insurance	91,485	75,021
Non - Life Insurance	3,650	2,710
	95,135	77,731

### 23.2 Amounts due to Related Parties

Hatton National Bank PLC	6,758	11,041
	6,758	11,041

## Notes to the Financial Statements

## 24. Gross Written Premium (GWP)

For the Year Ended 31st December,

Non - Life Insurance	2013				2012			
	Co - Insurance**				Co - Insurance**			
	Basic Rs.'000	SRCC/TC* Rs.'000	Rs.'000	Total Rs.'000	Basic Rs.'000	SRCC/TC* Rs.'000	Rs.'000	Total Rs.'000
Fire	240,447	82,531	(5,260)	317,718	233,247	67,417	(6,185)	294,479
Motor	1,099,330	187,336	-	1,286,666	1,039,701	164,473	-	1,204,174
Marine	24,060	189	(938)	23,311	23,656	71	-	23,727
Miscellaneous	226,224	13,986	(4,722)	235,488	183,571	8,410	(3,157)	188,824
Gross Written Premium - Non - Life Insurance	1,590,061	284,042	(10,920)	1,863,183	1,480,175	240,371	(9,342)	1,711,204

For the Year Ended 31st December,

	2013 Rs.'000	2012 Rs.'000
<b>Life Insurance</b>		
Individual Policies	1,983,698	1,475,383
Corporate Policies	30,849	24,645
Gross Written Premium - Life Insurance	2,014,547	1,500,028
Total Gross Written Premium	3,877,730	3,211,232

\*SRCC – Strike Riot and Civil Commotion Cover, TC – Terrorism Cover

\*Co - Insurance is an arrangement to share risks with a domestic insurer under a special contract and they are not considered as a part of Gross Written Premium.

## 25. Premium Ceded to Reinsurers

For the Year Ended 31st December,

	2013 Rs.'000	2012 Rs.'000
<b>Non - Life Insurance</b>		
Fire	281,395	260,016
Motor	40,379	43,411
Marine	20,160	20,299
Miscellaneous	82,273	67,907
	424,207	391,633
Life Insurance	101,798	128,076
Total Premium Ceded to Reinsurers	526,005	519,709

## 26. Net Change In Reserves For Unearned Premium

For the Year Ended 31st December,

	2013 Rs.'000	2012 Rs.'000	
Non - Life Insurance			
Change in Reserve for Unearned Premium	(Note 19.1.a.)	(91,004)	52,146
Change in Reserve for Unearned Reinsurance Premium	(Note 19.1.b.)	13,411	(42,462)
Transfer to Title Insurance Reserve	(Note 19.2.a.)	(4,951)	(4,183)
Net Change in Reserves for Unearned Premium		(82,544)	5,501

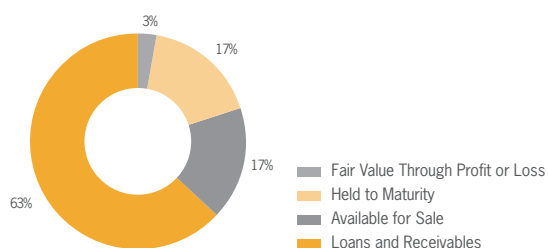
## 27. Net Earned Premium

For the Year Ended 31st December	2013			2012		
	Non - Life Rs.'000	Life Rs.'000	Total Rs.'000	Non - Life Rs.'000	Life Rs.'000	Total Rs.'000
Gross Written Premium	1,863,183	2,014,547	3,877,730	1,711,204	1,500,028	3,211,232
Change in Reserve for Unearned Premium	(91,004)	-	(91,004)	52,146	-	52,146
Gross Earned Premium	1,772,179	2,014,547	3,786,726	1,763,350	1,500,028	3,263,378
Premium Ceded to Reinsurance	(424,207)	(101,798)	(526,005)	(391,633)	(128,076)	(519,709)
Change in Reserve for Reinsurance Premium	13,411	-	13,411	(42,462)	-	(42,462)
Gross Reinsurance Premium	(410,796)	(101,798)	(512,594)	(434,095)	(128,076)	(562,171)
Transfer to Title Insurance Reserve	(4,951)	-	(4,951)	(4,183)	-	(4,183)
Net Earned Premium	1,356,432	1,912,749	3,269,181	1,325,072	1,371,952	2,697,024

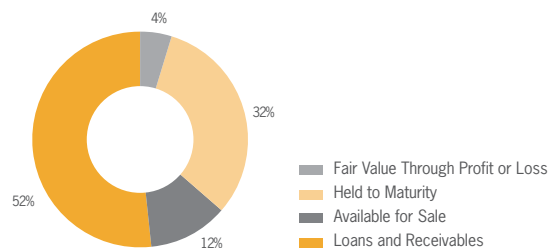
## 28. Interest and Dividend Income

For the Year Ended 31st December,	2013 Rs.'000	2012 Rs.'000
Interest Income	(Note 28.1)	766,566
Dividend Income	(Note 28.2)	18,611
Total Interest and Dividend Income	785,177	654,584

Investment and Dividend  
Income - 2013



Investment and Dividend  
Income - 2012



## Notes to the Financial Statements

**28. Interest And Dividend Income (Contd.)**

<b>For the Year Ended 31st December,</b>	<b>2013 Rs.'000</b>	<b>2012 Rs.'000</b>
<b>28.1 Interest Income</b>		
<b>Interest Income from Financial Investments - Fair Value Through Profit or Loss</b>		
- Treasury Bonds	1,534	5,953
- Treasury Bills	-	13,253
	1,534	19,206
<b>Interest Income from Financial Investments - Held To Maturity</b>		
- Treasury Bonds	136,759	202,192
- Treasury Bills	109	4,937
	136,868	207,129
<b>Interest Income from Financial Investments - Available For Sale</b>		
- Treasury Bonds	111,400	58,128
- Treasury Bills	20,450	18,333
	131,850	76,461
<b>Interest Income from Financial Investments - Loans and Receivables</b>		
- Debentures	177,917	97,042
- Repurchase Agreements on Government Securities	51,652	47,713
- Commercial Paper	16,066	15,190
- Promissory Notes	856	1,540
- Term Deposits	202,313	141,492
- Staff, Agents and Policy Loans	34,573	25,970
	483,377	328,947
Interest Income from Cash and Cash Equivalents	12,937	9,636
	766,566	641,379
<b>28.2 Dividend Income</b>		
- Equity Shares	8,499	7,363
- Unit Trusts	10,112	5,842
	18,611	13,205

## 29 Net Realised Gains

For the Year Ended 31st December,	2013 Rs.'000	2012 Rs.'000
<b>Financial Investments - Available For Sale</b>		
Realised Gains		
- Treasury Bonds	45,838	2,918
- Unit Trusts	-	4,353
	45,838	7,271
<b>Financial Investments - Fair Value Through Profit or Loss</b>		
Realised Gains		
- Unit Trusts	970	-
- Equity Shares	5,670	-
	6,640	-
<b>Financial Investments - Loans and Receivables</b>		
- Foreign Exchange - Term Deposits	933	-
	933	-
<b>Total Net Realised Gains</b>	<b>53,411</b>	<b>7,271</b>

## 30. Net Fair Value Gains / (Losses)

For the Year Ended 31st December,	2013 Rs.'000	2012 Rs.'000
<b>Financial Investments - Fair Value Through Profit or Loss</b>		
Unrealised Gains		
- Treasury Bonds	-	46
- Treasury Bills	-	2,658
- Unit Trusts	6,149	6,276
- Equity Shares	1,292	-
	7,441	8,980
Unrealised Losses		
- Treasury bonds	(46)	(407)
- Equity Shares	(164)	(22,944)
	(210)	(23,351)
<b>Loans and Receivables</b>		
Unrealised Gains		
- Foreign Exchange - Term Deposits	5,868	14,278
<b>Net Fair Value Gains/(Losses)</b>	<b>13,099</b>	<b>(93)</b>

## Notes to the Financial Statements

**31. Fee and Commission Income**

For the Year Ended 31st December,	2013 Rs.'000	2012 Rs.'000
Profit commission from Reinsurers	32,306	36,512
Policy fee	40,192	34,457
Sundry Income	402	705
<b>Total Fee and Commission Income</b>	<b>72,900</b>	<b>71,674</b>

**32. Other Income**

For the Year Ended 31st December,	2013 Rs.'000	2012 Rs.'000
Profit / (Loss ) on Sale of Property, Plant and Equipment	3,188	(170)
Others (Note 32.1)	9,642	3,544
<b>Total Other Income</b>	<b>12,830</b>	<b>3,374</b>

**32.1** Other income includes fund management fee of My Fund policies amounting to Rs. 5.5 Million (2012: Rs. 2.5 Million).

**33 Net Insurance Benefits and Claims Paid**

For the Year Ended 31st December,	2013			2012		
	Gross Claims Paid Rs.'000	Claims Recovered from Reinsurers Rs.'000	Net Claims Paid Rs.'000	Gross Claims Paid Rs.'000	Claims Recovered from Reinsurers Rs.'000	Net Claims Paid Rs.'000
Non - Life Insurance						
Fire	84,897	(73,030)	11,867	74,161	(65,027)	9,134
Motor	791,181	(8,938)	782,243	789,878	(15,348)	774,530
Marine	5,676	(4,366)	1,310	3,302	(2,518)	784
Miscellaneous	127,522	(22,705)	104,817	98,133	(9,189)	88,944
Total	1,009,276	(109,039)	900,237	965,474	(92,082)	873,392
Less : Recoveries from Sale of Salvage			(8,211)			(11,534)
Net Non - Life Insurance Claims			892,026			861,858
Life Insurance						
Claims - Death, Disability and Hospitalisation	102,627	(48,293)	54,334	72,457	(23,672)	48,785
Surrenders	38,757	-	38,757	44,099	-	44,099
Annuity Payments	2,406	-	2,406	1,485	-	1,485
Policy Maturities	571,136	-	571,136	134,494	-	134,494
Total Net Life Insurance Claims and Benefits	714,926	(48,293)	666,633	252,535	(23,672)	228,863
<b>Total Net Insurance Claims Paid</b>			<b>1,558,659</b>			<b>1,090,721</b>



### 34. Net change in insurance claims outstanding

For the Year Ended 31st December,	2013 Rs.'000	2012 Rs.'000
<b>Gross Change in Insurance Claims Outstanding</b>		
Change in Outstanding Claims - Life Insurance	(2,578)	48,999
Non - Life Insurance		
Fire	(47,912)	3,423
Motor	459	26,517
Marine	1,707	985
Miscellaneous	(9,892)	10,565
Change in Outstanding Claims - Non Life Insurance	(55,638)	41,490
<b>Total</b>	<b>(58,216)</b>	<b>90,489</b>
<b>Gross Change in Reinsurance on Insurance Claims Outstanding</b>		
Change in Outstanding Claims - Life Insurance	15,081	(16,091)
Non - Life Insurance		
Fire	43,100	(1,065)
Motor	1,795	(338)
Marine	(1,765)	(816)
Miscellaneous	9,554	(8,379)
Change in Outstanding Claims - Non Life Insurance	52,684	(10,598)
<b>Total</b>	<b>67,765</b>	<b>(26,689)</b>
<b>Total Net Change in Insurance Outstanding Claims</b>	<b>9,549</b>	<b>63,800</b>

### 35. Other Operating and Administration Expenses

For the Year Ended 31st December,	2013 Rs.'000	2012 Rs.'000
Directors' Emoluments and Post Employment Benefits	2,540	1,790
Staff Expenses (Note 35.1)	453,100	414,365
Administration and Establishment Expenses	398,329	328,227
Selling Expenses	173,054	164,295
Amortization of Intangible Assets	16,029	13,172
Depreciation of Property, Plant and Equipment	36,808	40,154
Auditor's Fees and expenses (Note 35.2)	2,472	2,848
Legal Fees	56	40
Donations	300	300
Professional Fees	1,460	1,382
<b>Total Other Operating and Administration Expenses</b>	<b>1,084,148</b>	<b>966,573</b>

## Notes to the Financial Statements

**35. Other Operating and Administration Expenses (Contd.)**

<b>For the Year Ended 31st December,</b>		<b>2013</b>	<b>2012</b>
		<b>Rs.'000</b>	<b>Rs.'000</b>
<b>35.1</b>	<b>Staff Expenses</b>		
	Staff Salaries	293,298	234,634
	Defined Contribution Plan Costs - EPF	35,196	28,156
	Defined Contribution Plan Costs - ETF	8,799	7,039
	Defined Benefit Plan Costs - Employee Benefits	18,739	11,386
	Other Staff Costs (Travelling, Over-time, Bonus etc.)	97,068	133,150
		<b>453,100</b>	<b>414,365</b>
<b>35.2</b>	<b>Auditor's Fees and Expenses</b>		
	Audit Fees and Expenses	1,356	1,155
	Audit Related Fees and Expenses	1,116	1,058
	Non Audit Services	-	635
		<b>2,472</b>	<b>2,848</b>

**36. Underwriting and Net Acquisition Costs**

<b>For the Year Ended 31st December,</b>		<b>2013</b>	<b>2012</b>
		<b>Rs.'000</b>	<b>Rs.'000</b>
	Underwriting and Policy Acquisition Costs	503,724	458,014
	Reinsurance Commission	(109,521)	(109,997)
	(Increase)/Decrease in Deferred Acquisition Expenses (Note 36.1)	(12,944)	91
	<b>Total Underwriting and Net Acquisition Costs</b>	<b>381,259</b>	<b>348,108</b>
<b>36.1</b>	<b>(Increase)/Decrease in Deferred Acquisition Expenses</b>		
	Commission income from Reinsurers (Note 11)	13,793	1,591
	Commission expense (Note 11)	(849)	(1,682)
		<b>12,944</b>	<b>(91)</b>

**37. Income Tax Expense**

<b>For the Year Ended 31st December,</b>		<b>2013</b>	<b>2012</b>
		<b>Rs.'000</b>	<b>Rs.'000</b>
The major components of income tax expense for the years ended 31st December are as follows :			
<b>Current Income Tax</b>			
	Income Tax on Current Year's Profits	35,143	42,691
	Under Provision of Current Taxes in respect of Prior Years	829	35
		<b>35,972</b>	<b>42,726</b>
<b>Deferred Income Tax</b>			
	Origination of Deferred Tax Liability	(141)	4,147
	Origination of Deferred Tax Assets	139	(4,147)
	Deferred Taxation Charge / (Reversal) (Note 37.6)	(2)	-
	<b>Income Tax Expense reported in the Income Statement</b>	<b>35,970</b>	<b>42,726</b>

### 37. Income Tax Expense (Contd.)

#### 37.1 Tax recognised in Other Comprehensive Income

As at 31st December,

	2013 Rs.'000	2012 Rs.'000
Available - for - Sale Investments	-	-

#### 37.2 Reconciliation of effective Tax rate

For the Year Ended 31st December,

		2013 Rs.'000		2012 Rs.'000
Profit for the year		389,123		351,140
Current Tax Expenses		35,970		42,726
Profit Before Income Tax		425,093		393,866
At the statutory income tax rate of 28% (2012 :28%)	28.0%	119,026	28.0%	110,281
Income Exempt from Tax	(15.3%)	(65,127)	(13.0%)	(51,362)
Aggregate allowable expenses	(3.6%)	(15,470)	(4.3%)	(16,847)
Aggregate disallowed expenses	3.7%	15,637	6.0%	23,608
Recognition of previously unrecognised tax losses	(4.5%)	(18,923)	(5.8%)	(22,989)
Under Provision of Current Taxes in respect of Prior Years	0.2%	829	0.0%	35
Deferred Tax Charge/(Reverse)	0.0%	(2)	0.0%	-
Current Tax Expenses	8.5%	35,970	11%	42,726

**37.3** The Company is liable to pay income tax at the rate of 28% of its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto. Current year's Income Tax wholly consists of income tax charge on Non - Life Insurance business as Life Insurance business does not have an Income Tax expense so far.

There is no payment due to the Department of Inland Revenue as the tax liability is fully absorbed by payments made in lieu of credit available on the Withholding Tax on Corporate Debts and Notional Tax credits generated from investments in Government Securities.

The tax loss carried forward as at 31st December 2013 is Rs. 23.8 Million (2012: Rs. 91.4 Million) is made as follows:

#### 37.4 Tax loss analysis (Non - Life Insurance)

As at 31st December,

	2013 Rs.'000	2012 Rs.'000
Balance as at 1st January	91,418	175,605
Tax losses utilised during the year	(67,583)	(84,187)
Balance as at 31st December	23,835	91,418

As at the year end, total carried forward tax loss from Life Insurance business is Rs. 2,047 Million (2012: Rs. 1,657 Million). As per the amendment made to Section 32 of the Inland Revenue Act, any tax losses incurred in the business of Life Insurance on or after 1st April 2007 shall be deducted only to the extent of the statutory income generated in the business of Life Insurance.

## Notes to the Financial Statements

**37. Income Tax Expenses (Contd.)****37.5 Notional Tax Credit for Withholding Tax on Government Securities**

The notional tax credit available for set off against the future tax liability;

<b>As at 31st December,</b>	<b>2013</b>	<b>2012</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>
Balance as at 1 January	172,953	137,902
Tax credit for the year	32,192	35,051
Set off against Income Tax liability	(43,734)	-
	<b>161,411</b>	<b>172,953</b>

**37.6 Deferred Taxation**

**As at 31st December,**

	<b>2013</b>	<b>2012</b>
	<b>Rs.'000</b>	<b>Rs.'000</b>
Deferred tax liabilities (Note 37.6.a)	(20,641)	(20,781)
Deferred tax assets (Note 37.6.b)	20,643	20,781
Net deferred tax asset / (liability)	2	-

	<b>Statement of Financial Position</b>				<b>Statement of Comprehensive Income</b>	
	<b>2013</b>		<b>2012</b>		<b>2013</b>	<b>2012</b>
	<b>Temporary Difference Rs.'000</b>	<b>Tax Effect Rs.'000</b>	<b>Temporary Difference Rs.'000</b>	<b>Tax Effect Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>
<b>37.6.a Deferred Tax Liability</b>						
Property, Plant and Equipment	73,717	20,641	74,219	20,781	141	(4,147)
<b>37.6.b Deferred Tax Assets</b>						
Employee Benefits	(49,890)	(13,969)	(37,417)	(10,476)	3,492	2,199
Brought Forward Tax Losses	(23,835)	(6,674)	(36,802)	(10,305)	(3,631)	1,948
	<b>(73,725)</b>	<b>(20,643)</b>	<b>(74,219)</b>	<b>(20,781)</b>	<b>(139)</b>	<b>4,147</b>

The Company has utilised tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences in the Life Business. Thus, no deferred tax asset is recognised in the Financial Statements as it is not probable that the future taxable profits will be adequate to utilise the available tax losses fully in the foreseeable future. The unrecognised Deferred Tax asset as at 31st December 2013 in Life Business amounted to Rs. 575.3 Million. ( 2012 Rs. 465.5 Million).

However, the Company has utilised tax losses to recognise a deferred tax asset in Non - Life Insurance.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits.

### 38 Basic Earnings Per Share (EPS)

The calculation of the Basic Earnings Per Share as at Reporting Date was based on the Profit Attributable to the Ordinary shareholders and a weighted average number of ordinary shares outstanding as at that date, calculated as follows:

	2013	2012
Amounts used as the numerator:		
Net Profit Attributable to Ordinary Shareholders (Rs. '000)	389,123	351,140
Number of Ordinary Shares used as the denominator:		
Weighted of shares as at 31st December ('000)	50,000	50,000
Basic Earnings Per Share (Rs.)	7.78	7.02

#### 38.1 Dilutive Earnings Per Share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, Diluted Earnings Per Share is same as Basic Earnings Per Share shown above.

### 39. Dividend Per Share (DPS)

	2013	2012
Dividend Per Share (Rs.)	3.25	2.75
<b>39.1 Dividend declared</b>		
Dividends to Shareholders (Rs.'000)	148,274	125,284
Tax deducted at source (Rs.'000)	14,226	12,216
	162,500	137,500

#### 39.2 Proposed Dividend for approval at AGM not recognised as a liability as at 31st December

The Board of Directors has recommended the payment of a first and final dividend of Rs. 3.25 per share for the year ended 31st December 2013 (2012 - Rs. 2.75/- per share) which is to be approved at the Annual General Meeting to be held on 27th March 2014. In accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) No.10 - Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31st December 2013.

Under the Inland Revenue Amendment Act, No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared from 1st April 2004.

#### 39.3 Compliance with the Section 56 and 57 of the Companies Act No. 7 of 2007

As required by the Section 56 of the Companies Act, No. 7 of 2007, the Board of Directors of the Company has satisfied the Solvency Test in accordance with the Section 57, prior to recommending the first and final dividend for the year ended 31st December 2013. A statement of Solvency completed and duly signed by the Directors on 03rd February 2014 has been audited by M/S KPMG.

## Notes to the Financial Statements

### 40 Financial Assets and Liabilities 40.1 Accounting classifications and fair value

The table below sets out the carrying amounts and fair values of the Company's financial assets and financial liabilities:

As at 31st December,		Note	2013			2012			Total	Fair value		
			FVTPL	AFS	Held to Maturity	Loans and Receivables	Total carrying amount	FVTPL			AFS	Held to Maturity
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>40.1.a</b>	<b>Financial Assets</b>											
	Financial Investments											
	Measured at fair value	6.3 & 6.4	334,079	644,889	-	978,968	414,349	973,680	-	1,388,029	1,388,029	
	Measured at amortised cost	6.1 & 6.2	-	-	931,680	4,745,790	5,642,977	-	1,567,968	2,747,869	4,315,837	4,256,754
	Loans to Life Policyholders	7	-	-	-	53,656	53,656	-	-	29,888	29,888	29,888
	Reinsurance Receivables	8	-	-	-	105,390	105,390	-	-	162,715	162,715	162,715
	Premium Receivables	9	-	-	-	301,182	301,182	-	-	247,417	247,417	247,417
	Staff and Other Loans	10.1.	-	-	-	239,445	181,337	-	-	195,021	195,021	137,661
	Cash and Cash Equivalents	12	-	-	-	144,087	144,087	-	-	209,293	209,293	209,293
	Total Financial Assets		334,079	644,889	931,680	5,589,550	7,500,198	414,349	973,680	3,592,203	6,548,200	6,431,757
<b>40.1.b</b>	<b>Financial Liabilities</b>											
	Reinsurance Creditors	22	-	-	-	100,881	100,881	-	-	83,253	83,253	83,253
	Other Liabilities (excluding Government Levies and Accruals)	23.	-	-	-	233,078	233,078	-	-	209,969	209,969	209,969
	Total Financial Liabilities		-	-	-	333,959	333,959	-	-	293,222	293,222	293,222

40.2 The Company's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in note 42.2.a

## 40 Financial Assets and Liabilities (Contd.)

### 40.3 Fair value Hierarchy for Assets Carried at fair value

The table below analyses financial investments carried at fair value, by valuation method.

The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table represents an analysis of financial Investments recorded at fair value by level of the fair value hierarchy:

		Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total fair value Rs.'000
<b>As at 31st December 2013</b>					
<b>Fair Value Through Profit or Loss</b>					
- Unit Trusts		7,608	131,330	-	138,938
- Equity Shares		195,141	-	-	195,141
<b>Total</b>	(Note 6.4)	202,749	131,330	-	334,079
<b>Available for Sale</b>					
- Treasury Bonds		480,353	-	-	480,353
- Treasury Bills		164,536	-	-	164,536
<b>Total</b>	(Note 6.3)	644,889	-	-	644,889
<b>Total Financial Assets</b>		847,638	131,330	-	978,968
		Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total fair value Rs.'000
<b>As at 31st December 2012</b>					
<b>Fair Value Through Profit or Loss</b>					
- Treasury Bonds		51,290	-	-	51,290
- Unit Trusts		7,550	139,841	-	147,391
- Equity Shares		215,668	-	-	215,668
<b>Total</b>	(Note 6.4)	274,508	139,841	-	414,349
<b>Available for Sale</b>					
- Treasury Bonds		767,221	-	-	767,221
- Treasury Bills		206,459	-	-	206,459
<b>Total</b>	(Note 6.3)	973,680	-	-	973,680
<b>Total Financial Assets</b>		1,248,188	139,841	-	1,388,029



## Notes to the Financial Statements

### 40 Financial Assets and Liabilities (Contd.)

#### 40.4 Fair values of Financial Assets and Liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the financial instruments of the Company which are not measured at fair value in the Financial Statements. These tables do not include non-financial assets and liabilities.

	2013		2012	
	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000
<b>Financial Assets</b>				
Financial Investments				
Measured at amortised cost (Note 40.4.a)	5,677,470	5,642,997	4,315,837	4,256,754
Loans to Life Policyholders	53,656	53,656	29,888	29,888
Reinsurance Receivables	105,390	105,390	162,715	162,715
Premium Receivables	301,182	301,182	247,417	247,417
Staff and Agent Loans (Note 40.4.b)	239,445	181,337	195,021	137,661
Cash and Cash Equivalents (Note 40.4.c)	144,087	144,087	209,293	209,293
<b>Financial Liabilities</b>				
Reinsurance Creditors	100,881	100,881	83,253	83,253
Other Liabilities (excluding Government Levies and Accruals)	233,078	233,078	209,969	209,969

The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value are as follows:

#### 40.4.a. Financial Investments

- Reverse REPO

The fair values of money market placements and reverse repurchase agreements with maturity of less than one year also approximate their carrying amounts due to the relatively short maturity of the financial instruments.

- Financial investments Held To Maturity

The fair values of financial investments Held To Maturity are estimated based on current market yields.

- The fair values of listed debentures are calculated based on published market prices. The fair value of unlisted variable rate debentures equals carrying value due to inability to reliably predict future cash flows. Unlisted fixed rate corporate debts are based on discounted cash flow method using current market yields of treasury bonds or treasury bills for similar maturities plus a risk premium determined based on the credit rating of the instrument.

- For term deposits with maturities greater than 3 months the fair values are estimated based on discounted cash flows using current market yields of treasury bonds or treasury bills with similar maturities plus a risk premium determined based on the credit rating of the institution."

#### 40.4.b. Staff and Agent Loans

- The fair value of the staff and agent loans has been computed based on the interest rates that prevailed at the Reporting Date.

#### 40.4.c. Cash and Cash Equivalents

- The carrying amount of cash and bank balances approximate fair value due to the relatively short maturity of the financial instruments. This includes cash balances as well.

#### 40.4.d. For all the other items the carrying value has been considered as the fair value due to the timing of the cash flow.

## 41. Related Party Disclosures

### 41.1 Transactions with Key Management Personnel of the Company or its parent

According to Sri Lanka Accounting Standard (LKAS) 24 Related Party Disclosure, Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors (including Executive and Non-Executive Directors) of the Company and their immediate family members have been classified as Key Management Personnel of the Company. In addition, members of the Executive Committee (EXCO) and their immediate family members have also been classified as Key Management Personnel of the Company.

Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective Director for his/her financial needs. As the Hatton National Bank PLC is the ultimate parent of the Company, and the Board of Directors of the Bank have the authority and responsibility of planning, directing and controlling the activities of the Company, the Directors of the Bank and their immediate family members have also been identified as Key Management Personnel of the Company.

#### a). Key Management Personnel Compensation

	2013 Rs.'000	2012 Rs.'000
Short - term employee benefits	53,664	42,821
Post employment benefits	14,822	11,808
	68,486	54,629
Loans Granted ( EXCO Members) *	14,847	19,342

In addition to salaries, the Company also provides non-cash benefits to Key Management Personnel and contributes to a defined benefit plan (Gratuity) on behalf of the Executive Director .

\* No loans have been granted to the Directors of the Company.

#### b). Other Transactions with Key Management Personnel

	2013 Rs.'000	2012 Rs.'000
Insurance Premium - Non - Life	1,252	573
Insurance Premium - Life	6,359	936
Claims Paid - Non - Life	698	358

c). Mr. Rajendra Theagarajah, a Director of HNB Assurance PLC and its parent company Hatton National Bank PLC, has resigned from both Boards w.e.f. 1st May 2013 and w.e.f. 30th June 2013 respectively. Therefore, he ceased to be a Key Management Person of the Company w.e.f. 30th June 2013.

Following Directors were appointed to the Board during the year:

Director	Effective date of Appointment
Mr. Dilshan Peter Nirosh Rodrigo	1st July 2013
Mrs. Siromi Wickramasinghe	2nd October 2013

Accordingly, the above personnel have been considered as Key Management Personnel of the Company w.e.f. the dates of their appointments mentioned above.

## Notes to the Financial Statements

### 41. Related Party Disclosures (Contd.)

#### 41.2 Transactions with related parties

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures.

Transactions with related parties were made on the basis of the price lists in force with non-related parties, but subject to approved discounts. Outstanding balances with related parties other than balances relating to investment related transactions as at the Reporting Date are unsecured and interest free. Settlement will take place in cash. Such outstanding balances have been included under respective assets and liabilities together with balances arising from transactions with non-related parties. Details of related party transactions are reported below.

#### 41.2. a Transactions with the parent and Ultimate Controlling Party

##### Hatton National Bank PLC

	2013 Rs.'000	2012 Rs.'000
<b>Nature of Transaction</b>		
Insurance Premium		
Non - Life	19,100	24,324
Life	14,097	16,517
	33,197	40,841
Administration Expenses		
Non - Life	91,440	96,861
Life	44,164	35,331
	135,604	132,192
Claims Incurred		
Non - Life	7,587	6,573
Investments Balance as at 31 December (Includes Deposits and Debentures)		
Non - Life	97,762	99,000
Life	108,953	52,875
	206,715	151,875
Current Account Balances as at 31 December		
Non - Life	58,339	54,936
Life	89,199	51,474
	147,538	106,410
Investment Income		
Non - Life	5,891	7,184
Life	15,078	15,757
	20,969	22,941
Rent Expenses	23,849	22,660
Other Operational Expenses	23,920	25,193
Dividends Paid	82,481	62,985

Also refer Note 9.1 and 12.1

#### 41. Related Party Disclosures (Contd.)

##### 41.2 Transactions with related parties (Contd.)

##### 41.2. b Transactions with / between Subsidiary Companies of the Parent Company

	2013 Rs.'000	2012 Rs.'000
<b>a). Sithma Development (Pvt) Limited</b>		
<b>Nature of Transaction</b>		
Insurance Premium		
Non - Life	975	1,118
Claims Incurred		
Non - Life	-	570
<b>b). Splendor Media (Pvt) Limited</b>		
<b>Nature of Transaction</b>		
Insurance Premium		
Non - Life	314	-
Claims Incurred		
Non - Life	5	-
Media Placements Commission Fee	799	1,998

## Notes to the Financial Statements

### 41. Related Party Disclosures (Contd.)

#### 41.2 Transactions with related parties (Contd.)

##### 41.2. c Transactions with other Related entities

Other related entities are those which are controlled or significantly influenced, directly or indirectly by Key Management Personnel of the Company. Significant influence is presumed to be established if a Key Management Person of the Company has more than 20% shareholding in an entity, unless otherwise reported by the Key Management Personnel. Further, significant influence is also established if in the view of the respective Key Management Person, he/she has the ability to influence the operating and financial policies of an entity even in the absence of a 20% shareholding.

Details of transactions are reported below:

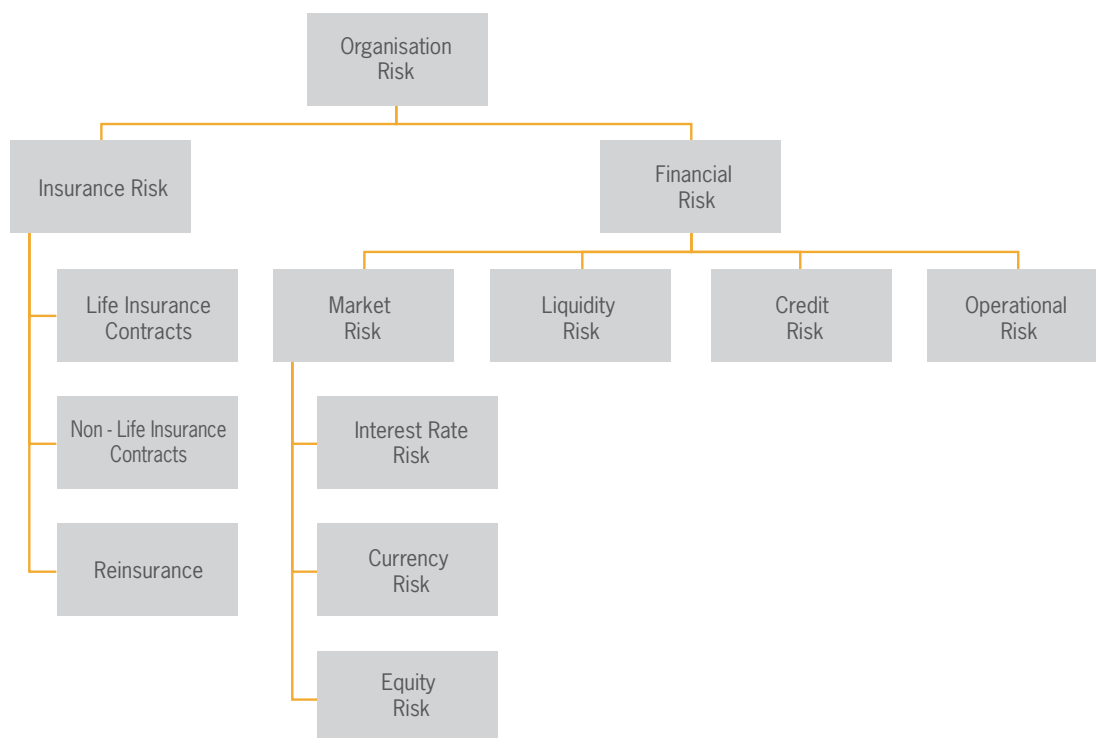
Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2013 Rs.'000	2012 Rs.'000
Acuity Stock Brokers (Pvt) Limited	A J Alles	Insurance Premium	Non - Life	311	1,123
		Claims Incurred	Non - Life	465	1,068
		Brokerage Fee	Non - Life	159	59
			Life	252	138
Acuity Securities Limited	A J Alles	Insurance Premium	Non - Life	104	524
			Life	-	10
		Claims Incurred	Non - Life	46	693
		Investment in REPO	Non - Life	70,345	94,465
Life	77,025		33,603		
Acuity Securities Limited	D Rodrigo	Investment Income from REPO	Non - Life	6,919	5,665
			Life	9,394	6,854
Acuity Partners (Pvt) Limited	A J Alles	Insurance Premium	Non - Life	354	878
		Claims Incurred	Non - Life	234	688
Capital Maharaja	S Mudalige	Insurance Premium	Non - Life	47	-
Lanka Dairies (Pvt) Ltd. **	D S C Jayawardena	Insurance Premium	Non - Life	44	25
Lanka Financial Services Bureau **	A J Alles	Insurance Premium	Non - Life	10	1
Swisstek Aluminium Limited	J A P M Jayasekera	Insurance Premium	Non - Life	788	-
Lanka Walltiles PLC	J A P M Jayasekera	Insurance Premium	Non Life	9	-
Lanka Tiles PLC	J A P M Jayasekera	Insurance Premium	Non Life	4,788	-

Also refer Note 9.1

**42. Financial Risk Management**

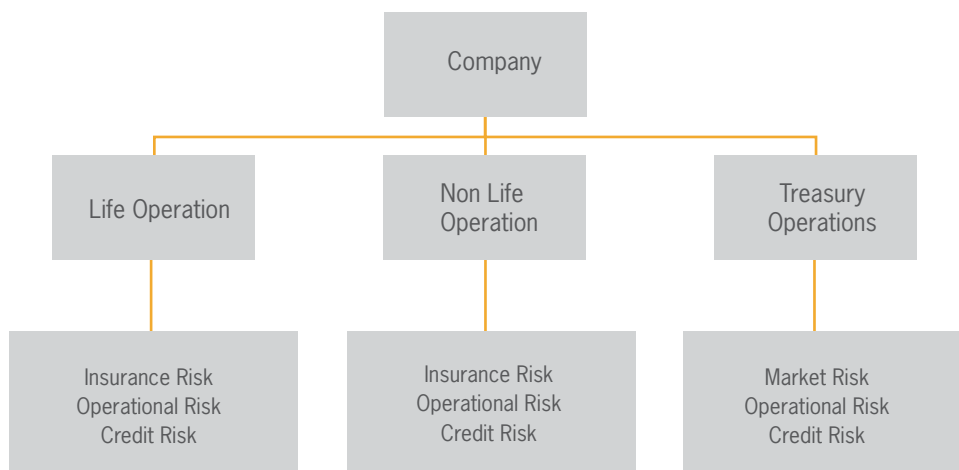
**Introduction and Overview**

As an insurer, the Company is exposed to multiple risks and the following chart shows all those risks.



**Company's Business Units and the Principal Risks**

The chart below provides a link between the Company's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Company as a whole and is measured based on allocation of the regulatory capital within the Company.



## Notes to the Financial Statements

### 42. Financial Risk Management (Contd.)

This note presents information about Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing such risks, and the manner in which the Company manages its capital.

#### Risk management framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that could hinder the sustainable achievement of financial objectives, including failure to exploit opportunities. The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework and thus, their approval is necessary for the risk management strategy and risk policies pertaining to all activities of the Company.

The Board of Directors of the Company appointed the Board Risk Management Committee, a standing committee of the Board comprising three (3) members of the Board to oversee the risk management activities of the Company. The Committee reports to the Board of Directors regarding the Company's risk profile, as well as its risk management framework, including the significant policies and practices employed to manage risks in the Company's business, as well as the overall adequacy of the Risk Management function. While the Committee has the responsibilities and powers, the management is responsible for designing, implementing and maintaining an effective risk program.

The Company has a Risk Management Team, comprising members of the senior management from business operations and control functions, which oversee the risk management activities of the Company. The activities cover areas such as the evaluation of business processes, design and implementation of the risk strategy and risk policies, review and updating of the risk profile, delegation of authority, monitoring of risk mitigation activities, etc. The Team is headed by the Managing Director and meets on a semi-annual basis.

The Team has developed a comprehensive Risk Assessment Report identifying all the risks affecting the Company. Each risk identified is categorized based on their impact and probability of occurrence and ranked

as High, Medium and Low risks. The Audit Committee also reviews the Company's Risk Assessment Report and monitors the actions taken to mitigate the risks identified. The Company's risk assessment is a robust process, which includes processes to incorporate any new, emerging risks and removal of irrelevant risks from the evaluation.

During the year, the Company introduced a new initiative of identifying Key Risk Indicators (KRI) based on the Risk Assessment prepared by the Risk Assessment team and additional recommendations made by the Board Risk Management Committee. These KRI are prepared monthly and reviewed quarterly by the Executive committee and the Board Risk committee.

#### a) **Capital management objectives, policies and approach**

The Company has established the following capital management objectives, policies and approaches to manage the risks that affect its capital position:

- To maintain the required level of solvency of the Company, thereby providing a degree of security to policyholders
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meets the requirements of its shareholders and policyholders
- To retain financial flexibility by maintaining strong liquidity
- To align the profile of assets and liabilities taking account of risks inherent in the business
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and other stakeholders
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The operations of the Company are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. Solvency Margin, Approved Assets Requirements of IBSL) to minimise the



#### 42. Financial Risk Management (Contd.)

risk of default and insolvency on the part of the Company to meet unforeseen liabilities as they arise. The Company has been in compliance with all these regulatory requirements throughout the financial year to the best of our knowledge.

The Company maintains its capital well above the minimum regulatory requirements of the IBSL. (The Company has a Stated Capital of Rs. 1.17 Billion whereas the current minimum capital requirement is only Rs. 200 Million - i.e. Rs. 100 Million per class of business, Life and Non - Life Insurance).

##### b) Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company'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 Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds. The capital requirements are routinely forecasted on a periodic basis by the management and the Board. The solvency margins are calculated on a monthly basis and shared with the Board. There were no changes in the capital structure in the Company during the year. Please refer Note 13 on Page 283 for the Stated Capital of the Company.

##### c) Regulatory framework

The insurance regulator of the Country, the Insurance Board of Sri Lanka (IBSL) is primarily interested in protecting the rights of policyholders and monitors the Company closely to ensure that it is satisfactorily managing affairs for the benefit of policyholders. At the same time, they are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks, natural disasters, etc.

Thus, the operations of the Company are subject to regulatory requirements of the IBSL as well as various other regulators such as Securities and Exchange Commission of Sri Lanka (SEC), Colombo Stock Exchange (CSE), Central Bank of Sri Lanka (CBSL), Department of Inland Revenue etc. The Company is also regulated by the Companies Act No. 07 of 2007. The Company is also getting prepared with the upcoming major regulatory requirement by IBSL.

The Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 requires insurance companies carrying on the business of both long term insurance business and general insurance business to segregate themselves into two separate companies by the year 2015.

In addition IBSL has decided to implement a Risk Based Capital (RBC) framework in Sri Lanka to monitor insurance companies in the country, replacing the existing solvency regime. The deadline given by the IBSL for implementation of RBC is January 2016. It is believed that the Company has made considerable progress towards RBC implementation over the last two years and the compulsory parallel run will be commenced from the year 2014 onwards. Moreover, it is strongly believed that the Company can implement RBC requirements without any significant concerns, by the due date.

##### d) Liquidity Risk

Financial risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk. The Company manages these positions within a clearly defined Asset and Liability Management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts.

## Notes to the Financial Statements

### 42. Financial Risk Management (Contd.)

#### 42.1 Insurance Risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting guidelines, as well as the use of reinsurance arrangements.

The Company considers insurance risk to be a combination of the following components of risks:

- Product design risk;
- Underwriting and expense overrun risk;
- Claims risk.

The main risks that the Company is exposed to under product design risk are as follows:

Mortality risk	risk of loss arising due to policyholders' death experience being different from expected
Morbidity risk	risk of loss arising due to policyholders' health experience being different from expected
Investment return risk	risk of loss arising from actual returns being different from expected
Expense risk	risk of loss arising from the expense experience being different from expected
Policyholder decision risk	risk of loss arising due to policyholders' experiences (lapses and surrenders) being different from expected

These risks do not vary significantly in relation to the location and type of risk insured by the Company.

**These risks are discussed in detail in respect of Life and Non - Life business lines separately.**

#### 42.1.1 Life Insurance contracts

##### a) Product design risk;

Life Insurance contracts offered by the Company include term assurance, endowment plans, annuity plans and group plans. Endowment and term assurance are conventional regular or single premium products where lump sum benefits are payable on death, maturity or in some cases, permanent total disability. Endowment products acquire a surrender value upon completion of three years.

Guaranteed annuities are single premium products which pay a specified payment to the policyholder for a specified period. Payments are fixed. Most contracts guarantee an income for a minimum period, usually of ten or fifteen years, irrespective of death. The Company has only one guaranteed annuity product, "myfreedom". The company also had single premium policies issued with a guaranteed maturity benefit during the year.

## 42. Financial Risk Management (Contd.)

### 42.1 Insurance Risk (Contd.)

The following table shows the concentration of Life Insurance based on the nature of the contract.

#### Segregation of Policy Liability based on Product Category.

31st December 2013 Rs. '000	Gross		
	Insurance Liabilities with DPF*	Insurance Liabilities without DPF*	Total gross insurance liabilities with DPF
Endowment	2,632,247	842,134	3,474,381
Term Assurance	-	372,840	372,840
Guaranteed Annuity	-	32,163	32,163
Group Products	-	9,953	9,953
Rider Benefits	-	109,675	109,675
	2,632,247	1,366,765	3,999,012
Reinsurance			(105,900)
Total			3,893,112

31st December 2012 Rs. '000	Gross		
	Insurance Liabilities with DPF*	Insurance Liabilities without DPF*	Total gross insurance liabilities with DPF
Endowment	1,924,037	919,149	2,843,186
Term Assurance	-	331,667	331,667
Guaranteed Annuity	-	18,876	18,876
Group Products	-	10,898	10,898
Rider Benefits	-	104,122	104,122
	1,924,037	1,384,712	3,308,749
Reinsurance			(108,200)
Total			3,200,549

\*DPF – Discretionary Participating Feature

#### Participation Fund vs Non - Participation Fund

The following table shows the concentration of the Participating and Non-Participating funds position of the Company. During the year, the Company gradually increased the proportion of Non-participating funds by selling more products such as "My Fund". However the Non - participating fund has comparatively come down slightly during the year due to a relatively large amount of maturities of Single Premium Investment policies.

## Notes to the Financial Statements

### 42. Financial Risk Management (Contd.)

#### 42.1 Insurance Risk (Contd.)

##### Participation Fund vs Non - Participation Fund

	PAR Rs. '000	NON PAR Rs. '000	TOTAL Rs. '000
<b>2013</b>	2,389,612	1,882,124	4,271,736
Percentage	56%	44%	
<b>2012</b>	1,922,333	1,624,574	3,546,907
Percentage	54%	46%	

#### b) Underwriting and expense overrun risk

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of the type of risk and the level of insured benefits. This is largely achieved through prudent underwriting, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies. It can impose different terms at revivals and it has the right to reject the payment of fraudulent claims.

The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. The Company limits exposure on any single life by way of retention limits agreed with the reinsurers.

For annuity contracts, the Company has accepted only fixed term annuity contracts, which has a guaranteed payment. The Company has invested the corresponding proceeds from the sale of annuity contracts in similar term investments at a higher return.

Some of the specific actions by the Company to mitigate the underwriting risks are shown below.

#### Life Underwriting Risk Management

- Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are adequately priced.
- An in-house Actuarial Department headed by a qualified Actuary is in place to review the Life Insurance business more closely and guide the management to take more informed pricing decisions.
- Only registered laboratories are used when obtaining medical reports and regular visits are made by the management to such laboratories to monitor the quality of service.
- Focused training is provided to Insurance Advisors on proper selling in Sinhala, Tamil and English.
- A Customer Need Analysis Form is used to identify customers' requirements and sell the most appropriate policy.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured amount.

#### c) Claims risk

Risk arises due to the possibility that the frequency of claims arising from life insurance contracts exceeds the expected level when pricing the products.

Some of the specific actions by the Company to mitigate the underwriting risks are shown below.

#### Life Claims Risk Management

- An Independent Actuary is engaged to carry out a valuation of the Life insurance contract liabilities bi-annually.
- An in-house Actuarial Department headed by a qualified Actuary is in place to review reserving in the Life Insurance business more closely and guide the management to take more informed decisions.
- The support of the reinsurers is obtained on reserving such claim liability and the share of reinsurers
- Claims are reserved immediately at intimation or on the availability of information of the death or injury of an insured.

## 42. Financial Risk Management (Contd.)

### 42.1 Insurance Risk (Contd.)

- Financial authority limits are set based on the claims limits where the maximum limit is with the Claims Panel (comprising Managing Director, General Manager – Life Insurance and Chief Financial Officer) which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.

#### Key assumptions for valuation of liabilities in Life Insurance

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions used are based on past experience, current internal data, investment returns and benchmarks which reflect current observable market prices and other published information. All these assumptions are subject to the guidelines issued by the IBSL. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

- Mortality and morbidity rates**

Assumptions are based on standard mortality tables which are used by the industry.

- Longevity**

Longevity is not applicable for the Company as the products offered are for a limited term.

- Lapse and surrender rates**

Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders after acquiring a surrender value.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increments are broadly neutral in effect.

- Discount rate**

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows.

The discount rate used for the computation is as per IBSL stipulated guidelines. For participating regular premium plans, the maximum discount rate allowable is determined by considering 55% of the average of last three years' yield. For participating single premium plans, non-participating regular premium plans, paid-up plans and reversionary bonus, the discount rate used is 1.5% greater than the discount rate used for the participating regular premium plans. For non-participating single premium plans, the maximum discount rate is limited to a rate of 3% greater than the maximum rate applicable for participating regular premium plans.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduces profits for the shareholders.

The impact on gross Life Fund liabilities possible movements in key assumptions with all other assumptions held constant, are shown below

31st December 2013	change in assumptions	Impact on gross liabilities %
Mortality	+10%	3.5%
	-10%	(0.9%)
Discount rate	+ 50 basis points	(2.2%)
	- 50 basis points	2.4%

### 42.1.2 Non - Life Insurance contracts

#### a) Product design risk;

The Company principally issues the following types of Non - Life Insurance contracts.

- Motor
- Fire
- Marine
- Miscellaneous
- Workmen's Compensation

The significant risks arising under the Non - Life Insurance portfolio emanates from changes in the climate leading to natural disasters, behavioral trends of people due to changing life styles and the steady escalation of costs in respect of spare parts in the auto industry. A long tail claim which takes time to finally settle is also exposed to risk of inflation.

## Notes to the Financial Statements

### 42. Financial Risk Management (Contd.)

#### 42.1 Insurance Risk (Contd.)

The above risk exposure is mitigated by the diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

Furthermore, a strict claim review process to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as using reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes, floods etc).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes. The Company uses its own risk management framework to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these assessments could fail or that claims arising from an un-assessed event is greater than those arising from an assessed event.

Some of the specific actions by the Company to mitigate Non - Life Insurance Risks are shown below.

#### b) Underwriting and expense overrun risk

- Significant investments are made for training and development of underwriting and claims management staff, including those attached to the distribution network. The "General Insurance Academy", an internal training and development school, has been set up targeting the improvement of technical knowledge on Non - Life Insurance across the Company.
- Strict controls are maintained on the issue of temporary cover notes and also limiting them to 60 days validity period.
- Both the underwriters and the distribution managers are assigned Key Performance Indicators on both turnover and profitability, ensuring alignment of objectives

- Statistical databases are maintained on loss making clients to ensure such clients are strategically declined.
- Pre underwriting inspections are made to determine the risk profile of all new business before accepting.
- Post-underwriting audits such as close file review (CFR) are conducted to ensure that set guidelines have been observed.
- Adequate reinsurance arrangements have been placed and the Company is consciously reviewing the adequacy of these covers in light of catastrophic / extreme events.
- There are strict controls to ensure that no insurance cover is issued without a proper reinsurance arrangement backing the cover.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured and risk.

#### c) Claims Risk

- Claim intimation is conducted through a 24-hour fully fledged Call Centre.
- Assessments are carried out by an independent expert panel of assessors/loss adjustors working throughout the island on a 24 hour basis.
- Comprehensive estimation of costs and a high quality service to customers are granted through certified garages located island-wide.
- Claims are assessed immediately upon intimation and reserved accordingly.
- Significant outstanding claims are subjected to monthly reviews by the management.
- The service of a qualified Independent Actuary is obtained bi-annually to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- All third party claim intimations are separately reviewed with the support of the Manager – Legal.
- Financial authority limits are set based on the claim limit giving the maximum limit to the Claims Panel (comprising Managing Director, General Manager – General Insurance and Chief Finance Officer) which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.

The table below sets out the concentration of Non - Life Insurance contract liabilities by type of contracts. This includes Unearned Premium, Insurance Contracts - Deferred Acquisition, Claims outstanding and IBNR/IBNER Reserves. Refer note 19 to the financial statement, which shows the gross claim liability and the reinsurance component.

## 42. Financial Risk Management (Contd.)

### 42.1 Insurance Risk (Contd.)

Following table summarises the outstanding Claims position as at 31st December,

Non Life Insurance Claim Reserves	31st December 2013			31st December 2012		
	Gross Claim	Reinsurance	Net	Gross Claim	Reinsurance	Net
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Claims Outstanding	182,148	(27,499)	154,649	240,350	(85,716)	154,634
IBNR / IBNER Reserve	53,347	(25,979)	27,368	32,923	(8,118)	24,805
Title Insurance Reserve	22,370	-	22,370	20,446	-	20,446
Total	257,865	(53,478)	204,387	293,719	(93,834)	199,885

#### Claims development table

The following table shows the estimated net claims liability (after considering reinsurance) for each successive accident year at each Reporting Date.

Rs. '000

AY	0	1	2	3	4	5
2008	81,617	14,864	11,590	9,989	9,920	9,756
2009	77,035	3,552	2,515	1,345	999	
2010	97,995	6,812	4,560	3,138		
2011	166,624	7,086	3,342			
2012	159,764	3,174				
2013	159,525					

In setting claims provisions the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the adequacy of provisions is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

#### Key assumptions for valuation of liabilities in Non - Life Insurance

The principal assumption underlying the liability estimates is that the Company's future claims development will 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 used to assess the extent to which past trends may not apply in the future, such as one-off occurrences, changes in market factors such as public attitude to claiming, economic conditions as well as 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 Non - Life Insurance claim liabilities are sensitive to the key assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for possible movements in key assumptions 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.



## Notes to the Financial Statements

### 42. Financial Risk Management (Contd.)

#### 42.1 Insurance Risk (Contd.)

	Change in assumptions	Reported Claim Outstanding	Impact on gross liabilities	Impact on net liabilities	Impact on Profit Before Tax	Impact on Equity (after tax)
	%	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
31st December 2013	10%	182,145	18,215	15,465	(15,465)	(11,135)
31st December 2012	10%	240,350	24,035	15,530	(15,530)	(11,182)

#### 42.1.3 Reinsurance Risk

The Company purchases reinsurance as a part of its risks mitigation programme. Reinsurance ceded is placed on both proportional and non-proportional basis. Proportional reinsurance arrangement includes both Quota Share and Facultative Treaty programmes which is taken out to reduce the overall exposure of the Company to certain classes of business. Non-proportional reinsurance programmes, which are primarily excess-of-loss reinsurance arrangements, are designed to mitigate the Company's net exposure to large single and catastrophic losses. Retention limits on the excess-of-loss reinsurance programmes vary by product line.

Premium ceded to the reinsurers is in accordance with the terms on the programmes already agreed based on the risks written by the Company. Recoveries from reinsurers on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposures through prudent reinsurance arrangements, the obligation to meet claims emanating from policy holders rests with the Company. Default of reinsurers does not negate this obligation and in that respect the Company carries a credit risk up to the extent ceded to each reinsurer. The Company's placement of reinsurance is arranged

in a manner (particularly in Non - Life insurance as the exposure is very high) that is neither dependent on a single reinsurer nor substantially dependent upon any single reinsurance contract. In Life Insurance, the Company uses Munich Re (which is one of the largest reinsurance companies in the world) as its reinsurance provider. All Non - Life Insurance reinsurance contracts are with companies holding credit ratings above the minimum stipulated by the Insurance Board of Sri Lanka (IBSL).

Some of the specific actions by the Company to mitigate Reinsurance Risks are shown below.

- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- A very close and professional relationship is maintained with all reinsurers.
- No cover is issued without a confirmed reinsurance in place.
- Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Standard & Poors or AM Best is used.

## 42. Financial Risk Management (Contd.)

### 42.1 Insurance Risk (Contd.)

The following table shows the credit ratings of the reinsurance companies with whom the Company has arrangements.

Reinsurer	Rating	Rating Agency
Munich Reinsurance Company	A+	AM Best
General Insurance Corporation of India	A-	AM Best
Trust International Insurance & Reinsurance Co.	A-	AM Best
Malaysian Reinsurance Berhad	A-	AM Best
Labuan Reinsurance ( L ) Ltd	A-	AM Best
Toa Reinsurance Company Limited	A+	Standard & Poor
National Insurance Trust Fund	Fully owned by Government of Sri Lanka	
Sompo Japan Nipponkoa Reinsurance Company Limited	A+	AM Best
Santam Ltd	A-	Standard & Poor
Arab Insurance Group	B++	AM Best

### 42.2 Financial Risk

This note presents information about the Company's exposure to financial risks.

#### 42.2.1 Credit Risk

Credit risk refers to the risk of loss of principal or financial reward stemming from a counterparty's failure to honour a financial obligation.

The Company's credit risk could mainly arise from financial assets such as its investment portfolios, premium receivables from policyholders, receivables from reinsurers.

An analysis of the concentration of credit risk from Investments, Reinsurance and premium receivables is shown below.

	2013		2012	
	Rs. '000	%	Rs. '000	%
Financial Investments				
Government Securities	2,278,017	32%	3,042,658	48%
Debentures				
- Listed	1,835,515	25%	548,638	9%
- Rated	258,159	4%	340,059	5%
Commercial Paper	60,372	1%	141,855	2%
Promissory Notes	-	0%	11,894	0%
Unit Trusts	138,938	2%	147,391	2%
Equity Shares	195,141	3%	215,668	4%
Term Deposits	1,890,296	26%	1,255,703	20%
Cash and Cash Equivalents	144,087	2%	209,293	3%
Total Financial Investments	6,800,525	95%	5,913,159	93%
Reinsurance Receivable	105,390	1%	162,715	3%
Premium Receivable	301,182	4%	247,417	4%
Total	7,207,097	100%	6,323,291	100%

## Notes to the Financial Statements

### 42. Financial Risk Management (Contd.)

#### 42.2 Financial Risk (Contd.)

The table below provides information regarding the credit risk exposure on investments of the Company as at 31st December by classifying investments according to the respective credit ratings. AAA is considered the highest possible rating, while assets that fall outside the range of AAA to BBB- are classified as speculative grade. No credit exposure limits were exceeded by the Company during the year.

Government securities have been classified as a separate category as they are considered risk free investments.

#### Financial Assets Based on Credit Rates

31st December 2013	Government Guaranteed	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Not rated	Total
Financial Assets	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Held-to-Maturity financial assets	931,680	-	-	-	-	-	931,680
Loans and Receivables	816,849	-	2,453,690	1,243,142	232,109	-	4,745,790
Available-for-Sale financial assets	644,889	-	-	-	-	-	644,889
Cash and cash equivalents	-	-	204	3,200	-	-	3,404
<b>Total</b>	<b>2,393,418</b>	<b>-</b>	<b>2,453,894</b>	<b>1,246,342</b>	<b>232,109</b>	<b>-</b>	<b>6,325,763</b>
Percentage (%)	38%	0%	39%	20%	3%	0%	100%

#### 31st December 2012

Held-to-Maturity financial assets	1,567,968	-	-	-	-	-	1,567,968
Loans and Receivables	565,121	-	1,204,259	773,854	204,635	-	2,747,869
Available-for-Sale financial assets	973,680	-	-	-	-	-	973,680
Financial assets at Fair Value Through Profit or Loss	51,290	-	-	-	-	-	51,290
Cash and cash equivalents	-	-	76,650	-	25,186	-	101,836
<b>Total</b>	<b>3,158,059</b>	<b>-</b>	<b>1,280,909</b>	<b>773,854</b>	<b>229,821</b>	<b>-</b>	<b>5,442,643</b>
Percentage (%)	58%	0%	24%	14%	4%	0%	100%

\* Ratings represent local ratings given Fitch ratings Lanka Limited. and RAM Ratings (Lanka) Limited.

Reinsurance Receivables	Government Owned	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Not rated	Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
31st December 2013	12,290	-	242	22,204	-	-	34,736
31st December 2012	9,810	-	24,332	2,040	-	441	36,623

Note: Reinsurance Receivable on claims outstanding, IBNR / IBNER claims amounting to Rs. 67.7 Million (2012 : Rs. 126.1 Million) have not been considered in this analysis. Ratings represent international ratings given by S & P and AM BEST

## 42. Financial Risk Management (Contd.)

### 42.2 Financial Risk (Contd.)

The table below provides information regarding the credit risk exposure on other Financial Assets of the Company as at 31st December by classifying assets according to their due period.

31st December 2013	< 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
Reinsurance receivable						
- Non Life	1,613	16,750	3,098	6,766	61	28,288
- Life	1,305	4,228	914	-	-	6,447
Premium receivables						
- Non Life	202,479	91,755	237	-	-	294,471
- Life	6,710	-	-	-	-	6,710
Total	212,107	112,733	4,249	6,766	61	335,916
% Distribution	63%	34%	1%	2%	0%	100%

31st December 2012	< 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
Reinsurance receivable						
- Non Life	2,308	5,780	16,428	3,344	307	28,167
- Life	5,525	2,157	774	-	-	8,456
Premium receivables						
- Non Life	161,940	72,219	3,685	-	-	237,844
- Life	9,573	-	-	-	-	9,573
Total	179,346	80,156	20,887	3,344	307	284,040
% Distribution	63%	28%	8%	1%	0%	100%

Some of the specific actions undertaken by the Company to mitigate credit risk in investments are shown below.

- Adoption of a list of counterparties approved by the Investment Committee, consisting of companies which, in the opinion of the Committee, carry minimal credit risk
- Checking the creditworthiness of potential investees, mainly through ratings assigned to the issuing institution or the ratings assigned to the issue
- Obtaining explicit approval of the Investment Committee for any investments in an entity not included in the list
- Deciding on single party exposure limits based on the credit ratings and regulatory requirements and monitoring them closely at different levels
- Conducting a detailed analysis of individual counterparties for each equity and corporate debt investment prior to forwarding the recommendation
- Adhering to established guidelines regarding the acceptability of collateral and valuation parameters (Collateral is mainly obtained for securities lending. The management monitors the market value of the collateral, requests for additional collateral when needed and performs an impairment valuation when applicable.)
- Signing Master Repo Agreements with all primary dealers the Company works with, in order to ensure zero level of default risk for lending under overnight repo and repo transactions, in the event of their bankruptcy
- 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).

## Notes to the Financial Statements

### 42. Financial Risk Management (Contd.)

#### 42.2 Financial Risk (Contd.)

- Maintaining a custodian arrangement for listed equity investments with Deutsche Bank AG - Sri Lanka Branch

Company regularly reviews the policies and procedures in respect of managing the credit risk in investments and during the year there were no significant changes made.

Some actions specific to credit risk in premiums receivables under Non - Life Insurance are shown below.

- Strict implementation of Premium Payment Warranty (PPW), ensuring that all Non - Life Insurance policies with payments outstanding for more than 60 days are cancelled
- Conducting follow-up meetings on debt collection on a monthly basis, with the participation of finance, distribution and underwriting officials
- Submission of information regarding policies cancelled due to non-payment of premiums to the industry database on a routine basis
- Using the latest technology (eg: SMS) to inform customers on premiums due to the Company
- Processing claim settlements only after reviewing the position of outstanding receivables

Company regularly reviews the policies and procedures in respect of managing the premiums receivables under Non - Life Insurance and during the year there were no significant changes made.

#### 42.2.2 Market Risk

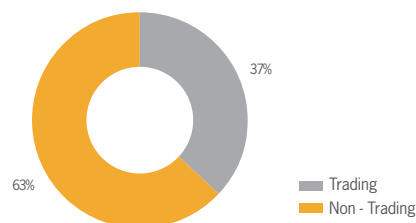
Market risk refers to the risk of possible adverse movements in the values of assets due to changes in market factors, including interest rates, foreign exchange rates and equity prices. The current uncertainties in the local and international markets and investment climate have increased the degree of impact of market risk to the Company.

Market risk is an aggregation of,

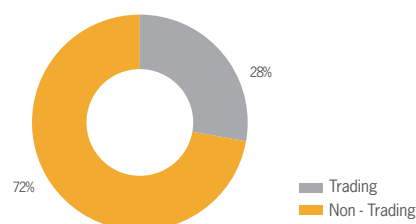
- Interest rate risk
- Currency risk
- Equity price risk

The table below shows the Company's concentration on Market risk in its Financial Investments

Trading vs Non - Trading  
Financial Investment - 2013



Trading vs Non - Trading  
Financial Investment - 2012



#### a) Interest Rate Risk

The risk of fluctuation of fair values or future cash flows of a financial instrument due to a change in market interest rates is referred to as interest rate risk.

Floating rate instruments typically expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk.

In order to mitigate the interest rate risk faced by the Company, the management follows the guidelines set out in the Investment Policy. Amongst other such guidelines, the Policy also requires the management of the maturities of interest bearing financial assets. Compliance with the Policy is monitored and the exposure and instances of non-compliance are reported to the Investment Committee. The Policy is reviewed regularly for pertinence and for changes in the risk environment.

Interest on floating rate instruments is re-priced at intervals of less than one year. Interest on fixed interest rate instruments is priced at the inception of the financial instrument and is fixed until maturity.

## 42. Financial Risk Management (Contd.)

### 42.2 Financial Risk (Contd.)

The table below summarises the Company's sensitivity to interest rate risk.

#### 31st December 2013

Sensitivity Factor	Impact on PBT Rs. '000	Impact on Equity Rs. '000
100 bps parallel increase in yield curves	550	(9,608)
100 bps parallel decrease in yield curve	(550)	9,934

Following table summarises the exposure to the interest rate risk by the company.

#### 31st December 2013

	Variable interest rate Rs.000	Fixed interest rate Rs.000	Non-interest bearing Rs.000	Total Rs.000
<b>Financial assets</b>				
Fair value through Profit or Loss	-	-	334,079	334,079
Available For Sale	-	644,889	-	644,889
Held To Maturity	-	931,680	-	931,680
Loans and Receivable	55,973	4,689,817	-	4,745,790
Cash and Cash Equivalents	-	3,404	140,683	144,087
<b>Total Financial Assets</b>	55,973	6,269,790	474,762	6,800,525
<b>Total Financial Liabilities</b>			333,959	333,959

#### 31st December 2012

	Variable interest rate Rs.000	Fixed interest rate Rs.000	Non-interest bearing Rs.000	Total Rs.000
<b>Financial assets</b>				
Fair value through Profit or Loss	-	51,290	363,059	414,349
Available For Sale	-	973,680	-	973,680
Held to Maturity	-	1,567,968	-	1,567,968
Loans and Receivable	76,491	2,671,378	-	2,747,869
Cash and Cash Equivalents	-	101,859	107,434	209,293
<b>Total Financial Assets</b>	76,491	5,366,175	470,493	5,913,159
<b>Total Financial Liabilities</b>			293,222	293,222

## Notes to the Financial Statements

### 42. Financial Risk Management (Contd.)

#### 42.2 Financial Risk (Contd.)

##### b) Currency Risk

The risk of fluctuation in fair values or future cash flows of a financial instrument due to a change in exchange rates, is referred to as currency risk.

The Company's principal transactions are carried out in Sri Lankan Rupees and hence, its exposure to foreign exchange risk arises primarily with respect to the US Dollar and Euro denominated assets maintained in order to honour liabilities of foreign currency denominated insurance policies, which are sold in the ordinary course of business. However, no material liabilities were recorded on foreign currency denominated policies as at the Reporting Date.

The table below summarises the Company's total exposure and sensitivity to currency risk.

	31st December 2013		31st December 2012	
	Amount in Foreign Currency '000	LKR amount Rs. '000	Amount in Foreign Currency '000	LKR amount Rs. '000
<b>USD Assets</b>	USD 966	125,035	USD 1,085	136,289
<b>EURO Assets</b>	EURO 74	13,121	EURO 127	21,023
Total foreign currency denominated assets		138,156		157,312
	Impact on PBT Rs.000	Impact on Equity Rs.000	Impact on PBT Rs.000	Impact on Equity Rs.000
5% weakening of rupee	6,908	4,974	8,219	5,918
5% strengthening of rupee	(6,908)	(4,974)	(8,219)	(5,918)
+/- % impact of PBT		1.17%		1.39%



## 42. Financial Risk Management (Contd.)

### 42.2 Financial Risk (Contd.)

#### c) Equity Price Risk

The risk of fluctuation in fair values or future cash flows of a financial instrument due to a change in market prices, other than those occurring due to interest rate risk or currency risk, is referred to as equity price risk. Accordingly, the equity price risk affects the Company's investments in equity instruments.

In order to manage the equity price risk, the Company's Investment Policy guides the management to set/monitor objectives and constraints on investments, diversification plans as well as limits on equity exposure.

#### Equity Portfolio Diversification

Sector	31st December 2013		31st December 2012	
	Rs. '000	%	Rs. '000	%
Diversified Holdings	47,340	23.35%	38,646	17.31%
Banks, Finance and Insurance	76,394	37.68%	90,847	40.70%
Manufacturing	39,765	19.61%	46,922	21.02%
Hotels and Travels	6,230	3.07%	11,108	4.98%
Chemicals and Pharmaceuticals	8,441	4.16%	9,616	4.31%
Power and Energy	3,834	1.89%	4,480	2.01%
Beverages, Food and Tobacco	11,580	5.71%	9,960	4.46%
Telecommunications	-	-	1,805	0.81%
Information Technology	-	-	447	0.20%
Investment Trusts	1,557	0.77%	1,837	0.82%
Closed End Funds	7,608	3.75%	7,550	3.38%

The sensitivity analysis appearing below has been performed to demonstrate the impact of possible movements in All Share Price Index (ASPI) on profit before tax.

Percentage change in benchmark index (ASPI)	Impact on PBT (Rs. '000)	
	31st December 2013	31st December 2012
10 per cent increase in equity prices	20,275	22,322
10 per cent decrease in equity prices	(20,275)	(22,322)

## Notes to the Financial Statements

### 42. Financial Risk Management (Contd.)

#### 42.2 Financial Risk (Contd.)

##### Risk Sensitivity of Financial Assets

An analysis of the sensitivity of financial assets and liabilities to the key impacting variables is set out in the table below.

This analysis has been performed for reasonably possible movements in key individual variables, while holding all other variables constant. It shows the impact on profit before tax (due to changes in fair value of financial assets whose fair values are recorded in the Statement of Comprehensive Income) and equity (due to adjustments to profit before tax and changes in fair value of financial assets whose fair values are recorded in the Statement of Changes in Equity).

Variables	31st December 2013			31st December 2012	
	Change in variables	Impact on profit	Impact on	Impact on profit	Impact on
		before tax	equity*	before tax	equity*
		Rs.000	Rs.000	Rs.000	Rs.000
Exchange rate	+5%	6,908	4,974	8,219	5,918
Yield curve	+100 basis points	550	(9,608)	1,003	(15,957)
ASPI	+10%	20,275	14,598	22,322	16,072
Total		27,733	9,964	31,544	6,033
Exchange rate	- 5%	(6,908)	(4,974)	(8,219)	(5,918)
Yield curve	-100 basis points	(550)	9,934	(1,003)	16,594
ASPI	-10%	(20,275)	(14,598)	(22,322)	(16,072)
Total		(27,733)	(9,638)	(31,544)	(5,396)

Note 1: Movements in these key variables are non-linear.

Note 2: The carrying values of financial assets in the category of Held to Maturity and fixed rate investments in the category of Loans and Receivables are not subjected to changes in response to movements in interest rates, exchange rates or equity prices.

#### 42.2.3 Liquidity Risk

The risk of the Company being unable to meet obligations due to inadequate availability of liquid assets is referred to as liquidity risk.

The following controls are in place to mitigate liquidity risk;

- Maintaining sufficient cash balances, overnight investments and other short tenure investments to accommodate expected obligations and commitments of the Company
- Determining the maturity profiles of insurance contract liabilities and reinsurance assets based on the estimated timing of net cash outflows from recognised insurance liabilities
- Reviewing the maturity mix of the investment portfolio by the management and the Investment Committee on a regular basis
- Planning for all large cash outflows in advance and making necessary arrangements to ensure the availability of funds to meet such outflows
- Availability of a stand - by overdraft facility to be used only in the event of an emergency

## 42. Financial Risk Management (Contd.)

### 42.2 Financial Risk (Contd.)

The table below summarises the maturity profile of the financial assets of the Company based on remaining contractual obligations, including interest payable and receivable.

Maturity Analysis	Total Rs.'000	Less than One year Rs.'000	One year to Three years Rs.'000	Three to Five Years Rs.'000	More than Five Years Rs.'000
<b>Assets</b>					
Intangible Assets	53,807	5,162	15,350	31,800	1,495
Property, Plant and Equipment	137,009	9,798	31,219	62,175	33,817
Deferred Tax Assets	2	2	-	-	-
Financial Investments	6,656,438	2,992,190	1,749,702	1,525,679	388,867
Loans to Life Policyholders	53,656	-	-	-	53,656
Reinsurance Receivables	105,390	105,390	-	-	-
Premium Receivables	301,182	301,182	-	-	-
Other Assets	575,180	207,304	162,718	44,395	160,763
Insurance Contract - Deferred Expenses	32,912	32,912	-	-	-
Cash and Cash Equivalents	144,087	107,306	-	-	36,781
<b>Total Assets</b>	<b>8,059,663</b>	<b>3,761,246</b>	<b>1,958,989</b>	<b>1,664,049</b>	<b>675,379</b>
<b>Equity and Liabilities</b>					
Stated Capital	1,171,875	-	-	-	1,171,875
Revenue Reserves	941,820	-	-	-	941,820
Available for Sale Reserves	1,427	1,427	-	-	-
Other Reserves	2,172	2,172	-	-	-
Life Policy Holder Reserve Fund	(4,182)	(4,182)	-	-	-
<b>Total Equity</b>	<b>2,113,112</b>	<b>(583)</b>	<b>-</b>	<b>-</b>	<b>2,113,695</b>
<b>Liabilities</b>					
Insurance Contract Liabilities - Life	4,348,490	449,859	147,205	594,667	3,156,759
Insurance Contract Liabilities - Non Life	1,011,102	997,149	10,081	3,872	-
Employee Benefits	56,637	3,870	12,386	14,779	25,602
Current Tax Liabilities	35,143	35,143	-	-	-
Reinsurance Creditors	100,881	100,881	-	-	-
Other Liabilities	394,298	347,252	12,459	3,525	31,063
<b>Total Liabilities</b>	<b>5,946,551</b>	<b>1,934,153</b>	<b>182,131</b>	<b>616,843</b>	<b>3,213,424</b>
<b>Total Equity and Liabilities</b>	<b>8,059,663</b>	<b>1,933,570</b>	<b>182,131</b>	<b>616,843</b>	<b>5,327,119</b>

## Notes to the Financial Statements

### 42. Financial Risk Management (Contd.)

#### 42.2 Financial Risk (Contd.)

##### 42.2.4 Operational Risk

This is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and the absence of generally accepted standards of corporate behaviour.

Operational failures could result in dire consequences such as producing misleading financial information, loss of return, financial penalties from regulators or damage to the reputation of the Company. Operational risks arise from all operations of the Company.

While it is acknowledged that the Company cannot eliminate all operational risks, it is in a position to manage such risks by initiating a rigorous control framework and by monitoring and responding to potential risks.

Company's Risk Management team assesses all foreseeable risk involved in its operation and they develop and implement action plan to control those identified operational risk. These action plans recommended by the team is to manage the operational risk in the following areas:

- requirements for having appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- Compliance with the Manual of Financial Authority, Procurement Policy and such other policies & procedures that govern operational activities.
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

Compliance with recommended action plans are supported by a periodic reviews undertaken by Manager Risk and Compliance. The results of internal reviews are discussed on a quarterly basis with the Risk Management Committee, with summaries submitted to the Audit Committee and the Board.

Moreover, business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning process.

### 43. Events Occurring after the Reporting Date

Except for the below mentioned events, there have been no material events occurring after the Reporting Date that require adjustments to or disclosure in the Financial Statements.

The Board of Directors has recommended the payment of a first and final dividend of Rs.3.25 per share for the year ended 31st December 2013 (2012 - Rs. 2.75 per share) which is to be approved at the Annual General Meeting to be held on 27th March 2014. More information with respect to a dividend declaration is given on Note 39.

The Company has incorporated a fully owned subsidiary, HNB General Insurance Ltd. on 30th January 2014 in order to transfer the General Insurance (Non – Life Insurance) business w.e.f. 1st January 2015 in line with the requirement to segregate Life and General Insurance (Non – Life Insurance) business by RII (Amendment) Act No. 03 of 2011.

#### 44. Commitments

**44.1** Amount of capital expenditure approved and contracted for which no provision has been made in the Financial Statements as at 31st December 2013 is Rs. 6.5 Million (2012 - Nil).

#### 44.2 Operating leases

##### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

##### b). Future commitments on operating leases

	2013 Rs.'000	2012 Rs.'000
Less than one year	20,869	12,832
Between one and five years	42,832	20,772
More than five years	979	-
<b>Total Operating Lease Commitments</b>	<b>64,680</b>	<b>33,604</b>

The Company leases a number of offices under operating leases. The leases typically run for a period of five to seven years, with an option to renew the lease after that date. Lease payments are increased to reflect market rentals at regular intervals.

During the year ended 31 December 2013 an amount of Rs. 3.3 Million was recognised as an expense in profit or loss in respect of operating leases (2012: Rs. 3.3 Million). There were no contingent rent recognised as an expense during the year.

#### 45. Comparative Information

The impact arising from the changes in market value of Financial Assets classified as Available for Sale was initially included under Retained Earnings. However, this impact has been included under a separate reserve, Available for Sale Reserve w.e.f. the current Financial Year. (refer Note: 15)

Further, the presentation and classification in the Financial Statements have been amended where appropriate to ensure comparability with the current year.

#### 46. Contingencies

In the opinion of the Directors, and in consultation with the Company Lawyers, litigation currently pending against the Company would not have a material impact on the reported financial results of the Company.

All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

#### 47. Directors' Responsibility Statement

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer to page 232 of the Statement of Directors' Responsibility for Financial Reporting.

## Statement of Financial Position of the Life Insurance - Supplemental

As at 31st December,	Note	Page No.	2013 Rs.'000	2012 Rs.'000
<b>Assets</b>				
Intangible Assets			-	-
Property, Plant and Equipment			-	-
Financial Investments	A	329	4,270,216	3,527,422
Loans to Life Policyholders	B	335	53,656	29,888
Reinsurance Receivables	C	336	23,626	40,716
Premium Receivables	9	280	6,710	9,573
Other Assets	D	336	169,032	137,795
Cash and Cash Equivalents	E	336	74,705	129,916
<b>Total Assets</b>			<b>4,597,945</b>	<b>3,875,310</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Other Reserves	16	284	928	-
Life Policyholders' Reserve Fund	17	284	(4,182)	(1,191)
			(3,254)	(1,191)
<b>Liabilities</b>				
Insurance Contract Liabilities - Life	18	284	4,348,490	3,626,239
Employee Benefits	F	337	6,747	4,943
Reinsurance Creditors	G	337	24,849	29,928
Other Liabilities	H	337	221,113	215,391
<b>Total Liabilities</b>			<b>4,601,199</b>	<b>3,876,501</b>
<b>Total Equity and Liabilities</b>			<b>4,597,945</b>	<b>3,875,310</b>

The Notes to the Financial Statements as set out on pages 329 to 337 form an integral part of these Financial Statements.

## Notes to the Financial Statements - Life Insurance - Supplemental

### A. Financial Investments

As at 31st December,	Note	2013 Rs.'000	2012 Rs.'000
Held To Maturity (HTM)	(Note A.1)	630,291	1,223,283
Loans and Receivable (L & R)	(Note A.2)	2,930,948	1,488,929
Available For Sale (AFS)	(Note A.3)	512,929	600,824
Fair Value Through Profit or Loss (FVTPL)	(Note A.4)	196,048	214,386
<b>Total Financial Investments</b>		<b>4,270,216</b>	<b>3,527,422</b>

The table below shows the carrying values of these Financial Instruments together with their fair values

As at 31st December,	2013		2012	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Held To Maturity (HTM)	630,291	647,386	1,223,283	1,211,530
Loans and Receivable (L & R)	2,930,948	2,899,506	1,488,929	1,481,727
Available For Sale (AFS)	512,929	512,929	600,824	600,824
Fair Value Through Profit or Loss (FVTPL)	196,048	196,048	214,386	214,386
<b>Total Financial Investments</b>	<b>4,270,216</b>	<b>4,255,869</b>	<b>3,527,422</b>	<b>3,508,467</b>

	2013		2012	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
<b>A.1 Held To Maturity (HTM)</b>				
- Treasury Bonds	630,291	647,386	1,208,325	1,196,575
- Treasury Bills	-	-	14,958	14,955
	<b>630,291</b>	<b>647,386</b>	<b>1,223,283</b>	<b>1,211,530</b>
<b>A.2 Loans and Receivable (L &amp; R)</b>				
- Treasury Bills - Repo	217,995	217,995	118,892	118,892
- Treasury Bills - Overnight Repo	177,214	177,214	62,716	62,716
- Term Deposits (Note A.5)	1,261,530	1,278,392	702,842	713,627
- Corporate Debt (Note A.6)	1,274,209	1,225,905	604,479	586,492
	<b>2,930,948</b>	<b>2,899,506</b>	<b>1,488,929</b>	<b>1,481,727</b>
<b>A.3 Available For Sale (AFS)</b>				
- Treasury Bonds	454,805	454,805	523,974	523,974
- Treasury Bills	58,124	58,124	76,850	76,850
	<b>512,929</b>	<b>512,929</b>	<b>600,824</b>	<b>600,824</b>



## Notes to the Financial Statements - Life Insurance - Supplemental

## A. Financial Investments (Contd.)

As at 31st December,		2013		2012	
		Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
<b>A.4</b>	<b>Fair Value Through Profit or Loss (FVTPL)</b>				
	- Unit Trusts (Note A.7)	60,316	60,316	67,086	67,086
	- Equity Shares (Note A.8)	135,732	135,732	147,300	147,300
		196,048	196,048	214,386	214,386

Fair Value Through Profit or Loss Investments and Available For Sale Investments have been valued at fair value. Held To Maturity and loans and receivable are valued at amortised cost.

As at 31st December,

As at 31st December,		2013	2012
		Carrying value Rs.'000	Carrying value Rs.'000
<b>A.5.</b>	<b>Term Deposits</b>		
	Long term and medium term deposits with,		
	Licensed Commercial Banks (Note A.5.1.)	695,653	454,505
	Licensed Specialised Banks	194,067	107,666
	Registered Finance Companies	371,810	140,671
		1,261,530	702,842
<b>A.5.1.</b>	<b>Licensed Commercial Banks</b>		
	Term Deposits with Related Parties - Hatton National Bank PLC	58,887	52,605
	Other Banks	636,766	401,900
		695,653	454,505

As at 31st December,

As at 31st December,		2013		2012	
		Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
<b>A.6.</b>	<b>Corporate Debt</b>				
	Debentures - Quoted (Note A.6.1)	1,088,035	1,033,960	341,134	322,356
	Debentures - Unquoted (Note A.6.2)	137,282	142,307	168,605	168,159
	Commercial Paper (Note A.6.3)	48,892	49,638	94,740	95,977
		1,274,209	1,225,905	604,479	586,492

## A. Financial Investments (Contd.)

	2013					2012				
	As at 31st December,	Redeemable Date	No. of Debentures	Carrying Value Rs.'000	Fair Value Rs.'000	Coupon Rate (Per Annum)	No. of Debentures	Carrying Value Rs.'000	Fair Value Rs.'000	Coupon Rate (Per Annum)
<b>A.6.1. Debentures - Quoted</b>										
DFCC Bank	26/09/16	5,000	5,698	5,000	14.00%	5,000	5,698	5,000	14.00%	
Hatton National Bank PLC	31/03/21	75,000	16,865	7,500	11.00%	75,000	15,195	7,500	11.00%	
Lanka Orix Leasing Company PLC	30/06/16	250,000	26,492	25,000	11.90%	250,000	26,492	25,000	11.90%	
Merchant Bank of Sri Lanka PLC	15/11/15	225,000	23,838	22,500	11.80%	225,000	23,838	22,500	11.80%	
Sampath Bank PLC	11/10/17	177,600	20,684	17,760	16.50%	177,600	18,402	17,760	16.50%	
Singer Sri Lanka PLC	30/09/15	188,856	19,047	18,882	17.00%	188,856	18,886	18,886	17.00%	
Bank of Ceylon	28/06/15	200,000	21,178	20,000	11.50%	200,000	21,178	19,000	11.50%	
Bank of Ceylon	07/12/16	100,000	10,072	10,000	11.00%	100,000	10,072	10,000	11.00%	
Bank of Ceylon	29/11/17	850,000	86,155	85,000	16.00%	850,000	86,155	85,000	16.00%	
Urban Development Authority	05/10/15	867,100	89,010	86,632	11.00%	867,100	89,010	86,710	11.00%	
Hatton National Bank PLC	29/08/23	241,086	17,075	16,326	8.00%	-	-	-	-	
Hatton National Bank PLC	12/06/18	443,403	47,759	44,340	14.00%	-	-	-	-	
Merchant Bank of Sri Lanka PLC	16/12/17	200,000	20,109	20,000	14.25%	-	-	-	-	
Merchant Bank of Sri Lanka PLC	27/03/18	112,600	12,287	11,260	17.50%	-	-	-	-	
Merchant Bank of Sri Lanka PLC	27/03/18	112,600	12,203	11,260	16.70%	-	-	-	-	
Sampath Bank PLC	04/12/18	363,400	36,700	36,780	13.40%	-	-	-	-	
Singer Sri Lanka PLC	29/05/15	140,000	14,512	14,000	14.50%	-	-	-	-	
Singer Sri Lanka PLC	29/05/16	210,000	21,768	21,000	14.50%	-	-	-	-	
Nations Trust Bank PLC	19/12/18	331,500	33,292	33,150	13.00%	-	-	-	-	
Abans (Pvt) Limited	20/12/17	250,000	25,107	25,000	14.25%	-	-	-	-	
Abans (Pvt) Limited	20/12/18	200,000	20,087	20,000	14.50%	-	-	-	-	
Central Finance Company PLC	18/06/16	5,700	5,905	5,700	14.25%	-	-	-	-	
Central Finance Company PLC	18/06/18	29,000	30,078	29,000	14.75%	-	-	-	-	
Hayleys PLC	09/07/16	40,000	41,437	40,000	14.25%	-	-	-	-	
The HDFC Bank of Sri Lanka	23/10/18	600,000	61,733	60,000	15.50%	-	-	-	-	
LB Finance PLC	28/11/18	621,300	62,947	62,130	15.00%	-	-	-	-	
The Lion Brewery (Ceylon) PLC	17/06/16	16,800	17,372	16,800	13.50%	-	-	-	-	
The Lion Brewery (Ceylon) PLC	17/06/17	16,800	17,382	16,800	13.75%	-	-	-	-	
The Lion Brewery (Ceylon) PLC	17/06/18	22,400	23,190	22,400	14.00%	-	-	-	-	
National Development Bank PLC	19/12/18	84,200	8,457	8,420	13.40%	-	-	-	-	
National Development Bank PLC	19/12/18	75,700	7,602	7,570	13.00%	-	-	-	-	
National Development Bank PLC	19/12/23	187,500	18,836	18,750	13.90%	-	-	-	-	
Navaloka Hospitals PLC	30/09/18	400,000	41,427	40,000	14.15%	-	-	-	-	
People's Leasing and Finance PLC	26/03/18	300,000	33,898	30,000	17.00%	-	-	-	-	
Seylan Bank PLC	21/02/18	850,000	96,262	85,000	15.50%	-	-	-	-	
Softlogic Holdings PLC	09/09/16	400,000	41,571	40,000	15.75%	-	-	-	-	
Bank of Ceylon	-	-	-	-	-	150,000	15,170	15,000	Weighted Average 6 Month Gross T Bill rate + 0.75% p.a.	20.53%
Nations Trust Bank PLC	-	-	-	-	-	10,000	11,038	10,000		
<b>Total Investment in Quoted Debentures</b>			1,088,035	1,033,960			341,134	322,356		

## Notes to the Financial Statements - Life Insurance - Supplemental

## A. Financial Investments (Contd.)

As at 31st December,	2013					2012				
	Redeemable Date	No. of Debentures	Carrying Value Rs.'000	Fair Value Rs.'000	Coupon Rate (Per Annum)	No. of Debentures	Carrying Value Rs.'000	Fair Value Rs.'000	Coupon Rate (Per Annum)	
<b>A.6.2. Debentures - Unquoted</b>										
People's Leasing & Finance PLC	30/06/15	250,000	26,475	26,919	11.70%	250,000	25,000	25,000	11.70%	
Abans (Pvt) Limited	01/03/16	25,000	25,926	26,491	13.50%	25,000	25,841	24,591	13.50%	
National Development Bank PLC	30/06/16	20,000	20,050	20,334	03 Month Gross T. Bill Rate + 1% p.a.	20,000	20,617	20,617	03 Month Gross T. Bill Rate + 1% p.a.	
Singer Sri Lanka PLC	09/05/15	250,000	25,648	27,055	15.50%	250,000	25,637	26,141	15.50%	
Siyapatha Finance Limited	31/12/15	17,500	17,513	18,438	12.25%	25,000	25,002	25,000	12.25%	
Siyapatha Finance Limited	31/07/15	200,000	21,670	23,070	16.65%	200,000	21,432	22,313	16.65%	
Abans (Pvt) Limited	-	-	-	-	-	25,000	25,076	24,497	12.00%	
<b>Total Investment in Unquoted Debentures</b>			137,282	142,307			168,605	168,159		
<b>A.6.3. Commercial Papers</b>										
People's Leasing & Finance PLC			16,654	16,885	15.10%		16,596	16,694	16.50%	
People's Leasing & Finance PLC			-	-	-		30,424	31,106	17.25%	
Merchant Bank of Sri Lanka PLC			32,238	32,753	17.25%		15,156	15,394	17.50%	
Merchant Bank of Sri Lanka PLC			-	-	-		32,564	32,783	16.25%	
Total Investment in Commercial Paper			48,892	49,638			94,740	95,977		
<b>Total Investment in Corporate Debt</b>			1,274,209	1,225,905			604,479	586,492		

## A. Financial Investments (Contd.)

As at 31st December,

	2013		2012	
	No. of Units	Carrying Value /Fair Value Rs.'000	No. of Units	Carrying Value /Fair Value Rs.'000
<b>A.7. Unit Trusts</b>				
<b>Quoted</b>				
NAMAL Acuity Value Fund	80,000	5,320	80,000	5,280
<b>Total Investment in Quoted Unit Trusts</b>	80,000	5,320	80,000	5,280

As at 31st December,

	2013		2012	
	No. of Units	Carrying Value /Fair Value Rs.'000	No. of Units	Carrying Value /Fair Value Rs.'000
<b>Unquoted</b>				
NAMAL High Yield Fund	995,025	12,743	995,025	11,204
Cey Bank Savings Plus Money Market	1,800,000	19,164	1,800,000	19,602
Guardian Acuity Fixed Income Fund	999,001	11,658	999,001	11,009
Ceylon Income Fund	531,108	7,011	531,108	6,814
First Capital Wealth Fund	3,851	4,420	3,851	4,349
Namal IPO Fund	-	-	600,000	6,162
Ceylon Financial Sector Fund	-	-	408,998	2,666
<b>Total Investment in Unquoted Unit Trusts</b>		54,996		61,806
<b>Total Investment in Unit Trusts</b>		60,316		67,086

## Notes to the Financial Statements - Life Insurance - Supplemental

## A. Financial Investments (Contd.)

As at 31st December,

	No. of Units	2013 Carrying Value /Fair Value Rs.'000	No. of Units	2012 Carrying Value /Fair Value Rs.'000
<b>A.8. Equity Shares - Fair Value Through Profit or Loss</b>				
<b>Banks, Finance and Insurance</b>				
National Development Bank PLC	53,200	8,539	53,200	7,336
Commercial Bank of Ceylon PLC	27,863	3,355	98,219	10,117
Sampath Bank PLC	54,692	9,402	53,090	10,645
Nations Trust Bank PLC	190,000	11,818	190,000	10,640
DFCC Bank	30,000	3,870	38,000	4,290
Peoples Leasing & Finance PLC	596,000	7,986	746,000	9,847
Seylan Bank PLC - (Non Voting)	239,332	7,419	233,333	8,190
Sector Total		52,389		61,065
<b>Diversified Holdings</b>				
John Keells Holdings PLC	70,760	16,083	67,326	14,805
Richard Pieris and Company PLC	980,000	6,174	980,000	7,643
Hemas Holdings PLC	221,000	7,514	221,000	5,967
John Keells Holdings PLC - Warrants 2015	3,144	252	-	-
John Keells Holdings PLC - Warrants 2016	3,144	297	-	-
Vallibel One PLC	250,000	4,125	-	-
Sector Total		34,445		28,415
<b>Telecommunications</b>				
Dialog Axiata PLC	-	-	80,000	664
Sector Total		-		664
<b>Manufacturing</b>				
Royal Ceramic Lanka PLC	118,000	9,982	118,000	11,681
Dipped Products PLC	11,000	990	11,000	1,210
Chevron Lubricants Lanka PLC	10,099	2,705	16,000	3,232
ACL Cables PLC	30,000	1,947	30,000	2,022
Tokyo Cement Company (Lanka) PLC	314,297	8,957	285,725	8,172
Kelani Cables PLC	27,000	1,998	27,000	1,893
Textured Jersey Lanka PLC	-	-	244,300	2,174
Sector Total		26,579		30,384

## A. Financial Investments (Contd.)

As at 31st December,		2013		2012	
	No. of Units	Carrying Value /Fair Value Rs.'000	No. of Units	Carrying Value /Fair Value Rs.'000	
<b>A.8. Equity Shares (Contd.)</b>					
<b>Hotels and Travels</b>					
Dolphin Hotels PLC	47,600	2,137	117,600	4,292	
Palm Garden Hotels PLC	15,300	958	15,300	2,142	
The Lighthouse Hotel PLC	501,600	502	11,400	605	
John Keells Hotels PLC	77,700	971	77,700	1,073	
Sector Total		4,568		8,112	
<b>Chemicals and Pharmaceuticals</b>					
CIC Holdings PLC	75,000	3,593	75,000	4,823	
Haycarb PLC	13,000	2,467	13,000	2,225	
Sector Total		6,060		7,048	
<b>Power and Energy</b>					
Laugfs Gas PLC	85,000	2,414	105,000	2,688	
Sector Total		2,414		2,688	
<b>Beverage, Food and Tobacco</b>					
Distilleries Company of Sri Lanka PLC	40,000	7,720	40,000	6,640	
Sector Total		7,720		6,640	
<b>Information Technology</b>					
PC House PLC	-	-	82,820	447	
Sector Total		-		447	
<b>Investment Trusts</b>					
Renuka Holdings PLC	50,877	1,557	50,877	1,837	
Sector Total		1,557		1,837	
<b>Carrying Value of Total Investment in Quoted Shares</b>		135,732		147,300	

## B. Loans to Life Policyholders

As at 31st December,	2013 Rs.'000	2012 Rs.'000
Balance as at 1st January	26,158	17,530
Loans Granted during the Year	30,175	15,926
Repayments during the year	(9,125)	(7,298)
	47,208	26,158
Interest Receivable	6,448	3,730
Balance as at 31st December	53,656	29,888

## Notes to the Financial Statements - Life Insurance - Supplemental

**C. Reinsurance Receivables**

As at 31st December,

	2013 Rs.'000	2012 Rs.'000
Reinsurance Receivable on Outstanding Claims	17,179	32,260
Reinsurance Receivable on Settled Claims (Note C.1)	6,447	8,456
	23,626	40,716

**C.1** The age analysis of the reinsurance receivable on settled claims is as follows:

Up to 30 days	1,305	5,525
31 to 60 days	4,228	2,157
61 to 90 days	914	774
91 to 180 days	-	-
	6,447	8,456

**D. Other Assets**

Advance Payments	13,014	11,787
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR) (Note D.1)	155,277	125,722
Other receivables	741	286
	169,032	137,795

**D.1** Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

Withholding Tax Recoverable (WHT)	49,939	26,369
Notional Tax on Government Securities	105,338	99,353
	155,277	125,722

**E. Cash and Cash Equivalents**

Cash in Hand	65	65
Cash at Bank with Other Licensed Commercial Banks	72,589	44,820
Cash at Bank with Related Parties - Hatton National Bank PLC	1,549	2,909
	74,203	47,794
Short Term Deposits (Note E.1)	502	82,122
	74,705	129,916



### E. Cash and Cash Equivalents (Contd.)

As at 31st December,	2013 Rs.'000	2012 Rs.'000
<b>E.1 Short Term Deposits</b>		
With Other Licensed Commercial Banks	-	76,409
With Related Parties - Hatton National Bank PLC	102	5,713
Others	400	-
	502	82,122

### F. Employee Benefits

Defined benefit plans - Provision for Employee Benefits		
Balance as at 1st January	4,943	4,565
Provision recognised during the year	3,069	1,509
Actuarial gain during the plan year	(928)	-
	7,084	6,074
Payments during the year	(337)	(1,131)
Balance as at 31st December	6,747	4,943

**F.1** As at 31st December 2013, the Gratuity liability was actuarially valued under the Projected Unit Credit (PUC) method by Mr. Hugh Terry (Fellow of the Institute of Actuaries, U.K.), Consultant Actuary as required by Sri Lanka Accounting Standard (LKAS) 19 - Employee Benefits.

**F.2** With the adoption of revised LKAS 19 - Employee Benefits which become effective w.e.f. 1st January 2013, the re - measurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in Other Comprehensive Income

Principal assumptions used	2013	2012
(a) Discount Rate	10%	12%
(b) Future Salary Increase Rate	9%	11%
(c) Early withdrawal through Resignations		
- i) Less than 5 years	18%	18%
- ii) More than 5 years	7.5%	7.5%
(d) Retirement Age	55 years	55 years

The Gratuity Liability is not externally funded.

### G. Reinsurance Creditors

As at 31st December,	2013 Rs.'000	2012 Rs.'000
Foreign Reinsurers	24,849	29,928

### H. Other Liabilities

Policyholders Advance Payments	62,207	69,263
Acquisition Cost Payable	37,574	32,869
Advisor Terminal Benefit Scheme	91,485	75,021
Government Levies	1,910	785
Accrued Expenses	10,082	19,879
Others	17,855	17,574
	221,113	215,391

## Insurance Revenue Accounts

For the Year Ended 31st December,

	2013 Rs.'000	2012 Rs.'000
<b>Non Life Insurance</b>		
Gross Written Premium	1,863,183	1,711,204
Premium Ceded to Reinsurers	(424,207)	(391,633)
Net Written Premium	1,438,976	1,319,571
Net Change in Reserves for Unearned Premium	(82,544)	5,501
Net Earned Premium	1,356,432	1,325,072
Net Claims Incurred	(889,072)	(892,750)
Net Commission Expense	(170,718)	(156,417)
(Increase) / Decrease in Deferred Acquisition Expenses	12,944	(91)
Expenses	(424,509)	(355,353)
Fee and Commission Income	50,651	56,638
Underwriting Deficit	(64,272)	(22,901)
Interest and Dividend Income	273,379	231,033
Net Realised Gains	12,563	7,271
Net Fair Value Gain/(Loss)	9,104	9,864
Other Income	12,830	3,374
Operating Profit from Non Life Insurance Business	243,604	228,641
<b>Life Insurance</b>		
Gross Written Premium	2,014,547	1,500,028
Premium Ceded to Reinsurers	(101,798)	(128,076)
Net Written Premium	1,912,749	1,371,952
Net Benefits Expense	(679,136)	(261,771)
Net Commission Expense	(333,006)	(301,597)
Expenses Attributable to Policyholders	(573,180)	(516,080)
Fee and Commission Income	22,249	15,036
Underwriting Surplus	349,676	307,540
Change in Contract Liabilities - Life Fund	(724,829)	(555,909)
Interest and Dividend Income	511,798	423,551
Net Realised Gains	40,848	-
Net Fair Value Gain/(Loss)	3,995	(9,957)
Other Income	-	-
Surplus from Life Insurance Business	181,489	165,225
<b>Reconciliation of Statement of Income and Insurance Revenue Accounts</b>		
Operating Profit from Non Life Insurance Business	243,604	228,641
Surplus from Life Insurance Business	181,489	165,225
Profit Before Taxation	425,093	393,866
Income Tax Expenses	(35,970)	(42,726)
Profit for the Year	389,123	351,140

## Share Information

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

### 1. Stock Exchange Listing

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

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

As required by the Listing Rules, the audited Financial Statements for the year ended 31st December 2012 were submitted to the CSE on 01st March 2013. The Interim Financial Statements of the 4th Quarter, for the year/quarter ended 31st December 2013, will be submitted to the CSE on 05th February 2014. The audited Financial Statements for the year ended 31st December 2013 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 224.

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

The principal activities of the Company during the year are given in the Annual Report of the Board of Directors and Note 1.2 in Accounting Policies on pages 221 and 248 respectively.

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

The 20 largest shareholders as at 31st December 2013 together with their Shareholding as at 31st December 2012 are given below.

Name of the Shareholder	2013		2012	
	Shareholding	% on Total No. of Shares	Shareholding	% on Total No. of Shares
Hatton National Bank PLC A/C No.1	29,993,000	59.99	29,993,000	59.99
The Ceylon Guardian Investment Trust PLC A/C No.2	2,000,000	4.00	2,000,000	4.00
Mercantile Merchant Bank Ltd.	913,265	1.83	4,221,666	8.44
Bank of Ceylon A/C Ceybank Century Growth Fund	659,055	1.32	650,356	1.30
Mr. Mohamed Faizer Hashim	525,386	1.05	525,386	1.05
Salamander Investments (Pvt.) Ltd	475,000	0.95	-	-
Employees Trust Fund Board	432,267	0.86	375,494	0.75
Pershing LLC S/A Averbach Grauson & Co.	429,000	0.86	300,000	0.60
Arunodhaya Investments (Pvt.) Ltd	400,000	0.80	-	-
Arunodhaya (Pvt.) Ltd	400,000	0.80	-	-
Arunodhaya Industries (Pvt.) Ltd	400,000	0.80	-	-
Union Assurance PLC No-1 A/C	336,266	0.67	336,266	0.67
Phoenix Ventures Ltd.	325,289	0.65	325,289	0.65
Corporate Holdings (Pvt.) Ltd	242,700	0.49	242,700	0.49
Mr. Kailasapillai Viswanathar	200,000	0.40	-	-
Mrs. Kailasapillai Abiramipillai	200,000	0.40	-	-
Miss. Subramaniam Sivamalar	200,000	0.40	-	-
Mrs. Selliah Arunthathi	200,000	0.40	-	-
Mr. Aravinthan Kailasapillai	200,000	0.40	-	-
Andysel (Pvt.) Ltd	200,000	0.40	-	-
	38,731,228	77.47		

## Share Information

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

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

	2013		2012	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Public Shareholding	19,880,890	39.76	19,931,338	39.86

### 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 as follows.

Name of the Director	No. of Shares as at 31st December 2013	No. of Shares as at 31st December 2012
Dr. Ranee Jayamaha - Chairperson	100	Nil
Manjula de Silva - Managing Director / Chief Executive Officer	38,332	38,332
M U de Silva	3,000	3,000
J E P A de Silva	1,332	1,332
Sarath Ratwatte	14,666	14,666
Jonathan Alles	1,000	Nil
J A P M Jayasekara	5,000	Nil
K Balasundaram	10,000	10,000
D P N Rodrigo (Appointed w.e.f. 01st July 2013)	180	Not Applicable
Siromi N Wickramasinghe (Appointed w.e.f. 02nd October 2013)	52,500	Not Applicable
R Theagarajah (Resigned w.e.f. 06th May 2013)	Not Applicable	8,332

### 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 208 to 218.

### 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/- i.e. 50,000,000 shares
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 3,673 registered shareholders as at 31st December 2013 (2012 - 3,811). 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	2,149	683,394	1.36	7	2,849	0.01	2,156	686,243	1.37
1,001 – 10,000 Shares	1,313	4,575,937	9.15	14	52,646	0.11	1,327	4,628,583	9.26
10,001 – 100,000 Shares	147	3,592,079	7.18	7	221,464	0.44	154	3,813,543	7.62
100,001 – 1,000,000 Shares	32	8,329,146	16.66	2	549,485	1.10	34	8,878,631	17.76
Over – 1,000,000 Shares	2	31,993,000	63.99	0	0	0.00	2	31,993,000	63.99
Total	3,643	49,173,556	98.34	30	826,444	1.66	3,673	50,000,000	100.00

### b) Analysis of Shareholders

#### i. Resident/Non-Resident

	31st December 2013			31st December 2012		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	3,643	49,173,556	98.34	3,780	49,405,389	98.81
Non-Resident	30	826,444	1.66	31	594,611	1.19
Total	3,673	50,000,000	100.00	3,811	50,000,000	100.00

#### ii. Individual /Institutional

	31st December 2013			31st December 2012		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,576	11,216,098	22.43	3,716	10,261,624	20.52
Institutional	97	38,783,902	77.57	95	39,738,376	79.48
Total	3,673	50,000,000	100.00	3,811	50,000,000	100.00

## Share Information

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

The details relating to the performance of the share are given below.

	2013	2012	2011	2010	2009
Number of Transactions	1,778	1,465	2,831	4,812	7,084
Number of Shares Traded	4,589,817	1,347,828	2,903,300	13,201,900	10,535,000
Value of Shares Traded (Rs.)	242,310,103	61,959,216	215,698,120	784,213,895	391,270,975
CSE Turnover (Rs. Bn.)	200.47	213.83	546.26	570.30	142.50
Market Capitalisation (Rs. Mn.)					
HNB Assurance PLC	2,625	2,450	2,845	2,925	1,856
CSE	2,459,897	2,167,581	2,213,873	2,210,452	1,092,138
Dividend per share (Rs.)	3.25	2.75	2.10	1.80	1.50
Dividend payment (Rs. Mn.)	162.5	137.5	105.0	67.5	56.3
Dividend payout (%)	41.76	39.17	40.86	27.92	27.93
Basic Earnings per share (Rs.)	7.78	7.02	5.14*	5.38	4.49
Net Asset Value per share (Rs.)	42.26	37.34	31.87*	28.86*	22.16
Market Price per share(Rs.)					
Highest	57.00	56.90	90.00	90.00	57.00
Lowest	47.00	36.30	42.50	45.00	17.25
Year end (VWA)	52.50	49.00	56.90	78.00	49.50
P/E Ratio (Times)	6.75	6.98	11.07*	12.33	10.01

\*Restated

### 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 5 to the Financial Statements in page 269.

### 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 188 to 190.

### 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 41 to the Financial Statements.

## Quarterly Analysis 2013 and 2014

### Quarterly Analysis 2013 Statement of Comprehensive Income

	1st Quarter Jan-Mar 13 Rs. '000	2nd Quarter Apr-Jun 13 Rs. '000	3rd Quarter Jul-Sep 13 Rs. '000	4th Quarter Oct-Dec 13 Rs. '000	Total Jan-Dec 13 Rs. '000
<b>Gross Written Premium</b>	923,348	895,274	1,057,403	1,001,705	3,877,730
Premium Ceded to Reinsurers	(133,107)	(138,556)	(129,802)	(124,540)	(526,005)
Net Written Premium	790,241	756,718	927,601	877,165	3,351,725
Net Change in Reserves for Unearned Premium	(66,588)	27,657	(10,685)	(32,928)	(82,544)
<b>Net Earned Premium</b>	723,653	784,375	916,916	844,237	3,269,181
<b>Other Revenue</b>					
Interest and Dividend Income	189,435	198,006	199,679	198,057	785,177
Net Realised Gains / (Losses)	(202)	2,101	8,039	43,473	53,411
Net Fair Value Gains / (Losses)	6,059	18,039	(20,911)	9,912	13,099
Fee and Commission Income	14,342	33,848	10,465	14,245	72,900
Other Income	1,083	2,085	3,587	6,075	12,830
	210,717	254,079	200,859	271,762	937,417
<b>Net Income</b>	934,370	1,038,454	1,117,775	1,115,999	4,206,598
<b>Net Benefits, Claims and Expenses</b>					
Net Insurance Benefits and Claims Paid	(270,342)	(357,179)	(585,448)	(345,690)	(1,558,659)
Net Change in Insurance Claims Outstanding	13,837	(26,621)	9,945	(6,710)	(9,549)
Change in Contract Liabilities - Life Fund	(265,307)	(223,828)	(129,961)	(105,733)	(724,829)
Other Operating and Administration Expenses	(227,327)	(264,799)	(243,385)	(348,637)	(1,084,148)
Underwriting and Net Acquisition Costs	(119,163)	(95,191)	(106,434)	(60,471)	(381,259)
Other Insurance Related Costs	(4,018)	(5,583)	(5,984)	(7,476)	(23,061)
Total Benefits, Claims and Expenses	(872,320)	(973,201)	(1,061,267)	(874,717)	(3,781,505)
<b>Profit Before Taxation</b>	62,050	65,253	56,508	241,282	425,093
Income Tax Expenses	(11,964)	(10,544)	(6,325)	(7,137)	(35,970)
<b>Profit for the Period</b>	50,086	54,709	50,183	234,145	389,123

### Quarterly Analysis 2012 Statement of Comprehensive Income

	1st Quarter Jan-Mar 12 Rs. '000	2nd Quarter Apr-Jun 12 Rs. '000	3rd Quarter Jul-Sep 12 Rs. '000	4th Quarter Oct-Dec 12 Rs. '000	Total Jan-Dec 12 Rs. '000
<b>Gross Written Premium</b>	823,371	753,031	790,153	844,677	3,211,232
Premium Ceded to Reinsurers	(116,238)	(156,604)	(129,326)	(117,541)	(519,709)
Net Written Premium	707,133	596,427	660,827	727,136	2,691,523
Net Change in Reserves for Unearned Premium	(67,685)	59,783	6,089	7,314	5,501
<b>Net Earned Premium</b>	639,448	656,210	666,916	734,450	2,697,024
<b>Other Revenue</b>					
Interest and Dividend Income	143,927	149,933	175,454	185,270	654,584
Net Realised Gains / (Losses)	4,353	-	-	2,918	7,271
Net Fair Value Gains / (Losses)	(17,895)	(14,401)	50,198	(17,995)	(93)
Fee and Commission Income	19,442	30,473	11,031	10,728	71,674
Other Income	22	15	1,614	1,723	3,374
	149,849	166,020	238,297	182,644	736,810
<b>Net Income</b>	789,297	822,230	905,213	917,094	3,433,834
<b>Net Benefits and Claims</b>					
Net Insurance Benefits and Claims Paid	(243,155)	(228,105)	(325,590)	(293,871)	(1,090,721)
Net Change in Insurance Claims Outstanding	(22,112)	(13,140)	5,469	(34,017)	(63,800)
Change in Contract Liabilities - Life Fund	(150,837)	(202,066)	(203,736)	730	(555,909)
Other Operating and Administration Expenses	(217,725)	(218,942)	(221,403)	(308,503)	(966,573)
Underwriting and Net Acquisition Costs	(112,856)	(85,452)	(91,054)	(58,746)	(348,108)
Other Insurance Related Costs	(4,208)	(3,415)	(4,568)	(2,666)	(14,857)
Total Benefits, Claims and Expenses	(750,893)	(751,120)	(840,882)	(697,073)	(3,039,968)
<b>Profit Before Taxation</b>	38,404	71,110	64,331	220,021	393,866
Income Tax Expenses	(8,268)	(16,217)	(9,477)	(8,764)	(42,726)
<b>Profit for the Period</b>	30,136	54,893	54,853	211,257	351,140



## Decade at a Glance

Income Statement for the year ended 31st December	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000 Restated	2010 Rs.'000 Restated	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000	2004 Rs.'000
<b>Non - Life Insurance</b>										
Gross Written Premium	1,863,183	1,711,204	1,694,343	1,343,703	1,130,781	924,709	704,577	618,502	469,929	338,708
Net Earned Premium	1,356,432	1,325,072	1,161,948	859,077	675,939	541,463	468,595	362,540	270,059	199,777
Income from Investments and Other Income	358,527	308,180	169,390	177,585	157,308	126,784	85,880	56,164	38,506	31,088
Net Claims Incurred	(889,072)	(892,750)	(802,370)	(588,237)	(448,210)	(363,813)	(291,283)	(219,336)	(144,548)	(123,751)
Underwriting and Net Acquisition Costs Expenses	(53,401)	(53,652)	(40,680)	12,539	1,887	(6,272)	1,546	(6,058)	(4,947)	(4,957)
Profit Before Taxation	243,604	228,640	99,840	113,525	101,081	69,874	78,332	62,701	52,009	17,119
<b>Life Insurance</b>										
Gross Written Premium	2,014,547	1,500,028	1,290,367	1,084,480	984,866	914,170	767,576	503,321	354,181	205,885
Net Earned Premium	1,912,749	1,371,952	1,187,671	985,283	891,808	834,218	698,048	451,920	318,684	188,980
Income from Investments and Other Income	578,890	428,630	297,566	339,295	311,730	217,223	114,920	53,497	26,483	12,208
Net Benefits Incurred	(679,136)	(261,771)	(62,760)	(59,900)	(63,701)	(44,669)	(25,595)	(14,924)	(12,183)	(7,673)
Underwriting and Net Acquisition Costs Expenses	(327,858)	(294,456)	(247,379)	(177,530)	(151,995)	(161,894)	(154,212)	(115,132)	(88,675)	(58,785)
Change in Contract Liabilities - Life Fund	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)	(85,539)
Profit Before Taxation	181,489	165,226	172,000	156,000	130,000	100,000	65,000	30,000	10,000	-
<b>Company</b>										
Gross Written Premium	3,877,730	3,211,232	2,984,710	2,428,183	2,115,647	1,838,879	1,472,153	1,121,823	824,110	544,593
Net Earned Premium	3,269,181	2,697,024	2,349,619	1,844,360	1,567,747	1,375,681	1,166,643	814,460	588,743	388,757
Income from Investments and Other Income	937,417	736,810	466,956	516,880	469,038	344,007	200,800	109,661	64,989	43,296
Net Claims and Benefits (Net)	(1,568,208)	(1,154,521)	(865,130)	(648,137)	(511,911)	(408,482)	(316,878)	(234,260)	(156,731)	(131,424)
Underwriting and Net Acquisition Costs Expenses	(381,259)	(348,108)	(288,059)	(164,991)	(150,108)	(168,166)	(152,666)	(121,190)	(93,622)	(63,742)
Change in Contract Liabilities - Life Fund	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)	(85,539)
Profit Before Tax	425,093	393,866	271,840	269,525	231,081	169,874	143,332	92,701	62,009	17,119
Income Tax Expenses	(35,970)	(42,726)	(25,772)	(27,786)	(29,471)	(5,401)	(20,000)	(1,377)	(1,720)	(733)
Profit for the Year	389,123	351,140	246,068	241,739	201,610	164,473	123,332	91,324	60,289	16,386
Basic Earnings per Share (Rs.)	7.78	7.02	5.14	5.38	4.49	3.66	2.75	2.03	1.34	0.36
Dividend per Share (Rs.)	3.25	2.75	2.10	1.80	1.50	1.25	1.00	1.00	0.50	-
<b>Statement of Financial Position as at 31st December</b>										
	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000 Restated	2010 Rs.'000 Restated	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000	2004 Rs.'000
<b>Non - Life Insurance</b>										
<b>Assets</b>										
Intangible Assets	53,807	61,068	26,673	31,535	16,102	17,316	17,603	17,982	21,175	17,391
Property, Plant and Equipment	137,009	118,447	117,292	126,398	110,896	83,566	68,064	54,096	44,881	27,486
Deferred Tax Assets	2	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	1,031,342	774,477	627,655	530,914	442,077	352,050
Financial Investments	2,386,222	2,176,444	1,948,775	1,227,508	-	-	-	-	-	-
Reinsurance Receivables	81,764	121,999	103,019	103,786	57,541	59,289	24,683	7,620	14,268	1,558
Premium Receivables	294,472	237,844	231,385	231,929	157,029	120,922	86,721	95,572	67,538	67,536
Other Assets	406,148	344,421	268,162	235,189	251,675	184,361	121,267	105,320	98,798	68,777
Insurance Contract - Deferred Expenses	32,912	19,968	20,059	12,392	-	-	-	-	-	-
Cash and Cash Equivalents	69,382	79,377	127,887	68,439	48,848	77,332	71,181	66,785	42,838	36,839
<b>Total Assets</b>	<b>3,461,718</b>	<b>3,159,568</b>	<b>2,843,252</b>	<b>2,037,176</b>	<b>1,673,433</b>	<b>1,317,263</b>	<b>1,017,174</b>	<b>878,289</b>	<b>731,575</b>	<b>571,637</b>
<b>Equity And Liabilities</b>										
<b>Equity</b>										
Stated Capital	1,171,875	1,171,875	1,171,875	375,000	375,000	375,000	375,000	250,000	250,000	250,000
Revenue Reserves	941,820	690,197	444,057	676,118	455,851	301,116	174,143	200,811	121,987	61,698
Available for Sale Reserves	1,427	6,209	-	-	-	-	-	-	-	-
Other Reserves	1,244	-	-	-	-	-	-	-	-	-
<b>Total Equity</b>	<b>2,116,366</b>	<b>1,868,281</b>	<b>1,615,932</b>	<b>1,051,118</b>	<b>830,851</b>	<b>676,116</b>	<b>549,143</b>	<b>450,811</b>	<b>371,987</b>	<b>311,698</b>

Statement of Financial Position as at 31st December	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000 Restated	2010 Rs.'000 Restated	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000	2004 Rs.'000
<b>Liabilities</b>										
Insurance Contract Liabilities - Non Life	1,011,102	969,443	944,321	743,049	599,364	470,206	340,562	319,538	267,020	210,611
Employee Benefits	49,890	37,417	29,564	21,670	15,583	9,637	6,555	3,525	2,637	1,479
Current Tax Liabilities	35,143	42,950	25,998	28,618	-	-	-	-	-	-
Reinsurance Creditors	76,032	53,325	75,150	51,968	62,314	50,504	36,375	52,661	24,961	17,022
Other Liabilities	173,185	188,152	152,287	140,753	165,321	110,800	84,539	51,754	64,970	30,827
<b>Total Liabilities</b>	<b>1,345,352</b>	<b>1,291,287</b>	<b>1,227,320</b>	<b>986,058</b>	<b>842,582</b>	<b>641,147</b>	<b>468,031</b>	<b>427,478</b>	<b>359,588</b>	<b>259,939</b>
<b>Total Equity and Liabilities</b>	<b>3,461,718</b>	<b>3,159,568</b>	<b>2,843,252</b>	<b>2,037,176</b>	<b>1,673,433</b>	<b>1,317,263</b>	<b>1,017,174</b>	<b>878,289</b>	<b>731,575</b>	<b>571,637</b>
<b>Ten Year Summary</b>										
<b>Life Insurance</b>										
<b>Assets</b>										
Intangible Assets	-	-	22,203	20,773	14,523	5,742	2,936	1,872	204	116
Property, Plant and Equipment	-	-	4,276	4,573	6,174	8,151	4,333	3,086	2,994	2,637
Investments	-	-	-	-	1,686,073	1,263,166	852,943	513,475	335,222	177,987
Financial Investments	4,270,216	3,527,422	2,935,487	2,415,853	-	-	-	-	-	-
Loans to Life Policyholders	53,656	29,888	20,097	15,000	10,338	4,908	1,674	1,286	993	-
Reinsurance Receivables	23,626	40,716	27,848	18,617	16,283	10,025	6,234	8,647	2,271	-
Premium Receivables	6,710	9,573	-	-	-	-	-	-	-	-
Other Assets	169,032	137,795	129,223	102,556	219,625	150,279	78,697	31,848	20,047	12,308
Insurance Contract - Deferred Expenses	-	-	-	-	-	-	-	-	-	-
Cash & Cash Equivalents	74,705	129,916	62,468	13,005	45,252	39,939	44,890	36,981	13,102	19,028
<b>Total Assets</b>	<b>4,597,945</b>	<b>3,875,310</b>	<b>3,201,602</b>	<b>2,590,377</b>	<b>1,998,268</b>	<b>1,482,210</b>	<b>991,707</b>	<b>597,195</b>	<b>374,833</b>	<b>212,076</b>
<b>Equity and Liabilities</b>										
<b>Equity</b>										
Stated Capital	-	-	-	-	-	-	-	-	-	-
Revenue Reserves	-	-	-	-	-	-	-	-	-	-
Available for Sale Reserves	-	-	-	-	-	-	-	-	-	-
Other Reserves	928	-	-	-	-	-	-	-	-	-
Life Policyholders' Reserve Fund	(4,182)	(1,191)	(22,526)	31,050	-	-	-	-	-	-
<b>Total Equity</b>	<b>(3,254)</b>	<b>(1,191)</b>	<b>(22,526)</b>	<b>31,050</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>										
Insurance Contract Liabilities - Life	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505	880,674	507,721	300,818	169,768
Employee Benefits	6,747	4,943	4,565	3,406	2,597	1,681	922	455	464	242
Reinsurance Creditors	24,849	29,928	28,106	25,341	24,937	32,535	42,052	35,867	9,542	9,489
Other Liabilities	221,113	215,391	170,126	115,366	117,221	87,489	68,059	53,152	64,009	32,577
<b>Total Liabilities</b>	<b>4,601,199</b>	<b>3,876,501</b>	<b>3,224,128</b>	<b>2,559,327</b>	<b>1,998,268</b>	<b>1,482,210</b>	<b>991,707</b>	<b>597,195</b>	<b>374,833</b>	<b>212,076</b>
<b>Total Equity and Liabilities</b>	<b>4,597,945</b>	<b>3,875,310</b>	<b>3,201,602</b>	<b>2,590,377</b>	<b>1,998,268</b>	<b>1,482,210</b>	<b>991,707</b>	<b>597,195</b>	<b>374,833</b>	<b>212,076</b>

## Decade at a Glance

Statement of Financial Position as at 31st December	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
			Restated	Restated						
<b>Company</b>										
<b>Assets</b>										
Intangible Assets	53,807	61,068	48,876	52,308	30,755	23,058	20,539	20,402	21,379	17,507
Property, Plant and Equipment	137,009	118,447	121,568	130,971	117,070	91,717	72,397	57,182	47,875	30,123
Deferred Tax Assets	2	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	2,717,415	2,037,643	1,480,598	1,044,389	777,299	530,037
Financial Investments	6,656,438	5,703,866	4,884,262	3,643,361	-	-	-	-	-	-
Loans to Life Policyholders	53,656	29,888	20,097	15,000	10,338	4,908	1,674	1,286	993	-
Reinsurance Receivables	105,390	162,715	130,867	122,403	73,824	69,314	30,917	16,267	16,539	1,558
Premium Receivables	301,182	247,417	231,385	231,929	157,029	120,922	86,721	95,572	67,538	67,536
Other Assets	575,180	482,216	397,385	337,745	471,170	334,640	199,964	136,620	118,845	81,085
Insurance Contract - Deferred Expenses	32,912	19,968	20,059	12,392	-	-	-	-	-	-
Cash and Cash Equivalents	144,087	209,293	190,355	81,444	94,100	117,271	116,071	103,766	55,940	55,867
<b>Total Assets</b>	<b>8,059,663</b>	<b>7,034,878</b>	<b>6,044,854</b>	<b>4,627,553</b>	<b>3,671,701</b>	<b>2,799,473</b>	<b>2,008,881</b>	<b>1,475,484</b>	<b>1,106,408</b>	<b>783,713</b>
<b>Equity and Liabilities</b>										
<b>Equity</b>										
Stated Capital	1,171,875	1,171,875	1,171,875	375,000	375,000	375,000	375,000	250,000	250,000	250,000
Revenue Reserves	941,820	690,197	444,057	676,118	455,851	301,116	174,143	200,811	121,987	61,698
Available for Sale Reserves	1,427	6,209	-	-	-	-	-	-	-	-
Other Reserves	2,172	-	-	-	-	-	-	-	-	-
Life Policyholders' Reserve Fund	(4,182)	(1,191)	(22,526)	31,050	-	-	-	-	-	-
<b>Total Equity</b>	<b>2,113,112</b>	<b>1,867,090</b>	<b>1,593,406</b>	<b>1,082,168</b>	<b>830,851</b>	<b>676,116</b>	<b>549,143</b>	<b>450,811</b>	<b>371,987</b>	<b>311,698</b>
<b>Liabilities</b>										
Insurance Contract Liabilities - Life	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505	880,674	507,721	300,818	169,768
Insurance Contract Liabilities - Non Life	1,011,102	969,443	944,321	743,049	599,364	470,206	340,562	319,538	267,020	210,611
Employee Benefits	56,637	42,360	34,129	25,076	18,180	11,318	7,477	3,980	3,101	1,721
Current Tax Liabilities	35,143	42,950	25,998	28,618	-	-	-	-	-	-
Reinsurance Creditors	100,881	83,253	103,256	77,309	87,251	83,039	78,427	88,528	34,503	26,511
Other Liabilities	394,298	403,543	322,413	256,119	282,542	198,289	152,598	104,906	128,979	63,404
<b>Total Liabilities</b>	<b>5,946,551</b>	<b>5,167,788</b>	<b>4,451,448</b>	<b>3,545,385</b>	<b>2,840,850</b>	<b>2,123,357</b>	<b>1,459,738</b>	<b>1,024,673</b>	<b>734,421</b>	<b>472,015</b>
<b>Total Equity and Liabilities</b>	<b>8,059,663</b>	<b>7,034,878</b>	<b>6,044,854</b>	<b>4,627,553</b>	<b>3,671,701</b>	<b>2,799,473</b>	<b>2,008,881</b>	<b>1,475,484</b>	<b>1,106,408</b>	<b>783,713</b>
<b>Investor Information</b>										
Return on Equity	18.41%	18.79%	15.23%	23.00%	24.27%	24.32%	22.46%	20.26%	16.21%	5.26%
Market Price per Share as at 31st Dec (VWA) (Rs.)	52.50	49.00	56.90	78.00	49.50	18.25	24.50	25.00	12.75	12.50
Market Price per Share as at 31st Dec (VWA) (Rs.) - Adjusted for Bonus Issue	52.50	49.00	56.90	66.31	44.94	21.50	26.19	26.56	14.19	14.06
Price Earning Ratio (Times)	6.75	6.98	11.07	12.33	10.01	5.87	9.53	13.06	10.56	38.53
Earnings Yield	14.82%	14.33%	9.03%	8.11%	9.99%	17.02%	10.50%	7.64%	9.44%	2.56%
Dividend Yield	6.19%	5.61%	3.69%	2.31%	3.03%	6.85%	4.08%	4.00%	3.92%	-
Market Capitalisation (Rs. Mn)	2,625	2,450	2,845	2,925	1,856	694	919	625	319	313
<b>Employee Information</b>										
Number of Employees	804	723	662	597	540	457	377	308	262	208
GWP per Employee (Rs. Mn)	4.82	4.44	4.51	4.07	3.92	4.02	3.90	3.64	3.15	2.62
Net Profit per Employee (Rs. '000)	483.98	485.67	371.70	404.92	373.35	359.90	327.14	296.51	230.11	78.78
<b>Non - Life Insurance Operation</b>										
Net Claims Ratio	66%	68%	69%	68%	66%	67%	62%	60%	54%	62%
Expense Ratio	39%	34%	34%	39%	42%	43%	39%	38%	41%	45%
Combined Ratio	105%	102%	103%	107%	108%	110%	101%	98%	95%	107%

## Glossary

### Acquisition Expenses

All expenses which vary with and are primarily related to the acquisition of new insurance contracts and the renewal of existing insurance contracts. E.g. commissions

### Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto.

### Claims

The amount payable under a contract of insurance arising from the occurrence of an insured event.

### Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by claims outstanding provisions at the beginning and end of the accounting period.

### Claims Incurred But Not Reported (IBNR)

At the end of the period of account a reserve in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but not yet been reported to the insurer.

### Claims Incurred But Not Enough Reported (IBNER)

A reserve made in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but no comprehensive information is available to make adequate provisions as at the Balance Sheet date.

### Claims Outstanding Reserve – Non - Life 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 – Non - Life 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 Earned Premium – Non - Life Insurance Business

Gross Written Premium adjusted for reinsurance premium and for the increase or decrease in unearned premium.

### Net Written Premium

The balance of the Gross Written Premium after deduction of any premium paid or payable by the insurer for reinsurance ceded. Commonly identifies as Net Premium.

### Policy Loan

A loan from the insurer to a policy holder on the security of the surrender value of a long term insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

### Premium Ceded to Reinsurers

The premium paid by the ceding company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

### Reinsurance

An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (cedent – the primary insurer) against part or all of the liability assumed by the cedent under policy or policies of insurance.

### Reinsurance Commission

Commission/discount received or receivable in respect of premiums paid or payable to a reinsurer.

### Unearned Premium

It represents the portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the Balance Sheet date.

### Unearned Premium Reserve

A fund kept by a Non - Life insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

### Key Insurance Ratios

$$\text{Net Claims Ratio} = \frac{\text{Net claims incurred} \times 100}{\text{Net earned premium}}$$

$$\text{Expense Ratio} = \frac{\text{Net Expense incurred} \times 100}{\text{Net earned premium}}$$

$$\text{Combined Ratio} = \frac{(\text{Net claims incurred} + \text{Expenses}) \times 100}{\text{Net earned premium}}$$

## Notice of Meeting

Notice is hereby given that the Twelfth (12th) Annual General Meeting of HNB Assurance PLC is convened on Thursday the Twenty Seventh (27th ) day of March 2014, 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 2013 and the Auditors' Report thereon.
- ii. To declare a dividend of Rs. 3.25 per share for the year 2013, to the shareholders as recommended by the Directors.
- iii. To re-elect Mr. D P N Rodrigo, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 92 of the Articles of Association of the Company.
- iv. To re-elect Mrs. S N Wickramasinghe, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 92 of the Articles of Association of the Company.
- v. To re-appoint Mr. M U de Silva who retires at the Annual General Meeting, having attained the age of 72 years, as a Director of the Company and to adopt the following resolution :-

**Ordinary Resolution One** - "That Mr. Madapathage Upali de Silva who has attained the age of 70 years on 20th October 2011, be and is hereby re-appointed as a Director of the Company in terms of Section 211 of the Companies Act, No: 7 of 2007 and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, shall not apply to the said Director".

- vi. To re-appoint Mr J E P A de Silva who retires at the Annual General Meeting, having attained the age of 75 years, as a Director of the Company and to adopt the following resolution :-

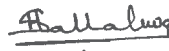
**Ordinary Resolution Two** - "That Mr. Joseph Eardley Pratapkumar Aditya de Silva who has attained the age of 70 years on 18th December 2008, be and is hereby re-appointed as a Director of the Company in terms of Section 211 of the Companies Act, No: 7 of 2007 and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, shall not apply to the said Director".

- vii. To consider and if thought fit to authorize the transfer of the general insurance business to a wholly owned subsidiary to effect the segregation required in terms of Section 53 of the Registration of Insurance Industry (Amendment) Act No. 3 of 2011 by the adoption of the following resolution as a special resolution as given below:-

**Special Resolution** - IT IS HEREBY RESOLVED THAT HNB Assurance PLC (the "Company") do effect the segregation of its long term insurance business and general insurance business in terms of Section 53 of the Regulation of Insurance Industry (Amendment) Act No.3 of 2011 by transferring the general insurance business (including assets and liabilities relating to that part of business) to a wholly owned subsidiary of the Company incorporated by the name of 'HNB General Insurance Limited' and THAT the board of directors of the Company be and is hereby authorised to do all such acts as may be required to give effect to the aforesaid transfer.

- viii. To appoint Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants, as the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
- ix. To authorise the Directors to determine payments for the year 2014 for charitable and other purposes.

By Order of the Board  
**HNB ASSURANCE PLC**



**Shiromi Halloluwa**  
Board secretary

Colombo, Sri Lanka.  
03rd February, 2014.

### Notes :

1. A member entitled to attend or attend and vote at the meeting is entitled to appoint a proxy to attend or attend and vote as the case may be, in his stead.
2. A proxy need not be a member of the Company. The Form of Proxy is enclosed.
3. The completed Form of Proxy should be deposited with the Board Secretary at the Registered Office of the Company at "HNB Towers", Level 18, No: 479, T.B. Jayah Mawatha, Colombo 10, not less than 48 hours before the time appointed for holding the meeting.

## Form of Proxy

I/We .....  
 of .....  
 being \*a member/members of the HNB Assurance PLC, hereby appoint ..... of  
 .....or failing him/her Ranees Jayamaha or failing her Manjula Hiranya de Silva or failing him Madapathage Upali de Silva or failing him Joseph Eardley Pratapkumar Aditya de Silva or failing him Sarath Carlyle Ratwatte or failing him Antonio Jonathan Alles or failing him Jayasekera Arachchige Panduka Mahendra Jayasekera or failing him Kandasampillai Balasundaram, or failing him Dilshan Peter Nirosh Rodrigo, or failing him Siromi Noelle Wickramasinghe 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 Twelfth Annual General Meeting of the Company to be convened on Thursday the 27th day of March 2014 at 10.00 in the forenoon at the Auditorium on Level 22 of "HNB Towers" at No: 479, T. B. Jayah Mawatha, Colombo 10 and at any adjournment thereof and at every poll which may be taken in consequence thereof :

To declare a dividend of Rs.3.25 per share	In favour	
	Against	
To re-elect Mr. D. P. N. Rodrigo , as a Director of the Company	In favour	
	Against	
To re-elect Mrs. S. N. Wickramasinghe , as a Director of the Company	In favour	
	Against	
To re-appoint Mr. M. U. de Silva, as a Director of the Company	In favour	
	Against	
To re-appoint Mr. J. E. P. A. de Silva, as a Director of the Company	In favour	
	Against	
To authorize the transfer of the general insurance business to a wholly owned subsidiary to effect the segregation required in terms of Section 53 of the Regulation of Insurance Industry (Amendment) Act No.3 of 2011	In favour	
	Against	
To appoint Messrs. PricewaterhouseCoopers (PwC), 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 ..... 2014.

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 Registered Office of the Company at "HNB Towers", Level 18, No: 479, T. B. Jayah Mawatha, Colombo 10, not less than 48 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
  - (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
  - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the Constitution of that Company or corporate body.  

The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer.
  - (c) in the case of joint - holders, the first joint - holder has the power to sign the proxy without the concurrence of the other joint - holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder, signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.







# Corporate Information

## Name of the Company

HNB Assurance PLC

## Legal Form

A Public limited liability Company incorporated on 23rd August 2001 under the Companies Act, No.17 of 1982 in Sri Lanka. The Company was re-registered under the Companies Act, No.07 of 2007.

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

## Company Registration No.

PQ 108

## Stock Exchange Listing

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

## Tax Payer Identification (TIN) No.

134009373

## VAT Registration No.

134009373-7000

## Fiscal Year-End

31st December

## Principal Activities

Carrying on Non - Life and Life Insurance business.

## Registered Office

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

## Head Office

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

Telephone - +9411 2421885-7

Facsimile - +9411 4793728

E-mail - info@hnbassurance.com

Web - www.hnbassurance.com

## Board of Directors

Ranee Jayamaha - Chairperson  
Manjula de Silva - Managing Director  
M U de Silva - Non-Executive Director  
Jonathan Alles - Non-Executive Director  
Pratap Kumar de Silva - Independent Non-Executive Director  
Sarath Ratwatte - Independent Non-Executive Director  
Mahendra Jayasekera - Independent Non-Executive Director  
K Balasundaram - Independent Non-Executive Director  
Dilshan Rodrigo - Non-Executive Director  
Siromi Wickramasinghe - Non-Executive Director

## Board Secretary

Shiromi Halloluwa

Attorney-at-Law & Notary Public

## Executive Committee

Manjula de Silva - Managing Director  
Lalith Fernando - General Manager – Marketing & Distribution  
Niranjan Manickam - General Manager – General Insurance  
Prasanth Fernando - General Manager – Life Insurance  
Vipula Dharmapala - Chief Financial Officer  
Namal Gunawardhane - Head of IT  
Chandana L Aluthgama - Head of Corporate Business Development  
Ivan Nicholas - Head of Distribution  
Dilshan Perera - Head of Marketing  
Nilesh Amarasinghe - Head of Investment

## Consultant Actuaries

### Life Insurance

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

### Non - Life Insurance

NMG Financial Services Consulting Pte Ltd.  
65, Chulia Street, #37 – 07/08 OCBC Centre  
049513, Singapore

### Gratuity

Hugh Terry (Fellow of the Institute of Actuaries, U.K.)  
Insight Consulting Group (Pte) Ltd.,  
Level 31, 6 Battery Road,  
Singapore 049909.

## Auditors

KPMG  
Chartered Accountants,  
32 A, Sir Mohamed Macan Markar Mawatha, Colombo 03.

## Credit Rating (Fitch)

National Long Term Rating A (Ika)  
National Insurer Financial Strength Rating A (Ika)

## Bankers

Hatton National Bank PLC  
Commercial Bank of Ceylon PLC  
Sampath Bank PLC  
Bank of Ceylon  
National Savings Bank  
Deutsche Bank AG



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