

EVOLUTION



**HNB
ASSURANCE**

HNB Assurance PLC
INTEGRATED ANNUAL REPORT
2018



Evolution is the concept of change over time. The Theory of Evolution suggests that all living beings evolved from common ancestry and that life on earth is related to one another.

The cultivated success of HNB Assurance PLC over the years bears witness to its evolution through time. The Integrated Annual Report showcases the evolution of HNB Assurance which has led to achieve a dominant position in the Insurance market. Our assets including our workforce are the mere essence of our making, delivers an outstanding performance, through well-planned and strategised business activities composing and adding contrast to our evolution within another successive year.

This Annual Report comprises of every upheld transformation that decorates and contributes towards a sustained competitive advantage of HNB Assurance, whilst also depicting the Company's journey to success, ultimately establishing a status of benchmark in the evolution of the industry.

At HNB Assurance PLC
WE EVOLVE!

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About This Report

The Integrated Report

THE INTEGRATED REPORT

The seventh Integrated Annual Report of HNB Assurance PLC presents a comprehensive, clear, yet a concise account of how the company has created sustainable value for its Shareholders and other stakeholders in 2018. The Annual Report has been prepared in accordance with GRI Sustainability Reporting Standards.

The Integrated Annual Report 2018 covers the financial and operational performance of HNB Assurance PLC and its fully owned Subsidiary HNB General Insurance Limited, collectively referred to as the 'Group' for the year ended 31st December 2018 and material events up to the approval of the report by the Company's Board of Directors on 11th February 2018.

SCOPE AND BOUNDARY

The year 2018 seemingly was one of the most challenging years for insurers and yet, for HNB Assurance stakeholders and investors, this was no cause for alarm. The stellar performance as one of the leaders in its' sphere of expertise remains stronger and healthier than ever with HNB Assurance.

Our Integrated Annual Report reflects a balanced and comprehensive analysis on our business model which combines the Six Capitals to generate sustainable business success with a concise review of our business model, sustainable strategy, governance, operating context, performance and future prospects.

GUIDING FRAMEWORKS AND PRINCIPLES

Our Integrated Annual Report has been prepared with reference to the following frameworks:



Integrated Reporting

- International Integrated Reporting (IIR) Framework issued by the International Integrated Reporting Council (IIRC) in December 2013
- Global Reporting Initiative (GRI) Sustainability Reporting Standards



Financial Reporting

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



Corporate Governance Reporting

- Laws and Regulations of the Companies Act, No. 7 of 2007
- Listing Rules of the Colombo Stock Exchange (CSE)
- Code of Best Practices on Corporate Governance issued by CA Sri Lanka



Sustainability Reporting

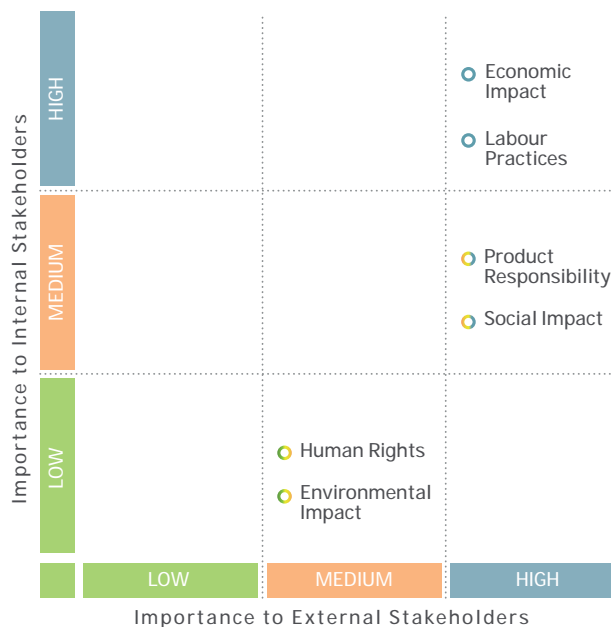
- Global Reporting Initiative (GRI) Sustainability Reporting Standards
- Sustainable Development Goals (SDGs) of United Nations

Our Guiding Frameworks and Principles

The Integrated Report

MATERIALITY DETERMINATION

The stakeholders today require a concise, yet a comprehensive report that gives a holistic picture of our entire organisation. Keeping this in mind, in this report we have identified the most material aspects and reported on them, assisting our stakeholders, in understanding our value creation process. This report details information about our strategy, performance, governance and future that enable informed decision making by the stakeholders. We have adopted a process to identify the material matters of the Group and we are confident that we have sufficiently reported on the matters that are most material to our stakeholders. The process of identifying material matters can be read on page 15.



Process of Materiality Determination

ASSURANCE OF QUALITY

We at HNB Assurance, have taken constant measures to provide accurate, timely and complete information that can be compared over reporting periods and with other organisations. This report captures both financial and non-financial information, which are estimates, with an analysis of the past information and we consider it our duty to assure the quality of all information published in this report.

Credibility and Responsibility

Information presented in this report is gathered from relevant departments of the Company covering the entire value creation process. Financial information presented is obtained from our financial information system, Oracle EBS to ensure accuracy of financial information. Information related to insurance activities is gathered via the core system TCS Bancs, while information related to human resources is obtained through the Human Resource Information System (HRIS). We employed identical data calculation methodologies used in preparation of the Integrated Annual Report of 2017, which is our most recent Annual Report, to compile this report and Material

restatements of non- financial data were not necessitated during the year under review.

It must be noted that all information published in this report has been verified as applicable by;

- Board of Directors
- Audit Committee
- Other Sub-committees of the Board
- Group Executive Committee

Publication of Forecasted Data






Our Integrated report publishes information which is futuristic when reporting on our medium and long term strategic direction and such information is subject to change, with changes in both internal and external factors. Changes in the operational environment may cause the actual performance to deviate from the forecasts.

Therefore, our stakeholders are advised to seek professional expertise when reading such futuristic information and using them for decision-making.

External Assurance

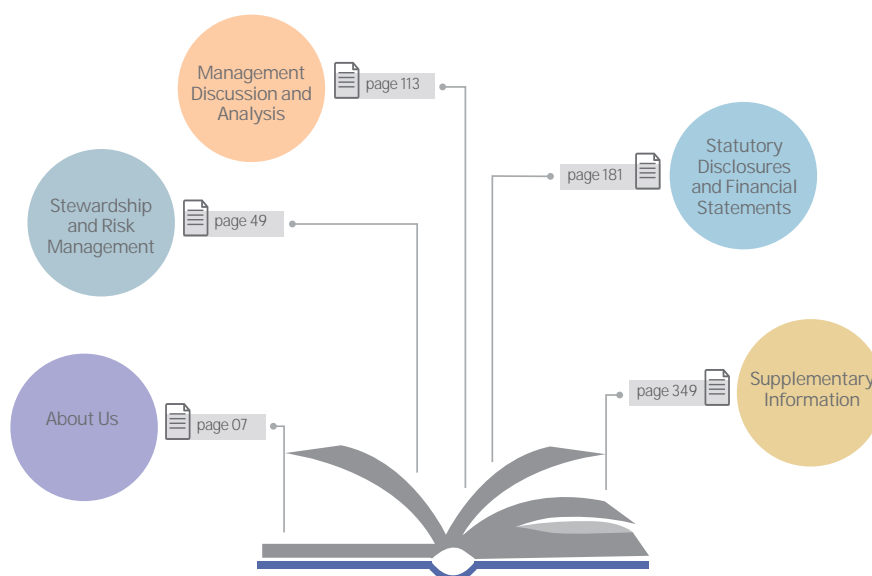
Ensuring the quality of the report, The Financial Statements and the related notes appearing on pages 218 to 349 have been audited by Messers. Ernst & Young, the Independent Auditors of the Group. The report of the Independent Auditors can be read on page 215.

Available Forms Integrated Annual Report 2018

 CD-Rom Posted to all Shareholders	 Print Available on request	 Online Available as PDF at www.hnbassurance.com
Sinhala and Tamil Translation of Chairperson's Message, MD's Review and Financial Statements are available.		
 Print Available on request		 Online Available as PDF at www.hnbassurance.com

NAVIGATION THROUGH OUR REPORT

Our Integrated Annual Report is a combination of five main discussion areas; Our Business, Stewardship and Risk Management, Management Discussion and Analysis, Statutory Disclosures and Financials Statements with Other Supplementary Information.



Read this report online
<https://www.hnbassurance.com/financial-info>

Report Navigator

About Us	Stewardship and Risk Management	Management Discussion and Analysis	Statutory Disclosures and Financial Statements	Supplementary Information
<p>This section provides our readers an <i>overview of the business</i>, our evolution over the years, how we engage with our stakeholders by identifying the most material matters to them, <i>our strategy</i> of delivering sustainable value based growth, <i>our business model</i> and the <i>'Vision 2020'</i> which creates the base of this report. This section would be followed by <i>commentaries by our Chairperson and Managing Director</i> and introduction to our Board of Directors and the Management.</p>	<p>Details of our sound <i>Governance Framework</i> and <i>the Risk Management Practices</i> adopted to ensure sustainable value creation can be read in this section.</p>	<p>Our performance during the year can be read in this section. Adopting integrated reporting practices performance during the year is discussed under the <i>Six Capitals model</i>. This section would also provide details of how we have created <i>sustainable value based growth</i> to our stakeholders aligning our strategies to the <i>UN SGDs</i>.</p>	<p>This section provides all <i>Statutory Disclosures</i> according to the Companies Act, No. 07 of 2007, Colombo Stock Exchange and other applicable regulations along with the <i>Financial Statements</i> of the Group and Company, <i>Accounting Policies</i> and other related notes prepared in accordance with SLFRS/LKAS.</p>	<p>Other important information necessary for our stakeholders are given in this section.</p>

We are...

DYNAMIC

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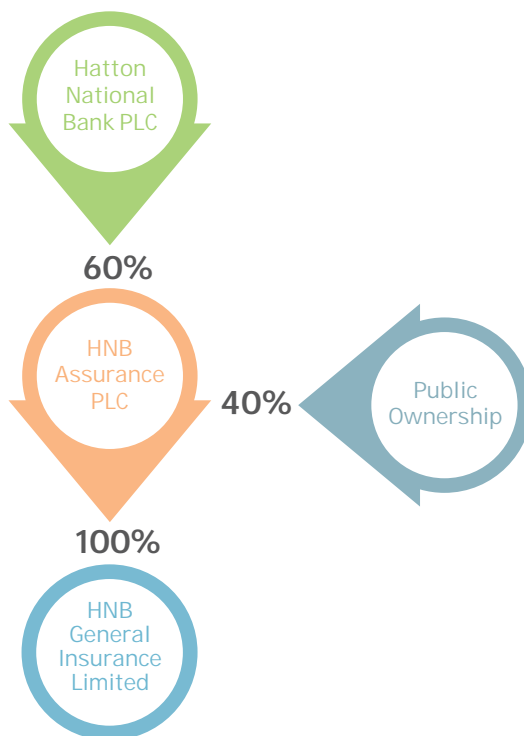
About Us

HNB Assurance PLC

The vibrantly successful story of HNB Assurance PLC resonates the essence of an innovative vision and an 'evolutionary' disposition. As one of the fastest growing Insurance solutions providers in the country, the Company which has grown rapidly to become a force to be reckoned with, is now placed as the sixth largest Life Insurance entity within the dynamic local Insurance Industry. HNB Assurance operates with a fully owned Subsidiary, HNB General Insurance Limited which was established as a separate entity in 2015. Built on strong local roots, HNB Assurance PLC began its journey in 2001 and has progressed from humble beginnings as a fully owned Subsidiary of the Hatton National Bank PLC (HNB), which continues to be the main shareholder with ownership of 59.99% of the issued ordinary share capital. HNB Assurance has been listed on the Colombo Stock Exchange since 2003. As at end of the financial year 2018, our market capitalisation amounted to Rs. 6.6 Billion.

Within just 17 years, the meteoric rise of HNB Assurance has been nothing short of awe-inspiring, strong-willed and affirmative. Supported by a dynamic young workforce and promising leadership, the Company forges ahead with market pioneer products, services and its advent on technology to create utmost convenience to all its' customers.

OWNERSHIP STRUCTURE



Stakeholder Feedback

Feedback from our stakeholders is welcomed by us and we can be contacted via the following mediums



info@hnbassurance.com



www.hnbassurance.com



+94 114 793 700 and +94 114 384 384



Stakeholder feedback form is given on pages 377 and 378 of this Annual Report



Head Office : HNB Assurance PLC, 4th Floor, Iceland Business Centre, No.30, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka

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

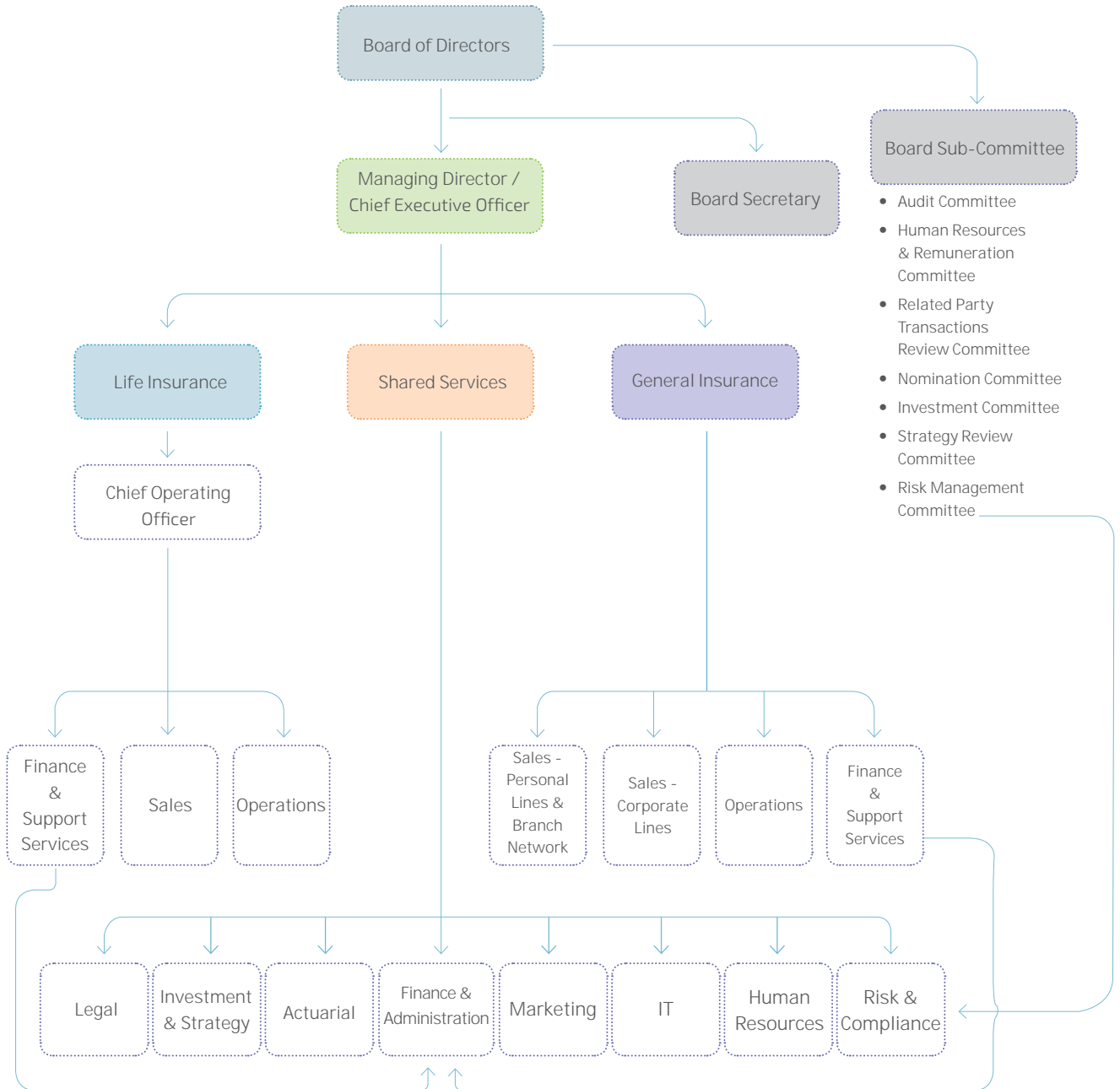
Empower people to strive for excellence

Inculcate positive thinking

Treasure integrity and ethical conduct

Foster diversity as a corporate strength

Organisation Structure



Our Evolution



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

2001

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

2003

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

2007

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

2009

■ Adjudged the joint winner of Bronze award for overall excellence in Annual Financial Reporting

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

2011



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

2013

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

2015

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

2016

■ Another unique feat to add to our hallmark of fame: Gold Award for 'Takaful Window/Unit of the Year' for HNB General Insurance Takaful unit at the Islamic Finance Forum of South Asia

We are accredited with the ISO 9001:2015 certification on the Life Insurance claims process in recognition of our high quality of our service standards

2017

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

2018

Engagement with Our Stakeholders

The fortunes of HNB Assurance depend on how we interact with our broad cross-section of stakeholders who are significantly affected by our business activities, from the input to the outcome, or whose actions can reasonably be expected to significantly affect our ability to create value over time. We have always respected the constant dialogue that we maintain with them, focusing on being responsive to their concerns and material issues in a prompt and a sustainable manner.

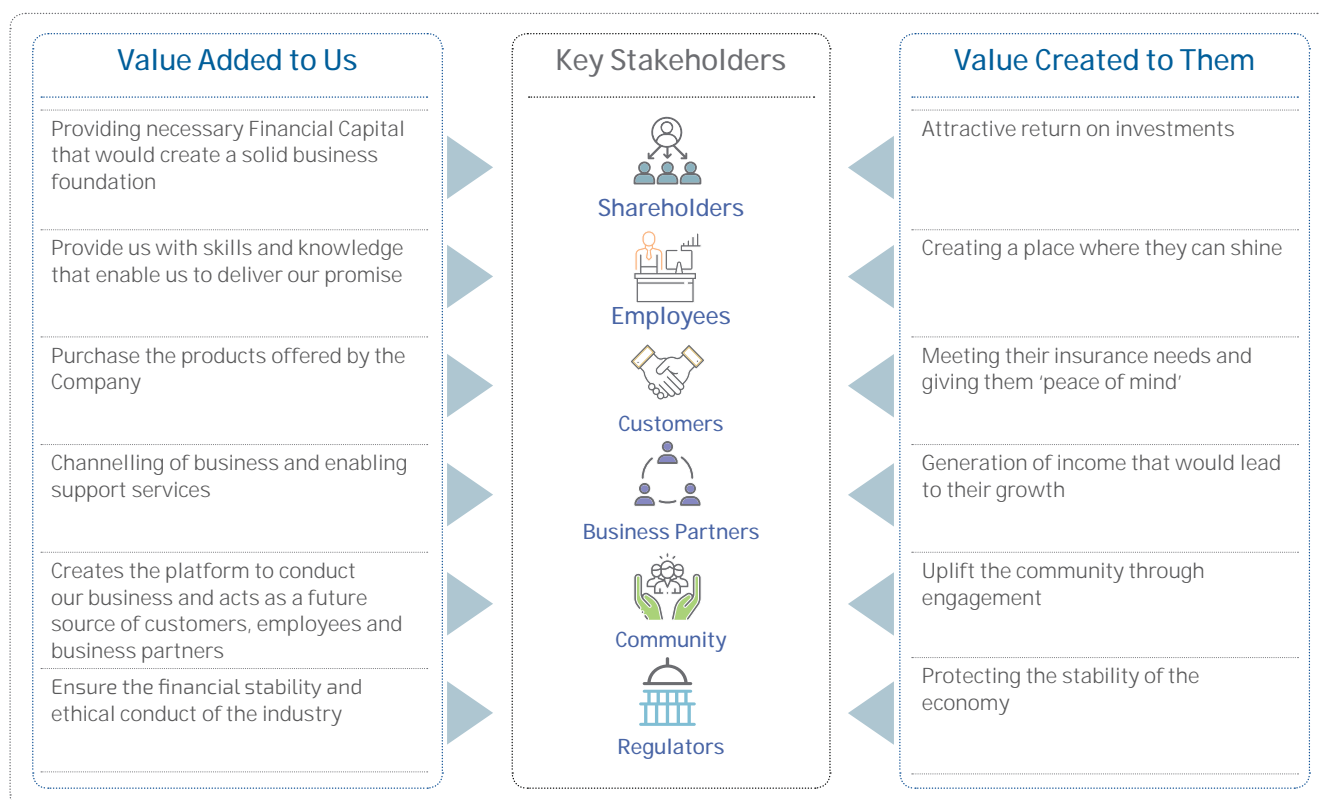
We believe it is the relationship that we build with our stakeholders that drive the business forward and engagement with them, taking precedence in our sustainable value creation process. The following depicts the process we have adopted to manage the interests of our stakeholders.

Stakeholder Management Process



Identifying Our Stakeholders

We have identified 6 groups of stakeholders as our key stakeholders.



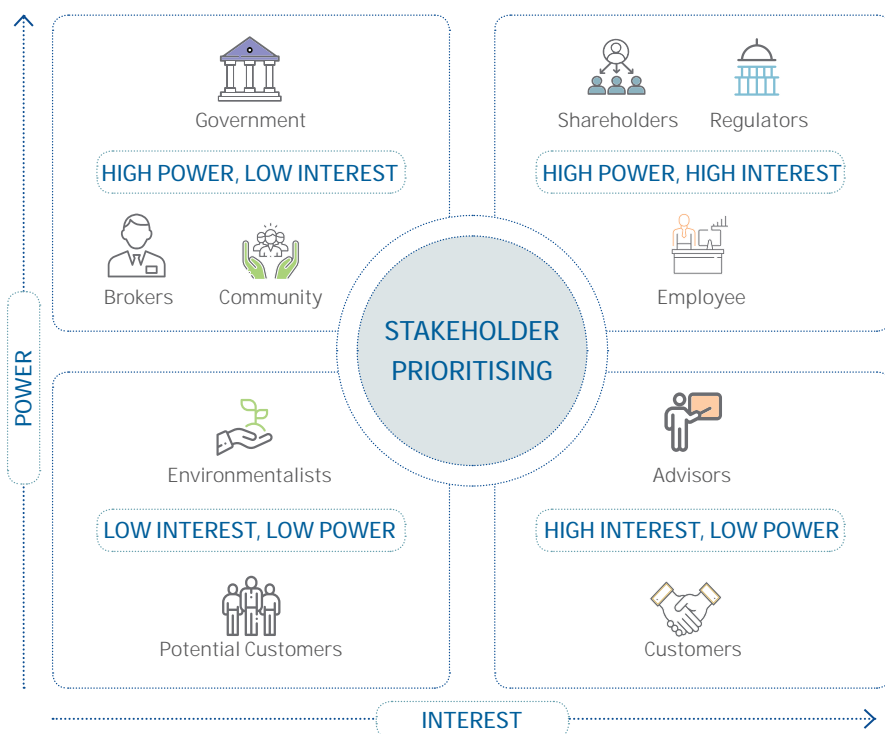
Prioritising Our Stakeholders

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. We have plotted the most important stakeholders for us and the extent of engagement on the below matrix.

Accordingly, the Company maintains formal mechanisms to promote active engagement with identified key stakeholders and concerns raised through such mechanisms are absorbed into the strategy formulation process of the Group. 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 14. Further, the engagement mechanisms listed were not done for the purpose of preparation of this report.



Engagement with Our Stakeholders

Engaging and Interacting with Our Stakeholders



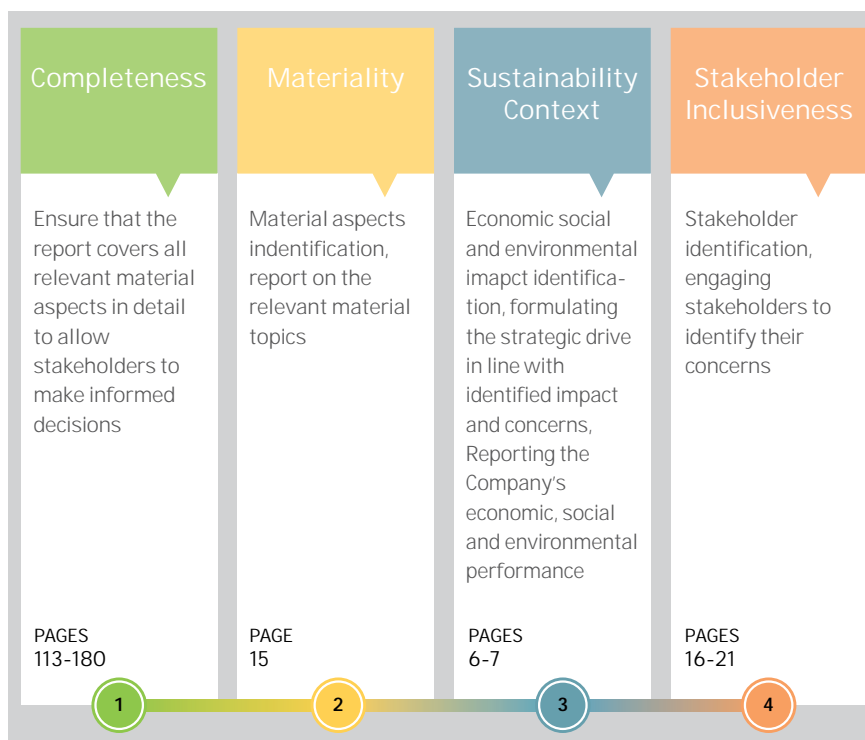
Identifying Material Matters

As an integral aspect of our stakeholder management process, materiality assessment defines the ability of HNB Assurance to create value to all our stakeholders over short, medium and long-term. We formulate the materiality matrix as a trajectory of identifying stakeholder concerns, whilst identifying emerging issues. This enables us to identify, prioritise and review material economic, social and environmental aspects that impact our Company in our quest in evolution. In addition, it also helps formulate strategies accordingly, to create sustainable long term value for every stakeholder.

Scope of Materiality Reporting

What is defined as 'material' within our ongoing business model is determined based on relevance, the probability of occurrence and the magnitude of the impact. Thus we adopt GRI Sustainability Reporting Standards for expressing the stated report content to identify material aspects and their impacts. As outlined in the GRI standards, HNBA has identified the importance of the materiality concept in the process of reporting our sustainability performance. In defining its boundary, we have taken into account the impact on sustainability within the Group and its impact on our business partners.

Identification of Material Matters



Prioritising of Material Aspects

In order to address each material topic, HNBA follows priority mapping to guide the way the Company uses its resources to recognise the content of this report, identify applicable aspects and create value through our day-to-day operations.

Impact of Material Aspects in HNBA

A detailed account of material aspects which impacts our business on a daily basis have been identified and depicted as below while mapping priority level and boundaries.

Stakeholder	Material Matters	Covered in	Boundaries
Shareholders	Growth, Employee & Advisor Satisfaction, Ethical Conduct	Financial Capital	Internal
Employees	Employee Satisfaction, Growth	Human Capital	Internal
Customers	Customer Service, Ethical Conduct, Efficiency	Social and Relationship Capital	Internal / External
Business Partners	Ethical Conduct, Advisor Satisfaction, Efficiency	Social and Relationship Capital	External
Community	Ethical Conduct	Social and Relationship Capital/ Natural Capital	External
Regulators	Ethical Conduct	Governance and Risk Management	External

Driving Sustainable Value Based Growth

Evolution of strategy is what drives the sustainable value created for our stakeholders. Our strategy focuses on creating a strong business foundation, leveraging our core competitive strengths and strategically allocating resources to manage our six Capitals. This combination sets us on a path of achieving sustainable growth and attractive returns to our Shareholders and stakeholders. Effective stakeholder engagement and delivery of social value is fundamental to delivering our strategy and creating value for all stakeholders.

Our competitive strategy sets the base for how we compete in the market place and how we allocate our resources to deliver sustainable value to our stakeholders. Through our strategy, focus is given to grow our top line and bottom line by meeting the expectation of our key stakeholders and delivering growth based on sustainable value. We are committed to continuously enhancing the value created to our Shareholders and stakeholders and are confident that we will remain an attractive investment case to our investors.

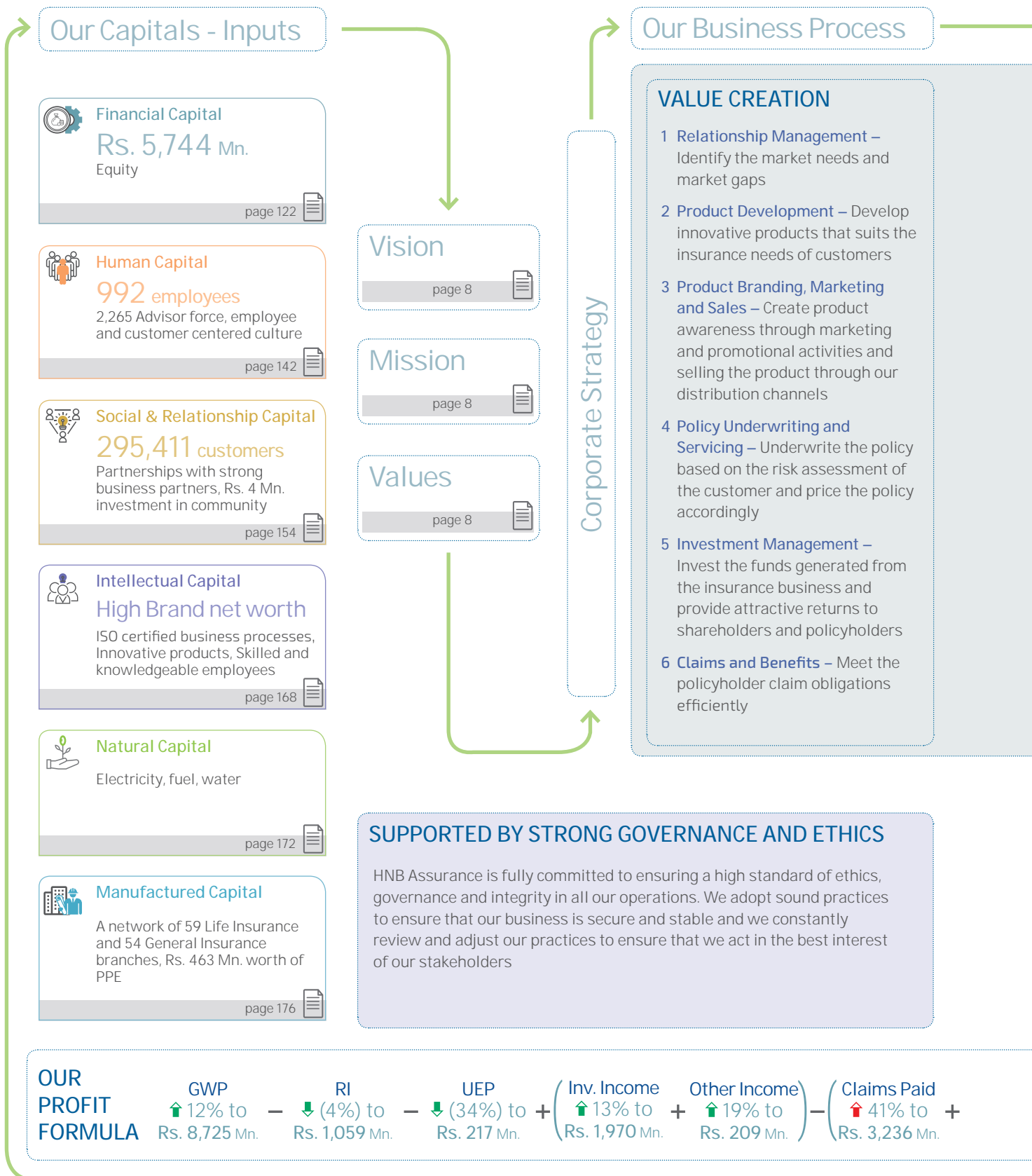


Risk and Opportunities Affecting Our Value Based Growth

The Risks and Opportunism of the external environment plays a vital role in formulating our strategies. Identifying such Risks and Opportunities well in advance enable us to align our business strengths to deliver Value Based Growth to Shareholders and stakeholders.

Opportunities	Risk	Our Response
Economic Environment		
<ul style="list-style-type: none"> Growth in per capita income creates potential customers for both Life and General Insurance Increase in construction projects and increase in new vehicle registrations creates opportunities in General Insurance 	<ul style="list-style-type: none"> Volatilities in the interest rates will affect the demand for Life Insurance products, the investment income earned, profitability and solvency of Life Insurance business Increase in vehicle spare parts cost with depreciation of the rupee Lack of demand for housing projects 	<ul style="list-style-type: none"> Strengthen our distribution network to capture the new market opportunities Introduce innovative and affordable products to our customers Strategic allocation of investment assets to mitigate risks and earn attractive investment income
Demographics		
<ul style="list-style-type: none"> Increase in aging population Low Life Insurance market penetration Increase in deaths related to Non-Communicable diseases Urbanisation increase the demand for insurance 	<ul style="list-style-type: none"> Intense market competition due to increased demand for Health Insurance Urbanisation increase environmental pollution which leads to increased natural and man-made catastrophes 	<ul style="list-style-type: none"> Introducing 'Hope' Cancer Plan, 'Safenet' Dengue Plan, 'Smartfive' Investment Plan and AS-Salam Motor Increase our branch and Bancassurance network to capture market opportunities
Technology		
<ul style="list-style-type: none"> New distribution channels Digitalisation of business processes 	<ul style="list-style-type: none"> Sophisticated customer demands Affects and pricing and business model Customer data protection and cyber threats 	<ul style="list-style-type: none"> Offering online products e- life, e-motor, e-marine, e-travel, e-home Online Sales Force Management System IT Vulnerability Audit
Regulations		
<ul style="list-style-type: none"> Industry governance and increased customer confidence 	<ul style="list-style-type: none"> SLFRS 09 and IFRS 17 New Inland Revenue Act 	<ul style="list-style-type: none"> SLFRS 09 and IFRS 17 IFRS 09 Gap Analysis Creation of technological platforms to implement ISLFRS 09 and IFRS 17 Trainings on changes in the Tax and Accounting environment Making required regulatory provision

Our Business Model



Output

Outcomes

Facilitated by



Customer Relations -
Investing in improving customer service



Human Resource Management - Rewarding performance and investing in attracting, developing and training our people



Intermediary Management - Building strong relationships with our business partners



Support Service - Investing in actuarial, finance, data analytics expertise, technology, marketing and infrastructure

PRODUCTS



Life Insurance

- Protection Plans
- Retirement Plans
- Child Insurance Plans
- Group Life Plans
- Mortgage Reducing Plans
- Takaful Solutions



General Insurance

- Motor Insurance
- Fire and Engineering Insurance
- Marine Insurance
- Medical Insurance
- Compensation Insurance
- Takaful Solutions

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CREATING VALUE FOR OUR STAKEHOLDERS



Shareholders

57% ROE

82% Share price appreciation, 17% growth in DPS

page 140



Employees

Rs. 1,085 Mn.

As salaries, benefits, training and development, 43% female representation

page 142



Customers

Rs. 3.2 Bn.

As benefits and claims, 4 innovative products, 86% customer complaints resolved

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Business Partners

Rs. 1 Bn.

Premium ceded to Reinsurers, Rs.1,045 Mn. paid as commission, Advisor Trainings

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Community

Rs. 4 Mn.

Investment in community

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Regulators

Compliance with all regulatory requirements, Creation of platform to implement IFRS 9 and IFRS 17

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WHILE MANAGING KEY RISKS

Insurance Risk – Payment of claims and benefits

Credit Risk – Premium receivable by Policyholders' and defaults from financial activities

Liquidity Risk – Inability to meet financial obligations of Policyholders'

Market Risk – Volatility in Life Insurance profitability and negative effect on Investment Returns and Fair Value of Financial Instruments

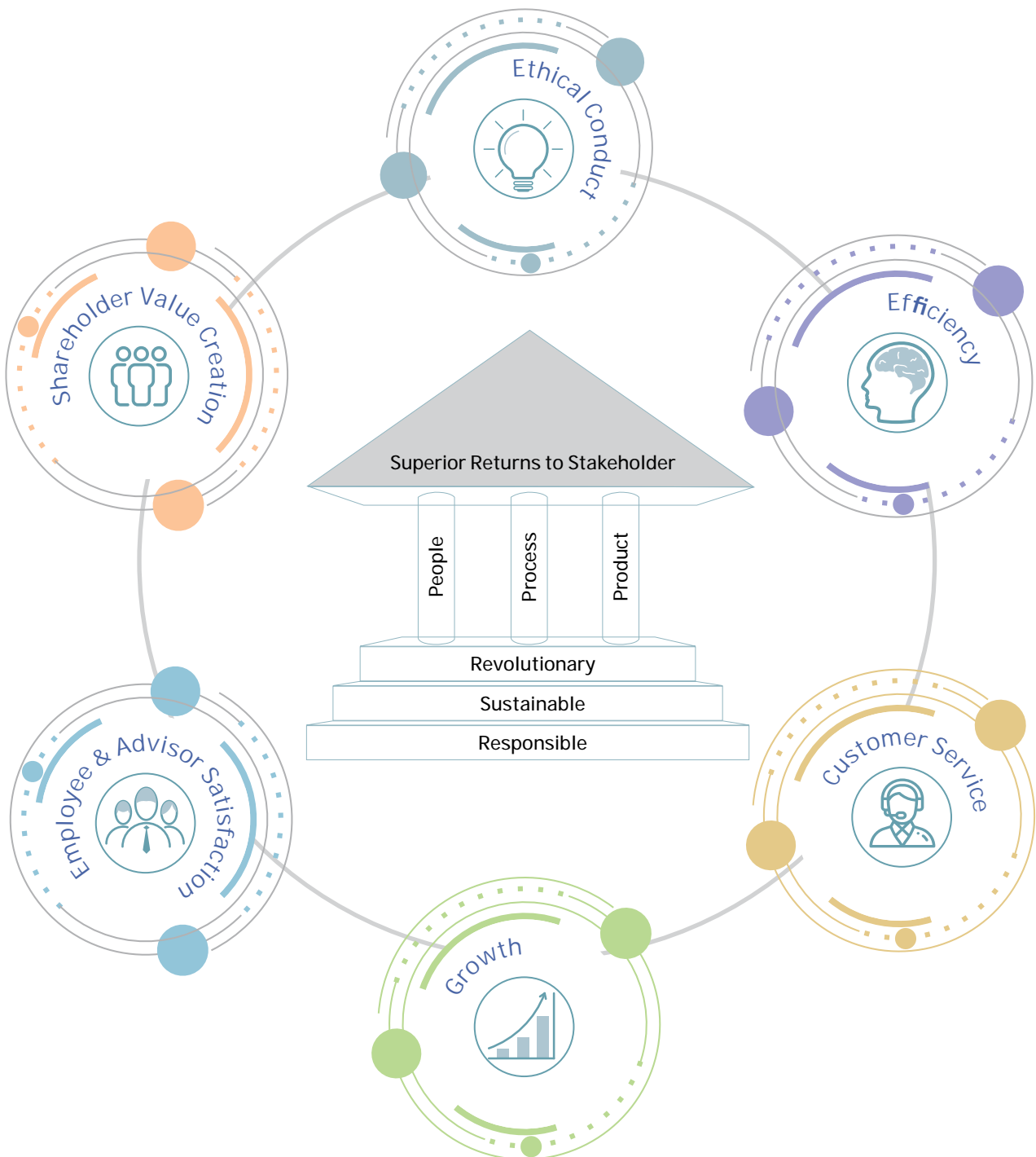
Contract Liabilities	+	Acquisition Exp.	+	Admin. Exp.	=	PBT	+	Tax	=	PAT
↓ 39% to		↑ 11% to		↑ 24% to		↑ 71% to		↓ 6,610% to		↑ 197% to
Rs. 1,326 Mn.		Rs. 1,201 Mn.		Rs. 2,282 Mn.		Rs. 1,581 Mn.		Rs. 1,125 Mn.		Rs. 2,705 Mn.

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Vision 2020

Crafted in 2018, our Vision 2020 serves as a statement that aligns and directs the organisational resources and assets towards a common goal over a three year time horizon. We have therefore geared ourselves singularly to deliver superior sustainable returns to all our stakeholders albeit in a responsible manner through a revolution, that we want to bring about in our people, processes and products.

In this backdrop we envisage 2019 to be year of specialisation, where we strive towards becoming the best to be the benchmark in Growth, Customer Service, Employee and Advisor Satisfaction, Efficiency, Stakeholder Value Creation and Ethical Conduct.





Ethical Conduct

We at HNBA are committed in upholding ethical business practices and conducting business with integrity, transparency and accountability steered by our Corporate Governance Framework. Constant measures are taken to ensure that all our employee related activities are conducted in the most ethical manner while adhering to applicable rules and regulations.



Shareholder Value Creation

The ultimate purpose behind our stakeholder engagement mechanism is to create sustainable value for all stakeholders and ensure long-term business, financial and operational success within an ethical and a transparent framework.



Efficiency

In order to accommodate Company's fast growing business with enhanced efficiency and convenience, we will strengthen our technological capabilities in the delivery of our services to customers.

Providing an efficient service to all our customers is a vital aspect of our business operations. Both Life and General Insurance segments have taken a number of initiatives to improve service efficiency and provide a better experience to all our valued customers.



Employee & Advisor Satisfaction

We at HNBA ensure rewarding and progressive careers whilst providing employees with safe working environments, motivation and fair treatment. Equal opportunities are given top priority within our business matters. The Company's Advisor Force is the direct link between us and our valued customers. Therefore, the Company takes great care in training, directing and scrutinising our Advisors, to ensure a superlative service to customers.



Customer Service

We at HNBA have been able to deliver exceptional market responsive Life and General Insurance solutions and create value for all our customers whilst pursuing business success in an ethical and a sustainable manner. Our customers have come to trust our diverse and functional insurance portfolio throughout the past years.



Growth

A steady flow of revenue generation and accelerating progress towards achieving our corporate goals are mainly focused in our vision. The growth of HNBA Group has been consistent throughout the past years and emphasises on continuous improvement in the future.

Highlights of the Year

Financial Highlights

Indicators	Status	2018	2017	2016	Growth	Page Reference
Financial Performance of the Group						
GWP (Rs. Mn.)	↑	8,725	7,821	6,657	12%	124
Investment Income (Rs. Mn.)	↑	1,970	1,736	1,145	13%	124
Profit After Tax (Rs. Mn.)	↑	2,705	910	647	197%	126
Funds Under Management (Rs. Mn.)	↑	18,218	15,555	12,170	17%	138
Market Capitalisation (Rs. Mn.)	↑	6,600	3,625	2,940	82%	140
Returns to Investors						
Return on Equity	↑	57%	24%	24%		140
Earnings Per Share (Rs.)	↑	54.11	18.20	12.95	197%	140
Earnings Per Share Excluding One Off Surplus (Rs.)	↑	46.48	-	-	-	140
Dividends Per Share (Rs.)	↑	7.00	6.00	5.00	17%	140
Market Price Per Share (Rs.)	↑	132.0	72.5	58.8	82%	140
P/E Ratio (Times)	↑	2.44	3.98	4.54		140
P/E Ratio Excluding One Off Surplus (Times)	↑	2.84	-	-		140
Life Insurance Operation						
GWP (Rs. Mn.)	↑	4,421	3,964	3,554	12%	130
Life Fund (Rs. Mn.)	↑	12,112	10,801	8,634	12%	128
Number of Policies	↑	147,234	143,933	135,027	2%	-
Lapse Ratio (First Year)	—	48%	48%	46%	0%	131
Premium Persistency Ratio	↓	78%	80%	85%	(2%)	131
Claim Ratio (With Maturities)	↓	25%	15%	12%	67%	131
Claim Ratio (Without Maturities)	↑	8%	9%	9%	(11%)	131
Expense Ratio	—	49%	49%	48%	0%	132
General Insurance Operation						
Market Share	↑	4.54%	4.40%	4.10%	3%	134
GWP (Rs. Mn.)	↑	4,341	3,907	3,142	11%	134
General Fund (Rs. Mn.)	↑	2,525	2,385	1,922	6%	128
Number of Policies	↑	148,177	146,138	131,324	1%	-
Claim Ratio	↓	66%	64%	69%	3%	135
Expense Ratio	↑	36%	38%	38%	(6%)	136
Combined Ratio	—	102%	102%	107%	0%	-

Improved



Declined



Unchanged



Non-Financial Indicators

Indicators	Status	2018	2017	2016	Growth	Page Reference
Employee Benefits - Group						
Number of Staff	↑	992	947	903	5%	143
GWP Per Employee (Rs. Mn.)	↑	8.80	8.26	7.37	6%	142
Profit Per Employee (Rs. Mn.)	↑	2.73	0.96	0.72	184%	142
Training Hours Per Employee (Hrs)	↓	15.10	16.6	6.6	(9%)	143
Employee Turnover (Permanent Staff)	↓	19%	17%	16%	12%	145
Business Partners - Group						
Number of Advisors	↓	2,265	2,440	2,062	(7%)	154
Commission Paid to Intermediaries (Rs. Mn.)	↑	1,045	954	880	10%	155
Number of Brokers	↑	59	53	48	11%	154
Number of Assessors	↑	91	71	60	28%	154
Acquisition Cost as a % of GWP	↓	13%	12%	13%	7%	155
Customer Value						
Claims and Benefits - Incurred (Rs. Mn.)	↑	3236	2,293	1,948	41%	125
Number of Branches	↑	60	59	58	2%	176
Number of New Products	↑	4	3	3	33%	169
% of Customer Complaints Settled	↑	86%	81%	77%	6%	161
Bonus for Policyholders (Rs. Mn.)	↑	105	101	83	4%	133
Rate of Dividend for Non-Participating Policyholders	↑	8.5%	8%	8%	6%	133
Community Emphasis - Group						
Number of Micro Insurance Policies	↓	3,436	3,522	3,889	(2%)	161
Total Number of School Water Projects Completed (Cumulative)	↑	53	48	43	10%	164
Total Investment In Community (Rs. Mn.)	—	4	4	3	0%	154
Environment Involvement						
Electricity Consumption (Units)	↓	1,771,248	1,705,063	1,506,728	4%	174
Paper Recycle (Kg)	↑	100	609	4,699	(84%)	174

Improved  Declined  Unchanged 

Chairperson's Message



71% Growth
in PBT



I take great pleasure in welcoming you to the 17th Annual General Meeting and present to you, our seventh Integrated Annual Report and the Audited Financial Statements for the year ended 31st December 2018.

A hallmark of HNB Assurance especially in the past few years is its consistent and steady growth in performance. Year 2018 was no exception. Our 'Evolution' within this context on the face of a steady wave of macro-economic challenges was evident when the Group achieved 12% growth in topline and an impressive 197% growth in bottom line during the year under review, in comparison to 2017.

The Chairperson's Message

EVOLUTION ETCHED IN GOLD

HNB Assurance recorded an enhanced overall performance across all business lines, enabling us to report growth on par with industry average. This is all the more significant when viewed in the context of the conservative risk profile and prudent growth pursued by the Company.

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CHALLENGING TIMES Global Economy

Globally, economic activity slackened across the developed and emerging markets. Fueled by the trade wars between US and China, a federal rate increase was evident, which denoted a negative impact on global trade operations. The All Share Price Index (ASPI) ended 2018 on a negative note, considering the regional context while other regional indices too recorded a much greater decline. In terms of performance, frontier and emerging markets at large have underperformed compared to US high-yield in 2018.

The economic growth of the Asia Pacific Region is driven by its fast-growing middle class, with increasing disposable income, which fuels rapid changes in consumer behaviour including the need for insurance. The circumstances in

Sri Lanka are, in many respects, consistent to that of its Asia Pacific peers and we remain optimistic of our ability to meet evolving customer needs.

Sri Lankan Economy

The Sri Lankan economy recorded lower than projected growth of 3.3% during the year. Core inflation remained in check, mainly due to the Central Bank's tight monetary policy stance, but headline inflation was high. Interest rates were high-pitched during mid-year owing to strengthening US economy. Depreciation of the Sri Lankan Rupee against the US Dollar was 16.13% during the year and the Central Bank was able to maintain a flexible exchange rate regime under the enhanced monetary policy framework. Ongoing political turmoil, relatively weak corporate earnings had substantial negative impact on capital market performance. Synchronised with the overall drop in Market Capitalisation, ASPI dropped by 4.98% to 6,052.37 and S&P SL20 index dropped by 14.61% to 3,135.18. The substandard Net Foreign Outflow of Rs. 22,789 Million created low investor sentiment due to policy inconsistency, lack of policy implementation and effectiveness.

Import expenditure increased during the year and Sri Lanka's trade deficit widened offsetting the positive impact of improving export earnings. Fiscal consolidation is expected to continue in the medium term and therefore, we can look forward to experiencing macroeconomic stability in the future.

Gross Domestic Product (GDP) too is projected to grow between 4.3%–4.5% in 2019. Overall, we remain positive about the medium term prospects of the Sri Lankan economy.

Within this challenging local and global backdrop we forged ahead, with our dedicated team work, adopting new strategies to suit the changing environment and exploring new areas of business.

57%

ROE

THE INSURANCE INDUSTRY

The potential of the local Insurance Industry bodes well with the existing companies, sharing the market of growing competitiveness; yet this potential is not fully priced in, whilst there are strong cases of investment in the insurance sector. Regardless of the opportunity, growth remains constrained by low levels of insurance penetration. Current national statistics indicate that overall penetration levels are still within 1.2% of GDP, with the global average rising above 3%, which denotes that a majority of households and commercial entities are left with having to bear the often-crippling financial risk of unexpected losses.

The market is over-crowded with several players competing for the same price point and as such, pricing has been used as a key tool towards achieving the growth numbers. The excess supply of insurance has resulted in downward trends in pricing and as a result margins have drastically dropped witnessing an unhealthy trend. This has affected particularly the General Insurance sector where the desired profitability levels have been affected.

Life Insurance as a whole witnessed a drop in the growth rate during the said year. With the surge in cost of living disrupting the ability in consistent payments, weather related interruptions too contributed to this stance.

In the current context of the General Insurance Industry, competition has skewed the market predominantly towards motor insurance with motor insurance premiums accounting for

HNB Assurance has been consistently improving its bottom-line performance year-on-year. In 2018, Profit After Tax grew by 197% to reach Rs. 2.7 Billion, from Rs. 909.8 Million in 2017.

more than 60% of the product portfolio of the local General Insurance industry. Further, given the ever-increasing number of new vehicle registrations coupled with the regulatory obligation compelling vehicle owners to obtain motor insurance, more and more insurers have begun focusing mainly on motor insurance to fuel growth in their General Insurance segment.

By the end of the year, 2018, the total number of insurance companies stood at 24, with 2 composite insurance companies, 12 Life Insurance companies and 10 companies engaged in General Insurance business. The year was marked by a slew of regulatory changes directed at strengthening the industry. Ever since the segregation regulations came into consequence, the industry has seen a few major acquisitions and mergers. Indicating signs of further consolidation, interest by big players for acquisitions and buy outs, especially the General Insurance business continued to be seen during 2018.

REGULATORY REFORMS

Reforms have been intact in financial reporting relating to the Insurance Industry. One such major change is the requirement to adopt SLFRS 9 on Financial Instruments which became effective for adoption in 2018. However, insurers were given the option of deferring the adoption till 2022 at which point insurers across the globe are required to adopt IFRS 17- Insurance Contracts. IFRS 17 will pose a significant difference on the outlook of the financial reporting of insurers. In addition,

notable changes have been introduced in the area of taxation on the Insurance Industry under the new tax regime which came into effect in April 2018. Accordingly, Life Insurance business is liable to pay a tax at 28% while surplus distributed to life policyholders who hold participatory insurance policies will be taxed at 14%. The new tax on policyholders is likely to bring in a negative sentiment on the penetration level of Life Insurance as insurance products will become uncompetitive in comparison with savings products offered by Banks.

STELLAR PERFORMANCE OF THE GROUP

HNB Assurance recorded spectacular achievements during the year and the most noteworthy is our share performance which witnessed an appreciation by a commendable 82% to Rs. 132 from Rs. 72.50 within a span of 12 months, outperforming the market and Bank Finance and Insurance Index (BFI Index). This is a strong indicator of the immense value we create on behalf of our Shareholders. Our market capitalisation topped Rs. 6.6 Billion, almost doubling from Rs. 3.6 Billion in 2017.

It is with utmost pleasure that I announce that HNB Assurance PLC Group registered GWP of Rs. 8.7 Billion, an increase of 12% over the Rs. 7.8 Billion reported in 2017. Meanwhile, HNB Assurance has been consistently improving its bottom-line performance year-on-year. In 2018, Profit After Tax grew by 197% to reach Rs. 2.7 Billion, from Rs. 909.8 Million in 2017. However,

it is pertinent to note that, Profit After Tax for the year includes the effects of Rs. 381 Million recognised as a One-Off Surplus, under the Direction and approval of the Insurance Regulatory Commission of Sri Lanka (IRC SL), and Rs. 1.2 Billion Deferred Tax Asset recognised in respect of brought forward tax losses. The total worth of our assets at 31st December 2018 exceeded Rs. 22 Billion, of which Rs. 17.6 Billion was attributed to the investment portfolio, an indication of the strength of our financial position.

Dividend payments in line with the improved performance of the Group, The Board of Directors has declared an attractive final dividend of Rs. 7 per share with the dividend payout recording a 14%. With the total payout amount recording Rs. 350 Million, the total shareholder return by the end of the year was 92%. Earnings Per Share for the year 2018 is Rs. 54.11 compared to the Rs. 18.20 in 2017 (a growth of 197%). Return on Equity (ROE) of the HNBA Group increased to 57% in 2018 from 24% last year. The ROE also includes the effect of the One-Off Surplus and the Differed Tax effect recognised during the year under review.

STRATEGY IN EVOLUTION

To ignite our broader ambitions to tap into a wider segment of the overall insurance market, in 2018, we took a quantum leap to strategically operate with a clear focus leveraging our group strengths and the distribution capability implemented through 250+ point of sales channels that the Company maintains in both businesses. A critical success factor that attributes to our evolution was our winning impetus on channel and product verticals and the Company has been catering to segments where the risks are within the Company's risk tolerance framework. Further, the sizable funds under management and prudent investment strategies rolled out have produced remarkable profits.

The Chairperson's Message

STRENGTHS UNBOUND

Despite the economic challenges being on the uproar, the HNBA and HNBGI teams, our greatest asset, consisting mainly of millennials, under close monitoring of the two Boards of Directors, have worked passionately with a high sense of commitment, contributing towards the overall progress of the Company. Their unstinted support and contribution is indeed highly appreciated and acknowledged. However, the ability to explore new opportunities was significantly curtailed on account of the general economic downturn experienced by different sectors of the economy.

CORPORATE GOVERNANCE

Integral to our stance of corporate excellence is our robust Corporate Governance framework which has not only helped the Group to successfully adjust to the Risk Based Capital (RBC) regime maintaining a Capital Adequacy Ratio (CAR) above that of the regulatory requirements throughout the year with proper risk assessment and management strategies.

We have presented a comprehensive report on the governance practices implemented in this Annual Report. Corporate Governance Framework for Insurers was issued by the Insurance Regulation Commission of Sri Lanka (IRCSL) in late 2018 while Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka was revised in 2017. The Company will take necessary measures to align corporate governance practice in line with these new revised code wherever possible.

82%



Increase in Share Price

AWARDS SECURED

HNB Assurance has been bestowed with multiples of local and international awards for its commitment to its diverse stakeholders. Recently, the Company emerged as the Gold Award Winner in the 54th Annual Report Awards Ceremony, organised by the Institute of Chartered Accountants of Sri Lanka for the 2017 Integrated Annual Report. The Islamic Insurance Unit of HNBGI was awarded the Silver Award for the 'Takaful Entity of the Year 2017' at the Sri Lanka Islamic Banking and Finance Industry Awards.

FUTURE OUTLOOK

Our enduring vision remains in being a catalyst in the development of the industry and the nation. Our innovations and various industry firsts are already expanding the industry. We hold great faith in the potential of the national economy to surge ahead given the conducive policies in place. In our quest for evolution, we remain committed to invest heavily in technology backed products and solutions that transform the insurance landscape and enrich the lives of citizens in the Country. In time to come, HNB Assurance anticipates

organic and inorganic growth opportunities, whilst specific sector driven market initiatives will remain a clear focus for achieving 2019 growth and profitability.

NEW APPOINTMENTS

I wish to place on record four new appointments to the Boards of HNB Assurance PLC and HNB General Insurance Limited. Mr. Damien Fernando was appointed to the Boards of HNBA and HNBGI in the capacity of a Non Independent Non-Executive Director while Mr. Stuart Chapman was appointed to the Board of HNBA as a Non Independent Non-Executive Director with effect from 11th February 2019. In addition, Mr. Sanjaya Wijemanna and Mr. Arjuna Abeygunasekara were appointed to the Board of HNBGI as Non Independent Non-Executive Directors with effect from 11th February 2019. The appointments made on 11th February 2019 are subject to the approval of the IRCSL.

RESIGNATIONS

Two of our Board Directors resigned from their posts. Mr. Sarath Ratwatte – Non Executive Director having served the board for ten years resigned with effect from 06th February 2019. Mr. Rajive Dissanyake – Non Executive Director resigned from both the HNBA and HNBGI boards effective February 2019. On behalf of the two boards, I wish to express my sincere appreciation of their valuable contribution to the Group's growth.

A critical success factor that attributes to our evolution was our winning impetus on channel and product verticals and the Company has been catering to segments where the risks are within the Company's risk tolerance framework.

APPRECIATION

On behalf of the Group, I wish to thank for the support extended to us by the Chairman, Director General and other officials of the Insurance Regulatory Commission of Sri Lanka. I also wish to record my appreciation for the cooperation extended to us by the Insurance Ombudsman during 2018 and his commitment to the industry.

I would like to thank every single member of the two Boards for their ready support, valuable contribution and for standing by me throughout. I also wish to express my appreciation of Mr. Deepthi Lokuarachchi our Managing Director/Chief Executive Officer as well as all the members of Senior Management including the Executive Committee Members for their hard work and unwavering commitment towards the cause of the Group. Staff members of HNBA and HNBGI contributed to the Group's growth through their uncompromising work ethics and dedication to work.

I wish to thank all of them and record my appreciation of their commitment. Last but not least, I would like to thank our Shareholders, business partners and customers for their faith in our abilities. We will continue to honour your trust by continuing to forge ahead on our upward growth trajectory whilst maintaining our integrity as a corporate entity through upholding Corporate Governance standards.



Rose Cooray
Chairperson

Colombo, Sri Lanka.
11th February 2019

Managing Director's Review



Rs. **2.7** Bn. 2018
PAT



I take great pleasure in presenting to you the seventh integrated Annual Report and the Financial Statements of HNB Assurance PLC (HNBA) for the financial year ended 2018. This Annual Report contains the triple bottom-line performance of the Company and its fully owned Subsidiary, HNB General Insurance Limited (HNBGI).

Reflecting the exceptional performance delivered by the Company across all dimensions, during 2018, HNBA and HNBGI recorded Rs. 2.7 Billion as Group Profit After Tax, representing a growth of 197% compared to the preceding year. The Group's achievements are the result of executing our winning strategy, which aims to foster diversity in the portfolio of products and services that ignite our future path of evolution.

Managing Director's Review

A REVOLUTION IN EVOLUTION

Turbulent winds of economic turmoil and political uncertainty that affected the region during the year under review did not hinder HNB Assurance in becoming a steadfast beacon in a volatile environment. Our customers found a safe haven in us as we continued to remain true to our original ideals of being a trusted insurer first and foremost. Resonating with the theme of this year's Annual Report, our 'Evolution' came about in many forms in 2018, as we not only expanded the scale and scope of our business but also transformed ourselves into being a key player in both Life and General Insurance sectors.

In this backdrop, I take great pleasure in presenting to you the seventh Integrated Annual Report and the Financial Statements of HNB Assurance PLC (HNBA) for the financial year ended 2018. This Annual Report contains the triple bottom-line performance of the Company and its fully owned Subsidiary, HNB General Insurance Limited (HNBGI).

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THE HEADWINDS

Year 2018 from a commercial viewpoint was rife with strained economic activities affecting the confidence level of businesses, entrepreneurs, and individuals brought about by hardening fiscal policies.

Capital Adequacy Ratio

HNBA
319%

HNBGI
200%

The tax reforms introduced under the new Inland Revenue Act which was made operational from 01st April 2018 have far reaching consequences to the insurance sector. Within the framework of the new tax environment driving the Company to profitability remained a key challenge in the last three quarters of 2018 and this trend is likely to continue in future.

As a consequence, all Life Insurance companies across the board are now compelled to pay 28% tax on the surplus made during the year.

RISING AGAINST ALL ODDS

HNBA is a listed Company with a track record for transparency, efficiency and productivity. It has the capacity to further prudent investments and to grow beyond the industry norms in customised products and digitised customer services. We remain true to our original values, focusing totally on ethical and stable insurance services. Our products are sound and very simple thus assuring a high level of confidence to customers while ensuring that their protection needs are very well taken care.

The Company managed to steer strong towards the shores of great success by its market vigilant eye and the hunger for information that in turn created immense value for all our stakeholders. Over the years and even during the year gone by, amidst a challenging test of time, HNB Assurance was able to maintain a very sound platform of profitability.

We are fortunate to have an extremely talented team who actively seek every opportunity to infuse value to the Company and all other stakeholders. We firmly believe that the prospect of insurance depends heavily on easy-to-access insurance solutions and being trustworthy, by which we have surpassed others in shaping the insurance landscape in Sri Lanka.

HNB Assurance PLC and HNB General Insurance Limited are proud to have recorded a remarkable growth by 12% in the overall business within the year under review, reaching Rs. 8.7 Billion.

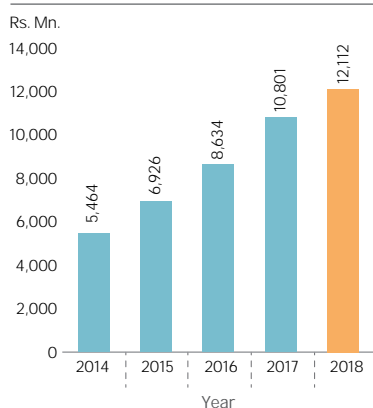
THE MILESTONES

HNB Assurance PLC and HNB General Insurance Limited are proud to have recorded a remarkable growth by 12% in the overall business within the year under review, reaching Rs. 8.7 Billion as consolidated GWP. Our Capital Adequacy Ratio (CAR) recorded at 319% while the subsidiary, HNBGI recorded a CAR of 200% by the end of the financial year after providing for all contract and other liabilities.

LIFE ASSURANCE

The Life Insurance business accelerated its pace of evolution, giving us the ability to identify new yet profitable market segments whilst delivering exceptional solutions. Impeccable execution has been one of our hallmarks through which we have unfailingly converted great ideas into winning solutions. Our Gross Written Premium reached Rs. 4.4 Billion, growing by 12%, on par with industry growth, thus allowing HNBA to retain the sixth place in the market.

Life Insurance Fund



I am happy to express and announce our highest Net Profit of Rs. 2.5 Billion, with a 241% growth over prior year's Net Profit of Rs. 725.7 Million is a remarkable milestone the Company has been able to record. It is worthy to note that the PAT includes Rs. 381.2 Million One-off Surplus transferred from the Life Non-Participating Fund and a Deferred

Life assurance business recorded an increase of 23% in its surplus transfer, reaching Rs. 638 Million in comparison to the Rs. 519 Million recorded in 2017.

Tax asset of Rs. 1.17 Billion. Thus, the Life Assurance business recorded an increase of 23% in its surplus transfer, reaching Rs. 638 Million in comparison to the Rs. 519 Million recorded in 2017.

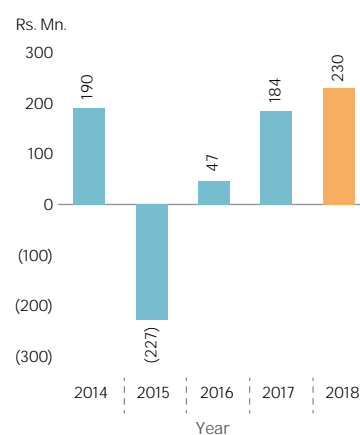
During the year, the Life Fund of HNB Assurance grew by 12% to record the Rs. 12.3 Billion mark thus allowing the Company to declare a attractive bonus of Rs. 54 per Rs. 1,000 to Policyholders and a 8.5% dividend for Policyholders of the fund-based products.

GENERAL INSURANCE

In our journey of evolution to make it to the position in becoming the most sought after General Insurer, our dynamic approach helped us to combine all different working verticals of which the element of technology played a crucial role in meeting customer claims. Our praiseworthy growth over the year 2018 can be bestowed on a clear and a well- focused strategy to take the challenges of General Insurance business head on. HNBGI hence recorded a growth of 11%, to record a GWP of Rs. 4.3 Billion and a noteworthy Profit After Tax of Rs. 230 Million by the year end.

Our sharp focus on the market fluctuations and our growth momentum in profitability has ensured exceptional growth, whilst also enabling higher retention and profitability of the portfolio. We consistently strive to refine our operational parameters and with our outstanding pool of talent.

Profit After Tax - General Insurance (PAT)



INVESTMENTS

A more robust process of investment was institutionalised during the year, which helped facilitate prudent and effective management that continues to create long-term value for all stakeholders and ensure transparency throughout the organisation.

Accordingly, the Group's investment portfolio recorded an inspiring growth in income well-above the previous year's investment income to reach Rs. 1.97 Billion for the said year, 2018. HNBA contributed Rs. 1.6 Billion to the Group's Investment Income recording a growth of 11%, supported by a 16% increase in funds under management. HNBGI contributed to the Group's Investment Income with Rs. 327.3 Million recording a growth of 27% in comparison to the previous year.

Managing Director's Review

DRIVING ON STRATEGIC IMPERATIVES

We have in place a strong governance structure and have benefited immensely from our stakeholders as the Company continues historic expansion of the scope and the boundary of insurance products and solutions in the Country. Our timely innovation has enabled us to generate trust from the market and also from employees and Shareholders. We have built a specialty in the deployment of technology, which, globally, is a key driver of how people and industries change. Technology has facilitated in generating bountiful amounts of new data that change the way we issue insurance policies, eventually disrupting the industry.

Focusing on the changing needs of the customer and the market dynamics, during the year, we introduced attractive new products. The 'Hope' Cancer Insurance Product and 'Safenet' Dengue product were revolutionary market first products introduced by us to the customers, further diversifying our product portfolio and meeting insurance needs of our valued customers. We also introduced a new investment product 'SmartFive' with attractive returns to the policyholders. Meeting the needs of the customers to the Takaful market, we introduced another revolutionary AS-Salam Motor Takaful product.

Share price

2018

Rs. 132

2017

Rs. 72.5



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Our strategic corporate objectives are closely linked with our sustainability initiatives. We have truly supported the sectors which require attention; the communities which have had very dire proliferation of fiscal and infrastructure support from corporates and communities. Our CSR strategy seeks to strike a balance between what we do and what we expect.

From far-reaching environmental-friendly initiatives such as building a carbon-neutral working environment, the practical and ethical nature of our CSR endeavours ranging from school water projects to empowering women and communities are carried out with a far-reaching vision as we continue to evolve as a purpose-driven organisation that puts the stakeholder at the heart of our business.

SHAREHOLDER VALUE

I must commend HNB Assurance for the impact it created immensely to enhance the Shareholder value. The year started with our share price at a nominal Rs. 72.5 and as 2018 ended, we saw the value almost being doubled to Rs. 132. This value was recorded on trading platforms of Colombo Stock Exchange which witnessed a downward movement in the stock indices and against this backdrop doubling the

share value within a year was one of the important milestones the Company was able to achieve.

FUTURE OUTLOOK

The Insurance sector is expected to amplify in competition and industry rivalry. Price competition also has intensified amongst the key players whilst the market has been fragmented by differentiated products and customised services.

Optimistic about the outlook for financial year 2019, we believe that the Sri Lankan economy is striving to strategically position itself as can be. We are geared to balance surplus and high capital requirements as we continue our transition into a new era of creating positive experiences for the customer. We will strengthen our integrated focus on our sustainable contribution to the most deserving communities, environment and corporate pillars during our long term journey.

Capitalising on our energetic market insight, we will continue to develop our pipeline of products and services to reap the maximum profitability and in keeping with the stipulated IFRS 17 requirements we would initiate restructuring our product mix.

In our journey of evolution, we will further strengthen technology based solutions in our quest to become the industry game-changer and we will continuously focus on the digitalisation and paperless solutions as a key differentiator in cost optimisation, with a more wholesome paradigm shift for 'claiming their protection' our customers. We will make strategic investment in information technology in respect to data analytics and market intelligence and focus on introducing more revolutionary products that would cater to dynamic needs of customers. We would also gear ourselves to meet the changes required with IFRS 17 by investing in technological solutions.

IN APPRECIATION

I would like to convey my sincere appreciation to our valuable customers for the utmost confidence, loyalty and inspiration they place in us at all times. My appreciation also goes to our Chairperson and Board of Directors for their guidance and support extended to the Company.

I would also like to extend my appreciation to the Chairman, Director General and staff of IRCSL for their endeavours to uplift the standards of our insurance market. Further, my appreciation goes to all members of the Executive Committee and other Senior Officials, all Staff and Members of the field force. I convey my warm appreciation for their individual and collective efforts. Finally, I wish to convey my thankfulness to brokers, re-insurers, intermediaries' network and all strategic business partners for their valuable cooperation.



Deepthi Lokuarachchi
Managing Director/CEO

Colombo, Sri Lanka
11th February 2019

Board of Directors



**ROSE
COORAY**

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

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

Appointed as the Chairperson on 06th July 2015. Mrs. Rose Cooray is a Director of Hatton National Bank PLC. Having served the Central Bank of Sri Lanka for over 35 years she retired as the Deputy Governor and counts over 44 years of experience in the financial sector. She is the Chairperson of Ceylon Guardian Investment Trust PLC, Ceylon Investment PLC, Sithma Development (Pvt) Limited and a Director of HNB Finance Limited and Guardian Capital Partners PLC. On release from the Central Bank, she had served the Ministry of Finance and Planning as Director General Fiscal Policy and Economic Affairs for nearly 6 years and represented the Government on the Boards of DFCC Bank, Sri Lanka Institute of Information Technology, Sri Lanka Telecom PLC, Ceylon Electricity Board, De La Rue Currency and Security Print (Pvt) Ltd, Export Development Board, National Housing and Development Authority and the Monetary Board on West Coast Power (Pvt) Ltd. Mrs. Cooray has been extensively involved in policy making in the financial sector and implementing development projects. She has wide experience in negotiating loans with multilateral donors/bilateral trade agreements. She has contributed papers to professional journals.



**DEEPTHI
LOKUARACHCHI**

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

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

Deepthi Lokuarachchi is the Managing Director/ CEO of HNB Assurance PLC and HNB General Insurance Limited. He holds a Law Degree from the University of Colombo and is professionally qualified as a Chartered Member of CII – UK. Being a career insurance professional having served in both Life and General sectors, he had gained extensive exposures into executive general management, and other areas such as underwriting, claims and reinsurance within Insurance Companies owned by the Eagle Star Group, Zurich Financial Services, AI-Futtaim UAE, AVIVA and AIG. Mr. Lokuarachchi also functioned as CEO of Sri Lanka's biggest State Insurance Company SLIC in his career. Serving the professional interests of industry personnel Mr. Lokuarachchi also held the Presidency of the Sri Lanka Insurance Institute for a period of two years and also is the present President of the Insurance Association of Sri Lanka.



**SARATH
RATWATTE**

Non-Executive Director
HNB Assurance PLC

FCMA (UK), CGMA

Mr. Ratwatte counts over 36 years of private sector experience in the fields of Accounting, Financial & Treasury Management, Project Financing & Development, Investments and Risk Management. He has held senior positions in several multinational organisations and conglomerates in Sri Lanka and overseas. Mr. Ratwatte was employed in the Aitken Spence Group of Companies for a period of 18 years up to 2008, in many capacities including that of Group Treasurer/ Director - Corporate Finance, Director - Ace Power Embilipitiya (Pvt) Ltd and Director - Aitken Spence (Garments) Ltd. Presently he is also an Independent Non-Executive Director of Elpitiya Plantations PLC.

** Mr. Sarath Ratwatte retired from the Board w.e.f 06th February 2019 upon completion of 10 years on the Board*



**MAHENDRA
JAYASEKERA**

Independent / Non-Executive Director
HNB Assurance PLC

*FCA, B.Sc Special Hons - University of Sri
Jayawardenapura*

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

Presently he is also a Director of LWL Development (Pvt) Limited, Beyond Paradise Collection Limited, Uni Dil Packaging Limited and Uni Dil Packaging Solutions Limited.



**DILSHAN
RODRIGO**

Non-Executive Director
HNB Assurance PLC and HNB General
Insurance Limited

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

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



**SIROMI
WICKRAMASINGHE**

Non-Executive Director
HNB Assurance PLC

Attorney – at – Law, FCMA (UK), CGMA

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

Board of Directors



**DR. SIVAKUMAR
SELLIAH**

Independent / Non-Executive Director
HNB Assurance PLC

(MBBS, M.Phil)

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

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

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

He has also served as a Senior Lecturer in the Medical faculty for many years.

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



**RAJIVE
DISSANAYAKE**

Non-Executive Director
HNB Assurance PLC and HNB General Insurance Limited

CFA, FCMA(UK), CGMA, BBA (University of Colombo)

Mr. Dissanayake counts for nearly two decades of experience covering banking sector and capital markets. He currently serves as the Chief Strategy Officer of Hatton National Bank PLC. In addition he is also a Director of HNB Finance Ltd, Acuity Partners (Pvt) Ltd, Acuity Securities Ltd, Acuity Stockbrokers Ltd and Lanka Ventures PLC. Mr. Dissanayake serves as a member of the Board Audit Committee, Strategy Review Committee, Related Party Transactions Review Committee and the Investment Committee.



RAVI ABEYSURIYA

Independent / Non-Executive Director
HNB Assurance PLC

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

Ravi Abeysuriya is the Group Director of Candor Group, Director of Seylan Bank PLC, and Bio Foods (Pvt) Limited. Formerly, he was the Head of Strategic Business Development at Hayleys Group, Managing Director of Amba Research Lanka and Managing Director of Fitch Ratings Lanka. He functioned as a permanent member of the Financial Sector Reforms Committee (FSRC) and was twice appointed as a commission member of the Securities and Exchange Commission of Sri Lanka and was a Director of Sri Lanka Insurance (SLIC). He is the President of the Association of Alternative Financial Institutions and a member of the National Agenda Committee of the Ceylon Chamber of Commerce. Mr Abeysuriya has also functioned as a member of Board Risk Oversight Committee of the Central Bank of Sri Lanka and President of several finance and IT associations. He was named as "Lifetime Achievement" award laureate by CFA Institute, USA in 2017 for his outstanding work and dedication to the investment management profession.



FAIZAL SALIEH

Independent / Non-Executive Director
HNB General Insurance Limited

BA (Econ) Hons. MBA, FCPM

Has long and extensive experience in commercial and development banking both in Sri Lanka and overseas and has held top management positions in global and local banks such as Grindlays Bank, ANZ Bank, NDB and Amana Bank; experienced Board Director of several companies in the business of banking, finance, insurance, fund management, stockbroking, manufacturing, trading and education; has served on State University Boards, The Ceylon Chamber of Commerce and several Government and Non-Governmental Committees in the fields of finance, economic affairs, housing, construction and tertiary education. He is presently the Vice Chairman of The Sri Lanka Institute of Directors and serves as a Directors of Cargills Bank, The Sri Lanka Institute of Directors, The Distance Learning Centre Limited, and is a Council Member and Financial Consultant at Gerson Lehrman Group, USA. He has served on the Board of Directors of The Ceylon Chamber of Commerce and continues to serve on the Chamber's Main Committee.



MARINA THARMARATNAM

Independent / Non-Executive Director
HNB General Insurance Limited

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

She has held senior positions in the insurance and banking sector, initially training as an accountant at Ernst & Young. She has been CEO/ Director Union Assurance, Executive Vice President Operations, DFCC Bank, Finance Director/ Company Secretary, Eagle Insurance, Finance Director, United Tractor & Equipment Ltd and a Tax Consultant at KPMG Ford Rhodes. She has held Board positions at Singer Finance PLC, DFCC Vardhana Bank PLC, United Tractor & Equipment Limited, Eagle Insurance Company Limited, and Eagle NDB Fund Management Co. Ltd. She was also the Chairperson of World Vision Lanka. She was the President of the Sri Lanka Institute of Directors and a Member of the National Council for Economic Development (NCED) for Capital Markets from 2004 to 2007, has served on various committees of the Institute of Chartered Accountants of Sri Lanka, was a Director of Employers Federation and served on the main committee of the Ceylon Chamber of Commerce.



SITARI JAYASUNDARA

Company Secretary
HNB Assurance PLC and HNB General Insurance Limited

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

Presently works as Head of Legal and Company Secretary of HNB Assurance PLC and HNB General Insurance Limited. She counts over 19 years' experience in the legal profession and heading the Legal and Company Secretarial Division of HNB Assurance PLC for over 9 years. She is the current Chairperson of the Legal Advisory Forum (LAF) of the Insurance Association of Sri Lanka (IASL).

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

Group Executive Committee



Seated left to right :

1 **IVAN NICHOLAS**
Chief Business Officer
HNB Assurance PLC

2 **PRASANTHA FERNANDO**
Chief Operating Officer
HNB Assurance PLC

3 **DEEPTHI LOKUARACHCHI**
Managing Director / Chief Executive
Officer
HNB Assurance PLC and HNB
General Insurance Limited

Standing left to right :

4 **NILESH AMARASINGHE**
Chief Investment and Strategy
Officer
HNB Assurance PLC and HNB
General Insurance Limited

5 **INDIKA PERERA**
Chief Financial Officer
HNB Assurance PLC and HNB General
Insurance Limited



Seated left to right :

6 JUDE BENJAMIN
Chief Business Officer (Personal Lines and Branch Network)
HNB General Insurance Limited

7 SITHUMINA JAYASUNDARA
Chief Technical Officer
HNB General Insurance Limited

Standing left to right :

8 DINUKA PATIKIRIARCHCHI
Chief Human Resources Officer
HNB Assurance PLC and HNB General Insurance Limited

9 DINESH UDAWATTA
Chief Technical Officer
HNB Assurance PLC

Group Executive Committee

DEEPTHI LOKUARACHCHI

Managing Director / Chief Executive Officer

HNB Assurance PLC and HNB General Insurance Limited

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

Refer page 36

PRASANTHA FERNANDO

Chief Operating Officer
HNB Assurance PLC

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

Prasanth joined HNB Assurance in 2012 and he served as General Manager - Life Insurance for three years prior to being promoted as Chief Operating Officer of HNB Assurance PLC. Prior to joining HNB Assurance, he held the position of Assistant General Manager, Life Operations at Aviva NDB Insurance PLC. He counts over 23 years of experience in the Life Insurance Industry. Prasantha is also a founder council member of Association of Chartered Insurance Professionals (ACIP) and served as the treasurer. He is a past Chairman of the Life Insurance Forum (LIF) of the Insurance Association of Sri Lanka (IASL) and was a lecturer at the Sri Lanka Insurance Institute. He also serves as the Principal Officer and Specified Officer of HNB Assurance PLC.

IVAN NICHOLAS

Chief Business Officer
HNB Assurance PLC

Ivan joined HNB Assurance in 2010 as the Head of Distribution and promoted as the Chief Business Officer Life Insurance in 2016. Initially he was responsible for Life and General Distribution channels for the entire branch network before the segregation. At present he holds the National level responsibility of Life Distribution, Bancassurance and Corporate Sales Units. He counts over 33 years' experience in Sales and Sales Management at Regional and National

level Life and General Distribution within the Insurance Industry. He has served at Eagle Insurance PLC where he gained multinational exposure and at Union Assurance PLC as AGM Corporate Business Development unit prior to joining HNB Assurance. Ivan is also an Associate Financial Advisor awarded by Limra International (Pvt) Ltd.

NILESH AMARASINGHE

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

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

Nilesh counts close to 15 years of extensive experience in Capital Markets specialising in fund management, macroeconomic strategy, investment strategy etc. Having joined HNBA as a Management Trainee, Nilesh served HNBA as Assistant Manager – Investments, Manager – Investments and Head of Investment & Strategy prior to assuming the role as the Chief Investment & Strategy Officer. As the CIO, he is responsible for the performance of more than Rs.18 Billion funds of the HNB Assurance Group. Nilesh also serves as the Secretary to the Strategy Review Committee of the Company.

SITHUMINA JAYASUNDARA

Chief Technical Officer
HNB General Insurance Limited

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

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

He counts over 20 years experience in different capacities in several companies in the Insurance industry and was appointed as Specified Officer since December 2017, subsequently appointed as the Principal Officer during the year 2018. He has also obtained foreign

exposure through different training programmes in General Insurance and specialised in the Reinsurance field. Currently he holds the position of Secretary of the Sri Lanka Insurance Institute which is affiliated to the Chartered Insurance Institute of the UK. A member of the Ceylon Chamber of Commerce "Young Members Forum" and is an Executive council Member of The Association of Chartered Insurance Professionals (ACIP) in Sri Lanka.

INDIKA PERERA

Chief Financial Officer
HNB Assurance PLC and HNB General Insurance Limited

BBMgt – Hons (SP in Acc.), ACA, ACMA

Indika counts over 18 years of experience in finance field of which more than 10 years has been in the Insurance Industry both locally and internationally. He started his career with KPMG Sri Lanka and joined HNB Assurance in 2004 as the Accountant. Indika left the Company from the position of Finance Manager in 2007 to join Gulf Union Insurance Group in Bahrain where he served in Group Internal Audit Division and Group Finance Division. After 5 years, he returned back to the Country and served as the Assistant Vice President at Acuity Securities Limited, a Central Bank registered primary dealer of Government securities and the Vice President – Operations Control at Orient Insurance Limited, a subsidiary of Al-Futtaim Group in Dubai He rejoined HNB Assurance in 2015 as the Head of Finance and currently serves as the Chief Financial Officer of both HNB Assurance PLC and HNB General Insurance Limited.

JUDE BENJAMIN

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

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

DINESH UDAWATTA

Chief Technical Officer
HNB Assurance PLC

B.Sc (Statistics) Hons (Colombo), FIII(India), MBA(Colombo), ANZIIF (Fellow) CIP (Australia), ACII (UK), Chartered Insurer

Dinesh joined HNB Assurance in 2003. Currently he is serving as the Chief Technical Officer for Life Insurance. Having joined in 2003 as an Actuarial Executive and Dinesh developed his Technical competencies in Life Insurance. He acquired professional qualifications from three well known Insurance Institutes and developed his career as a life technical person. He served as Head of Operations - Life Insurance for two years prior to being promoted as CTO. He counts over 16 years of experience in the Life Insurance Industry. He has undergone extensive training both locally and overseas including at Munich Re, Munich, Germany, FALIA and OLIS Japan.

DINUKA PATIKIRIARCHCHI

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

MBA Special HR (Colombo), MBA (Preston, USA), National Diploma in HRM (IPM)

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

Dinuka has held many key positions in both local and international entities and counts over 25 years of professional experience. Beginning his career journey at Habib Bank AG Zurich, he then joined MAS Linea Aqua Private Limited and Ceylon Pencils Private Limited subsequently. Prior to his current appointment, he held the position of Senior Manager Human Resources at Nestlé Lanka PLC.

Management Team

HNB Assurance PLC



Hiran Fernandopulle
Head of Distribution



Geethani Saram
Head of Support Services



Dinesh Yogaratnam
Head of Marketing



Sitari Jayasundara
Head of Legal and Company
Secretary



Harindra Ramasinghe
Zonal Head - Southern and South
Western



Rohan Hemantha
Head of Risk and Compliance



Padma Dahanayake
Senior Manager - Life claims and
Customer Complaint Handling



Salinda Perera
Senior Manager - Administration



Punsirini Perera
Senior Manager - Finance



Shiran Fernando
Senior Manager - Sales Training and
Development



Nadaraja Sugunan
Acting Senior Zonal Manager -
North and East



Kamini Gunawardene
Manager - Marketing



Sanjeevani Pitadeniya
Manager - Customer Complaints
Investigation



Prasad Thambawita
Manager - Life Servicing



Sameera Gamage
Project Manager - IT



Anuradha Ranasinghe
Manager - MRP



Ayanthi Wettasinghe
Manager - Human Resources



Waruna Peiris
Manager - Actuarial



Tharuka Jayasekera
Manager - Finance



Sanesh Fernando
Manager - Partnerships



Harshana Aponsu
Manager - Finance



Kulunu Herath
Manager - Finance Operations



Yoga Gunadasa
Manager - Legal



Isuru Wickramaratne
Manager - MIS



Ranesh Silva
Manager - Finance



Chathura Siyasena
Manager - Alternate Channels



Jagath Gaspe
Zonal Manager - Central



Hemantha Liyanage
Zonal Manager - Metro



Ananda Kulasooriya
Zonal Manager - North Western



R M K G Harischandra
Zonal Manager - Southern



Chaminda De Zoysa
Regional Manager - South Western



B G Dhanawardena
Regional Manager - Metro



Kapila Jayarathne
Regional Manager - South Western



Saman Kumara
Regional Manager - South Western



W A Priyantha
Regional Manager - Central



Pathum Fernando
Regional Manager - Metro

Management Team

HNB General Insurance Limited



Chitparan Vivekanandan
Head of Finance and Support
Services



A R Bazlin Salih
Zonal Head - Southern



Sajeewa Chandrasena
Zonal Head - Central



Sampath Wickramaarachchi
Head of Corporate and Alternate
Channels



Hifly Huzair
Head - Takaful



T Rizepan
Zonal Head - North and East



Hazana Caffoor
Senior Manager - Motor



Thameera Walpita
Senior Manager - Motor Claims



Sanath Ranaweera
Chief Engineer



Poornima Nazeem
Senior Manager - Bancassurance



Ayodhya Perera
Senior Manager - Non Motor Claims



Devaka Jayasinghe
Senior Manager - Broker
Development



Asanka Seneviratne
Senior Manager - Broker
Management



Samanthi Liyanage
Manager - Non Motor Underwriting



Anushika Wickramasinghe
Manager - Motor Processing



Dilum Medahinna
Manager - Title Insurance



Kalhara Kariyawasam
Manager - Motor Claims
Assessment



Subashini Duraiswamy
Manager - Re-Insurance



Rukmal Ravindra
Manager - Broker Business
Development



Roshan Kularathne
Manager - Finance



Gayan Ranasinghe
Zonal Manager - North Western



Samudra Jayawardena
Assistant Zonal Manager - Southern



Anuruddha Wickremasinghe
Assistant Zonal Manager - Central



Wasantha Rathnakumara
Acting Assistant Zonal Manager -
North Western



Damayanthi Nelumdeniya
Cluster Manager - North Western



Vishnu Vishnuvarthan
Cluster Manager - North and East

Awards and Accolades

The tremendous awards, accolades and recognitions received throughout our journey have strengthened our footprint in the industry whilst boosting confidence amongst our stakeholders.

CA SRI LANKA

HNB Assurance Group seized the Gold Award for its 2017 Integrated Annual Report, themed 'The Winning Formula' at the 54th Annual Report Awards Ceremony, organized by the Institute of Chartered Accountants of Sri Lanka.

TAKAFUL

HNB General Takaful received the Silver Award for 'Takaful Entity of the Year 2017' at the Sri Lanka Islamic Banking and Finance Industry Awards.

GREAT PLACE TO WORK

HNB Assurance PLC obtained the Great Place to Work Certification upon meeting the Global Assessment Standards. This certification affirms the Company's growth in terms of employee satisfaction.



CMA

We were awarded a Certificate of Merit at the CMA Integrated Annual Report Awards 2018



SAFA

We were recognised with a Certificate of Merit for Best Presented Accounts at the South Asian Federation of Accountants (SAFA) Best Presented Annual Report Awards 2019.

WE ARE... MOTIVATED

Stewardship

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Stewardship

Chairperson's Statement on Corporate Governance

Dear Stakeholders,

Your Company over the years, has been improving its outlook/measures in Corporate Governance to be in line with the best Corporate Governance principles and practices. We believe that good Corporate Governance practices are essential for the performance of business operations in a manner worthy of the confidence you have placed upon us. We also believe that such practices evolve with the growth of the Company and the complexity of issues that it faces. Therefore, it has been our policy to continuously improve the Corporate Governance framework.

We have ensured that the Company is managed based on these strong principles, established not merely to comply with regulations, but also to meet the interests of all our Stakeholders and for the advancement of sustainable business practices within the Company. The Board has endorsed the Company's governance framework based on our core values, mandating it to be applied across all our business processes, thereby ensuring transparency, accountability and at highest levels of integrity throughout the organisation.

Creating a conducive environment for implementation of such practices within this framework takes priority among the main responsibilities of the Board of Directors.

TONE AT THE TOP

The Board sets the tone for good Corporate Governance at the top by promoting professional standards through multiple measures. The Charter

of the Board of Directors has outlined/delineated the main responsibilities of the Board. All Directors ensure that they execute their collective and individual responsibilities in an ethical and a professional manner in accordance with the Code of Ethics for Directors. Further, Directors also ensure that they carry out their dealings in the Company's shares in line with the Share Dealing Policy of the Company. These measures provide the leadership by example to set the overall tone of Corporate Governance framework that steers the Group. Moreover, Board Sub-Committees adhere to guidance provided in Charters with regard to their responsibilities and ethical standards required of each member. At the end of the financial year, the Board conducted an evaluation of its own performance to reflect the Board's commitment on good Corporate Governance.

CORPORATE GOVERNANCE INITIATIVES

During the year, the Group adopted several new policies including a Related Party Transactions Policy, Data Classification Policy, an internal Audit Charter and revised the Information Security Policy to be in line with the group policy. Also, through the Board Sub-Committees, the Board confirmed that the activities of the Group are carried out in line with already established policies and ensured that the policies are in line with the best practices.

The report that follows, demonstrates the Governance framework of the Company and the steps taken to improve the same.

COMPLIANCE WITH CORPORATE GOVERNANCE CODES AND CODE OF ETHICS

The Company fully complies with the Corporate Governance requirements of Rule No. 7.10 of the Listing Rules of the Colombo Stock Exchange. During, 2018 the Insurance Regulatory Commission of Sri Lanka issued a direction of a Corporate Governance framework for insurers to be effective from 1st January 2019. Both HNB Assurance PLC and HNB General Insurance Limited, would take necessary steps to comply with this framework. Further, the Company will also take measures to shape its Corporate Governance framework in line with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and takes all efforts to comply with the requirements wherever possible.

During the year, all Directors and the Management team carried out their activities in accordance with the applicable Codes of Conduct. Therefore, as mandated by the above Codes, I hereby confirm that I am not aware of any material violations of the provisions of the Code of Conduct and Ethics by any Director or any member of the corporate management team of the Company.



Rose Cooray
Chairperson

Colombo, Sri Lanka
11th February 2019

Corporate Governance

We at HNBA, are committed to maintaining a solid and sensible framework of Corporate Governance which upholds impartiality, credibility and accountability of our operations. Our evolving framework allows the Company to carry out its business in a responsible manner that safeguards the best interest of our stakeholders. We hereby present a detailed outlook which entails the initiatives taken during the year 2018 to further elevate the standards of our good governance.

THE BELIEF AND COMMITMENT OF HNB ASSURANCE 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 Rule Number 7.10 of Listing Rules issued on Corporate Governance by the Colombo Stock Exchange (CSE). The Company also makes all efforts to be in line with the requirements given in the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (ICASL). 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.

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 HNB Assurance.

Broadly, our Corporate Governance framework rests upon two important principles:

1. The need to adopt and improve Corporate Governance principles and practices continuously, in light of our experiences, regulatory requirements, international developments and stakeholder expectations and
2. 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 PLC.

STATEMENT OF COMPLIANCE

HNB Assurance PLC fully complies with the Corporate Governance requirements of Rule No. 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE). Refer pages 85 and 86.

Further, the Company is substantially compliant with the Code of Best Practice on Corporate Governance issued by CA Sri Lanka. Refer pages 71 to 84.

EVOLUTION OF CORPORATE GOVERNANCE AT HNB ASSURANCE PLC

We believe that good Corporate Governance is a journey and is not a destination. Therefore, we are committed to reviewing our governance principles and practices continuously, based on recognised international and local principles and standards of best practices. Actions on refining good governance focus on strengthening the roles and responsibilities of the Board of Directors, improving the control environment, promoting disclosure and transparency whilst protecting stakeholder rights. At each stage of governance improvements, the Company continues to reflect on what its new requirements are and what new opportunities can be derived from its governance model.

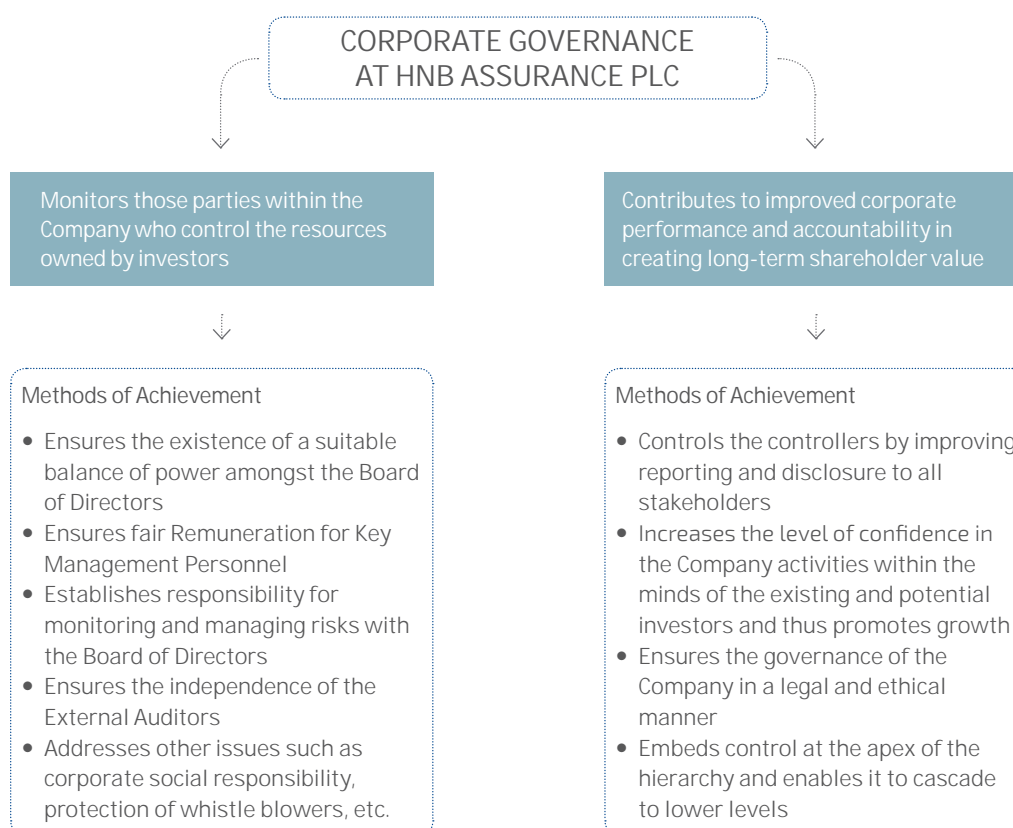
Corporate Governance

The improvements in HNB Assurance's Corporate Governance practices since 2011 are given in the following table.

Year	Action Taken to Improve Corporate Governance at HNB Assurance
2011	<ul style="list-style-type: none"> Introduced a Shareholder Feedback Form in the Annual Report to receive feedback from shareholders Introduced a 'Whistleblowing Policy' to all members of the staff Commenced educating new staff on the Code of Ethics, Anti-Money Laundering requirements and Whistleblowing Policy at their induction program Established a separate Risk and Compliance function to overlook the risk and compliance activities of the Company
2012	<ul style="list-style-type: none"> Started distributing both Sinhala and Tamil translations of the Chairman's Message, Managing Director's Review, Balance Sheet, Income Statement, Cash Flow Statement and Statement of Changes in Equity along with the Annual Report Introduced a Share Dealing Policy and Code applicable to the Board of Directors and certain categories of employees A self-evaluation of the Board of Directors' performance was carried out for the first time by the Board Appointed the Board Secretary as the Secretary of the Audit Committee and the Remuneration Committee, thereby making these Sub-Committees completely independent from the Management Commenced reporting to the Board Integrated Risk Management Committee of the parent company, HNB on the risk management activities carried out in the Company
2013	<ul style="list-style-type: none"> Established a Board Risk Management Committee to oversee the risk management activities of the Company Adopted a Charter for the Board of Directors Introduced a Code of Conduct and Ethics for Directors Adopted an Auditor Rotation Policy Adopted a Risk Management Policy Introduced a Risk Appetite Statement Adopted a Compliance Policy
2014	<ul style="list-style-type: none"> Established a Board Related Party Transactions Review Committee Introduced a Shareholders' Communication Policy Adopted charters for the Related Party Transactions Review Committee and the Investment Committee Rotated the external auditors and internal auditors of the Company for the first time after incorporating the Company in 2001
2015	<ul style="list-style-type: none"> Operations of the Company were segregated into Life and General Insurance and the general insurance operations were transferred to fully owned subsidiary HNB General Insurance Limited All policies of the Company were reviewed and made applicable for both companies Reconstituted the responsibilities of the Board Sub-Committees to cover the operations of both companies
2016	<ul style="list-style-type: none"> The Board Nomination Committee was reconstituted and the Charter of the Nomination Committee was adopted The scope of the Remuneration Committee was expanded to include matters pertaining to human resources and the Committee was renamed as 'Human Resources and Remuneration Committee' A new Board Sub-Committee named the 'Strategy Review Committee' was established Frequency of Board Sub-Committees were increased.
2017	<ul style="list-style-type: none"> Adopted an Anti-Bribery and Corruption Policy Adopted a Customer Complaint Handling Policy Introduced a policy on Employment of Relations Strengthened the Board Risk Management Committee by appointing a director of the subsidiary HNB General Insurance Limited and the Chief Risk Officer of Hatton National Bank PLC
2018	<ul style="list-style-type: none"> Formation of an Asset Liability Management Committee Developed a new policy on managing Related Party Transactions Extended coverage of ISO certification for new business underwriting operations for Life Insurance A customer complaints investigation unit was formed Carried out an independent review of IT security environment through a specialised third party organisation Implemented a Data Classification Policy

CORPORATE GOVERNANCE STRUCTURE

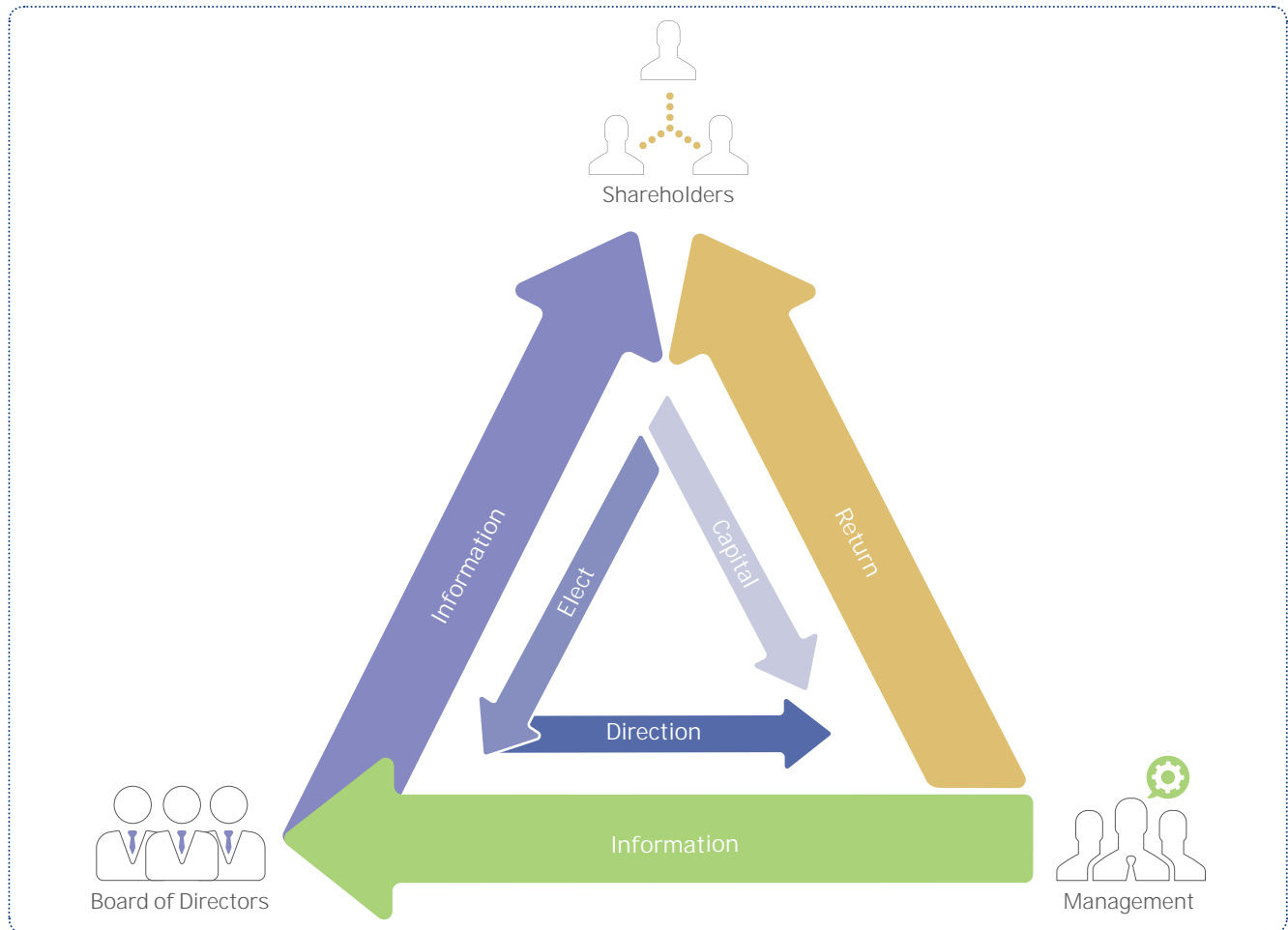
The Company's Corporate Governance structure is used in order to achieve two objectives; to ensure that it monitors those parties within the Company who control the resources owned by investors and to ensure that it contributes to improved corporate performance and accountability in creating long-term shareholder value. The following diagram depicts the ways in which these two objectives are met.



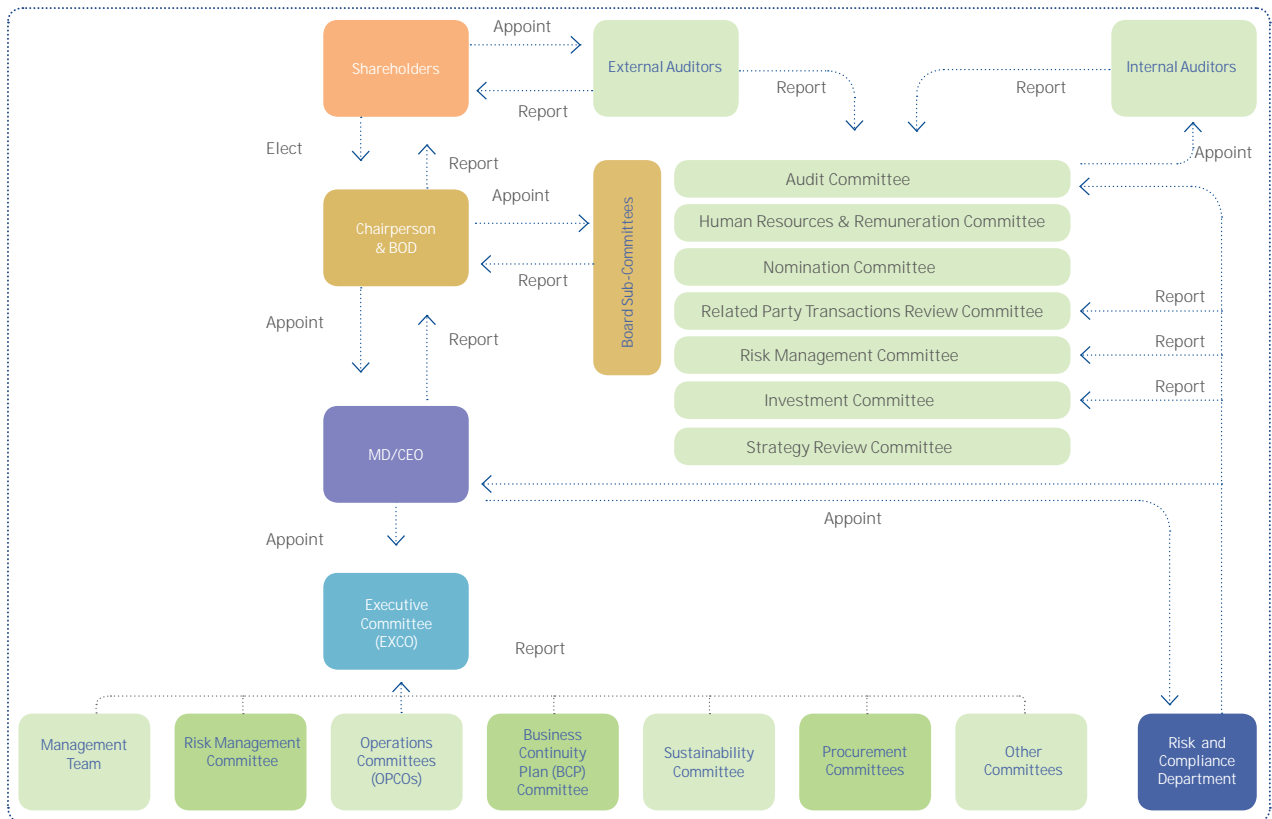
Corporate Governance

A standard Corporate Governance model interconnects the dynamic relation between three key stakeholders – the Shareholders, the Board of Directors and the Management. Although these stakeholders play distinct roles, it remains complementary to the core objectives and functioning of the institution.

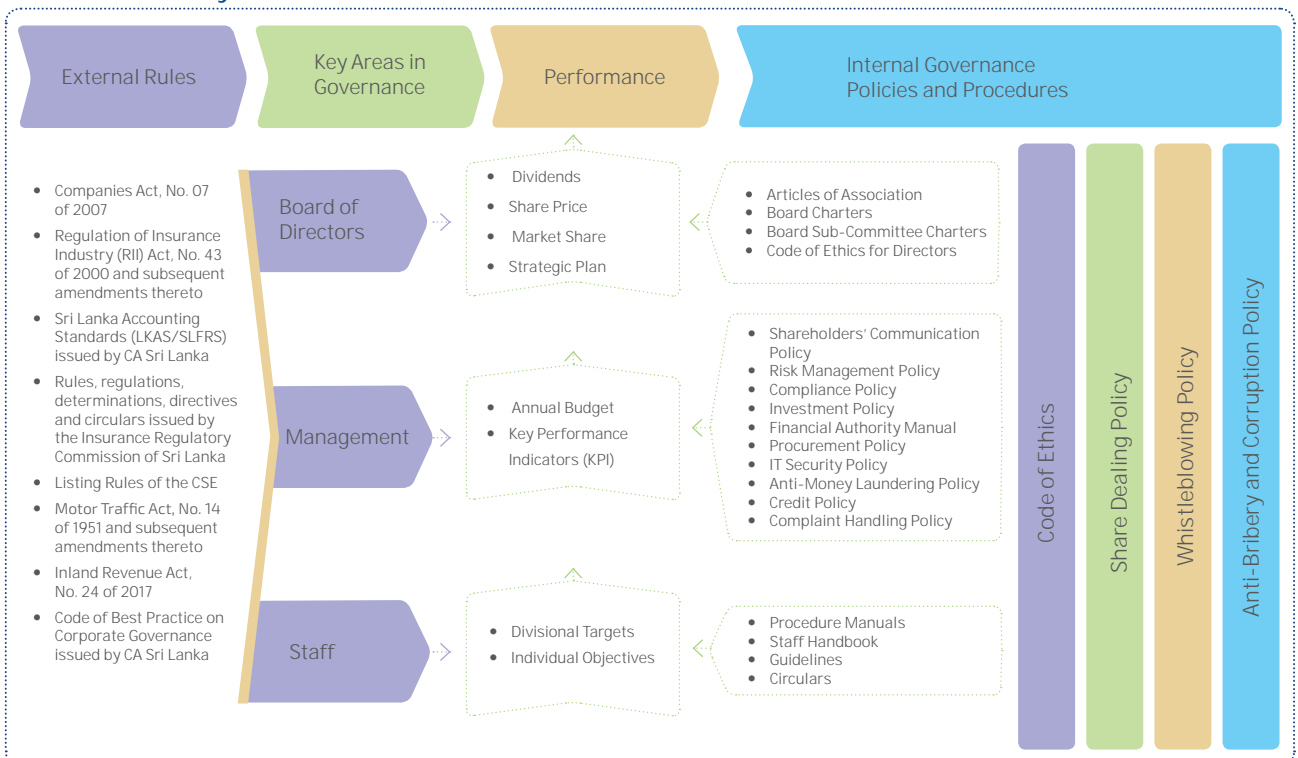
Accordingly, HNB Assurance's Corporate Governance structure is formed to establish the fundamental relationship among the Shareholders, the Board, the Management and other stakeholders. Further, the policies, charters and procedures also form an integral component of this structure, through which the ethical values and corporate objectives are set and the plans for achieving those objectives as determined.



The fundamental relationship among HNB Assurance's (HNBA) Shareholders, the Board, the Management and other stakeholders is depicted in the following diagram:



Governance Policy Framework of HNBA



Corporate Governance

1. SHAREHOLDERS

The Board and the Senior Management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. Hence, representing, formulating and realising the interests and expectations of shareholders, who are the owners of the Company, remains a key objective of the Board. The Company has the following primary objectives in fulfilling the expectations of the shareholders;

- Provide a reasonable return to shareholders by maintaining a satisfactory Return on Equity.
- Provide a satisfactory distribution of dividends out of the Profits earned
- Communicate effectively and efficiently with the Shareholders in order to inform them of the affairs of the Company.

1.1 Return to Shareholders

Please refer pages 140 and 141 of this Annual Report under 'Financial Capital' for details of our policies and actions taken in this regard.

1.2 Timely Communication with Shareholders and Investors

A 'Shareholders' Communication Policy' is adopted by the Company with the determination of ensuring that ready, equal and timely access to balanced and understandable information about the Company's financial performance, strategic goals and plans, material developments, governance and risk profile, etc. are provided to the Company's shareholders and the investment community at large. The objective is to enable shareholders to exercise their rights in an informed manner and to allow shareholders and the investment community to engage actively with the Company.

The Company uses numerous channels to inform its shareholders the performance and operations of the Company.

The Managing Director/CEO and/or Chief Financial Officer authorise all financial information released to the shareholders and the public, while all price sensitive information is first communicated to the CSE by the Company Secretary and then to the public through mass media.

Any other information is released to the public with the approval of the Managing Director/CEO and/or Chief Operating Officer and is communicated via the Head of Marketing.

1.2.1 Annual Report

The Annual Report is the principal document the Company uses to inform its shareholders on the affairs of the Company, including its vital non-financial information that extends beyond regulatory requirements.

Our all-encompassing effort in generating a comprehensive report was recognised at numerous local and international awards ceremonies.

1.2.2 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 Report. The Company will continue the distribution of above reports in Sinhala and Tamil languages, along with the Annual Report of 2018.

1.2.3 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.

AWARDS WON BY THE 2017 ANNUAL REPORT

54th Annual Report Awards conducted by CA Sri Lanka

- Joint Gold Award – Insurance Sector Companies

Institute of Certified Management Accountants of Sri Lanka – Excellence in Integrated Reporting Awards 2018

- Merit Award

AWARDS WON BY THE 2016 ANNUAL REPORT

53rd Annual Report Awards conducted by CA Sri Lanka

- Gold Award – Insurance Sector Companies

South Asian Federation of Accountants (SAFA) Best Presented Annual Reports

- Merit Award

Institute of Certified Management Accountants of Sri Lanka – Excellence in Integrated Reporting Awards 2017

- Merit Award

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 – 2017	28th February 2018
Annual Report – 2016	6th March 2017
Annual Report – 2015	1st March 2016
Annual Report – 2014	27th February 2015
Annual Report – 2013	4th March 2014

1.2.4 Sustainability Reporting

Information relating to the Company's sustainability policies and practices are given from pages 121 to 180 in the sustainability section of the Annual Report and on the Company's website. This section contains the ways in which the Company seeks to achieve sustainable profits for Shareholders, develop long-lasting customer relationships, value our employees and manage the social and environmental impact of our business.

1.2.5 Statements of Interim Financials

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 them to the public. Nevertheless, the Company also communicates the interim Financial Statements to the public through the

following methods as a self-imposed best practice;

- Circulating printed copies of interim Financial Statements amongst all shareholders.
- Publishing the interim Financial Statements in print media.
- Publishing the interim Financial Statements on the Company's website.

All efforts are taken to ensure the accuracy of information published and accordingly, a voluntary interim review was performed by the external auditors for the 6 months period ended 30th June 2018. 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 June 2018 were based on reviewed numbers.

1.2.6 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 also available on this website, which could be accessed on www.hnbassurance.com.

1.2.7 Submission of Information to the Colombo Stock Exchange/Shareholders

The Company recognises 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. The table on page 58 demonstrates the dates on which important information was released to the CSE/shareholders during the year 2018.

Summary of the Communication Policy of the Company

- Purpose
- General Policy
- Reports to Shareholders
 - Annual Report
 - Quarterly Reports/Interim Financial Statements
 - Sustainability Reporting
- Corporate Website
- Annual General Meetings
- Shareholders' Enquiries and Feedback
- Responding to Shareholders' Enquiries and Feedback
- Submission of Information to the Colombo Stock Exchange
- Investment Market Communications
- Media Releases

Corporate Governance

IMPORTANT COLOMBO STOCK EXCHANGE (CSE)/SHAREHOLDER COMMUNICATIONS DURING 2018

Nature of Information	Date in 2018
Announcement to the CSE on the resignation of Mr. Kandasamy pillai Balasundaram from the Board	3rd January 2018
Announcement to the CSE on the appointment of Mr. Darshan Ravindra Abey Suriya to the Board	19th January 2018
Dividend announcement to the CSE	9th February 2018
Submission of unaudited interim Financial Statements for the year ended 31st December 2017 to the CSE	14th February 2018
Circulation of unaudited interim Financial Statements for the year ended 31st December 2017 to shareholders	16th February 2018
Publication of unaudited interim Financial Statements for the year ended 31st December 2017 in the print media (Daily FT)	16th February 2018
Announcement to the CSE on the change of status of directorship of Mr. Sarath Carlyle Ratwatte	20th February 2018
Submission of audited Annual Report for the year ended 31st December 2017 to the CSE	28th February 2018
Circulation of audited Annual Report for the year ended 31st December 2017 to shareholders	2nd March 2018
Annual General Meeting (AGM)	27th March 2018
Submission of unaudited interim Financial Statements for the 1st quarter ended 31st March 2018 to the CSE	15th May 2018
Circulation of unaudited interim Financial Statements for the 1st quarter ended 31st March 2018 to shareholders	24th May 2018
Publication of unaudited interim Financial Statements for the 1st quarter ended 31st March 2018 in the print media (Daily FT)	23rd May 2018
Submission of unaudited interim Financial Statements for the 2nd quarter ended 30th June 2018 to the CSE	10th August 2018
Circulation of unaudited interim Financial Statements for the 2nd quarter ended 30th June 2018 to shareholders	15th August 2018
Publication of unaudited interim Financial Statements for the 2nd quarter ended 30th June 2018 in the print media (Daily FT)	16th August 2018
Submission of unaudited interim Financial Statements for the 3rd quarter ended 30th September 2018 to the CSE	5th November 2018
Circulation of unaudited interim Financial Statements for the 3rd quarter ended 30th September 2018 to shareholders	13th November 2018
Publication of unaudited interim Financial Statements for the 3rd quarter ended 30th September 2018 in the print media (Daily FT)	13th November 2018

1.3 Meetings with Shareholders

1.3.1 Annual General Meeting (AGM)

The AGM is the most awaited meeting for the Company's Shareholders, since it provides an opportunity for direct communication between them and the Board of Directors.

1.3.2 Adequate Notice of the AGM

The Annual Report, together with the 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 in accordance with the requirements of the Companies Act.

The most recent Shareholders' meeting was the 16th Annual General Meeting (AGM) of the Company held on 27th of March 2018, at the Auditorium on Level 22 of "HNB Towers", at No. 479, T B Jayah Mawatha, Colombo 10. The Annual Report of 2017 was submitted to the CSE on 28th February 2018 and was posted to all Shareholders by 2nd March 2018.

1.3.3 Availability of Chairmen of Board Committees at the AGM

All members of the Board including the Chairmen of Board Sub-Committees and the Senior Management make 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.

Accordingly, all Directors, the engagement partner of the Company's External Audit firm and the Senior Management were present at the last Annual General Meeting held in 2018.

1.3.4 Proceedings at the Annual General Meeting

The proxy form given on pages 375 and 376, is circulated to all Shareholders, which includes a summary of the procedures governing the voting procedure of the Annual General Meetings.

The Company has a system in place, to count all proxy votes and to indicate to the

Chairperson, the level of proxies lodged on each resolution and the number of votes for and against such resolutions.

Each substantially separate issue is proposed as a separate resolution. The adoption of the Annual Report of the Board of Directors, along with the

Financial Statements, is also proposed as a separate resolution.

The main items discussed and the percentages of votes cast in favor of the resolutions relating to those items are set out below:

Resolution	Percentage of Votes
To re-elect Mr. Aloysius Gerard Rajive Dissanayake, as a Director of the Company	100%
To re-elect Mr. Deepthi Prasad Lokuarachchi, as a Director of the Company	100%
To re-elect Mr. Darshan Ravindra Abeysuriya, as a Director of the Company	100%
To re-elect Dr. Sivakumar Selliah, as a Director of the Company	100%
To re-appoint Messrs. Ernst & Young (EY) Chartered Accountants, as the Auditors for the ensuing year/authorise the Directors to fix their remuneration	100%
To authorise the Directors to determine payments for charitable and other purposes	100%

1.3.5 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 while appreciating the Company's financial performance, congratulated the Management for the numerous awards and accolades won during the year. He also expressed his gratitude for the dividend rate declared. Commenting on the CSR activities he suggested to build an irrigation tank for the public interest at large.

Response:

Chairperson stated that she will consider the said suggestions in 2018 and noted that the Company was engaging with lots of activities and those activities are given in detail in the Annual Report.

Updated Response:

The Company did not fund the building of an irrigation tank during 2018. However, the Company carried out its CSR activities in line with the CSR strategy of the Company. The details of the CSR activities carried out during the year are given in pages 154 to 175.

- A shareholder appreciated the achievement of the Company's performance during a difficult business environment. He commended the high growth of profits recorded during the year. He referred to the Financial Statements of the Annual Report and requested to see the possibility of providing the interest rates of fixed income investments made by the Company. He also suggested moving out of investments that provide low returns.

Updated Response:

The Financial Statements are prepared in accordance with the Sri Lankan Financial Reporting standards and therefore, the details are provided in line with the relevant accounting standards. If any of the shareholders require further details on Financial Statements, they can be

obtained by writing to the CFO. The contact details of the CFO is given on page 61. All investments are carried out in line with the investment policy of the Company and the investment function is reviewed by the Board Investment Committee. The activities carried out by the Investment Committee are given in page 192 and 193.

- A shareholder referred to the Financial Statements and inquired the amount of interest charged on the bank overdraft amount. Further, he referred the details provided on takaful operation and inquired for the reasons for the drop-in profits.

Response:

The amount shown as bank overdraft in the financial statement was a 'book overdraft' amount and the Company did not have its actual bank balances overdrawn. Therefore, the Company did not pay any interest on the bank overdraft amount shown in the Financial Statements. The profits of the takaful business came down in 2017 as a result of high claims experienced due to adverse weather conditions prevailed in 2017.

Updated Response:

The Company did not take any bank overdraft facility in 2018 as well. Therefore, the Company did not have any interest charge for bank overdraft facilities. The details of the takaful operations in 2018 are given in page 359.

- A shareholder commended the Company for sending the interim Financial Statements by post and requested to continue the practice in future as well. He also mentioned that directors becoming shareholders of the company would lead to betterment of the Company.

Updated Response:

The Company continued the practice of circulating the interim Financial Statements by post to all shareholders in 2018 as well. The details of the Directors shares in the Company are given on page 106.

Corporate Governance

1.4 Feedback and Enquiries by Shareholders





1.4.1 Feedback from Shareholders

In reflection of its commitment to pay heed to the needs of Shareholders, the Company has included an Investor Feedback Form in its Annual Report.

All shareholders have been encouraged to use the Form and provide their comments regarding the Company. The feedback received is attended to by the Board or the Management as appropriate. Please refer page 377 for the Stakeholder Feedback Form.





1.4.2 Enquiries by Shareholders and Investors

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. Sitari Jayasundara, through the following channels:





	+94 114 793 732
	+94 112 337 423
	sitari@hnbassurance.com
	Company Secretary– HNB Assurance PLC, Iceland Business Centre, No. 30, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.

Any other person of the Company who receives any Shareholder correspondence is required to forward the same to the Company Secretary for necessary action as per the Shareholders' Communication Policy.

In order to keep the Shareholders, analysts and the public in general updated on the developments of the Company, information is published from time to time through media releases, the Company website and social media. Therefore, any clarification or further information with regard to any information published on the Company should be directed to the Managing Director/CEO, Mr. Deepthi Lokuarachchi through the following channels:

	+94 112 436 182/+94 114 793 795
	+94 112 448 041
	deepthi.lokuarachchi@hnbassurance.com
	Managing Director/CEO – HNB Assurance PLC, Iceland Business Centre, No. 30, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.

Further, any clarification or information with regard to any financial information published can also be directed to the Chief Financial Officer, Mr. Indika Perera through the following channels:

	+94 112 421 909/+94 114 793 702
	+94 112 327 287
	indika.perera@hnbassurance.com
	Chief Financial Officer – HNB Assurance PLC, Iceland Business Centre, No. 30, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.

1.4.3 Responding to Shareholders' Enquiries

Shareholder matters relating to their holding of HNBA shares, such as details of the holdings, changes of address, non-receipt of dividend cheques, share certificate issues, etc will be handled by the Company Secretary through the Registrars of the Company (Central Depository Systems (Pvt) Limited). Any other matters raised are forwarded to the Chairperson and/or to the Managing Director/CEO for necessary action. If there are any major issues and/or concerns raised by Shareholders, those are brought to the attention of all Directors.

However, there were no such issues and/or concerns raised by Shareholders during the year, 2018.

The Company's aim is to provide a substantive written response within a reasonable time frame to Shareholder queries. If those queries raise a matter of more general interest to Shareholders, the Company will take this into account and will address them in subsequent corporate communications to all our Shareholders.

1.5 Communication with Institutional Shareholders, Analysts and Media Releases

We are committed to maintaining a constant dialogue with institutional investors, brokers and financial analysts in order to improve their understanding of our operations, strategy and plans, thereby enabling them to raise any concerns which may linger in their minds and which may in turn affect their perceived value of the Company. Investor/analyst briefings and one-on-one meetings, media interviews, etc are carried out on a regular basis in order to facilitate communication between the Company, Shareholders and the investment community. However, the Board and the Management strictly adhere to the statutory and ethical guidelines regarding their responsibility in maintaining confidentiality of price sensitive information.

Further, the Management is reviewing research reports regarding HNBA, prepared by various institutions. Under normal circumstances, the Company will make no comment on analyst's financial projections or opinions. However, where a research report contains inaccurate information, the Managing Director/CEO or a designated person by him

will inform the analyst of the correct information, if that information is already in the public domain and is not price sensitive.

1.6 Minimum Public Float

The Company's shares are listed on the main board of the Colombo Stock Exchange (CSE). Although the bulk of the shares are held by institutional shareholders, most of these shareholders are Sri Lankan residents. Details of the top 20 shareholders and other related information are provided on pages 105 to 109.

The Company has consistently maintained its minimum public shareholding well within the regulations set by the Colombo Stock Exchange. The Company's public shareholding over the last five years is given in the following table.

Year	Public Shareholding	
	%	No. of Shareholders
2018	38.27	3,398
2017	38.63	3,422
2016	38.66	3,463
2015	39.21	3,514
2014	39.14	3,467

Corporate Governance

2. 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.

1. Key Roles of the Board – the role of the Board and key players in the Board governance activities.
2. Board Functions – the activities that the Board performs in discharging its responsibilities.
3. Board Procedures – the administrative functions and the processes of the Board.
4. Governance Activities – the procedures and the processes which lay the foundation for continued improvement in good governance



2.1 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.

2.1.1 Board Composition

The Board represents 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.

2.1.2 Board Balance

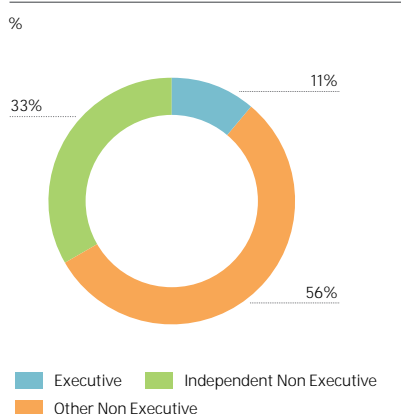
By the end of the year, the Board comprised nine Directors and all, except the Managing Director/CEO, are Non-Executive, thereby promoting critical review and control.

Please refer pages 36 and 39 for profiles of the members of the Board of Directors.

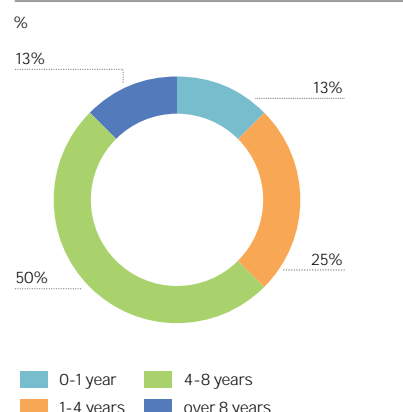
The Board has eight Non-Executive Directors and this number is in excess of the provisions in the Code of Best Practice on Corporate Governance and Listing Rules, which require that one third of the total number of Directors should be Non-Executive.

Of the eight Non-Executive Directors, four 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 and one Director for his period of service in the Board being over nine years.

Composition of the Board



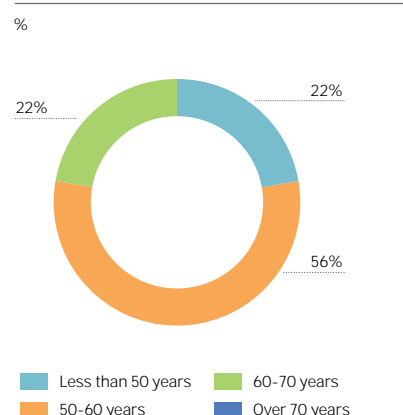
Length of Tenure of Non-Executive Directors



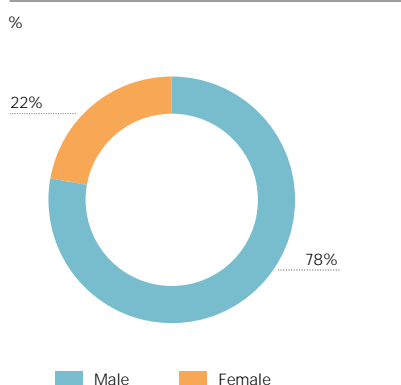
2.1.3 Board Diversity

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.

Age of Directors



Board Gender Split



2.1.4 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.

Corporate Governance

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.

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.

Re-election

According to Section 86 of the Articles of Association of the Company, Directors other than the Chairperson, the Managing Director/CEO and Nominee Directors have to retire by rotation and seek re-election at least once every three years.

Accordingly, Mr. J A P M Jayasekera retires by rotation at the Annual General Meeting to be held on the 28th March 2019.

Please refer the Notice of Meeting on page 372 for more information in this regard.

2.1.5 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 Regulatory Commission of Sri Lanka (IRCSL) is obtained for all new appointments.

Moreover, the Annual Report also carries details of new appointments of Directors.

2.1.6 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.

2.1.7 Roles of Chairperson and Chief Executive Officer (CEO)

The posts of Chairperson and MD/CEO were held separately by Mrs. Rose Cooray and Mr. Deepthi Lokuarachchi, respectively. This segregation ensures a clear distinction between the Chairperson's responsibility to manage the Board and the MD/CEO's responsibility to manage the Company's business and thereby ensures the balance of power and authority.

2.1.8 Role of Chairperson

The Chairperson is responsible for chairing and managing the operations of the Board and for monitoring the performance of the MD/CEO and the Company. It is the Chairperson who provides the leadership to the Board, ensuring that opinions of all Directors are appropriately considered in decision making. In fulfilling this function, she facilitates and encourage 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 Chairperson's responsibilities is given below:

- Chairing the Board and the Shareholders' meetings.

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

2.1.9 Role of the Managing Director/Chief Executive Officer

The Managing Director/Chief Executive Officer, as the only Executive Director represented on the Board, is responsible to the Board for managing the business of the Company. He holds responsibility for effective implementation of the strategies and policies agreed by the Board, as well as for leading the management to fulfill the objectives set by the Board. The Board has bestowed the Chief Executive Officer with broad authority to conduct the business and he is responsible to and reports to the Board on the performance of the business. A summary of MD/CEO responsibilities is given below;

- Developing, recommending and implementing 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 continue dialogue with the Chairperson and other directors.
- Representing the Company and managing the Company's day-today business.
- Monitoring operational and financial results closely in accordance with plans and budgets.
- Establishing adequate operational, planning and financial control systems.

The Executive Committee supports the Managing Director/Chief Executive Officer by providing the Board with high quality information and recommendations, to help yield informed decisions in all areas regarding the strategies of the Company.

2.1.10 Role of Non-Executive Directors

The role of the Non-Executive Directors involves scrutinising the Management's performance in achieving the agreed corporate goals and objectives and monitoring the reporting of the Company's performance.

Furthermore, they also assure clarity and accuracy on the reporting of financial information and ensure effective implementation of controls and systems of Risk Management. They constructively challenge the Management in all areas, which is essential for upholding objectivity.

2.1.11 Role of Independent Non-Executive Directors

Three Non-Executive Directors of the Company, namely Mr. J A P M Jayasekera, Dr. S Selliah and Mr. Ravi Abeysuriya, operate as Independent Non-Executive Directors. These Directors bring independent judgment to the Board and take an unbiased stance in situations where conflicts of interest may arise in addition to providing their expertise and fresh perspectives.

2.1.12 Role of Board Secretary

At present, Ms. Sitari Jayasundara, an Attorney-at-Law by profession and the Company's Head of Legal, serves as the Board Secretary. The role of the Board Secretary is to support the Chairperson, the Board and the Sub-Committees of the Board by ensuring a proper flow of information and to confirm that Board policies and procedures are followed.

Even though 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. She 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.

2.1.13 Roles and Responsibilities of the Board Sub-Committees

The Board, in assisting in carrying out its function of ensuring independent oversight, have delegated certain responsibilities to seven Sub-Committees. These include, Nomination Committee, Audit Committee, Human Resources and Remuneration Committee, Related Party Transactions Review Committee, Strategy Review Committee, Risk Management Committee and Investment Committee,

All these Board Sub-Committees follow the same principles and procedures as those of the Board and are provided with sufficient resources to perform their duties. These Sub-Committees report to the Board on a regular basis and will keep the Board informed of their decisions and recommendations.

The responsibilities, functions and the activities carried out by these committees are given from page 183 to 196.

2.2 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.

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.

Corporate Governance

2.2.1 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 2018, a total of 14 Board meetings were held. The routine items tabled at Board meetings included minutes of the Board Sub-Committee meetings held prior to the Board meetings, reports from the CFO on financial performance, Compliance Reports by the Compliance Officer, reports from Chief Officers on large claims reported, customer complaints, etc.

In addition to these regular reports, the Board considered and/or resolved the following non-routine matters during the year:

- Adoption of Related Party Transaction Policy
- Company Strategy for 2019-2021
- Proposal for implementation of Lean Management
- Discussion of IT Road map of the Group
- Recruitment of new Chief Officers of the Company

2.3 Board Procedures

2.3.1 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 2018, together with individual attendance, is given on page 202.

2.3.2 Board Proceedings

- The Directors are provided with all relevant documentation and financial information in a timely manner, to assist them in the discharge of their duties.
- 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 2018.

2.3.3 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. 07 of 2007. This has been fully complied with and adequately disclosed in this Annual Report.

Please refer pages 315 to 321 and 208 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	Executive	Non-Executive
M A R C Cooray	4	3	-	7
D P Lokuarachchi	-	1	1	-
S C Ratwatte	1	-	-	1
J A P M Jayasekera	4	6	6	4
D P N Rodrigo	-	3	-	3
S N Wickramasinghe	1	-	-	1
Dr. S Selliah	9	10	-	19
A G R Dissanayake	1	5	-	6
D R Abey Suriya	1	5	-	6

The Executive Director does not hold a directorship in any other company other than the Company's fully-owned subsidiary, 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.

2.4 GOVERNANCE ACTIVITIES

2.4.1 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.

2.4.2 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 2018 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.

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.

2.4.3 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.

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2.4.4 Directors' Remuneration

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

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

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

Non-Executive Directors are not eligible for performance-based remuneration schemes. 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.

Please refer page 298 for the details on Directors' remuneration.

2.4.5 Code of Conduct & Ethics

A Code of Conduct and Ethics for Directors has introduced with the intention of providing guidance on recognising and handling areas of ethical issues, information on how to report unethical conduct and to help foster a culture of openness and accountability.

A SUMMARY OF THE COMPANY'S CODE OF CONDUCT AND ETHICS FOR DIRECTORS

Conflict of Interest – Directors should avoid conflict of interest and the code provides examples of common conflicts.

Corporate Opportunities – Directors are prohibited from taking for themselves or their own companies or other companies with which they have a fiduciary relationship, any opportunities arising as a result of the director holding a directorship in the Company, unless such opportunities are fully disclosed by the interested director and approved by the disinterested directors.

Confidentiality – Directors must maintain the confidentiality of non public proprietary information entrusted to them by the Company or its customers or other parties with whom the Company does business, except when such disclosure is authorised or legally required. This principle applies to all communications, whether oral, written or electronic.

Dealings with Third Parties – Only the persons named in the Code are authorised to deal with third parties on behalf of the Company.

Compliance with Laws and Regulations and Fair Dealing – Directors are expected to carry out their responsibilities in compliance with all laws, rules and regulations applicable to the Company and with the highest standards of business ethics.

Encouraging the Reporting of Any Illegal or Unethical 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.

2.4.6 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/CEO
- 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 Actuarial Dept
- Members of the Risk and Compliance Dept. and
- All other employees in possession of any insider information

3. 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 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.

3.1 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.

3.1.1 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 40 to 43.

Operations Committees

The decisions taken at the EXCO are communicated and implemented through various divisional Operations Committees (OPCOs). OPCOs are headed by the Chief Officers or the Heads of Divisions and comprise members of the Senior Management teams of the respective divisions.

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 same.

Head of Risk and Compliance submits reports to the Board Sub-Committees on the compliance activities relating to the respective areas.

Head of Risk and Compliance reports to the Chairman of the Risk Management Committee and administratively reports to the Managing Director/CEO.

3.2 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 the 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

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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 197 and 198.

4. EXTERNAL AUDITORS

The Company's External Auditors are Messrs. Ernst and Young Chartered Accountants.

4.1.1 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.

Details regarding the fees paid to External Auditors appears on page 299.

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.

5. 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. KPMG.

6. 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 tabulated at meetings of the Audit Committee and the Risk Management Committee.

Additionally, Risk and Compliance Division monitors compliance with all applicable laws, rules and regulations. Compliance reports prepared by the Head of Risk and Compliance submitted to all Board Meetings of HNB Assurance PLC and HNB General Insurance Limited.

Further, in order to ensure the accuracy of the returns submitted to IRCSL, all returns were subject to the review of the Risk and Compliance Department prior to their release.

7. 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 114 to 180 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.

COMPLIANCE WITH CODES OF CORPORATE GOVERNANCE

Code of Best Practice on Corporate Governance Issued by CA Sri Lanka

The Corporate Governance Code of CA Sri Lanka is a voluntary code. However, it promotes good Corporate Governance

practices among Sri Lankan corporates. The codes has stipulated the following eight principle areas that a company should emphasis when developing a robust corporate governance structure.

The company's compliance with each of the above sections are given in the following table from pages 71 to 84.

Section – I

- A. Directors
- B. Directors' Remuneration
- C. Relations with Shareholders
- D. Accountability and Audit

Section – II

- E. Institutional Investors
- F. Other Investors
- G. Internet of things and Cybersecurity
- H. Environment, Society and Governance (ESG)

Summary of the Compliance Policy of the Company

- Compliance Policy and Principles
 - Compliance policy
 - Compliance principles
- Compliance at HNB Assurance
 - Compliance Objective
 - Duties of the Management towards Compliance
 - Compliance Function and Responsibility
 - Scope of the Compliance Function
 - Independence and Authority of the Compliance Function
 - Reporting of the Compliance Function
- Compliance Officer
- Monitoring of Anti-Money Laundering Controls
- Training and Education

The Company has complied with most of the sections of the Code of Best Practice on Corporate Governance issued by CA Sri Lanka and the manner in which the Company has complied with each section of the Code is given below:

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
1. THE COMPANY		
A. DIRECTORS		
A.1 THE BOARD		
A.1	Principal: Every public company should be headed by an effective Board (Refer Section 2 on page 62 for further details)	Complied
A.1.1	The Board should meet regularly. Board meetings should be held at least once in every quarter of a financial year. (Refer Section 2 on page 62 for further details)	Complied
A.1.2	Responsibilities of the Board. (Refer Section 2.1 on page 63 for further details)	Complied
	Ensuring the formulation and implementation of a sound business strategy. (Refer Section 2.1 on page 63 for further details)	Complied
	Appointing the Chair and the Senior Independent Director if relevant Chairman of the Company is not an Independent Director. The Company has not appointed a Senior Independent Director.	Not Complied
	Ensuring that the Managing Director (MD)/Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy. (Refer Pages 40 to 43 for further details of Group Executive Committee)	Complied
	Ensuring the adoption of an effective succession strategy for MD/CEO and key management personnel Succession plans are in place for the MD/CEO and for all other key managerial positions and are monitored continuously by the HR Division and the Human Resources and Remuneration Committee of the Board.	Complied
	Approving budgets and major capital expenditure. (Refer Section 2.2.1 on page 66 for further details)	Complied
	Determining the matters expressly reserved to the board and those delegated to the management including limits of authority and financial delegation. (Refer Section 3.1.1 Executive Committee on page 69 for further details)	Complied
	Ensuring effective systems to secure the integrity of information, internal controls, business continuity and Risk Management (Refer Section 3.1.1 and 3.2 on page 69 for further details)	Complied
	Ensuring compliance with laws, regulations and ethical standards. (Refer Section 3.1.1 Risk and Compliance Department on page 69 for further details)	Complied
	Ensuring all stakeholder interests are considered in corporate decisions. (Refer Pages 114 to 180 discussed in Management Discussion and Analysis for further details)	Complied
	Recognising sustainable business development in corporate strategy, decisions and activities and consider the need for adopting "integrated reporting". (Refer Pages 114 to 180 discussed in Management Discussion and Analysis for further details)	Complied
	Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations. (Refer Pages 215 to 217 in the Independent Auditors' Report for further details)	Complied
	Establish a process of monitoring and evaluation of progress on strategy implementation, budgets, plans and related risks. (Refer Section 2.2.1 on page 66 for further details)	Complied

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Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
	Ensuring that a process is established for corporate reporting on an annual and a quarterly basis, or more regularly as relevant to the Company. (Refer Section 1.2.1 and 1.2.5 on pages 56 and 57 for further details)	Complied
	Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned The Board takes all its decisions paying due attention to the interests of all stakeholders and whilst placing due emphasis on all matters of concern. Accordingly, through the Board meetings and Board Sub-Committee meetings ensure that all matters of concern are properly addressed.	Complied
A.1.3	The Board collectively and Directors individually, must act in compliance with laws and access to independent professional advice should be available for the Board at the expense of the Company (Refer Page 68 of Code of Conduct and Ethics for Directors for further details) Obtain independent professional advice The Charter of the Board permits all Directors to seek independent professional advice at any time, at the Company's expense, if considered appropriate and necessary. However, no such advice has been obtained by any Director during the year.	Complied
A.1.4	All Directors should have access to the advice and services of the Company Secretary and the role of the Company Secretary. The company should obtain appropriate insurance cover as recommended by the nominations committee for the Board, Directors and key management personnel The Company has not obtained insurance cover for Nominations Committee of the Board, Directors or key management personnel	Complied
A.1.5	All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments), Risk Management, compliance and standards of business conduct. (Refer Section 2.3.3 on page 66 for further details)	Complied
A.1.6	Dedicating adequate time and effort by the Directors. (Refer Section 2.3.3 on page 67 for further details)	Complied
A.1.7	One third of Directors can call for a resolution to be presented to the Board where they feel it is in best interest of the Company to do so. Such situation has not arisen during the year	Not applicable
A.1.8	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, with respect to matters on 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.	Complied
A.2 CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)		
A.2	Principal: Division of responsibilities at the head of the Company. (Refer Section 2.1.7 on page 64 for further details)	Complied
A.2.1	Disclosure required if the positions of the Chairman and the MD/CEO are combined The position of the Chairperson and the MD/CEO are separated.	Not Applicable

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
A.3 CHAIRPERSON'S ROLE		
A.3	<p>Principal: The Chairperson should preserve order and facilitate the effective discharge of Board functions.</p> <p>The Chairperson is responsible for leading the Board and ensuring that it operates under the highest standards of governance. The Chairperson is charged with encouraging the effective participation of all Directors in the decision making processes and thereby ensuring the effective performance of the Board.</p>	Complied
A.3.1	<p>Role of the Chairperson</p> <p>(Refer Section 2.1.8 on page 64 for further details)</p>	Complied
A.4 FINANCIAL ACUMEN		
A.4	<p>Principal: Availability of sufficient financial acumen and knowledge to offer guidance on matters of finance.</p> <p>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.</p> <p>(Refer Section of Board of Directors Profile on pages 36 to 39 for further details)</p>	Complied
A.5 BOARD BALANCE		
A.5	<p>Principal: The Board should have a balance of Executive and Non-Executive Directors</p> <p>The Board comprises eight Non-Executive Directors and one Executive Director who functions as the Managing Director/CEO.</p> <p>(Refer Section 2.1.1 on page 63 for further details)</p>	Complied
A.5.1	<p>The Board should include at least three Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of the total number of Directors, whichever is higher. If the Chairperson is not an Independent Director, The majority of the Board should comprise of Non-Executive Directors.</p> <p>Eight Directors out of the nine Directors of the Board are Non-Executive Directors.</p> <p>(Refer Section 2.1.1 on page 63 for further details)</p>	Complied
A.5.2	<p>Three or two-third of Non-Executive Directors appointed to the Board, whichever is higher should be 'Independent Non-Executive Directors'</p> <p>The Company has three Independent Non-Executive directors, which constitute to one-third of the total Non-Executive Directors of the Company. The Company maintains the composition of Directors in accordance with Section 7.10 of the Listing rules and the requirements of the Company's Articles of Association.</p> <p>(Refer Section 2.1.1 on page 63 for further details)</p>	Not Complied
A.5.3	<p>For a Director to be deemed 'Independent', such Director should be independent of the management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.</p> <p>(Refer Section 2.1.2 on page 63 for further details)</p>	Complied
A.5.4	<p>A declaration should be signed by each Non-Executive Director annually, stating independence or Non-Independence against specified criteria.</p> <p>Non-Executive Directors have submitted a declaration of Independence or Non-Independence as per the Code. Relevant declarations were tabulated at the Board Meeting held on 11th February 2019.</p>	Complied
A.5.5	<p>The Board should make a determination on the independence or non-independence of the Directors based on the above declaration and other information available to the Board.</p> <p>(Refer Section 2.1.2 on page 63 for further details)</p>	Complied

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Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
A.5.6	If an alternate Director is appointed by a Non-Executive Director, such alternate Director should not be an Executive of the Company The Company does not have any Alternate Directors	Not Applicable
A.5.7	When the Chairman and the CEO is the same, or the Chairman is not an Independent Director or the Chairman is the immediately preceding CEO, the Board should appoint an Independent Non-Executive Director to be the Senior Independent Director and disclose this appointment in the Annual Report. The Chairman of the Board is a Non-Independent Non-Executive Director. The Company has not appointed a Senior Independent Director.	Not Complied
A.5.8	The Senior Independent Director should make himself available for confidential discussions with other Directors. The Company has not appointed a Senior Independent Director.	Not Applicable
A.5.9	The Chairperson should hold meetings with Non-Executive Directors, without the presence of the Executive Directors, at least once a year. The Board meets at least once a year, without the presence of MD/CEO. One of the main areas of focus at this meeting is the performance of MD/CEO and his remuneration package. Any other such meeting would be held as and when the need arises.	Complied
A.5.10	When Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should be recorded in the Board minutes. During the year under review all decisions of the Board were taken unanimously and there were no concerns raised by the Directors which needed to be recorded in the Board minutes. However, if such concerns do arise, the Company's policy is to record them accordingly.	Complied
A.6 SUPPLY OF INFORMATION		
A.6	Principal: The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.	
A.6.1	The management has an obligation to provide the Board with appropriate and timely information. (Refer Section 2.3.2 on page 66 for further details)	Complied
A.6.2	The minutes, agenda and papers required for Board Meetings should be provided at least seven days before the meeting and the minutes of the meeting should ordinary be provided to Directors at least two weeks after the meeting. (Refer Section 2.3.1 on page 66 for further details)	Complied
A.7 APPOINTMENTS TO THE BOARD		
A.7	Principal: There should be a formal and transparent procedure for the appointment of new Directors to the Board. (Refer Section 2.1.4 on page 63 and 64 for further details)	Complied
A.7.1	A Nomination Committee should be established to make recommendations to the Board on all new Board appointments. (Refer Page 191 for further details of Nomination Committee)	Complied
A.7.2	An annual assessment of the Board composition should be conducted by the Nomination Committee. 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. (Refer Page 191 for further details of Nomination Committee)	Complied
A.7.3	The Company should disclose information to the Shareholders upon the new appointment of Directors (Refer Section 2.1.5 on page 64 for further details)	Complied

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
A.8 RE-ELECTION		
A.8	Principal: All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election. (Refer Section 2.1.4 on page 64 for further details)	Complied
A.8.2	All Directors including Chairman should be subject to election by Shareholders at the first opportunity after the appointment and to re-election at intervals of no more than three years. (Refer Section 2.1.4 on page 64 for further details)	Complied
A.8.3	In the event of a resignation of a Director prior to completion of his appointed term, the director should provide a written communication to the Board of his reasons for resignation. No Directors were resigned from the Board during 2018. When the Directors resigned, they generally inform the reason for the resignation.	Not Applicable
A.9 APPRAISAL OF BOARD PERFORMANCE		
A.9	Principle: The Board should annually appraise its own performance in the discharge of key responsibilities. The Board appraised itself on its performance in the discharge of its key responsibilities. The results of the appraisal were submitted at the Board meeting held on 11th February 2019.	Complied
A.9.1	The Board should have a formal and rigorous process for annually reviewing its own performance and its committees and should address any matters that may arise from such review. The Board carried out a self-evaluation on the performance for 2018. The Board also reviews the Performance of the Board sub-committees as well. (Refer Section 2.4.1 on page 67 for further details)	Complied
A.9.2	The Board should undertake an annual self-evaluation of its own performance and that of its committees. A self-evaluation of the Board is carried out annually. Self-evaluations of Audit Committee, Related Party Transactions Review Committee and Risk Management Committees are also carried out.	Complied
A.9.3	The Board should have a process to review the participation, contribution and engagement of each Director at the time of re-election.	Complied
A.9.4	The Board should state in the Annual Report how the performance evaluations have been conducted (Refer Section 2.4.1 on page 67 for further details)	Complied

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Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status																						
A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS																								
A.10	Principle: Shareholders should be kept advised of relevant details in respect of Directors																							
A.10.1	Annual Report should contain details of all Directors	Complied																						
	Required information with respect to all Directors is disclosed in this Annual Report, where relevant. Disclosure requirements and the relevant page numbers are given below:																							
	<table border="1"> <thead> <tr> <th>Disclosure Requirements</th> <th>Page Nos.</th> </tr> </thead> <tbody> <tr> <td>Name, qualifications and brief profile</td> <td>36 to 39</td> </tr> <tr> <td>The nature of his/her expertise in relevant functional areas</td> <td>36 to 39</td> </tr> <tr> <td>Immediate family and/or material business relationships with other Directors of the Company</td> <td>315 to 321</td> </tr> <tr> <td>Executive, Non-Executive and/or Independent Director</td> <td>36 to 39</td> </tr> <tr> <td>Names of listed companies in Sri Lanka in which the Director concerned serves as a Director</td> <td>36 to 39</td> </tr> <tr> <td>Names of other companies in which the Director concerned serves as a Director</td> <td>36 to 39</td> </tr> <tr> <td>Number/percentage of Board meetings of the Company attended during the year</td> <td>202</td> </tr> <tr> <td>The total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an Executive or Non-Executive capacity</td> <td>67</td> </tr> <tr> <td>Names of Board committees in which the Director serves as Chairman or a member</td> <td>183 to 196</td> </tr> <tr> <td>Number/percentage of committee meetings attended during the year</td> <td>202</td> </tr> </tbody> </table>	Disclosure Requirements	Page Nos.	Name, qualifications and brief profile	36 to 39	The nature of his/her expertise in relevant functional areas	36 to 39	Immediate family and/or material business relationships with other Directors of the Company	315 to 321	Executive, Non-Executive and/or Independent Director	36 to 39	Names of listed companies in Sri Lanka in which the Director concerned serves as a Director	36 to 39	Names of other companies in which the Director concerned serves as a Director	36 to 39	Number/percentage of Board meetings of the Company attended during the year	202	The total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an Executive or Non-Executive capacity	67	Names of Board committees in which the Director serves as Chairman or a member	183 to 196	Number/percentage of committee meetings attended during the year	202	
Disclosure Requirements	Page Nos.																							
Name, qualifications and brief profile	36 to 39																							
The nature of his/her expertise in relevant functional areas	36 to 39																							
Immediate family and/or material business relationships with other Directors of the Company	315 to 321																							
Executive, Non-Executive and/or Independent Director	36 to 39																							
Names of listed companies in Sri Lanka in which the Director concerned serves as a Director	36 to 39																							
Names of other companies in which the Director concerned serves as a Director	36 to 39																							
Number/percentage of Board meetings of the Company attended during the year	202																							
The total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an Executive or Non-Executive capacity	67																							
Names of Board committees in which the Director serves as Chairman or a member	183 to 196																							
Number/percentage of committee meetings attended during the year	202																							
A.11 APPRAISAL OF MANAGING DIRECTOR (MD)/CHIEF EXECUTIVE OFFICER (CEO)																								
A.11	Principle: The board should be required, at least annually, to assess the performance of the MD/CEO.																							
A.11.1	The Board should set, with consultation of the MD/CEO, the financial and non-financial targets to be achieved by the MD/CEO during the year, in line with short, medium and long-term objectives of the Company. (Refer Section 2.1.9 and 2.4.2 on pages 64 to 67 for further details)	Complied																						
A.11.2	The performance of the MD/CEO should be evaluated by the Board at the end of each year The Board evaluates the MD/CEO's performance through monitoring the achievement levels of set objectives during the year. Remuneration for the MD/CEO is determined based on the achievement of these set targets.	Complied																						
B. DIRECTORS' REMUNERATION																								
B.1 REMUNERATION PROCEDURE																								
B.1	Principle: Company should establish a formal and transparent procedure for developing policies on remuneration. No Director should be involved in deciding his/her own remuneration.																							
B.1.1	Board should set up a Remuneration Committee to make recommendations to the Board. HNB Assurance maintains a formal and a transparent mechanism with regard to developing remuneration policies in accordance with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants (CA) of Sri Lanka (Refer page 188 for further details of Human Resources and Remuneration Committee)	Complied																						
B.1.2	Remuneration Committees should consist exclusively of Non-Executive Directors and should have a Chairman, who should be appointed by the Board. (Refer page 188 for further details of Human Resources and Remuneration Committee)	Complied																						
B.1.3	Members of the Remuneration Committee should be listed in the Annual Report (Refer page 188 for further details of Human Resources and Remuneration Committee)	Complied																						

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
B.1.4	Determination of Remuneration of Non-Executive Directors Non-Executive Directors who are employees 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	Complied
B.1.5	The Remuneration Committee should consult the Chairperson and/or MD/CEO about its proposals relating to the remuneration of other Executive Directors and have access to professional advice from within and outside the Company, in discharging their responsibilities The Chairperson of the Board is also a member of the Human Resources and Remuneration Committee. The MD/CEO attend meeting by invitation. The Charter of the Human Resources and Remuneration Committee has set out provisions to obtain professional advice from within and outside the Company.	Complied
B.2 THE LEVEL AND MAKE UP OF REMUNERATION		
B.2	Principle: The levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of the Executive Directors' remuneration should be structured to link with corporate and individual performance.	
B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors. The Company has appointed the CEO as Managing Director and the Remuneration Committee and the Board ensure that the MD/CEO is provided with an appropriate remuneration package.	Complied
B.2.2	Executive Directors' remuneration should be designed to promote the long-term success of the Company. (Refer Section 2.3.3 on page 66 and 67 for further details)	Complied
B.2.3	Comparison of remuneration with other companies. The Human Resources and 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.	Complied
B.2.4	Comparison of remuneration with other companies in the Group. The Human Resources and Remuneration Committee considers remuneration levels of the Group when deciding HNBA's remuneration packages.	Complied
B.2.5	Performance related elements of the remuneration of Executive Directors should be aligned with the interests of the Company and main stakeholders. The performance-related elements of the remuneration package of the MD/CEO and other executive employees are linked to corporate and individual performance.	Complied
B.2.6	Executive share options should not be offered at a discount The Company does not have any share option scheme for the Directors or employees at present.	Not Applicable
B.2.7	Designing performance-based remuneration of Executive Directors/CEO Objectives for the MD/CEO are set at the beginning of the year to align his interests with those of the Company. Accordingly, his remuneration, including the performance bonus, is decided based on 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.	Complied
B.2.8 & B.2.9	Compensation commitments on early termination Termination of the MD/CEO is governed by his contract of service/employment	Complied

Corporate Governance

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
B.2.10	<p>Remuneration of Non- Executive Directors should reflect the time, commitment and responsibilities of their role, in line with market practices</p> <p>Non-Executive Directors are paid only on their attendance at meetings. Non-Executive Directors who are nominees of the parent company and are employed at parent company are paid a nominal fee for their services. Other Non-Executive Directors are remunerated in line with market practices</p>	Complied
B.3 DISCLOSURE OF REMUNERATION		
B.3	Principle: The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole	
B.3.1	<p>Remuneration Policy and details of remuneration of the Board should be stated in the Annual Report</p> <p>The aggregate remuneration paid to the MD/CEO and Non-Executive Directors is disclosed on page 298 of this Report and refer page 188 further details of Human Resources and Remuneration Committee.</p>	Complied
C. RELATIONS WITH SHAREHOLDERS		
C.1 CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS		
C.1	<p>Principle: The Board should use the AGM to communicate with shareholders and should encourage their participation</p> <p>(Refer Section 1.3 on page 58 and 59 for further details)</p>	Complied
C.1.1	<p>Companies should arrange for the notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.</p> <p>(Refer Section 1.3.2 on page 58 for further details)</p>	Complied
C.1.2	<p>Separate resolutions for substantially separate issues and adoption of Annual Report and accounts.</p> <p>(Refer Section 1.3.4 on page 58 and 59 for further details)</p>	Complied
C.1.3	<p>Companies should count all Proxy Votes</p> <p>(Refer Section 1.3.4 on page 58 and 59 for further details)</p>	Complied
C.1.4.	<p>Availability of Chairmen of Board Committees at the AGM</p> <p>(Refer Section 1.3.3 on page 58 for further details)</p>	Complied
C.1.5	<p>Summary of procedures governing voting at the Annual General Meeting</p> <p>(Refer Section 1.3.4 on page 58 and 59 for further details)</p>	Complied
C.2 COMMUNICATION WITH SHAREHOLDERS		
C.2	Principle: The Board should implement effective communication with Shareholders	
C.2.1	<p>A channel to reach all Shareholders of the Company in order to disseminate timely information</p> <p>(Refer Section 1.2 on page 56 and 57 for further details)</p>	Complied
C.2.2	<p>Disclose the policy and methodology for communication with Shareholders.</p> <p>(Refer Section 1.2 on page 56 and 57 for further details)</p>	Complied
C.2.3	<p>Disclose how the Company has implemented the above policy and methodology</p> <p>(Refer Section 1.2 on page 56 and 57 for further details)</p>	Complied
C.2.4	<p>Disclose the contact person for such communication</p> <p>(Refer Section 1.4 on page 60 and 61 for further details)</p>	Complied
C.2.5	<p>A process to make all Directors aware of major issues and concerns of Shareholders</p> <p>(Refer Section 1.3 on page 58 and 59 for further details)</p>	Complied
C.2.6	<p>The person to contact in relation to Shareholders' matters</p> <p>(Refer Section 1.4 on page 60 and 61 for further details)</p>	Complied

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
C.2.7	The process for responding to Shareholder matters (Refer Section 1.4 on page 60 and 61 for further details)	Complied
C.3 MAJOR AND MATERIAL TRANSACTIONS		
C.3	Principle: All material transactions i.e. those which, if entered into, would materially alter/vary the net asset value of the Company, should be disclosed	
C.3.1	Proposed major transactions There were no major transactions during the year.	Not Applicable
C.3.2	Public listed companies should in addition comply with the disclosure requirements and shareholder approval by special resolution as required by the rules and regulation of the Securities Exchange Commission and by the Colombo Stock Exchange. The Company complies with the Related Party Transaction Rules and Governance Codes issued by the Colombo Stock Exchange and Securities and Exchange Commission of Sri Lanka. The Compliance officer submits a compliance report to the Related Party Transactions Committee on the compliance status with these regulations.	Not Applicable
D. ACCOUNTABILITY AND AUDIT		
D.1 FINANCIAL AND BUSINESS REPORTING		
D.1	Principle: The Board should present a balanced and understandable assessment of the Company's financial position, performance, business model, governance, structure, risk management, internal controls and challenges, opportunities and prospects. (Refer Section Director's Responsibility for Financial Reporting on pages 209 and 210 for further details)	Complied
D.1.1	The Board present an annual report including Financial Statements that is true and fair, balanced and understandable and prepared in accordance with the relevant laws and regulations. (Refer Section Director's Responsibility for Financial Reporting on pages 209 and 210 for further details)	Complied
D.1.2	Board's responsibility for interim and other price-sensitive public reports, statutory and regulatory reporting. (Refer Section Annual Report of the Board of Directors on pages 199 to 207 for further details)	Complied
D.1.3	CEO's and CFO's confirmation on Financial Statements. (Refer Section CEO's and CFO's Responsibility Statement on page 211 for further details)	Complied
D.1.4	Declarations by Directors in the Directors' Report The following information has been declared in the Annual Report of the Board of Directors from pages 199 to 207. <ul style="list-style-type: none"> • Declaration that the Company has not engaged in any activity which contravenes laws and regulations is given on page 205. • Declaration that the Directors have declared all material interests in contracts involving the Company is given on page 203. • Declaration that the Company has made all endeavors to ensure the equitable treatment of Shareholders is given on page 204. • Directors have complied with best practices of Corporate Governance is given on page 205. • Property, Plant and Equipment are reflected at fair value and where they differ from fair value, adequate disclosures are made as given on page 201. • Declaration that the Directors have conducted a review of the internal controls, covering financial, operational and compliance controls and risk management is given on page 205. • Declaration that the business is a going concern is given on page 200. 	Complied

Corporate Governance

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status																										
D.1.5	<p>Statements by Directors and Auditors</p> <p>Pages 209 and 210 contains the statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements</p> <p>The Auditor's Report is provided on pages 215 to 217.</p>	Complied																										
D.1.6	<p>The Annual Report should contain a 'Management Discussion and Analysis'</p> <p>The Management Discussion and Analysis is given on pages 114 to 180 of this Annual Report, which covers the disclosure requirement under this Code, as indicated below.</p> <table border="1"> <thead> <tr> <th>Required Disclosure</th> <th>Page No.</th> </tr> </thead> <tbody> <tr> <td>Business Model</td> <td>18 and 19</td> </tr> <tr> <td>Industry Structure and Developments</td> <td>122 to 141</td> </tr> <tr> <td>Opportunities and Threats</td> <td>17</td> </tr> <tr> <td>Risk Management</td> <td>96 to 104</td> </tr> <tr> <td>Internal Control Systems and their Adequacy</td> <td>69 and 70</td> </tr> <tr> <td>Governance</td> <td>51 to 94</td> </tr> <tr> <td>Stakeholder Relationships</td> <td>114 to 180</td> </tr> <tr> <td>Social and Environmental Protection Activities Carried Out by the Company</td> <td>154 to 167</td> </tr> <tr> <td>Financial Performance</td> <td>122 to 141</td> </tr> <tr> <td>Investment in Physical and Intellectual Capital</td> <td>168 to 171 and 176 to 178</td> </tr> <tr> <td>Human Resource/Industrial Relations Activities Carried Out by the Company</td> <td>142 to 153</td> </tr> <tr> <td>Prospects for the Future</td> <td>121 to 180</td> </tr> </tbody> </table>	Required Disclosure	Page No.	Business Model	18 and 19	Industry Structure and Developments	122 to 141	Opportunities and Threats	17	Risk Management	96 to 104	Internal Control Systems and their Adequacy	69 and 70	Governance	51 to 94	Stakeholder Relationships	114 to 180	Social and Environmental Protection Activities Carried Out by the Company	154 to 167	Financial Performance	122 to 141	Investment in Physical and Intellectual Capital	168 to 171 and 176 to 178	Human Resource/Industrial Relations Activities Carried Out by the Company	142 to 153	Prospects for the Future	121 to 180	Complied
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Prospects for the Future	121 to 180																											
D.1.7	<p>Summon an Extraordinary General Meeting (EGM)</p> <p>There has not been a requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss of Capital. Although the likelihood of such a situation is remote, if it arises, an EGM would be called to inform shareholders.</p>	Not applicable																										
D.1.8	<p>Disclosure of Related Party Transactions in the Annual Report</p> <p>(Refer Page 189 and 190 for further details of Related Party Transactions Review Committee)</p>	Complied																										
D.2 RISK MANAGEMENT AND INTERNAL CONTROL																												
D.2	<p>Principle: The Board should have a process of Risk Management and maintain a sound system of internal controls to safeguard Shareholders' investments and the Company's assets.</p> <p>(Refer Board Statement of Internal Control on page 197 and 198 for further details)</p>	Complied																										
D.2.1	<p>The Board monitors the Company's Risk Management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the Annual Report.</p> <p>This is provided in the Audit Committee and the Risk Management Committee Reports.</p> <p>(Refer pages 183 to 187 & 194 and 195 for further details)</p>	Complied																										
D.2.2	<p>The Directors should confirm in the Annual Report that they have carried out a robust assessment of the principal risks facing the Company.</p> <p>This is provided in the Risk Management Committee Report.</p> <p>(Refer pages 194 and 195 for further details)</p>	Complied																										
D.2.3	<p>The need for an internal audit function</p> <p>The Company's internal audit function is outsourced to Messrs KPMG. Further, Risk and Compliance Department also carrying out periodic verifications.</p> <p>(Refer Board Statement of Internal Control on page 197 and 198 for further details)</p>	Complied																										

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
D.2.4	<p>Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls</p> <p>The Audit Committee is responsible for ensuring that the Company has an effective internal control system. It reviews the effectiveness of the internal control system through the Internal Auditors and the Risk and Compliance Department. The minutes of the Risk Management Committee meetings are tabled at the Audit Committee meetings for review, since the Audit Committee carries the responsibility over the Company's Risk Management practices.</p> <p>Minutes of both Audit Committee and the Risk Management Committee meetings are tabled at Board meetings for review.</p> <p>Extended Disclosure on the Internal Control Process of the Company Internal Controls at HNBA (Refer Report of the Audit Committee on page 183 to 187 for further details)</p>	Complied
D.2.5	<p>Statement of internal control</p> <p>The Board's Statement on Internal Control is given on pages 197 and 198.</p>	Complied
D.3 AUDIT COMMITTEE		
D.3	Principle: The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintain an appropriate relationship with the Company's Auditors.	
D.3.1	<p>Composition of the Audit Committee</p> <p>(Refer page 183 to 187 for further details of Report of the Audit Committee)</p>	Complied
D.3.2	<p>Duties of the Audit Committee on the review of objectivity of the External Auditor</p> <p>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.</p> <p>Messrs. Ernst & Young, the Auditors of the Company, has given a declaration of its independence to the Audit Committee, as per the relevant rules.</p>	Complied
D.3.3	<p>Disclosures required by the Audit Committee in the Annual Report</p> <p>(Refer pages 183 to 187 for further details in the Report of the Audit Committee)</p>	Complied
D.4 RELATED PARTY TRANSACTIONS REVIEW COMMITTEE		
D.4	Principle: The Board should establish a procedure to ensure that the Company does not engage in transactions with "related parties" in a manner that would grant such parties "more favorable treatment" than that accorded to third parties in the normal course of business.	
D.4.1	<p>A related party and related party transactions will be as defined in LKAS 24</p> <p>(Refer Related Party Disclosures on page 315 to 321 for further details)</p>	Complied
D.4.2	<p>The Board should establish a Related Party Transactions (RPT) Review Committee.</p> <p>(Refer page 189 and 190 for further details in the Report of Related Party Transactions (RPT) Review Committee)</p>	Complied
D.4.3	<p>Related Party Transactions Review committee (RPT). Should have written terms of reference dealing clearly with its authority and duties which should be approved by the Board of Directors.</p> <p>(Refer page 189 and 190 for further details in the Report of Related Party Transactions (RPT) Review Committee)</p>	Complied

Corporate Governance

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
D.5 CODE OF BUSINESS CONDUCT & ETHICS		
D.5	Principle: Companies must adopt a Code of Business Conduct & Ethics for Directors and members of the senior management team and must promptly disclose any waivers of the Code by Directors or others.	
D.5.1	Disclosure on presence of Code of Business Conduct & Ethics for Directors and Key Management Personnel HNB Assurance employs a Code of Business Conduct and Ethics for Directors to provide guidance in maintaining an ethical business practice and conduct at all times. Further, the Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without exception. The Code of Business Conduct and Ethics is intended to encourage accountability and openness.	Complied
D.5.2	The Company should have a process in place to ensure that material and price sensitive information are promptly identified and reported in accordance with the relevant regulations. (Refer Section 1.2 on page 56 for further details)	Complied
D.5.3	The Company should establish a policy, process for monitoring, and disclosure of shares purchased by any Director, Key Management Personnel or any other employee involved in financial reporting. (Refer Section 2.4.6 on Page 68 for further details)	Complied
D.5.4	Affirmation by the Chairperson that there has been no violation of the Code of Conduct of the Company by any Director or any member of the Corporate Management of the Company during the year. (Refer Chairperson's Statement on Corporate Governance on page 50 for further details)	Complied
D.6 CORPORATE GOVERNANCE DISCLOSURES		
D.6	Principle: Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.	
D.6.1	Disclosure of Compliance with the Corporate Governance Code Pages 71 to 84 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 by the CA Sri Lanka.	Complied

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
SECTION 2: SHAREHOLDERS		
E. INSTITUTIONAL INVESTORS		
E.1 SHAREHOLDER VOTING		
E.1	Principle: Should ensure institutional shareholders' voting intentions are translated into practice.	
E.1.1	Communication with Shareholders (Refer Section 1.2 and 1.5 on pages 56 and 61 for further details)	Complied
E.2 EVALUATION OF GOVERNANCE DISCLOSURES		
E.2	Principle: Institutional investors should be encouraged to give due weight to the relevant governance arrangements. Sufficient attention has been given to the interests of institutional investors. The Company's Corporate Governance Structure and Practices are discussed in detail from pages 51 to 95.	Complied
F. OTHER INVESTORS		
F.1 INVESTING/DIVESTING DECISION		
F.1	Principle: Individual shareholders, investing directly in shares of companies, should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions. 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.	Complied
F.2 SHAREHOLDER VOTING		
F.2	Principle: The Company must encourage individual shareholders to participate in Annual General Meetings and exercise voting rights All shareholders are encouraged to participate at Annual General Meetings and cast their votes.	Complied
G. INTERNET OF THINGS AND CYBERSECURITY		
G.1	Principal: The Board should have a process to identify the risks relating to cybersecurity and address the risks if any. (Refer IT Governance on page 90 for further details)	Complied
G.2	The Board should appoint a Chief Information Security Officer and the implementation of cybersecurity Risk Management policy (Refer IT Governance on page 90 for further details)	Complied
G.3	The Board should allocate regular and adequate time on the Board meeting agenda for discussion about Cyber Risk Management (Refer IT Governance on page 90 for further details)	Complied
G.4	The Board should ensure the effectiveness of the cybersecurity Risk Management through independent periodic review and assurance. (Refer IT Governance on page 90 for further details)	Complied
G.5	The Board should disclose in the annual report, the process to identify and manage cybersecurity risks (Refer IT Governance on page 90 for further details)	Complied

Corporate Governance

Section Number	The Company's compliance with Corporate Governance Requirements	Compliance Status
H. ENVIRONMENT, SOCIETY AND GOVERNANCE (ESG)		
H.1 ESG REPORTING		
H.1	Principle: The Annual Report should contain sufficient information to enable investors and other stakeholders to assess how ESG risks and opportunities are recognised, managed, measured and reported.	Complied
H.1.1	Provide information in ESG (Refer Management Discussion and Analysis on pages 114 to 180 for further details)	Complied
H.1.2 ENVIRONMENTAL FACTORS		
H.1.2.1	Environmental governance of an organisation should adopt an integrated approach that takes into consideration the direct and indirect economic, social, health and environmental implications of their decisions and activities. (Refer Management Discussion and Analysis on pages 114 to 180 for further details)	Complied
H.1.3 SOCIAL FACTORS		
H.1.3.1	Social governance of an organisation to be included its relationship with the community, customers, employees, suppliers, outsourced providers and any other party that can influence or be influenced by the organisation's business model. (Refer Management Discussion and Analysis on pages 114 to 180 for further details)	Complied
H.1.4 GOVERNANCE		
H.1.4.1	Establish a governance structure to support its ability to create value and manage risks in the short, medium and long term, recognising managing and reporting on all pertinent aspects of ESG. (Refer Management Discussion and Analysis on pages 114 to 180 for further details)	Complied
H.1.5 BOARD'S ROLE ON ESG FACTORS		
H.1.5.1	Board's responsibility of ESG reporting. (Refer Management Discussion and Analysis on pages 114 to 180 for further details)	Complied

COMPLIANCE WITH LISTING RULES SECTION 7.10

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

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

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10 (a)	Statement of Compliance	Publish a statement of compliance with Corporate Governance Rules (Section 7.10 of the Listing Rules) in the Annual Report	Compliant	Please refer page 51 for the statement of compliance
7.10.1	Non-Executive Directors	Two or one-third of the total number of Directors, whichever is higher, shall be Non-Executive Directors	Compliant	Eight out of nine Directors are Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors appointed to the Board, whichever is higher, shall be independent	Compliant	Three out of eight Non-Executive Directors are independent
7.10.2 (b)		Each Non-Executive Director shall submit a declaration of independence or non-independence in the prescribed format	Compliant	Non-Executive Directors have submitted declarations during 2018
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 pages 36 to 39 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 36 to 39.
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Colombo Stock Exchange (CSE) for dissemination to the public.	Compliant	Appointment of Mr. Ravindra Abey Suriya was informed to the CSE on 19th January 2018, including his brief resume.
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee.	Compliant	Details of the Human Resources and Remuneration Committee is given on pages 188.

Corporate Governance

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.5 (a)	Remuneration Committee	The Remuneration Committee shall comprise of Non-Executive Directors, a majority of whom shall be independent.	Compliant	The Human Resources and Remuneration Committee comprises three Non-Executive Directors, of whom two are Independent Non-Executive Directors.
		One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors.	Compliant	Dr. S Selliah (Independent Non-Executive Director) functions as the Chairman of the Human Resources and Remuneration Committee.
7.10.5 (b)		The Remuneration Committee shall recommend the remuneration of the Managing Director/Chief Executive Officer.	Compliant	Please refer the functions of the Human Resources and Remuneration Committee on page 188.
7.10.5 (c)		The Annual Report should set out names of the Directors serving in the Remuneration Committee	Compliant	Please refer pages 188 for the composition of the Human Resources and Remuneration Committee.
		Statement of Remuneration Policy	Compliant	Please refer the Human Resources and Remuneration Committee Report on pages 188.
		Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer Note 37 on page 298.
7.10.6	Audit Committee	A listed entity shall have an Audit Committee.	Compliant	Details of the Audit Committee are given on pages 183 to 187.
7.10.6 (a)		The Audit Committee shall comprise Non- Executive Directors, a majority of whom shall be independent.	Compliant	The Audit Committee comprises three Non-Executive Directors, two of whom are independent.
		One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors.	Compliant	Mr. J A P M Jayasekera (Independent Non-Executive Director) functions as the Chairman of the Committee.
		Chief Executive Officer (CEO) and Chief Financial Officer (CFO) shall attend Audit Committee meetings.	Compliant	Both the CEO and the CFO attend the meetings by invitation.
		Chairman or one member of the Committee should be a member of a recognised professional accounting body.	Compliant	Please refer page 36 to 39 for qualifications of the members of the Audit Committee. The Chairman is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL).
7.10.6 (b)		The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules.	Compliant	Please refer page 183 to 187 for the Report of the Audit Committee.
7.10.6 (c)		The Annual Report should set out: Names of the Directors serving in the Audit Committee	Compliant	Please refer page 183 for the composition of the Audit Committee.
		The Committee's determination of the independence of the Auditors and the basis for such determination	Compliant	Please refer page 185 for the Report of the Audit Committee.
		A Report by the Audit Committee setting out the manner of compliance with the requirements set out in Section 7.10 of the Listing Rules	Compliant	Please refer pages 186 for the Report of the Audit Committee.

COMPLIANCE WITH THE CORPORATE GOVERNANCE FRAMEWORK FOR INSURERS

During the year, Insurance Regulatory Commission of Sri Lanka issued the direction number 17 introducing a Corporate Governance framework for insurers. These rules came into effect from 01st January 2019 onwards. Compliance of HNB Assurance PLC with these regulations as at the date of this Annual Report on 11th February 2019, are given in the table below:

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

Section	Requirement	HNB Assurance Compliance Status
A	Insurers are recommended to adhere to the Code of Best Practice on Corporate Governance issued in 2017.	The Company's status of compliance with the relevant Corporate Governance code is given from pages 71 to 84.
B	Insurers are required to comply with the following:	
1	– The Board of an insurer must be comprised of a minimum of two Directors who are citizens and residents of Sri Lanka.	All Directors of the Company are citizens and residents of Sri Lanka.
2	– The total period of service of a Director of an insurer, other than Executive Directors, shall not exceed nine years.	As at the date of this report no Director has served on the Board for more than nine years.
3	– The age of a person who serves as a Director shall not exceed 70 years.	No Directors have exceeded the age of 70 years.
4	– The Board of an insurer must adhere to Section 7.10 of the Listing Rules of the Company	The Company's compliance with status with rule number 7.10 is given on pages 85 and 86.
5	– A person shall not hold office as a Director of more than 20 companies/entities/institutions including, in not more than 10 specified business entities in terms of the Sri Lanka Accounting Standards Act, No. 15 of 1995.	As at the date of this report, no Director holds directorship in more than 20 companies/entities/institutions and not more than 10 specified business entities.

Corporate Governance at HNB General Insurance Limited

HNB General Insurance Limited (HNBGI) is a fully owned subsidiary of HNB Assurance PLC. HNBGI was formed in 2015, by transferring the General Insurance business which was under HNB Assurance PLC. There were no mandatory Corporate Governance codes applicable for HNBGI during 2018. However, with effect from January 2019, the Company has to follow the Corporate Governance framework issued by the Insurance Regulatory Commission of Sri Lanka. Therefore, HNBGI followed the Corporate Governance rules applicable, as per Listing Rules and the best practices, as given in the Corporate Governance Codes issued by the CA Sri Lanka to shape its Corporate Governance Framework. The Corporate Governance environment of HNB General Insurance Limited is discussed below:

THE BOARD AND THE DIRECTORS OF HNB GENERAL INSURANCE LIMITED

As at 31st December 2018, HNBGI comprises of Five Non-Executive Directors, two of whom are Independent. Details on the Board of Directors appear in the table below:

Name of the Director	Independent/Non-Independent	Date of Appointment
M A R C Cooray	Non-Executive Director	30th June 2015
D P Lokuarachchi	Managing Director/Chief Executive Officer	26th May 2017
M O F Salieh	Independent/Non-Executive Director	22nd April 2014
D P N Rodrigo	Non-Executive Director	21st December 2015
M Tharmaratnam	Independent/Non-Executive Director	1st September 2016
A G R Dissanayake	Non-Executive Director	27th June 2017

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

Non-Executive Directors

As at 31st December 2018, only the Managing Director/CEO functioned as an Executive Director and all other five Directors of HNBGI were Non-Executive. Therefore, the requirement on the minimum number of Non-Executive Directors as per Corporate Governance Codes is satisfied.

Independent Non-Executive Directors

HNBGI had two Independent Directors as at 31st December 2018 and therefore, HNBGI satisfies the requirement of minimum number of Independent Directors according to Listing Rules.

Roles of the Chairperson and the Managing Director/CEO of HNBGI

The functions of the Chairperson and the Managing Director/CEO are separated, to ensure balance of power and authority. Mrs. Rose Cooray and Mr. Deepthi Lokuarachchi held the positions of Chairperson and the Managing Director/CEO, respectively.

Board Functions

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

Board Meetings

15 Board meetings were held during 2018 and the attendance of each Director at such Board meetings is given in the following table:

Name of the Director	Board Meetings	
	A	B
M A R C Cooray – Chairperson	15	15
D P Lokuarachchi – Managing Director/Chief Executive Officer	14	14
M O F Salieh	15	15
D P N Rodrigo	15	13
M Tharmaratnam	15	12
A G R Dissanayake	15	13

A – Number of meetings held during the year.

B – Number of meetings attended.

Board Sub-Committees of HNBGI

Board Sub-Committees of HNB Assurance PLC review the operations of HNBGI which fall under their purview. Accordingly, the following Board Sub-Committees of HNB Assurance PLC review the operations of HNBGI as well.

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

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

External Audit

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

Internal Audit

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

Risk Management and Compliance of HNBGI

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

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

Codes and Policies

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

IT Governance

IT GOVERNANCE POLICIES

The Board has adopted an Information Security Policy to provide the direction to the Management in handling the risks relating to information and cyber security. During the year, the Group revised its information security policy and ensured that it is in line with the Group information security policy. The Group also adopted a Data classification policy during the year, thereby strengthening the information security environment of the Company, further.

IT GOVERNANCE STRUCTURE

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

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

Further, an Officer qualified in Information Technology has been appointed from the Risk and Compliance Department to review the IT security activities independently from the Operations Management. This Officer carries out the functions relating to the Chief Information Security Officer.

IT GOVERNANCE MONITORING

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

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

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

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

Group Performance Governance

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

STRATEGY REVIEW COMMITTEE

The 'Strategy Review Committee' reviews and monitors the implementation of the three-year strategic plan of the Group and keeps the Board informed of the progress of implementation and makes any recommendations that are deemed necessary for further development of the activities of the Group. The Committee is having an oversight on all planned activities as stated in its strategic plan and monitoring the performance including recommending any further actions if it feels necessary. During the year, the Strategy Review Committee had 7 meetings.

CORPORATE PLANNING AND BUDGETING PROCESS OF HNB ASSURANCE GROUP

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

MONITORING PROGRESS AS PER THE CORPORATE PLAN

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

KEY PERFORMANCE INDICATORS

Key Performance Indicators (KPIs) are devised to facilitate performance review and the process is evaluated monthly by the Board Strategy Review Committee and the Board of Directors. These KPIs are more frequently reviewed by the Executive Committee, the Management Team and the Operational Committees. A list of the Group's Key Performance Indicators appears on pages 22 and 23.

Group Performance Governance

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

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

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Sales and Distribution	<ul style="list-style-type: none"> • Company Budget • Annual Targets • Individual Objectives 	<ul style="list-style-type: none"> • Operations Committee – Life Sales (HNBA) • Operations Committee – General Sales (HNBGI) • Management Team • EXCO • Risk and Compliance Department 	<ul style="list-style-type: none"> • Distribution Managers Meetings • Renewal Review Meetings • Performance Reviews by OPCOs, EXCO and the Board • Sales convention and various competitions and rewards, including foreign tours • Visits to Zonal Offices by the EXCO members to address issues faced by distribution staff
Product Development	<ul style="list-style-type: none"> • Product Development Policy 	<ul style="list-style-type: none"> • Operations Committee – Life (HNBA) • Operations Committee – General (HNBGI) • Product Development Committees • Risk and Compliance Department 	<ul style="list-style-type: none"> • Appointment of product owners for each new product • Conducting post-launch evaluations by a multidisciplinary team • Conducting market research on products • Product development checklists
Finance-Related Functions	<ul style="list-style-type: none"> • Financial Authority Manual • Procedure Manuals Guidelines • Procurement Policy and Procedures • Annual Budget 	<ul style="list-style-type: none"> • Operations Committee – Finance and Administration • Procurement Committees • Procurement Unit • Risk and Compliance Department 	<ul style="list-style-type: none"> • Budget Review meetings • Forecasting results to check possibility of achieving the budgeted targets • Monthly checklists on compliance with procedures and guidelines • Independent monitoring of adherence to the Procurement Policy and Procedures, by the Risk and Compliance Department
Use of Information Technology and IT Governance	<ul style="list-style-type: none"> • IT Security Policy • Disaster Recovery Plan 	<ul style="list-style-type: none"> • Operations Committee – IT • Segregation of IT Operations and IT System Developments • IT Security Administrator • Risk and Compliance Department 	<ul style="list-style-type: none"> • Regular meetings with other departments to obtain user feedback • IT Help Desk to solve technical issues faced by employees • Employment of separate personnel to ensure IT security • Independent review of operations of the IT Division by the Assistant Manager – IT Governance and Compliance
Corporate Social Responsibility	<ul style="list-style-type: none"> • Corporate Plan 	<ul style="list-style-type: none"> • Executive Committee (EXCO) 	<ul style="list-style-type: none"> • A detailed review of the Company's actions towards Corporate Social Responsibility is given on pages 154 to 160.

Group Performance Governance

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

Risk Management

OVERVIEW

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, volatility in interest rates, proposed changes in accounting standards, changes in insurance laws and regulations and the advancements in technology are all challenging insurers to compete efficiently and effectively to manage uncertainty and protect stakeholder value. Therefore, managing risk has become a crucial part of protecting the Company's capital and maintaining continuous value creation.

The core activities of HNB Assurance PLC consists of Product Development, Pricing, Underwriting, Claims Management, Reinsurance Management, Investment Management and Financial and Regulatory Reporting. These involve risks that are often interconnected and spans across a wide range of risk landscapes. Hence, Risk Management is a fundamental aspect of the Company's business activities.

RISK MANAGEMENT OBJECTIVES

The Board of Directors and the Management recognise that a comprehensive Risk Management programme is essential to effectively manage the risks faced by the Company. The Company has adopted a Risk Management Policy for the Group/Company which gives the

direction to the Management in carrying out risk management activities. Based on the established Risk Management Policy, the Company's Risk Management programme is designed to achieve the following objectives:

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

RISK MANAGEMENT AND INTERNAL CONTROL

We believe a strong internal control environment is essential in providing a foundation for the management of risks. The internal control environment sets the tone of the Group/Company and influences the control consciousness of its people. It is the foundation for the Risk Management Framework providing both discipline and structure. The hallmark of an effective internal control environment is the commitment by the Board of Directors and the Senior Management.

Therefore, the Group/Company has taken numerous steps to strengthen the internal control environment of the Group, as evidenced by a number of criteria, including the following:

- Adopting and implementing policies and procedures such as the Risk Management Policy, Compliance Policy, Investment Policy, Anti-Money Laundering Policy, Manual of Financial Authority, Code of Ethics, Procurement Policy and Procedures, etc. to give direction to the Management to build a strong control environment.
- Developing procedure manuals and guidelines to ensure that the requirements in the policies are trickled down to lower levels of the structure.
- The establishment of the Audit Committee, Risk Management Committee, Investment Committee, Human Resources and Remuneration Committee, Strategy Review Committee and Related Party Transactions Review Committee to oversee and critically review the operations of the respective areas.
- Establishing a Risk and Compliance Department to ensure that the Company's practices are in line with the set policies and procedures.
- Appointing an independent firm of Internal Auditors (Messrs KPMG) to monitor the activities of the Group/Company.
- Training and educating employees on the importance of internal controls.

Risk Management

RISK MANAGEMENT STRUCTURE AND RESPONSIBILITIES

The Group/Company adopts a Risk Management structure that is commensurate with the size and nature of its activities.

The Board of Directors is ultimately responsible for the sound and prudent management of the Group/Company and its approval is necessary for the Risk Management strategy and Risk Policies pertaining to all activities of the Company. Further, the Board also ensures that adequate resources, expertise and support are provided for the effective implementation of the Risk Management strategy, policies and procedures of the Group/Company.

The Audit Committee is responsible for assisting the Board in fulfilling its responsibilities for the Financial Reporting Process, the system of internal Control, the Audit Process and the Monitoring Process for compliance with laws and regulations.

The Risk Management Committee is responsible for assisting the Board in fulfilling its responsibility with respect to HNBA's Risk Management Framework, including the significant policies and practices used in managing risks. The Committee reviews the Group's Risk Profile as well as its Risk Management Framework, including the significant policies and practices employed to manage both risks in the Group's business and the overall adequacy of the Risk Management Function. Activities carried out by the Risk Management Committee is given in the Risk Management Committee Report on pages 194 and 195.

The Investment Committee is responsible for assisting the Board in fulfilling its responsibility to manage the

Investment risks of the Group/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 Human Resources and Remuneration Committee is responsible for assisting the Board in fulfilling its responsibility in managing the HR risks of the Group/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.

Strategy Review Committee is responsible for assisting the Board in fulfilling its responsibility in managing the strategic risks of the Group/Company. The Committee reviews and monitors the implementation of the strategic plan and takes steps to identify any unhealthy developments that affects the strategic direction of the Group/Company.

Related Party Transactions Review Committee is responsible for assisting the Board in managing the risks involved in carrying out related party transactions of the Group/Company. The Committee monitors the compliance with related party transactions. The Committee also ensures that the interests of the Shareholders as a whole, are taken into account when entering into related party transactions and to prevent Directors, Key Management Personnel (KMP) or substantial Shareholders from taking advantage of their positions.

THREE LINES OF DEFENSE FOR RISK MANAGEMENT

HNBA's Risk Management structure is formulated with three Lines of Defense to manage the risks effectively.

1st Line of Defense

Business Unit Heads/Risk Owners are charged with employing personnel with the appropriate skills and experience to identify, measure, monitor and control risks within the areas of their particular expertise.

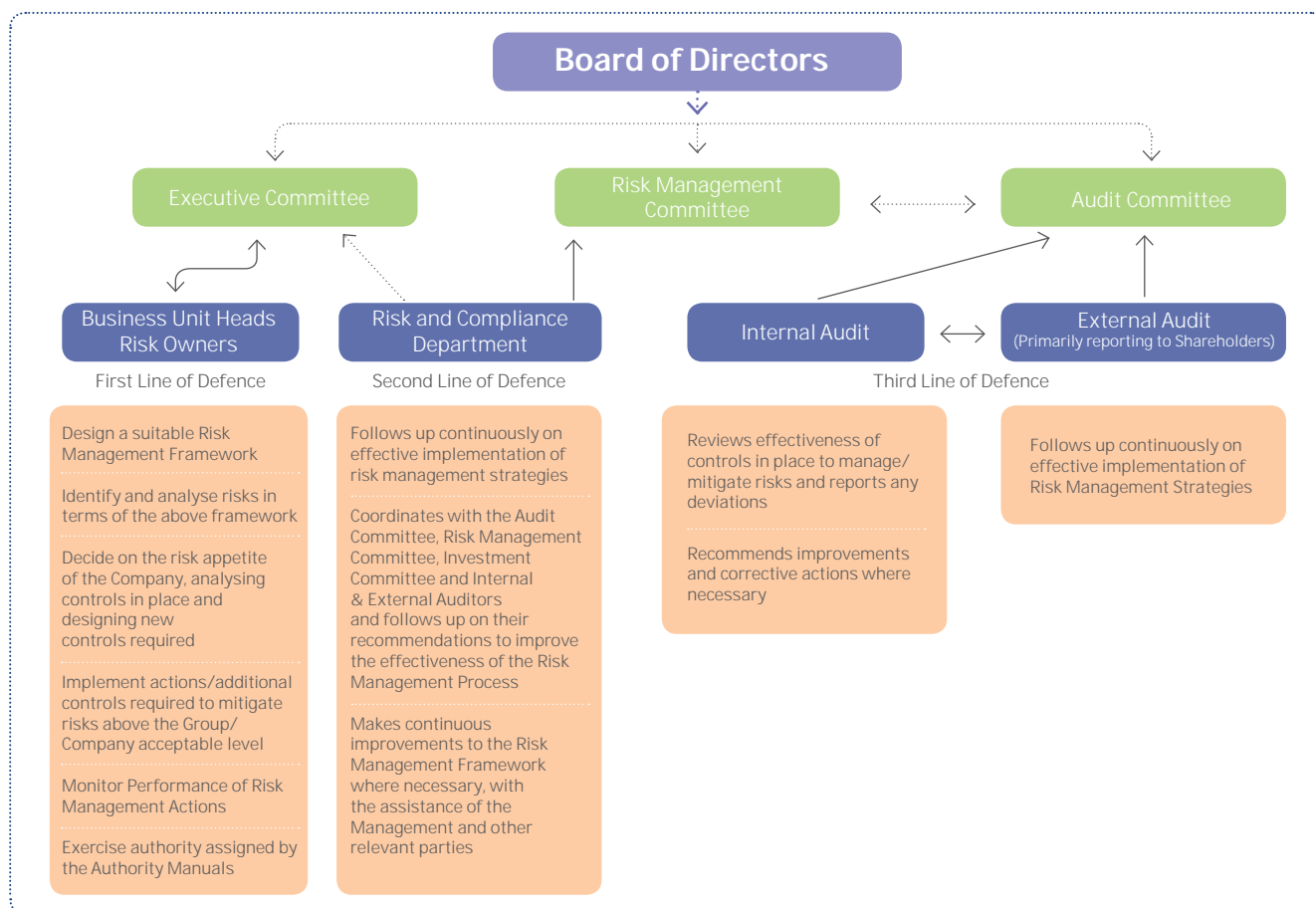
2nd Line of Defense

The Risk and Compliance Department is primarily responsible for developing the Group's Risk Management Policies and Procedures as well as ensuring compliance. This Department is also responsible for ensuring that changes in regulations are disseminated to the appropriate business units.

3rd Line of Defense

The Internal Auditor is responsible for ensuring the adequacy of the overall Risk Management and Internal Control Processes of the Group/Company and also to monitor the effectiveness of implementation of agreed actions to mitigate identified risks. They report their findings to the Management on a monthly basis and to the Audit Committee, on a quarterly basis.

The External Auditor also reports on Internal Control weaknesses, that affect the financial reporting process identified during the audit.



OUR APPROACH TO RISK MANAGEMENT

In carrying out the core activities, the Company is faced with a wide range of risks which are often interlinked and if not properly managed, could threaten the ability of the Group/Company to achieve its objectives. The Group/Company therefore adopts a holistic approach to correctly identify, measure, monitor and control these risks.

HNB ASSURANCE PLC RISK MANAGEMENT PROCESS

Risk Identification Strategies

At any given time, the Company/Group faces a number of potential risks including generic risks associated with

the socio-economic environment as well as industry specific risks. The Group seeks seven types of key categories.

- Insurance Risk
- Investment Risk
- Operational Risk
- Strategic Risk
- Regulatory Risk
- Reputational Risk
- Socio-Economic and Political Risk

Risk Register

Our Risk Register has been developed to identify key risks faced by the Group/Company with regard to both core and supporting activities of the business.

The Risk Register plays a crucial role in our Risk Management Strategy, by assisting us to identify and address issues as soon as they arise. The continuously updated Risk Register enables us to conduct qualitative and quantitative risk analysis and follow up with designing appropriate risk responses to monitor and control risks. Once an identified risk has been managed successfully and becomes no longer relevant, the Risk Management team removes that risk from the Risk Register to maintain a cohesive list of risks associated with core and supporting activities related to our business.

Risk Management

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. All identified risks were measured based on the criteria given below.

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

RISK CONTROL STRATEGIES

The Management and relevant functions/business units evaluate identified risks to determine the adequacy of existing risk control measures. If the Management or relevant business unit deems existing controls inadequate to manage identified risks, further action is deliberated and implemented following appropriate procedures and reviews. Relevant members of the Company's Risk Management team takes on the responsibility of implementing the new controls to mitigate identified risks in a timely manner.

RISK MONITORING STRATEGIES

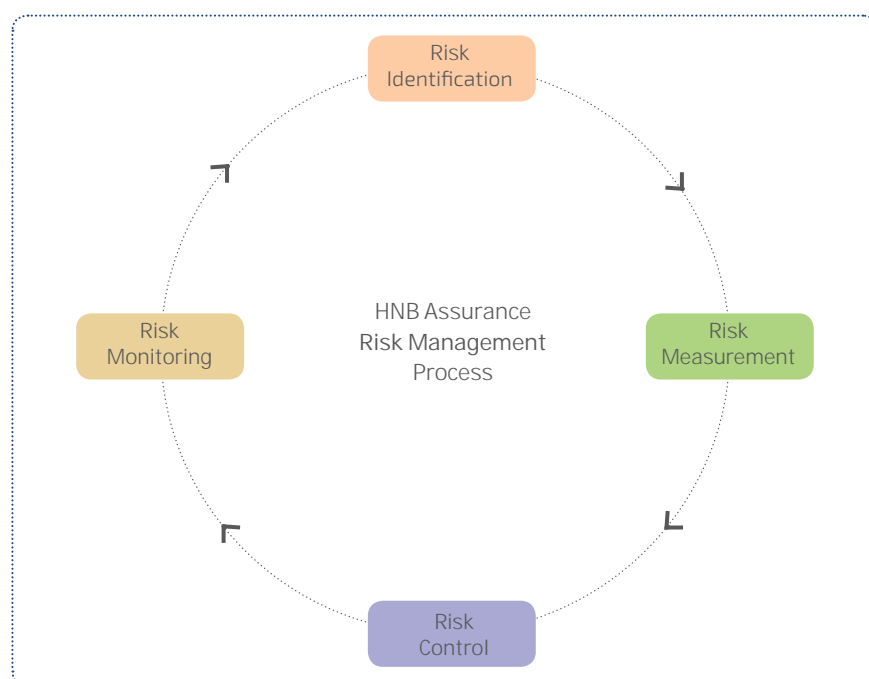
Risk Monitoring is a detailed and a comprehensive process, in which all related parties discharge a set of unique responsibilities to ensure effective monitoring of risk.

Key Risk Indicators

Key Risk Indicators (KRIs) enables the Company/Group to monitor each identified risk on a continuous basis and provide detailed reports periodically at Risk Management Committee meetings.

Monitoring by the Risk and Compliance Department

The Risk and Compliance Department monitor the Risk Register to ensure that all actions agreed upon have been carried out effectively. The function is also responsible for updating the risk profile of the Group/Company in line with the evolving risk environment.



Monitoring by Internal Auditors

Internal Auditors design an audit plan to monitor the implementation process of the identified risk controls listed in the Risk Register. The audit reports drafted by Internal Auditors contain any control lapses that occurred during the Risk Management implementation procedure. These reports are presented at Audit Committee meetings.

Monitoring by the Risk Management Committee

The Risk Management Committee reviews the main risks faced by the Group/Company and discusses the actions taken to mitigate those risks. The Risk Management Committee also reviews the KRIs prepared. Further, the Risk Management Committee monitors the action taken by the Group/Company on the changes to applicable regulations, changes to reinsurers' ratings, risks arising from external events, compliance checklists, etc.

Monitoring by the Audit Committee

The Audit Committee reviews the minutes of the Risk Management Committee, as well as all Internal Audit Reports and Management Letters issued by both Internal and External Auditors. The Audit Committee is responsible for communicating with the Risk Management Committee to resolve matters that require the attention of the Risk Management Committee.

Monitoring by the Board

The Board of Directors reviews the minutes of the Risk Management Committee meetings and the Audit Committee meetings. In addition, the Board reviews a report on the Company's compliance activities with the applicable rules and regulations, on a monthly basis.

Monitoring by the Board Integrated Risk Management Committee of Hatton National Bank PLC

Throughout the year under review, HNB Assurance PLC and HNB General Insurance Limited consistently reported to the 'Board Integrated Risk Management Committee' (BIRMC) of Hatton National Bank PLC (HNB). During the year four reports were provided to the Parent Company for review. These reports include the financial results, details of the high risks faced by the Company, as well as the risk mitigation measures adopted to manage identified risks.

RISK TOLERANCES

The Board and Management desire to manage risks at a level that permits the Group to grow and achieve its strategic business objectives, while conducting business in a safe and sound manner, complying with all applicable regulations and provide a return to shareholders that meets or exceeds their expectations. The Board of Directors have set risk tolerance levels through the Group's Risk Appetite Statement.

The Risk Management Committee monitors the Group/Company's compliance with the Risk Appetite statement during Risk Management Committee meetings.

Summary of the Risk Management Policy of the Company

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

Risk Management

A description of the main risks faced by both HNB Assurance PLC (HNBA) and HNB General Insurance Limited (HNBGI) and controls implemented to mitigate/manage such risks are given below:

Risk	Mitigation Strategies
The Risk Management actions relating to core operational functions of the Life Insurance Business	
<p>Underwriting Risk</p> <p>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.</p>	<ul style="list-style-type: none"> • An adequate level of segregation of duties is ensured between underwriting and sales. The underwriting function is centralised and operates from the Head Office. • Manual of Financial Authority is available to give guidance on underwriting limits. • Frequent audits and verifications. • Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are adequately priced. • Only registered laboratories are used when obtaining medical reports and regular visits are made by the Management to such laboratories to monitor the quality of service. • Carrying out underwriting as per the guidelines set by the reinsurers. • Focused training is provided on proper selling in Sinhala, Tamil and English to Insurance Advisors. • A 'Customer Need Analysis' Form is used to identify customer requirements and sell the most appropriate policy. • Frequent expense studies and product profitability studies are carried out. <p>Further details on Underwriting Risk Management are given in Note 44.2.2.1 on page 327.</p>
<p>Reinsurance Risk</p> <p>Reinsurance Risk refers to:</p> <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Frequent review of the outstanding Reinsurance receivables. • A very close and professional relationship is maintained with all reinsurers. • Only reinsurers with ratings above the regulatory requirements are used as reinsurers. • Changes to the ratings of reinsurance companies are continuously monitored. <p>Further details on Reinsurance Risk Management are given in Note 44.2.2.1 on page 328.</p>
<p>Claim Risk</p> <p>Claim Risk refers to the risk of over or under payment of claims, risk of not meeting the service standards set for claims payment process and claims cost exceeding the budgeted levels.</p>	<ul style="list-style-type: none"> • 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 the Life Insurance business more closely and guide the Management to make more informed decisions. • Claims are reserved immediately at the intimation or on the availability of information on the death, injury or illness of an insured. • Service standards have been set on the time taken to process claims and these are monitored by the Management as well as by the Board Risk Management Committee. • Independent investigators are used to investigate claims to ensure fraudulent claims are identified. • Financial authority limits are set based on the claim limits where the maximum limit is with the Claims Panel which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims. <p>Further details on Claims Risk Management is given in Note 44.2.2.1 on page 328.</p>

Risk	Mitigation Strategies
<p>Risk of Substitutes</p> <p>Due to the high interest rates in the country, bank deposits would be more attractive to the market. Also, certain financial institutes provide a free Life Insurance Cover for their deposits which increases the competition for the Company's Investment type products.</p>	<ul style="list-style-type: none"> • The Company is focusing on different promotional mechanisms to sell Investment type products and is reducing the dependency on Single Premium Investment products. • The Company has taken steps to increase the protection element in Life Insurance new business.
<p>The Risk Management actions relating to core operational functions of the General Insurance Business under HNB General Insurance Limited</p>	
<p>Underwriting Risk</p> <p>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</p>	<ul style="list-style-type: none"> • An adequate level of segregation of duties is ensured between underwriting and sales. Both Motor and Non-Motor underwriting functions have been centralised and operations are handled from the Head Office. • Manual of Financial Authority is available to give guidance on underwriting limits. • Frequent audits and verifications. • Carrying out risk surveys and portfolio reviews. • A risk based pricing mechanism has been introduced for motor underwriting. • Minimum premium levels have been set for certain vehicle categories. • Motor underwriting is carried out considering the limits set in the Risk Appetite Statement. Motor insurance performance against the Risk Appetite Statement is monitored at the Board Risk Management Committee meetings. • Monitor customer profitability continuously and discontinue loss making agreements. • New incentive scheme was designed for sales staff considering both turnover and profitability. • Average premium prices with that of the average claims cost and the claims frequency is monitored on a daily basis to identify any changes in the business on an ongoing basis. • Not renewing the policies of loss making customers. Increasing the renewal prices based on the profitability.
<p>Further details on Underwriting Risk Management are given in Note 44.2.2.2 on page 330.</p>	
<p>Reinsurance Risk</p> <p>Reinsurance Risk refers to:</p> <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Frequent review of the outstanding Reinsurance receivables • A very close and professional relationship is maintained with all reinsurers and reinsurance brokers. • No insurance cover is issued without a confirmed reinsurance in place, except in the case of some selected classes which are written on a net basis. • Only a globally trusted and stable portfolio of reinsurance companies is used. Please refer page 332 for the Credit Ratings of the Company's Reinsurer Portfolio. • Changes to the ratings of reinsurance companies are continuously monitored.
<p>Further details on Reinsurance Risk Management are given in Note 44.2.2.2 on page 331.</p>	

Risk Management

Risk	Mitigation Strategies
<p>Claim Risk</p> <p>Claim Risk refers to the risk of over or under payment of claims, risk of not meeting the service standards set for claims payment process and claims cost exceeding the budgeted levels</p>	<ul style="list-style-type: none"> • Motor claims engineering and motor claims processing functions have been segregated to ensure proper segregation of duties. • Average size of the claims outstanding and a trend analysis on the claims outstanding amount is carried out to check any unusual movements in claims reserving. • The service of a qualified Independent Actuary is obtained quarterly to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims. • All third party claims are separately reviewed with the support of the Legal Department. • Closed file reviews are carried out periodically to identify any control lapses. • Independent investigators are used to investigate claims to ensure fraudulent claims are identified. • Increase the number of on-site offers for low value motor claims to provide a better service and reduce the administration cost of the claims process. • Financial authority limits are set based on the claim limit giving the maximum limit to the Claims Panel which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims. <p>Further details on Claims Risk Management is given in Note 44.2.2.2 on page 331.</p>
<p>Credit Risk</p> <p>Credit Risk is identified as the risk pertaining to uncertainty on the debtors' ability to meet obligations due to the Company.</p>	<ul style="list-style-type: none"> • Premium Payment Warranty (PPW) is strictly implemented and all General Insurance Policies with payments outstanding for more than 60 days are cancelled. • Follow-up meetings on debt collection are conducted. Analysis of PPW cancellations are presented to the Board Risk Management Committee. • 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.
<p>Increased number of road accidents and increase repair cost of vehicles</p>	<ul style="list-style-type: none"> • Number of accidents reported from insurance policies issued by the Company is monitored on a daily basis to identify any adverse developments at the early stage. • Claim frequency and average claim size have been set as main criteria when determining the price. • The pricing grid prepared captures the geographical area of the vehicle insured and the type of vehicle to ensure higher prices are charged for vehicles insured from high risk areas and for high risk vehicle types.
<p>Tax Increases on Motor Vehicle Imports</p>	<ul style="list-style-type: none"> • Closely working with Hatton National Bank (HNB) to increase percentage of business channeled through the Bank. • Expanding the Agent Channel to target more non-leasing business.

Risk	Mitigation Strategies
<p>The Risk Management Actions taken Relating to Investment Risk Investment risk refers to the various types of risks associated with the significant portfolio of investments managed by the Company</p>	
<p>Concentration Risk This refers to the risk of over-exposure to a particular company or sector due to lack of diversification in the investment portfolio.</p>	<ul style="list-style-type: none"> • A target asset allocation limits are set by the Investment Committee for HNBA Fund and HNBGI Fund by the Investment Committee in consultation with the Management and Risk Management Committee. • Sectoral limits are set for both equity and fixed income investments which are adhered to when placing new investments. • Adherence to target is reviewed periodically by MD/CEO, CFO with the participation of both front-office and back-office investment staff. A special focus is placed on reviewing exposures to Equity and Corporate Debt investments. • A checklist must be made to verify the compliance of all new investment placements other than Government Securities with all applicable rules and guidelines. Investment Committee meets on quarterly basis and reviews the investment portfolios, investment strategy and the future outlook. • Compliance with Investment Policy and best practices are reviewed by the Internal Auditors and the Risk and Compliance Department on a monthly basis. • Deviations from target asset allocation if any are reported to the Risk Management Committee periodically.
<p>Credit Risk This relates to the risk of not being able to recover the capital and/or interest relating to investments</p>	<ul style="list-style-type: none"> • Investments are only made with entities approved by the Investment Committee consisting of companies which, in the opinion of the Committee, carry minimal credit risk. Creditworthiness of potential investment entities is checked mainly through ratings assigned to the issuing institution or the ratings assigned to the issue. • Any investments in any other entity are carried out only with the explicit approval of the Investment Committee. • All investments in Corporate Debt Instruments, whether rated or not, are done after a detailed evaluation carried out by the Investment Management Team, who will recommend the investment for approval by the Chief Investment and Strategy Officer, MD/CEO or the Investment Committee according to the Limits of Authority pertaining to investments. • Single party exposure limits are decided based on the credit ratings and regulatory requirements and are monitored closely at different levels. • Master Repo Agreements are signed with all primary dealers working with the Company in order to ensure zero level of default risk in respect of Government Securities bought through such parties in the event of their bankruptcy. • Maintaining a custodian arrangement for Government Securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd., (a joint venture of HNB and DFCC Bank) provides additional comfort.
<p>Please refer pages 333 to 337 (Financial Risk section) for further information.</p>	
<p>Liquidity Risk Liquidity Risk refers to the inability of the Company to meet contractual obligations such as claim settlements and payments to reinsurers and other creditors due to the insufficient availability of cash and other liquid investments.</p>	<ul style="list-style-type: none"> • The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy which is reviewed by the Investment Committee regularly. • Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet insurance and investment contract obligations. • Reviewing the maturity mix of the investment portfolio by the Management and the Investment Committee on a regular basis.

Risk Management

Risk	Mitigation Strategies
<p>Market Risk – Interest Rate Risk</p> <p>The risk of fluctuations of fair values or future cash flows of investments due to a change in market interest rates. This may result in under achievement of investment income, fall in fund value and inability to meet solvency standards as a result of a fall in bond prices due to a rise in interest rates.</p>	<ul style="list-style-type: none"> • The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy. The ALM guidelines are reviewed by the Investment Committee regularly. • Macro-economic indicators and their impact on the Group's Investment Portfolio are monitored closely by the Management, Investment Committee and Risk Management Committee regularly. • Necessary changes are made to the asset allocation and the maturity mix of investments on a periodic basis. • Investments are classified into different categories as required by Sri Lanka Accounting Standards (SLFRS/LKAS) considering both the intention and the ability of the Company to hold such investments.
<p>Market Risk – Equity Price Risk</p> <p>The risk of fluctuation in equity investments due to change in equity market prices</p>	<ul style="list-style-type: none"> • Total exposure to equity investments is made strictly within the agreed target asset allocation and sectoral equity limits. • Equity investments are mostly made in fundamentally sound stocks which are identified after an in-depth research and evaluation process by the internal investment management team. • Equity portfolios are reviewed quarterly by the Investment Committee on a quarterly basis. • Impact from market movement is monitored on a daily basis and warnings sent to MD/CEO and CFO of high impact volatilities.
<p>The Risk Management Actions taken Relating to the Management of the Human Resources Risk</p>	
High Staff Turnover Ratio	<ul style="list-style-type: none"> • Motivating employees through rewarding schemes and trainings. • Counselling employees as and when they need counselling. • Conduct exit interviews. • Periodically carrying out induction programmes. • Analysis of staff turnover is reviewed by the Management and the Board. • Employee surveys are carried out on a periodic basis.
Retaining Key People in the Company	<ul style="list-style-type: none"> • Remuneration packages are aimed to be in line with the industry to retain and attract qualified and talented staff. • Salary surveys are conducted periodically to ensure competitive salaries are given to the staff. • Regular Management meetings and Distribution Management meetings are conducted to convey the key decisions taken at the top Management level and to communicate what is happening in the Company to all members of the Management Team.

Share Information

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

We have disclosed below, the information required by Section 7.6 and 9.3.2. of the Listing Rules of the Colombo Stock Exchange 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 2017 were submitted to the CSE on 28th February 2018. The Interim Financial Statements of the 4th Quarter, for the year/quarter ended 31st December 2018, was submitted to the CSE on 14th February 2019. The Audited Financial Statements for the year ended 31st December 2018 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 202.

4. PRINCIPAL ACTIVITIES OF THE COMPANY [RULE NUMBER 7.6 (II)]

The principal activities of the Company and its Subsidiary during the year are given in the Annual Report of the Board of Directors and Note 1.5 in Accounting Policies on pages 199 and 223 respectively.

5. TOP 20 SHAREHOLDERS [RULE NUMBER 7.6 (III)]

The 20 largest Shareholders as at 31st December 2018 together with their shareholding as at 31st December 2017 are given below:

Name of the Shareholder	2018		2017	
	Shareholding	% on Issued Shares	Shareholding	% on Issued Shares
1. Hatton National Bank PLC A/C No. 01	29,993,000	59.99	29,993,000	59.99
2. The Ceylon Guardian Investment Trust PLC A/C No. 02	1,892,800	3.79	2,000,000	4.00
3. Mr. S N P Paliheena & Mrs. A S Paliheena	1,718,677	3.44	400,000	0.80
4. Mr. Mohamed Faizer Hashim	510,000	1.02	510,000	1.02
5. Mrs. Abiramipillai Kailasapillai	500,000	1.00	400,000	0.80
6. Mrs. Arunthathi Selliah	500,000	1.00	400,000	0.80
7. Arunodhaya Investments (Pvt) Ltd.	450,000	0.90	400,000	0.80
8. Arunodhaya Industries (Pvt) Ltd.	450,000	0.90	400,000	0.80
9. Arunodhaya (Pvt) Ltd.	450,000	0.90	400,000	0.80
10. Ceylon Investment PLC A/C No. 02	380,561	0.76	* -	-
11. Mr. P H D Waidyatilaka	272,683	0.55	* -	-
12. People's Leasing & Finance PLC/Hi Line Trading (Pvt) Ltd.	260,795	0.52	* -	-
13. Pershing LLC S/A Averbach Grauson & Co.	259,202	0.52	* -	-
14. Andysel (Pvt) Ltd.	250,000	0.50	* -	-
15. Corporate Holdings (Pvt) Ltd. A/C No. 01	245,103	0.49	245,103	0.49
16. Suktam Holdings (Pvt) Ltd.	234,434	0.47	* -	-
17. Bank of Ceylon A/C Ceybank Century Growth Fund	222,361	0.44	575,317	1.15
18. Peacock Properties (Pvt) Ltd.	218,633	0.44	* -	-
19. Mr. Madduma Hetti Vidanelage Upali Gunatilaka	205,273	0.41	205,978	0.41
20. Mr. Sharda Vikas	203,000	0.41	203,000	0.41
	39,216,522	78.45		

* Note: Not included in the top 20 shareholder list in year 2017.

Share Information

6. PUBLIC SHAREHOLDING [RULE NUMBER 7.6 (IV)]

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

	2018		2017	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Public Shareholding	19,137,462	38.27	19,316,361	38.63

	2018		2017	
	No. of Shareholders	% on Total No. of Shareholders	No. of Shareholders	% on Total No. of Shareholders
Number of Shareholders	3,398	99.71	3,422	99.71

7. DIRECTORS' SHAREHOLDING [RULE NUMBER 7.6 (V)]

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

Name of the Director	No. of Shares as at 31st December 2018	No. of Shares as at 31st December 2017
Mrs. M A R C Cooray – Chairperson	18,035	18,035
Mr. S C Ratwatte	14,666	14,666
Mr. J A P M Jayasekera	83,057	83,057
Mr. D P N Rodrigo	180	180
Mrs. S N Wickramasinghe	52,500	52,500
Dr. S Selliah	200,000	100,000
Mr. A G R Dissanayake	100	100
Mr. D P Lokuarachchi – Managing Director/Chief Executive Officer	Nil	Nil
Mr. D R Abeyesuriya (Appointed w.e.f. 1st January 2018)	1,000	Not Applicable*

* Mr. D R Abeyesuriya did not hold any shares of the Company in year 2017.

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 95 to 104.

9. MATERIAL ISSUES PERTAINING TO EMPLOYEES AND INDUSTRIAL RELATIONS OF THE COMPANY [RULE NUMBER 7.6 (VII)]

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

10. COMPANY'S LAND HOLDINGS AND INVESTMENT PROPERTIES [RULE NUMBER 7.6 (VIII)]

The Company does not hold any land or investment properties as of the reporting date.

11. STATED CAPITAL [RULE 7.6 (IX)]

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

Stated Capital	–	Rs. 1,171,875,000
Number of Shares	–	50,000,000
Class of Shares	–	Ordinary Shares
Voting Rights	–	One Vote per Ordinary Share

12. SHAREHOLDINGS

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

There were 3,408 registered shareholders as at 31st December 2018 (2017 – 3,432). 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	2,096	618,294	1.24	10	2,415	0.00	2,106	620,709	1.24
1,001 – 10,000 Shares	1,119	3,930,596	7.86	11	44,216	0.09	1,130	3,974,812	7.95
10,001 – 100,000 Shares	128	3,492,688	6.99	9	250,065	0.50	137	3,742,753	7.49
100,001 – 1,000,000 Shares	29	7,395,933	14.79	3	661,316	1.32	32	8,057,249	16.11
Over – 1,000,000 Shares	3	33,604,477	67.21	0	0	0.00	3	33,604,477	67.21
Total	3,375	49,041,988	98.09	33	958,012	1.91	3,408	50,000,000	100.00

(b) Analysis of Shareholders

i. Resident/Non-Resident

	31st December 2018			31st December 2017		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	3,375	49,041,988	98.09	3,403	49,463,725	98.92
Non-Resident	33	958,012	1.91	29	536,275	1.08
Total	3,408	50,000,000	100.00	3,432	50,000,000	100.00

ii. Individual/Institutional

	31st December 2018			31st December 2017		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,298	12,597,837	25.19	3,326	10,551,593	21.11
Institutional	110	37,402,163	74.81	106	39,448,407	78.89
Total	3,408	50,000,000	100.00	3,432	50,000,000	100.00

Share Information

13. SHARE PERFORMANCE [RULE NUMBER 7.6 (XI)]

The details relating to the share performance are given below:

	2018	2017	2016	2015	2014
Number of Transactions	6,024	2,433	1,288	1,808	3,111
Number of Shares Traded	8,076,234	2,507,543	1,587,252	1,201,027	4,937,695
Value of Shares Traded (Rs.)	786,616,771	167,015,023	98,598,781	103,016,431	373,672,883
Market Capitalisation (Rs. Mn.)					
HNB Assurance PLC	6,600	3,625	2,940	3,730	4,175
CSE	2,839,450	2,899,291	2,745,406	2,937,998	3,104,863
Dividend per Share (Rs.)	7.00	6.00	5.00	2.00	3.75
Dividend Payment (Rs. Mn.)	350	300	250	100	187.5
Dividend Payout (%)	15%*	41.38	41.67	23.39	45.79
Basic Earnings per Share (Rs.) – Group	54.11	18.20	12.95	3.95	8.35
Basic Earnings per Share (Rs.) – Company	49.50	14.50	12.00	8.55	8.19
Net Asset Value per Share (Rs.) – Group	114.89	75.93	53.94	45.68	48.28
Market Price per Share (Rs.) – Company					
Highest	135.00	74.40	72.90	93.50	98.00
Lowest	72.60	52.00	53.00	69.40	52.20
Year End (VWA)	132.00	72.50	58.80	74.60	83.50
P/E Ratio (Times)	2.44	3.98	4.54	18.89	10.00

* Excluding the One-Off Surplus

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 as not materially different to the book value. Details relating to the changes in the Company's fixed assets are given on Note 4 to the Financial Statements on pages 244 and 245.

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 number 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 85 and 86.

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 43 to the Financial Statements on pages 315 to 321.

19. NON-RECURRENT RELATED PARTY TRANSACTIONS [RULE NUMBER 9.3.2 (A)]

There were no non-recurrent related party transactions exceeding the aggregate limit of 10% of the Equity or 5% of the Total Assets. All related party transactions at aggregate level have been disclosed under Note 43 to the Financial Statements on pages 315 to 321.

20. RECURRENT RELATED PARTY TRANSACTIONS [RULE NUMBER 9.3.2 (B)]

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

The Company carried out transactions with the Government of Sri Lanka and its related entities, where the aggregate amount of transactions have exceeded 10% of the Company's Gross Written Premium. Government of Sri Lanka is considered as a related entity of the Company, considering the significant influence it has on the ultimate parent company, Hatton National Bank PLC. The terms and conditions of transactions carried out with the Government of Sri Lanka and its related entities were similar to those applicable to the general public. Details of transactions with the Government of Sri Lanka and its related entities are given on pages 320 and 321 under Note 43.2.e to the Financial Statements.

21. REPORT BY THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE [RULE NUMBER 9.3.2 (C)]

Please refer the Related Party Transactions Review Committee report on pages 189 and 190.

22. CONFIRMATION BY THE DIRECTORS ON THE COMPLIANCE WITH RELATED PARTY TRANSACTIONS RULES [RULE NUMBER 9.3.2 (D)]

Please refer page 204 for the confirmation by the Directors on compliance with the rules pertaining to Related Party Transactions.

23. IMPLEMENTATION OF SLFRS 9 – FINANCIAL INSTRUMENTS AND SLFRS 16 – LEASES

Details of the implementation process and the impact to the Group from proposed SLFRS 9 – Financial Instruments and SLFRS 16 – Leases are given on page 232 and 233 under Note 3 to the Financial Statements.

Compliance Summary

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

Information Required to be Disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Relevant Section in this Annual Report
Nature of the business of the Company and its subsidiary	Section 168 (1) (a)	Please refer page 199
Signed Consolidated Financial Statements of the Group for the accounting period completed	Section 168 (1) (b)	Please refer page 218
Auditors' Report on Consolidated Financial Statements of the Group	Section 168 (1) (c)	Please refer pages 215 to 217
Changes in Accounting Policies made during the accounting period – Group and the Company	Section 168 (1) (d)	Please refer page 200
Particulars of entries in the Interests Register of the Company during the accounting period	Section 168 (1) (e)	Please refer page 203
Remuneration and other Benefits paid to the Directors of the Company and its subsidiary during the accounting period	Section 168 (1) (f)	Please refer page 204
Total amount of Donations made by the Company	Section 168 (1) (g)	Please refer page 206
Information on the Directorate of the Company during and at the end of the accounting period	Section 168 (1) (h)	Please refer page 202
Amounts payable to the Auditor as audit fees and fees for other services rendered to the Company and its subsidiary during the accounting period as a separate disclosure	Section 168 (1) (i)	Please refer page 204
Auditors' relationship or any interest with the Company and its subsidiary	Section 168 (1) (j)	Please refer page 204
Annual Report of the Board signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Please refer page 207

DISCLOSURE REQUIREMENTS AS PER SCHEDULE – I OF THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Subject		Reference	Relevant Section in this Annual Report
A. Annual Report	Chairman and CEO	A.2.1 and A.5.7	Please refer pages 72 and 74
	Board Balance	A.5.5	Please refer page 73
	Nomination Committee	A.7.1	Please refer page 74
	Appointment of New Directors	A.7.3	Please refer page 74
	Appraisal of Board Performance	A.9.4	Please refer page 75
	Board Related Disclosures	A.10.1	Please refer page 76
	Disclosure of Remuneration	B.3 and B.3.1	Please refer page 78
	Major and Material Transactions	C.3 and C.3.1	Please refer page 79
	Audit Committee	D.3.3	Please refer page 81
	Code of Business Conduct and Ethics	D.5.1 and D.5.4	Please refer page 82
	Communication with shareholders	C.2.2, C.2.3, C.2.4, C.2.5, C.2.6, C.2.7	Please refer pages 78 and 79
	B. Remuneration Committee Report	Members of Remuneration Committee	B.1.3
C. Directors' Report	Directors' Report	D.1.4	Please refer page 79
D. Financial Statements	Financial Statements	D.1.5	Please refer page 80
	Related Party Transactions	D.1.8	Please refer page 80
E. Management Report	Management Report	D.1.6	Please refer page 80
F. Corporate Governance Report	Corporate Governance Report	D.6.1	Please refer page 82
G. Audit Committee Report	Audit Committee Report	D.3.2	Please refer page 81

Subject		Reference	Relevant Section in this Annual Report
H. Related Party Transactions Review Committee Report	Related Party Transactions Review Committee Report	D.4.3	Please refer page 81
I. Statement on Internal Control	Statement on Internal Control	D.1.5 and D.2.4	Please refer pages 80 and 81
J. Internet of Things and Cybersecurity	Disclose the process to identify and manage Cybersecurity risks	G.5	Please refer page 83
K. Sustainability Reporting	Sustainability Reporting	H.1.1 to H.1.4	Please refer page 84

DETAILS OF REGULATORY RETURNS SUBMISSION AND PAYMENTS OF THE COMPANY/GROUP

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

✓ – Complied X – Not Complied

Compliance Summary

REGULATORY REPORTS SUBMITTED TO IRCSL DURING 2018 ARE GIVEN BELOW

Submissions to IRCSL	Date of Submission		
	HNB Assurance PLC	HNB General Insurance Limited	Deadline Set by IRCSL
Annual Audited Financial Statement for the year ended 31st December 2017	28th February 2018	27th April 2018	30th April 2018
Annual Statutory Returns for the year ended 31st December 2017	27th April 2018	27th April 2018	30th April 2018
Circular 29 Auditor's Compliance Certificate	27th April 2018	27th April 2018	30th April 2018
Risk Assessment Report	27th April 2018	27th April 2018	30th April 2018
Quarterly Returns and Compliance Certifications			
31st December 2017 (4th Quarter)	15th February 2018	15th February 2018	15th February 2018
31st March 2018 (1st Quarter)	11th May 2018	15th May 2018	15th May 2018
30th June 2018 (2nd Quarter)	14th August 2018	14th August 2018	15th August 2018
30th September 2018 (3rd Quarter)	15th November 2018	15th November 2018	15th November 2018
Statement of Reinsurance Arrangements	30th January 2018	30th January 2018	31st January 2018
Actuarial Report and Abstracts	27th April 2018	27th April 2018	30th April 2018
Management Letter issued by the External Auditors for year ended 31st December 2017	27th April 2018	27th April 2018	30th April 2018
Information on Complaints handling and related performance (bi-annual basis submission)	30th January 2018	30th January 2018	30th January 2018
	24th July 2018	26th July 2018	30th July 2018

WE ARE... INNOVATIVE

Management Discussion and Analysis

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Management Discussion and Analysis

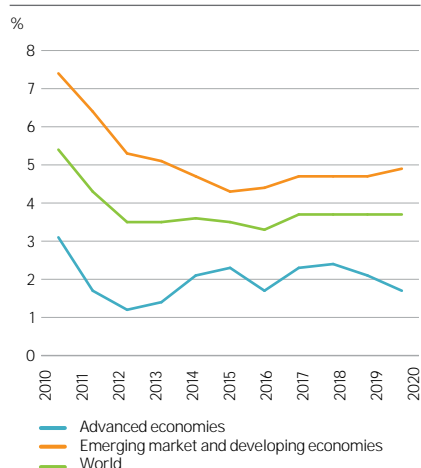
Our Operating Environment

GLOBAL ECONOMY

The anticipated global growth for 2018–19 remains bright at its 2017 level, but its pace is less vigorous than projected whilst becoming less balanced. The output on a global scale is projected at 3.7% for the year in perspective, a mere 0.2% lower than its forecast in April. Downside risks to global growth have risen in the past six months and the potential for upside surprises has receded. The laggard economies in Europe and Japan saw further progress in the labor market, with ongoing strength in employment powered by declining unemployment rates. The renewed “lowflation” concerns of 2017 have subsided on the back of stronger wage growth across the advanced economies and a rebound in US core inflation.

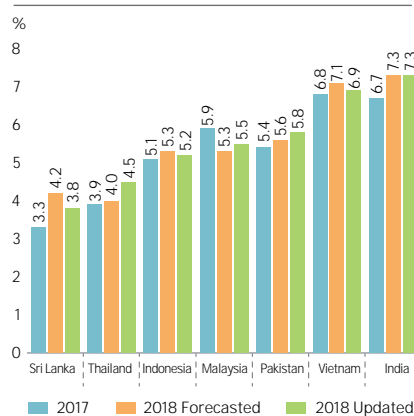
2018 was on track to be the first year since the financial crisis that the global economy was operating at or near full capacity treading beyond monetary and fiscal policy tools to stimulate short-term growth.

Projected Annual GDP Growth by Region



Source: International Monetary Fund

Peer Country - GDP Growth



Source: Asian Development Bank

Emerging Markets (EM)

Lower commodity prices and slower global demand have made Emerging Markets suffer during recent years. Although the growth in emerging and developing markets have been stronger in 2017, many analysts earlier this year believed that 2018 would be much brighter for Emerging Markets; however with aggressive decisions made by Federal Reserve and due to overall strengthening of US economy growth in emerging markets tend to slow down during 2018 with huge outflow from Emerging Markets. The prediction by IMF is that in comparison to other regions Emerging Markets and Developing Asia which accounts for over half of the world’s growth, will demonstrate a rise in their economic growth before leveling off within 2018 and in 2019.

The Asian Market

Asia is expected to grow by 5.5% in 2018, accounting for nearly two-thirds of global growth whilst the region remains the world’s most dynamic by a considerable margin. South Asia is expected to retain its growth momentum at 7.0% for 2018 and 7.2% for 2019 as published in April. The Asian region succeeded in maintaining the inflation rate at 3.2% lower than the global rate. But despite the strong outlook, the risks around the forecast are skewed firmly to the downside over the medium term. Key risks include further market corrections, a shift toward protectionist policies and an upsurge in political tensions.

SRI LANKAN ECONOMY

2018 : Year at a Glance

As a result of disruptions from policy inconsistency, lack of effective policy implementation, political unrest and fiscal and monetary policy tightening coupled with low investor sentiment, Sri Lanka’s economic growth slowed down more than expected. Asian Development Bank (ADB) and the International Monetary Fund (IMF) declined their forecasts on Sri Lanka’s growth to 3.8% and 3.7% respectively for 2018, considering unfavorable domestic and external developments. In addition, the Sri Lanka’s economic performance in 2018 is not satisfactory relative to its regional peers, countries in South Asia and Southeast Asia, where majority of them are performing better than forecasted.

Global Outlook - 2019

Global economic growth is expected to slow down in 2019, as tighter monetary policy, weaker earnings growth and political challenges confront the world’s major economies. Global economy will grow by 3.7% in 2019, on par with the 3.7% gained in 2018. After a challenging second half in 2018 for many EM economies, we expect a weak start to the year, but forecast a cyclical pickup in the second quarter of 2019. After aggressive policy rate hikes in 2018, FED will slow down the monetary policy tightening process as a Risk Management approach and to support the economic growth while we expect maximum of two hikes in 2019. After a sharp fall in the oil price in the last quarter of 2018, the market expects a moderate recovery in oil prices from current levels in the first half of 2019 and expects average price of \$73 per barrel.

The reasons for this slow economic growth of the country could be due to weak domestic demand, continued tightening in monetary condition as well as Government spending, lack of Foreign Direct Investments (FDIs), and lower net exports. Further, inconsistent economic policies driven by political instability may have affected in delaying private and public sector investment which are key drivers of economic growth.

During the year, the Government initiated certain structural reforms supported by the IMF to address the key structural problems in the economy such as twin deficits, launching of the new Inland Revenue Act which leads to revenue-based fiscal consolidation and introducing an automatic fuel pricing formula towards reducing fiscal risks from State-Owned Enterprises (SOEs). During the year, the Central Bank of Sri Lanka (CBSL) allowed for greater exchange rate flexibility while strengthening reserve buffers to ensure resilience against external shocks. These structural reforms may have affected the economic performance in the short-term, though they have constructive impact on medium to long-term on overall economy.

Three major Credit Rating agencies, downgraded Sri Lanka during the year 2018, highlighting that heightened external refinancing risks, an uncertain policy outlook and the risk of a slowdown in fiscal consolidation as a result of prevailed political crisis mainly in the final quarter.

Rating Agency	Previous Rating	Current Rating	Rating Action
Standard and Poor's	B+	B	Downgraded
Moody's Investors Service	B1	B2	Downgraded
Fitch Ratings	B+	B	Downgraded

Sri Lankan Credit Ratings

Per Capita Income

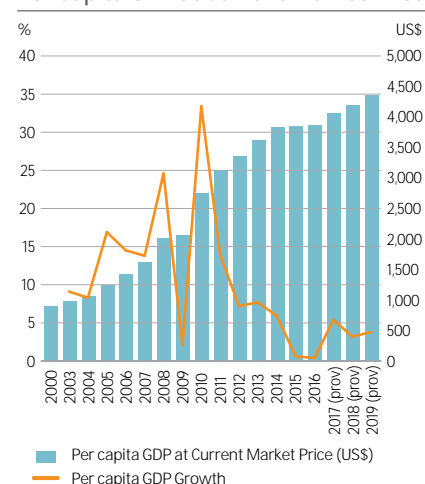
The penetration levels and growth of Life Insurance sector is positively correlated with Per Capita Income, as proven through extensive research. The Gross Domestic Product (GDP) per capita in Sri Lanka was last recorded at USD 4,073 in 2017. Sri Lanka's Nominal GDP Per Capita is forecasted to be USD 4,354 in Dec 2018 as reported by ADB.

The Government of Sri Lanka has detailed in its 2025 vision statement that it aims to increase per capita income to USD 5,000 over the next three years. This heralds a brighter dawn for the Life Insurance Industry and improves the medium and long term forecast of the Industry.

Tightened Growth

During the first nine months of 2018 the economy grew only by 3.3% and the CBSL downgraded the country's growth projections for the year 2018 several times. Growth forecast for Sri Lanka is limited to 3.8% in 2018 due to the tightening of monetary and fiscal policies and political instability. The three major components of the economy Agriculture, Industry and Services have contributed their share to the GDP at current price by 6.9%, 27.5%

Per Capita GDP at Current Market Price



and 58.6% respectively for cumulative 3 quarters of 2018. The main contributing sector to the GDP, the Services sector recorded a growth of 4.4% during the first 9 months of the year.

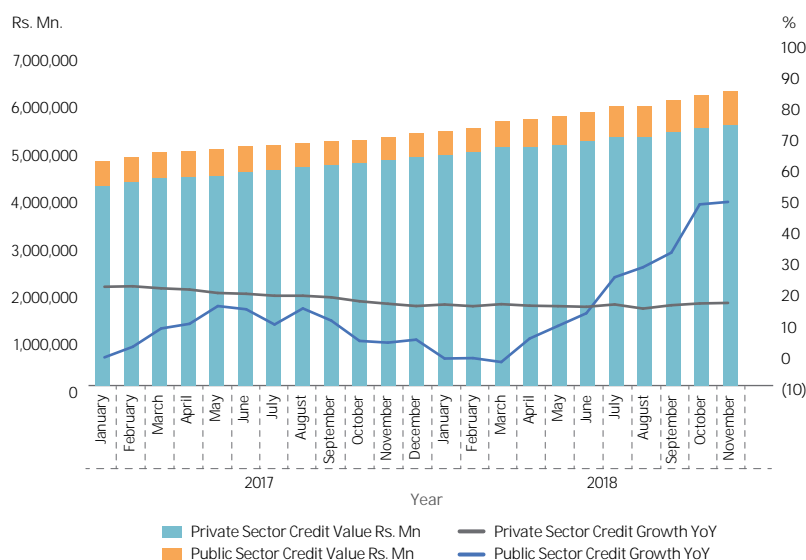
Credit extended to the private sector continued to be in the range of 14% - 16% supporting the moderation of broad money growth in 2018. Private Sector credit increased by 15.69% YoY in November 2018 compared to year ago.

Indicator	2018F	2017	2016	2015
GDP Growth	est 3.8%	3.1%	4.4%	4.8%
Inflation (CCPI - YoY)	2.8%	7.3%	4.2%	4.2%
Interest Rates - 1 Year Treasury Bill	11.2%	8.9%	10.2%	7.1%
Total Debt % a of GDP	est 75.0%	77.6%	78.8%	77.7%
LKR / USD	Rs. 182.71	Rs. 153.23	Rs. 149.75	Rs. 144.06
ASPI	6,052	6,369	6,228	6,895

2018 Sri Lankan Economy at a Glance

Our Operating Environment

Credit Growth



Single Digit Inflation Continues

Reflecting the impacts of the tight monetary policy stance, money supply decelerated gradually along with the inflation.

Headline inflation cooled down to 2.8% YoY basis as at year end 2018. During the year we saw a notable decline in YoY inflation mainly due to higher base effect which prevailed in 2017 and the less adverse impact from the weather and external conditions. Import inflation is anticipated to contribute to price pressures with significant rupee depreciation, given that a majority of Sri Lanka's essential goods are imported. Though the supply push inflation pressures such as rupee weakening prevailed during the year, the easing of demand pull factors held the inflation level under control during the year.

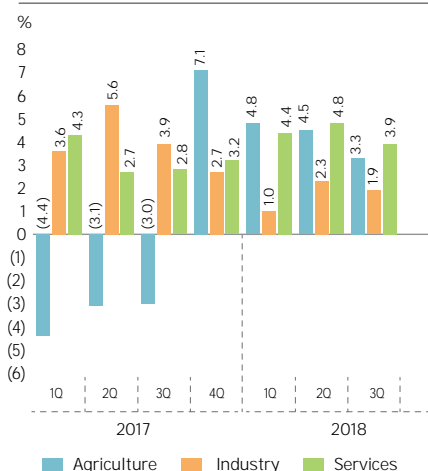
Core inflation, an indicator of underlying inflation in the economy, recorded to be 3.1% as at the year end. Core inflation also remained in single digit levels throughout the year. Aggregate demand pressures are expected to remain well contained with the defensive monetary policy measures and we expect inflation to remain stable in mid-single digit level in the coming year.

External Economy

External sector performance was not impressive as expected in 2018, except the earnings from tourism. The trade deficit widened to \$ 9,642 Million during the first eleven months in 2018, ballooning by 12.2% in comparison to the corresponding period of 2017, due to a higher growth in import expenditure alongside a marginal growth in exports.

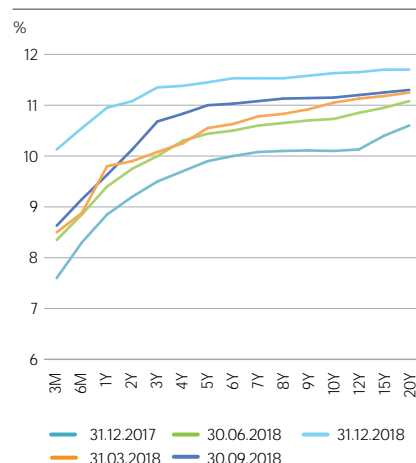
During the first eleven months, total exports recorded \$ 10,856 Million which is 5.0% higher than the export earnings from a year ago. Textile exports, which constitute almost 40.0% of total export earnings, increased by 4.1% during the first eleven months of 2018. However export income was negatively impacted by transport equipment, all agricultural

Quarterly GDP Growth - Sector Wise



treasury yield increased by 203 basis points to reach 11.2% as at the year end. Responding to the high interest rates and the tight economic conditions prevailed, while private sector credit growth stood at 15.7% as at November 2018.

Yield Curve



Increasing Interest Rates

The tight monetary policy stance which prevailed in 2017 continued in 2018 as well. The CBSL decided to relax monetary policy stance moderately in April 2018. However, the Monetary Board increased the Standing Deposit Facility Rate (SDFR) by 75 basis points to 8% and the Standing Lending Facility Rate (SLFR) by 50 basis points to 9% in November 2018. Throughout the year 2018, we experienced a steep increase in the Government securities yields and most of the other similar market interest rates. The benchmark 12-month

products, which restricted the export growth for the year.

Cumulative expenditure on imports during the first eleven months of 2018 reached \$ 20,498 Million which is a 8.2% growth compared to first ten months of 2017, mainly due to the significant increase in import of personal vehicles. The increase in global oil prices led to sharp increase in fuel, crude oil and refined petroleum which caused an expansion in the import bill for the year. It is expected that the trend of increasing imports will reduce in the coming months with the lagged impact of recently introduced restrictions on certain import categories.

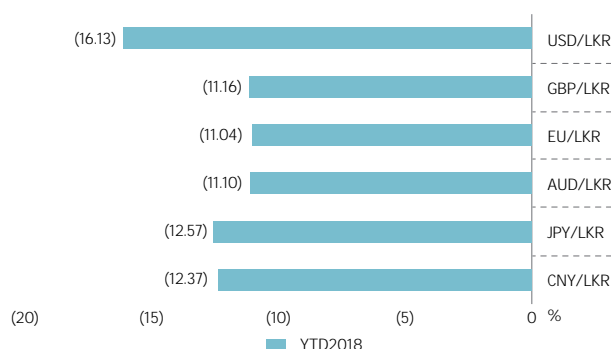
During the first eleven months of 2018, cumulative tourist arrivals grew by over 11.2% to 2,080,627 compared to 2017. India continued to be the main source of tourist arrivals followed by China, UK, Germany and France accounting for 52.0% of total tourist arrivals during the year. Accordingly, cumulative earnings from tourism increased to \$ 3,874.70 Million during the first eleven months of 2018 with a growth of 20.6%. During the first eleven months of 2018, cumulative inflows from workers' remittances decreased by 0.9% to \$ 3,905 Million.

Exchange Rate

Foreign investment outflows from the Government securities market were observed throughout the year and totaled Rs. 159 Billion during the first eleven months. It is reported that the Colombo Stock Exchange (CSE) has recorded a net foreign outflow of Rs. 22 Billion in 2018, against the net foreign inflow of Rs. 17.65 Billion recorded in 2017.

Gross official reserves were estimated at US Dollars 6.9 Billion, equivalent to 3.7 months of imports as at end December 2018. Due to widening trade deficit and investment outflows and also tightening US market condition and the effect of speculation in the domestic market, the rupee recorded a depreciation of 16.1%

Exchange Rate Movement - (YTD 2018)



against the US Dollar during the year against the 2.17% in 2017. Reflecting cross currency movements, the rupee also depreciated against the euro by 11.0%, the Japanese Yen by 12.6% and the Australian Dollar by 11.0%.

Extended Losses of the Stock Market

Lack of Policy consistency, global economic risks and significant foreign out flow from emerging markets due to US economic performance coupled with Federal rate increase hindered the investor confidence led to a steep drop in the CSE. The Benchmark All Share Price Index (ASPI) has made a 4.9% loss in 2018 relative to 2.3% gain reported in 2017. The S&P SL 20 index, which features the CSE's 20 largest and most liquid stocks, has also moved down consistently, making a 14.6% loss for 2018. Market was less active in 2018 in terms of turnover compared to the previous year. The daily average turnover amounted to Rs. 788 Million at the end of the third quarter of 2018 relative to Rs. 915.3 Million in 2017. According to market analysts, lack of local investor participation was observed during the year and foreign investors played an active participation in the market in recent years. Rising interest rates turned market sentiments to negative and pulled money out of the CSE and drove towards fixed income securities. FED rate hike created more trouble for CSE and added pressure for the market performance.

The Securities and Exchange Commission (SEC) and the Colombo Stock Exchange (CSE) initiated new SME Board titled 'Empower' in July 2018 in order to empower the country's economic backbone, Small and Medium Enterprises (SMEs) and improve the size of the market.

Sri Lanka ranked at 100 among 190 economies in 2018 climbing 11 steps on ease of doing business index, due to improvements in sub-sections such as dealing with construction permits, registering property, paying taxes, and enforcing contracts.

Did you know ?



Sri Lanka rose 11 notches in the Ease of Doing Business Index 2019 being rank 100 among 190 economies

Source: The World Bank

Our Operating Environment

ASPI & S&P SL 20 Performance



Local Economic Outlook - 2019

The economy is expected to grow by around 4% in 2019 according to the ADB and IMF. The CBSL's vision towards acceleration of economic growth was clearly indicated on its December Monetary Policy Review.

As the Balance of Payment pressure continues to the next year, we expect the rupee to depreciate by about 5.0%. Government will continue to increase the revenue collection efficiency and the tax base in order to cover up the increasing budget deficit. Therefore, we do not expect any tax exemptions or reduction in tax levels. However, since 2019 is likely to be an election year, we expect a concessionary type budget for the next year. The year ahead will continue in the same tight environment and the economic growth level will continue to be slow at least for the first half of the year.

It is reported that Sri Lanka will have \$ 4.2 Billion in debt service payments in 2019, \$ 3.7 Billion in 2020, \$ 3.3 Billion in 2021 and \$ 3.7 Billion in 2022, adding up to a total of \$ 14.9 Billion during the four years. The major challenge in the new year and years after is to refinance large volume of foreign debt settlements because of increasing Government's debt refinancing cost of external sources due to poor credit ratings and associated political risk.

The Fed did its fourth rate hike of the year in December 2018, by raising policy rates from 2.25 to 2.5%. Their insights suggest that there could be further rate hikes in next year. Thus, it seems that the US monetary policy becomes tighter. As a result, emerging economies like Sri Lanka will be affected in 2019 as well. Consequently, the funds outflow from the domestic financial market increase the pressure on the exchange rate and foreign exchange reserves. In this scenario, further depreciation in currency can be expected in 2019 at a moderate level because the CBSL has limited capacity to intervene the market as it has limited reserves.

Since FED Rate expectations changes, fund outflow from EM will slow or reverse. However with regards to SL, internal factors will weigh more than external factors when considering the fund flow.

REGULATORY ENVIRONMENT

The insurance industry of Sri Lanka is primarily governed by the provisions of the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments therein. The Insurance Regulatory Commission of Sri Lanka (IRC SL) regulates the activities of the industry and provides rules and regulations to be followed by the insurers operating in the country. In addition to the regulations emanating from the Insurance Regulation of Insurance Industry Act, there are a number of regulations applicable for the Group/Company. Hence, HNB Assurance Group is governed mainly by the following rules and regulations:

- The Regulation of Insurance Industry Act, No. 43 of 2000 and amendments therein, coupled with other regulations issued by the Insurance Regulatory Commission of Sri Lanka (IRC SL)
- Listing Rules and Regulations issued by the Colombo Stock Exchange (CSE)
- Regulations issued by the Securities and Exchange Commission of Sri Lanka (SEC)
- Inland Revenue Act and other regulations issued by the Department of Inland Revenue
- The Auditing & Accounting Standard Monitoring Act, and
- Other laws/ regulations applicable to a Sri Lankan corporate entity

Changes in the Regulations that significantly affect the Company

New Inland Revenue Act

The new Inland Revenue Act which came into effect from 01st April 2018 brought significant changes to the industry. The Income Tax computation of the life insurance business significantly changed and as a result all insurers having a surplus transfer from policyholders funds to shareholder funds is now liable for taxes. Further, the profits distributed to participating policyholders are also now subject to a tax.

Identification and Treatment of One-off Surplus

The Company recorded a life insurance surplus as a result of moving into the current Risk Based Capital solvency regime, from the previous rule-based solvency regime. This surplus was treated as a separate liability within the long-term insurance fund in end 2017. During 2018, the regulator issued the Direction No. 16 on the identification and treatment of this One-off Surplus. Accordingly, the Company recorded a One-off profit of Rs. 381 Million as per the financial statements of 2018. The regulator has issued a direction restricting insurance companies in distributing the One-off Surplus as dividends to Shareholders and required it to be recorded as a restricted reserve in Shareholders equity.

Corporate Governance Framework for Insurers

During the year, the regulator issued the Direction No. 17 introducing a Corporate Governance framework for insurers which will be effective from 01st January 2019 onwards. The key features of the Corporate Governance framework include the following:

- To occupy a minimum of two Directors who are citizens and residents of Sri Lanka
- The period of service of a Director in an insurance company restricted to nine years
- The age of a Director serving in an insurance company limited to 70 years
- Restricted the number of directorships held by a Director of an insurance company to 20 but not exceeding 10 companies categorised as specified business entities in terms of Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995

Further, this framework has mandated to follow the Rule number 7.10 of the Listing rules. The Company and subsidiary will be taking appropriate steps to comply with this framework.

Industry to Refrain from Employing Persons whose Service had been Terminated on the Grounds of Financial Misappropriation or Fraud

The insurance regulator issued a direction to refrain insurers employing persons in any capacity whose service have previously been terminated on the grounds of financial misappropriation or fraud. In complying with this regulation, the Company has strengthened the screening process when recruiting employees and agents to the Company. We believe that this regulation would enhance the transparency and accountability of the industry and would also be helpful to enhance the customer confidence in the industry.

Did you know ?



Sri Lanka was the first Country in South Asia to implement a solvency margin Risk Based Capital Framework

Our Operating Environment

Principles on Fair Treatment of Customers

The regulator also issued a guideline on 'Fair Treatment of Customers' for insurers. The guideline has provided the following seven principles that insurers are required to align their activities:

- Principle 01-Fair treatment of customers shall be at the heart of the business model of all companies
- Principle 02-Products are developed and marketed in a way, that pays due regard to the interests of customers
- Principle 03-Customers are provided with clear information before, during and after the point of sale
- Principle 04-Suitability of advice
- Principle 05-Managing reasonable expectations of customers
- Principle 06-Fair handling of claims
- Principle 07-Analysis of customer feedback and fair handling of complaints

These principles have made insurers to put the interests of customers at the top when designing products and delivering and providing after sales services.

These steps would have a long-term impact to the industry and would be a strong step towards addressing the issue on low insurance penetration in the Country.

Guidelines on Carrying out Businesses with Banks and Financial Institutes

The regulator issued guidelines during the year to be followed, when handling business generated through Banks and financial institutes. This guideline has allowed insurers to pay commission for the business generated from these institutes. Therefore, this would be beneficial for the growth of the insurance industry.

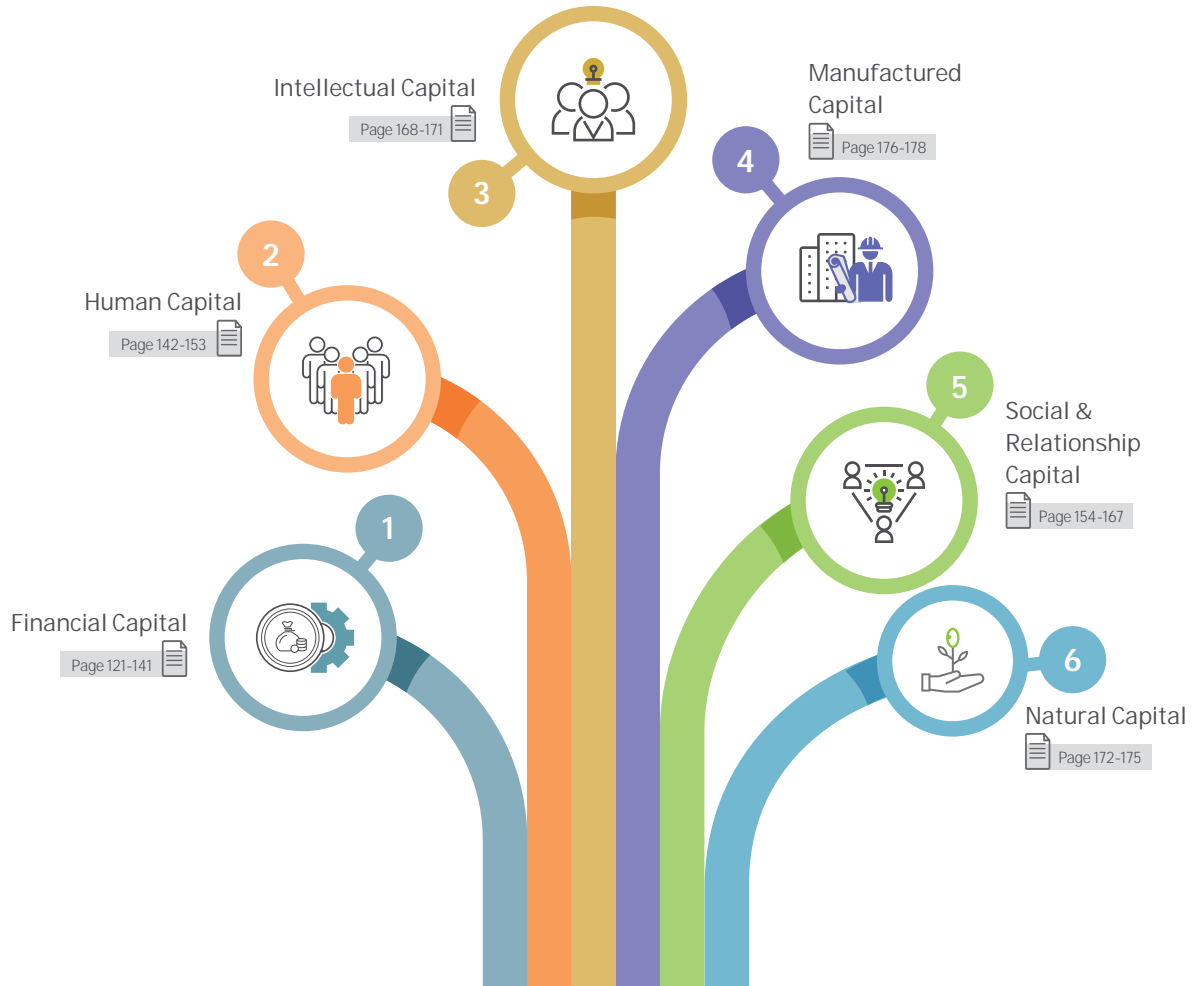
Foreign Account Tax Compliance Act (FATCA)

As required in the Foreign Account Tax Compliance Act (FATCA), HNB Assurance PLC has registered with the US Internal Revenue Service (IRS).

As per the FATCA, the Company is required to provide to the IRS, the details of customers who are US citizens. In order to comply with this requirement, the Company has designed its documents to capture the required information when issuing new insurance policies. The Company's FATCA registration details are given below,

FATCA ID : QVSWYL

GIIN : QVSWYL.99999.SL.144



OUR CAPITALS

The Six Capitals form the basis of our stakeholder value creation process. The way we mix these Capitals to create sustainable value for our Shareholders and all other stakeholders, creates our evolution of success.

The ensuing Capital Management Reports are concise narratives of how we create that right blend.

Capital Management Reports

Financial Capital

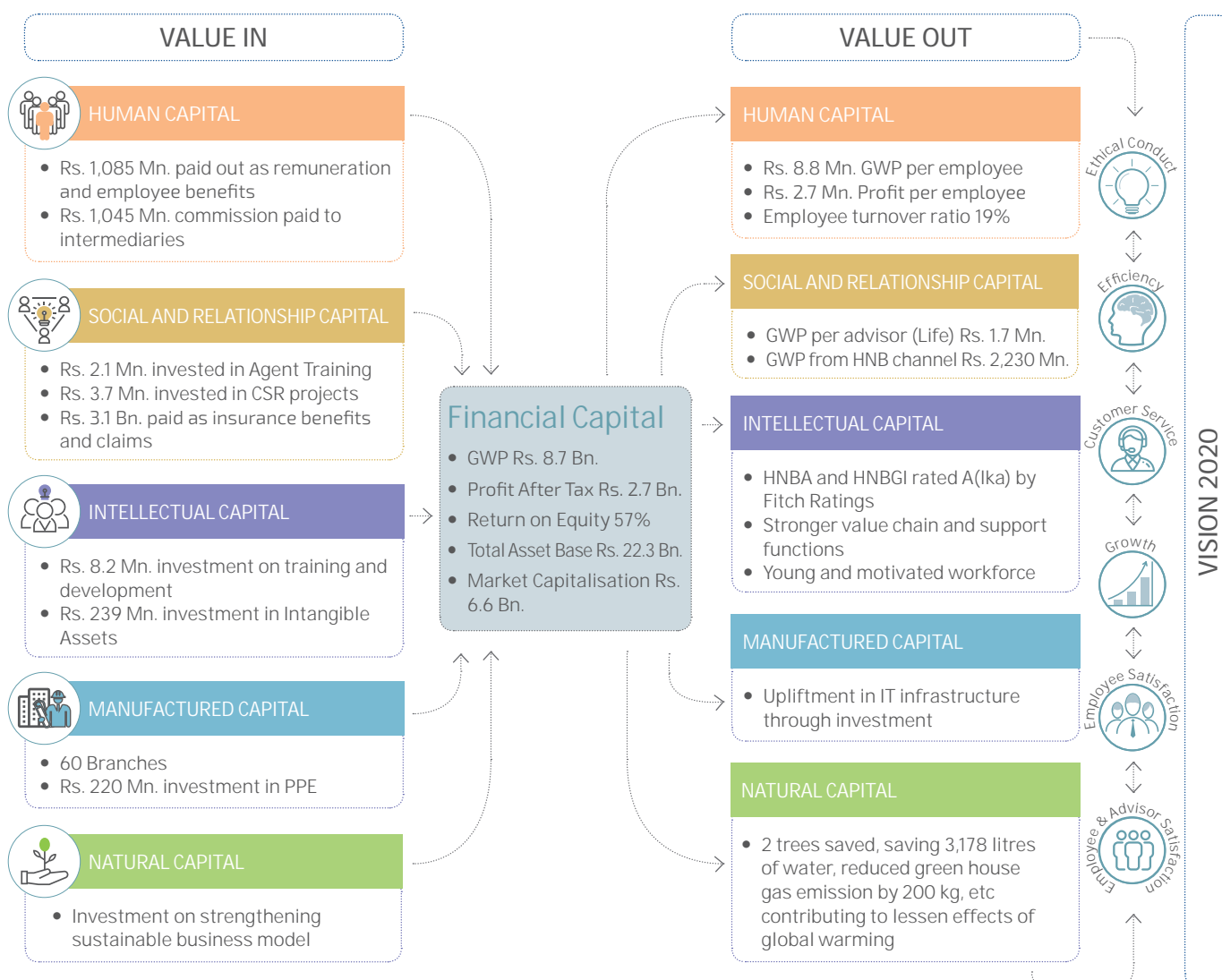
“FUNDS OBTAINED FROM *SHAREHOLDERS AS EQUITY* AND AVAILABLE FOR THE ORGANISATION TO PRODUCE PRODUCTS AND SERVICES”

OUR FOCUS

Financial Capital plays multiple roles in the case of an insurance sector organisation. Denoting the economic resources we possess, in terms of the funds invested by our Shareholders and the internal cash flow generated by the Group, it facilitates the expansion of operations by acquiring physical property, plant and equipment (Manufactured Capital) at the inception, and the perpetuation of operations by acting as a cushion for absorbing unforeseen losses as a going concern.

It also serves as a regulatory restraint on unwarranted asset expansion. Maintaining adequate capital for absorbing unanticipated losses is imperative for the vibrancy of the Company and maturity transformation roles of HNBA. We focus on delivering sustainable value for our capital providers consistently and not only in the immediate future but also in the long term. Hence our evolution is driven by our ability to generate the best possible financial value addition for our stakeholders through revenue generation in the form of premiums, management of claims and expenses in combination with robust investment management.

VALUE CREATION THROUGH FINANCIAL CAPITAL



ALIGNING WITH VISION 2020

HNBA Group delivered unparalleled performance in managing its Financial Capital in the year 2018. The Group achieved gratifying results achieving a premium income of Rs. 8.7 Billion, posting a 12% growth and surpassing the Rs. 2.7 Billion in Profit After Tax posting a staggering 197%. The Group strategically overcame the persistent volatility in the macro-economic environment which challenged both our top and bottom-line achievement. Strategies implemented to grow premium income, prudent underwriting practices, expense management and investment management endeavors were key to delivering desired results.

The superlative performance this year is the continuation of providing sustainable return to our Shareholders. Return to our Shareholders in terms of Return on equity reached 57%, doubling from the 24% recorded in 2017 and Net Asset Per Share marked a 51% growth to reach Rs. 114.89.



Key Focus Areas in 2018 and the Value Creation by HNBA

Key Focus Area in 2018	Achievements and Value Creation
Retain Life and General Insurance market ranks	<ul style="list-style-type: none"> Achieved a total of 4,190 new policies and retained Life and General Insurance market ranks of 6 and 8 respectively
Achieve a sustainable GWP growth	<ul style="list-style-type: none"> Distribution strategies adopted by Group resulted in the growth of GWP of 12%
Increase the return to Shareholders	<ul style="list-style-type: none"> The Group achieved a PAT of Rs. 2.7 Billion marking a 197% growth and an ROE of 57%. The Company also declared a dividend of Rs. 7.00 per share marking growth of 17%
Maintain a healthy claims ratio	<ul style="list-style-type: none"> The Life Insurance company recorded a claims ratio excluding maturities of 8%, a decrease of 1% from last year Managed General Insurance claims ratio at 66% despite increase in accidents and increase in spare parts costs significantly
Increase the asset base of the Group	<ul style="list-style-type: none"> The Total Asset Base of the Group reached a value of Rs. 22.3 Bn. marking a 19% growth and investment in Financial instruments accounted for 79% of the Total Asset Base
Maintain our regulatory ratios of following at stipulated levels: <ul style="list-style-type: none"> Government securities' investment RBC Other 	<ul style="list-style-type: none"> Capital Adequacy Ratio (CAR) of HNBA was continuously maintained above 300% CAR of HNBGI increased to 200% from 178% last year Total Available Capital of HNBA and HNBGI increased to Rs. 6,636.7 Mn. and Rs. 1,171.5 Mn. respectively Government Securities 53.7% of Technical Reserves and 49.4% of Life Fund
Increase Funds Under Management	<ul style="list-style-type: none"> The Funds Under Management of the Group reached a value of Rs. 18.3 Bn. with a growth of 17%
Life fund and Technical reserves	<ul style="list-style-type: none"> Life fund increased to Rs. 12.1 Bn. marking a growth of 12% and General Insurance technical reserves increased to Rs. 1.3 Bn., a growth of 12%

Financial Capital

PERFORMANCE ANALYSIS

Revenue generated by the Group reflects its' successive growth in par with the costs incurred in generating that revenue. The following content discusses the financial performance of the Group and the principal earnings drivers for growth, along with challenges faced and strategies used to overcome them.

A summarised glance at our income statement and its growth over the past 3 years:

	2018	2017	2016	Growth
	Rs. Mn.	Rs. Mn.	Rs. Mn.	(2017 - 2018)
Gross Written Premium	8,725	7,821	6,657	12%
Premium Ceded to Reinsurers	(1,059)	(1,101)	(878)	(4%)
Net Written Premium	7,665	6,721	5,779	14%
Net Change in Reserves for Unearned Premium	(217)	(329)	(181)	(34%)
Net Earned Premium	7,448	6,392	5,598	17%
Other Revenue				
Investment income	1,970	1,736	1,145	13%
Fee and Commission Income	173	129	129	34%
Other Income	36	47	25	(23%)
Total Other Revenue	2,179	1,912	1,298	14%
Net Income	9,627	8,304	6,896	16%
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims	(3,236)	(2,293)	(1,948)	41%
Change in Contract Liabilities - Life Fund	(1,707)	(2,166)	(1,708)	(21%)
Change in Contract Liability due to Transfer of One-off Surplus	381	-	-	100%
Other Operating and Administration Expenses	(2,282)	(1,839)	(1,573)	24%
Underwriting and Net Acquisition Costs	(1,125)	(1,029)	(923)	9%
Other Insurance Related Costs	(76)	(49)	(39)	54%
Total Benefits, Claims and Other Expenses	(8,046)	(7,377)	(6,191)	9%
Profit Before Taxation	1,581	927	706	71%
Income Tax Reversal/(Expense)	1,125	(17)	(58)	6610%
Profit for the Year	2,705	910	647	197%

Gross Written Premium (GWP)

Progress: GWP of the Group grew by 12% to reach Rs. 8.7 Billion in 2018. Life Insurance GWP grew by 12% while General Insurance grew by 11%.

Key Driver: Life Insurance GWP was primarily driven by the 10% growth in endowment business and General GWP growth was driven by a 17% growth in Motor Insurance GWP.

Challenges: Dampened economic climate which lowered disposable income levels hampered Life Insurance growth while regulatory control on granting leases challenged new Motor insurance demand in General Insurance business.

Strategies: Please refer page 131 for Life Insurance and page 134 for General Insurance.

Reinsurance (RI)

Progress: Year 2018 witnessed Rs. 1,059.3 Million, which is 12% of the Group GWP, being diverted to reinsurers by the Group. Reinsurance cost decreased 4% from the Rs. 1,100.6 Million incurred in 2017.

Key Driver: As General Insurance accounted for 80% of reinsurance outgo, General Insurance GWP mix changes significantly affect Reinsurance cost. Motor Insurance GWP, which attracts very little RI, contributed to 77% of the General GWP in 2018 compared to 66% in 2017, which resulted in lower RI outgo.

Challenges: Reinsurance outgo is dependent on terms agreed in reinsurance treaty and capacity of treaties with the type of business that the Company underwrites.

Strategies: New reinsurance arrangement with Hanoa Re in Life Insurance, negotiation of more favourable terms with both Life and General reinsurers helped optimise RI cost.

Net Earned Premium (NEP)

Progress: NEP of the Group surpassed Rs. 7.4 Billion against the Rs. 6.4 Billion recorded in 2017 substantiating a growth of 17%. Life Insurance accounted for 56% of the NEP of the Group.

Key Driver: Robust performance in GWP and decrease in the reinsurance cost and the lower transfer to unearned premium reserves in the General Insurance business are drivers of the growth.

Challenges: To maintain a balance of growth in both GWP and RI outgo is the key for the growth in the business.

Strategies: Kept a balance between Motor and Non Motor business in General Insurance business while keep focusing on protection endowment business in Life business.

Investment Income

Progress: Group Investment Income reached Rs. 1,969.9 Million compared to the Rs.1,736.0 Million recorded in 2017, demonstrating a healthy 13% growth.

Key Driver: A 17% growth in Investment Funds Under Management enabled sufficient funds for investment. Movement in interest rates, where increased rates resulted in high interest income and fall of rates enabled Company to realise gains from sale of Treasury Bonds were used as key drivers for the achievement.

Challenges/ Opportunities: Lackluster performance of the equity market resulted in unrealised losses of Rs. 33.7 Million. Interest rates increased by 25 basis points towards latter part of the year which helped increase investment income. Depreciation of LKR against USD resulted in Rs. 42.2 Million unrealised gains on forex deposits.

Strategies: The Group capitalised on interest rate movements, locking funds at higher rates, coupled with fund growth fuelled 11% increase in interest and dividend income. Realising gains through sale of Treasury Bonds primarily resulted in a 124% growth while unrealised gains on foreign currency deposits were more than sufficient for the Group to make 13% growth on net unrealised gains. A detailed discussion on investment performance is given on page 137.

Fee and Commission Income

Performance: Fee and Commission Income recorded a growth of 34% to reach Rs. 172.6 Million.

Key Driver: The growth was mainly driven by the increase in share of profit commission from reinsurers in the General Insurance segment.

Challenges: Dull economic environment resulted in slow growth in the number of new policies in both life and general insurance which pressured policy fee income growth. Claims experience of General Insurance business is a key determinant of profit commission shared by reinsurer. Lower flood claims in 2018 enabled Group to increase profit commission received.

Strategies: Introduction of renewal policy fee in Life Insurance and selective underwriting of non-motor policies in high risk areas were measures taken to improve fee and commission income.

Net Claims and Benefits

Performance: Net claims and benefits incurred, including claims outstanding, by the Group grew by 41% during the period under review reaching a value of Rs. 3,236.5 Million compared to the Rs. 2,293.4 Million incurred the previous year.

Key Driver: Rs. 697.5 Million was paid as maturity claims in Life Insurance, a Rs. 499.7 Million increase from the previous year, was a key contributor to the increase in claims cost. In addition, a 28% increase in Motor claims of the General segment, which amounted to Rs. 422.5 Million increase in claims cost on the General front.

Challenges: Increase in surrender claims due to economic conditions in the Country was a challenge to Life Insurance. On the General Insurance front, increase in spare part costs due to depreciation of LKR against the USD and increase in number of claim incidents were key concerns.

Strategies: Adequate reserving for Life policy liabilities to ensure no adverse effects from surrenders, ensuring liquidity for maturities through Asset and Liability management were strategies executed in Life Insurance. Further, weeding out unprofitable group life portfolios and having adequate reinsurance arrangements in place were strategies used to ensure no adverse conditions arise from increase in Life Claims and Benefits. Promotion of onsite claims settlement process to reduce Motor claims handling costs, selective underwriting in high risk areas, continuous monitoring of preferred and deferred General Insurance business and reduction of underwriting of medical business were strategies executed to curtail growth in General Insurance Claims.

Change in Contract Liabilities - Life Fund

Performance: Transfer to the Life Fund at the end the year amounted to Rs. 1,707.1 Million and decreased by 21% compared to 2017.

Key Driver: The Rs. 697.5 Million maturity claims paid during the year is the key reason for the decline in transfer to Life Fund.

Challenges: Pressure on GWP and increase in expenses and claims result in lower transfer to Life Fund.

Strategies: As a growing business, the Company strictly monitors its expense ratio and claims ratios to ensure sufficient funds are transferred to the Life Fund.

Other Operating and Administration Expenses

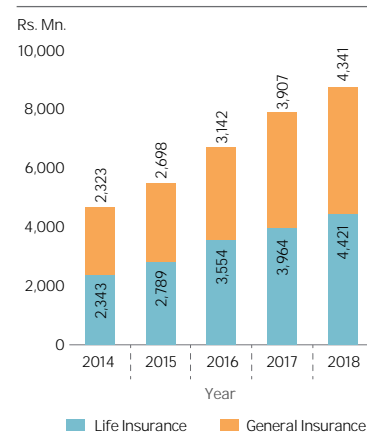
Performance : Other Operating and Administration Expenses increased by 24% to reach Rs. 2,282.5 Million.

Key Driver: Provision of Rs. 162.5 Million as Notional Tax Credits in respect of Life insurance policyholders due to the doubt of their recoverability prior to the expiry of three years as per the transitional provisions of the New Inland Revenue Act was the key driver of the increase. Further details on Notional Tax Credit Provision are given on page 298. In addition, 18% increase in staff costs, 18% increase in selling expenses and 12% increase in administration expenses also contributed to the increase in costs.

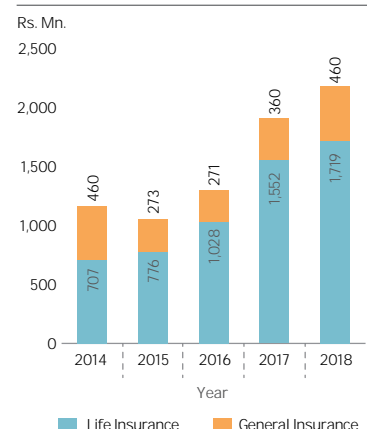
Challenges: Challenging economic climate is the major factor which pressurises the Group to increase selling expenses while administration costs also increase.

Strategies: As growth in expenses is challenging to the business, continuous monitoring of costs and budgetary control are strictly applied in both business lines and only value adding costs are approved. Thus, the increase in staff costs was to attract, retain and develop staff of the right caliber and provide a return in line with profitability. The Group consciously decided to increase spend on selling expenses to improve top-line in the challenging economic conditions while growth in administration costs were capped at Net Earned Premium growth percentage to ensure no profits erosion occur.

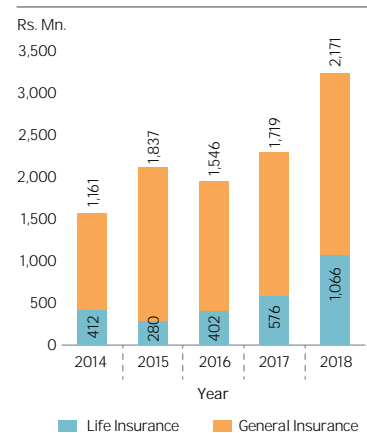
Gross Written Premium



Investment and Other Income



Net Claims and Benefits



Financial Capital

Underwriting and Net Acquisition Costs

Performance: The Group incurred Rs. 1,125.4 Million as underwriting and acquisition costs. Although GWP grew by 12%, acquisition expenses increased only by 9%. Life acquisition costs which contributed to 75% of Group cost, increased by just 3% whilst General acquisition costs grew by 35%.

Key Driver: Acquisition cost directly correlate with growth in new business. Life Insurance new business GWP, which attracts high commission outgo than renewal and single premium GWP, recorded a negative growth in 2018 and growth of renewal premiums by 15% was the key reason for the lower growth in acquisition costs compared to GWP growth. Further, growth in single premium business for which lower commission rates are paid also contributed. Increase in General Insurance acquisition cost is due to higher business contribution from Motor business.

Challenges: Stiff competition among General Insurance Companies resulted in offering high commission rates to Leasing Companies and Brokering Companies.

Strategies: The Group strives to manage acquisition costs in line with the growth of its GWP. The Group was successful in improving renewal premiums and single premium product premiums which have lower acquisition costs. Company monitored carefully the demand for high rates while giving due consideration to the profitability of the business generated from those channels in the GI segment.

Change in Contract Liability due to Transfer of One-off Surplus

Performance: The Company transferred Rs. 381.2 Million as One-off Surplus arising from non-participatory Life Insurance Fund to the Shareholders during the year. This surplus arose from change in valuation method from Net premium Valuation (NPV) to Gross premium Valuation (GPV) as of 31st December 2015 and the transfer was made as per the Direction 16 of the Insurance Regulatory Commission of Sri Lanka (IRCSL), with the approval of the IRCSL. This is kept as a Restricted Regulatory Reserve as per the Direction 16 and separate presentation in the Financial Statements are also made as per the requirements of the Direction. Further details on this transfer is given on page 277.

Profit Before Tax (PBT)

Performance: Group Profit Before Tax grew by 71% in 2018 surpassing the Rs. 1 Billion mark for the first time in its history to reach Rs. 1,580.7 Million. Although the One Off-Surplus of Rs. 381.2 Million may be cited as a key reason for the growth, PBT excluding One-off Surplus amounted to Rs. 1,199.5 Million which too marked an impressive 29% growth.

Key Drivers: Life Insurance Surplus transfer to Shareholder of Rs. 637.9 Million, which marked a 23% increase from 2017. Further, improved profitability of General Insurance business which recorded a 25% growth due to revenue from profitable business and prudent expense management strategies enabled the Group to post the superlative results.

Taxation

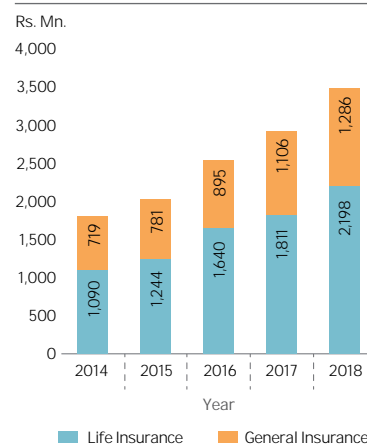
Performance: The Group evidenced an Income Tax reversal of Rs. 1,124.7 Million in 2018 against Rs. 17.3 Million tax expense in 2017. This was due to recognition of a deferred tax asset of Rs. 1,232.5 Million in the Company on account of brought forward tax losses. Further details on differed tax could be read on page 301. HNBGI reported an Income Tax expense of Rs. 52.7 Million in 2018 compared to Rs. 17.3 Million in previous year on account of increased profits.

Profit After Tax (PAT)

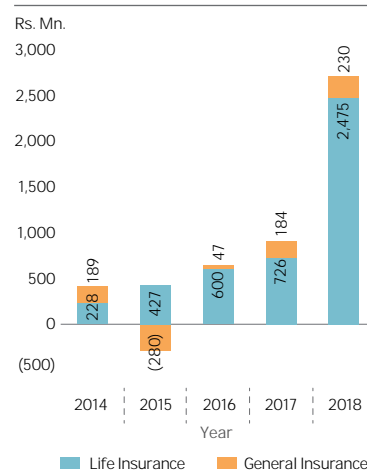
Performance: The Group's Profit After Tax (PAT) surged to Rs. 2,705.3 Million for the year 2018 which corresponds with 197% growth compared to PAT Rs. 909.8 Million in 2017. PAT excluding One-off Surplus amounted to Rs. 2,324.2 Million which too marked a 155% growth over the previous year.

Key Drivers: Increase in surplus transfer from Life Fund, improved underwriting and expense management in General Insurance and the effect of differed tax were pivotal to this achievement.

Expenses



Profit After Tax - Group



FINANCIAL POSITION

Assets	2018 Rs. Mn.	2017 Rs. Mn.	Growth
Assets			
Property, Plant and Equipment and Intangible Assets	213	227	(7%)
Deferred Tax Assets	1,305	64	1936%
Financial Investments	17,579	15,055	17%
Loans to Life Policyholders	243	162	50%
Reinsurance Receivables	416	570	(27%)
Premium Receivables	798	786	2%
Other Assets	823	1,037	(21%)
Insurance Contract - Deferred Expenses	140	105	33%
Cash and Cash Equivalents	762	642	19%
Total Assets	22,279	18,649	19%
Equity and Liabilities			
Stated Capital	1,172	1,172	0%
Retained Earnings and other Reserves	4,191	2,625	60%
Restricted Regulatory Reserve	381	-	-
Total Equity	5,744	3,796	51%
Liabilities			
Insurance Contract Liabilities - Life Insurance	12,261	10,916	12%
Insurance Contract Liabilities - General Insurance	2,525	2,385	6%
Employee Defined Benefit Liabilities	140	126	11%
Other liabilities	1,485	1,284	16%
Bank Overdraft	123	142	(13%)
Total Liabilities	16,535	14,852	11%
Total Equity and Liabilities	22,279	18,649	19%

Total Assets

Performance: The Group's asset base crossed the Rs. 22.3 Billion mark in 2018, reflecting a growth of 19% compared to 2017. Income generating assets accounted for 79% of total assets showcasing the sustainability of asset growth. Asset base of HNBA grew by 21% reaching a value of Rs. 18.7 Billion against Rs. 15.4 Billion in 2017 and the asset base of HNBGI grew by 9% reaching a value of Rs. 4.8 Billion compared to Rs. 4.4 Billion in 2017.

Financial Investments

Performance: Group financial Investments, which accounts for 79% of the Total Asset Base of the Group grew by 17% surpassing the Rs. 17.6 Billion mark in comparison to Rs. 15.1 Billion in 2017. Growth was underpinned by increased profitability and increased policyholder reserves. Investments of HNBA grew by 15% reaching a value of Rs. 14.7 Billion in comparison to Rs. 12.7 Billion in 2017 and contributed to 84% of the Group Financial Investments. HNBGI recorded a growth of 25% with a value of Rs. 2.9 Billion compared to Rs. 2.3 Billion previous year.

Financial investments are classified in the following categories as per Lanka Accounting Standards (LKAS) 39.

Loans and Receivables

As of the balance sheet date, 61% of the Financial Investments comprised of investments categorised as Loans and Receivables. Financial instruments in the category amounted to Rs. 10.7 Billion and comprised term deposits, investment in repos and corporate debt. Investments in Loans and Receivables marked a 27% growth compared to the Rs. 8.4 Billion in 2017 due to investments made in term deposits to lock on to the high interest rates towards the latter part of 2018.

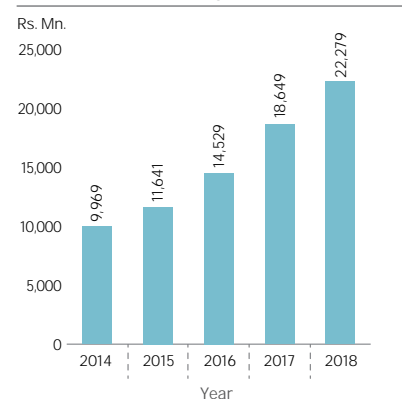
Available For Sale Instruments

Instruments classified as Available for Sale, comprised Treasury Bonds, Treasury Bills and Equity investments, accounted for 39% of the Financial Investments and valued Rs. 6.8 Billion marked a 7% growth compared to the Rs. 6.3 Billion previous year.

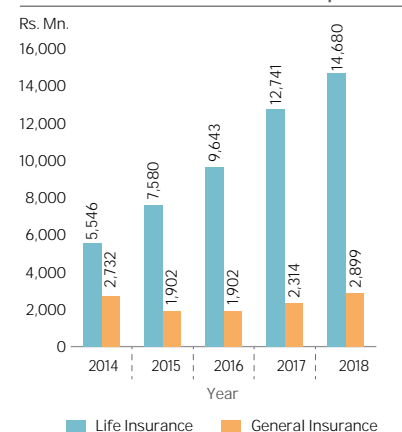
Fair Value Through Profit and Loss (FVTPL) Instruments

Investments held as Fair Value Through Profit and Loss (FVTPL) which mainly comprised equity investments declined by 29% corresponding to the downward trend experienced in the equity market.

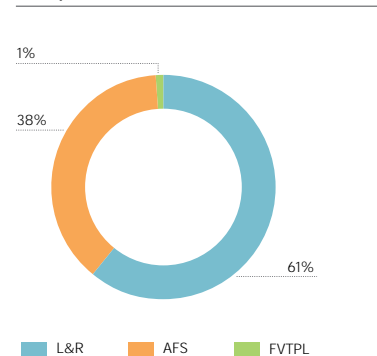
Total Assets - Group



Financial Investments - Group



Composition of Financial Investments



Financial Capital

Deferred Tax Asset

Performance: The Group recorded a Differed Tax Asset of Rs. 1,304.9 Million as of end 2018, with Rs. 1,280.5 Million arising from the Life Insurance business. The Company recognised this for the first time in Life Insurance business due to the business making a taxable profit from 01st April 2018 onwards under the New Inland Revenue Act, No. 24 of 2017. This would enable the Company to utilise its brought forward tax losses from prior to 01st April 2018. As at 31st March 2018, Life Insurance business had a cumulative tax loss of Rs. 5,195 Million incurred as per Section 92 Inland Revenue Act, No. 10 of 2006 and as per transitional provisions of the new Act any brought forward tax losses can be claimed against taxable income for a period of 6 years with effect from 01st April 2018.

As such the Company recognised a Differed Tax Asset after making a reasonable estimation of future taxable profits and identifying that total tax loss can be claimed within the period specified in the transitional provisions.

Reinsurance Receivable

Performance: Reinsurance receivable witnessed a 27% decline reporting a value of Rs. 415.8 Million in comparison to Rs. 569.8 Million which is a notable improvement. The decline was mainly due to the 33% decline in Reinsurance receivable of HNBGI due to receipt of reinsurance on flood related claims which were in the HNBGI receivables as at the end of last year.

Loans to Life Policyholders

Performance: Total value of loans to Life Policyholders increased by 50% to reach Rs. 243.1 Million at the end of the financial year. This was mainly due to the increase in number of policyholders' obtaining loan facilities due to the tough economic conditions prevailing in the country.

Premium Receivable

Performance: Premium Receivable recorded a value of Rs. 798.2 Million showcasing a slight increase of 2%. Premium receivable from HNBGI accounted for 99% of the total premium receivable balance and is resultant to growth in General insurance GWP.

Other Assets

Performance: Other assets, which comprise of tax receivables, advance payments and advisor recoveries, decreased to Rs. 823.1 Million marking a 21% decline. This is primarily due to the provision made for Notional Tax Credits amounting to Rs. 265.1 Million during the year.

Equity

Performance: The total Equity of the Group reached a staggering Rs. 5.7 Billion marking a 51% increase compared to Rs. 3.8 Billion reported in the year 2017. This is mainly due to the exceptional growth of 241% in Life Insurance profitability during the year. This also includes the Rs. 381.2 Million transfer of One-off Surplus from the Life Fund, which is kept in the restricted Regulatory Reserve that is not distributable as dividends until the approval of the IRCSL is obtained. Further, this includes a Differed Tax adjustment of Rs. 1,124.7 Million. The profitability growth of 25% in HNBGI also contributed to the increase in the Group equity value. The full Shareholders' Equity of the Group is considered under Tier 1 capital under Risk Based Capital (RBC) framework which is an indicator of the quality of the Equity of the Company. Thus growth of Equity provided positively to strength the Capital Adequacy Ratio (CAR) of the Company.

Life Insurance Contract Liabilities

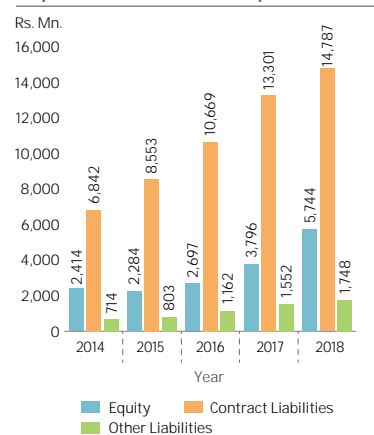
Performance: Life Insurance Contract Liabilities are mainly held to meet the future obligations of the policyholders' and assures the going concern of the business and liquidity position.

Life Insurance Contact liabilities, which comprise Life Fund and claims outstanding reserves, reached Rs. 12.3 Billion from the Rs. 10.9 Billion recorded in 2017 growing by 12%. This growth recorded after the transfers of One-off Surplus and transfer of the current year surplus to the Shareholders. The valuation of the Life Insurance Fund and the Liability Adequacy Test (LAT) of Life Insurance was carried out by our Consultant Actuary, Mr. Hassan Scott Ordieno, of Actuarial Partners Consulting Sdn Bhd as at 31st December 2018. Given the results of LAT, it was concluded that the Company has maintained adequate provisions to meet future obligations to policyholders, thereby meeting the requirements of SLFRS – 4, Insurance Contracts.

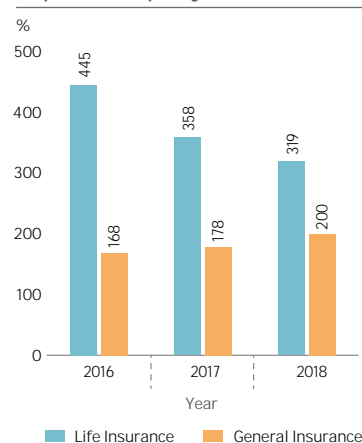
General Insurance Contract Liabilities

Performance: General Insurance Contract Liabilities grew by 6% reaching a value of Rs. 2.5 Billion compared to Rs. 2.4 Billion previous year. Mr. Matthew Maguire of NMG Consulting carried out the valuation of the General Insurance Contract Liabilities and the LAT. It was concluded that HNBGI has made adequate provisions in Unearned Premium (UEP), Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) reserves to meet future obligations. Further, through the LAT it was concluded that HNBGI has adequate provisions to meet future obligations of policyholders well in line with the requirements of SLFRS – 4, Insurance Contracts.

Capital Structure - Group



Capital Adequacy Ratio



Solvency and Approved Assets

As per the Section 26 of the Regulation of Insurance Industry Act, No 43 of 2000 and subsequent amendments, Insurance Companies are required to maintain a Solvency Margin as per the Solvency Margin Rules (2015). Further, Section 25 of the same Act requires insurance companies to maintain 100% of the Life Fund as specified by the IRCSL through Determination 1. Given below are the Group's compliance with these requirements.

Capital Adequacy Ratio (CAR) and Total Available Capital

The CAR denotes the ability of an insurer to absorb risks relative to its capital position. The minimum regulatory required CAR is 120% and strict monitoring of the solvency position is done by the regulator if the CAR falls below the level 160%. All insurers in the industry are required to maintain a minimum Total Available Capital (TAC) of Rs. 500 Million.

Both companies maintained healthy capital adequacy positions throughout the year and complied with the Section 26 of the RII Act. Given below are the CAR and TAC positions of the companies.

	HNBA		HNBGI	
	2018	2017	2018	2017
CAR	319%	358%	200%	178%
Total Available Capital (Rs. Mn.)	6,636.7	6,038.4	1,171.5	945.7

Approved Assets

Both HNBA and HNBGI maintained 100% of the Life Fund and Technical Reserves respectively in approved assets as per the Determination 1 of the IRCSL and complied with the Section 25 of the RII Act.

Indicator	HNBA		HNBGI	
	2018	2017	2018	2017
Life Fund/ Technical Reserve (Rs. Mn.)	12,112	10,801	2,211	1,956
Approved Assets (Rs. Mn.)	12,112	10,801	2,211	1,956
Approved Assets %	100	100	100	100

Groups' Readiness for Upcoming Changes in Accounting Standards

IFRS 17- Insurance Contracts

After a very long journey, the International Accounting Standards Board (IASB) issued International Financial Reporting Standard 17 on Insurance Contracts (IFRS 17). This standard will be mandatorily effective for annual reporting periods beginning on or after 1 January 2022. IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, and will give users of financial statements a whole new perspective. For the first time, insurers will be on a level footing internationally. It will open up the 'black box' of current insurance accounting.

This new standard will have a significant impact on entire operation of insurance business like setting up strategies, developing MIS, re aligning KPI's of staff, changing business model and reporting. It is expected that insurance companies may have to set high budgets in implementing the standard.

Even though in Sri Lanka regulatory body for Accounting Standards – CA Sri Lanka has not yet issued this Standard, It has informed officially that the standard will be implemented in Sri Lanka as per the stipulated deadlines by IASB, since Sri Lanka is fully complied with international Financial Reporting Standards (IFRSs).

HNBA has identified its importance and potential impact on business process and therefore carried out an internal planning process in order to gain knowledge on IFRS 17. Top Management appointed an internal team which comprises members from Finance, Actuarial, IT & Technical Divisions. The team Participated industry forums & training programs conducted by CA Sri Lanka and Industry players. Board of Directors & the Top Management of the Company selected an External consultant to carryout the initial gap and impact assessment as the first step in implementing the standard within the deadline.

Standard Issued but not Effective as at Reporting Date

SLFRS 16

SLFRS 16-Leases, replaces existing leases guidance, including LKAS 17 Leases and effective for annual periods beginning on or after 1st January 2019. SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees and requires lessees to recognise most leases on their balance sheets. The new standard is a significant change in approach from current SLFRS and will affect many entities across various industries.

HNBA is in the process of assessing possible impact on this Standard with the help of an External Consultants.

Summary of the requirement is disclosed under note 3.3 on page 233.

SLFRS 09

SLFRS 9- Financial Instruments, is effective for annual periods beginning on or after 1st January 2018. The standard introduces new requirements for,

- Classification and measurement
- Impairment
- Hedge Accounting

For an Insurer who meets the temporary exemption criterias as disclosed in paragraph 20B of SLFRS 4 (amended) may elect to defer the application of this standard until 01st January 2022. Summary of the requirement is disclosed under note 3.3 and page 233.

Financial Capital

SNAPSHOT OF LIFE INSURANCE PERFORMANCE

Gross Written Premium

HNBA recorded a GWP amounting to *Rs. 4.4 Billion* in 2018, which is a *12% growth* compared to the GWP of *Rs. 3.9 Billion* in 2017.

CONTINUED STRONG GROWTH IN GWP

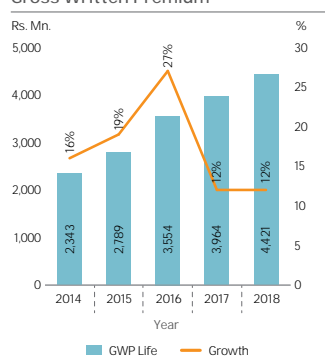
As a result of :

- Strong endowment business renewal base which contributed to 15% growth
- Comprehensive product portfolio to cover varied Life Insurance needs
- 9 % growth in Advisor channel GWP
- 18% growth in Bancassurance channel GWP
- 50% increase in Single Premium policy GWP

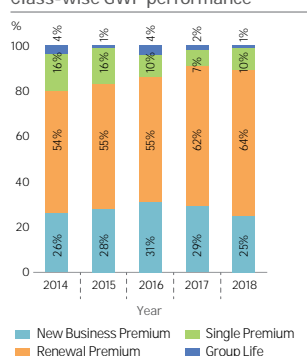
Challenged by :

- Escalating cost of living and negative economic conditions of the Country challenging new business generation
- Increasing interest rates making banking products attractive
- Life Insurance products being unattractive compared to bank deposits due to profits shared with participating policyholders being taxed at 14% as per the new Inland Revenue Act
- Low performance of Direct and Alternate channels
- High reliance on Insurance Advisor channel
- Political uncertainties and dry economic climate creating pressure on purchasing power of customers resulting in lapses
- Unethical poaching of insurance advisors

Gross Written Premium



Class-wise GWP performance



Channel - wise GWP performance



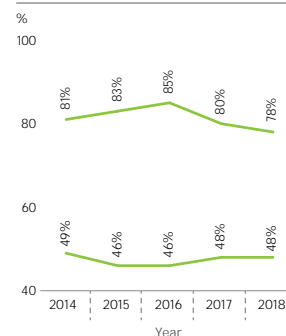
	2018 Rs. Mn.	2017 Rs. Mn.	2016 Rs. Mn.	2015 Rs. Mn.	2014 Rs. Mn.	Growth %
New Business Premium	1,131	1,159	1,099	781	594	(2%)
Renewal Premium	2,822	2,447	1,975	1,539	1,268	15%
Single Premium	429	286	352	445	384	50%
Group Life	39	72	128	36	84	(46%)
Total GWP	4,421	3,964	3,554	2,801	2,330	12%

Class-wise GWP breakdown of last five years

Strategies :

- Training and development of bancassurance staff and agency force improving activity levels
- Benchmarking of the business model with competitors and companies from different industries to remove non-value adding practices in the sales model
- Introduction of innovative products such as Safenet and Hope to cater to untapped market segments and products to meet changing needs such as Smart 5
- Strengthened the Policy Conservations Unit
- Introduced new incentive structures to encourage agency channel to follow up on renewals
- Bancassurance channel is encouraged to sell policies with annual payment mode to improve persistency
- Additions made to the wide array of payment methods available
- Re-looking at the pricing of uncompetitive/unprofitable products
- Capitalising on HNB branch network and customer base for Bancassurance sales
- Structured training of the sales force in line with changes in business strategy

Premium Persistency and Lapse Ratio



Premium Persistency Ratio (PPR)

Is a presentation of value of renewals a percentage of total premium dues, is an indication of the return policyholder premiums.

Lapse ratio

Is the number of policies that are that are not renewed compared to the number of policies that were active.

Credit Rating
A (Ika)
 By
FitchRatings

Management of Claims

Claims Ratio without Maturities *decreased by 1% to 8% in 2018* and Claims Ratio with Maturities *increased to 25%*

INCREASE IN CLAIMS RATIO

As a result of :

- Claims and benefits increased by 85% due to 226% growth in maturity benefits
- Increase in maturity benefit due to Investment product policies sold in 2013 which gave a 15% contribution to the Company GWP in 2013
- Death and other claims incurred during the year reduced by 30% due to prudent underwriting
- Increase in surrenders due to downturn in economic climate

Challenged by :

- Pressure on GWP due to poor economic climate which strains earned premiums resulting in higher claims ratio

Class	2018 Rs. Mn.	2017 Rs. Mn.	Growth %
Death and Other Claims	87	125	(30%)
Hospital Claims	48	44	9%
Maturity Claims	723	222	226%
Surrenders	196	172	14%
Annuities	13	13	0%
	1,067	576	85%

Management of Claims

Strategies :

- Improving efficiency in claim settlement to add value to client and company
- Reducing claims process cycle time and processing cost
- Improving process quality through implementation of ISO 9001 : 2015
- Benchmarking the claim settlement process with industry best practices
- Fraud claims detection through investigation to reduce cost of fraudulent claims

Did you know ?



By year 2100 Global ageing population will be 3.2 Bn.

Source: United Nations Organisation

Financial Capital

SNAPSHOT OF LIFE INSURANCE PERFORMANCE

Expense Management

Expense ratio managed at 49% on par with 2017

EXPENSE RATIO MAINTAINED

As a result of :

- Expense management efforts supported to maintain the Expense Ratio within the budgeted level on par with 2017
- This was achieved without compromising on growth of the Company or development and remuneration of Staff, Advisors and an investment in systems and processes

Challenged by :

- Managing fixed expenses of the Company within the pre-set budgets
- Managing the Expense Ratio in absence of sufficient Net Written Premiums



Strategies :

- Expense management through budgetary control systems
- Strict monitoring of overheads
- Promoting online payment gateways to reduce administration expenses
- Involvement of the Procurement Committee to get best prices, bulk discounts and reduce lead times

Investment Management

11% growth in Investment Income supported by higher yields and Funds Under Management

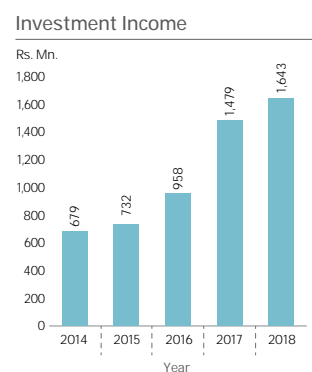
INVESTMENT INCOME GROWTH

As a result of :

High Interest and Dividend Income. Prudent investment strategies and careful selection of investment instruments enabled this achievement amidst volatile market conditions

Challenged by :

External environmental volatilities including changes in the monetary policies that affected the interest rates



Strategies :

- Ensured growth in fund size by increasing GWP and improving underwriting results
- Increased the exposure to Fixed Income securities to take advantage of the increase in interest rates
- Capitalised on changes in interest rates

Bonus & Dividends to Policyholders

Bonus and dividend to Policyholders is a key aspect of the sustainability of the business

INCREASED BONUS AND DIVIDENDS

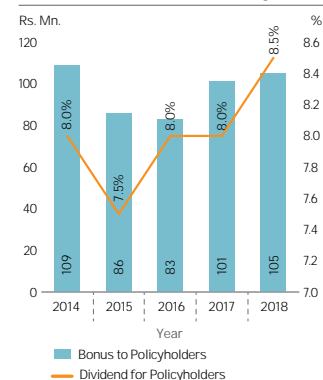
As a result of :

- Continuing our tradition of offering attractive bonus, offered the highest bonus rate of 54 per Rs. 1,000 in 2018
- Declared a dividend rate of 8.5% for the two fund based products, Myfund and Ranmaga, which are the highest contributor to the GWP

Challenged by :

- Volatility in interest rates in the market
- Competitor dividend and bonus rates to Policyholders
- Under the new Inland Revenue Act profit shared with policyholders are taxed at 14% resulted in Rs. 14 Million tax being charged on bonuses declared to Participating policyholders

Bonus and Dividend to Policyholder



Strategies :

- Increase profitability of Life business through investment management and expense management

Profitability

Rs. 1,019.1 Million total surplus transfer including One-off Surplus 23% growth in surplus transferred to Shareholders excluding One-off Surplus

INCREASED PROFITABILITY

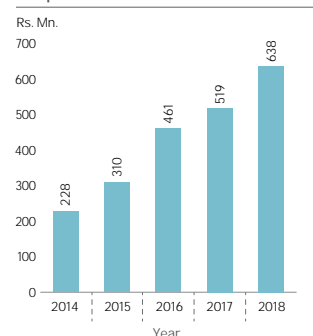
As a result of :

- An Interim Surplus transfer made from Policyholders' Fund to Shareholders' Fund in March 2018 of Rs. 209 Million and year-end surplus transfer of Rs. 428 Million both made with the recommendations of the Consultant Actuary
- Sound product development, expense management and prudent underwriting practices
- One-Off Surplus which arose due to change in Life Fund valuation method from NPV to GPV amounted to Rs. 381.1 Million transferred as profits to a restricted regulatory reserve in 2018 with IRCSL approval

Challenged by :

- Growth in expenses compared to new business generation
- Volatility in interest rates resulting in fluctuating profits
- Changes in regulations relating to Life Fund such as linking future dividend rates to risk free rates for valuation of fund based products
- Change in the taxation method under the new Inland Revenue Act which resulted in the surplus transferred from the Life Insurance Fund being taxed at 28%

Surplus Transfer to Shareholders



Strategies :

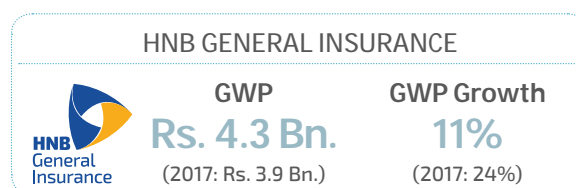
- Analyse product profitability and repricing products, focus on selling profitable products
- Using expense studies to understand our costs and implementing management strategies to improve profitability
- Prudent and effective investment management strategies to grow fund yield
- Effective Asset and Liability Management (ALM) through continuous monitoring, and incorporating ALM into product and investment decisions thereby reducing profit volatility
- Our robust expense management strategies

Financial Capital

SNAPSHOT OF GENERAL INSURANCE PERFORMANCE

Gross Written Premium

HNBGI recorded a GWP of *Rs. 4.3 Billion* in 2018, which is a *11% growth* compared to the GWP of *Rs. 3.9 Billion* in 2017. We outperformed the industry by 3% despite challenging external environment



CONTINUED STRONG GROWTH IN GWP

As a result of :

- Strategic investments made over the years in terms of developing products which appeal for their customer value proposition
- Strengthening the multiple distribution channels
- Maintaining effective pricing discipline with improved technological support
- Structured training of the sales force together with driving management strategy

Challenged by :

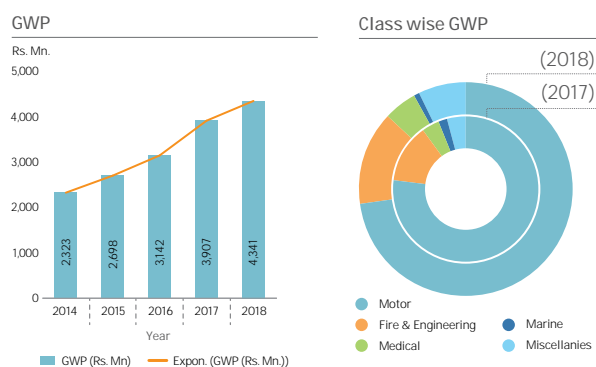
- Slow economic growth and decreasing purchasing power affecting the demand for insurance
- Regulatory controls on granting leases by financial institutions
- Fierce competition among players created by acquisition
- Selective underwriting to meet company's selective risk appetite

Strategies :

- Offered a comprehensive product portfolio for all General insurance needs including Takaful window
- Accelerated GWP growth through business channel development
- Motor and non-motor policies underwritten through centralised motor and non-motor underwriting units for better control and monitoring
- Diversification across large portfolio of insurance contracts and geographical areas
- Realigning incentive scheme of the Sales staff and channel managers with their set KPIs
- Training and development of underwriting staff and distribution network team
- Increased contribution of Takaful business by expanding the business channel



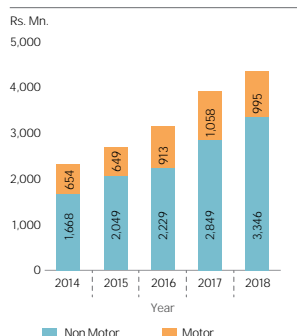
Market Share
4.5% (2017: 4.4%)



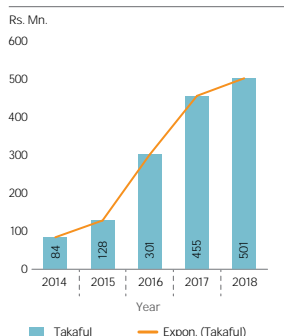
GWP	2018 Rs. Mn.	2017 Rs. Mn.	Growth %
Broker	1,289	1,180	9%
HNB	977	979	0%
Direct	1,345	1,052	28%
Advisors	729	695	5%
Total	4,341	3,906	11%

Channel wise GWP

Motor Non Motor Mix



Takaful



Did you know ?



On average 7 vehicle accidents occur every day which includes at least one fatality

Source: Sri Lanka Motor Traffic Headquarters

Management of Claims

HNBGI incurred total claims expenditure of Rs. 2.2 Billion in 2018, which is a 26% growth compared to Rs. 1.7 Billion in 2017. Claims Ratio increased to 66% compared to 64% recorded in 2017.

INCREASE IN CLAIMS RATIO

As a result of :

- Increase in number of motor accidents reported which has grown to 13.8% from 2.3% recorded in 2017
- LKR depreciated over 16% against USD resulting in appreciation in the spare parts prices

Challenged by :

- Increase in motor vehicle spare part prices with the depreciation of the LKR
- Fierce competition among players leading to low pricing

Class	2018	2017	2016	2015	2014
Motor	65%	62%	69%	88%	70%
Non Motor	79%	89%	73%	91%	76%
Total	66%	64%	69%	88%	71%

GWP mix

Credit Rating
A (Ika)
By
Fitch Ratings

Strategies :

- Focus on vehicle types which carry lower claims experience
- Adoption of Risk based underwriting to minimise claims exposure
- Conscious underwriting by building the internal flood mapping and align them with the past catastrophe incidents
- Assessments are carried out by an independent expert panel of assessors/loss adjusters working throughout the Island on a 24 hour basis. Number of assessors have been increased from 71 to 91 in 2018
- Adequate claim reserves are maintained according to the agreed methodology adopted by the Company
- Establishment of claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and investigation for possible fraudulent claims are established to reduce the risk exposure of the Company
- HNBGI proceed with reinsurance placements with globally recognised and stable portfolio of reinsurance companies which are rated highly by Standard & Poors, AM Best or Fitch rating (other than for reinsurance placed with the National Insurance Trust Fund (NITF) which is an organisation operating under Government of Sri Lanka)

Financial Capital

SNAPSHOT OF PERFORMANCE OF GENERAL INSURANCE

Expense Ratio and PAT

Total expenditure incurred during the year amounts to Rs. 1.2 Billion, which is a 15% growth compared to Rs. 1 Billion in 2017. The expenditure ratio has reduced to 36% compared with 38% recorded in 2017.

REDUCTION IN EXPENSE RATIO

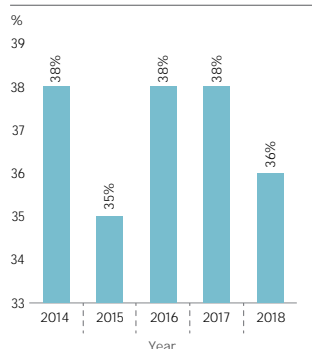
As a result of :

- Effective procedures and policies
- Feasible and attractive incentive schemes to acquire business
- Investing in technology to minimise the paper works
- Conscious management decision making in day to day operation

Challenged by :

- Increase in inflation during the year
- Fierce competition among players leading to increase in promotional expenses
- Managing fixed expenses of the Company within the pre-set budgets
- KPIs set to increase PAT with the challenging economic environment

Company Expense Ratio (%)



Profit After Tax



Strategies :

- Strict budgetary controls on expenses
- Automating manual processes
- Revamping performance based incentives
- Encouraging sales of profitable products
- Negotiation of favorable terms with reinsurers
- Weeding out unprofitable business portfolios
- Strengthening the procurement process

OPPORTUNITIES FOR 2019

- Growth in infrastructure development and the construction industry in the country creates opportunities for the non-motor insurance segment
- Increasing sales of low engine capacity vehicles creates opportunities for the motor – insurance segment
- The demand for insurance increasing with the amplified likelihood for natural catastrophes gives rise to greater penetration and market share
- Increasing demand for emerging risks such as cyber-crime, Directors and Officers Liability, Professional Indemnity, etc increase the demand for insurance products
- Penetration by the use of technological platform linked with social media

Did you know ?



There were 8,913 cases of house breaking and 3,366 cases of robbery reported in Sri Lanka in 2017

Source: <https://www.police.lk>

INVESTMENT PORTFOLIO PERFORMANCE

During 2018, we operated in a tight economic environment specially; in light of the global and domestic events which impacted the overall economy negatively. Distressed domestic economy was further disheartened by political uncertainty which resulted in the rupee plummeting further down amidst heavy foreign sell off, deteriorating trade balance and BOP. The persistent deficit in rupee liquidity compelled CBSL to reduce the Statutory Reserve Ratio in November 2018, while increasing policy interest rates to neutralise the impact on interest rates. These triggers resulted in the key rating agencies to downgrade Sri Lanka's sovereign rating. Accordingly, the secondary market rates of Sri Lanka sovereign bonds shot upto 200-300 basis points.

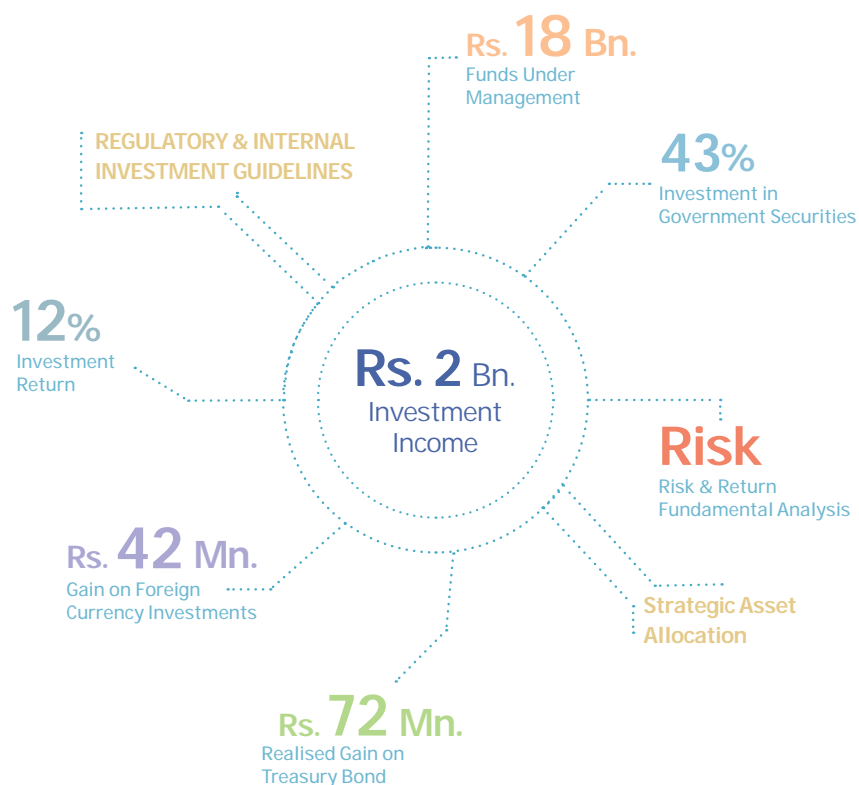
Therefore, economic policy uncertainty was a key challenge we faced during the year. We conducted constant analysis of key economic variables to gain the best possible investment returns by rebalancing the assets allocation and maturity mix of group funds constantly within the framework of legal, regulatory and voluntary boundaries.

Investment Income

Performance: The Investment Income of the Group grew by healthy 13.5% reaching a value of Rs. 1,969.9 Million compared to the Rs. 1,736.0 Million recorded in 2017.

	Rs. Mn.
Interest Income	1,883.0
Net Realised Gains	74.1
Net Fair Value Gains	8.5
Dividend Income	4.3

During the year under review Life Insurance Investment Income grew by 11.1% recording an income of Rs. 1,642.5 Million compared to Rs. 1,478.5 Million in 2017 and income of General Insurance grew by 27.1% reporting a value of Rs. 327.3 Million.



HNBA: Admirable Performance

Key Drivers: Strategic asset allocation together with growth in Funds Under Management and movement in interest rates were key drivers in achieving the Investment Income of the Group.

Challenges/ Opportunities: The 12-month T Bill increased by more than 200 basis points during the year to reach 11.2% while the interest rates increased across the board in other tenures by similar margins.

Slow economic growth of the country together with external factors negatively impacted on capital market performance resulting in overall Market Capitalisation dropping at alarming volumes whilst ASPI dropped by 4.98% to 6,052.37 and S&P SL20 index dropped by 14.61% to 3,135.18.

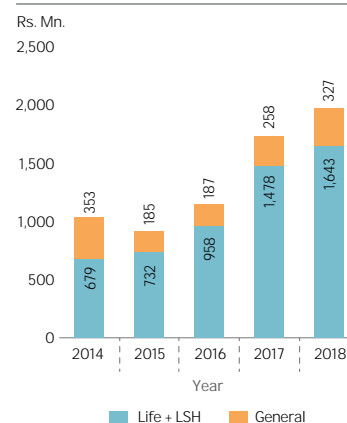
Strategies:

Increased the exposure to fixed income securities specially investments in Treasury Bonds & Term Deposits to take the advantage of the increase in interest rates during the latter part of the Year.

We underweighted our Equity exposure considering the excessive volatility experienced in the market, economic conditions leading to slowdown in corporate earnings etc.

We conducted constant analysis of key economic variables to gain the best possible investment return within the framework of legal, regulatory and voluntary boundaries.

Investment Income (Group)



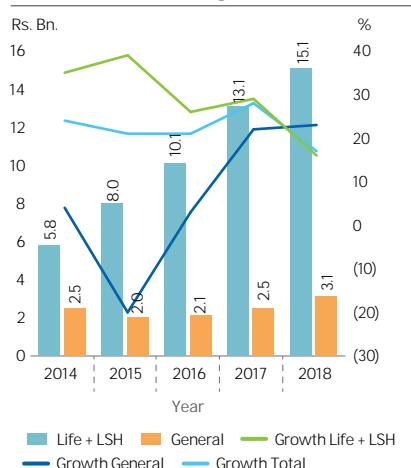
Financial Capital

Funds Under Management

Performance: Funds Under Management (FUM) of the Group reached Rs. 18.3 Billion with Rs. 0.7 Billion generated from business operations and Rs. 1.9 Billion from Investment Income. The FUM of HNBA Grew by 15.9% reaching Rs. 15.2 Billion, compared to Rs. 13.1 Billion in 2017. FUM of HNBGI Grew by 21.3% reaching Rs. 3.2 Billion, which was a satisfactory growth over the Rs. 2.6 Billion secured in 2017.

Strategies: Investment of the funds channelled by the two business lines to gain optimum return within the risk appetite.

Funds Under Management



Asset Allocation

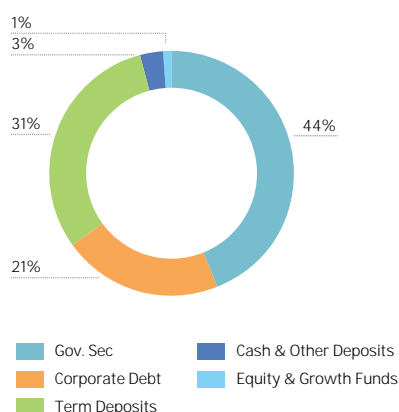
The evident growth in Investment Income stems from the strategic asset allocation of the Group. The Group manages its asset allocation as per the regulations, rules and guidelines set by the Regulation of Insurance Industry Act and Rules and Investment Policies of HNBA and HNBGI. As of 31st December 2018, the Group had invested in 42.8% Government securities (2017: 46.1%), 20.7% in Corporate Debt (2017: 17.9%), Term Deposits 34.0% (2017: 31.6%) and Equity 0.8% (2017: 1.0%).

Strategies:

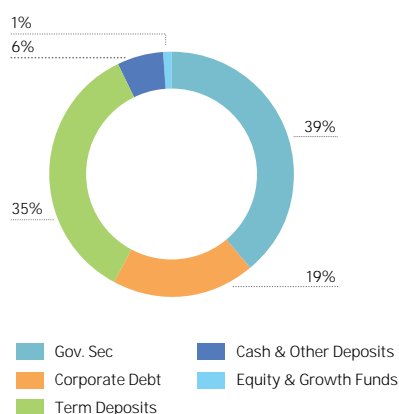
Our asset allocation strategy is a continuously evolving, and rigorously implemented strategy, which balance the risk and reward of each asset in the investment portfolio by anticipating and analysing macroeconomic variables and its impacts, which includes interest rates, Inflation rates, exchange rates and market values on each type of investment assets.

Further to ensure our investments are secure; the Group is strictly following the internal investment guidelines and IRCSL regulations.

Asset Allocation - HNBA



Asset Allocation - HNBGI



Maturity Mix

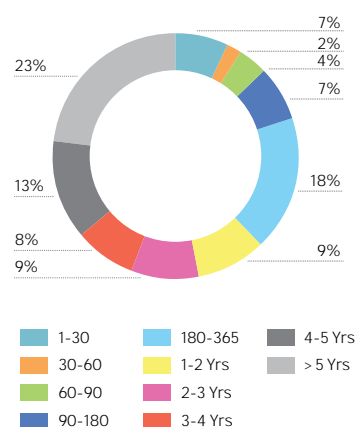
An integral part of the Group's strategic focus remains on the maturity mix of HNBA and HNBGI to ensure Asset and Liability Management (ALM). Balancing the asset and liability maturity mix plays a key role in managing the cash flows of the Company and the Subsidiary as well as to maintain the Capital Adequacy Ratios (CAR) at prudent levels. As at the year-end 2018, 62.6% of the assets in the Life Insurance Fund were invested in long-term investments in consideration of the long-term nature of the liabilities of the Life Fund. In General Insurance fund, 61.3% of the portfolio was invested in short term investments in consideration of the short term nature of the General Insurance Liabilities.

During the year an ALM Committee at management level was set up, with the inclusion of Managing Director, Chief Operating Officer, senior officials from Investment, Actuarial and Finance Divisions. Asset and liability maturity profile, CAR and profit sensitivity to external and internal variables, Asset and Liability matching strategies are discussed in detail.

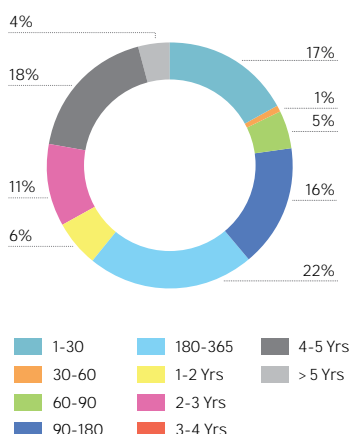
Strategies:

We use duration strategies considering the various macroeconomic expectations amongst others to optimise the current and future returns of the funds while being within the ALM policy of the Group.

Maturity Mix - HNBA



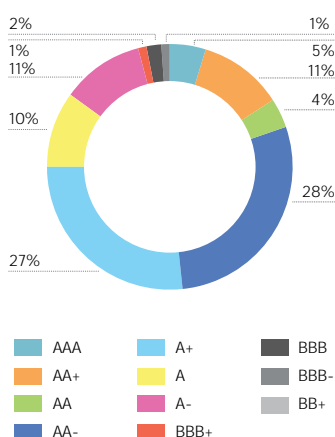
Maturity Mix - HNBGI



Governance

The Group strictly adheres to the provisions relating to investment function covered by the Regulation of Insurance Industry Act No 43 of 2000, determinations, rules and guidelines of the IRCSL and other applicable regulations. Investment Committee, Sub-Committee of the Board of Directors, comprising members with wide experience in fund management, monitors the investment function of the Group and the report of the Committee is given on pages 192 and 193.

Asset Quality - HNBA

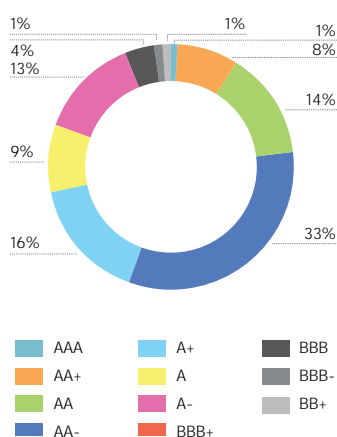


Risk Profiles

HNBA takes prudent measures to adhere to the Risk Management framework of the Group while maximising the investment returns. All investments made by us have been done only after a fundamental risk-return analysis carried out by the internal research team. The exposure limits of the investment portfolio are determined based on the credit ratings and the regulatory requirements applicable to the respective fund.

Going beyond the regulatory minimum requirements, we only invest in deposits with banks and in debt instruments which are rated BBB – or above by Fitch Ratings Lanka Limited while any deposit with finance companies have a more stringent criteria.

Asset Quality - HNBGI



— Outlook

We expect Sri Lanka to work towards broad-basing structural reforms beyond mere handouts to boost the economic growth, given its looming debt payments in the near term, limited reserves and slow growth in exports as well as FDI's.

Policy rates to remain stable backed by stable inflation and a negative output gap and we do not expect Central Bank of Sri Lanka to change its stance on the monetary tightening in near future.

We expect to further improve our Investment Income during 2019 expecting macroeconomic environment to improve and we will be continuing overweight investments into fixed income securities especially to longer term investments from the Life fund while continuing to alter our equity exposure based on the market fundamentals.

We will continue to surge for higher yields from our funds while keeping the investment risks at lower levels and maintaining the CAR ratios well above the minimum required level by the regulator.

Did you know ?

The 12-month treasury yield increased by 203 basis points in 2018

Source: Central Bank of Sri Lanka

Financial Capital

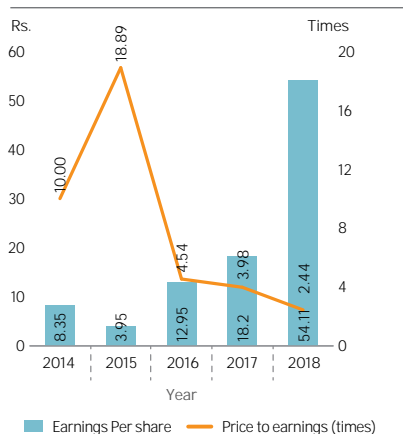
VALUE CREATION TO OUR INVESTORS

HNBA's business model enables creating value for its Shareholders by delivering value to various stakeholders and deriving value from them in turn. Such value created enables the Company to enhance Shareholder wealth both in the short term and the long-term through dividend payments and increases in the Market Capitalisation that enable them to realise capital gains.

Earnings Per Share (EPS)

The EPS of the Group reported a value of Rs. 54.11 at the end of financial period with a growth of 197% from the Rs. 18.20 in 2017. EPS without one-off surplus was Rs. 46.48 which too marked a 155% increase. The improved profitability of the Group was the main driver of high EPS reported and Price to Earnings value declined to 2.44x from 3.98x in 2017 with the high earnings achieved by the Group.

EPS vs PE



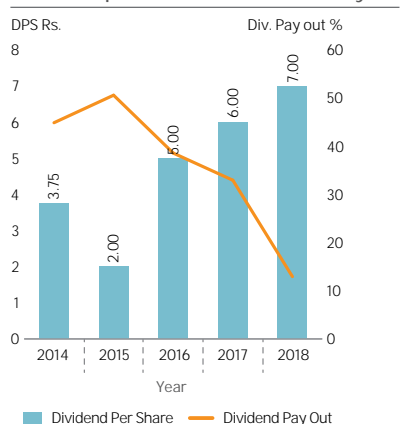
Return on Equity

The Group's Return on Equity increased to 57% from 24% in 2017 with the Rs. 2.7 Billion Profit After Tax of the Group. ROE excluding One-off Surplus is 49%.

Attractive Dividends

HNBA's dividend policy seeks to balance the short-term Shareholder returns and supporting business expansion in the long-term. As such, the Company proposed a final dividend Rs. 7.00 per share for the year 2018 compared to Rs. 6.00 per share which in turn translates to a pay-out of 15% excluding the One-off Surplus. The total pay-out is Rs. 350 Million compared to Rs. 300 Million declared and paid out for the previous year, representing an increase of 17%.

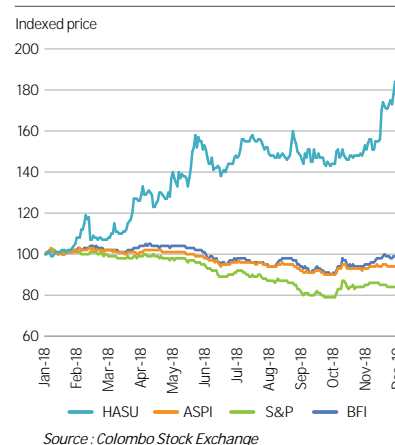
Dividend per Share vs Dividend Payout



'HASU'

The shares of HNBA are listed on the Colombo Stock Exchange under the ticker 'HASU'. The Company had 3,408 ordinary Shareholders as at 31st December 2018 against 3,432 in December 2017 with public holding stake at 38.68% as at end December 2018. All shares of the Company are in the form of ordinary voting shares. Maintaining the liquidity of the share HASU traded 237 days out of the 240 market days. The Market Capitalisation of HASU increased to Rs. 6.6 Billion from Rs. 3.6 Billion at the end of 2018.

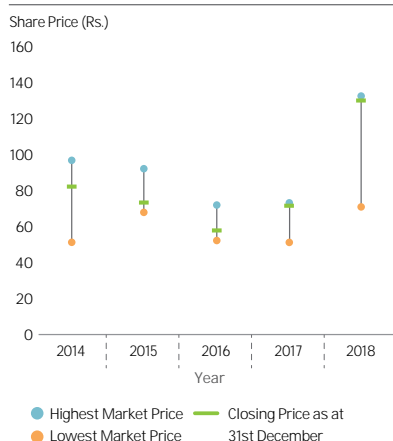
HASU Performance vs Market



Share Price

Creating a historical milestone is the fact that the performance of HNBA shares witnessed a record-breaker given the sluggish economic outlook both in a global and local context. Accordingly, HASU expanded by 82.10% during the year under review to a commendable Rs. 132 from Rs. 72.50 from the corresponding period of 2017, with the highest recorded at Rs. 134.50 and lowest at Rs. 72.60 within 2018. It is noteworthy to mention that HNBA shares outperformed the market and Bank Finance and Insurance Index.

Share Price Movement



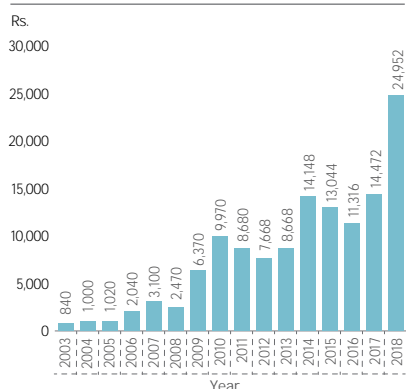
Outlook

Shareholders are considered to be a key stakeholder of our business and our main aim is to continuously increase their wealth by improving the profitability of the business and declaring attractive dividends. Focus would be given to increase the Return on Equity of our Shareholders. We expect further improvement in the share price of HNB Assurance PLC in 2019.

Value Added to Initial Shareholders

A long-term investor, who purchased HASU shares at a total investment of Rs. 1,000 at the IPO in 2003, would have seen the value of the position grow to Rs. 24,952 as of 31st December, 2018. This translates into a CAGR of 23.9% over the same period.

Rs.1000/- Invested at HASU IPO



Did you know ?

An investor who invested Rs. 1,000 in 'HASU' at the IPO in 2003, would see the value of the position grow to Rs. 24,952 as of 31st December, 2018.

Further details on HASU can be found on Share Information note on pages 105 to 109.

Capital Management Reports

Human Capital

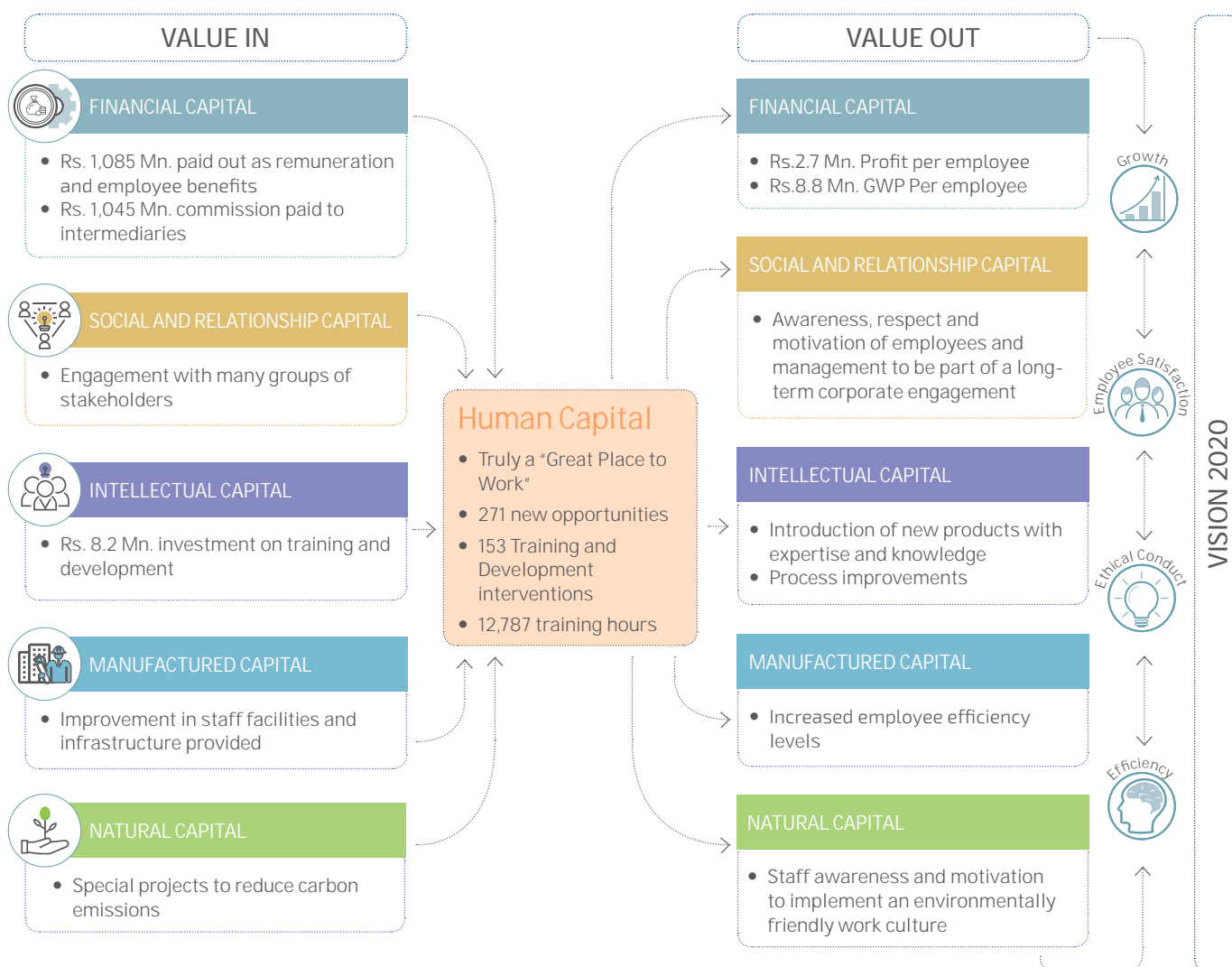
“COMPETENCIES, CAPABILITIES AND EXPERIENCE OF OUR EMPLOYEES, AND THEIR MOTIVATION AND COMMITMENT TOWARDS ACHIEVING OUR STRATEGIES”

OUR FOCUS

Pivotal to our success is our Human Capital, the key factor which has helped us secure the competitive edge in the industry; the core of our value system; the mere strength for our existence. We at HNBA constantly focus on attracting, nurturing and retaining the best talent to drive the growth of the Company. We also believe that enhancing our Human Capital would lead to higher customer satisfaction and hence, focus is given to improving customer experience through the development of our Human Capital.

It is our employees who translate our vision into tangible outcomes that add value to all our stakeholders. Therefore, we ensure that we provide them with an inclusive and inspiring workplace to excel in, whilst our investments are mostly focused on enhancing the knowledge, skills and capabilities of our employees through training and development activities and employee engagement activities, creating a workplace where people can develop and shine.

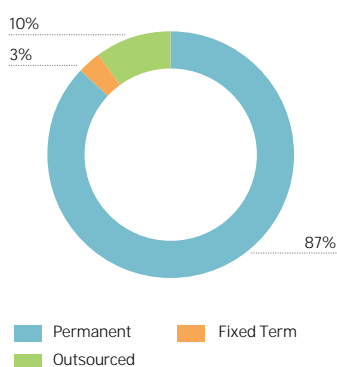
VALUE CREATION THROUGH HUMAN CAPITAL



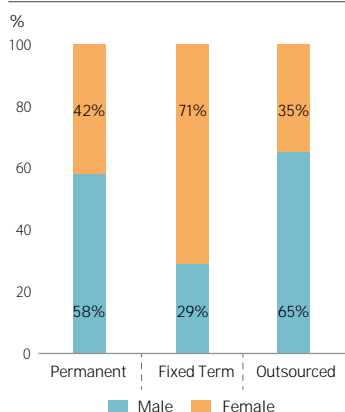
THE EVOLUTION THROUGH DIVERSITY

We, at HNB Assurance believe that the evolution of our success story is parallel to the evolution of our Human Capital. They are the life line of our existence and the driving force behind all what we have achieved today. Our growing and diverse mix of educated professionals comprises 992 individuals, who are the primary value creators of our Group. Within this family, we have 957 permanent employees, with 35 staff members who are on fixed term contracts. In addition, we have created 107 employment opportunities through a third party service provider.

Employment by Contract Type (2018)



Employment Contract by Gender



Key Focus Areas in 2018 and the Value Creation by HNBA

Sustainable Development Goals	Key Focus Area in 2018	Achievements and Value Creation
5 GENDER EQUALITY 	Attracting and retaining the best talent	<ul style="list-style-type: none"> Maintained the turnover ratio at 23% and absorbed 271 new employees covering diversified areas of skills and knowledge. HNBA was also accredited as a 'Great Place to Work'
8 DECENT WORK AND ECONOMIC GROWTH 	Diversity and inclusion as competitive advantage	<ul style="list-style-type: none"> Group Male: Female balance maintained at 57% : 43% 3% increase in new female recruits A multi religious, multi-racial work force, inclusive work environment
4 QUALITY EDUCATION 	Building capabilities through training and development Building leadership through succession planning	<ul style="list-style-type: none"> 153 training programmes carried out covering all levels of employees 847 employees received training during the year Provided 15.10 training hours per employee A planned successions and talent management program ensuring seamless transitions
3 GOOD HEALTH AND WELL-BEING 	Health and Safety Promoting employee engagement	<ul style="list-style-type: none"> Weekly medical clinics Gym and pool membership First aid training Meaningful and challenging work assignments Employee centric welfare society and its year around activities Organisation wide communication and recognition platforms such as staff conferences, chairman's award, spot recognitions

As an equal opportunity employer, our team represents both genders, all major ethnic groups in the country along with generations X, Y and Z, who work together in a conducive environment with dignity and mutual respect. Our Human Capital is not only limited to our employees and third party service providers, as we treat our growing force of Insurance Advisors as a part of our Human Capital.

Human Capital

ALIGNING WITH VISION 2020

Human Capital is a fundamental pillar with an enduring promise to deliver superior returns to our stakeholders. This is well established and represented in our Vision 2020, within which, we aspire with unified resolution to be the industry benchmark in employee and Advisor satisfaction. In this Capital we focus on Growth, Employee Satisfaction and Efficiency.

GROWTH

We recognise the strong positive correlation between growth in Human Capital and the growth of the Group. Hence, we are committed to continually invest in selected frontiers which enable Human Capital Growth. We identify Talent Management, Development and Diversity as these frontiers, for which we commit resources in a planned and systematic manner for this purpose.

Talent Management

Managing our talent pool is an utmost priority, as it enables us to deliver the best to all our stakeholders. We ensure that the best resources are acquired and retained in the Company whilst investing in our dynamic team to develop their potential to become future leaders, enabling the Company to realise its full potential.

Strategic Employee Planning

Strategic Employee Planning starts with organisational goals and a strategic plan. Subsequently, we map the key resources which we need, to reach our goals and to implement the plan. More specifically, we identify the key roles and personnel who will get us there. This provides inputs for structural realignments and new talent requirements.

Talent Attraction and Acquisition

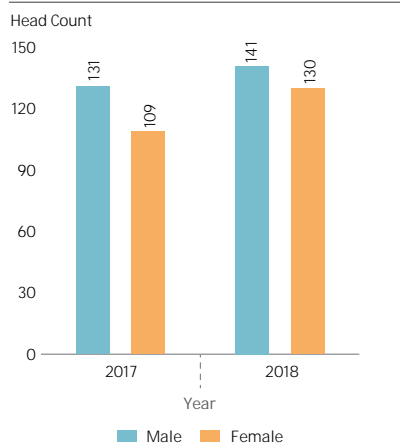
New talent acquisition is addressed through Group's recruitment procedure, which is designed to select the candidate best suited for our business needs in accordance with our equal opportunity policy. Preference is given to local talents with the necessary skills, knowledge, capabilities and more importantly, behaviors that fit and nurture our corporate culture. While immediate consideration is given to internal talent, whenever vacancies occur, specialised skills are brought in at required levels if internal talent is not available.

The Group assesses technical skills, soft skills and behaviors of potential recruits by ensuring they go through a series of panel interviews and tests where they are assessed impartially. A mandatory orientation programme is in place to ensure all new recruits are familiarised with organisational values, policies and procedures.

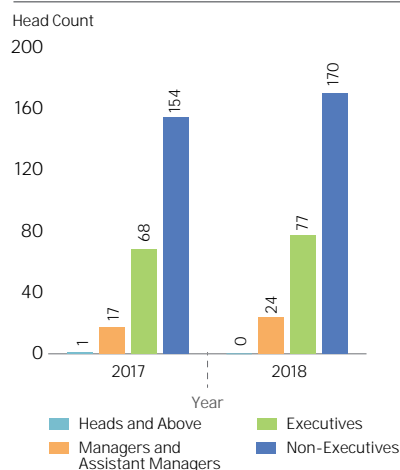
During the year under review, HNBA created 271 new employment opportunities, whilst 48% of them were filled by female talent.

New Recruit Indicators

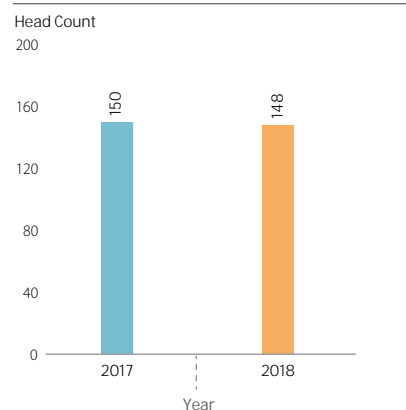
New Recruits by Gender



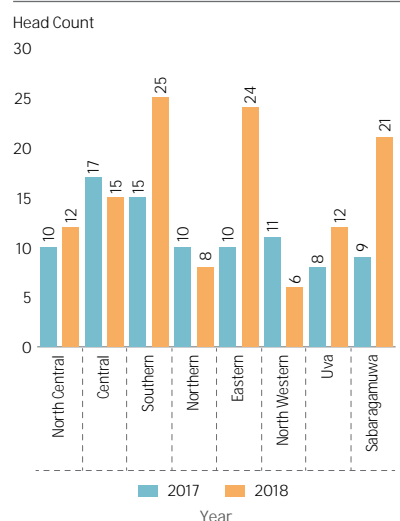
New Recruits by Staff Category



New Recruits in Western Province



New Recruits in Other Provinces

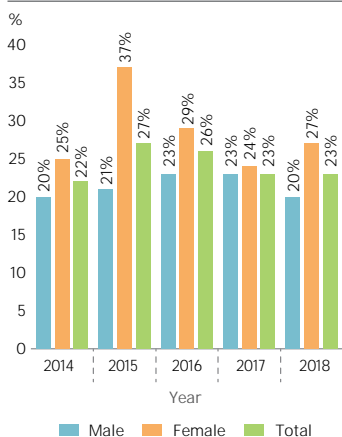


Talent Retention

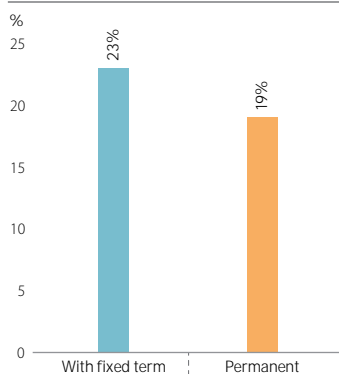
Our performance and benefit policy, training and development, career advancement opportunities, employee engagement activities and non-discriminatory culture are tools used by the Group to retain employees. The Group has been able to maintain its employee attrition rate of 19% excluding fixed term contract staff and 23% including fixed term contract staff. Although double digit attrition rates have become a norm in the industry, the Group has taken several steps to improve retention. Benchmarking our HR practices through 'Great Place to Work' survey, benchmarking remuneration with industry and providing clear career development paths are some measures initiated during the year. In addition, fixed term contract staff who perform well, are absorbed in to the permanent cadre on a regular basis.

Attrition Indicators

Employee Turnover by Gender



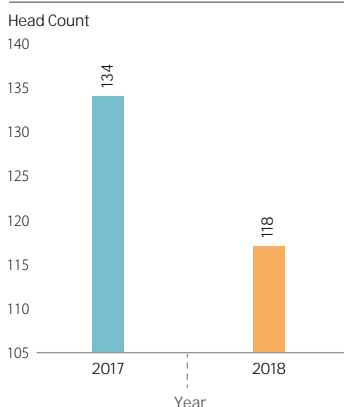
Employee Turnover by Contract (2018)



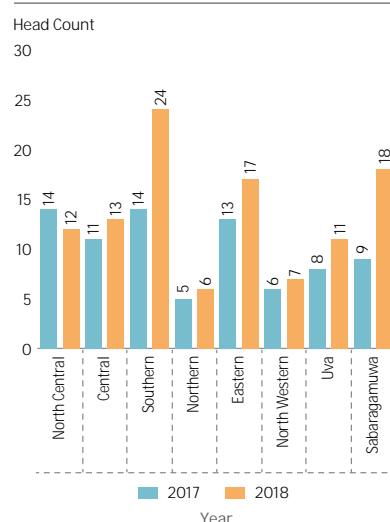
Employee Turnover by Staff Category



Employee Turnover - Western Province



Employee Turnover - Other Provinces



Return to Work and Retention after Maternity Leave

No of employees entitled for maternal leave	160
No of employees who took maternal leave during the year	26
No of employees who returned to work after maternal leave	14
No of employees who took maternal leave during the year, but leave period not ended by 31st December 2018	9
Retention rate of employees who took maternal leave	88%

Training and Development

Training and Development by way of enhancing knowledge, competencies, skills, attitudes and performance of employees is a key tool, with which HNBA achieves growth. All our employees are offered training and development opportunities to enhance their skills and knowledge whilst fortifying their personal brand. During 2018, HNBA invested Rs. 8.2 Million in training and development initiatives and offered a total of 12,787 training hours for employees.

Did you know ?



Female share of employment in senior and middle management is 24%

Source: United Nations Development Programme

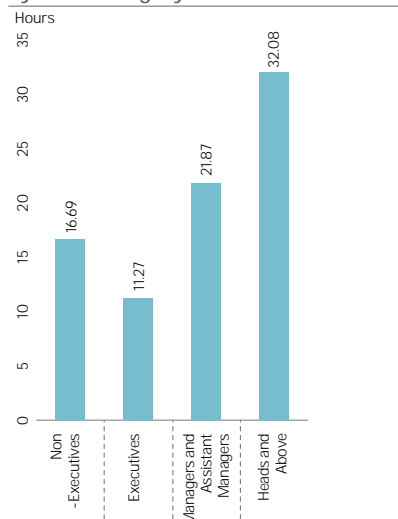
Human Capital

The training requirements of the employees are identified in two stages by the management; initially during the Corporate Planning process and at annual employee performance evaluation process. Our training and development plan is built on the requirements identified through these sources.

Training Programmes for Employees

GWP	2018	2017
Internal	65	73
External	80	56
Overseas	8	8
Total	153	137

Average Training Hours per Employee by Staff Category



Our Training Process

Internal and External Training

The year under review witnessed our employees going through 65 internal training programmes and 88 external training programmes. In house training for the Sales Force and the Bancassurance Officers are conducted by two specialised training departments, operating under HNBA and HNBGI. The Group provides employees with external training opportunities to expose them to both local and international industry innovations and developments.



Training on supervisory skill enhancement



Training on personal grooming

Career Development

Career development of employees is a crucial aspect of our human resource development initiatives. The Group has laid out clear career paths for each employee category and these are communicated to employees during recruitment/ promotions. We take measures to identify the individuals with potential for leadership and groom them to assume responsibilities as future leaders who would drive Company growth. During the year under review, we carried out a comprehensive succession planning programme, covering the top three layers of the organisational hierarchy.



Leadership building training programme

Diversity

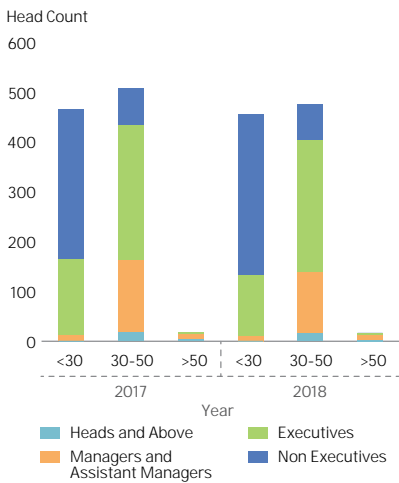
As an equal opportunity employer, HNBA encourages workplace diversity, regardless of gender, ethnicity, religion, race, sexual orientation or age. The Group refrains from tolerating or engaging in any form of discrimination or harassment against any person on grounds of diversity and this is inbuilt in our HR policy. A significant proportion of our employees have been with us in the long run, with 38% of our staff working with us for over 4 years. The Group has also maintained a balance in terms of employee age, with 47% of our staff being below 30 years, while 51% of the employees are between 30 to 50 years of age.



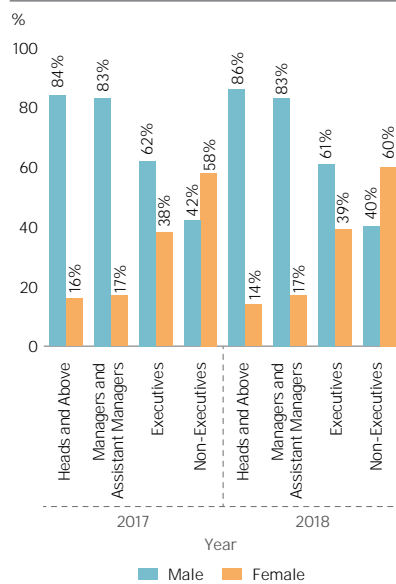
Medical training for our employees

Diversity Indicators

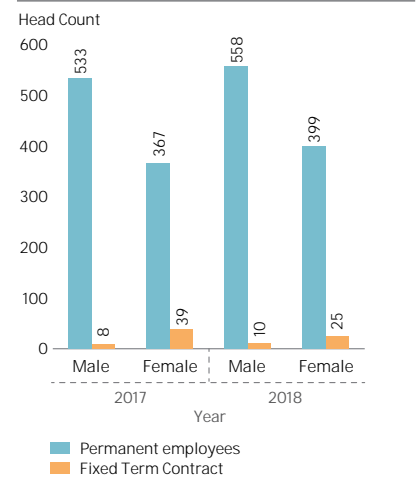
Employees by Staff Category and Age



Employees by Staff Category and Gender



Employees by Employment Contract and Gender

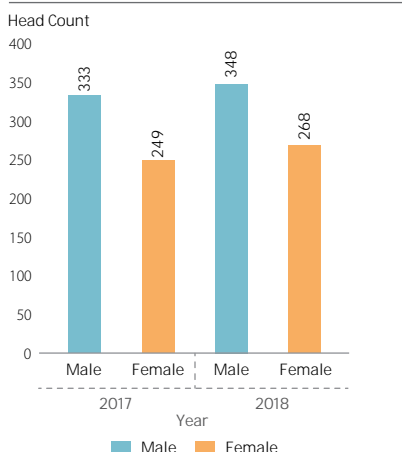


Human Capital

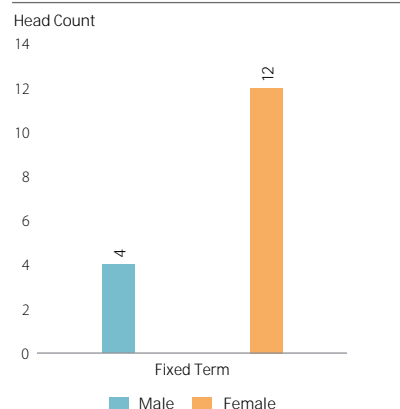
Gender Composition



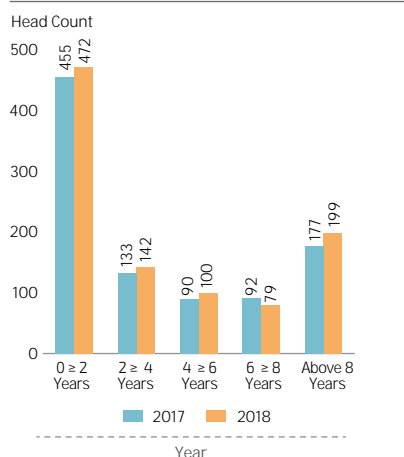
Employee Head Count - Western Province



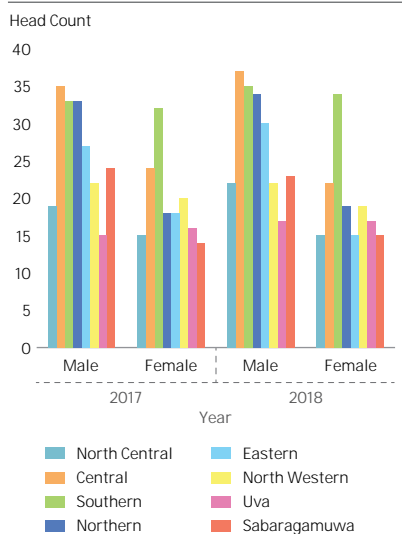
Employees by Province & Gender - Fixed Term, Western (2018)



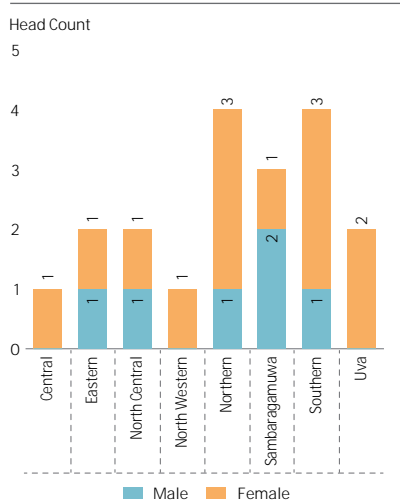
Employees by Service Range



Employee Head Count - Other Provinces



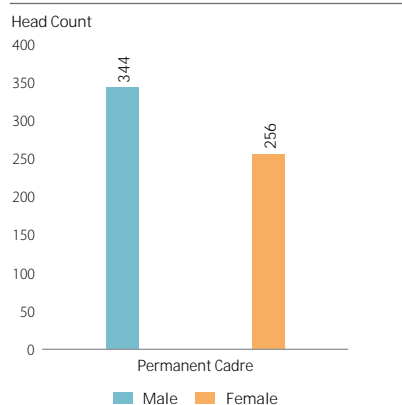
Employees by Province & Gender - Fixed Term, Other Provinces (2018)



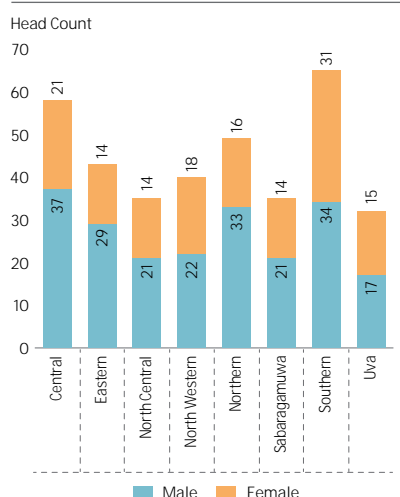
Diversity in Geographical Presence

Catering to the needs of our diverse customers is made easy due to our diverse workforce, who is dispersed across the Country, in order to help penetrate all our customer segments.

Employees by Province & Gender - Permanent Cadre, Western (2018)



Employees by Province & Gender - Permanent Cadre, Other Provinces (2018)



EMPLOYEE SATISFACTION

Employee satisfaction is a key driver of motivation that would propel the Group to greater heights. The Group has taken several measures to ensure that its employees are satisfied and are well taken care of.

Creating Value for Employees

Our Human Capital is strategically co-aligned with Intellectual Capital, which in turn is intrinsically linked to employee retention and attraction. To attract and retain employees, we have to deliver value in numerous ways and create a great place to work where employees are inspired and motivated to perform at their optimum. HR policies are carefully framed to create an environment that inspires high levels of performance and motivates employees to realise their potential. High levels of employee engagement and regular dialogue with employees, along with the grievance mechanisms in place, enable us to identify employee concerns and address them effectively. Our value creation to employees was further endorsed during the year under review with HNB Assurance PLC being recognised as “A Great Place to Work”.



Employee Remuneration and Benefits

The overall remuneration and benefit package of HNBA is comprised of a fixed component and a variable component. The fixed component includes salaries

and allowances, while the variable components include bonuses and other monetary and non-monetary benefits. Salary increments, bonuses and promotions are granted to employees annually, following a transparent performance appraisal process.



No employees are covered under collective bargaining agreements. Increments, bonuses and promotions are purely based on employee performance and no diversity factor is considered in granting of the same.

Employee performance is evaluated exclusively based on Company/ business unit performance and individual performance results. Assessment of the achievement of performance objectives set at the beginning of the year and skills and attributes showcased during the year, are considered for individual performance results. This performance appraisal process evaluates technical skills, leadership and soft skills of employees, thus encapsulating the overall development of the relevant employee. This helps HNBA to build a target driven culture, duly reward and develop the employees. Increments, bonuses and promotions are reviewed and approved by the Human Resources and Remuneration Committee and the Board of Directors.

The out-sourced staff are contracted through reputed labour supplying companies and the Company ensures that they are remunerated according to regulatory requirements of the Country.



Human Capital

Recognition and Rewards

We recognise and reward the best of our performers through 'Chairman's Excellence' Awards each year and the best sales personnel are recognised at the Annual Sales Convention. In addition, foreign tours and other monetary and non-monetary rewards are granted to top performers in distribution and sales.

Employee Benefit Schemes

As per the Act, No. 15 of 1958 and Act, No. 46 of 1980 and subsequent amendments, the Group contributes to two mandatory defined contribution plans, namely: the Employee Provident Fund (EPF) and the Employee Trust Fund (ETF), on behalf of all our employees. We contribute 12% of the gross salary of the employee to EPF and 3% to ETF. All relevant payments are made on time to the regulatory bodies. Please refer Note 37.2 of the Financial Statements for EPF/ETF contribution of the Group/Company.

All employees who have rendered their service for more than 5 years are entitled for a payment of Gratuity according to the Payment of Gratuity Act, No. 12 of 1983. Gratuity payment is calculated as half month basic salary for each year of service. Smiles Global (Pvt) Limited carried out the gratuity valuation of the Group using Projected Unit Credit (PCU) method.

Employee Engagement

Employee engagement plays a vital role in our organisational culture, as we believe it is a major source of employee motivation. We believe in two-way communication and encourage our employees to communicate enabling both parties to identify expectations and benefits, which lead to a win-win situation.

At HNBA, we strive to consistently uphold an 'open door' culture where employees are always encouraged and made confident to talk to any member of the management anytime and



Chairman's awards winners of HNB Assurance PLC and HNB General Insurance Limited



Winner of HNB Assurance PLC sales convention



Winners of HNB General Insurance Limited sales convention

raise their concerns or present their ideas. Constant measures are taken to communicate major decisions taken by the management and obtain employee views on such decisions, promoting employee inclusiveness. In addition, employees are also given the chance to provide suggestions on the strategic decisions and direction of the Group. This year we provided an opportunity to all employees of the Group to recommend strategies to attain our Vision 2020. We are happy to note that valuable recommendations were made by employees in all corners of the Country, from all levels and the most valuable strategies were incorporated into our Corporate Plan.

Work-Life balance is an essential component of employee motivation. HNBA encourages staff to avoid work after normal office hours and drive the

utilisation of annual leave entitlement. Further, we carry out employee engagement activities, some of which includes departmental outbound trainings, branch outings, Avurudu and Christmas celebrations at Head Office and at zonal levels along with activities organised by the Staff Welfare Society.

Did you know ?



Skilled labour force as a percentage of labour force is 24%

Source: United Nations Development Programme



Christmas celebrations: Carol competition and kiddies party



'Sooriya Udanaya' Avrudu celebrations



Haloween costume competition



Pirith ceremony in Head Office



HNBA/HNBGI King and Queen

Our Employee Engagement Mechanisms



Recreational Facilities
We offer many recreational facilities to employees promoting work-life balance



Welfare Activities
We have a Welfare Committee to organise different welfare activities for our employees



Intranet
Intranet is used to communicate company policies, codes, procedures, events, employee special achievements and promotions



Grievance Handling
A sound grievance handling policy is in place to address all grievances with care and confidentiality events, employee special achievements and promotions



Health and Safety
We have established strict standards to ensure health and safety of all employees

Employee Health and Safety

The safety and health of all who work for us remains our priority. We believe that a safe and healthy work place will enable our employees to carry out their daily operations in a smooth and enjoyable manner. As such, we strive to provide a safe and healthy work environment for those working for and on behalf of the Group. Following are the measures taken by us to promote health and safety of our employees;

- Comprehensive medical insurance scheme for both in-house medical treatment and reimbursement of outpatient medical costs for permanent staff members
- First aid box for each department and branch to meet minor injuries and illnesses of employees and representatives of each department trained on basic first aid
- Maintenance of a 'sick-room' in the Head Office
- Weekly medical clinic which provides free consultation
- Gym and swimming pool membership
- Regular emergency evacuation drills

Human Capital

ETHICAL CONDUCT

Promoting ethical behaviour is a value instilled in our employees since the inception of our Company and our policies and practices are designed in a manner that enables the Group to be an ethical employer in all aspects.

The overall responsibility of ensuring ethical conduct is vested upon the Board of Directors, Human Resources and Remuneration Committee, a Sub-Committee of Board of Directors, assisting the discharge of their duties. Our comprehensive HR policy framework clearly outlines HNBA's approach to managing Human Capital while our Code of Ethics clearly defines expectations of employees. The Human Resource Division which is responsible for implementing the people strategy of the Group, continuously improves its processes and procedures to strengthen employee value creation. The Board, Human Resources and Remuneration Committee and the Managing Director receive regular reports on key performance indicators to assess the progress and effectiveness of the HR function. The Group ensures strict compliance with all labour regulations and requirements and we take pride in stating that no regulatory non-compliance was reported during the year.

Code of Conduct and Whistle Blowing

Employees of the Company are governed by a code of conduct that promotes integrity and ethical behaviour. Our culture does not allow corrupt behaviour and all employees are required to adhere to the following policies developed by the Group in relation to ethical conduct.

- Staff Handbook
- Code of Ethics
- Whistleblowing Policy
- IT Security Policy
- Share Dealings Code for Employees

During the year, no incident of corruption was reported within the Group as a result of strict adherence to high standards of ethical conduct.

Any fraudulent activity seen in the Group can be brought to light by the employees through the Whistleblowing Policy of the Group. No employee is discriminated against for raising their voice and the utmost level of confidentiality of the person is ensured by the members of the Senior Management, promoting timely reporting of any unethical practices of behaviour.

Human Rights Protection

HNBA upholds an organisational culture which supports local and internationally recognised human rights. The Group promotes equality of opportunity and tolerates no discrimination. We are committed to continually improving our compliance with international best practices and are therefore implementing a plan of continuous improvement. Further, we are compliant with all applicable legislation. All employees recruited by us are above the legal age of 18 and during the year under review, no cases of discrimination, violation of human rights and employment of child labour or forced/compulsory labour were reported at the Group. To the best of our knowledge, none of our suppliers have engaged in any violation of human rights.

Resignation, Termination and Transfer of Employees

Voluntary resignations of employees are accepted by the Management if done adhering to the Terms and Conditions of the contract of employment. Employees can refer the Human Resource Manual of the Company for further information on resignation, termination and transfer policy. The compulsory retirement age of all permanent cadre employees is 55 years of age.

Top Down Communication

- Official E-Mails
- Intranet
- SMS
- Branch Communication Meetings
- Notices and Banners
- Management Meetings
- Distribution Management Meetings
- Staff Conference
- Other various department, regional and branch level staff meetings



Bottom Up Communication

- Whistle Blowing Policy
- CEO's Forum
- Periodic Employee Surveys
- Branch Communication Meetings
- Management Meetings
- Distribution Management Meetings
- Other various department, regional and branch level staff meetings

Our Employee Communication Process

An exit interview is conducted by the Human Resource Department to obtain objective feedback on the employee experience, when an employee leaves the organisation on a voluntary basis. The feedback received by the employee is shared with the Senior Management and is used for future improvement of employee engagement and motivation. Termination of employees can be done for reasons specified in the HR Manual and the Group ensures the prescribed processes are followed when terminating the service of an employee.

Transfer of employees within departments, branches or parent (HNB Assurance PLC) and Subsidiary (HNB General Insurance Limited) is accommodated, based on availability of vacancies and employee requests. All transfers are done either at the request of or with the full consent of employees.

Grievance Handling

Our formal grievance handling policy is communicated in English, Sinhala and Tamil languages to address any grievance brought forward by employees. All employees are encouraged to voice their concerns related to any employment matter. Early identification of employee grievances is facilitated by the open door policy practiced by the Group and enables the management to provide immediate solutions to the concerns raised by employees. Chief Human Resource Officer, Heads of Divisions and all Managers of the organisation are assigned with the formal responsibility of handling grievances of employees. During the year, minor grievances were raised by employees and all raised concerns were resolved successfully by relevant responsible parties.

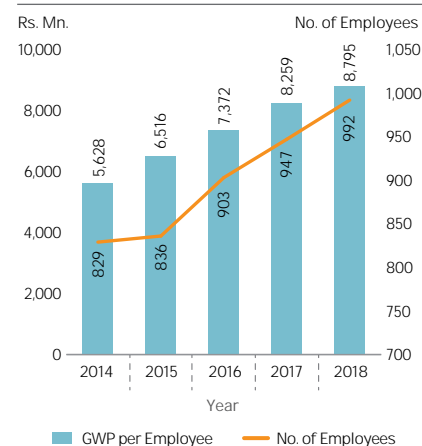
EFFICIENCY

Our Human Capital is also a major force in improving efficiency levels of our operations and the improved efficiency leads to higher value addition both to the Group and the employee as it would increase value addition to the Group.

Employee Productivity

At HNBA we believe that training and development, rewards and recognition, career advancement, a conducive work environment and the work-life balance create a motivated workforce. This coupled with process improvements and use of technology has enabled us to increase the productivity of our employees. The charts below demonstrate how the investment in our Human Capital has resulted in employee productivity steadily increasing, both in terms of revenue per employee and profit per employee.

GWP per Employee

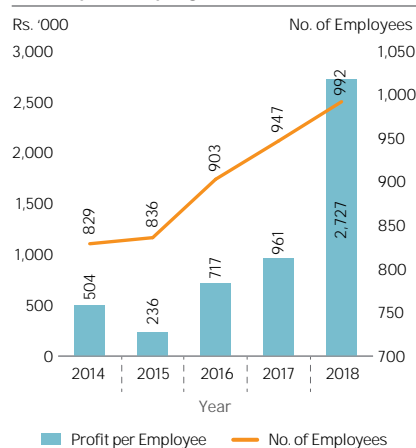


A STEP CLOSER TO VISION 2020

Human Capital will remain to be our most valuable asset, driving growth. Therefore, continuous efforts will be made to increase employee motivation and enhance value created to our employees. Key initiatives that drive our Human Capital evolution would focus on;

- Reducing employee turnover
- Providing training and development opportunities
- Expanding the succession plan to lower grades
- Productivity enhancements

Profit per Employee



Capital Management Reports

Social and Relationship Capital

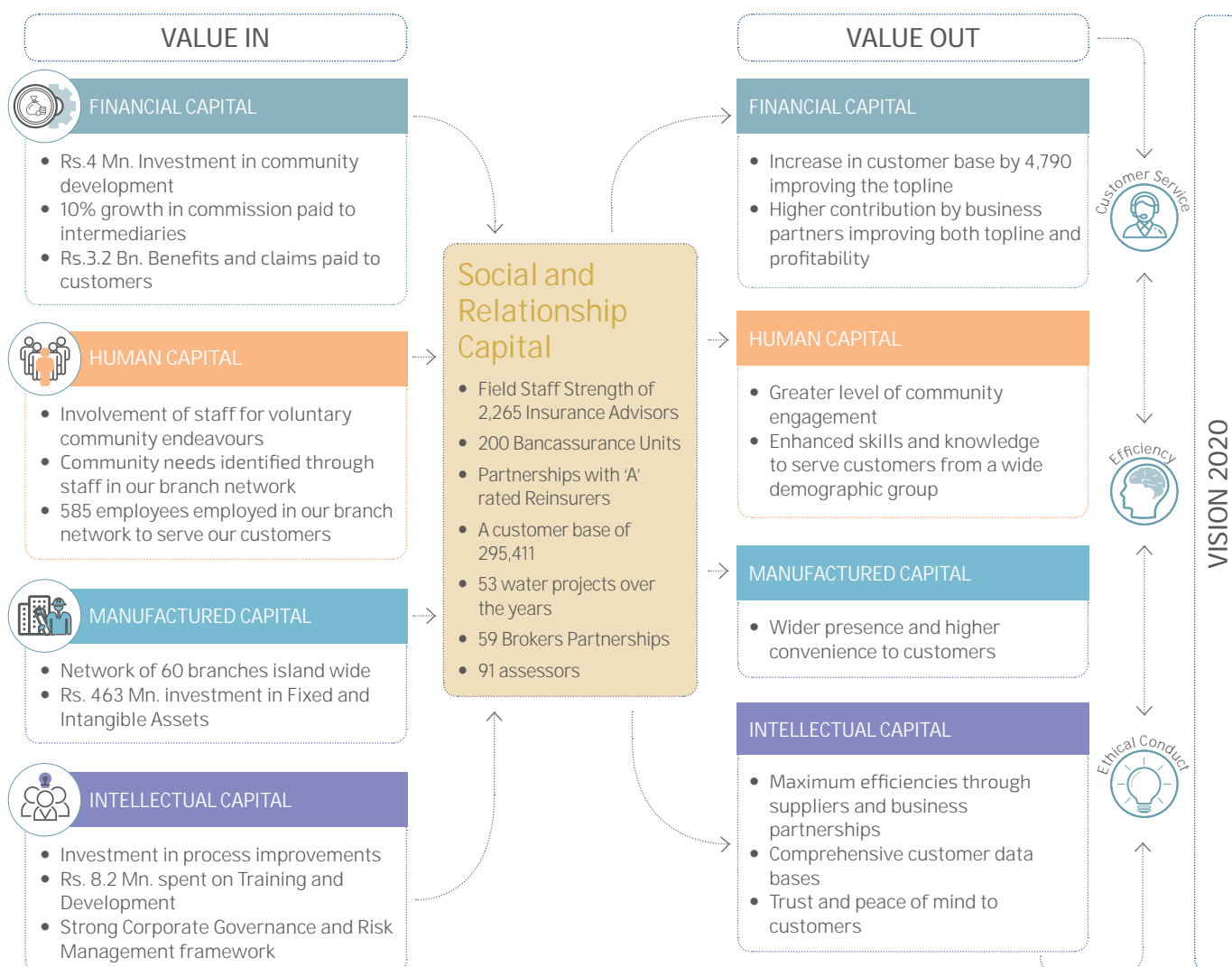
“SHARED VALUES, COMMITMENT AND KNOWLEDGE THAT FORM THE BASIS OF THE REPUTATION AND TRUST THAT WE HAVE DEVELOPED”

OUR FOCUS

The relationships we build with the network of communities we operate in and the bonds we form with our stakeholders are critical factors which determine the growth and sustainability of our business operations. Hence, a great level of emphasis is given by the Company to build our Social and Relationship Capital. The focus is given to create win-win relationships where our stakeholders and our expectations are met. The relationships built with our customers, business partners and communities form our Social and Relationship Capital. These relationships enhance the value that we add to our organisation as well as to individuals. The strong relationships built will increase our social acceptance and pave way for sustainable business growth.

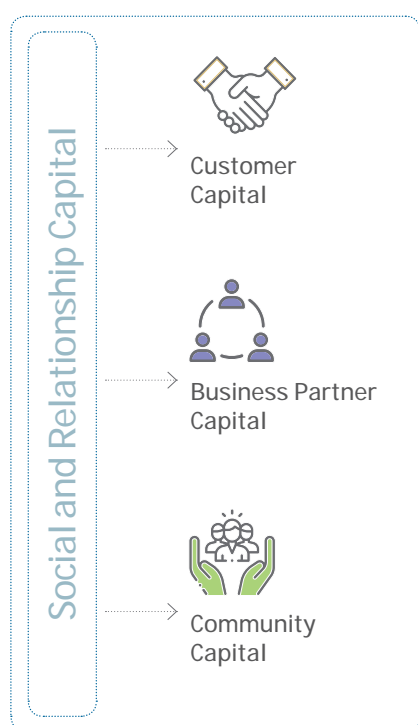
Social and Relationship Capital enables the Company to strengthen its position in a highly competitive industry and continues to remain a critical component in our value creation formula, forming the basis of our core business functions. We focus on delivering value to and deriving value from, customers, suppliers, business partners and communities, thereby meeting all of our corporate strategic imperatives in our quest for evolution across all communities.

VALUE CREATION THROUGH SOCIAL AND RELATIONSHIP CAPITAL



ALIGNING WITH VISION 2020

Social and Relationship capital plays a vital role in achieving our business growth and profitability and thus we believe it is important to align the evolution of this Capital with our vision 2020. Within the framework of this Capital, we focus on how each segment of this Capital contributed to the visions of customer service, efficiency and ethical conduct.



CUSTOMER CAPITAL

Customer Capital play a critical role in our value creation model. We have constantly taken measures to strengthen the bond with our customers and we believe customer satisfaction is an essential component to survive in the highly competitive industry we operate in.

Key Focus Areas in 2018 and the Value Creation by HNBA		
Sustainable Development Goals	Key Focus Area in 2018	Achievements and Value Creation
	Introduction of innovative products that cater to changing customer needs	<ul style="list-style-type: none"> During the year, we introduced four innovative products; <ul style="list-style-type: none"> • Hope Cancer Insurance Plan • Safe Net Dengue Insurance Plan • Smart Five Investment Plan
	Customer service and convenience enhancement	<ul style="list-style-type: none"> Introduction of online insurance products: e-marine and e-travel Obtained ISO Certification for Life Insurance New Business, MRP and Claims Process, improving efficiency 97% Life Policies issued in less than five days 99% Life Claims were settled in less than five days 45% of Motor Claims settled under 'fast track' channel Cashless Claim Settlements
	Maintaining high standards in partner relationships	<ul style="list-style-type: none"> Our Reinsurance partners have obtained 'A' and above ratings Strict procedure of due diligence carried out before selecting a business partner to ensure high Business and Ethical standards
	Building long-term relationships with business partners	<ul style="list-style-type: none"> 13% of GWP paid as acquisition costs Advisor force of 2,265 individuals Rs. 1,045 Mn. commission paid to intermediaries Rs. 38 Mn. of fees paid to Assessors
   	Clean water and Sanitation, Good Health and Wellbeing, Quality Education, Life on Land	<ul style="list-style-type: none"> Invested Rs. 4 Mn. in community upliftment 5 water projects Healthy living symposium Blood donation camp Monetary and material contributions to schools across rural parts of the Country Sponsorship for Model United Nations Felicitating veteran artists Sponsorships for Sports Events Member of Bio-Diversity Sri Lanka

Social and Relationship Capital

CUSTOMER SERVICE

We strive to create and maintain life-long relationships with our customers. We do so by identifying their current insurance needs, anticipating their future needs and offering innovative insurance solutions. Further, to ensure a lasting relationship, we endeavor to provide a superior level of service.



Customer Engagement Process

Customer Needs Identification

Identifying and anticipating the ever evolving needs of our customers, in today's fast paced world, is what will ensure the sustainability of our business. Regular market research and engagement with customers through feedback from our sales force, employees and other business partners, are key methods that we use to stay one step ahead in our service delivery.

Market Research

Market research is carried out with the aid of external consultants, input from our distribution network, agency force and through our propaganda vehicle which travels across the Country. Through this we strive towards enhancing our understanding of the perceptions of insurance among different customer segments, analysing

existing gaps in the market. Varying insurance needs that evolve with the changes in technology and life style are gathered through these mechanisms. These are fitted with our product offerings and fed into our product development process. In addition, competitor analysis is carried out to identify the changes in the competitive arena which will aid us to reshape and enhance our product strategies.

Customer Feedback

Customer feedback is obtained both through digital platforms such as Facebook and WordPress Bolgs and through personal interactions with our customers through our Staff and Advisors. Online satisfaction questionnaires and follow-up calls from our Customer Service Centre are also sources used to gather feedback.

Peace of Mind to Our Customers

We at HNB Assurance focus on providing 'Peace of Mind' to our customers by meeting their insurance needs covering all aspects of their lives. We create awareness on the value of an insured future for one's self, one's family, business and assets and offer them innovative and price competitive products to safeguard their future. Our diverse product portfolio both in Life and General Insurance covers all insurance needs of our customers and we can confidently claim that we provide 'Peace of Mind' to our valued customers and help them to make their lives comfortable by protecting them from the uncertainties in Life.

In addition, the Company ensures that customers are given comprehensive coverage through one solution, where the said customer can customise his/her policy based on personal ability and needs. To delight the customers and deliver augmented value on it's promises, HNBA resorts to equitable and speedy settlement of claims; one day claim settlements and extended cashless claim settlement with maximum responsibility and transparency.

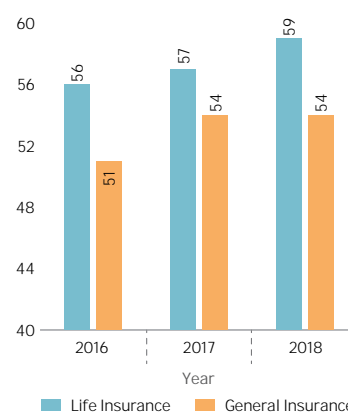
Innovative and Comprehensive Product Portfolio

Our product portfolio, designed to cover a wide range Life and General Insurance needs is a major strength of the Group. We strive to offer innovative products to our customers through our well-structured product development process. Our products are designed and developed by a special product development team which comprise of Management representing all key functions of the Group including Distribution Network, Actuarial, Marketing, IT and Finance. This ensures the technical, financial and operational feasibility of our products.

New Product	Product Description
Hope Cancer Insurance Plan	Hope Cancer Insurance Plan from HNB Assurance, to ensure you that cancer cannot cancel your dreams
SafeNet Dengue Insurance Plan	While you do everything to protect your loved ones from Dengue, we at HNB Assurance offer you the SafeNet Dengue Insurance plan, just in case you need it
SmartFive Investment Plan	A unique investment plan where you invest for five years and watch your dreams become a reality as your fund grows
AS-Salam Motor	A premium motor Takaful offering you sheer peace of mind

New Products Introduced During the Year

Number of Branches



Customer Convenience

Customer convenience is at the foremost in our thoughts and this is why a wide array of touch-points, pay-points and connection mechanisms are in place just for our customers.

Touch Points

- 60 branches around the Country with Life and General branches located adjacent to each other for customer convenience
- 200 Life Insurance and 25 General Insurance Bancassurance Units across the island
- 2,265 Advisors located across the island
- Dedicated Customer Service Centre for HNBGI customers
- Panel of 91 Assessors for swift service in the unfortunate event of an accident

Pay Points

- A wide variety of payment options available including online, through HNB ATMs, HNB Branches etc

Technology

- Customers can contact us through info@hnbassurance.com and info@hnbgeneral.com
- 24x7 call centre
- Introduced HNBA Virtual Assistant , a facility on Facebook Messenger which allows customer to amend key details of their current policies, to obtain a new life insurance as well as to get in touch with us in just a few clicks!

Our Customer Engagement Mechanisms

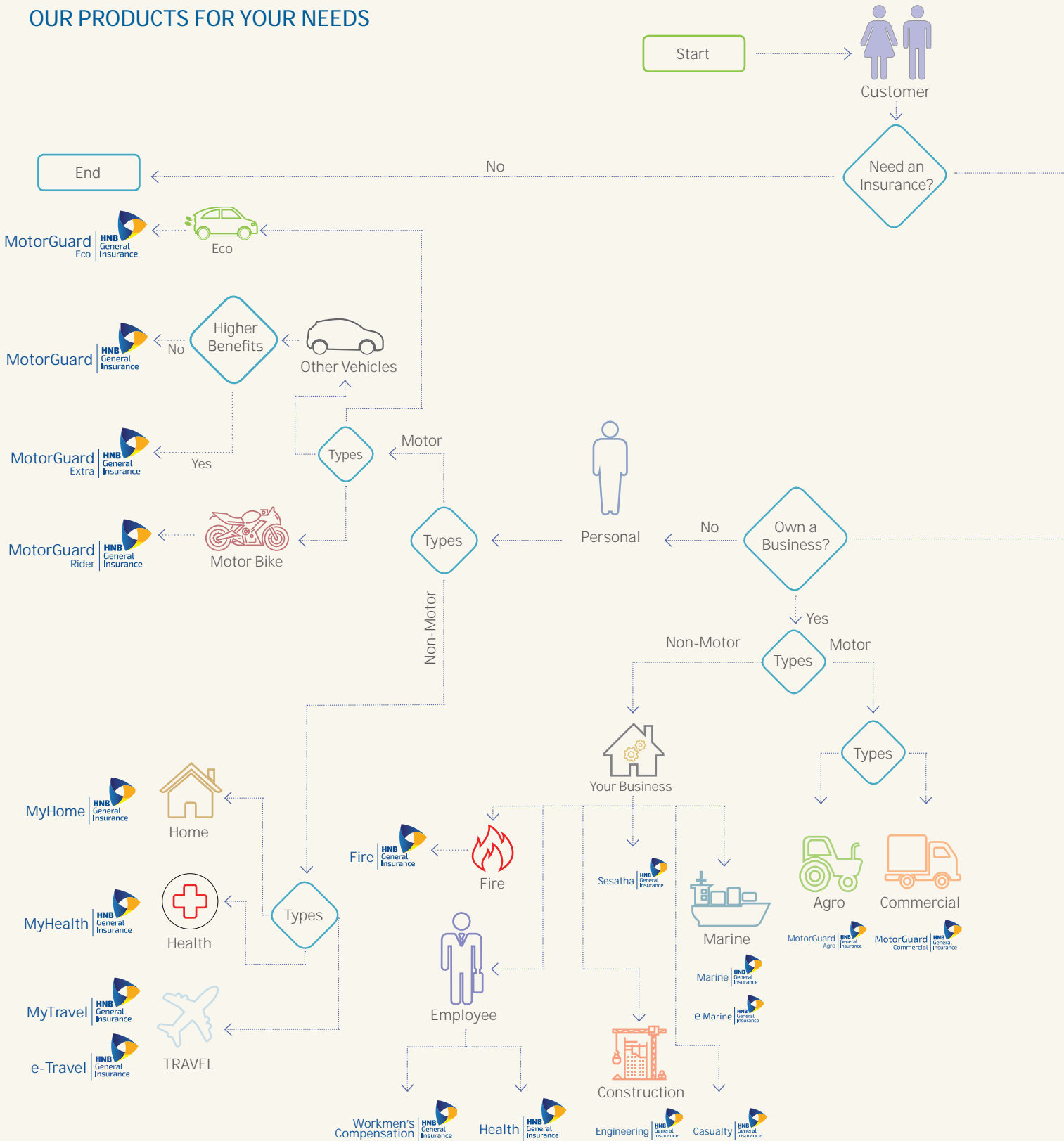
Payment Options Available to Our Customers

	Cash	Cheque	0% Interest credit card	Interbank transfers	Online payments	Standing orders	HNB MoMo	ATM	Dialog Ez Cash	Mobitel cash
HNB	√	√	√	√	√	√	√	√	-	-
Commercial Bank	√	√	X	√	√	√	-	X	-	-
BOC	√	√	X	√	√	√	-	X	-	-
Sampath Bank	√	√	X	√	√	√	-	X	-	-
NSB	√	√	X	√	√	√	-	X	-	-
HDFC	√	√	X	√	√	X	-	X	-	-
Non-Bank	X	X	X	X	X	X	-	X	√	√

√ - Option Available X - Option Unavailable

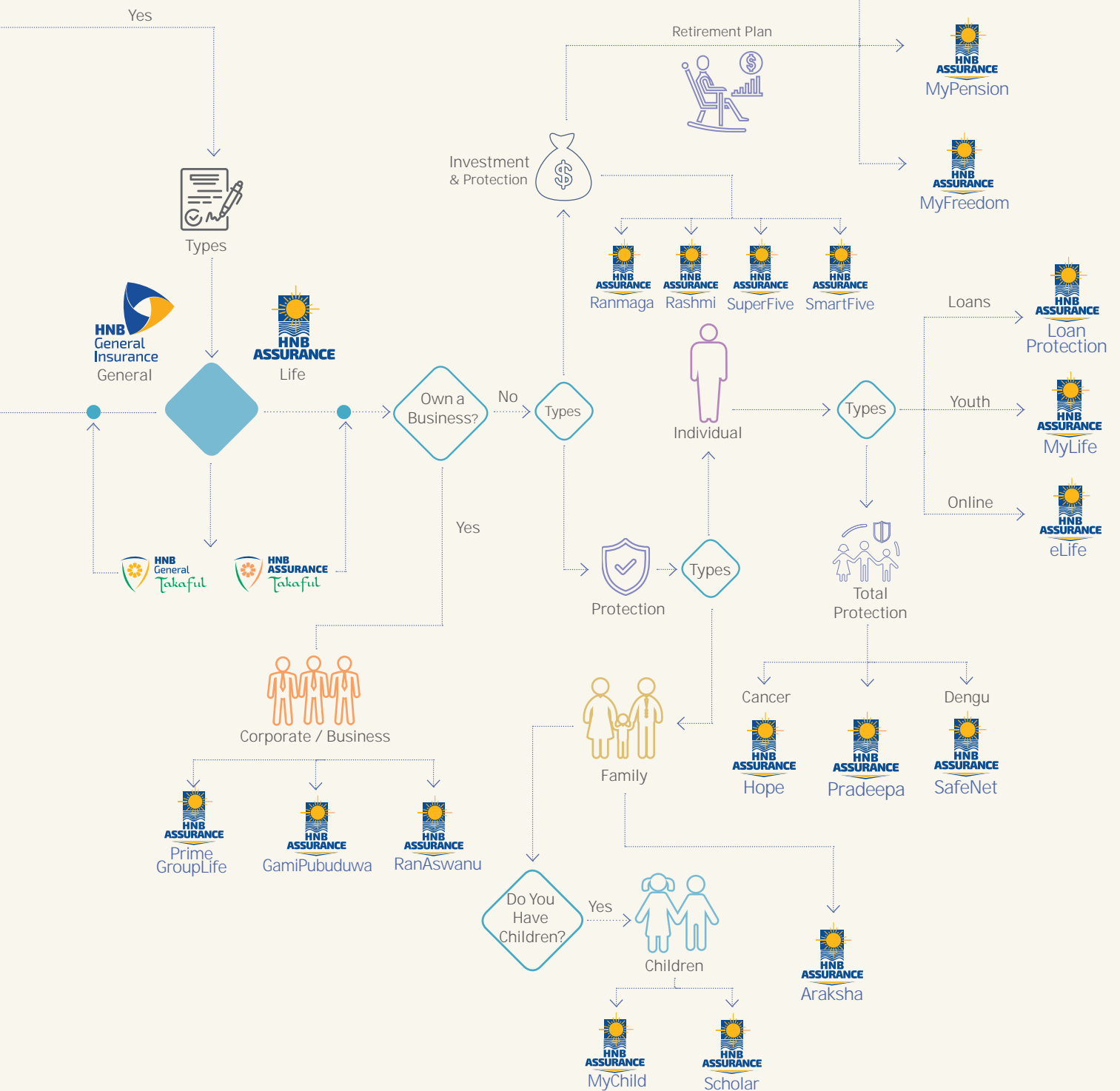
Social and Relationship Capital

OUR PRODUCTS FOR YOUR NEEDS



Our product portfolio has evolved over time and each product has been developed upon conducting extensive market research, analysing consumer insights and through carefully curated features which benefit our customers.

We offer an array of Life, Motor, Non-Motor and Takaful solutions for all walks of life, ranging from protection, investment, motor, health, travel, home and conventional solutions.



Social and Relationship Capital

EFFICIENCY

Efficiency is a key factor that drives customer satisfaction and each year we challenge ourselves to do better. Given below are efficiency enhancement initiatives taken:

Policy Conservation and Servicing Unit (PCSU)

Our dedicated Policy Conservation and Servicing Unit handles all activities related to Life Insurance policy servicing. The PCSU helps increase the premium and policy retention ratios of the Life Insurance business, enhancing the efficiency of such processes. Following are the main responsibilities of the unit;

- Communicating with customers on a continuous basis
- Sending renewal notices
- Handling inquiries and complaints related to Life Insurance policies



CUSTOMER SERVICE CENTER



SOCIAL MEDIA



ONLINE PRODUCTS



BRANCH NETWORK



SMS NOTIFICATIONS



ADVISOR FORCE,
BANCASSURANCE OFFICERS
AND BROKERS

Our Customer Touch Points

Quality Endorsements

Our Life Insurance claim process was accredited with the ISO 9001:2015 Certification in 2017, which significantly increased our efficiency levels. In addition, our new business process was also ISO 9001:2015 certified in 2018 leading to further improvement.

Fast Track Business Processes

Our fast track business processes increase the efficiency of our Life Insurance operations. We have implemented fast track practices in the areas of new business, policy servicing and claims. Below are the fast track business processes in place to serve our customers better:

- Issue of cover notes within half an hour for MRP proposals
- One-day service mode policy, servicing in areas of age admission, bonus inquiries, issue of letters to various institutions such as embassies and banks, correction in policy documents, address changes and issue of surrender value certificates
- Settlement of simplified cases of claims within 2 days

Centralised Underwriting and Claims Process

Our General Insurance operations' underwriting and claims processes are now entirely centralised enabling faster turnaround times, better customer service and sound management information systems.

Fully Fledged Customer Service Center (CSC)

Our Subsidiary operates a fully-fledged Customer Service Centre (CSC) to handle all matters relating to General Insurance solutions. Customers can approach CSC to obtain information related to insurance solutions and services offered by the Company. Customers can also report any claims via the 24/7 call centre operated by this centre.

Our Assessor Network

Assessors play a vital role in customer service and efficiency and hence we maintain a strong Assessor network of 91 Assessors Island wide. They attend to our customer claim needs, helping customers in their time of need.

98% LIFE POLICIES ISSUED IN LESS THAN 5 DAYS

99% LIFE CLAIMS WERE SETTLED IN LESS THAN 5 DAYS

45% OF MOTOR CLAIMS SETTLED UNDER 'FAST TRACK'

Service Efficiencies

 **ETHICAL CONDUCT**

Securing Customer Information

As an insurance company, protecting customer information security and the confidentiality is of vital importance. The importance of protecting customer information is inbuilt in our Code of Ethics for employees as detailed on page 49 while our Advisors are given special training on customer privacy protection. The initiatives taken to safeguard customer information security are detailed on page 49 of the Corporate Governance Report.

During the year we did not receive any complaints with respect to violation of customer privacy.

Product Information

We disclose all information related to insurance solutions offered by us enabling our customers to take informed purchase decisions. All relevant information is disclosed in policy documents, promotional material, product brochures and in our corporate websites assisting the decision making process of our customers. In addition, our Life Insurance Call Centre calls new policyholders to ensure that the Terms and Conditions are well understood by them.

Product Safety

Insurance solutions provided by us are designed by adhering to all applicable regulatory and voluntary codes of best practices ensuring the safety of the products offered by us. During the year under review, no monetary fines were imposed on us due to non-compliance of matters related to product safety.

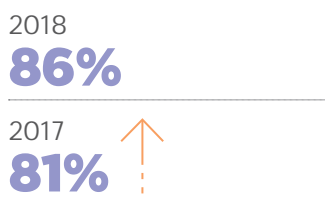
Customer Complaints and Grievances

A grieved customer indicates a failure of delivering our promise of giving them 'Peace of Mind' and hence, attending to our customer complaints is an integral component of customer management

process. We have established a Policy Conservation and Service Unit and a Customer Grievance Unit to address and resolve our customer complaints and grievances. Steps are taken to attend to all customer grievances and complaints on time, to uphold customer confidence.

We have also established both Life and General Insurance claims panels to handle grievances related to claims settlement of the customers. As we uphold the principle of 'Utmost Good Faith' of insurance, we also expect our customers to do so. However, as an insurer 'with a spirit of caring' we paid Rs. 50 Million as ex-gratia claims to minimise the loss to our General Insurance customers by considering the unfortunate events they have faced, even though the company does not have a contractual liability to honour the claims.



Customer Complaints Resolved



Socially Responsible Products

We cater to many segments of customers and the low-income earning customers are one such segment. Addressing their insurance needs, we offer them Micro Insurance and 'Ran Aswanu' products, ensuring equity and fair treatment to all segments of the market.

MICRO INSURANCE

 Number of Policies	3,436
 Total GWP	Rs. 12.8 Mn.

Social and Relationship Capital

BUSINESS PARTNERS

Our business partners facilitate a mutually beneficial relationship that augments the smooth operations of our business, thus being a vital component in our value creation model. Our approach is to develop win-win relationships that enable us to grow together based on a common understanding of values that underpin our value system.



Our Business Partners

to ensure an outstanding service to customers from all walks of life. We make a continuous effort to ensure that the Advisors are updated on market information and internal policy changes, along with new products and services of the Company. We also provide focused training programmes to our Advisors to improve competencies that are needed to cater to our customers. The evolution of our success story is a result of our strong Advisor force of 2,265 competent individuals who are spread across the country, catering our various customer segments.

Securing the Interest of Our Advisors

- Top performing Advisors were included in the "Diamond Club" who are offered an attractive spectrum of benefits
- MD's Club was formed during the year and special rewards are given for achievement of targets
- HNBA produced 38 MDRT and 3 NASCO winners
- Exceptional performance was recognised at the Annual Sales Convention
- Foreign tours to Cambodia and Australia for top performing Advisors
- Attractive allowances on performance
- Loan facilities and terminal benefit scheme



HNBA Assurance PLC MDRT Day



CUSTOMER SERVICE, GROWTH AND EFFICIENCY

The mutual relationships built with our Business Partners enhance the level of customer service offered and lead to efficiency improvements and business growth.

Advisors

The robustness of our Advisor force forms a linchpin between us and our valued customers. Thus we seek to add continuous value by training, guiding and motivating our Advisors,



SLIM NASCO Award winners

Insurance Advisors

Rs. **3,754 Mn.**
GWP

9%
Growth

43%
Contribution

Reinsurers

The strength and support of our reinsurers have consistently helped us undertake risks that are beyond our financial aptitude and absorption capacity, in an industry which faces the largest conceivable types of risk. Over the years, we have built a very strong partnership with our reinsurance panel and this has enabled us to negotiate favorable terms and conditions providing us the ability to pass on due benefits to our customers. All our reinsurers have a rating above 'A' from Standard & Poor, or equivalent rating from AM Best, which exemplifies their stability and ensures high business standards. Due to their stability, we have experienced unwavering support from our reinsurer panel in times of floods and other natural perils which enabled us to uphold the trust placed on us, by our customers and Shareholders.

HNB Group

Realising group synergies, our engagement with our parent company Hatton National Bank (HNB) has enabled us to gain a competitive advantage in the market place both in terms of the brand value and distribution network. We have established 200 Life Insurance and 25 General Insurance Bancassurance units in the HNB branch network, tapping into the Bank customer base. Over the years, the contribution made by the HNB channel to the top line has increased and in turn, we have been able to increase the value addition made to the Group as well.

Recognising the contribution made by HNB, we organise mid-year and year-end award ceremonies for Bancassurance Officers and the management of HNB to honour them with rewards for their contribution. During the year, we increased the frequency of HNB branch visits and organised many fellowship events to strengthen the engagement. We also extended our support by sponsoring many events organised by the branches of HNB.

During the year under review, we continued to reinforce the relationship built with HNB Finance Limited, a fully owned Subsidiary of HNB. Following activities were carried out enhancing the relationship with HNB Finance;

- A separate counter of HNBGI was opened at City Office branch
- Lease holders of HNB Finance and their staff members were given special Motor Insurance packages
- Participation of HNBGI at Leasing fairs organised by HNB Finance

HNB Group

Rs. **2,230 Mn.**
GWP

10%
Growth

26%
Contribution

Brokers

Brokers play a vital role in our General Insurance Company in our quest to create an enduring link between the Company and customers. To ensure the credibility of the Brokers and the standards of services offered by them, we only engage with brokers registered with the Insurance Regulatory Commission of Sri Lanka (IRCSL). During the year, the following activities were

carried out to further strengthen the relationship built with our Broker network:

- Knowledge sharing sessions were conducted with selected brokers
- Established 2 new counters at selected broker offices to facilitate business
- Fellowship events to improve collaboration

Brokers

Rs. **840 Mn.**
GWP

8%
Growth

15%
Contribution

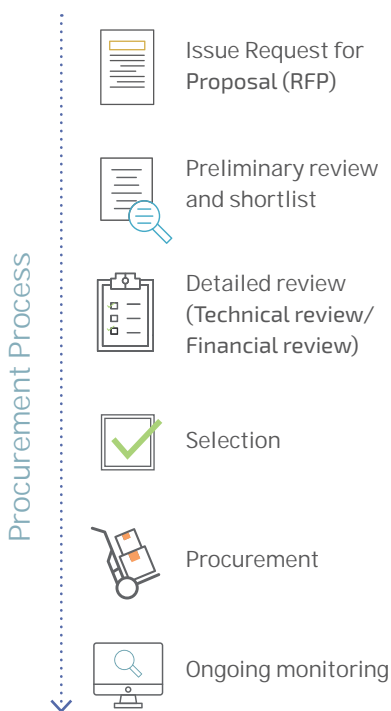
Financial Institutions

HNBA has formed close collaborations with a wide array of reputed Banks, stable finance companies and recognised primary dealers to facilitate operations of the Group, such as advisory services, placement and maintenance of financial investments, issuance of cheques, fund transfers, over draft facilities and foreign currency conversions etc. In 2018, we continued to strengthen the relationships built with the Financial Institutions we deal with and enhance the standards of services offered by them. When making investments in financial institutions including banks and primary dealers, the Group strictly adheres to the Internal Investment Policy and regulatory guidelines set by the Insurance Regulatory Commission of Sri Lanka.

Social and Relationship Capital

Suppliers

We consider the role of the suppliers to be very important, as such, we strive to build trust and strong ties with them. At a minimum, we require that our suppliers comply with local regulations and we seek to ensure that they are maintaining our expected level of standards prior to registering them in our pool of suppliers. We have well established procedures, guidelines and committees to further strengthen our procurement process.



Did you know ?



A healthy lifestyle increases life expectancy by up to 7 years

Source: <https://www.sciencedaily.com>

COMMUNITY

Building the communities we operate in, is also a strategic objective of the Group and we actively invest in the communities in which we exist, to empower people and support their development. This is done as part of our normal CSR business and also through targeted CSR projects.

ETHICAL CONDUCT

Health and Wellbeing Healthy Living Symposiums

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



Healthy Living Symposiums

Blood Donation Camp

The annual blood donation camp was organised for the 13th consecutive year which witnessed 225 participants whilst 177 qualified for actual blood donations during this worthy cause.



Blood donation camp

Water Projects around the Country

Kandegama Vidyalaya, Mahiyanganaya

HNBA spearheaded a water project for a needy school in Rideemaliyadda, which is approximately 24 km away from the Mahiyanganaya town. The school provides education for over 194 students with classes upto Advanced Level.

Hayes Tamil Vidyalaya, Embilipitiya

Located near Uliduwawa more than 15 km away from Deniyaya town of Rathnapura District, the school was provided with an advanced system to provide water for the 310 students who are studying in this school with classes up to O/Levels.

Damsopura Primary School-Medirigiriya

The school in which 113 students are studying with classes upto Grade 5, was installed with a water supply system.

Scout Headquarters in Matara District

HNBA also facilitated a proper water distribution system in the premises of scout headquarters located 7km from Matara. The association is currently functioning with more than 1,750 scouts.



Ensuring access to clean water around the country

Poonakary Sri Vigneswara Vidyalyaya- Kilinochchi

The Company granted a water purification system for the school located in Kilinochchi in the Northern Province which is currently functioning with 430 students and 30 teachers.

Provision of High Flow Nasal Cannula Therapy Device

A High Flow Nasal Cannula Therapy Device was donated to the Pediatric Intensive Care Unit of the Lady Ridgeway Hospital for the second time.



Donation of High Flow Nasal Cannula Therapy Device

Sponsorship for Sri Jayewardenepura University

HNBA made a monetary grant to the Friendly Association of Sri Jayewardenepura University for a social service initiative, which focuses on children’s health, education and wellbeing.

International White Cane Day 2018

Monetary donations were made to the Sri Lanka Welfare Society of the Blind and the Sri Lanka Welfare Society of the Blind Women in lieu of International White Cane Day of 2018 and the donations were used to support the families in need.

Education

Whiteboards for Sri Priyarthana School in Pitigala

HNBA pursued the donation of 12 white boards for the classrooms in Sri Priyarthana School which is situated

in a rural area in Pitigala in the Galle District. These were enthusiastically installed in their labs in place of their existing obsolete blackboards.



Quality education for all

National Youth Model United Nations

HNBA made a special effort to sponsor the National Youth Model United Nations 2018 conference with the aim of guiding and empowering the youth of Sri Lanka.

Social and Relationship Capital

Arts and Culture

Felicitating Artists

As done on an ongoing basis, HNBA during its gala 13th Annual Sales Conference rewarded three prominent state artists; Sitha Nannayakkara, Suminda Sirisena and Anjaline Gunatilake with cash grants each, as a token of our appreciation of their contribution to the arts and culture of the country.



Felicitating veteran artist Ms. Seetha Nanayakkara



Felicitating veteran artist Mr. Suminda Sirisena



Felicitating veteran artist Ms. Anjaline Gunatilake

Sports

Colombo Friend in Need Society

In August 2018, we made a monetary contribution for the Sports Day of The Colombo Friend in Need Society, which is the oldest charitable organisation in the country.

Sponsorship for the Inaugural Deaf Cricket T20 World Cup 2018

HNBA granted a sponsorship to the Sri Lankan Deaf cricket team which participated at the first T20 Deaf Asia World Cup, which held in India in November 2018. The Sri Lankan team emerged the winners of the T20 Deaf Asia World Cup.

Environment

Beach clean-up

In order to make way to a cleaner environment, a beach clean-up was organised in the Wellawatte beach stretch as conducted with the help of volunteers of both HNBA and HNBGI. This was focused on improving awareness of marine pollution and its deleterious impact on Sri Lanka's famous beaches.

Protecting the Bio-Diversity

The Company continued to be a member of the Bio-Diversity Sri Lanka Association contributing towards the protection of the Bio-Diversity of the Country.



Sponsoring the Sri Lanka Deaf cricket team

Places of Worship

The Company made cash donations to four religious places within Colombo city limits and four religious places in other areas of the Country representing the four major religions observed in Sri Lanka.



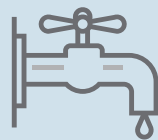
Donations to religious places

ONE STEP CLOSER TO VISION 2020

Social and Relationship Capital will continue to be a major strength in our value creation model and we at HNB Assurance will take measures to enhance the relationships built with our customers, business partners and the larger community. Key initiatives that drive our evolution would focus on:

- Promoting customer centricity in all our business operations
- Entering into win-win partnerships with our business partners
- Investing in community building

Did you know ?



16% of schools in Sri Lanka do not have proper drinking water facilities

*Source: School Census Report 2017
Ministry of Education*

Capital Management Reports

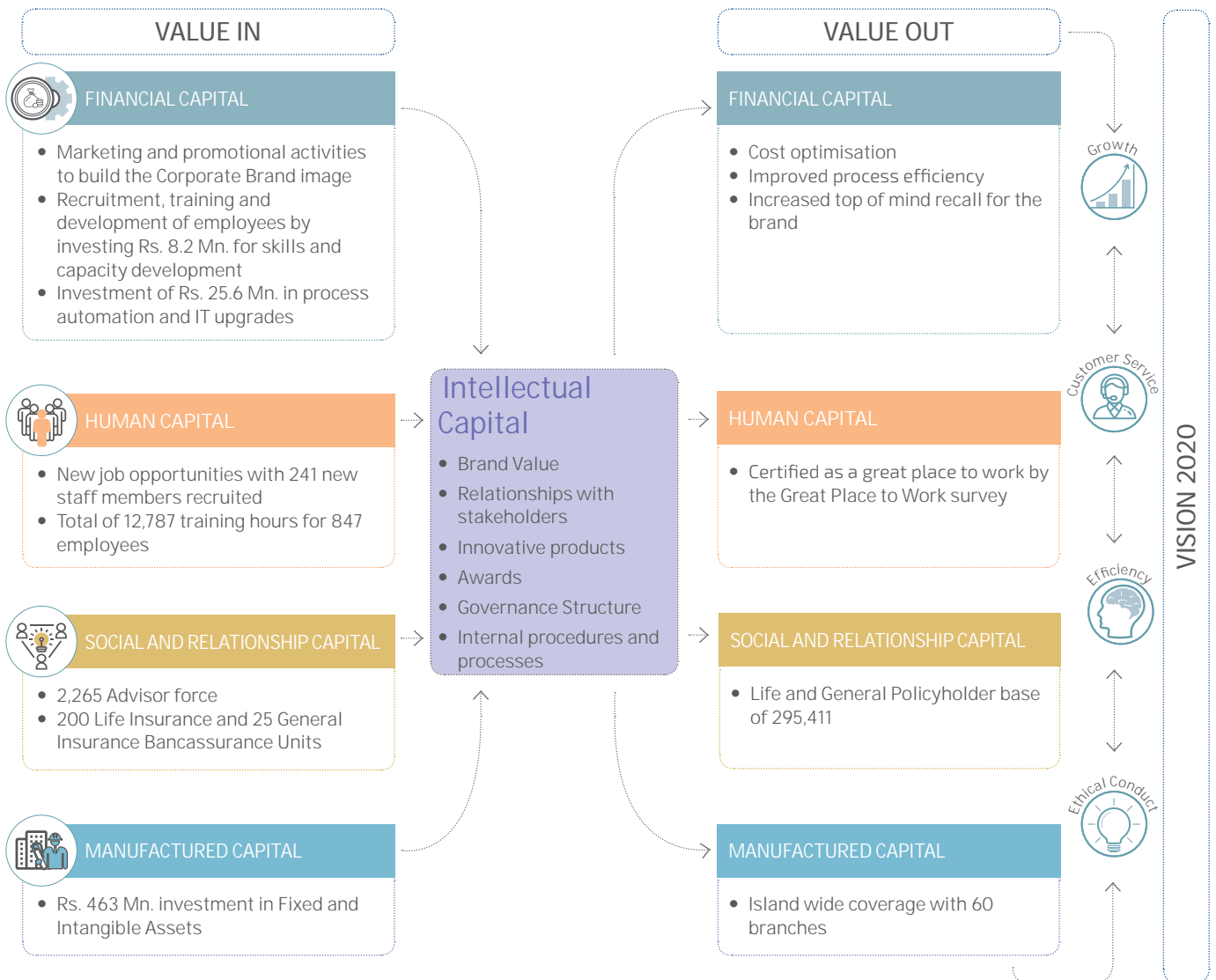
Intellectual Capital

"ALL INTANGIBLE ASSETS WE OWN COMBINED WITH THE RELATIONSHIPS WE HAVE BUILT OVER THE YEARS, THE ORGANISATIONAL CAPITAL AND THE HUMAN CAPITAL WE HAVE NURTURED IS OUR INTELLECTUAL CAPITAL."

OUR FOCUS

Intellectual Capital of the Group includes all intangible assets owned and is a combination of relationships we have built over the years, the Organisational Capital and the Human Capital we have nurtured. It will be the asset that would take the Group forward in the highly competitive business arena and hence managing our Intellectual Capital to enhance the value added to our stakeholders remains a primary focus of the Group.

VALUE CREATION THROUGH INTELLECTUAL CAPITAL



ALIGNING WITH VISION 2020

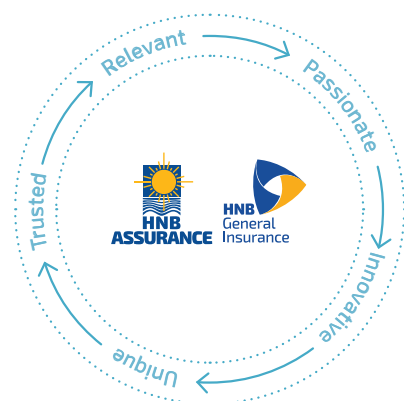
Intellectual Capital is a vital asset that enables the sustainable growth of the Group. In line with our Vision 2020, through this Capital we focus on the visions of Growth, Customer Service, Efficiency and Ethical Conduct.

GROWTH

Our Brand Expression

What Our Brand Stands for

Laying claim to a lineage of a powerhouse in the banking industry, HNB, that has been part of the fabric of Sri Lankan life for more than a century and built for itself a reputation of trust and stability, HNB Assurance and HNB General Insurance has established itself on this platform of trust upon which the other attributes of the brand are cast. Therefore, the brand's process of evolution ensures that it stays unique through innovations that keep the brand attuned and relevant to the markets we serve driven by a passion to safeguard dreams.



Brand Propositions

Brand Positioning through Marketing Strategy

Brand Positioning: - Recognising that our customers have a myriad of dreams and aspirations we are in the business of safeguarding dreams and providing protection so that no matter what, dreams become a reality.



Key Focus Areas in 2018 and the Value Creation by HNBA

Key Focus Area in 2018	Achievements and Value Creation
Enhance the Brand Value	<ul style="list-style-type: none"> Carried out Corporate Communications campaign throughout the year enhancing brand awareness 47 Promotional drives covering all areas of Sri Lanka
Process enhancements for efficiency improvements	<ul style="list-style-type: none"> Obtained ISO certification for the Life Insurance processes of Claims, New Business and MRP
Enhance employee knowledge and skills through training and development	<ul style="list-style-type: none"> Rs. 8.2 Million spent on training and development of employees 153 training programmes covering both technical knowledge and soft skills
Innovative products: first to market	<ul style="list-style-type: none"> Four new innovative products as 'market firsts' to meet the essential and developing demands of our customer
Build more MDRT winners	<ul style="list-style-type: none"> During the year we produced 38 MDRT winners

Brand Communications

The Company deployed various communications from time to time using online, electronic, print and outdoor media to reach various identified segments of customers. The communication strategies deployed allowed the Company to satisfactorily engage them.

Brand Rank-HNBA

2018

75

2017

82



Awards and Accolades

Our drive for excellence in all areas of our operations inspires us to strive for higher goals and identify areas for greater improvement. Awards and Accolades received by us during the year can be read on page 48.

Brand Rank-HNBGI

2018

81

2017

85



Innovations

Innovations make businesses relevant in the changing market dynamics and we believe innovations drive our business. Keeping in line with this we promote a culture that drives innovations as a part of our daily operations and encourage our people to be innovative in everything they do.

We are ranked amongst the Top 100 Brands of Sri Lanka

Source: Brand Finance Lanka

Intellectual Capital



of customer service offered by the Company. Details of our relationship capital on page 155 further elaborate this.

Data Analytics

In the modern business environment big data and data analytics play a vital role. We have a comprehensive customer data bases that are used to analyse and produce customer related information, enabling us to cross-sell, up-sell and offer bundled products. Customer data and analytics aid the Group identify customer requirements and develop new products that suit different segments. In addition, management dashboards and industry analysis information are used for strategic decision making. We also use customer and business party profitability information to help management take decisions on new customer acquisitions and business party relationship building activities.



SafeNet Dengue Insurance Plan



Hope Cancer Insurance Plan

Innovations during the Year

Planning

We have an established Corporate Planning process that develops a comprehensive three year strategic plan for the Group. The planning process adopts a bottom-up approach where ideas and inputs from even the smallest level employees are taken into consideration. This year the Group made an open invitation to its employees to send in innovative strategies and received invaluable strategic ideas which were included in the strategic plan 2019. The three year Strategic plan approved by the Boards of Directors is rolled out and strict monitoring is done while adjustments to the plan are made on an exceptional basis in response to drastic changes in the market or environmental factors.

The ideas generated through planning sessions becomes a valuable component in our Intellectual Capital.

CUSTOMER SERVICE

Customer loyalty is a result of a high level of customer service. We have taken many initiatives to manage our intellectual capital to improve the service and experience provided to our customers.

Business Collaborations

The relationships we have built with our business partners such as the Advisor force, the bancassurance network, reinsurers, suppliers, insurance brokers, financial institutions, etc. enable us to provide the best value addition to our customers enhancing the level

EFFICIENCY

Efficiency is a major factor that drives competitive advantage and the profitability of business operations. Following are the areas in which we have invested in to achieve higher levels of efficiency in our operations.

Information Systems

Our information systems covering the core insurance business, finance, actuarial and investment portfolio management and other peripheral systems are main component of our intellectual capital. In addition to above investments, during the year under review we automated several manual processes further enhancing our efficiency levels

Human Capital

Human Capital forms an integral part of our Intellectual Capital. Our talent pool adds value to the business operations of the Group and leads to organisational growth. We focus in the areas of employee know-how, technical knowledge and professional skills to build our Intellectual Capital through talent management.

Employee Know-How

Employee know-how has been recognised as a key to drive customer service levels, profitability and growth of the business. As such, retaining such knowledge to expand and enhance the business of the Group is a key priority.

Employee know-how of operational units is shared with all team members enabling a culture of knowledge sharing. We also promote departmental level knowledge sharing activities where employees with specialised knowledge share their know-how with other members of the staff. The Group also maintains process manuals that contains tacit knowledge relevant for different business functions and employees are mandated to use such manuals to ensure best operational practices. Standardisation of processes through ISO certification is another step taken to internalise tacit knowledge.

Technical Knowledge

Technical knowledge is an important aspect which drives the operational efficiency of the company. We provide many training and development opportunities to our employees focusing on technical knowledge building and employees are expected to apply such acquired and enhanced knowledge into their daily operations and improve efficiency.

Professional Skills

We encourage our employees to improve their personal marketability adding value both to the Group and themselves. With this motive, we promote our employees to obtain professional qualifications related to their area of work. The Group provides study and duty leave for professional exams and exam fees are reimbursed upon successful completion of exams. The Group is also an accredited training partner of CA Sri Lanka.



ETHICAL CONDUCT

Governance Structure

We believe that our governance structure drives our value creation process and thus forms an integral part of our Intellectual Capital. We have a strong governance structure in place which focuses on protecting the interest of all our stakeholders. Our Board of Directors have delegated authority of identified areas to Board Sub-Committees, Managing Director and the Executive Members of the Group with clear mandates while maintaining effective levels of control. More details on our governance can be read on pages 49 to 112

IT Governance

During 2018, a comprehensive seven phase IT audit and a comprehensive IT vulnerability assessment was done with the objective of aligning our IT strategy with current and future business needs. Details on IT governance is given on page 90.

Holistic Risk Management

Managing risks is an integral part of our business. In this dynamic environment it is essential to take a holistic approach in managing risks which would not only allow mitigating and managing risks but to capture market opportunities and enhance performance. We at HNB Assurance have a sound risk management framework which promotes a more active approach of managing risk. All our business and support functions take responsibility in managing risks of the Group and maintaining them at acceptable levels. More details can be read on pages 95 to 104

ONE STEP CLOSER TO VISION 2020

Intellectual Capital would continue to be an integral part of our business model and the Group would invest to enhance the value added through Intellectual Capital. Key initiatives that drive our evolution would focus on;

- Further improving and building our corporate brand value
- Service automation to improve customer service efficiency
- Promoting innovations
- Invest in development of Human Capital

Capital Management Reports

Natural Capital

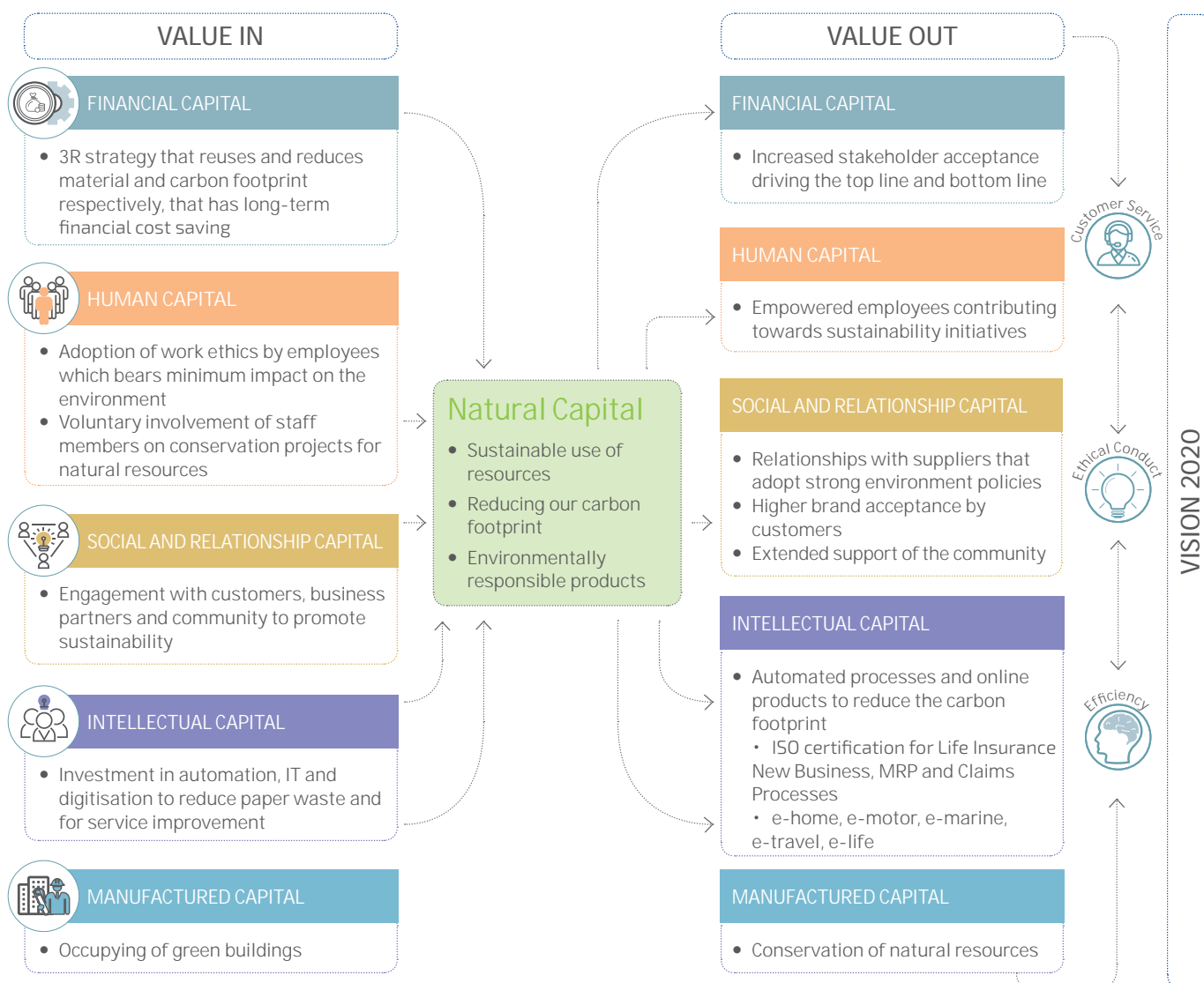
“ELEMENTS OF NATURE INCLUDING LAND, AIR, WATER AND ECOSYSTEMS THAT DIRECTLY OR INDIRECTLY AFFECT THE VALUE WE CREATE TO OUR STAKEHOLDERS”

OUR FOCUS

As a leading Insurer providing Life and General Insurance solutions, we pay immense attention to the environment and to our surroundings. The changes of mother-nature impart a direct impact on us. Whenever humans face the wrath of Mother Nature, it is our duty to ensure that the losses faced by our customers through such calamities are minimised. In addition, as a responsible corporate citizen, we consider it our duty to give back to the environment we operate in and to Mother Nature, which offers us renewable and non-renewable resources for sustenance.

It is of utmost importance that we minimise our environmental footprint and promote the concept of environmental stewardship amongst our stakeholders. As an organisation, we strive to use finite natural resources in the most sustainable manner, thereby ensuring their availability for the needs of future generations.

VALUE CREATION THROUGH NATURAL CAPITAL



ALIGNING WITH VISION 2020

How we optimise the use of Natural Capital is aligned to support our Vision 2020 in the form of Efficiency, Customer Service and Ethical Conduct.



CUSTOMER SERVICE

Environmentally Responsible Products

We satisfy our environmentally conscious customers by offering friendly products such as motor-guard eco, of which 6,615 policies were sold and successfully generated an income of Rs.522 Million in 2018.



ETHICAL CONDUCT

Responsible Work Culture

The driving force towards a higher platform of eco-friendly practices and responsible behaviour are our employees. The Company conducts awareness building activities periodically, to engage our workforce in a meaningful discussion and to create positive perceptions towards protecting natural resources and environmental conservation. With this in mind, we organised a project to clean-up the Wellawatte beach with the voluntary participation of employees. Our staff displayed great enthusiasm, which resulted in a highly successful outcome.

Compliance

We at HNBA ensure that we adhere to all applicable laws and regulations with respect to environment protection and during the year, no fines or sanctions were imposed on the Company for non-compliance with environmental laws and regulations.



Key Focus Areas in 2018 and the Value Creation by HNBA

Sustainable Development Goals	Key Focus Area in 2018	Achievements and Value Creation	
	Promote a paper-less environment	<ul style="list-style-type: none"> Process automation Introduction of online products and promotion of existing products Employees were encouraged to decrease paper consumption by minimising printing and referring e-documents 	
	Reduce surface water consumption	<ul style="list-style-type: none"> Rain water is harvested and used for sanitary purposes in our Head Office premises 	
	Recycling of material	<ul style="list-style-type: none"> Recycle of paper waste in Head Office through an outsourced company Segregation of all waste into Recycle, Organic, Composite and Non-degradable waste 	
	Affordable and Clean Energy	Use of clean energy sources	<ul style="list-style-type: none"> Using solar power as a source of electricity generation at our Head Office premises
	Climate Action and Life on Land	Community engagement to protect the environment	<ul style="list-style-type: none"> Continuous support to nature conservation as a member of Bio-Diversity Sri Lanka Association Organising employee voluntary environment conservation activity in the form of cleanup of Wellawatte beach







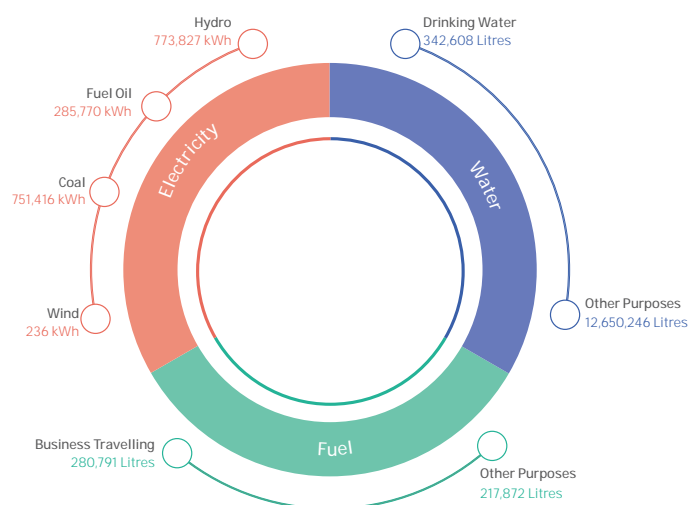
EFFICIENCY

At HNBA, we focus on the efficient use of natural resources being in line with the 3R: Reduce-Reuse-Recycle concept adopted across the Company. The work culture of the organisation promotes the efficient use of resources at all levels and business operations being further committed to the protection of natural resources.




Natural Capital

Efficiency Area	Initiatives Taken
 <p>Energy Utilisation The main source of energy utilised by the Group is electricity, which is used for our daily operations. Electricity is sourced partly from the national grid and partly through solar power.</p>	<ul style="list-style-type: none"> Reducing the electricity cost of the branch network by switching to energy efficient air conditioning equipment Strict control on air conditioning operating hours Use of energy efficient bulbs across the entire branch network and Head Office Head Office continues to use solar power for part of its electricity consumption
 <p>Water Utilisation We use water to meet our consumption and sanitary needs. Water used for consumption is obtained from an outsourced company which uses tube wells to source water, while water from National Water Supply and Drainage Board is used mainly for sanitary purposes.</p>	<ul style="list-style-type: none"> Continued to use harvested rainwater for sanitary purposes at our Head Office premises
 <p>Fuel Utilisation Our utilisation of fuel is limited to consumption for business travelling and daily commuting of employees and sales force.</p>	<ul style="list-style-type: none"> We control fuel usage by adopting a cost reimbursement system where limits are placed on maximum usage reimbursed for business travelling Encouraging standing orders, online payments and ATM based payments which reduces the need for travelling for customers and Advisors
 <p>Effluent and Waste Management Paper is the main waste produced by our Company and we have taken measures to promote a 'paper-less' environment.</p>	<ul style="list-style-type: none"> Mandating assessors to use mobile photo upload facility for vehicle inspections and thereby eliminate photo printing Recycling paper waste from Head Office through an outsourced company Employees are encouraged to control paper consumption by minimising printing and referring e-documents Adoption of e-waste management policy for IT equipment disposed Introducing e-products such as e-travel, e-marine and e-motor which require no printing Automation of processes including workflows, petty cash system etc.



 Total Electricity Consumed
1,771,248 kWh
2017 – 1,675,775 kWh

 Total Fuel Used
498,663 Litres
2017 – 484,798 Litres

 Total Water Consumed
12,992,854 Litres
2017 – 9,868,438 Litres

ONE STEP CLOSER TO VISION 2020

Our efforts of preserving our environment would continue and we would take measures to save energy, reduce waste and maintain maximum compliance. Key initiatives that drive our evolution would focus on the following:

- Building awareness among employees and our stakeholders on environmental protection
- Convert more processes to a paper-less platform
- Improve our work processes to minimise the utilisation of natural resource

Did you know ?



Sri Lanka is ranked as the 2nd most affected countries due to Climate change in 2017 and the 31st during the past ten years

Source: Global Climate Risk Index 2019



Voluntary participation of our employees in the Wellawatte beach clean-up



With our pledge to protect the Mother Nature we cleaned the Wellawatte beach

In order to make way to a cleaner environment, a beach clean-up was organised in the Wellawatte beach stretch and was conducted with the help of volunteers of both HNBA and HNBGI. This was focused on improving awareness of marine pollution and its deleterious impact on Sri Lanka's famous beaches.

Capital Management Reports

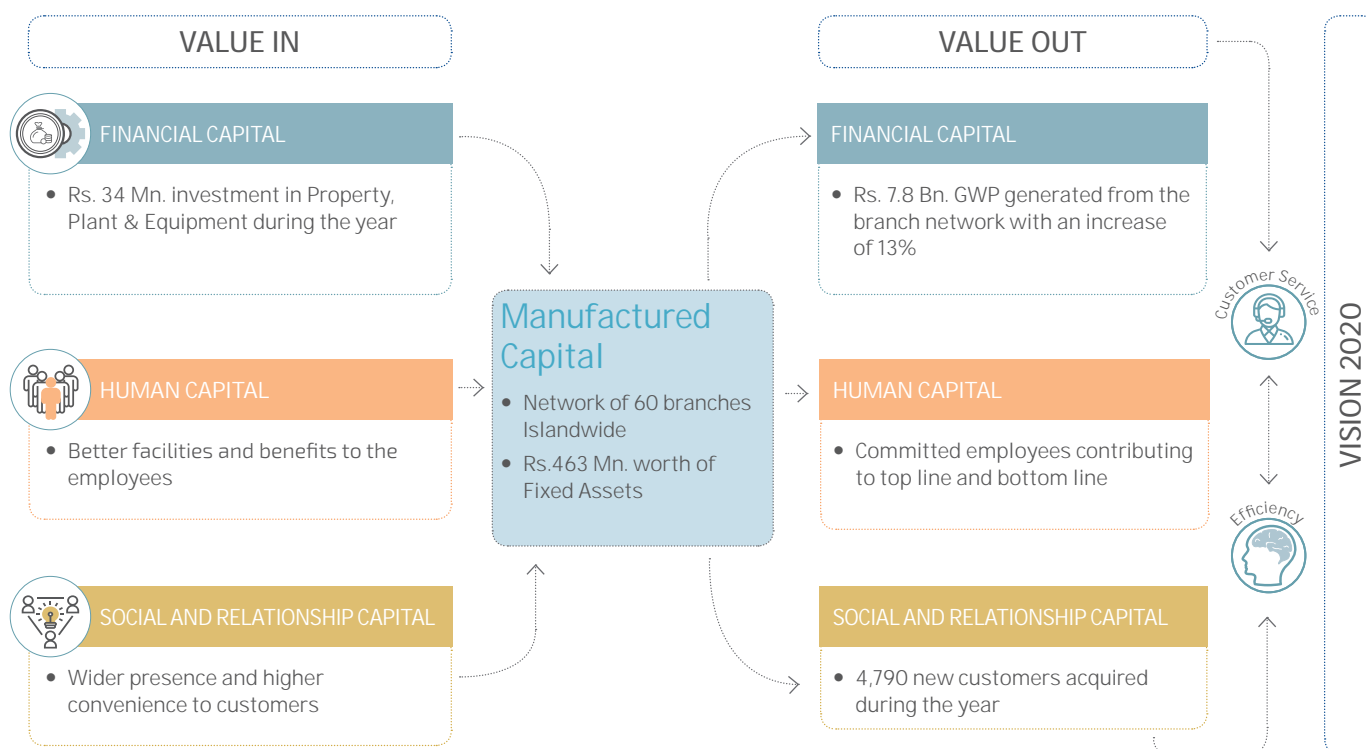
Manufactured Capital

“MANUFACTURED CAPITAL IS THE COLLECTION OF *PHYSICAL, MATERIAL AND TECHNOLOGICAL* OBJECTS THAT ARE AVAILABLE TO THE GROUP FOR USE IN PROVIDING SERVICES.”

OUR FOCUS

HNBA being a service-oriented organisation, Manufactured Capital includes the fixed assets that contributes to the provision of the service. Our focus is on improving the efficiency of our Manufactured Capital to support our business process and create a positive impact on our value creation model. Efficient use of Manufactured Capital allows us to be more flexible, responsive to market needs, innovative and take our products and services to customers faster, efficient manner. In addition, Manufactured Capital will help us to increase efficiency, improve creativity, leading to enhanced levels of efficiency and sustainable development. We are also focused on investing in quality assets to ensure the best return and value addition to all our stakeholders.

VALUE CREATION THROUGH MANUFACTURED CAPITAL



ALIGNING WITH VISION 2020

Manufactured Capital helps us to improve efficiency of services provided and ensures sustainable growth through out the business process. Within the context of this Capital, we will be focusing on the elements of Customer Service and Efficiency.



CUSTOMER SERVICE

We cater to a large array of customers and it is important that we have our presence across the Country to serve our existing customer base whilst attracting new customers. This is accomplished through the island wide branch network that we maintain. Our branch network provides ease of access to our services and customer convenience. During 2018, we added 2 more branches to our network, further increasing our presence in the Country. We also relocated two branches to provide better access to our branches enhancing the customer experience.




EFFICIENCY

The efficient use our resources play a vital role and we have invested in assets that would give attractive returns to the Company by increasing efficiency. Following are the Manufactured Capital owned by the Group.

	Cost Rs. Mn.	Carrying Value Rs. Mn.
Office Equipment	66	18
Furniture, Fitting and Fixtures	166	65
Motor Vehicles	11	-
IT Equipment	220	69
Long-Term Lease Premises	All premises on long-term lease agreements	



Key Focus Areas in 2018 and the Value Creation by HNBA

Sustainable Development Goals	Key Focus Area in 2018	Achievements and Value Creation
 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Invest in quality fixed assets	<ul style="list-style-type: none"> Investments in fixed assets were done after careful cost-benefit analysis
	Enhancing easy access and customer convenience	<ul style="list-style-type: none"> We maintain an island wide branch network of 60 branches to enhance customer convenience
	Efficient use of the fixed asset base	<ul style="list-style-type: none"> Achieved a fixed assets turnover ratio of 58 times compared to 46 times in 2017

ONE STEP CLOSER TO VISION 2020

Manufactured Capital will continue to be a supporting resource to achieve sustainable growth of the Company and we would take measures to enhance the value added by Manufactured Capital to our business model. Key initiatives that drive our evolution would focus on the following:

- Maintaining a wide geographical presence and enhancing customer convenience
- Investing in fixed assets that would improve the Asset Turnover
- Improving infrastructure provided to our employees

Manufactured Capital

Our Distribution Network

Northern

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
18	37	224	439	10%

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
3	16	35	144	3%

North Western

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
14	26	156	349	8%

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
4	15	22	230	5%

Central

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
17	34	170	302	7%

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
9	33	53	500	12%

North Central

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
8	14	62	101	2%

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
4	15	40	171	4%

Eastern

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
19	27	152	225	5%

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
6	18	42	181	4%

Western

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
78	331	622	2,041	46%

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
24	285	169	2,223	51%

Sabaragamuwa

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
12	22	144	264	6%

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
5	16	38	220	5%

Southern

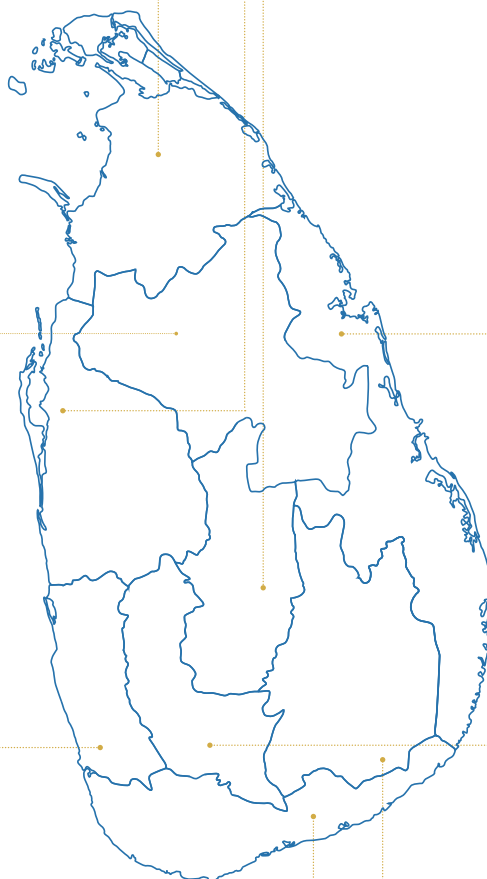
			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
21	39	176	481	11%

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
7	30	84	479	11%

Uva

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
9	19	111	218	5%

			GWP	
Assessors	Staff	Bancassurance Units	Rs. Mn.	Contribution
5	15	29	183	4%



Number of Bancassurance Units

Number of Staff

Number of Advisors

Number of Assessors

HNB Assurance PLC

HNB General Insurance Limited

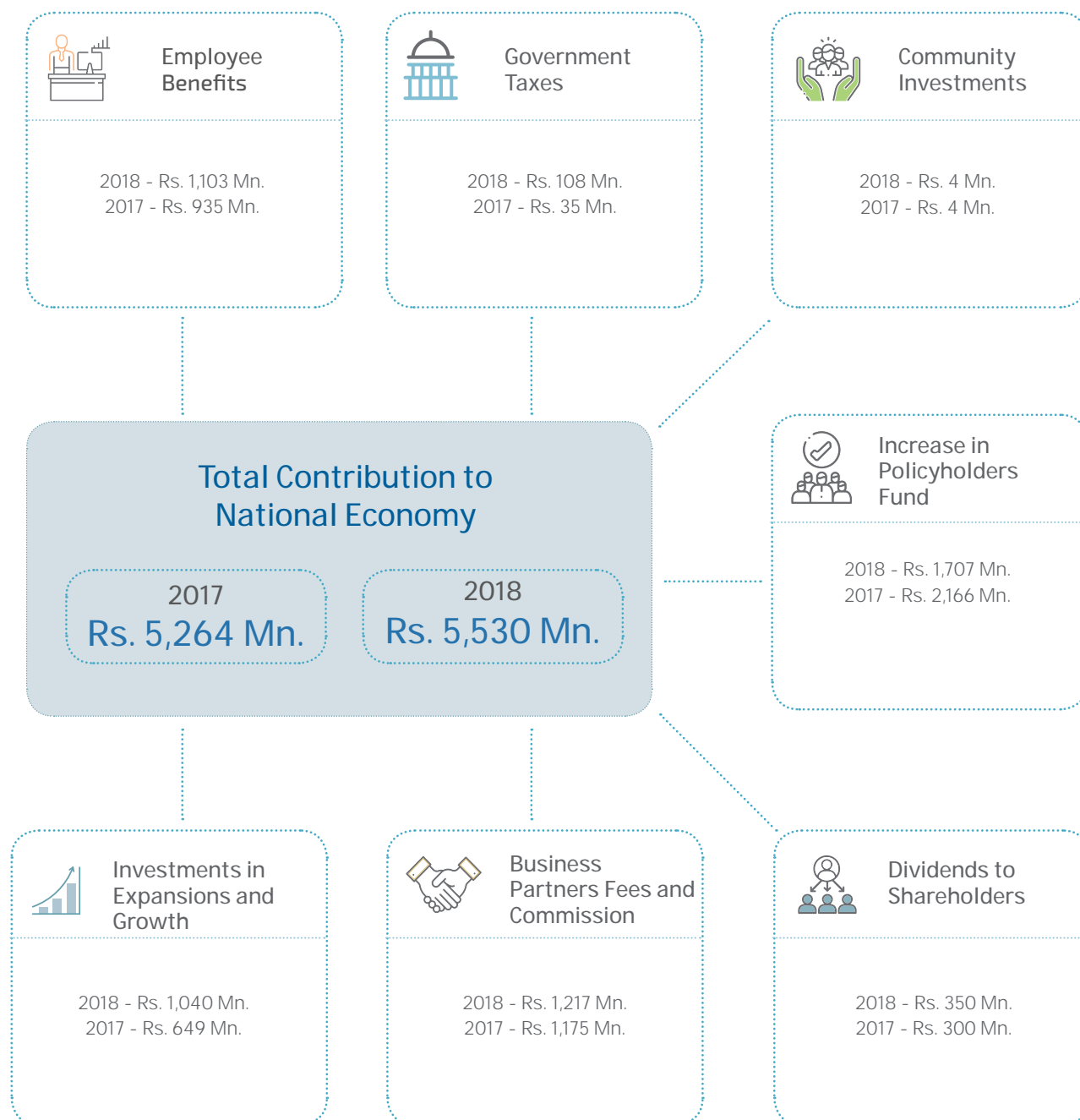
Our Commitment to United Nations 2030 Agenda

Being a responsible Corporate Citizen is inbuilt in our value-led culture and we firmly believe that it is our duty to take of our community and our environment. As a business with a caring spirit, we believe in seizing every opportunity to give back to the society. Thus, we have pledged our commitment to the United Nations 2030 Agenda for Sustainable Development, a plan of action for people, planet and prosperity.

We have aligned our key focus areas of operations in 2018 to meet the 17 Sustainability Development Goals (SDGs) and extended our support towards making this world a better place to all living beings. Each Capital Report will provide details as to how we aligned our key focus areas in 2018 to meet SDGs and how we discharged our duties as an organisation with a caring spirit.



Contribution to National Economy



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 DEDICATED

Financial Calendar

DIVIDEND CALENDAR

	2018	2019
Final dividend for the previous year paid/payable	On 5th March 2018	In 8th April 2019
Final dividend for the year to be paid	On 8th April 2019	In April, 2020

ANNUAL GENERAL MEETING (AGM) CALENDAR

	2018	2019
Annual Report and Accounts for the year signed/to be signed	On 9th February 2018	In 11th February 2019
Annual General Meeting held/to be held	On 27th March 2018	In 28th March 2019

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

	2018	2019
	Submitted on	To be submitted on or before
1st Quarter (ended 31st March)	15th May 2018	15th May 2019
2nd Quarter (ended 30th June)	10th August 2018	15th August 2019
3rd Quarter (ended 30th September)	5th November 2018	15th November 2019
4th Quarter (ended 31st December)	14th February 2019	15th February 2020

INTERIM FINANCIAL STATEMENTS CALENDAR – PUBLICATION IN THE NEWSPAPERS

	2018	2019
1st Quarter (ended 31st March)	23rd May 2018	In May, 2019
2nd Quarter (ended 30th June)	16th August 2018	In August, 2019
3rd Quarter (ended 30th September)	13th November 2018	In November, 2019
4th Quarter (ended 31st December)	In February, 2019	In February, 2020

Report of the Audit Committee

Composition

The Audit Committee as at 31st December 2018 comprises of the following members:

J A P M Jayasekera* – Chairman

Dr. S Selliah* – Member

A G R Dissanayake** – Member

*Independent/Non-Executive Director

**Non-Executive Director

Member profiles are given on pages 36 to 39 Chairman of Committee is a Fellow member of the Institute of Chartered Accountants of Sri Lanka.

Regular Attendees by Invitation

M O F Salieh – Director – HNBGI

Managing Director/
Chief Executive Officer

Chief Financial Officer

Members of the Executive Committee

Secretary to the Committee

Sitiri Jayasundara – Board Secretary

Meetings

Name	Attended/Eligible
J A P M Jayasekera	8/8
Dr. S Selliah	7/8
A G R Dissanayake	5/8

The Committee held 08 meetings for the period ended 31st December 2018.

All matters discussed at the Committee Meetings were reported to the Board of Directors on regular basis.

CHARTER OF THE COMMITTEE

The Charter of the Audit Committee ('the Committee') defines the Terms of Reference of the Committee. The purpose of the Committee is to assist the Board of Directors of HNB Assurance PLC ('the Company' or 'HNBA') in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the monitoring process for compliance with laws and regulations of the Company as well as its Subsidiary HNB General Insurance Limited.

The Board of Directors assesses the adequacy of the Committee Charter on an annual basis to ensure that the functioning of the Committee is in line with the developments of enforced laws and regulations. The Charter was last reviewed and approved by the Committee in November 2018.

The composition, functions, duties and responsibilities of the Committee are governed by the duties and responsibilities set out in Section 7.10.6 of the 'Listing Rules' of the Colombo Stock Exchange and other applicable guidelines and corporate governance codes.

MANDATE

- Monitoring the financial reporting system to ensure financial information presented to the Board of Directors, Regulators and Shareholders is accurate and timely.
- Reviewing Financial Statements of the Company/Group to ensure that they are prepared in accordance with Sri Lanka Accounting Standards

(LKAS), Sri Lanka Financial Reporting Standards (SLFRS), Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto and other applicable laws and regulations and recommending to the Board of Directors.

- Liaise with the Board Risk Management Committee and the Management to ensure that the Risk Management framework of the Group is implemented effectively to mitigate risks associated with financial reporting.
- Liaise with the Related Party Transactions Review Committee to ensure adherence to the related party transaction requirements given in the Listing Rules and to ensure proper disclosure of related party transactions in the Financial Statements.
- Review the design and implementation of internal control systems and to take steps to strengthen them where necessary.
- Ensure that the conduct of the business is in compliance with applicable laws and regulations of the country and the policies and procedures of the Company.
- Make recommendations to the Board on the appointment, re-appointment/removal of External and Internal Auditors, review their scope and monitor performance.
- Assess the independence of the External Auditors.
- Evaluate the Company's ability to continue as a going concern into the foreseeable future.

Report of the Audit Committee

HOW THE COMMITTEE DISCHARGED ITS RESPONSIBILITIES IN 2018

Financial Reporting

The Committee reviewed all four Interim Financial Statements of the Group and the Company, Annual Financial Statements of the Group and the Company, Annual Financial Statements of the Subsidiary HNBGI, in consultation with External Auditors and the Management where necessary. Assessment of the quality and acceptability of the accounting principles, reasonableness of significant judgments and the clarity of disclosures in the Financial Statements formed an integral part of the review. Following aspects were specifically taken into consideration,

- Adequacy and effectiveness of internal control systems, financial reporting systems and processes in place to ensure accuracy and reliability of the information provided in Financial Statements.
- Significant accounting and reporting issues.
- Going concern assumption.
- Developments in the financial reporting framework (Sri Lanka Accounting Standards – SLRFS/LKAS).
- Consistency of the adopted accounting policies and methods and their compliance with the Accounting Standards (LKAS/SLFRS).
- Disclosure requirements and other applicable accounting and financial reporting requirements such as the Companies Act, No. 07 of 2007, Listing Rules and the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, etc.

Since there were no significant changes in the applicable accounting standards, no material changes were made to the Group's accounting policies in the year 2018.

New Accounting Standards

SLFRS 9: Financial Instruments came into effect in January 2018. However, as the predominant activity of HNBA and HNBGI is issuing insurance contracts within the scope of SLFRS 4: Insurance Contracts, the Group is allowed to apply LKAS 39: Financial Instruments recognition and measurement until 31st December 2021. As such, the Group continued to apply LKAS 39 during the financial year ending 31st December 2018. A gap analysis and impact assessment of SLFRS 9 was carried out by the Company with the assistance of an external consultant and results were reviewed by the Committee. It was concluded that there is no significant financial impact from SLFRS 9 other than re-classification of financial investments.

IFRS 17: Insurance Contracts will come into effect on 1st January 2022. The extent of its impact on the financials of the Group will be assessed by an external consultant selected to carry out the gap analysis, which will commence in 2019. During the year the Group selected an external consultant to carry-out a gap analysis of the new standard.

Compliance with Laws and Regulations

The Audit Committee reviewed all the compliance checklists signed off by the Management of the Company and its Subsidiary on a monthly basis to ensure compliance with all applicable compliance submissions relating to the Department of Inland Revenue, Insurance Regulatory Commission of Sri Lanka (IRCSL) and Labour regulations.

The Committee also reviewed Quarterly and Annual Returns submitted to the IRCSL on a timely basis. The Committee also reviewed the one-off surplus transferred under the Direction and Approval of the Insurance Regulatory Commission of Sri Lanka.

In addition, as required by the regulations issued by the IRCSL, reports from the External Auditors were obtained on the factual findings on compliance with Circular 29 and specified areas of Determination 14 and the same were filed with the Regulator.

External Audit

The Committee reviewed the external audit plan, scope and the methodology presented by the External Auditors to understand the quality control/assurance process adopted by them.

The Audit Committee, the Management and the External Auditors engaged in discussions regarding the co-ordination of the audit effort to assure that the External Auditors have access to required information and co-operation from all employees.

Furthermore, the Committee scrutinised the Report of the Auditors in consultation with the External Auditors and the Management. The Committee discussed the Key Audit Matters with the Auditors with due consideration given to judgements, assumptions and measures taken by Company as well as the Auditors to ascertain their reasonability. The Committee also reviewed the Management Letter for 2017 and monitored the implementation of the prescribed corrective actions.

The External Auditors were given adequate access to the Audit Committee as well as to all relevant information required. The Audit Committee met the External Auditors without the presence of the Management once during the year.

The Committee also reviewed all fees payable to the statutory auditors for the interim and final audits for the year 2018 and recommended the same for the approval of the Board of Directors.

Re-appointment of External Auditors

The engagement of the External Auditors, Messrs. Ernst & Young, Chartered Accountants, during the year was reviewed by the Committee. The Committee recommended their re-appointment to the Board as the External Auditors of the Group for the financial year ending 31st December 2019, subject to the approval of the Shareholders at the Annual General Meeting to be held on 28th March 2019.

Independence of External Auditors

The Audit Committee evaluated the audit and non-audit functions of the External Auditors prior to their assignment, with the view of ensuring that the provision of such services does not impair independence or give rise to conflict of interest.

Non-audit services provided by the External Auditors are segregated between assignments that require an independent view and other advisory services. The External Auditors were only engaged with assignments that required an independent view to prevent a conflict of interest for External Auditors.

In this respect, the Committee received a declaration, as required under the Companies Act, No. 07 of 2007, from Messrs Ernst & Young, confirming the absence of any relationship with the Company/Group which may have a bearing on their Independence.

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 internal audit function of the Group is outsourced to Messrs KPMG, Chartered Accountants. The Committee is also responsible for reviewing and approving the internal audit plan, scope and reporting requirements of the Group annually.

During the period ended 31st December 2018, Internal Auditors presented the significant issues identified during internal audits covering the operations of the Company. The Committee ensured the availability of internal audit reports to the External Auditors.

During the year, the Committee adopted an Internal Audit Charter outlining the responsibilities and authority of Internal Auditors of the Company.

REPORTS OF THE EXTERNAL ACTUARIES

The assumptions used for valuations and their rationality, impact from the proposed new regulations and compliance requirements, observations made during the valuation process, recommendations proposed by the actuaries and other matters relating to the actuarial function of the Group with the independent consultant actuaries and the Management were discussed by the Committee during the period under review. The following reports from independent External Actuaries of HNBA and HNBGI were reviewed by the members of the Committee.

- Actuarial valuation of The Long-Term Insurance Fund
- Certification of the Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER) of HNB General Insurance Limited
- Valuation of the Gratuity liabilities of HNB Assurance PLC and HNB General Insurance Limited

The Committee also supervised the conducting of the Liability Adequacy Tests (LAT), as required by SLFRS 4 – Insurance Contracts, with the support of External Actuaries and was able to conclude that the recorded Insurance Contract Liabilities for both Life (HNBA) and General Insurance (HNBGI) businesses as at 31st December 2018 were adequate. Please refer to pages 278 and 281 of the Financial Statements for a detailed disclosure on the LAT for 2018.

The Gratuity Valuation Report produced by the appointed Actuary (as required by LKAS 19 – Employee Benefits) was reviewed by the Committee, after considering the methodology and rationality of assumptions used. All reports produced by External Actuaries were made available for the review of External Auditors.

INTERNAL CONTROL AND RISK MANAGEMENT

The Audit Committee is engaged in regular monitoring of the internal control environment of the Company. This is mainly done through assessment of Management and audit reports as well as through discussions with Management/Auditors. The Committee also overlooks the implementation of the actions taken to address the gaps identified in the internal controls of the Group. (The Board's Statement on Internal Controls appears on pages 197 and 198).

Risk Management Committee

The Risk Management Committee is vested with the responsibility of establishing a sound risk management framework in the Company. The Audit Committee assesses the effectiveness of the risk management processes through the Risk Management Committee.

Report of the Audit Committee

All minutes of the Risk Management Committee meetings held during the year were tab to the Audit Committee who reviewed the same. (Please refer to the Report of Risk Management Committee on pages 194 and 195). Further, the Audit Committee assessed reports pertaining to the internal control and risk management practices of the Group, produced by the Management and Internal and External Auditors, and supervised the implementation of the actions recommended.

Related Party Transaction Review Committee

The Board appointed Related Party Transactions Review Committee reviews the details of the related party transactions of the Group. The Committee ensures that the related party transactions of the Company are carried out in accordance with the Section 9 of the Listing Rules and the Code of Best Practices on Related Party Transactions issued by the SEC.

During the year, the Group adopted a Related Party Transactions Policy in line with the applicable rules and regulations.

IT Risk and Control Assessment

Messrs Ernst & Young performed a review on the general and application controls of the IT function during the year, as a part of their external audit process. The Committee reviewed the comments made by the Auditors and discussed with the Management regarding the appropriate actions required to mitigate identified risks. The Internal Auditors also carried out an assessment of the IT control aspect as a part of their internal audit work.

In addition to the above, during the year under review, a comprehensive seven phase IT audit and a comprehensive IT vulnerability assessment were done by an external consultancy firm. The findings of the audit were duly reported to the Audit Committee and the Board Risk Management Committee. The Management has developed an IT Road Map to address the issues raised by this report in line with the Company's IT Strategy. Corrective actions taken to rectify the IT issues raised by various audits are being monitored by the Committee.

Fraud Risk

The Committee reviewed the measures taken by the Management to minimise the fraud risk of the Company/Group. During the year, the following measures were in place to mitigate fraud risk:

- The Procurement Policy, approved by the Board, is applied to all procurement activities. All major procurements are made through the centralised Procurement Unit with the approval of the Procurement Committees of the Group.
- The Whistle Blowing Policy enables employees to raise concerns on fraudulent activities.
- Risk and Compliance Department, Internal Auditors and External Auditors review the processes of the Company continuously to identify and mitigate the risk of fraud.

Whistle Blowing Policy

The Audit Committee supervises a Whistle Blowing Policy which was implemented to encourage employees to raise their concerns in relation to any suspected wrongdoings at work – whether by the Management, peers

or any other employee. Employees are made aware of the same and are advised to report any suspected wrongdoing directly to the following nominated members of the Group.

- Board Chairperson
- Chairman of the Audit Committee
- Managing Director/CEO
- Chief Human Resources Officer

All concerns brought forward during the year under the Whistle Blowing Policy were duly investigated and appropriate actions were taken.

COMPLIANCE WITH THE LISTING RULES OF THE CSE

The Company fully adheres to the Corporate Governance Rules set out by Section 7.10 of the Listing Rules of the CSE (Please refer pages 85 to 86 for further information).

PERFORMANCE EVALUATION OF THE AUDIT COMMITTEE

The Committee carried out a self-evaluation based on a checklist approved by the Committee. Additionally, the Executive Committee of the Company also performed an appraisal of the Audit Committee and the results of the appraisal were notified to the members of the Audit Committee. The ultimate objective of the evaluation of the Committee is to improve the effectiveness of its activities and enhance its support to the Management and the Board of Directors. Summarised results of both evaluations were tabled to the Board of Directors.

KEY AREAS COVERED IN 2018

- ① Review of Financial Statements
- ② Internal Control and Risk Management
- ③ Internal Audit Matters
- ④ External Audit Matters
- ⑤ Compliance
- ⑥ New developments in financial reporting

Meeting Date	Key Areas Covered
02.02.2018	① ② ④ ⑤
12.02.2018	② ③
23.04.2018	② ④ ⑤
03.05.2018	① ② ③ ⑥ ⑤
26.07.2018	① ② ⑥ ⑤
15.10.2018	② ⑥ ④ ⑤
23.10.2018	① ② ③ ⑤
23.11.2018	② ④ ⑤

CONCLUSION

The Committee, along with the Management, reviewed the system of internal controls in the Group and actions were taken to improve the same. The Committee is satisfied with the implementation of the Group's internal controls and Risk Management Framework and that the Group's assets are adequately safeguarded. The Group's Internal and External Auditors have been effective and independent throughout the year.

The Committee is also satisfied that the application of appropriate accounting policies provide reasonable assurance that the Financial Statements of the Group are true and fair.



J A P M Jayasekera
Chairman
Audit Committee

Colombo, Sri Lanka
11th February 2019

Report of the Human Resources and Remuneration Committee

Composition

The Human Resources and Remuneration Committee as at 31st December 2018 includes the following members:

Dr. S Selliah* – Chairman

M A R C Cooray** – Member

D R Abeyesuriya* – Member

*Independent/Non-Executive Director

**Non-Executive Director

Regular Attendees by Invitation

M O F Salieh – Director HNBGI

C Cooray – Chief Human Resource Officer of HNB

D P Lokuarachchi – Managing Director/Chief Executive Officer (except when matters pertaining to him were discussed)

Secretary to the Committee

Sitari Jayasundara – Board Secretary

Meetings

Name	Attended/Eligible
Dr. S Selliah	8/8
M A R C Cooray	8/8
D R Abeyesuriya	7/8

The Committee held 08 meetings for the period ended 31st December 2018.

CHARTER OF THE COMMITTEE

The terms of reference of the Committee is defined in the HR & Remuneration Committee Charter, which is reviewed annually. The Charter defines the Objectives, Duties and Responsibilities, Composition, etc of the Committee. The HR Committee Charter outlines the strategic intent of the Company in adopting HR practices which provides the employee quality service while creating a platform that would enable the employee to offer their service with trust and confidence to attain company goals and fulfil individual aspirations.

MANDATE

- Determine and agree with the Board on the board policy for the remuneration of the Board Non-Executive Directors, the Chairman, the CEO and other members of the senior management.
- Setting the Remuneration policy and delegated authority to set individual remuneration packages for the Chairman, the CEO, senior management and Non-Executive Directors.
- Recommend and monitor the level and structure of remuneration for all executive management officers.
- The Committee shall determine increments and bonuses payable based on recommendations submitted by the CEO.
- The Committee shall provide policy direction for the Human Resource Strategy of the company.
- Direct the human capital strategy of the company
- Guide, influence and shape the HR strategies and policies of the company

REMUNERATION POLICY

The remuneration policy of the Company is driven by two principles:

- Should be reasonable, attractive, competitive and linked to individual performance, and

- Should be in line with both industry standards and the Company's performance

Accordingly, the policy is designed to ensure fair remuneration to all members of the staff in way that supports the achievement of the Vision, Mission and the Objectives of the Company. The remuneration is linked to the achievement of individual objectives which are aligned to the short-term and long-term objectives of the company. The policy also aims at attracting and retaining the best talent.

The remuneration package of employees has both fixed and variable components. The basic salary is the fixed component while annual bonus is the main variable component. Annual bonus is designed to reflect the individual performance and overall company performance during the period under concern.

Directors of the Company only receive a fee for serving on the Board and other Sub-Committees. They do not receive any performance or incentive payments.

The Company does not have a share option scheme for Directors and KMPs.

Bell Curve distribution

The Company use the Bell Curve distribution in determining the Appraisal Grades of the employees.

COMMITTEE EVALUATION

A self-evaluation of the members of the Committee is carried out by the Chairman of the Committee to ensure optimal performance of the Committee.



Dr. S Selliah
Chairman
Human Resources and
Remuneration Committee

Colombo, Sri Lanka
11th February 2019

Report of the Related Party Transactions Review Committee

Composition

The Related Party Transactions Review Committee as at 31st December 2018 includes the following members:

J A P M Jayasekera* – Chairman
Dr. S Selliah* – Member
A G R Dissanayake** – Member

*Independent/Non-Executive Director

**Non-Executive Director

Regular Attendees by Invitation

Managing Director/
Chief Executive Officer
Chief Operating Officer – HNBA
Chief Financial Officer
Chief Investment and Strategy Officer
Chief Technical Officer – HNBGI
Head of Finance and
Support Services – HNBGI
Senior Manager Finance

Secretary to the Committee

Rohan Hemantha – Head of Risk and Compliance

Meetings

Name	Attended/Eligible
J A P M Jayasekera	4/4
Dr. S Selliah	4/4
A G R Dissanayake	3/4

The Committee held 04 meetings for the year ended 31st December 2018.

All matters discussed at the Committee Meetings were reported to the Board of Directors on regular basis.

CHARTER OF THE COMMITTEE

The Related Party Transactions Review Committee of HNB Assurance PLC ('the Committee') is appointed by and is responsible to the Board of Directors of HNB Assurance PLC.

The Charter of the Related Party Transactions Review Committee clearly sets out the purpose, membership, authority, duties and responsibilities of the Committee.

The purpose of the Committee is to conduct an appropriate review of all related party transactions of HNBA and its fully owned Subsidiary, HNBGI and to ensure that the Group/Company complies with the rules set out in Section 09 of the Listing Rules. The primary objectives of the said rules are to ensure that the interests of the Shareholders as a whole, are taken into account when entering into related party transactions and to prevent Directors, Key Management Personnel (KMP) or substantial Shareholders from taking advantage of their positions.

Meeting agendas and other materials are prepared and submitted in advance to the members of the Committee.

SCOPE OF THE COMMITTEE

In order to execute duties and responsibilities assigned to the Related Party Transactions Review Committee effectively and efficiently, the Committee has been authorised to:

- Receive regular reports from the Management and have access to any information the Committee deems necessary relating to its responsibilities;
- Establish policies and procedures that provide general pre-approvals to certain classes or types of related party transactions;

- Review and evaluate the terms and conditions and to determine the advisability of any related party transaction;
- Determine whether the relevant related party transaction is fair and is in the best interest of the Company and its Shareholders as a whole;
- Recommend to the Board what action, if any, should be taken by the Board with respect to any related party transaction;
- Obtain advice and assistance from legal, technical, financial and other advisors from within or outside the Company, as deemed necessary by the Committee in order to carry out its duties;
- Form and delegate authority to Sub-Committees consisting of one or more members where appropriate, provided that the decision of such Sub-Committees shall be presented to the main Committee at its next meeting.

KEY RESPONSIBILITIES

- Ensure that the Company complies with the rules listed in Section 9 of the Listing Rules.
- Review all proposed related party transactions in advance, subject to the exceptions given under Section 9.5 of the Listing Rules.
- Perform other activities related to the Charter as requested by the Board.
- Regularly report to the Board on the Committee's activities.
- Share information with the Audit Committee as and when necessary and appropriate, to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities with regard to related party transactions.

Brief profiles of the Directors representing the Committee are given on pages 36 to 39 of this Annual Report.

Report of the Related Party Transactions Review Committee

REVIEW OF RELATED PARTY TRANSACTIONS

The Committee reviewed all related party transactions of the Company for the year 2018.

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

In the opinion of the Committee, these transactions were carried out at arms-length and were of similar terms as those generally transacted with the public. All details of such related party transactions entered into during the year, are given in Note 43 to the Financial Statements on pages 315 to 321 of this Annual Report.

The minutes of the Committee meetings were recorded at Board meetings of HNB Assurance PLC and HNB General Insurance Limited for the review of the Board of Directors.

POLICIES AND PROCEDURES

The Chief Financial Officer is responsible for reporting the information set out under 'Appendix 9 A' of the Listing Rules with regard to each related party transaction proposed to be entered into by the Company with the exception of information listed in the Section 9.5 of the Listing Rules for the Committee to review and to grant approval or disapproval.

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

During the year, the Company adopted a related party transaction policy for the Group.

KEY AREAS COVERED IN 2018

- ① Review of Related Party Transactions
- ② Review of Declaration of Related Entities
- ③ Review of Proposed Related Party Transactions
- ④ Compliance with Related Party Transaction Rules
- ⑤ Review of Related Party Transaction Policy

Meeting Date	Key Areas Covered
02.02.2018	① ② ③
25.05.2018	① ② ③ ⑤
26.07.2018	① ② ③ ④ ⑤
23.10.2018	① ② ③ ④ ⑤

DECLARATION

During the year under review, the Company has complied with the related party transactions rules set out in Section 9 of the Listing rules. An affirmative statement of compliance with the rules pertaining to related party transactions by the Board of Directors is included on page 204 of this Annual Report.



J A P M Jayasekera
Chairman
 Related Party Transactions
 Review Committee

Colombo, Sri Lanka
 11th February 2019

Report of the Nomination Committee

Composition

The Nomination Committee as at 31st December 2018 includes the following members:

M A R C Cooray** – Chairperson

J A P M Jayasekera* – Member

D P N Rodrigo** – Member

*Independent/Non-Executive Director

**Non-Executive Director

Regular Attendees by Invitation

Managing Director/
Chief Executive Officer

Secretary to the Committee

Sitari Jayasundara – Board Secretary

Meetings

Name	Attended/Eligible
M A R C Cooray	1/1
J A P M Jayasekera	1/1
D P N Rodrigo	0/1

The Committee held 01 meeting for the period ended 31st December 2018.

CHARTER OF THE COMMITTEE

The Nomination Committee ('the Committee') of HNB Assurance PLC ('the Company') is a committee of the Board of Directors ('Board') appointed by and is responsible to the Board.

The terms of reference of the Committee are defined in the Nomination Committee Charter. The purpose of the Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to the selection/appointment of new directors, re-appointment of current Directors and the selection and appointment of the CEO.

MANDATE

- Exercise general oversight with respect to the governance of the Board of Directors.
- To ensure the implementation of the approved procedure in selecting/appointing Directors/CEO;
- Taking into account the performance and contribution made by Directors towards the overall discharge of responsibilities of the Board and to make a recommendation on the re-election of current Directors to the Board of Directors;
- To set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO;
- To ensure Directors, CEO and the Key Management Personnel are fit as proper persons to hold office as required by the Companies Act and other applicable statutes;
- To consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel;
- To provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment; and

- To regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes;
- Review and recommend to the Board new/additional Corporate Governance Principles of the Board and any changes to such principles taking into account, the developments in the area of Corporate Governance principles applicable for the Company, locally and internationally;
- Periodically appraise the framework for assessment of Board performance and the Board self-evaluation discussion.

KEY AREAS COVERED IN 2018

- ① Re-appointment of Directors retiring by rotation
- ② Reviewing structure, size, etc of the Board and make recommendations for appointment to the Board

Meeting Date Key Areas Covered

08.01.2018	① ②
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CONCLUSION

The Committee is satisfied that the combined knowledge and experience of the Board match the demands facing the Company.



M A R C Cooray
Chairperson
Nomination Committee

Colombo, Sri Lanka
11th February 2019

Report of the Investment Committee

Composition

The Investment Committee as at 31st December 2018 includes the following members:

S C Ratwatte	– Chairman*
Dr. S Selliah	– Member*
S N Wickramasinghe	– Member
A G R Dissanayake	– Member
M A Tharmaratnam	– Member

**S C Ratwatte stepped down from the Board of Directors w.e.f. 6th February 2019 after serving 10 years as a Board member and Dr S Selliah was appointed as the new Chairman of the Committee w.e.f. 11th February 2019.*

Regular Attendees by Invitation

Managing Director/CEO
Chief Investment Officer
Head of Risk & Compliance
Chief Actuary
Senior Manager Finance
Senior Officers of the Investment Division

Secretary to the Committee

Indika Perera – Chief Financial Officer

Meetings

Name	Attended/Eligible
S C Ratwatte	4/4
Dr. S Selliah	4/4
S N Wickramasinghe	3/4
M A Tharmaratnam	3/4
A G R Dissanayake	4/4

The Committee held 04 meetings for the period ended 31st December 2018.

All matters discussed at the Committee Meetings were reported to the Board of Directors on regular basis.

CHARTER OF THE COMMITTEE

The Investment Committee ('the Committee') is responsible to assist the Board in reviewing the investment policies, strategies and performance of the Investment portfolios of the Company and its Subsidiary.

As per the Charter of the Investment Committee in furtherance of its duties, the Committee is authorised to have direct access to, and receive regular (i.e. at least quarterly) reports from, the management, and to request any additional information relating to its responsibilities. The Committee is also empowered to review and amend policies and programmes falling under its purview and recommend to the Board their adoption.

MANDATE

- Developing and formulating guidelines for the management of the investment portfolios of the Company
- Reviewing and advising on the strategies to be followed by the investment function, after evaluation of the investment portfolios
- Monitoring compliance of the investment function with applicable laws and regulations
- Monitoring compliance of the investment function with the Investment Policy of the Company
- Providing recommendations on any changes to the Investment Policy deemed by the Committee to be necessary, to the Board for approval
- Evaluating and granting approval for any investment activity which require the specific approval of the Committee as per the Investment Policy

- Evaluating the performance of investments already made, through a periodic comparison of actual returns with expected returns
- Regularly reporting to the Board on the Committee's activities
- Reviewing and assessing the adequacy of the Charter annually, and recommending any proposed changes to the Board for approval
- Performing other activities under the Charter, as requested by the Board

KEY AREAS COVERED IN 2018

- ① Review of macro-economic and external environment and performance of investment portfolios
- ② Review of investment strategies and providing guidance
- ③ Monitoring compliance with requirements of the investment policy, statutory rules and regulations
- ④ Review of risks related to investment function and Asset and Liability Management (ALM)
- ⑤ Review changes to the Company's Investment Policy and making recommendations to the Board
- ⑥ Review and approval of Asset Liability Management (ALM) Policy for the Company

Meeting Date Key Areas Covered

23.02.2018	① ② ③ ④
18.05.2018	① ② ③ ④ ⑤ ⑥
10.08.2018	① ② ③ ④ ⑤
14.11.2018	① ② ③ ④ ⑤

Apart from these scheduled meetings, the Committee also maintained constant dialog with the management throughout the year, discussing matters as and when they arose. Any issue that needed the attention of the investment committee was promptly attended to and solutions reached, through close communication between the Committee and the top management.

CONCLUSION

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



Dr. S Selliah
Chairman
Investment Committee

Colombo, Sri Lanka
11th February 2019

Report of the Risk Management Committee

Composition

The Risk Management Committee as at 31st December 2018 includes the following members:

D P N Rodrigo	– Chairman
M A R C Cooray	– Member
D R Abey Suriya	– Member
M A Tharmaratnam	– Member
D Pallewatte*	– Invitee

*Deputy General Manager – Risk/Chief Risk Officer (CRO)/Chief Information Officer (CISO) of HNB

Regular Attendees by Invitation

Managing Director/
Chief Executive Officer
Chief Operating Officer
Chief Financial Officer
Other Members of the Executive Committee

Secretary to the Committee

Rohan Hemantha – Head of Risk and Compliance

Meetings

Name	Attended/Eligible
D P N Rodrigo	5/7
M A R C Cooray	7/7
D R Abey Suriya	7/7
M A Tharmaratnam	5/7
D Pallewatte	6/7

The Committee held 07 meetings for the year ended 31st December 2018.

All matters discussed at the Committee Meetings were reported to the Board of Directors on regular basis.

CHARTER OF THE COMMITTEE

The Risk Management Committee ('the Committee') of HNB Assurance PLC ('the Company' or 'HNBA') is a standing committee of the Board of Directors ('the Board') appointed by and responsible to the Board.

The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to the oversight of the Risk Management Framework, including significant policies and practices used in managing risks of the Company and its fully owned Subsidiary, HNB General Insurance Limited ('HNBGI').

The terms of reference of the Committee is defined in the Risk Management Committee Charter which is approved by the Board and is reviewed annually.

AUTHORITY

In order to discharge its duties and responsibilities effectively and efficiently, the Committee has been empowered to have direct access and receive regular reports from the Management and to be provided with any information relating to its responsibilities that it requests.

Moreover, the Committee has the authority to engage independent professional advisors on matters within its purview.

RESPONSIBILITIES OF THE COMMITTEE

The following key responsibilities have been set out in the Charter:

- Review the Company's Risk Management Framework, including significant policies, processes and systems that the Management uses to manage risk exposures as well as risk measurement methodologies and approaches used for stress testing.
- Review and approve the Company's Risk Assessment Report and receive reports on the Company's adherence to significant risk limits.
- Review the risk appetite statement of the Company along with the Management by periodically assessing performance with the established risk appetite.
- Review and discuss with the Management, the issues raised by Internal/External Auditors that impact upon the Risk Management Framework of the Company.
- Monitor whether the decisions relating to functions with high risks are taken in accordance with established and delegated authorities.

Activities of the Committee During 2018
In order to discharge the above mentioned duties and responsibilities, the Committee carried out the following activities during the year:

- Reviewed the development, implementation and maintenance of the overall Risk Management Framework and its risk appetite principles and policies, to ensure they are in line with emerging regulatory, governance and industry best practices.

- Examined the impact to the Group from external factors, including developments in new regulations and natural disasters.
- Discussed and reviewed the actions taken on emerging and high risks faced by the Group.
- Reviewed the prepared compliance checklists and confirmed compliance with all applicable laws and regulations.
- Discussed the investment strategy and reviewed the Asset and Liability Management Policy of the Group.
- Reviewed the risks relating to new products and existing products.
- Reviewed the Key Risk Indicators (KRIs) of the Group against internal tolerance levels covering credit, reinsurance, market, operational and strategic risks facing the Company and management actions taken to address internal breaches.
- Reviewed the IT Road map of the Company and the steps taken by the Management to strengthen the IT Security environment of the Company.
- The minutes of the meetings were tabled at the Audit Committee meetings to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities as well as at the Board meetings of HNBA and HNBGI to update and inform the other members of the Board on the proceedings.

KEY AREAS COVERED IN 2018

- ① Review of Key Risk Indicators
- ② Review of Compliance Submissions
- ③ Review Company Policies, Charters and Procedures
- ④ Review the emerging risks and mitigation steps
- ⑤ Review the products of the Group
- ⑥ Review the Solvency Position of the Group
- ⑦ Review of IT audit matter

Meeting Date	Key Areas Covered
23.02.2018	② ③ ⑥ ④ ⑤
04.05.2018	② ③ ⑤ ⑥ ④
22.06.2018	① ② ③ ④ ⑤ ⑥
10.08.2018	① ② ③ ④ ⑤ ⑥
05.10.2018	④ ② ⑤ ③
09.11.2018	④ ⑦*
14.12.2018	④ ① ② ③

*A special meeting to discuss the IT road map.



D P N Rodrigo
Chairman
 Risk Management Committee

Colombo, Sri Lanka
 11th February 2019

Report of the Strategy Review Committee

Composition

The Strategy Review Committee as at 31st December 2018 includes the following members:

M A R C Cooray	– Chairperson
D P Lokuarachchi	– Member
Dr. S Selliah	– Member
M O F Salieh	– Member
M A Tharmaratnam	– Member
A G R Dissanayake	– Member

Regular Attendees by Invitation

Chief Operating Officer – HNBA
Members of the Executive Committee
Head of Takaful
Head of Corporate Sales

Secretary to the Committee

Nilesh Amarasinghe – Chief
Investment
and Strategy
Officer

Meetings

Name	Attended/Eligible
M A R C Cooray	7/7
D P Lokuarachchi	7/7
Dr. S Selliah	7/7
M O F Salieh	7/7
M A Tharmaratnam	5/7
A G R Dissanayake	6/7

The Committee held 07 meetings for the period ended 31st December 2018.

All matters discussed at the Committee Meetings were reported to the Board of Directors on regular basis.

CHARTER OF THE COMMITTEE

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

MANDATE

- Review the front burner document containing materially significant short-term activities, change of processes etc.
- Interaction with identified KMPs, responsible for implementation of each activity.
- Identifying and monitoring the implementation of medium and long-term strategies.
- Review and make recommendations to the board on the forecast made on KPIs.
- Update the Board regularly regarding the implementation and achievements against each target.
- Continuous reviewing of the strategic plan developed for the next three years.

KEY AREAS COVERED IN 2018

- ① Review of Front Burner document
- ② Interaction with identified KMPs to monitor and review the implementation of medium and long-term strategies

Meeting Date Key Areas Covered

Meeting Date	Key Areas Covered
12.03.2018	① ②
23.04.2018	① ②
23.07.2018	① ②
27.08.2018	① ②
26.09.2018	① ②
23.10.2018	① ②
29.11.2018	① ②

CONCLUSION

The members of the Committee ensured timely implementation of strategies, both planned and emergent to ensure the long-term growth of the Company.



M A R C Cooray
Chairperson
Strategy Review Committee

Colombo, Sri Lanka
11th February 2019

Board's Statement on Internal Control

RESPONSIBILITY

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the internal control and risk management mechanism in place at HNB Assurance PLC, ("the Company"). The Company has in place a comprehensive system of internal controls, covering risk management and financial, organisational, operational and compliance controls. However, as with the inherent limitations of any system, such systems of internal controls are designed to manage, rather than to eliminate risks, that may impede the achievement of the Company's objectives. In this light, the system of internal controls can only provide reasonable, but not absolute, assurance against material mis-statement of financial information and records; or against financial loss or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company, as well as for enhancing the system of internal controls in response to changes in the business environment or regulatory guidelines. This process is put in place for the year and is reviewed periodically by the Board through its Audit and Risk Management Committees, supported by the Internal Auditors. The Board, with the assistance of its Sub-Committees, reviewed deficiencies identified in internal controls during the year and has taken appropriate actions to improve the control environment.

The Management assists the Board in implementing the policies and procedures on risk and control by identifying and assessing the risks faced by the Company and in the design, operation and monitoring of suitable internal controls to mitigate these risks.

The Board is of the view that the system of internal controls in place is sound and adequate to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting policies, principles and regulatory requirements.

PROCESS OF REVIEWING THE INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

The key features of the process that has been established to review the adequacy and integrity of the system of internal controls with respect to financial reporting are as follows:

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of the Company's daily operations and that they are in accordance with the corporate objectives, strategies, annual budget, approved policies and business direction.

- The Company has outsourced its internal audit function to Messrs. KPMG. The Internal Auditors check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis, using samples and rotational procedures and highlight significant findings in respect of any area of non-compliance. Audits are carried out, covering main areas of the operations and branches island-wide, to provide an independent and objective report. The frequency of such audits is determined by the level of risk assessed, while the annual audit plan is reviewed and approved by the Audit Committee. Internal Auditors report their findings to the Audit Committee and their reports are discussed at Audit Committee meetings.
- The Audit Committee reviews internal control issues identified by the Internal Auditors, the External Auditors, regulatory authorities and the Management and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope and quality of internal audits. The minutes of the Audit Committee meetings are tabled at Board meetings for the information of the Board. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Report of the Audit Committee on pages 183 to 187.

Board's Statement on Internal Control

- A Risk Management Committee has been established to assist the Board to oversee the risk management framework of the Company. The Management has prepared a Risk Register identifying all key risks faced by the Company, as well as existing and proposed controls to mitigate such identified risks. This Risk Register has been shared with the Internal Auditors to ensure compliance with existing controls and to prepare the internal audit plan focusing on the significant risks faced by the Company.
- Key Risk Indicators (KRIs) have been identified for all major operations of the Company and a KRI report is prepared monthly. A summary of the KRI report is included in the Risk Dashboard and presented to the Risk Management Committee.
- The Risk and Compliance Department follows up on audit recommendations and ensures that the recommendations are implemented. A report is tab at each Audit Committee meeting by the Risk and Compliance Department on the progress of implementing the actions agreed to by the Management. The Risk and Compliance Department also carries out periodic verifications on compliance with Company's policies and procedures.
- A compliance checklist covering all applicable laws and regulations is signed-off by the Management monthly and is tabled at Audit Committee meetings. A monthly report to the Board is submitted by the Head of Risk and Compliance on the Company's compliance with applicable laws and regulations.
- Procedure checklists have been prepared for Life Insurance operations, finance related activities and the operations of the Company's fully owned subsidiary HNB General Insurance Limited (HNBGI), covering key control aspects. These checklists are prepared monthly and any deviations noted in the checklists are reported to the Audit Committee.

CONFIRMATION

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting. The preparation of Financial Statements for external purposes was done in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), Companies Act, No. 07 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto.

By order of the Board,



J A P M Jayasekera
Chairman
Audit Committee



M A R C Cooray
Chairperson

Colombo, Sri Lanka
11th February 2019

Annual Report of the Board of Directors on the Affairs of the Company

1. PREFACE

The Directors of HNB Assurance PLC (“HNBA” or “Company”) take pleasure in presenting to the Shareholders, the Annual Report of HNB Assurance PLC which includes the Audited Financial Statements of the Company and the Group, Chairman’s Message, Managing Director’s Review, Corporate Governance Commentary, Capital Management Review, Industry Review and all other relevant information for the year ended 31st December 2018. This report covers relevant statutory requirements including the Companies Act, No. 07 of 2007, 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 issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL).

This Report was reviewed and approved by the Board of Directors of the Company on 11th February 2019 and appropriate number of copies of the Annual Report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

2. REVIEW OF BUSINESS

2.1 The Company

HNB Assurance PLC is a licensed Life Insurance Company registered under the Regulation of Insurance Industry Act, No. 43 of 2000. The Company was incorporated on 23rd August 2001 as a limited liability company under the Companies Act, No. 17 of 1982, reregistered on 09th August 2007 as per the requirements of the Companies Act, No. 07 of 2007 and bears the Company Registration Number, PQ 108. In November 2003, ordinary shares of the Company were listed on the Main Board of the Colombo Stock Exchange (CSE). The Company owns a fully owned Subsidiary, HNB General Insurance Limited, which is a licensed General Insurance Company registered under

the Regulation of Insurance Industry Act, No. 43 of 2000. The ultimate Parent Company is Hatton National Bank PLC, a licensed commercial bank which owns 59.99% of the voting rights of the Company.

Fitch Ratings Lanka Ltd has re-affirmed HNB Assurance PLC’s and its fully owned Subsidiary HNB General Insurance Limited’s National Insurer Financial Strength Ratings at A (Ika) with a stable outlook.

2.2 Corporate Vision, Mission and Values

The Board of Directors and employees conduct their activities in compliance with the Code of Business Conduct and Ethics of the Group to achieve the vision, mission and values mentioned in the page 8.

2.3 Principal Business Activities

HNBA continued to engage in Life Insurance business as the principal business activity and its fully owned subsidiary HNB General Insurance Limited (“HNBGI”) continued to conduct General Insurance business as the principal business activity. There were no significant changes to the principal activities of the Company or its Subsidiary during the year.

HNBA and HNBGI also provide Takaful Insurance products within the framework of main business activities and in full compliance with the Sharia requirements. These Takaful business operations are structured as ‘window units’ and are considered a part of the Company’s/Group’s operations for both financial and regulatory reporting purposes.

2.4 Review of Business and Future Developments

A review of the financial and operational performance and future business developments of the Company and its Subsidiary is described in the

Chairperson’s Message, Managing Director’s Review, and the Management Discussion and Analysis section of this Annual Report. These reports, together with the Audited Financial Statements, reflect the state of affairs of the Company and the Group.

3. FINANCIAL STATEMENTS

3.1 Director’s Responsibility for Financial Reporting

As per Section 150 (1) of the Companies Act, No. 07 of 2007, the Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company and the Group and these Financial Statements give a true and fair view of the state of affairs of the Company and Group in compliance with Sections 151, 152, 153 (1) and 153 (2) of the Companies Act, No. 07 of 2007.

Accordingly, the Financial Statements of the Company and the Group are prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka and comply with requirements of the Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, Rules and Regulations of the Insurance Regulatory Commission of Sri Lanka, Listing Rules of the Colombo Stock Exchange.

The aforementioned Financial Statements for the year ended 31st December 2018 which appears on pages 218 to 349 are duly signed by the Chief Financial Officer and two Directors of the Company as per Section 168 (1) (b). These statements form an integral part of the Annual Report of the Board of Directors.

The Statement of Directors’ Responsibility for Financial Reporting is given on pages 209 and 210 which forms an integral part of this report.

Annual Report of the Board of Directors on the Affairs of the Company

3.2 Significant Accounting Policies and Changes during the Year

The significant accounting policies adopted in the preparation of the Financial Statements and changes to significant accounting policies if any, in the preparation of the Financial Statements are described on pages 228 to 232.

3.3 Going Concern

The Directors declare that the Company has the resources to continue its business for the foreseeable future after having made necessary assessment of the Company's ability to continue as a going concern. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared for the Company and its Subsidiary on the basis of going concern.

3.4 Events Occurring after the Date of the Statement of Financial Position

The payment of a final dividend of Rs. 7.00 per share for the year ended 31st December 2018 (2017: Interim and Final Rs. 6.00 per share) is to be approved at the Annual General Meeting to be held on 28th March 2019. More information with respect to the dividend is given in Note 41 on page 306.

Except for the post balance events disclosed in Note 45, there have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

3.5 Contingencies

All contingencies to the Group and the Company were disclosed in the Note 47 on the page 348. In the opinion of the Directors, and in consultation with the Company Lawyers, litigations currently pending against the Group and the Company, would not have a material impact on the reported financial results. All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

4. FINANCIAL RESULTS AND APPROPRIATIONS

4.1 Gross Written Premium

Gross written premium generated by the Group amounted to Rs. 8,724.7 Million (2017: Rs. 7,821.5 Million) whilst the Company's Gross Written Premium amounted to Rs. 4,420.5 Million (2017: Rs. 3,963.6 Million). Note 26 to the Financial Statements appearing on pages 287 and 288 provides a segmental analysis of the Gross Written Premium.

4.2 Profits and Appropriations

The Profit After Tax of the Group was Rs. 2,705.3 Million (2017 – Rs. 909.8 Million) whilst the Company's Profit After Tax was Rs. 2,475.2 Million (2017 – Rs. 725.7 Million). Profits include Rs. 381.6 Million One-Off Surplus transferred under the Direction 16 of the Insurance Regulatory Commission of Sri Lanka (IRCSL) and with the approval of the IRCSL. This surplus was transferred to a 'Restricted Regulatory Reserve as per the Direction 16 of the IRCSL.

The details of the appropriation of profit are given below:

For the year ended 31st December,

	Group		Company	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Profit Before Taxation	1,580,654	927,027	1,297,848	725,665
Income Tax Reversal/(Expenses)	1,124,656	(17,275)	1,177,367	-
Profit for the Year	2,705,310	909,752	2,475,215	725,665
Unappropriated Profit Brought Forward	2,381,427	1,721,675	2,373,601	1,897,936
Profits Available for Appropriation	4,705,581	2,631,427	4,467,660	2,623,601
Dividends Paid	(300,000)	(250,000)	(300,000)	(250,000)
Unappropriated Profit Carried Forward	4,405,581	2,381,427	4,167,660	2,373,601

4.3 Dividends on Ordinary Shares

As required by Section 56(3) of the Companies Act, No. 07 of 2007, the Board of Directors have confirmed that the Company satisfies the solvency test immediately after the distribution of the first and final dividend of Rs. 7.00 per share and Statement of Solvency prepared by the Board was audited by External Auditors Messrs. Ernst & Young in terms of Section 56 (2) of the Companies Act, No. 07 of 2007.

The proposed first and final dividend will be paid out of exempt/taxable profits of the Company. Dividends to be paid out of profits will be subject to withholding tax of 14%. This dividend will be paid on 8th April 2019 to holders of issued and paid-up ordinary shares of the Company, as at the close of business on the 28th March 2019.

4.4 Stated Capital

There were no changes in the stated capital of the Company during the year 2018, and the amount recorded was Rs. 1,171,875,000 comprising 50,000,000 ordinary shares. (2017 – Stated Capital – Rs. 1,171,875,000, No. of Shares – 50,000,000).

4.5 Reserves

Transfers to/from reserves of the Group/Company are shown in the Statement of Changes in Equity, appearing on page 220 and 221.

A summary of the same is given below:

For the year ended 31st December	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Retained Earnings	4,405,581	2,381,427	4,167,660	2,373,601
Available For Sale Reserves	(8,025)	30,685	1,451	17,415
Other Reserves	(4,406)	(10,760)	(4,395)	(9,884)
Life Policyholders' Available For Sale Reserve Fund	(201,867)	223,272	(201,867)	223,272
Restricted Regulatory Reserve	381,156	-	381,156	-
Total	4,572,439	2,624,624	4,344,005	2,604,404

4.6 Provision for Taxation

Under the prevailing tax rules of the Country, the Company and its Subsidiary were taxed at the corporate tax rate of 28%. The tax position of the Company and its Subsidiary is disclosed in Note 39 to the Financial Statements on page 301 to 304. The tax calculation method of Life Insurance business changed with the enactment of the New Inland Revenue Act, No. 24 of 2017, which came in to effect on 1st April 2018. As per the new Inland Revenue Act, the Company will have taxable profits from 1st April 2018 since the tax method changed to Surplus basis from I-E basis where the Company was incurring tax losses under the previous Inland Revenue Act which accumulated tax losses of Rs. 5.194 Billion as at 31st March 2018. Accordingly, the Company recognised a Differed Tax Asset for the brought forward tax losses as of 31st December 2017 and for the three months up to 31st March 2018. Both the Company and the Subsidiary have recognised Deferred Tax Assets to the probable extent of future taxable profits. Accordingly, the Company has recognised a Deferred Tax Asset of Rs. 1,280.5 Million and the Subsidiary has recognised a Deferred Tax Asset of Rs. 24.4 Million.

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

4.7 Capital Expenditure

The Company's and Group's capital expenditure on Property, Plant and Equipment and Intangible Assets amounted to Rs. 42.6 Million and Rs. 57.4 Million, respectively (2017: Company Rs. 62.1 Million and Group Rs. 80.8 Million) and all other related information and movements have been disclosed in Note 4 to the Financial Statements.

4.8 Financial Investments

The Financial Investments held by the Company and the Group mainly comprise of Financial Instruments. Financial Investments of the Company and Group amounted to Rs. 14,679.7 Million and Rs. 17,579.1 Million respectively as at 31st December 2018 (2017 – Rs. 12,741.0 Million and Rs. 15,054.9 Million respectively). The details of the Financial Investments are given in Note 6 to the Financial Statements on pages 251 to 264.

4.9 Provisions, Liabilities and Capital Commitments

The Directors have taken all reasonable steps to ensure that adequate provisions were made for all known liabilities and commitments. Contract Liabilities for Life Insurance are Rs. 12,261.5 Million (2017 – Rs. 10,915.9 Million) as at 31st December 2018, while Contract Liabilities for General Insurance are Rs. 2,525.1 Million (2017 – Rs. 2,384.9 Million) as at 31st December 2018. These liabilities have been valued by external consultant actuaries whose reports are disclosed on pages 212 and 214 respectively. The assumptions and methods used are given in the accounting policies on pages 275 to 281 of these Financial Statements. The gratuity liability of the Company and the Group stood at Rs. 84.8 Million and Rs. 140.4 Million respectively (2017 – Rs. 73.9 Million and Rs. 126.1 Million respectively), was certified by an External Actuary.

Annual Report of the Board of Directors on the Affairs of the Company

At the year end, there were no capital expenditure approved by the Board and contracted, for which no provision has been made in the Financial Statements (2017 – NIL).

5. THE BOARD OF DIRECTORS

5.1 Information on Directors of the Company and the Group and Directors Meetings

The Board of Directors of HNBA consists of nine members and the Board of Directors of HNBGI consists of six members as at 31st December 2018. Information relating to the Directors of the Company is available in the Directors' Profile on pages from 36 to 39.

The names, appointment dates and meeting attendance of Directors of Company and the Subsidiary are given below:

5.2 New Appointments and Resignations

Mr. D R Abey Suriya was appointed to the Board of HNB Assurance on 1st January 2018. Mr. Stuart Chapman was appointed to the Board of HNBA as a Non-Independent, Non-Executive Director and Mr. Damien Fernando was appointed to the Boards of HNBA and HNBGI in the capacity of a Non Independent Non-Executive Director with effect from 11th February 2019. In addition to above, Mr. Sanjaya Wijemanne and Mr. Arjuna Abeygunasekara were appointed to the Board of HNBGI as Non-Independent Non-Executive Directors with effect from 11th February 2019. The appointments made on 11th February 2019 are subject to the approval of the IRCSL.

Mr. Sarath Ratwatte – Non-Executive Director resigned with effect from 6th February 2019 upon completion of 10 years in the Board. The Board accepted the resignation of Mr. Rajive Dissanayake – Non-Executive Director on the 11th February 2019 which would be effective from 12th February 2019.

There were no appointments, retirements or resignations to the Board of both HNB Assurance PLC and HNB General Insurance Limited during the reporting period other than those mentioned above.

	Board Status	Appointment to HNBA Board	Appointment to HNBGI Board	HNBA Board	HNBGI Board	Audit Committee	Human Resources and Remuneration Committee	Related Party Transaction Review Committee	Nomination Committee	Investment Committee	Risk Management Committee	Strategy Review Committee
M A R C Cooray – Chairperson	■	06.07.2015	30.06.2015	14/14	15/15	-	8/8	-	1/1	-	7/7	7/7
D P Lokuarachchi	■	26.05.2017	23.05.2017	13/13	14/14	-	-	-	-	-	-	7/7
S C Ratwatte*	■	30.01.2009	N/A	13/14	N/A	-	-	-	-	4/4	-	-
J A P M Jayasekera	■	03.12.2012	N/A	12/14	N/A	8/8	-	4/4	1/1	-	-	-
D P N Rodrigo	■	01.07.2013	21.12.2015	11/14	13/15	-	-	-	0/1	-	5/7	-
S N Wickramasinghe	■	02.10.2013	N/A	14/14	N/A	-	-	-	-	3/4	-	-
Dr. S Selliah	■	17.06.2014	N/A	14/14	N/A	7/8	8/8	4/4	-	4/4	-	7/7
A G R Dissanayake	■	27.06.2017	28.06.2017	13/14	13/15	5/8	-	3/4	-	4/4	-	6/7
D R Abey Suriya	■	01.01.2018	N/A	14/14	N/A	-	7/8	-	-	-	7/7	-
M O F Salieh	■	N/A	22.09.2014	N/A	15/15	-	8/8	-	-	-	-	7/7
M A Tharmaratnam	■	N/A	01.09.2016	N/A	12/15	-	-	-	-	3/4	5/7	5/7

■ Independent ■ Non-Executive

*Stepped down from the Board w.e.f. 6th February 2019.

Attended/Eligible

5.3 Retirement and Re-election of Directors

In terms of Article 86, of the Articles of Association of the Company, Mr. J A P M Jayasekera is retiring at the AGM and being eligible, offers himself for re-election. In terms of Article 92, of the Articles of Association of the Company, Mr. Damien Fernando and Mr. Stuart Chapman are retiring at the AGM and being eligible, offer themselves for re-election. No Director has reached the age of 70 years and therefore Section 210 and 211 of the Companies Act, No. 07 of 2007 do not apply.

5.4 Appraisal of Board Performance

Performance of the Board of Directors was reviewed through a self-assessment questionnaire and the responses were shared among all Board Members. Suggestions to further improve the performance of the Board that arose from these self-assessment questionnaires were discussed in detail and adopted as appropriate. The Secretary to the Board and the Management continuously follow up on the progress of implementing such agreed actions.

5.5 Board and Sub-Committees

Seven Board Sub-Committees have been appointed by the Board to support the Board in ensuring that the Company and the Group carries out its activities with the highest ethical standards and in the best interest of all its stakeholders at all times. The Terms of Reference of these Sub-Committees follow the recommendations made by various regulatory bodies, including but not limited to the Insurance Regulatory Commission of Sri Lanka, Securities and Exchange Commission, the Colombo Stock Exchange and the Chartered Accountants of Sri Lanka.

Given below are the list of Sub-Committees operated during the year and the reference to the each Sub-Committee report.

Name of Sub-Committee	Report Reference Page	Number of Meetings Held
Audit Committee	183 to 187	8
Human Resource and Remuneration Committee	188	8
Nomination Committee	191	1
Risk Management Committee	194 and 195	7
Related Party Transactions Review Committee	189 and 190	4
Investment Committee	192 and 193	4
Strategy Review Committee	196	7

The composition and meeting attendance by members for the above Sub-Committee meetings are given on page 202.

5.6 Interest Register and Interest in Contracts or Proposed Contracts

As per requirements of the Companies Act, No. 07 of 2007, an Interest Register is maintained by the Company. Directors have made declarations of their interests in other companies conforming to Sections 192 (1) and 192 (2) of the Companies Act, No. 07 of 2007 and they are recorded in the Directors' Interest Register.

The Interest Register is available at the registered office of the Company, in keeping with the requirements of the Section 119 (1) (d) of the Companies Act, No. 07 of 2007.

Directors also refrained from voting on any contract or matter in which they have a material interest as a practice of good governance. Particulars of the Directors' Interests in Contracts are given on page 208 of the Annual Report and Note 43 to the Financial Statements presents complete disclosure on Related Party Transactions, which forms an integral part of the Annual Report of the Board of Directors.

The Directors' Interest in shares has not changed between 31st December 2018 and 11th February 2019, the date of this report.

Name of Director	No. of Shares held as at 31st December	
	2018	2017
M A R C Cooray – Chairperson	18,035	18,035
D P Lokuarachchi – Managing Director	Nil	Nil
S C Ratwatte (Stepped down w.e.f. 6th February 2019)	14,666	14,666
J A P M Jayasekera	83,057	83,057
D P N Rodrigo	180	180
S N Wickramasinghe	52,500	52,500
Dr. S Selliah	200,000	100,000
A G R Dissanayake	100	100
D R Abey Suriya	1,000	N/A

Annual Report of the Board of Directors on the Affairs of the Company

5.7 Directors' Remuneration

Director's remuneration is given in Note 37 to the Financial Statements. Further, Directors are not entitled to obtain any loan from the Company.

5.8 Related Party Transactions

The Company's transactions with Related Parties, given in Note 43 to the Financial Statements have complied with Colombo Stock Exchange Listing Rule 9.3.2 (d) and the Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13(c) of the Securities and Exchange Commission Act. No related party transaction exceeded the limits of 10% of equity or 5% of total assets, requiring immediate disclosure to CSE and a separate disclosure in the Annual Report as per Section 9.3.2 of the Listing Rules. The Directors have also disclosed transactions, if any, that could be classified as Related Party Transactions in terms of the Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosures'.

6. SHARE INFORMATION

6.1 Information on Earnings, Dividends, Net Assets and Market Value

Information related to earnings, dividends, net assets, market price per share and share trading as per the CSE listing rules are given on pages 105 to 109. Ratios relating to dividends, net assets, market price per share are presented on Investor Information on page 367.

6.2 Distribution Schedule of Shareholding

The distribution and analysis of shareholding is given on page 107 of this Annual Report. As at 31st December 2018, HNB Assurance PLC had 3,408 registered Ordinary Shareholders (2017 – 3,422).

6.3 Substantial Shareholding

Hatton National Bank PLC holds 59.99% of the Ordinary Voting shares as at 31st December 2018. Information of the top 20 Shareholders and the percentage held by each Shareholder as at 31st December 2018 is presented on page 105 with comparable information as at 31st December 2018.

6.4 Employee Share Ownership/Option Plans

The Company does not have any employee share ownership/option plans.

7. EQUITABLE TREATMENT OF SHAREHOLDERS

All Shareholders, irrespective of the number of shares owned by them are treated equally and the Company recognises the right of all Shareholders to obtain information.

Further establishing this principle, the Chairperson's Message, the Managing Director's Review, the Statement of Financial Position, the Statement of Profit and Loss and Other Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity are available in

Sinhala and Tamil languages to our Shareholders upon request. These are also made available through our Company website.

8. INDEPENDENT AUDITORS' APPOINTMENT AND REMUNERATION

8.1 Appointment and Audit Report

The Company's Independent External Auditors, Messrs Ernst and Young, Chartered Accountants, who were re-appointed by a resolution passed at the 16th Annual General Meeting, have carried out an audit on the Financial Statements of the Company and the Consolidated Financial Statements of the Group for the year ended 31st December 2018 and expressed their opinion which appears on page 215 to 217 of this Annual Report.

8.2 Auditors Remuneration and Relationship

The details of their remuneration in respect of audit fees and audit related fees are given in Note 37 to the Financial Statements. As far as the Directors are aware, the Auditors do not have any relationship with the Company, and the Subsidiary which would impair the Auditors' independence within the means of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report.

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

8.3 Re-appointment

The retiring Auditors Messrs Ernst & Young have signified their willingness to continue to function as the Auditor to the Company and the Subsidiary. A resolution to reappoint Messrs Ernst & Young as auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting of HNBA Assurance PLC and HNB General Insurance Limited to be held on 28th March 2019 for Shareholder approval.

9. COMPLIANCE WITH LAWS AND REGULATIONS

To the best knowledge of the Directors, the Group/Company has not acted in contravention of any rule or regulation of the country. Further, the Group has submitted all statutory returns and other required details to the relevant authorities on or before the due dates.

10. STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government and related institutions, the Insurance Regulatory Commission of Sri Lanka and relating to the employees, by the Company and its Subsidiary, have been made on time or where relevant provided for, except as specified in Note 47 to the Financial Statements, covering contingent liabilities.

11. RISK BASED CAPITAL (RBC) COMPLIANCE

The Company and its Subsidiary have complied with the requirements of the Risk Based Capital (RBC) framework on solvency margin as required by the IRCSL. Total Available Capital (TAC) and Risk based Capital Adequacy Ratio (CAR) of HNBA and HNBGI were maintained in excess of the minimum requirements as prescribed by the IRCSL throughout the year. At the end of the financial year 2018, HNB Assurance PLC recorded a CAR of 319% and HNB General Insurance Limited recorded a CAR of 200%.

12. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

The Board of Directors believe that strong internal controls are an essential part of management of the business and is committed to maintaining financial, operational and risk management controls over all its activities. The ultimate responsibility of Company's/Group's system of internal controls and risk management is vested with the Board of Directors.

Therefore, the Board continuously monitors all business aspects through the Risk Management Committee and the Audit Committee along with the reports of the outsourced internal auditors to ensure the adequacy and effectiveness of internal controls in the Group, compliance with laws and regulations and established policies and procedures of the Group.

Further details of these aspects are discussed in the Corporate Governance Report, Board's Statement of Internal Control, Audit Committee Report and Risk Management Report available on pages 51 to 95, pages 197 and 198, pages 183 to 187, pages 96 to 104 respectively.

13. CORPORATE GOVERNANCE

The Board of Directors is committed towards maintaining an effective Corporate Governance Framework and implementing systems and structures required to ensuring best practices in Corporate Governance and their effective implementation.

During the year, the IRCSL issued the Direction number 17 introducing a Corporate Governance Framework for the Insurance Industry with effect from 1st January 2019. The Company's compliance with relevant sections of the guidelines are given on page 87. Further, the table from page 84 and 85 shows the manner in which the Company has complied with Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance. The Corporate Governance Report is given from page 51 to 95. Also, the Director's declare that:

- (a) All applicable laws and regulations have been complied with, by the Company, in conducting its business activities,
- (b) The Directors have disclosed all material interests in contracts involving the Company and have refrained from voting on matters in which they were materially interested,
- (c) The Company has made all endeavors to ensure that all Shareholders have been treated equitably,
- (d) The business is a going concern with supporting assumptions or qualifications as necessary, and
- (e) A review of internal controls, covering financial, operational and compliance controls and risk management, has been conducted and a reasonable assurance of their effectiveness and successful adherence has been obtained.

Annual Report of the Board of Directors on the Affairs of the Company

14. CODE OF CONDUCT AND ETHICS

All employees of the Company/Subsidiary are governed by a Code of Conduct and Ethics and are expected to abide by the Code without any exceptions. During the year no major violations of the Code was reported, except for few insignificant operational level incidents over which appropriate and prompt actions were taken by the management.

The Board of Directors is also governed by a Code of Conduct and Ethics and during the year no violations of the Code were reported.

15. WHISTLE BLOWING

A Whistle Blowing policy has been communicated to all employees of the Company/Subsidiary and is encouraged to bring to the attention of the Management any possible risks faced by the Company at the earliest. During the year no major concerns were raised through the policy.

16. ENVIRONMENT PROTECTION

To the best of knowledge of the Board, the Company has complied with the relevant environmental laws and regulations and the Company has not engaged in any activity that is harmful or hazardous to the environment. Specific measures taken to protect the environment are found in the 'Managing Our Capitals and Impacts' Report.

17. CORPORATE SOCIAL RESPONSIBILITY (CSR)

As a socially responsible corporate citizen, the Company carries out a range of CSR activities. The details of Corporate Social Responsibility activities are given under relationship and Social Capital report on page 154 to 167.

18. CORPORATE DONATIONS

Total donations made by the Company during the year amounted to Rs. 300,000 (2017 – Rs. 300,000). Details of the donations undertaken by the Company have been provided below:

Religious Places

Donations amounting to Rs. 100,000 were made to eight religious places around the country representing four prominent religions of the country.

Health Service

Donations amounting to Rs. 200,000 were made the Kalawana Base hospital to renovate the water supply system and thereby promote health services of the Country.

19. HUMAN RESOURCES

The Company and Group ensure that effective human resource practices and policies exist, continuously reviewed and improved to enhance workforce efficiency, effectiveness and productivity. These practices and policies are applied for all employees of Group/Company irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability.

Details of the Company and Group human resource are detailed in the Report on Human Resources and Remuneration Committee given on page 188.

20. FUTURE DEVELOPMENTS

The Company and Group intend to expand their reach within Sri Lanka catering to the diverse insurance needs of customers and thereby strengthen the overall position in the insurance industry. Future developments of the Company and Group are discussed in the 'Chairperson's Message', 'Managing Director's Review', Management and Discussion Analysis on pages 24 to 35, 114 to 180 respectively.

21. ANNUAL GENERAL MEETING

The seventeenth Annual General Meeting of the Company will be held at the Auditorium on Level 22 of "HNB Towers", at No. 479, T B Jayah Mawatha, Colombo 10, on the 28th of March 2019 at 10.00 in the forenoon. The Notice of the Annual General Meeting is on page 372 of the Annual Report.

22. ACKNOWLEDGMENT OF THE CONTENT OF THE REPORT

As required by the Section 168 of the Companies Act, No. 07 of 2007, the following information is disclosed in this Report prepared for the year ended 31st December 2018.

Reference to the Companies Act	Information Required to be Disclosed as per the Companies Act No. 07 of 2007	Reference from the Annual Report of the Board of Directors
Section 168 (1) (a) (i)	The nature of the business of the Company or any of its subsidiaries.	Section 2.3 on page 199
Section 168 (1) (b)	Financial statements for the accounting period completed and signed in accordance with section 151 and any group Financial Statements for the accounting period completed and signed in accordance with section 152.	Section 3.1 on page 199
Section 168 (1) (c)	Auditors' Report on the Financial Statements of the Group and the Company.	Section 8.1 on page 204
Section 168 (1) (d)	Accounting Policies of the Group and the Company and any changes therein.	Section 3.2 on page 200
Section 168 (1) (e)	Particulars of the entries made in the Interests Registers of the Company and its Subsidiary during the accounting period.	Section 5.6 on page 203
Section 168 (1) (f)	Remuneration and other benefits paid to Directors during the accounting period.	Section 5.7 on page 204
Section 168 (1) (g)	Total amount of donations made by the Group during the accounting period.	Section 18 on page 206
Section 168 (1) (h)	Names of the persons holding office as Directors of the Company and the subsidiary as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the Company and the subsidiary during the accounting period.	Section 5.1 on page 202 Section 5.2 on page 202
Section 168 (1) (i)	Disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Company and the subsidiary.	Section 8.2 on page 204
Section 168 (1) (j)	Auditors' relationship or any interest with the Company and the Subsidiary	Section 8.2 on page 204
Section 168 (1) (k)	Acknowledgment of the contents of this Report/Signatures on behalf of the Board of Directors.	Section 22 on page 206
Section 168 (2)	A company that is required to include group Financial Statements in its Annual Report shall include those in relation to its subsidiaries, the information specified in paragraphs (b) to (j) of subsection (1).	All requirements in relation to the Subsidiary operations have also been covered under relevant sections
Section 168 (3)	The annual report of a company need not comply with of paragraph (a) and paragraphs (d) to (j) of subsection (1), if all shareholders agree in writing that it need not do so. Any such agreement shall be noted in the Annual Report.	Not Applicable. The Company complies with paragraph (a) and (d) to (j) of subsection (1)

Board of Directors does hereby acknowledge the contents of this Annual Report as required by Section 168 (1) (k) of the Companies Act, No. 07 of 2007.

By order of the Board,



Sitari Jayasundara
Board Secretary



J A P M Jayasekera
Director



M A R C Cooray
Chairperson

Colombo, Sri Lanka
11th February 2019

Director's Interest in Contracts with the Group/Company

Related party disclosures as per the Sri Lanka Accounting Standard – LKAS 24 'Related Party Disclosures' are detailed in Note 43 to the Financial Statements on pages 315 of this Annual Report.

In addition, Group/Company carries out the transactions in the ordinary course of business on an arm's length basis with entities where no significant influence is exercised by the Chairperson or a Director of the Company is the Chairperson or a Director of such entities.

Name of the Company	Name of the Director	Name of Transaction	Insurance Segment	2018 Rs.'000	2017 Rs.'000
Lanka Ceramics PLC	Dr. Sivakumar Selliah	Insurance Premium	HNBGI	951	1,019
	Mr. J A P M Jayasekera	Claims Incurred	HNBGI	5,184	384
BeyondM (Pvt) Ltd.	Mr. R S Captain	Insurance Premium	HNBGI	285	89
		Claims Incurred	HNBGI	49	-
Vydexa (Lanka) Power Corporation (Pvt) Ltd.	Dr. Sivakumar Selliah	Insurance Premium	HNBGI	-	1,295
Lanka Aluminium Industries PLC	Mr. D S Weerakkody	Insurance Premium	HNBGI	28	-

Directors' Responsibility for Financial Reporting

The responsibility of the Board of Directors in relation to the Financial Statements of the Company and the Consolidated Financial Statements of the Company and its Subsidiary prepared in accordance with the provisions of the Companies Act, No. 07 of 2007, is given in this statement.

The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Independent Auditor's Report given on pages 215 to 217.

As per the provisions of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act, No. 07 of 2007, the Directors are required to prepare Financial Statements for the Company and the Group, which give a true and fair view of each financial year and place them before a General Meeting. The Financial Statements consist of the Statement of Financial Position as at 31st December 2018 and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

The Board of Directors' also confirm that the Financial Statements of the Company and its Subsidiary give a true and fair view of;

- The state of affairs of the Company and the Group as at the date of the Statement of Financial Position; and
- The financial performance of the Company and the Group for the financial year ended 31st December 2018.

COMPLIANCE REPORT

In preparing the Financial Statements for the period ended 31st December 2018, the Directors also confirm that,


- (a) Appropriate accounting policies have been selected and applied in a consistent manner when preparing the Financial Statements/ Consolidated Financial Statements appearing on pages 218 to 349.
- (b) Reasonable and prudent judgments and estimates have been made, so that the form and substance of transactions are properly reflected and material departures, if any, have been disclosed and explained in the Financial Statements/ Consolidated Financial Statements and accompanying Notes.
- (c) The Financial Statements/ Consolidated Financial Statements for the year ended 31st December 2018, prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the applicable regulatory requirements including;
 - Sri Lanka Accounting Standards (SLFRS/LKAS)
 - Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995
 - Companies Act, No. 07 of 2007
 - Regulation of Insurance Industry Act, No. 43, of 2000 and subsequent amendments thereto
 - Listing Rules of the Colombo Stock Exchange (CSE)
 - Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

- (d) As required by the Section 148 (1) of the Companies Act, the Company and the Group keep accounting records which correctly record and explain the Company's/Group's transactions and enable the financial position of the Company/Group to be determined with reasonable accuracy at anytime, while enabling the preparation of the Financial Statements in accordance with the Companies Act, No. 07 of 2007 and ensuring that these statements can be readily and properly audited.
- (e) Appropriate steps have been taken to ensure that the Company/ Group maintains proper books of accounts and the financial reporting system is reviewed through the Audit Committee. The report of the Audit Committee is given on page 183 to 187 of this Annual Report. Financial records of the Company/ Group have been reviewed by the Board at their regular meetings and the Interim Financial Statements of the Company/Group have been reviewed and recommended by the Audit Committee and have then been approved by the Board of Directors prior to release to the Shareholders and public.
- (f) The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.
- (g) Steps have been taken to establish and maintain a system of internal controls to provide reasonable assurance of the reliability of financial reporting, effectiveness and efficiency of the operations, safeguarding of the assets of the Company/Group, compliance with applicable laws and regulations and prevention and detection of frauds and other irregularities. Directors' Statement on Internal Control is given on pages 197 to 198.

Directors' Responsibility for Financial Reporting

- (h) The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments including taxes and duties due to all relevant regulatory and statutory authorities which were payable by the Company/ Group as at the reporting date have been paid or where relevant provided for.
- (i) As required by the Section 56 (2) of the Companies Act, No. 07 of 2007, the Board of Directors based on the information available is satisfied that the Company will immediately after the distribution of dividends satisfy the solvency test, in accordance with the Section 57 of the Companies Act, No. 07 of 2007, and has obtained a certificate from the External Auditors, prior to declaring a final dividend of Rs. 7.00 per share for this year, to be paid on or before 8th April 2019.
- (j) As required by the Sections 166 (1) and 167 (1) of the Companies Act, No. 07 of 2007 and Rule 7.5 (a) and (b) on Continuing Listing Requirements of the Colombo Stock Exchange (CSE), the Board of Directors have prepared this Annual Report in time and will ensure that a copy thereof is sent to every Shareholder of the Company, who have expressed desire to receive a hard copy or to other Shareholders a soft copy each in a CD-Rom containing the Annual Report within the stipulated period of time.
- (k) The Board of Directors after considering the financial position, operating conditions, regulatory environment and other factors required to be addressed, has established that it has reasonable expectations that the Company and the Group have adequate resources to continue in operation to justify applying the 'Going Concern' basis in preparation of these Financial Statements/Consolidated Financial Statements.
- (l) As required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act, No. 07 of 2007, the Chief Financial Officer has certified that the Financial Statements of the Company/ Group are in compliance with the requirements of the Companies Act, No. 07 of 2007. Further, as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act, No. 07 of 2007 and other regulatory requirements the Financial Statements of the Company/Group have been signed by two Directors of the Company on 11th February 2019.
- (m) The Consolidated Financial Statements of the Group and the Financial Statements of the Company have been provided to the Company's External Auditors, Messrs Ernst & Young, who were appointed in terms of the Section 158 of the Companies Act, No. 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting held on 29th March 2018. The External Auditors have been provided with every opportunity to carry out whatever reviews and sample checks on the system of internal controls they may consider appropriate and necessary to express their independent audit opinion on the Financial Statements of the Company and the Consolidated Financial Statements of the Group. The Financial Statements thus made available to them by the Board of Directors along with all the financial records, related data and minutes of Shareholders' and Directors' meetings have been examined by the External Auditors who have expressed their opinion which is given on pages 215 to 217.

By order of the Board,



Sitari Jayasundara
Board Secretary

Colombo, Sri Lanka
11th February 2019

CEO's and CFO's Responsibility Statement

The Financial Statements of the Company and the Consolidated Financial Statements of the Company and its Subsidiary as at 31st December 2018 are prepared in compliance with the following:

- Sri Lanka Financial Reporting Standards/Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- The requirements of the Companies Act, No. 07 of 2007,
- The Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto,
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995,
- Listing Rules of the Colombo Stock Exchange (CSE) and;

The accounting policies used in the preparation of the Financial Statements are in compliance with Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and are consistently applied, unless otherwise stated in the notes accompanying the Financial Statements. Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and with the External Auditors of the Group. Comparative information has been reclassified wherever necessary, to comply with the current year's presentation.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to these Financial Statements were made on a prudent and reasonable basis to ensure that the Financial Statements are reflected

in a true and fair manner, the form and substance of transactions as well as to ascertain that the state of affairs of the Company/Group is reasonably presented.

To ensure this, the Company has taken proper and sufficient care in implementing a system of internal controls and accounting records, for safeguarding assets and for preventing and detecting frauds, as well as other irregularities, which is reviewed, evaluated and updated on an on-going basis. The Internal Auditors, Messrs KPMG, have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal controls and accounting.

The Board Audit Committee of the Company meets periodically with the Internal Auditors and External Auditors to review the audit plan and the manner in which these auditors are performing their responsibilities and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance.

The Financial Statements of the Company were audited by Messrs. Ernst and Young, Chartered Accountants, Independent Auditors and their report is given on pages 215 to 217 of this Annual Report. Prior approval was obtained from the Audit Committee for the audit and non-audit services provided by them to ensure the provision of such services does not impair the objectivity of the Independent Auditors.

We confirm that;

The Company and the Group have complied with all applicable laws, regulations and guidelines and there is no material litigation against the Group/Company other than those disclosed in Note 48 on page 348 of the Financial Statements.

All taxes, duties, levies and all statutory payments payable by the Group/Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company/Group as at 31st December 2018 have been paid, or where relevant accrued.



Indika Perera
Chief Financial Officer



Deepthi Lokuarachchi
Managing Director/
Chief Executive Officer

Colombo, Sri Lanka
11th February 2019

Report of the Life Actuary



Actuarial Partners Consulting Sdn Bhd
formerly known as Mercer Zainal Consulting Sdn Bhd
Suite 17.02 Kenanga International
Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia
603 2161 0433 Fax 603 2161 3595

31st January 2019

To the Shareholders of HNB Assurance PLC.

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER 2018

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December 2018. 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 2018, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date;
- 3) As at 31 December 2018, the Company maintained a Capital Adequacy Ratio of 319% calculated as per the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Regulatory Commission of Sri Lanka as required under the Regulation of Insurance Industry Act No. 43 of 2000. This is well above the minimum Capital Adequacy Ratio of 120% as per the same rules;
- 4) We carried out a Liability Adequacy Test ("LAT") for Long Term Insurance fund as at 31 December 2018 as required by SLFRS 4 - Insurance Contracts and the assets are sufficiently adequate as compared to liabilities under the LAT.



Actuarial Partners Consulting Sdn Bhd
 formerly known as Mercer Zainal Consulting Sdn Bhd
 Suite 17.02 Kenanga International
 Jalan Sultan Ismail
 50250 Kuala Lumpur, Malaysia
 603 2161 0433 Fax 603 2161 3595

- 5) The total surplus distributed to shareholders and policyholders for FYE2018 are comprised of surplus distributed as at 31 March 2018 for distribution period of 1st January 2018 – 31st March 2018 and surplus distributed as at 31 December 2018 for distribution period of 1st April 2018 – 31st December 2018 as follows:

Surplus Distributed to Shareholders

Surplus (Rs '000)	Participating Fund	Non-Participating Fund	Total
Surplus Distributed as at 31 March 2018 (for the period of 1st Jan 2018 - 31st Mar 2018)	-	590,928	590,928
a) Profit Transferred as at 31 March 2018	-	209,772	209,772
b) One-Off Surplus Transfer	-	381,156	381,156
Surplus Distributed as at 31 December 2018 (for the period of 1st Apr 2018 - 31st Dec 2018)	11,673	416,454	428,128
Total Surplus Distributed for FYE 2018	11,673	1,007,382	1,019,056

Surplus Distributed to Policyholders

Surplus (Rs '000)	Participating Fund	Non-Participating Fund	Total
Surplus Distributed as at 31 March 2018 (for the period of 1st Jan 2018 - 31st Mar 2018)	-	-	-
Surplus Distributed as at 31 December 2018 (for the period of 1st Apr 2018 - 31st Dec 2018)	105,056	-	-
Total Surplus Distributed for FYE 2018	105,056	-	-

- 6) The tax payable on surplus distributed to policyholders is amounted to Rs14,708k. This is determined based on 14% tax on the surplus distributed to policyholders.

Hassan Scott Odierno
 Actuary

Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserve

11 February 2019



To the shareholders of HNB General Insurance Ltd

HNB General Insurance Ltd 31 December 2018 Net IBNR and LAT Certification

I hereby certify that the Central Estimate of IBNR provision of LKR77,922,849 including CHE is adequate in relation to the Claim Liability of HNB General Insurance Ltd as at 31 December 2018, net of reinsurance (undiscounted). This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate at a 50th percentile to meet the future liabilities, including the claims handling expenses, in respect of the Company's incurred claims obligations as at 31 December 2018, in many but not all scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). I hereby certify that the UPR provision of LKR1,844,278,225 set by the Company, net of reinsurance, is adequate at a 50th percentile in relation to the unexpired risks of HNB General Insurance Ltd as at 31 December 2018, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles.

I have relied upon information and data provided by the management of the above Company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonableness of the data.

Sivaraman Kumar
Fellow of the Institute and Faculty Actuaries (FIA)
For and on behalf of NMG Financial Services Consulting
Dated 11 February 2019

Independent Auditors' Report



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
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TO THE SHAREHOLDERS OF HNB ASSURANCE PLC Report on the audit of the financial statements OPINION

We have audited the financial statements of HNB Assurance PLC ("the Company"), and the consolidated financial statements of the Company and its subsidiary ("Group"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including summary of significant accounting policies.

In our opinion, the companying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are

independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Insurance Liability</p> <p>The group has significant Life insurance contract liabilities of Rs. 12 Billion and General insurance contract liabilities of Rs. 2.5 Billion which represents 89% of Group's total liabilities. The change in Life insurance contract liabilities due to the transfer of one off surplus amounting to Rs. 381 Million has been recognised in the income statement during the current financial year.</p> <p>The valuation of the Life insurance contract liabilities and the recognition of the one-off surplus in relation to the life business required the application of significant assumptions, such as mortality, morbidity, lapses and surrenders, loss ratios, bonus and expenses.</p> <p>General insurance contract liabilities, include claims liability plus premiums liability. Estimates have to be made for both the expected ultimate cost of claims reported as of reporting date, and for the expected ultimate cost of claims incurred but not yet reported (IBNR) as of reporting date.</p> <p>The estimate of insurance contract liabilities is sensitive to various factors and uncertainties. Given the subjectivity of the assumptions involved in the valuation, we considered this to be a Key Audit Matter.</p>	<p>To assess the reasonableness of the insurance contract liabilities, our audit procedures (among others) included following;</p> <ul style="list-style-type: none"> • Testing the key controls on a sample basis over the process of recognition, measurement and submission of data for estimating the insurance contract liabilities. • Engaging Specialized resources to assess the reasonableness of the assumptions used in the valuations of the insurance contract liabilities • Assessing the adequacy of the disclosures in Note 20 and Note 21 to the Consolidated financial statements.

Independent Auditors' Report

Key audit matter	How our audit addressed the key audit matter
<p>Deferred Tax Asset on tax losses carried forward</p> <p>As disclosed in Note 39 to the consolidated financial statements, A Deferred Tax Asset of Rs. 1.3 Billion was recognised as of 31 December 2018 which was derived from the brought forward tax losses of Rs. 4.5 Billion from Life Insurance business. The recognition of the Deferred Tax Asset involves management's judgment and estimates as more fully described in Note 2.2.2.8 - significant Accounting Judgments, Estimates & assumptions, to the annual report.</p> <p>Accordingly, recognition and measurement of Deferred Tax Asset, considered to be a Key Audit Matter.</p>	<p>To assess the reasonableness of recognition of the Deferred Tax Asset, our audit procedures (among others) included the following:</p> <ul style="list-style-type: none"> • Assessing the business plans used and thus the likelihood that taxable profits would be available to utilize the tax losses in the future. • Understanding the basis used for the determination of tax losses and the rationale for recognition of the Deferred Tax Asset. • Review of the independent tax consultant's opinion obtained by the management with reference to on-going matters as disclosed in the Note 47 to the financial statements and engaging internal experts to assess the reasonableness of the basis on which the opinion is given. • Assessing the adequacy of the disclosures given in Note 39 and Note 47 to the Consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE 2018 ANNUAL REPORT

Other information consists of the information included in the Company's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2018 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

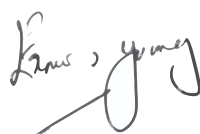
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

As required by Section 47(2) of the Regulation of Insurance Industry Act, No. 43 of 2000, as far as appears from our examination, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Regulatory Commission of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2097.



11 February 2019
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

Statement of Financial Position

As at 31st December,	Note	Page No.	Group		Company	
			2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Assets						
Property, Plant and Equipment	4	244	151,559	169,620	104,487	119,078
Intangible Assets	5	249	61,087	57,841	58,782	57,841
Deferred Tax Assets	39	301	1,304,882	64,098	1,280,499	-
Financial Investments	6	251	17,579,131	15,054,910	14,679,706	12,741,015
Investment in Subsidiary	7	264	-	-	1,150,000	1,150,000
Loans to Life Policyholders	8	265	243,113	162,285	243,113	162,285
Reinsurance Receivables	9	266	415,773	569,778	75,926	65,010
Premium Receivables	10	267	798,213	786,319	8,046	7,488
Other Assets	11	269	823,101	1,036,846	575,154	764,256
Insurance Contract – Deferred Expenses	12	272	140,486	105,287	-	-
Cash and Cash Equivalents	13	273	761,871	641,950	502,561	352,307
Total Assets			22,279,216	18,648,934	18,678,274	15,419,280
Equity and Liabilities						
Equity Attributable to the Equity Holders of Parent						
Stated Capital	14	273	1,171,875	1,171,875	1,171,875	1,171,875
Retained Earnings	15	274	4,405,581	2,381,427	4,167,660	2,373,601
Available For Sale Reserve	16	274	(8,025)	30,685	1,451	17,415
Other Reserve	17	274	(4,406)	(10,760)	(4,395)	(9,884)
Life Policyholders' Available For Sale Reserve Fund	18	274	(201,867)	223,272	(201,867)	223,272
Restricted Regulatory Reserve	19	275	381,156	-	381,156	-
Equity Attributable to the Equity Holders of Parent			5,744,314	3,796,499	5,515,880	3,776,279
Non-Controlling Interest			-	-	-	-
Total Equity			5,744,314	3,796,499	5,515,880	3,776,279
Liabilities						
Insurance Contract Liabilities – Life Insurance	20	275	12,261,472	10,915,858	12,261,472	10,915,858
Insurance Contract Liabilities – General Insurance	21	279	2,525,095	2,384,906	-	-
Employee Defined Benefit Liabilities	22	282	140,356	126,083	84,840	73,875
Current Tax Liabilities	23	284	22,541	34,598	14,708	-
Reinsurance Creditors	24	285	369,853	353,042	116,268	90,650
Other Liabilities	25	285	1,092,809	896,288	642,470	529,862
Bank Overdrafts	13	273	122,776	141,660	42,636	32,756
Total Liabilities			16,534,902	14,852,435	13,162,394	11,643,001
Total Equity and Liabilities			22,279,216	18,648,934	18,678,274	15,419,280

The Notes to the Financial Statements as set out on pages 223 to 349 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.



Indika Perera
Chief Financial Officer

The Board of Directors is responsible for these Financial Statements.
Signed and on behalf of the Board;



Rose Cooray
Chairperson
Colombo, Sri Lanka
11th February 2019



J A P M Jayasekera
Director

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31st December,	Note	Page No.	Group		Company		Change	
			2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	Group %	Company %
Gross Written Premium	26	287	8,724,696	7,821,468	4,420,513	3,963,642	12	12
Premium Ceded to Reinsurers	27	289	(1,059,269)	(1,100,573)	(215,630)	(189,093)	(4)	14
Net Written Premium			7,665,427	6,720,895	4,204,883	3,774,549	14	11
Net Change in Reserves for Unearned Premium	28	289	(216,988)	(328,818)	-	-	(34)	-
Net Earned Premium	29	290	7,448,439	6,392,077	4,204,883	3,774,549	17	11
Other Revenue								
Interest and Dividend Income	30	290	1,887,343	1,693,191	1,591,900	1,442,073	11	10
Net Realised Gains	31	292	74,058	33,128	68,673	28,789	124	139
Net Fair Value Gains/(Losses)	32	293	8,482	9,704	(18,036)	7,653	(13)	(336)
Fee and Commission Income	33	294	172,646	129,099	79,465	61,494	34	29
Other Income	34	294	36,030	46,735	14,627	24,958	(23)	(41)
Total Other Revenue			2,178,559	1,911,857	1,736,629	1,564,967	14	11
Net Income			9,626,998	8,303,934	5,941,512	5,339,516	16	11
Net Benefits, Claims and Expenses								
Net Insurance Benefits and Claims Paid	35	295	(3,123,585)	(2,178,556)	(1,035,164)	(563,628)	43	84
Net Change in Insurance Claims Outstanding	36	297	(112,904)	(114,850)	(31,410)	(11,923)	(2)	163
Change in Contract Liabilities - Life Fund	20	275	(1,707,149)	(2,166,427)	(1,707,149)	(2,166,427)	(21)	(21)
Change in Contract Liability due to Transfer of One-Off Surplus	19	275	381,156	-	381,156	-	-	-
Other Operating and Administration Expenses	37	298	(2,282,481)	(1,839,031)	(1,351,799)	(1,018,783)	24	33
Underwriting and Net Acquisition Costs	38	300	(1,125,418)	(1,028,872)	(847,968)	(822,715)	9	3
Other Insurance Related Costs			(75,963)	(49,171)	(51,330)	(30,375)	54	69
Total Benefits, Claims and Other Expenses			(8,046,344)	(7,376,907)	(4,643,664)	(4,613,851)	9	1
Profit Before Taxation			1,580,654	927,027	1,297,848	725,665	71	79
Income Tax Reversal/(Expense)	39	301	1,124,656	(17,275)	1,177,367	-	6,610	-
Profit for the Year			2,705,310	909,752	2,475,215	725,665	197	241
Other Comprehensive Income, Net of Related Tax, Items that are or may be reclassified to Profit or Loss								
- Net Change in fair value of Available For Sale Financial Assets			(399,596)	489,495	(373,143)	461,179	(182)	(181)
- Fair Value Gains Recycling to Statement of Profit or Loss upon Disposal	31	292	(72,541)	(30,485)	(67,960)	(27,896)	138	144
- Net Change in fair value of Available For Sale Financial Assets transferred to Life Policyholders Available For Sale Reserve Fund	18	274	425,139	(414,403)	425,139	(414,403)	203	203
- Related Tax	39	301	8,288	(6,770)	-	-	222	-
Items that will never be Reclassified to Profit or Loss								
Actuarial Gains/(Losses) on Defined Benefit Plans	22	282	6,354	(12,550)	5,489	(7,998)	151	169
Total Other Comprehensive Income for the year, Net of Related Tax			(32,356)	25,287	(10,475)	10,882	(228)	(196)
Total Comprehensive Income for the year			2,672,954	935,039	2,464,740	736,547	186	235
Profit Attributable to:								
Equity Holders of the Parent			2,705,310	909,752	-	-	197	-
Non-Controlling Interest			-	-	-	-	-	-
Profit for the Year			2,705,310	909,752	-	-	197	-
Total Comprehensive Income Attributable to:								
Equity Holders of the Parent			2,672,954	935,039	-	-	186	-
Non-Controlling Interest			-	-	-	-	-	-
Total Comprehensive Income for the year			2,672,954	935,039	-	-	186	-
Earnings Per Share								
Basic Earnings Per Share (Rs.)	40	305	54.11	18.20	49.50	14.51	197	241
Basic Earnings Per Share – Excluding One-Off Surplus (Rs.)	40	305	46.48	18.20	41.88	14.51	155	189
Dividend Per Share (Rs.)	41	306	-	-	7.00	6.00	-	17%

The Notes to the Financial Statements as set out on pages 223 to 349 form an integral part of these Financial Statements.

Statement of Changes in Equity – Group

For the year ended 31st December 2018,

	Stated Capital	Retained Earnings	Available For Sale Reserve	Other Reserve	Life Policy holders' Available For Sale Reserve Fund	Restricted Regulatory Reserve	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January 2017 (a)	1,171,875	1,721,675	(7,152)	1,790	(191,131)	-	2,697,057
Total Comprehensive Income for the Year							
Profit for the Year (b)	-	909,752	-	-	-	-	909,752
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	452,240	-	-	-	452,240
Net Change in Fair Value of Available For Sale Financial Assets Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(414,403)	-	-	-	(414,403)
Actuarial Losses on Defined Benefit Plans	-	-	-	(12,550)	-	-	(12,550)
Total Other Comprehensive Income for the Year (c)	-	-	37,837	(12,550)	-	-	25,287
Total Comprehensive Income for the Year (d=b+c)	-	909,752	37,837	(12,550)	-	-	935,039
Net Change in Fair Value of Available For Sale Financial Assets Transferred from Available For Sale Reserve (e)	-	-	-	-	414,403	-	414,403
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Parent							
Dividend Paid to Equity Holders for 2016 (Note 41) (f)	-	(250,000)	-	-	-	-	(250,000)
Balance as at 31st December 2017 (a+d+e+f)	1,171,875	2,381,427	30,685	(10,760)	223,272	-	3,796,499
Balance as at 1st January 2018 (g)	1,171,875	2,381,427	30,685	(10,760)	223,272	-	3,796,499
Total Comprehensive Income for the Year							
Profit for the Year (h)	-	2,324,154	-	-	-	381,156	2,705,310
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	(463,849)	-	-	-	(463,849)
Net Change in Fair Value of Available For Sale Financial Assets Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	425,139	-	-	-	425,139
Actuarial Gains on Defined Benefit Plans	-	-	-	6,354	-	-	6,354
Total Other Comprehensive Income for the Year (i)	-	-	(38,710)	6,354	-	-	(32,356)
Total Comprehensive Income for the Year (j=h+i)	-	2,324,154	(38,710)	6,354	-	381,156	2,672,954
Net Change in Fair Value of Available For Sale Financial Assets Transferred from Available For Sale Reserve (k)	-	-	-	-	(425,139)	-	(425,139)
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Parent							
Dividend Paid to Equity Holders for 2017 (Note 41) (l)	-	(300,000)	-	-	-	-	(300,000)
Balance as at 31st December 2018 (g+j+k+l)	1,171,875	4,405,581	(8,025)	(4,406)	(201,867)	381,156	5,744,314

Stated Capital represents 50 Million Ordinary Shares as at 31st December 2018. (2017 – 50 Million Ordinary Shares)

The Notes to the Financial Statements as set out on pages 223 to 349 form an integral part of these Financial Statements.

Statement of Changes in Equity – Company

For the year ended 31st December 2018,

	Stated Capital	Retained Earnings	Available For Sale Reserve	Other Reserve	Life Policy holders' Available For Sale Reserve Fund	Restricted Regulatory Reserve	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January 2017 (a)	1,171,875	1,897,936	(1,465)	(1,886)	(191,131)	-	2,875,329
Total Comprehensive Income for the Year							
Profit for the Year (b)	-	725,665	-	-	-	-	725,665
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	433,283	-	-	-	433,283
Net Change in Fair Value of Available For Sale Financial Assets Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(414,403)	-	-	-	(414,403)
Actuarial Losses on Defined Benefit Plans	-	-	-	(7,998)	-	-	(7,998)
Total Other Comprehensive Income for the Year (c)	-	-	18,880	(7,998)	-	-	10,882
Total Comprehensive Income for the Year (d=b+c)	-	725,665	18,880	(7,998)	-	-	736,547
Net Change in Fair Value of Available For Sale Financial Assets Transferred from Available For Sale Reserve (e)	-	-	-	-	414,403	-	414,403
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Company							
Dividend Paid to Equity Holders for 2016 (Note 41) (f)	-	(250,000)	-	-	-	-	(250,000)
Balance as at 31st December 2017 (a+d+e+f)	1,171,875	2,373,601	17,415	(9,884)	223,272	-	3,776,279
Balance as at 1st January 2018 (g)	1,171,875	2,373,601	17,415	(9,884)	223,272	-	3,776,279
Total Comprehensive Income for the Year							
Profit for the Year (h)	-	2,094,059	-	-	-	381,156	2,475,215
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	(441,103)	-	-	-	(441,103)
Net Change in Fair Value of Available For Sale Financial Assets Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	425,139	-	-	-	425,139
Actuarial Gains on Defined Benefit Plans	-	-	-	5,489	-	-	5,489
Total Other Comprehensive Income for the year (i)	-	-	(15,964)	5,489	-	-	(10,475)
Total Comprehensive Income for the Year (j=h+i)	-	2,094,059	(15,964)	5,489	-	381,156	2,464,740
Net Change in Fair Value of Available For Sale Financial Assets Transferred from Available For Sale Reserve (k)	-	-	-	-	(425,139)	-	(425,139)
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Company							
Dividend Paid to Equity Holders for 2017 (Note 41) (l)	-	(300,000)	-	-	-	-	(300,000)
Balance as at 31st December 2018 (g+j+k+l)	1,171,875	4,167,660	1,451	(4,395)	(201,867)	381,156	5,515,880

Stated Capital represents 50 Million Ordinary Shares as at 31st December 2018. (2017 – 50 Million Ordinary Shares)

The Notes to the Financial Statements as set out on pages 223 to 349 form an integral part of these Financial Statements.

Statement of Cash Flows

For the Year Ended 31st December,			Group		Company	
			2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
	Note	Page No.				
Cash Flow From Operating Activities						
Profit Before Taxation			1,580,654	927,027	1,297,848	725,665
Adjustments for:						
Interest Income	30	290	(1,883,053)	(1,684,689)	(1,588,206)	(1,435,151)
Dividend Income	30	290	(4,290)	(8,502)	(3,694)	(6,922)
Amortisation of Intangible Assets	5	249	19,685	18,937	19,540	18,937
Depreciation of Property, Plant and Equipment	4	244	49,285	51,770	34,533	36,142
Provision for Employee Benefits	22	282	33,928	30,540	20,023	18,028
Net Realised Gains	31	292	(74,058)	(33,128)	(68,673)	(28,789)
Net Fair Value (Gains)/Losses	32	293	(8,482)	(9,704)	18,036	(7,653)
Gains on Sale of Property, Plant and Equipment	34	294	(178)	(5,584)	(171)	(5,934)
			(286,509)	(713,333)	(270,764)	(685,677)
Net Change in Operating Assets	A		132,856	(548,793)	(5,350)	(241,501)
Net Change in Operating Liabilities	B		1,706,125	2,796,294	1,498,548	2,262,645
Cash Flows from Operating Activities			1,552,472	1,534,168	1,222,434	1,335,467
Gratuity Paid	22	282	(13,301)	(7,440)	(4,618)	(3,397)
Economic Service Charge (ESC) Paid			(20,120)	(16,919)	-	-
Net Cash Generated From Operating Activities (a)			1,519,051	1,509,809	1,217,816	1,332,070
Cash Flows from Investing Activities						
Net Acquisition of Investment Securities			(2,900,729)	(2,767,527)	(2,331,810)	(2,425,152)
Interest Received			1,869,967	1,443,722	1,590,860	1,231,609
Dividend Received			4,493	9,100	3,760	7,483
Acquisition of Intangible Assets	5	249	(22,931)	(15,896)	(20,481)	(15,896)
Acquisition of Property, Plant and Equipment	4	244	(34,459)	(64,943)	(22,113)	(46,196)
Proceeds from the Sale of Property, Plant and Equipment			3,413	10,498	2,342	9,061
Net Cash Used in Investing Activities (b)			(1,080,246)	(1,385,046)	(777,442)	(1,239,091)
Cash Flows from Financing Activities						
Dividend Paid	41	306	(300,000)	(250,000)	(300,000)	(250,000)
Net Cash Used in Financing Activities (c)			(300,000)	(250,000)	(300,000)	(250,000)
Net Increase/(Decrease) in Cash and Cash Equivalents (a+b+c)			138,805	(125,237)	140,374	(157,021)
Cash and Cash Equivalents at the beginning of the Year			500,290	625,527	319,551	476,572
Cash and Cash Equivalents at the end of the Year	13	273	639,095	500,290	459,925	319,551
Notes to the Cash Flow Statement						
A. Change in Operating Assets						
Increase in Deferred Expenses			(35,199)	(30,336)	-	-
Increase in Loans to Life Policyholders			(80,828)	(41,844)	(80,828)	(41,844)
Decrease/(Increase) in Reinsurance Receivables			154,005	(75,052)	(10,916)	(10,196)
Increase in Premium Receivables			(11,894)	(163,025)	(558)	(683)
Decrease/(Increase) in Other Assets			106,772	(238,536)	86,952	(188,778)
Net Change in Operating Assets			132,856	(548,793)	(5,350)	(241,501)
B. Change in Operating Liabilities						
Increase in Other Liabilities			188,803	99,806	112,608	43,388
Increase in Insurance Contract Liabilities – (Before Tax) Life Insurance			1,360,322	2,168,002	1,360,322	2,168,002
Increase in Insurance Contract Liabilities – General Insurance			140,189	463,339	-	-
Increase in Reinsurance Creditors			16,811	65,147	25,618	51,255
Net Change in Operating Liabilities			1,706,125	2,796,294	1,498,548	2,262,645

The Notes to the Financial Statements as set out on pages 223 to 349 form an integral part of these Financial Statements.

Accounting Policies and Notes to the Financial Statements

1. CORPORATE INFORMATION

This section gives a description of the reporting entity, the principal business activities of the Group and Company entities and the identification of Financial Statements and its authorisation.

1.1 Reporting Entity

HNB Assurance PLC (“the Company”) is a Listed Company incorporated on 23rd August 2001 with limited liability and domiciled in Sri Lanka. The registered office of the Company and its Subsidiary is situated at No. 479, T B Jayah Mawatha, Colombo 10 and the principal place of business is situated at No. 30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03.

The Ordinary Shares of the Company are listed on the Colombo Stock Exchange (CSE). The Company is regulated under the Insurance Industry Act, No. 43 of 2000 and amendments thereto.

More details of the Group is presented in the pages 379 and 380 of this Annual Report.

1.2 Number of Employees

The staff strength of the Group as at 31st December 2018 is 992 (2017 – 947) and the Company 549 (2017 – 538).

1.3 Consolidated Financial Statements

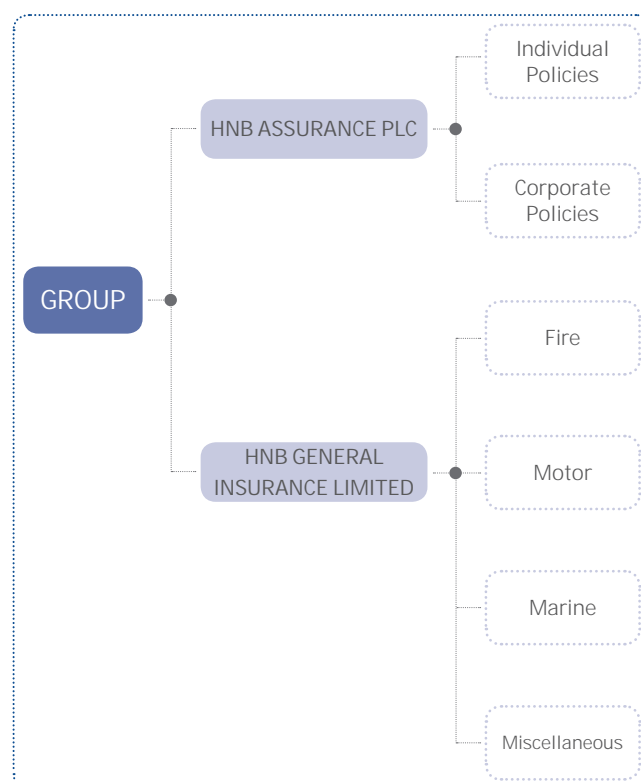
The Consolidated Financial Statements for the year ended and as at 31st December 2018 comprise “the Company” referring to HNB Assurance PLC as the holding Company and “the Group” referring to HNB Assurance PLC and its fully owned Subsidiary HNB General Insurance Limited.

1.4 Approval of Financial Statements

The Consolidated Financial Statements of HNB Assurance PLC and its Subsidiary (Collectively the Group) for the year ended 31st December 2018, were authorised for issue by the Board of Directors on 11th February 2019.

1.5 Principal Activities and Nature of Operations

The principal activities of the Company and its Subsidiary are as follows:



The Company

HNB Assurance PLC provides Life Insurance solutions for both individual and corporate customers.

Life Insurance is a protection against financial losses that would result from an insured event adversely affecting the insured. In such situations, the nominated beneficiary receives the proceeds and is thereby safeguarded from financial impacts of the insured event. The benefit paid by a life insurer is consideration in exchange for premium payments made by the insured.

Fully Owned Subsidiary

HNB General Insurance Limited, provides General Insurance solutions for both individual and corporate customers. Insurance other than ‘Life Insurance’ falls under the category of General Insurance. Fire, Motor, Marine and Miscellaneous insurance are the main categories under General Insurance.

Accounting Policies and Notes to the Financial Statements

1.6 Parent Entity and Ultimate Parent Entity

The Group's holding/parent entity is HNB Assurance PLC. In the opinion of the Directors, the Group's ultimate parent undertaking and controlling party is Hatton National Bank PLC which is a Licensed Commercial Bank incorporated in Sri Lanka. The Financial Statements of the Parent and Subsidiary have a common financial year which ends on December 31st.

1.7 Responsibility for Financial Statements

The Board of Directors is responsible for these Financial Statements as per the provisions of the Companies Act, No. 07 of 2007, the Sri Lanka Accounting Standards, Regulation of Insurance Industry Act, No. 43 of 2000 and the Listing Rules of Colombo Stock Exchange.

The responsibility of the Directors in relation to these Financial Statements is set out in detail in the Annual Report of the Board of Directors, Directors' Responsibility for Financial Statements and the certification of the Statement of Financial Position appearing on pages 199 to 207 & 209 and 210 respectively in this Annual Report.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the Company are prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) set out by the Institute of Chartered Accountants of Sri Lanka. The SLFRSs/LKASs can be found at www.casrilanka.com. The Consolidated Financial Statements also provide information as required under the Companies Act, No. 07 of 2007, regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, rules and regulations of the Insurance Regulatory Commission of Sri Lanka and listing rules of the Colombo Stock Exchange (CSE).

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of these Financial Statements.

The Consolidated Financial Statements include the following components:

Component	Description	Page No.
Statement of Financial Position	Provides the information on the financial position of the Group and the Company as at the year end	218
Statement of Profit or Loss and Other Comprehensive Income	Provides the information on the financial performance of the Group and the Company for the year under review	219
Statement of Changes in Equity – Group	Depicts all changes made to Shareholders' equity of Group	220
Statement of Changes in Equity – Company	Depicts all changes made to Shareholders' equity of Company	221
Statement of Cash Flows	Provides the information to the users, on the ability of the Group and the Company to generate cash and cash equivalents and the needs of entities to utilise those cash flows	222
Notes to the Financial Statements	Comprising accounting policies and other explanatory information	223 to 349

2.1.2 Basis of Measurement

The Consolidated and Separate Financial Statements have been prepared on an accrual basis and under the historical cost convention except for the following material items in the Financial Statements.

Item	Basis of Measurement	Note	Page No.
Financial instruments at Fair Value Through Profit or Loss	at fair value	6.4	260
Financial instruments at Available For Sale	at fair value	6.3	258
Defined benefit obligations	Actuarially valued and recognised at present value of the defined benefit obligation	22	282
Life Policyholders' liabilities	Actuarially determined values based on actuarial guidelines issued by IRCSL	20	275
Incurred But Not Reported/Incurred But Not Enough Reported Liability	Actuarially determined values based on internationally accepted actuarial policies and methodologies	21	279

The Group and the Company presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery of settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in the respective notes. No adjustments have been made for inflationary factors affecting the Consolidated Financial Statements.

2.1.3 Supplementary Statements – Statement of Financial Position of the Life Insurance Fund

Supplementary Statement of Financial Position of the Life Insurance Fund together with the notes are disclosed in pages 351 to 357 continuing the past practice which was a requirement of the Statement of Recommended Practice (SoRP) for Insurance Contracts then applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

2.1.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the functional currency of the Group except as indicated.

2.1.5 Rounding

Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand (Rs. '000) except when otherwise indicated.

2.1.6 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts. Assets and liabilities or income and expenses are not offset unless required or permitted by Sri Lanka Accounting Standards.

2.1.7 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or functions are presented separately unless they are immaterial as permitted by Sri Lanka Accounting Standards LKAS 01 on Presentation of Financial Statements.

2.1.8 Comparative Information

The Consolidated Financial Statements provide comparative information in respect of the previous financial year. The presentation and classification of assets and liabilities in the Financial Statements of the previous financial year have been amended, where relevant for better presentation and to be comparable with those of the current year. (Note 49 of Page 349).

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Consolidated Financial Statements in conformity with SLFRSs/LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent Liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material judgment to the carrying amount of assets or liabilities affected in future reporting periods.

Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis and revisions to accounting estimates are recognised prospectively.

Information about critical assumptions, judgments and estimate in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are included in the following notes:

2.2.1 Judgement

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in these Financial Statements is included in the following notes:

2.2.1.1 Classification of Financial Assets and Liabilities

The significant accounting policies of the Group provide scope for assets to be classified upon initial recognition into different accounting categories under certain circumstances. The Group has classified assets as "Held to maturity" (HTM), "Loans and Receivables", "Fair value through profit or loss" (FVTPL), and "Available For Sale" (AFS) based on the criteria given on Note 6 on page 251.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. At initial recognition Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss or Financial liabilities at amortised cost.

Accounting Policies and Notes to the Financial Statements

2.2.2 Assumptions and Estimation Uncertainties

The following notes includes information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments for the year ended 31st December 2018.

2.2.2.1 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

2.2.2.2 Valuation of Insurance Contract Liabilities – Life Insurance

The liability for Life Insurance contracts with Discretionary Participating Features (DPF) is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used are mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to life style, which could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing Life Insurance Contracts, these estimates are based on current market returns, as well as expectations about future economic and financial developments. Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

The key assumptions and estimations made in the valuation of the Life Fund is given on page 275.

2.2.2.3 Valuation of Insurance Contract Liabilities – General Insurance

The estimates of General Insurance contracts have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported and claims incurred, but not enough reported (IBNR/IBNER) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

2.2.2.4 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values. This judgment may include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of the financial instruments. The methodologies used in the valuation of financial assets are set out in page 307 and 308.

2.2.2.5 Impairment of Financial Assets

The Group reviews equity investments classified as Available For Sale at each reporting date and records impairment charges when there has been a 'significant' or 'prolonged' decline in the fair value below their cost considering the historical share price movements, duration and extent up to which the fair value of an investment is less than its cost. Where there is evidence of impairment, the cumulative impairment loss on that investment previously recognised in Equity through the OCI is removed from Equity and charged to Profit or Loss. Further impairment of each financial asset will be discussed in Note 6 page 251.

2.2.2.6 Impairment of Non-Financial Assets

The Group assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the

estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating 'value in use' requires Management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.2.2.7 Valuation of Defined Benefit Liabilities – Gratuity

The cost of defined benefit plans – Gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increments and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit liability is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used by the Actuary and sensitivities there on the estimation is contained in Note 22.

2.2.2.8 Deferred Tax Assets and Liabilities

The Group uses judgement in recognising a deferred tax asset in its Financial Statements. Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available to the Group/Company which can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Details of Deferred tax asset recognised on tax losses of the Group/Company are disclosed in Note 39.

The accumulated tax losses of the Company are disputed by the Department of Inland Revenue through assessments issued, the details of which are disclosed in Note 47. These Tax Assessments have been common assessments for all Life Insurance companies in the insurance industry. The Company has appealed against the assessments issued in consultation with its Tax Consultants, as detailed in Note No 47. The Company is of the firm view that these assessments will not materialise against the Company and total tax losses will be available to set off against future taxable income.

2.2.2.9 Notional Tax Credit

As per the transitional provision for new inland revenue act, brought forward notional tax credits has to be set off against income tax liability within three consecutive years of assessment from the year of assessment 2018/19.

The Company assessed the recoverability of notional tax credits in its Statement of Financial position as at 31st December 2018 by assessing if it can be utilised against future income tax liabilities. Company carried out an assessment of its taxable profits in future according to the new Inland Revenue Act, No. 24 of 2017. As per which, the Company will not have income tax liability to set off unutilised notional tax credits for next three years due to taxable income is fully set off against brought forward tax losses. Considering this the Company has made a provision for the respective notional tax credits in the current financial year.

2.2.2.10 Provisions for Liabilities and Contingencies

The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. Timing of concluding legal claims is uncertain; as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

The table below provides the references of this report which discusses the estimates in detail.

Significant Accounting Estimate/Judgment	Disclosure Reference	
	Note	Page No.
Insurance Contract Liabilities – Life Insurance	20	275
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Accounting Policies and Notes to the Financial Statements

2.3 Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparation and presentation of Financial Statements as set out in Note 2 to 51 on pages 224 to 349.

2.3.1 Significant Accounting Policies

Significant Accounting policies adopted by the Group/Company are explained in detail in respective notes to the Financial Statements.

An index to the Significant Accounting Policies is set out below:

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2.4 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Parent and its investees that are considered as Subsidiaries as at 31st December 2018.

2.4.1 Subsidiaries

Subsidiaries are investees that the Parent has control over. Specifically, the Parent controls an investee if, and only if, the Parent has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent has less than a majority of the voting or similar rights of an investee, the Parent considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The voting rights and potential voting rights of the Parent

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a Subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a Subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Company gains control until the date the Company ceases to control the Subsidiary.

The Financial Statements of Subsidiaries are prepared for the same reporting period as followed by the parent Company, using consistent accounting policies and same accounting policies were used for preparation.

Profit or Loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the Parent, even if this results a deficit balance. When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

2.4.2 Transactions Eliminated on Consolidation

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a Subsidiary, without a loss of control, is accounted for as an equity transaction.

2.4.3 Loss of Control

Upon the loss of control of a Subsidiary, the Group de-recognises the assets (including goodwill), and liabilities of the former Subsidiary, any non-controlling interests and the other components of equity related to the former Subsidiary from the Consolidated Statement of Financial Position. Any surplus or deficit arising on the loss of control is recognised in Profit or Loss. If the Group retains any interest in the former Subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or as an Available For Sale financial asset depending on the level of influence retained.

2.5 Product Classification

SLFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred.

2.5.1 Insurance Contracts

Insurance contracts are those contracts under which one party (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

2.5.2 Investment Contracts

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Accounting Policies and Notes to the Financial Statements

2.5.3 Subsequent Classification and Reclassification

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

2.5.4 Product Portfolio of the Group

Group checks all its new insurance products for compliance with SLFRS 4 at the product modelling stage and ensures that no insurance products are launched if it does not meet the above criterion. As such, all products sold by the Group are insurance contracts and therefore classified as Insurance contracts under the SLFRS 4 – Insurance Contracts. Thus, the Group does not have any investment contracts within its product portfolio as at the reporting date.

2.6 Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in Profit or Loss, except for differences arising on the retranslation of Available For Sale equity instruments, which are recognised in other comprehensive income.

2.7 Impairment of Financial Assets

2.7.1 Identification and Measurement

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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.

Objective evidence of impairment may include:

- (a) significant financial difficulty of the borrower or issuer,
- (b) default or delinquency by debtor,
- (c) It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation,
- (d) adverse changes in the payment status of issuers or debtors in the Group, and
- (e) In the case of equity a significant or prolonged decline in its fair value below its cost.

2.7.2 Impairment of Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income in Profit or Loss.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Investment Income' in Profit or Loss.

The Group has not experienced any indication of impairment and thus no additional impairment losses were recognised other than disclosed in the Financial Statements.

Impairment of financial assets carried at amortised cost is disclosed in following notes to the Financial Statements:

Staff Loans	– 11.1.a
Advisor Loans	– 11.1.b
Premium Receivable	– 10

2.7.3 Impairment of Financial Investments at AFS

For Available For Sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments are impaired. If the asset is determined to be impaired, the cumulative loss is recognised in Profit or Loss and removed from the Available For Sale reserve.

In the case of debt instruments and equity instruments classified as Available For Sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in Profit or Loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Investment Income'. If, in a subsequent year, the fair value of a debt instrument increases

and the increase can be objectively related to an event occurring after the impairment loss was recognised in Profit or Loss, the impairment loss is reversed through the Profit or Loss.

2.7.4 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in Profit or Loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.8 Provisions and Contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated (Note 47).

Accounting Policies and Notes to the Financial Statements

2.9 Statement of Cash Flow

The Statement of Cash Flow has been prepared using the indirect method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard LKAS 7 – Cash Flow Statements.

Interest and dividend received are classified as investing cash flows. Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts (Note 13).

3. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT THE REPORTING DATE

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRSs will have an effect on the accounting policies currently adopted by the Group and may have an impact on future Financial Statements which is summarised as below.

3.1 SLFRS 9 – Financial Instruments

In December 2014, the CA Sri Lanka issued the final version of SLFRS 9 Financial Instruments classification and measurement which reflects all phases of the financial instruments project and replaces LKAS 39 – Financial Instruments: Recognition and Measurement. The standard introduces new requirements for,

- Classification and measurement
- Impairment
- Hedge Accounting

SLFRS 9 is effective for annual periods beginning on or after 1st January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

Temporary Exemption from SLFRS 9

An insurer that meets the criteria in paragraph 20B of SLFRS 4 (amended) provides a temporary exemption that permits, but does not require, the insurer to apply LKAS 39 – Financial Instruments: Recognition and Measurement rather than SLFRS 9 for annual periods beginning before 1st January 2022.

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- it has not previously applied any version of SLFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at Fair Value Through Profit or Loss and;
- its activities are predominantly connected with insurance, at its annual reporting date that immediately precedes 1st April 2016, or at a subsequent annual reporting date.

Having considering the above criteria, Since HNB Assurance PLC and HNB General Insurance Limited are predominantly connected with Insurance activities, both the companies may continue to apply LKAS 39 – Financial Instruments: Recognition and Measurement rather than SLFRS 9 for annual periods beginning before 1st January 2022.

Summary of the Requirements

Classification and Measurement

Financial Assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 contains three principal classification categories for financial assets measured at:

- Amortised Cost
- Fair Value Through Other Comprehensive Income (FVTOCI)
- Fair Value Through Profit or Loss

The standard eliminates the existing LKAS 39 categories of Held to Maturity, Loans and Receivables and Available For Sale.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

As at 31st December 2018, the Group had equity investments classified as Available For Sale with a fair value of Rs. 55.3 Million that are held for long-term strategic purposes. Under SLFRS 9, the Group will reclassify these investments as measured at FVTPL. Consequently, all fair value gains and losses on disposal will be reported in Profit or Loss.

Financial Liabilities

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, under LKAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in Profit or Loss, whereas under SLFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and
- the remaining amount of change in the fair value is presented in Profit or Loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so.

Impairment

SLFRS 9 replaces the 'Incurred Loss' model in LKAS 39 with a forward-looking 'Expected Credit Loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVTOCI, except for investments in equity instruments, and to contract assets.

Under SLFRS 9, loss allowances will be measured on either of the following bases:

12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and;

Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.

An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component;

With the consultation of external consultants the Group is in the process of formulating the relevant models for impairment computation.

3.3 SLFRS 16 – Leases

Summary of the Requirements

SLFRS 16 replaces existing leases guidance, including LKAS 17 Leases, International Financial Reporting Interpretations Committee (IFRIC) 4 Determining whether an Arrangement contains a Lease, Standard Interpretations Committee (SIC) – 15 Operating Leases – Incentives and SIC – 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1st January 2019.

Early adaption is permitted for entities that applies SLFRS 15 on or before the date of initial application of SLFRS 16.

SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard.

The Group is in the process of assessing the potential impact on its Consolidated Financial Statements with the consultation of external consultants.

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Segmental Reporting

■ — Accounting Policy

SEGMENTAL REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group's primary format for segmental reporting is business segments. The business segments are determined based on the Group's management and internal reporting structure.

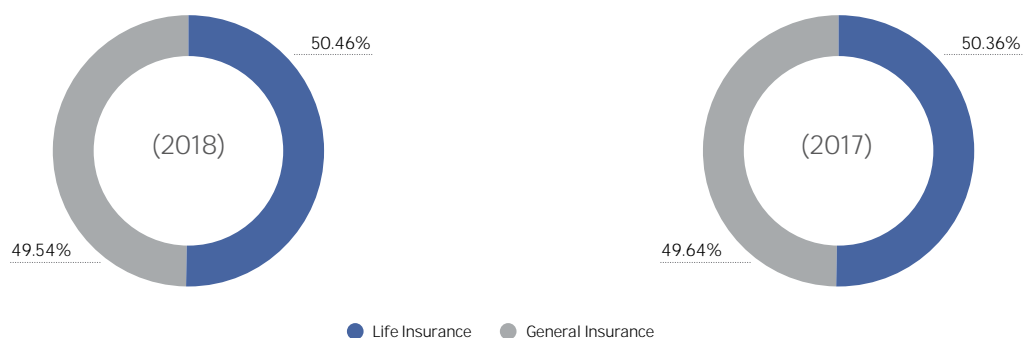
For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

Reportable Operating Segment	Category of Information	Details
Life Insurance	Nature of Products	Protection and other Long Term Insurance contracts both with and without discretionary Participating features.
	Classification of Products	It comprises a wide range of term assurance, guaranteed pensions, endowment products and annuity products.
	Revenue derived from	Insurance premium and fees charged from policyholders Commission Income, Investment Income and Fair Value Gains and Losses on Investments.
General Insurance	Nature of Products	It comprises General insurance to individuals and businesses which are short term in nature.
	Classification of Products	Mainly classified in to Motor and Non motor segment, and Non motor segment consist of Fire, Accident and liability, Marine and Workmen Compensation.
	Revenue derived from	Insurance premium and fees charged from policyholders Commission Income, Investment Income and Fair Value Gains and Losses on Investments.

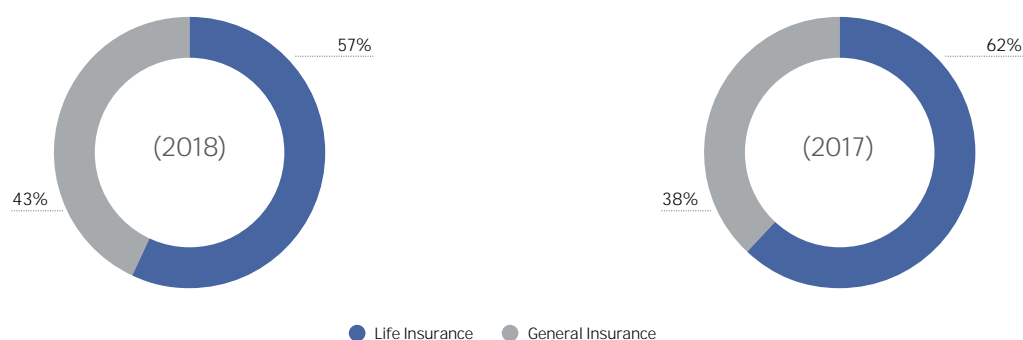
Activities of the Group are located within the country. The economic environment in which the Group operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

Segmental Performance Highlight

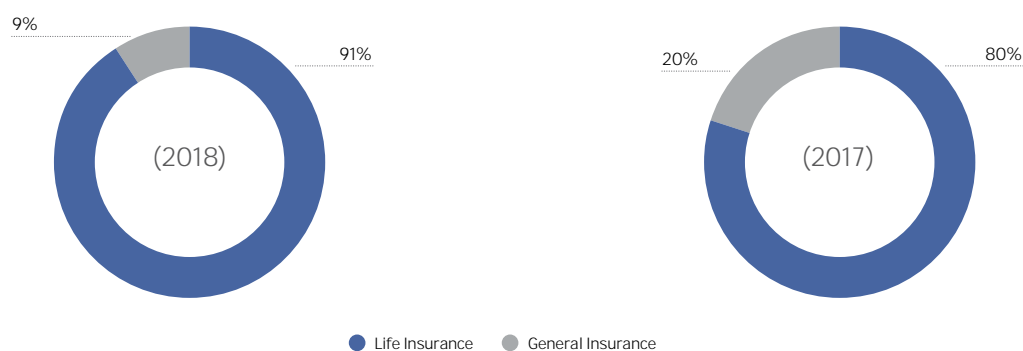
Segment – Gross Written Premium



Segment – Benefits Claims and Other Expenses

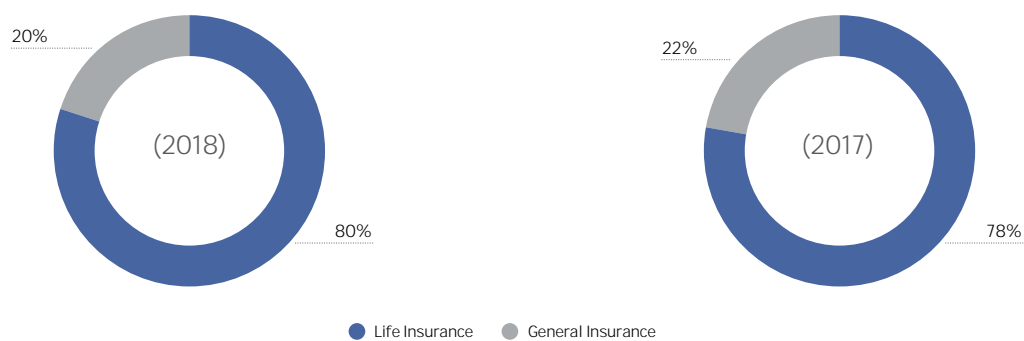


Segment – Profitability

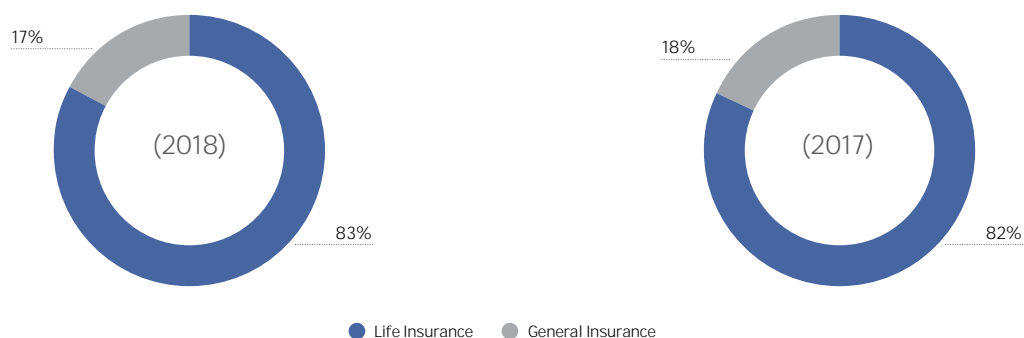


Segmental Performance Highlight

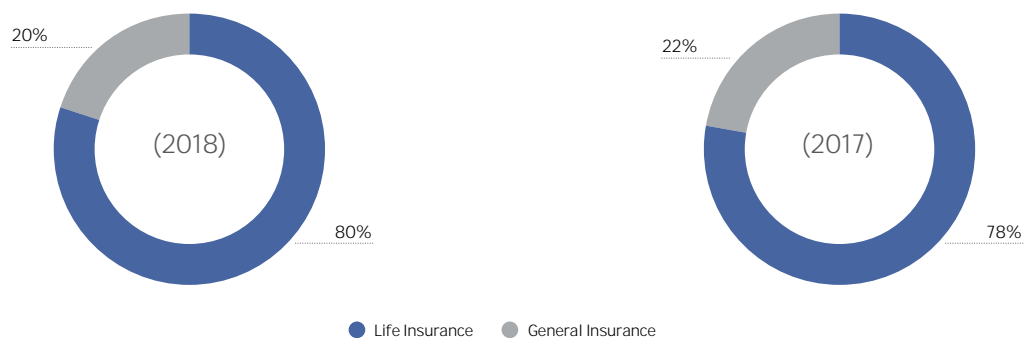
Segment – Assets



Segment – Insurance Contract Liabilities



Segment – Liabilities



Statement of Financial Position – Segmental Review – 2018

As at 31st December 2018,

	Life Insurance Rs. '000	General Insurance Rs. '000	Intersegment Adjustment Rs. '000	Total Rs. '000
Assets				
Property, Plant and Equipment	104,487	47,072	-	151,559
Intangible Assets	58,782	2,305	-	61,087
Deferred Tax Assets	1,280,499	24,383	-	1,304,882
Financial Investments	14,679,706	2,899,425	-	17,579,131
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders	243,113	-	-	243,113
Reinsurance Receivables	75,926	339,847	-	415,773
Premium Receivables	8,046	790,167	-	798,213
Other Assets	575,154	270,915	(22,968)	823,101
Insurance Contract – Deferred Expenses	-	140,486	-	140,486
Cash and Cash Equivalents	502,561	259,310	-	761,871
Total Assets	18,678,274	4,773,910	(1,172,968)	22,279,216
Equity and Liabilities				
Equity Attributable to the Equity Holders of Parent				
Stated Capital	1,171,875	1,150,000	(1,150,000)	1,171,875
Retained Earnings	4,167,660	240,876	(2,955)	4,405,581
Available For Sale Reserve	1,451	(12,431)	2,955	(8,025)
Other Reserve	(4,395)	(11)	-	(4,406)
Life Policyholders' Available For Sale Reserve Fund	(201,867)	-	-	(201,867)
Restricted Regulatory Reserve	381,156	-	-	381,156
Equity Attributable to the Equity Holders of Parent	5,515,880	1,378,434	(1,150,000)	5,744,314
Non-Controlling Interest	-	-	-	-
Total Equity	5,515,880	1,378,434	(1,150,000)	5,744,314
Liabilities				
Insurance Contract Liabilities – Life Insurance	12,261,472	-	-	12,261,472
Insurance Contract Liabilities – General Insurance	-	2,525,095	-	2,525,095
Employee Defined Benefit Liabilities	84,840	55,516	-	140,356
Current Tax Liabilities	14,708	7,833	-	22,541
Reinsurance Creditors	116,268	253,585	-	369,853
Other Liabilities	642,470	473,307	(22,968)	1,092,809
Bank Overdrafts	42,636	80,140	-	122,776
Total Liabilities	13,162,394	3,395,476	(22,968)	16,534,902
Total Equity and Liabilities	18,678,274	4,773,910	(1,172,968)	22,279,216

The Notes to the Financial Statements as set out on pages 223 to 349 form an integral part of these Financial Statements.

Statement of Financial Position – Segmental Review – 2017

As at 31st December 2017,

	Life Insurance Rs. '000	General Insurance Rs. '000	Intersegment Adjustment Rs. '000	Total Rs. '000
Assets				
Property, Plant and Equipment	119,078	50,542	-	169,620
Intangible Assets	57,841	-	-	57,841
Deferred Tax Assets	-	64,098	-	64,098
Financial Investments	12,741,015	2,313,895	-	15,054,910
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders	162,285	-	-	162,285
Reinsurance Receivables	65,010	504,768	-	569,778
Premium Receivables	7,488	778,831	-	786,319
Other Assets	764,256	278,711	(6,121)	1,036,846
Insurance Contract – Deferred Expenses	-	105,287	-	105,287
Cash and Cash Equivalents	352,307	289,643	-	641,950
Total Assets	15,419,280	4,385,775	(1,156,121)	18,648,934
Equity and Liabilities				
Equity Attributable to the Equity Holders of Parent				
Stated Capital	1,171,875	1,150,000	(1,150,000)	1,171,875
Retained Earnings	2,373,601	10,781	(2,955)	2,381,427
Available For Sale Reserve	17,415	10,315	2,955	30,685
Other Reserve	(9,884)	(876)	-	(10,760)
Life Policyholders' Available For Sale Reserve Fund	223,272	-	-	223,272
Equity Attributable to the Equity Holders of Parent	3,776,279	1,170,220	(1,150,000)	3,796,499
Non-Controlling Interest	-	-	-	-
Total Equity	3,776,279	1,170,220	(1,150,000)	3,796,499
Liabilities				
Insurance Contract Liabilities – Life Insurance	10,915,858	-	-	10,915,858
Insurance Contract Liabilities – General Insurance	-	2,384,906	-	2,384,906
Employee Defined Benefit Liabilities	73,875	52,208	-	126,083
Current Tax Liabilities	-	34,598	-	34,598
Reinsurance Creditors	90,650	262,392	-	353,042
Other Liabilities	529,862	372,547	(6,121)	896,288
Bank Overdrafts	32,756	108,904	-	141,660
Total Liabilities	11,643,001	3,215,555	(6,121)	14,852,435
Total Equity and Liabilities	15,419,280	4,385,775	(1,156,121)	18,648,934

The Notes to the Financial Statements as set out on pages 223 to 349 form an integral part of these Financial Statements.

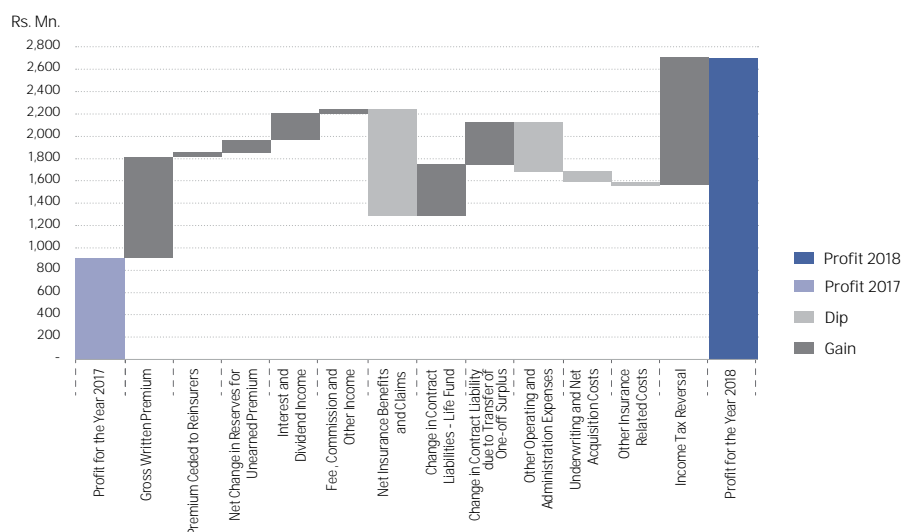
Statement of Profit or Loss – Segmental Review – 2018

For the Year Ended 31st December 2018,

	Life Insurance Rs. '000	General Insurance Rs. '000	Intersegment Adjustment Rs. '000	Total Rs. '000
Gross Written Premium	4,420,513	4,340,575	(36,392)	8,724,696
Premium Ceded to Reinsurers	(215,630)	(843,639)	-	(1,059,269)
Net Written Premium	4,204,883	3,496,936	(36,392)	7,665,427
Net Change in Reserves for Unearned Premium	-	(216,988)	-	(216,988)
Net Earned Premium	4,204,883	3,279,948	(36,392)	7,448,439
Other Revenue				
Interest and Dividend Income	1,591,900	295,443	-	1,887,343
Net Realised Gains	68,673	5,385	-	74,058
Net Fair Value (Losses)/Gains	(18,036)	26,518	-	8,482
Fee and Commission Income	79,465	111,051	(17,870)	172,646
Other Income	14,627	21,403	-	36,030
Total Other Revenue	1,736,629	459,800	(17,870)	2,178,559
Net Income	5,941,512	3,739,748	(54,262)	9,626,998
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims Paid	(1,035,164)	(2,089,298)	877	(3,123,585)
Net Change in Insurance Claims Outstanding	(31,410)	(81,494)	-	(112,904)
Change in Contract Liabilities – Life Fund	(1,707,149)	-	-	(1,707,149)
Change in Contract Liability due to Transfer of One-Off Surplus	381,156	-	-	381,156
Other Operating and Administration Expenses	(1,351,799)	(971,644)	40,962	(2,282,481)
Underwriting and Net Acquisition Costs	(847,968)	(289,873)	12,423	(1,125,418)
Other Insurance Related Costs	(51,330)	(24,633)	-	(75,963)
Total Benefits, Claims and other Expenses	(4,643,664)	(3,456,942)	54,262	(8,046,344)
Profit Before Taxation	1,297,848	282,806	-	1,580,654
Income Tax Reversal/(Expense)	1,177,367	(52,711)	-	1,124,656
Profit for the Year	2,475,215	230,095	-	2,705,310

The Notes to the Financial Statements as set out on pages 223 to 349 form an integral part of these Financial Statements.

Profit Movement – Group (2017 to 2018)



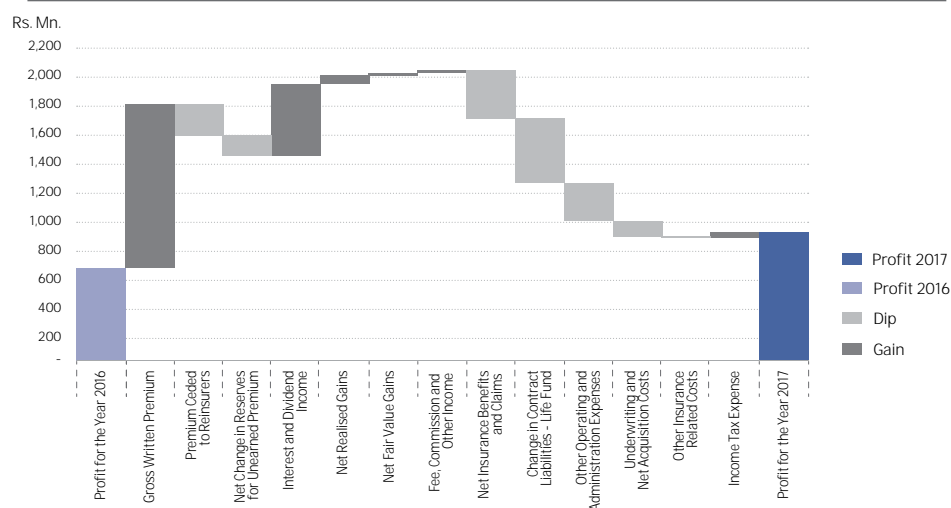
Statement of Profit or Loss – Segmental Review – 2017

For the Year Ended 31st December 2017,

	Life Insurance Rs. '000	General Insurance Rs. '000	Intersegment Adjustment Rs. '000	Total Rs. '000
Gross Written Premium	3,963,642	3,906,503	(48,677)	7,821,468
Premium Ceded to Reinsurers	(189,093)	(911,480)	-	(1,100,573)
Net Written Premium	3,774,549	2,995,023	(48,677)	6,720,895
Net Change in Reserves for Unearned Premium	-	(328,818)	-	(328,818)
Net Earned Premium	3,774,549	2,666,205	(48,677)	6,392,077
Other Revenue				
Interest and Dividend Income	1,442,073	251,118	-	1,693,191
Net Realised Gains	28,789	4,339	-	33,128
Net Fair Value Gains	7,653	2,051	-	9,704
Fee and Commission Income	61,494	80,889	(13,284)	129,099
Other Income	24,958	21,777	-	46,735
Total Other Revenue	1,564,967	360,174	(13,284)	1,911,857
Net Income	5,339,516	3,026,379	(61,961)	8,303,934
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims Paid	(563,628)	(1,615,920)	992	(2,178,556)
Net Change in Insurance Claims Outstanding	(11,923)	(102,927)	-	(114,850)
Change in Contract Liabilities – Life Fund	(2,166,427)	-	-	(2,166,427)
Other Operating and Administration Expenses	(1,018,783)	(872,476)	52,228	(1,839,031)
Underwriting and Net Acquisition Costs	(822,715)	(214,898)	8,741	(1,028,872)
Other Insurance Related Costs	(30,375)	(18,796)	-	(49,171)
Total Benefits, Claims and Other Expenses	(4,613,851)	(2,825,017)	61,961	(7,376,907)
Profit Before Taxation	725,665	201,362	-	927,027
Income Tax Expenses	-	(17,275)	-	(17,275)
Profit for the Year	725,665	184,087	-	909,752

The Notes to the Financial Statements as set out on pages 223 to 349 form an integral part of these Financial Statements.

Profit Movement – Group (2016 to 2017)



Statement of Cash Flows – Segmental Review – 2018

For the Year Ended 31st December 2018,

	Note	Life Insurance Rs. '000	General Insurance Rs. '000	Intersegment Adjustment Rs. '000	Total Rs. '000
Cash Flow From Operating Activities					
Profit Before Taxation		1,297,848	282,806	-	1,580,654
Adjustments for:					
Interest Income		(1,588,206)	(294,847)	-	(1,883,053)
Dividend Income		(3,694)	(596)	-	(4,290)
Amortisation of Intangible Assets		19,540	145	-	19,685
Depreciation of Property, Plant and Equipment		34,533	14,752	-	49,285
Provision for Employee Benefits		20,023	13,905	-	33,928
Net Realised Gains		(68,673)	(5,385)	-	(74,058)
Net Fair Value Losses/(Gains)		18,036	(26,518)	-	(8,482)
Gains on Sale of Property, Plant and Equipment		(171)	(7)	-	(178)
		(270,764)	(15,745)	-	(286,509)
Net Change in Operating Assets	A	(5,350)	115,238	22,968	132,856
Net Change in Operating Liabilities	B	1,498,548	230,545	(22,968)	1,706,125
Cash Flows from Operating Activities		1,222,434	330,038	-	1,552,472
Gratuity Paid		(4,618)	(8,683)	-	(13,301)
Economic Service Charges (ESC) Paid		-	(20,120)	-	(20,120)
Net Cash Generated From Operating Activities (a)		1,217,816	301,235	-	1,519,051
Cash Flows from Investing Activities					
Net Acquisition of Investment Securities		(2,331,810)	(568,919)	-	(2,900,729)
Interest Received		1,590,860	279,107	-	1,869,967
Dividend Received		3,760	733	-	4,493
Acquisition of Intangible Assets		(20,481)	(2,450)	-	(22,931)
Acquisition of Property, Plant and Equipment		(22,113)	(12,346)	-	(34,459)
Proceeds from the Sale of Property, Plant and Equipment		2,342	1,071	-	3,413
Net Cash Used in Investing Activities (b)		(777,442)	(302,804)	-	(1,080,246)
Cash Flows from Financing Activities					
Dividend Paid		(300,000)	-	-	(300,000)
Net Cash Used in Financing Activities (c)		(300,000)	-	-	(300,000)
Net Increase/(Decrease) in Cash and Cash Equivalents (a+b+c)		140,374	(1,569)	-	138,805
Cash and Cash Equivalents at the beginning of the Year	13	319,551	180,739	-	500,290
Cash and Cash Equivalents at the end of the Year		459,925	179,170	-	639,095
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Increase in Deferred Expenses		-	(35,199)	-	(35,199)
Increase in Loans to Life Policyholders		(80,828)	-	-	(80,828)
(Increase)/Decrease in Reinsurance Receivables		(10,916)	164,921	-	154,005
Increase in Premium Receivables		(558)	(11,336)	-	(11,894)
Increase in Other Assets		86,952	(3,148)	22,968	106,772
Net Change in Operating Assets		(5,350)	115,238	22,968	132,856
B. Change in Operating Liabilities					
Increase in Other Liabilities		112,608	99,163	(22,968)	188,803
Increase in Insurance Contract Liabilities (Before Tax) – Life Insurance		1,360,322	-	-	1,360,322
Increase in Insurance Contract Liabilities – General Insurance		-	140,189	-	140,189
Increase/(Decrease) in Reinsurance Creditors		25,618	(8,807)	-	16,811
Net Change in Operating Liabilities		1,498,548	230,545	(22,968)	1,706,125

The Notes to the Financial Statements as set out on pages 223 to 349 form an integral part of these Financial Statements.

Statement of Cash Flows – Segmental Review – 2017

For the Year Ended 31st December 2017,

	Note	Life Insurance Rs. '000	General Insurance Rs. '000	Intersegment Adjustments Rs. '000	Total Rs. '000
Cash Flow From Operating Activities					
Profit Before Taxation		725,665	201,362	-	927,027
Adjustments for:					
Interest Income		(1,435,151)	(249,538)	-	(1,684,689)
Dividend Income		(6,922)	(1,580)	-	(8,502)
Amortisation of Intangible Assets		18,937	-	-	18,937
Depreciation of Property, Plant and Equipment		36,142	15,628	-	51,770
Provision for Employee Benefits		18,028	12,512	-	30,540
Net Realised Gains		(28,789)	(4,339)	-	(33,128)
Net Fair Value Gains		(7,653)	(2,051)	-	(9,704)
(Gains)/Losses on Sale of Property, Plant and Equipment		(5,934)	350	-	(5,584)
		(685,677)	(27,656)	-	(713,333)
Net Change in Operating Assets	A	(241,501)	(313,413)	6,121	(548,793)
Net Change in Operating Liabilities	B	2,262,645	539,770	(6,121)	2,796,294
Cash Flows from Operating Activities		1,335,467	198,701	-	1,534,168
Gratuity Paid		(3,397)	(4,043)	-	(7,440)
Economic Service Charges (ESC) Paid		-	(16,919)	-	(16,919)
Net Cash Generated From Operating Activities (a)		1,332,070	177,739	-	1,509,809
Cash Flows from Investing Activities					
Net Acquisition of Investment Securities		(2,425,152)	(342,375)	-	(2,767,527)
Interest Received		1,231,609	212,113	-	1,443,722
Dividend Received		7,483	1,617	-	9,100
Acquisition of Intangible Assets		(15,896)	-	-	(15,896)
Acquisition of Property, Plant and Equipment		(46,196)	(18,747)	-	(64,943)
Proceeds from the Sale of Property, Plant and Equipment		9,061	1,437	-	10,498
Net Cash Used in Investing Activities (b)		(1,239,091)	(145,955)	-	(1,385,046)
Cash Flows from Financing Activities					
Dividend Paid		(250,000)	-	-	(250,000)
Net Cash Generated From Financing Activities (c)		(250,000)	-	-	(250,000)
Net (Decrease)/Increase in Cash and Cash Equivalents (a+b+c)		(157,021)	31,784	-	(125,237)
Cash and Cash Equivalents at the beginning of the Year		476,572	148,955	-	625,527
Cash and Cash Equivalents at the end of the Year	13	319,551	180,739	-	500,290
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Increase in Deferred Expenses		-	(30,336)	-	(30,336)
Increase in Loans to Life Policyholders		(41,844)	-	-	(41,844)
Increase in Reinsurance Receivables		(10,196)	(64,856)	-	(75,052)
Increase in Premium Receivables		(683)	(162,342)	-	(163,025)
Increase in Other Assets		(188,778)	(55,879)	6,121	(238,536)
Net Change in Operating Assets		(241,501)	(313,413)	6,121	(548,793)
B. Change in Operating Liabilities					
Increase in Other Liabilities		43,388	62,539	(6,121)	99,806
Increase in Insurance Contract Liabilities – Life Insurance		2,168,002	-	-	2,168,002
Increase in Insurance Contract Liabilities – General Insurance		-	463,339	-	463,339
Increase in Reinsurance Creditors		51,255	13,892	-	65,147
Net Change in Operating Liabilities		2,262,645	539,770	(6,121)	2,796,294

The Notes to the Financial Statements as set out on pages 223 to 349 form an integral part of these Financial Statements.

Accounting Policies and Notes to the Financial Statements

4. PROPERTY, PLANT AND EQUIPMENT (PPE)

■ — Accounting Policy

Property, Plant and Equipment are tangible items that are held for servicing or for administrative purposes and are expected to be used for more than one year. The Group applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on “Property, Plant and Equipment”.

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the assets can be measured reliably.

BASIS OF MEASUREMENT

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes,

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- the costs of dismantling and removing the items and restoring at the site on which they are located;
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

COST MODEL

The Group applies the cost model to Property, Plant and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

SUBSEQUENT COSTS

The cost of replacing a component of an item of Property, Plant or Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. The costs of the day-to-day servicing of Property, Plant or Equipment are recognised in Profit or Loss as incurred.

REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

■ — Accounting Policy

DEPRECIATION

The Group provides depreciation from the date of the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

The estimated useful lives for the current and comparative years are as follows:

Computer Equipment	6 years
Motor Vehicles	4 years
Office Equipment	5 years
Furniture and Fittings	10 years
Lease hold Improvements (Fixtures)	Based on Lease Agreement period or useful life of asset whichever is lower

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

DE-RECOGNITION

The carrying amount of an item of Property, Plant and Equipment is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de-recognition of an item of Property, Plant and Equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in Profit or Loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is de-recognised.

CAPITAL WORK-IN-PROGRESS

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in Property, Plant and Equipment, waiting for capitalisation.

BORROWING COSTS

Borrowing Cost that are directly attributable to the acquisition, construction or production of a qualifying asset is capitalised as part of the cost of the asset as per the Sri Lanka Accounting Standard – LKAS 23 Borrowing Costs. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in the Profit or Loss in the period in which they occur.

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.

Accounting Policies and Notes to the Financial Statements

4. PROPERTY, PLANT AND EQUIPMENT (Contd.)

■ — Accounting Policy

FINANCE LEASES

Finance leases that transfer to the Group 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 Profit or Loss. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group 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 Group substantially all the risks and benefits incidental to ownership of the leased items to the Group are operating leases. Operating lease payments are recognised as an expense in Profit or Loss on a straight line basis over the lease term.

	Group					
	Computer Equipment	Motor Vehicles	Office Equipment	Furniture and Fittings	Fixtures	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost						
Balance as at 1st January 2017	209,894	21,388	60,699	61,035	94,129	447,145
Additions during the Year	33,690	-	13,155	4,499	13,599	64,943
Disposals during the Year	(26,208)	(9,987)	(9,008)	(3,244)	(9,655)	(58,102)
Balance as at 31st December 2017 (a)	217,376	11,401	64,846	62,290	98,073	453,986
Balance as at 1st January 2018	217,376	11,401	64,846	62,290	98,073	453,986
Additions during the Year	17,568	-	6,490	3,748	6,655	34,461
Disposals during the Year	(15,106)	-	(5,684)	(1,634)	(2,909)	(25,333)
Balance as at 31st December 2018 (b)	219,838	11,401	65,652	64,404	101,819	463,114
Accumulated Depreciation						
Balance as at 1st January 2017	141,615	19,100	49,430	31,642	43,996	285,783
Depreciation for the Year	25,195	2,101	5,612	5,072	13,790	51,770
Depreciation on Disposals	(25,659)	(9,800)	(8,130)	(2,318)	(7,280)	(53,187)
Balance as at 31st December 2017 (c)	141,151	11,401	46,912	34,396	50,506	284,366
Balance as at 1st January 2018	141,151	11,401	46,912	34,396	50,506	284,366
Depreciation for the Year	22,769	-	6,283	5,107	15,126	49,285
Depreciation on Disposals	(13,160)	-	(5,260)	(1,378)	(2,298)	(22,096)
Balance as at 31st December 2018 (d)	150,760	11,401	47,935	38,125	63,334	311,555
Carrying Value as at 31st December 2017 (a-c)	76,225	-	17,934	27,894	47,567	169,620
Carrying Value as at 31st December 2018 (b-d)	69,078	-	17,717	26,279	38,485	151,559

4.1 a Acquisition of PPE during the Year

During the financial year, the Group acquired PPE to the aggregate value of Rs. 34.5 Million (2017 – Rs. 64.9 Million). Cash payments amounting to Rs. 34.5 Million (2017 – Rs. 64.9 Million) were made by the Group during the year to purchase of PPE.

	Company					
	Computer Equipment	Motor Vehicles	Office Equipment	Furniture and Fittings	Fixtures	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cost						
Balance as at 1st January 2017	165,432	15,304	45,430	36,874	71,849	334,889
Additions during the Year	21,092	-	12,469	3,169	9,466	46,196
Disposals during the Year	(22,459)	(9,987)	(7,059)	(1,863)	(8,099)	(49,467)
Balance as at 31st December 2017 (a)	164,065	5,317	50,840	38,180	73,216	331,618
Balance as at 1st January 2018	164,065	5,317	50,840	38,180	73,216	331,618
Additions during the Year	9,608	-	4,775	2,308	5,424	22,115
Disposals during the Year	(12,217)	-	(4,552)	(974)	(2,756)	(20,499)
Balance as at 31st December 2018 (b)	161,456	5,317	51,063	39,514	75,884	333,234
Accumulated Depreciation						
Balance as at 1st January 2017	116,691	13,647	37,884	19,894	34,622	222,738
Depreciation for the Year	17,712	1,470	4,278	3,029	9,653	36,142
Depreciation on Disposals	(22,134)	(9,800)	(6,673)	(1,388)	(6,345)	(46,340)
Balance as at 31st December 2017 (c)	112,269	5,317	35,489	21,535	37,930	212,540
Balance as at 1st January 2018	112,269	5,317	35,489	21,535	37,930	212,540
Depreciation for the Year	15,596	-	4,975	3,045	10,917	34,533
Depreciation on Disposals	(11,026)	-	(4,148)	(916)	(2,236)	(18,326)
Balance as at 31st December 2018 (d)	116,839	5,317	36,316	23,664	46,611	228,747
Carrying Value as at 31st December 2017 (a-c)	51,796	-	15,351	16,645	35,286	119,078
Carrying Value as at 31st December 2018 (b-d)	44,617	-	14,747	15,840	29,273	104,487

4.1 b Acquisition of PPE during the Year

During the financial year, the Company acquired PPE to the aggregate value of Rs. 22.1 Million (2017 – Rs. 46.2 Million). Cash payments amounting to Rs. 22.1 Million (2017 – Rs. 46.2 Million) were made by Company during the year to purchase of PPE.

Accounting Policies and Notes to the Financial Statements

4. PROPERTY, PLANT AND EQUIPMENT (Contd.)

4.2 Fully Depreciated PPE in Use

PPE includes fully depreciated assets which are in the use of normal business activities. The initial cost of fully depreciated PPE which are still in use as at reporting date, is as follows:

As at 31st December,	Group		Company	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Computer Equipment	89,188	83,546	74,381	69,308
Office Equipment	34,486	35,452	25,338	27,670
Fixtures	27,341	23,592	22,920	21,432
Furniture and Fittings	15,670	12,299	10,276	8,124
Motor Vehicles	11,401	11,401	5,317	5,317
Total	178,086	166,290	138,232	131,851

4.3 PPE Pledged as Security for Liabilities

There were no items of PPE in the Group and Company, pledged as securities for liabilities during the year. (2017 – Nil)

4.4 Title Restriction on PPE

There are no restrictions that existed on the title of the PPE of the Group and Company as at the reporting date.

4.5 Assessment of Impairment of PPE

The Board of Directors has assessed the potential impairment indicators of PPE as at 31st December 2018. Based on the assessment, no impairment indicators were identified.

4.6 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of PPE during the year. (2017 – Nil)

4.7 Temporarily idle Property, Plant and Equipment

There were no temporarily idle property as at the year ended 31st December 2018. (2017 – Nil)

5. INTANGIBLE ASSETS

■ — Accounting Policy

The Company's Intangible Assets include the value of Software.

BASIS OF RECOGNITION

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on "Intangible Assets". Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs 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.

USEFUL ECONOMIC LIFE AND AMOTISATION

Amortisation is recognised in Profit or Loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is six years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

DE-RECOGNITION

An Intangible Asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de-recognition of such Intangible Assets is included in Profit or Loss when the item is de-recognised.

RESEARCH AND DEVELOPMENT COST

Expenditure on research activities is recognised in Profit or Loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in Profit or Loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Accounting Policies and Notes to the Financial Statements

5. INTANGIBLE ASSETS (Contd.)

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Computer Software				
Cost				
Balance as at 1st January	215,822	199,926	215,658	199,926
Acquisition/Capitalisation during the Year	22,931	15,896	20,481	15,896
Disposals during the Year	-	(614)	-	(614)
Balance as at 31st December (a)	238,753	215,208	236,139	215,208
Accumulated Amortisation and Impairment Losses				
Balance as at 1st January	157,981	139,044	157,817	139,044
Amortisation for the Year	19,685	18,937	19,540	18,937
Disposals during the Year	-	(614)	-	(614)
Balance as at 31st December (b)	177,666	157,367	177,357	157,367
Carrying Amount as at 31st December (a-b)	61,087	57,841	58,782	57,841

5.1 Acquisition of Intangible Assets during the Year

During the financial year, the Group acquired/Capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 22.9 Million (2017 – Rs. 15.9 Million) and the Company acquired/capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 20.5 Million (2017 – Rs. 15.9 Million).

Cash payments of the Group amounting to Rs. 22.9 Million (2017 – Rs. 15.9 Million) were made during the year for purchase of Intangible Assets. Cash payments of the Company amounting to Rs. 20.5 Million (2017 – Rs. 15.9 Million) were made during the year for purchase of Intangible Assets.

5.2 Fully Amortised Intangible Assets in Use

The Group/Company's Intangible Assets includes fully amortised Computer software which are in the use of normal business activities having a gross carrying amounts of Rs. 120 Million (2017 – Rs. 105.3 Million).

5.3 Title Restriction on Intangible Assets

There were no restrictions that existed on the title of the Intangible Assets of the Group and the Company as at the reporting date.

5.4 Assessment of Impairment of Intangible Assets

The Board of Directors has assessed potential impairment indicators of Intangible Assets as at 31st December 2018. Based on the assessment, no impairment indicators were identified.

5.5 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of Intangible Assets during the year (2017 – Nil).

6. FINANCIAL INVESTMENTS

■ — Accounting Policy

FINANCIAL INSTRUMENT

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

NON-DERIVATIVE FINANCIAL ASSETS

Initial Recognition of Financial Assets

The Group initially recognises Loans and Receivables and debt securities issued on the date when they are originated. All other financial assets are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

Classification of Financial Assets

The Group determines the classification of its financial assets at initial recognition and classifies them in to one of the following categories:

1. Held to Maturity (HTM);
2. Loans and Receivables (L&R);
3. Available For Sale (AFS);
4. Fair Value Through Profit or Loss (FVTPL).

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on **ability**. Financial assets are classified as Fair Value Through Profit or Loss where the Group investment strategy is to manage financial investments on a fair value basis. The Available For Sale and Held to Maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortised cost.

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place are recognised on the settlement date, i.e., the date that the Group receives/settles money for the sale/purchase of the financial asset. However, when it comes to investment in quoted equities and corporate debt, the transaction date (i.e. trade date) is used to recognise/de-recognise the asset.

Measurement of Financial Assets

Initial and subsequent measurement of each classes of financial assets are disclosed in respective sub-notes below:

De-recognition of Financial Assets

The Group de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire or, when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or, in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in Profit or Loss.

De-recognition of each classes of financial assets are disclosed in respective sub-notes below:

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

Accounting Policy

Re-Classification of Financial Assets

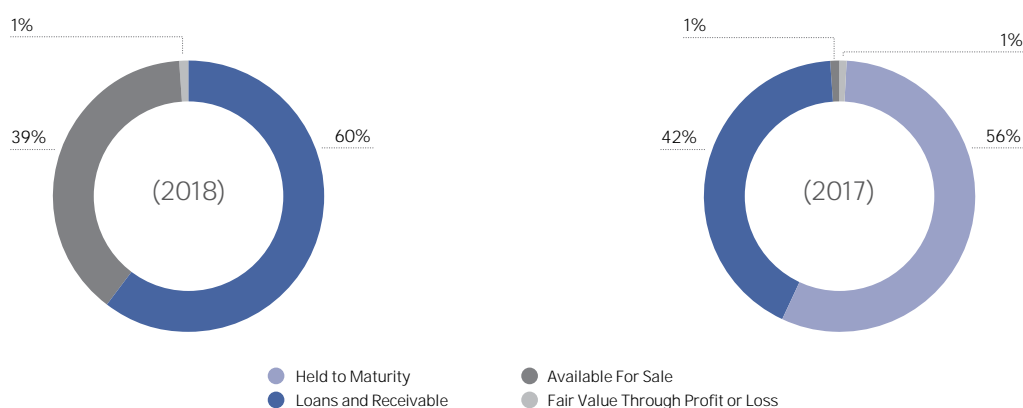
The Group evaluates its Available For Sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Group is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to Loans 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.

An entity shall not re-classify out of fair value through profit or loss category while its held or issued. Refer Section 50 of SLFRS 39.

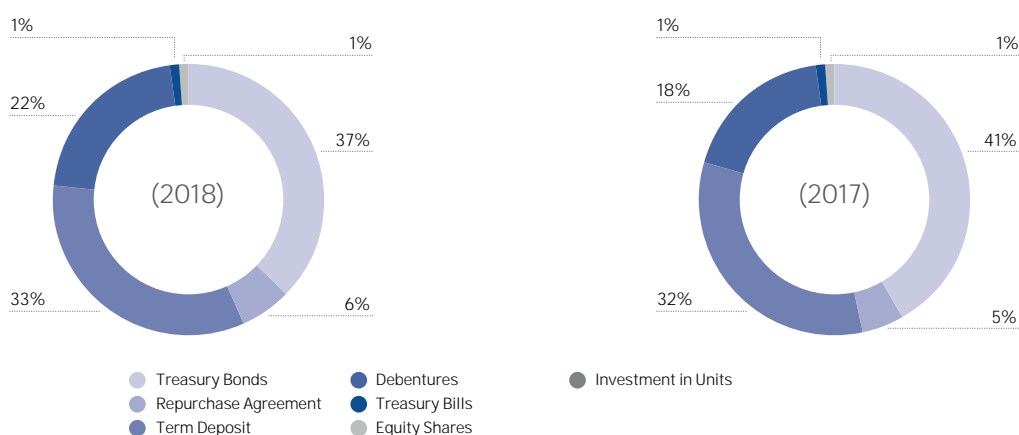
Impairment of Financial Assets

Accounting policy for impairment is disclosed in Note 2.7 of these Financial Statements.

Financial Investment Analysis Based on Reporting Category – Group



Financial Investment Analysis Based on Assets Classes – Group



The following table consists each class of financial investments together with their fair values and carrying values.

As at 31st December,	Note	Group				Company			
		2018		2017		2018		2017	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Held to Maturity	6.1	-	-	180,460	181,166	-	-	180,460	181,166
Loans and Receivables	6.2	10,709,515	10,585,692	8,417,430	8,324,815	8,728,381	8,627,920	6,789,740	6,723,881
Available For Sale	6.3	6,776,591	6,776,591	6,326,735	6,326,735	5,872,886	5,872,886	5,659,291	5,659,291
Fair Value Through Profit or Loss	6.4	93,025	93,025	130,285	130,285	78,439	78,439	111,524	111,524
Total Financial Investments		17,579,131	17,455,308	15,054,910	14,963,001	14,679,706	14,579,245	12,741,015	12,675,862

6.1 Held to Maturity (HTM)

■ — Accounting Policy

INITIAL MEASUREMENT

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as Held to Maturity when the Group/Company has the intention and ability to hold until maturity. HTM Financial Instruments are initially measured at fair value less transaction cost that are directly attributable to acquisition or issue of such instrument.

SUBSEQUENT MEASUREMENT

Subsequent to initial measurement, Held to Maturity financial assets are measured at amortised cost, using the Effective Interest Rate (EIR), less impairment. The EIR amortisation is included in 'Investment Income' in Profit or Loss.

Amortised Cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

DE-RECOGNITION

Gains and losses are recognised in Profit or Loss when the investments are de-recognised or impaired, as well as through the amortisation process.

As at 31st December,	Group				Company			
	2018		2017		2018		2017	
	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Treasury Bonds	-	-	180,460	181,166	-	-	180,460	181,166
Total	-	-	180,460	181,166	-	-	180,460	181,166

Fair Value Measurement

The Group/Company measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 42.

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

Impairment of Financial Investments at HTM

The Group has not experienced any indication of impairment in respect of HTM financial investment and thus no impairment losses were recognised.

Re-Classification of Financial Investments at HTM

During the year Group has not re-classified any financial investment under this category.

6.2 Loans and Receivables (L & R)

■ — Accounting Policy

INITIAL MEASUREMENT

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as Loans and Receivables.

Financial Instruments classified as L&R are initially measured at fair value less transaction cost that are directly attributable to acquisition or issue of such instrument.

SUBSEQUENT MEASUREMENT

Subsequent to initial measurement, Loans and Receivables are measured at amortised cost, using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest Income' in Profit or Loss.

DE-RECOGNITION

Gains and losses are recognised in Profit or Loss when the investments are de-recognised or impaired, as well as through the amortisation process.

As at 31st December,	Note	Group				Company			
		2018		2017		2018		2017	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Repo*		1,078,670	1,078,670	614,999	614,999	786,115	786,115	462,146	462,146
Overnight Repo*		-	-	157,003	157,003	-	-	78,650	78,650
Term Deposit	6.2.1	5,860,227	5,843,953	4,862,962	4,902,634	4,769,763	4,753,838	3,908,737	3,946,844
Debentures**	6.2.2	3,770,618	3,663,069	2,782,466	2,650,179	3,172,503	3,087,967	2,340,207	2,236,241
Total		10,709,515	10,585,692	8,417,430	8,324,815	8,728,381	8,627,920	6,789,740	6,723,881

* HNB Assurance PLC and HNB General Insurance Limited, in its normal course of business invest in Repurchase Agreements (Repos) through number of Bank and Non-Bank Primary Dealers approved by the Central Bank of Sri Lanka (CBSL). During the year also, the Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. Investments in Repos are carried out on DVP/RVP basis. (Delivery versus Payment and Receive versus Payment)

Group has taken appropriate steps to secure the securities received on investments in Repo's through a custodian (Acuity Securities Limited – A Related Company) and as well by signing Master Repurchase Agreements (MRA) with all Primary Dealing Companies Group deals with. MRA's provide the ability to the investor to recover the money due by selling the collateral securities in the secondary market in the event of a default.

** Debentures – The Group classifies quoted Corporate Debt under this category since there is no active market for these instruments even if such instruments are listed.

Fair Value Measurement

The Group/Company measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 42.

Impairment of Financial Investments at L & R

The Group has not experienced any indication of impairment in respect of L & R financial investment and thus no impairment losses were recognised.

Re-Classification of Financial Investments at L & R

During the year Group has not re-classified any financial investment under this category.

6.2.1 Term Deposits

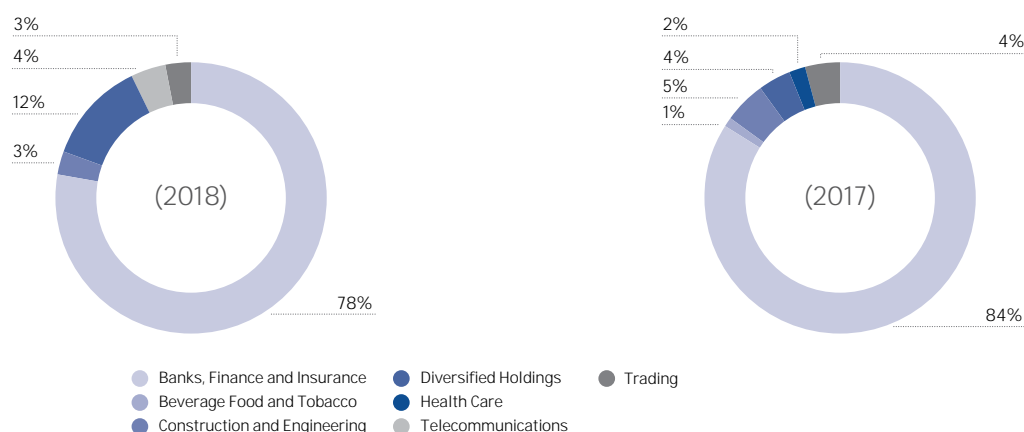
As at 31st December,	Group				Company			
	2018		2017		2018		2017	
	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Licensed Commercial Banks								
Term Deposits with Related Parties – Hatton National Bank PLC	766,396	766,396	148,445	148,445	625,097	625,097	99,638	99,638
Other Banks	3,314,135	3,301,796	3,230,197	3,235,995	2,652,111	2,641,648	2,566,216	2,571,462
Total (a)	4,080,531	4,068,192	3,378,642	3,384,440	3,277,208	3,266,745	2,665,854	2,671,100
Licensed Specialised Banks								
Term Deposits with Related Parties – HNB Finance Ltd	50,681	51,919	50,243	54,451	50,681	51,919	50,243	54,451
Other Finance Companies	1,603,596	1,598,423	1,434,077	1,463,743	1,341,519	1,334,819	1,192,640	1,221,293
Total (c)	1,654,277	1,650,342	1,484,320	1,518,194	1,392,200	1,386,738	1,242,883	1,275,744
Total Term Deposit (a+b+c)	5,860,227	5,843,953	4,862,962	4,902,634	4,769,763	4,753,838	3,908,737	3,946,844

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.2.2 Debentures – Quoted

Sector-wise Debenture Composition – Group



As at 31st December,

	Group				Company			
	2018		2017		2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Banks, Finance and Insurance								
Bank of Ceylon	59,639	54,781	59,639	55,113	59,639	54,781	59,639	55,113
Commercial Bank of Ceylon PLC	230,116	224,463	43,421	43,448	190,336	185,539	43,421	43,449
DFCC Bank PLC	332,445	328,848	124,125	122,697	288,620	285,466	124,125	122,697
Hatton National Bank PLC	211,047	204,099	256,957	249,321	207,040	200,242	252,801	245,572
National Development Bank PLC	67,538	63,362	89,146	83,190	67,538	63,362	83,797	78,086
Nations Trust Bank PLC	226,885	226,832	93,130	92,441	190,069	189,977	93,130	92,441
Pan Asia Banking Corporation PLC	67,680	66,264	67,680	64,888	47,288	46,294	47,288	45,311
Sampath Bank PLC	535,729	515,545	368,851	346,280	481,791	466,158	314,914	297,837
Seylan Bank PLC	368,192	354,496	211,968	200,138	272,998	265,243	162,748	157,063
HDFC Bank of Sri Lanka	-	-	69,300	63,394	-	-	69,300	63,394
Central Finance Company PLC	-	-	30,078	29,645	-	-	30,078	29,645
Commercial Credit and Finance PLC	213,510	205,794	213,510	204,888	152,536	147,019	152,536	146,370
Commercial Leasing and Finance PLC	65,850	60,391	65,850	59,838	65,850	60,391	65,850	59,838
LOLC Holdings PLC	56,248	53,893	56,248	52,822	40,907	39,195	40,907	38,416
LB Finance PLC	17,119	17,049	114,984	105,633	9,063	9,026	96,256	87,864
Mercantile Investments & Finance PLC	-	-	11,597	11,490	-	-	6,312	6,254
Merchant Bank of Sri Lanka & Finance PLC	60,350	55,065	85,310	78,362	42,910	39,324	67,870	62,914
People's Leasing & Finance PLC	196,995	195,160	167,356	164,420	144,680	143,467	135,362	133,360
Siyapatha Finance PLC	134,241	122,485	134,241	120,957	100,482	92,470	100,482	91,589
Softlogic Finance PLC	31,156	30,422	31,156	30,159	18,238	17,809	18,238	17,655
Vallibel Finance PLC	46,150	45,151	46,150	44,939	30,767	30,101	30,767	29,960
Sector Total (a)	2,920,890	2,824,100	2,340,697	2,224,063	2,410,752	2,335,864	1,995,821	1,904,828

As at 31st December,	Group				Company			
	2018		2017		2018		2017	
	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Beverage Food and Tobacco								
Lion Brewery (Ceylon) PLC	-	-	39,770	39,115	-	-	23,199	22,817
Sector Total (b)	-	-	39,770	39,115	-	-	23,199	22,817
Construction and Engineering								
Access Engineering PLC	126,832	122,018	126,509	121,336	111,612	107,376	111,328	106,776
Sector Total (c)	126,832	122,018	126,509	121,336	111,612	107,376	111,328	106,776
Diversified Holdings								
Hayleys PLC	347,291	345,266	-	-	294,671	292,953	-	-
Hemas Holdings PLC	57,348	56,826	57,433	56,558	42,610	42,230	42,610	42,031
Richard Pieris and Company PLC	42,094	41,396	55,001	53,799	36,695	36,081	46,550	45,493
Sector Total (d)	446,733	443,488	112,434	110,357	373,976	371,264	89,160	87,524
Telecommunications								
Sri Lanka Telecom PLC	148,523	148,937	-	-	148,523	148,937	-	-
Sector Total (e)	148,523	148,937	-	-	148,523	148,937	-	-
Healthcare								
Nawaloka Hospitals PLC	-	-	56,940	56,150	-	-	41,411	40,836
Sector Total (f)	-	-	56,940	56,150	-	-	41,411	40,836
Trading								
Abans PLC	45,168	43,547	106,116	99,158	45,168	43,547	79,288	73,460
Singer (Sri Lanka) PLC	82,472	80,979	-	-	82,472	80,979	-	-
Sector Total (g)	127,640	124,526	106,116	99,158	127,640	124,526	79,288	73,460
Total Investment in Quoted Debentures (a+b+c+d+e+f+g)	3,770,618	3,663,069	2,782,466	2,650,179	3,172,503	3,087,967	2,340,207	2,236,241

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.3 Available For Sale (AFS)

■ — Accounting Policy

INITIAL MEASUREMENT

Equity investments classified as Available For Sale are those that are neither classified as held for trading nor designated at Fair Value Through Profit or Loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to need for liquidity or in response to changes in the market conditions. AFS Financial Instruments are initially measured at fair value less transaction cost that are directly attributable to acquisition or issue.

SUBSEQUENT MEASUREMENT

Subsequent to initial measurement, Available For Sale financial assets are measured at fair value, with unrealised gains or losses recognised through Other Comprehensive Income (OCI) in the Available For Sale reserve.

Fair value changes of Available For Sale financial assets of life insurance related assets are included under life policyholders' Available For Sale reserve fund through OCI in equity. Refer Note 18.

Interest earned whilst holding Available For Sale investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding Available For Sale investments are recognised in Profit or Loss as 'Dividend Income' when the right of the payment has been established.

DE-RECOGNITION

When the asset is de-recognised, the cumulative gain or loss is recycled to profit or loss as 'Realised gains or losses'.

As at 31st December,	Note	Group				Company			
		2018		2017		2018		2017	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Treasury Bonds		6,555,839	6,555,839	6,031,354	6,031,354	5,777,918	5,777,918	5,590,047	5,590,047
Treasury Bills		165,467	165,467	217,307	217,307	45,282	45,282	-	-
Equity Shares	6.3.1	55,285	55,285	78,074	78,074	49,686	49,686	69,244	69,244
Total		6,776,591	6,776,591	6,326,735	6,326,735	5,872,886	5,872,886	5,659,291	5,659,291

Fair Value Measurement

The Group/Company measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 42.

Impairment of Financial Investments at AFS

At the reporting date group has recognised an impairment loss of Rs. 7.9 Million (2017 – Rs. 1.7 Million) for equity instrument. Refer Note 32 of these Financial Statements.

The Group has not experienced any indication of impairment for debt instrument, categorised under AFS. Hence, no impairment is recognised for such instrument.

Re-Classification of Financial Investments at AFS

During the year Group has not re-classified any financial investment under this category.

6.3.1 Equity Shares

As at 31st December,	Group						Company					
	2018			2017			2018			2017		
	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value
	Rs. '000	Rs. '000		Rs. '000	Rs. '000		Rs. '000	Rs. '000		Rs. '000	Rs. '000	
Banks, Finance and Insurance												
Seylan Bank PLC – (Non-Voting)	209,556	9,823	9,325	249,355	12,347	13,964	201,170	9,495	8,952	217,281	10,656	12,168
Sampath Bank PLC	39,748	6,834	9,341	37,831	6,834	11,943	39,748	6,834	9,341	37,831	6,834	11,943
Central Finance Company PLC	153,075	11,464	13,578	151,743	11,464	14,006	136,844	11,192	12,138	135,653	11,192	12,521
Sector Total (a)			32,244			39,913			30,431			36,632
Diversified Holdings												
Melstacorp PLC	39,532	2,343	1,988	39,532	2,343	2,352	39,532	2,343	1,988	39,532	2,343	2,352
Sector Total (b)			1,988			2,352			1,988			2,352
Manufacturing												
Tokyo Cement Company (Lanka) PLC	249,602	10,692	6,290	249,602	10,692	16,474	211,002	9,598	5,318	211,002	9,598	13,926
Royal Ceramics Lanka PLC	50,000	6,067	3,730	50,000	6,067	5,725	50,000	6,067	3,730	50,000	6,067	5,725
Sector Total (c)			10,020			22,199			9,048			19,651
Beverage, Food and Tobacco												
Distilleries Company of Sri Lanka PLC	11,713	-	189	-	-	-	11,713	-	189	-	-	-
Sector Total (d)			189			-			189			-
Land and Property												
Overseas Realty (Ceylon) PLC	657,205	16,702	10,844	773,335	19,640	13,610	486,679	12,453	8,030	602,809	15,391	10,609
Sector Total (e)			10,844			13,610			8,030			10,609
Total Investment in Equity Shares (AFS) (a+b+c+d+e)			55,285			78,074			49,686			69,244

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.4 Fair Value Through Profit or Loss (FVTPL)

■ — Accounting Policy

INITIAL MEASUREMENT

Financial assets at Fair Value Through Profit or Loss include financial assets held for trading and those designated upon initial recognition at Fair Value Through Profit or Loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

For investments designated as Fair Value Through Profit or Loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring assets or liabilities or recognising gains or losses on a different basis, Or
- The assets and liabilities are part of a Group financial assets, financial liabilities or both, which are managed and their performance is evaluated on a fair value basis, in accordance with the Group investment strategy.

Financial Instruments classified as FVTPL are initially measured at fair value less transaction cost that are directly attributable to acquisition or issue of such instrument.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, these investments are re-measured at fair value. Changes in fair value are recorded in 'Fair value gains and losses' in Profit or Loss.

DE-RECOGNITION

Gains and Losses are recognised in Profit or Loss when the assets are disposed.

As at 31st December,	Note	Group				Company			
		2018		2017		2018		2017	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Equity Shares	6.4.1	83,873	83,873	118,044	118,044	72,039	72,039	102,964	102,964
Investment in Units	6.4.2	9,152	9,152	12,241	12,241	6,400	6,400	8,560	8,560
Total		93,025	93,025	130,285	130,285	78,439	78,439	111,524	111,524

Fair Value Measurement

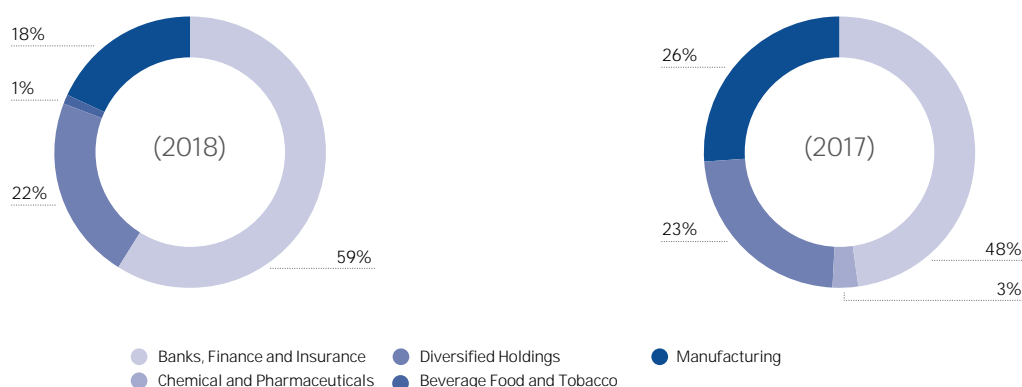
The Group/Company measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 42.

Impairment of Financial Assets at FVTPL

Group has not experienced any indication of impairment in respect of FVTPL financial investments and thus no impairment losses are recognised.

6.4.1 Equity Shares

Portfolio of Equity Investments - Group



As at 31st December,	Group						Company					
	2018			2017			2018			2017		
	No. of Shares	Carrying/ Cost	Fair Value	No. of Shares	Carrying/ Cost	Fair Value	No. of Shares	Carrying/ Cost	Fair Value	No. of Shares	Carrying/ Cost	Fair Value
	Rs. '000	Rs. '000		Rs. '000	Rs. '000		Rs. '000	Rs. '000		Rs. '000	Rs. '000	
Banks, Finance and Insurance												
National Development Bank PLC	3,408	364	364	11,729	1,600	1,600	3,408	364	364	11,729	1,600	1,600
Sampath Bank PLC	62,082	11,925	14,589	59,087	11,925	18,654	62,082	11,925	14,589	59,087	11,925	18,654
Nations Trust Bank PLC	89,529	6,083	7,986	87,261	6,083	6,806	89,529	6,083	7,986	87,261	6,083	6,806
People's Leasing & Finance PLC	721,543	12,988	11,761	721,543	12,988	12,266	476,000	8,568	7,759	476,000	8,568	8,092
Seylan Bank PLC – (Non-Voting)	329,151	11,243	14,647	316,216	11,243	17,708	257,761	9,006	11,470	247,631	9,006	13,867
Sector Total (a)		49,347			57,034			42,168		49,019		
Chemical and Pharmaceuticals												
CIC Holdings PLC	-	-	-	61,920	4,363	3,839	-	-	-	61,920	4,363	3,839
Sector Total (b)						3,839						3,839
Diversified Holdings												
John Keells Holdings PLC	38,274	5,622	6,112	38,274	5,622	5,684	38,274	5,622	6,112	38,274	5,622	5,684
Richard Pieris and Company PLC	312,851	4,351	3,285	312,851	4,351	4,067	312,851	4,351	3,285	312,851	4,351	4,067
Vallibel One PLC	305,925	5,521	5,201	305,925	5,521	5,415	200,000	3,600	3,400	200,000	3,600	3,540
Melstacorp PLC	85,000	5,038	4,276	195,000	11,559	11,603	55,000	3,260	2,767	130,000	7,706	7,735
Sector Total (c)		18,874			26,769			15,564		21,026		
Beverage Food and Tobacco												
Distilleries Company of Sri Lanka PLC	34,073	-	549	-	-	-	22,222	-	358	-	-	-
Sector Total (d)		549						358				

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

As at 31st December,	Group						Company					
	2018			2017			2018			2017		
	No. of Shares	Carrying/ Fair Value Rs. '000	Cost Rs. '000	No. of Shares	Carrying/ Fair Value Rs. '000	Cost Rs. '000	No. of Shares	Carrying/ Fair Value Rs. '000	Cost Rs. '000	No. of Shares	Carrying/ Fair Value Rs. '000	Cost Rs. '000
Manufacturing												
Royal Ceramics Lanka PLC	28,000	4,318	2,089	28,000	4,318	3,206	28,000	4,318	2,089	28,000	4,318	3,206
ACL Cables PLC	126,400	3,053	4,676	126,400	3,053	5,359	95,200	3,016	3,522	95,200	3,016	4,036
Tokyo Cement Company (Lanka) PLC	330,869	12,278	8,338	330,869	12,278	21,837	330,869	12,278	8,338	330,869	12,278	21,838
Sector Total (e)		15,103			30,402			13,949			29,080	
Total Investment in Equity Shares (FVTPL) (a+b+c+d+e)		83,873			118,044			72,039			102,964	

6.4.2 Investment in Units

As at 31st December,	Group				Company			
	2018		2017		2018		2017	
	No. of Units	Carrying/ Fair Value Rs. '000	No. of Units	Carrying/ Fair Value Rs. '000	No. of Units	Carrying/ Fair Value Rs. '000	No. of Units	Carrying/ Fair Value Rs. '000
Quoted								
NAMAL Acuity Value Fund	114,400	9,152	114,400	12,241	80,000	6,400	80,000	8,560
Total Investment in Quoted Unit Trusts		9,152		12,241		6,400		8,560

6.5 Movement in the Carrying Values of Financial Investments – Group

	Held to Maturity Rs. '000	Loans and Receivable Rs. '000	Available For Sale Rs. '000	Fair Value Through Profit or Loss Rs. '000	Total Rs. '000
As at 1st January 2017	174,025	5,344,482	5,869,558	156,510	11,544,575
Purchases	-	92,525,106	2,269,673	2,068	94,796,847
Maturities	(14,875)	(90,041,818)	(2,346,766)	-	(92,403,459)
Disposals	-	(191,658)	(585,768)	(38,291)	(815,717)
Fair Value Gains/(Losses) and Foreign Currency Translation Recorded in Profit or Loss	-	3,457	(1,856)	8,102	9,703
Amortisation Adjustment/Accrued Interest	21,310	777,713	632,399	-	1,431,422
Realised Gains Recorded in Profit or Loss	-	148	30,485	1,896	32,529
Net Fair Value Gains Recorded in Other Comprehensive Income	-	-	459,010	-	459,010
As at 31st December 2017	180,460	8,417,430	6,326,735	130,285	15,054,910
As at 1st January 2018	180,460	8,417,430	6,326,735	130,285	15,054,910
Purchases	-	92,832,889	2,248,415	-	95,081,304
Maturities	(182,438)	(91,667,079)	(996,745)	-	(92,846,262)
Disposals	-	-	(1,072,292)	(12,490)	(1,084,782)
Fair Value Gains/(Losses) Foreign Currency Translation Recorded in Profit or Loss	-	41,384	(7,998)	(25,685)	7,701
Amortisation Adjustment/Accrued Interest	1,978	1,084,891	678,072	-	1,764,941
Realised Gains Recorded in Profit or Loss	-	-	72,541	915	73,456
Net Fair Value Losses Recorded in Other Comprehensive Income	-	-	(472,137)	-	(472,137)
As at 31st December 2018	-	10,709,515	6,776,591	93,025	17,579,131

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.6 Movement in the Carrying Values of Financial Investments – Company

	Held to Maturity Rs. '000	Loans and Receivable Rs. '000	Available for Sale Rs. '000	Fair Value Through Profit or Loss Rs. '000	Total Rs. '000
As at 1st January 2017	174,025	4,253,239	5,095,600	119,732	9,642,596
Purchases	-	66,813,006	1,689,127	2,068	68,504,201
Maturities	(14,875)	(64,716,076)	(1,627,874)	-	(66,358,825)
Disposals	-	(191,658)	(520,304)	(19,431)	(731,393)
Fair Value Gains/(Losses) Foreign Currency Translation Recorded in Profit or Loss	-	835	(1,447)	8,262	7,650
Amortisation Adjustment/Accrued Interest	21,310	630,394	563,010	-	1,214,714
Realised Gains Recorded in Profit or Loss	-	-	27,896	893	28,789
Net Fair Value Gains Recorded in Other Comprehensive Income	-	-	433,283	-	433,283
As at 31st December 2017	180,460	6,789,740	5,659,291	111,524	12,741,015
As at 1st January 2018	180,460	6,789,740	5,659,291	111,524	12,741,015
Purchases	-	64,495,292	1,648,858	-	66,144,150
Maturities	(182,438)	(63,464,971)	(712,645)	-	(64,360,054)
Disposals	-	-	(943,818)	(10,206)	(954,024)
Fair Value Gains/(Losses) Foreign Currency Translation Recorded in Profit or Loss	-	12,631	(7,640)	(23,593)	(18,602)
Amortisation Adjustment/Accrued Interest	1,978	895,689	601,984	-	1,499,651
Realised Gains Recorded in Profit or Loss	-	-	67,960	714	68,674
Net Fair Value Losses Recorded in Other Comprehensive Income	-	-	(441,104)	-	(441,104)
As at 31st December 2018	-	8,728,381	5,872,886	78,439	14,679,706

7. INVESTMENT IN SUBSIDIARY – COMPANY

■ — Accounting Policy

Investment in subsidiary is recorded at cost less impairment in the Financial Statements of the Company. The net assets of the subsidiary are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its net assets loss.

As at 31st December,	Principal Activity	2018			2017		
		No. of Shares	Holding	Cost	No. of Shares	Holding	Cost
Unquoted				Rs. '000			Rs. '000
HNB General Insurance Limited	General Insurance Business	115,000,000	100%	1,150,000	115,000,000	100%	1,150,000
Total Investment in Subsidiary				1,150,000			1,150,000

The Company incorporated a fully owned Subsidiary, HNB General Insurance Limited on 30th January 2014 in order to transfer the General Insurance business w.e.f. 1st January 2015 to be in line with the requirement to segregate Life and General Insurance businesses as required by the Regulation of Insurance Industry (Amendment) Act, No. 03 of 2011.

7.1 Impairment of Investment in Subsidiary

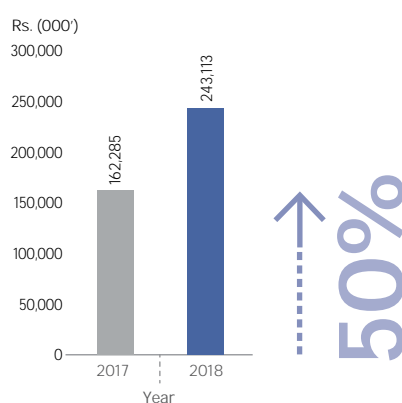
The Board of Directors has assessed the potential impairment loss of Investment in Subsidiary as at 31st December 2018. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of such investment.

8. LOANS TO LIFE POLICYHOLDERS

■ — Accounting Policy

Policyholder Loans are granted up to 90% of the surrender value of a Life Insurance Policy at a rate equivalent to market rate. Policyholder Loans are initially measured at Fair value of loan amount granted and subsequently measured at the amortised cost. If the policyholder demises before the full repayment of the loan, the loan balance is deducted from the death benefit. If the total receivable of the loan, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Company has a first lien on all policies which are subject to policy loans. Policyholder Loans are reviewed for impairment at each reporting date.

Loans to Life Policyholders



As at 31st December,

	Group/Company	
	2018	2017
	Rs. '000	Rs. '000
Balance as at 1st January	133,460	99,574
Loans Granted during the Year	113,329	72,279
Repayments during the Year	(45,838)	(38,393)
Balance as at 31st December	200,951	133,460
Interest Receivable	42,162	28,825
Total Loans to Life Policyholders	243,113	162,285

8.1 The surrender value of the policies for which Policy Loans have been granted as at 31st December 2018 amounted to Rs. 397.4 Million (2017 – Rs. 279.7 Million). Number of Policy Loans due as at 31st December 2018 was 3,043 (2017 – 2,480).

8.2 Fair Value Measurement

The Company grants Policy Loans at a rate equivalent to the market rate, hence carrying amount is a reasonable approximation of fair value.

8.3 Impairment Losses on Loans to Life Policyholders

The Board of Directors has assessed the potential impairment loss of Loans to Life Policyholders as at 31st December 2018. 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.

Accounting Policies and Notes to the Financial Statements

9. REINSURANCE RECEIVABLES

■ — Accounting Policy

The Group cedes insurance risk in the normal course of business with recognised reinsurers through formal reinsurance arrangements.

Reinsurance assets include the balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

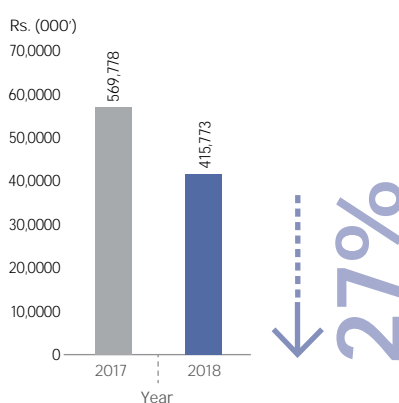
Gross Reinsurance is recorded in the Statement of Financial Position unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss, if any is recorded in Profit or Loss.

Ceded reinsurance arrangements do not relieve the Group from its obligations to Policyholders.

Reinsurance assets are de-recognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Reinsurance Receivable - Group



As at 31st December,	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Reinsurance Receivable on Outstanding Claims	9.1	205,881	352,863	32,159	29,240
Reinsurance Receivable on Settled Claims	9.2	209,892	216,915	43,767	35,770
Total Reinsurance Receivables		415,773	569,778	75,926	65,010

9.1 The reinsurance portion of the outstanding claims has not been materialised, since the insurance claim has not been paid as at the reporting date.

9.2 The age analysis of the reinsurance receivable on settled claims is as follows:

As at 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Up to 30 Days	64,316	40,896	12,282	5,186
31 to 60 Days	15,015	57,937	4,854	5,157
61 to 90 Days	28,412	36,813	3,986	4,297
91 to 180 Days	92,875	73,763	16,358	21,130
181 to 365 Days	9,254	5,279	6,287	-
Over 365	20	2,227	-	-
Total	209,892	216,915	43,767	35,770

9.3 Fair Value Measurement

The carrying value of reinsurance receivables approximate the fair value at the reporting date.

9.4 Impairment Losses on Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of reinsurance receivables as at 31st December 2018. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date.

Refer Note 44 (Pages 328 to 332) for Reinsurance rating analysis and Note 44 (Page 337) for rating wise reinsurance balances.

10. PREMIUM RECEIVABLES

■ — Accounting Policy

Premium Receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. The carrying value of Premiums Receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognised in Profit or Loss.

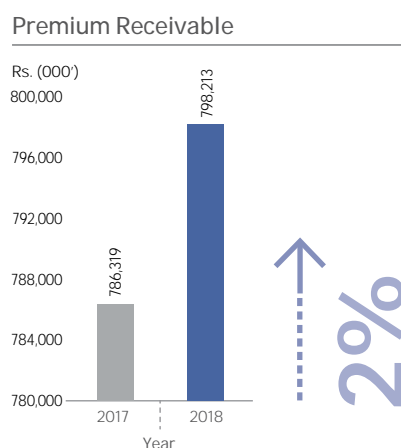
Insurance receivables from General Insurance are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Collectability of premiums is reviewed on an ongoing basis.

According to the Premium Payment Warranty (PPW) ruling issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL), all General Insurance policies are issued subject to PPW and are cancelled upon the expiry of 60 days if not settled.

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 analysing the default history. Premiums will be reversed if those premiums are not settled during the subsequent month, and thus the policies will be lapsed as per the Company policy.

Accounting Policies and Notes to the Financial Statements

10. PREMIUM RECEIVABLES (Contd.)



As at 31st December,	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Premium Receivable From:					
Life Insurance					
Policyholders		14,835	14,221	14,835	14,221
Impairment Loss on Premium Default		(6,789)	(6,733)	(6,789)	(6,733)
		8,046	7,488	8,046	7,488
General Insurance					
Policyholders		446,450	425,385	-	-
Related Parties	10.1	10,423	49,589	-	-
Agents, Brokers and Intermediaries		333,294	303,857	-	-
		790,167	778,831	-	-
Total	10.2	798,213	786,319	8,046	7,488

10.1 Premium Receivable from Related Parties

As at 31st December,		Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
General Insurance					
Hatton National Bank PLC		1,881	20,734	-	-
HNB Finance Ltd.		1,698	4,915	-	-
Sithma Development (Pvt) Ltd.		960	4,296	-	-
Acuity Stock Brokers (Pvt) Ltd.		177	-	-	-
Acuity Partners (Pvt) Ltd.		149	476	-	-
Acuity Securities Ltd.		127	129	-	-
Other Related Entities		5,431	19,039	-	-
Total		10,423	49,589	-	-

10.2 Age Analysis of Premium Receivables

As at 31st December,	Group		Company	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Life Insurance				
Up to 30 Days	8,046	7,488	8,046	7,488
General Insurance				
Up to 30 Days	492,358	521,802	-	-
31 to 60 Days	297,809	257,029	-	-
	790,167	778,831	-	-
Total Premium Receivables	798,213	786,319	8,046	7,488

10.3 Fair Value Measurement

Carrying value of premium receivable is approximation of fair value due to short-term nature.

10.4 Impairment Losses on Premium Receivables

The Board of Directors has assessed potential impairment loss of Premium Receivable as at 31st December 2018. Since the Group has adopted the Premium Payment Warranty (PPW) ruling issued by Insurance Regulatory Commission of Sri Lanka, no long outstanding balances are left in Premium Receivables. Thus, there is no need for additional impairment loss provision other than amounts provided.

11. OTHER ASSETS

■ — Accounting Policy

STAFF AND ADVISOR LOANS

Loans are granted as a benefit to Staff and Advisors subject to defined eligibility criterias. These are measured at amortised cost based on the prevailing interest rates at the loan grant date. Impairment test of loans are carried out when the indicators of impairment exist.

INVENTORIES

Inventories include all consumable items which are stated at lower of cost and net realisable value.

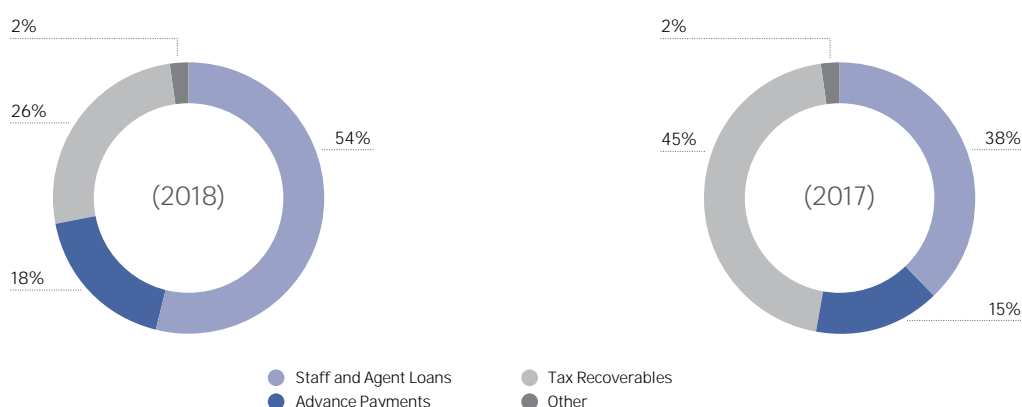
OTHER ASSETS

All Other Assets including Receivables and dues from Related Parties are recognised at cost less accumulated impairment losses.

Accounting Policies and Notes to the Financial Statements

11. OTHER ASSETS (Contd.)

Other Assets Composition – Group



As at 31st December,	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Staff and Advisor Loans	11.1	439,896	399,075	277,819	239,081
Advance Payments		151,294	159,798	117,536	126,771
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	11.2	217,133	457,703	149,581	389,391
Co-Insurance Receivables		3,993	13,121	-	-
Inventories		3,464	2,449	2,039	1,612
Amounts due from Related Parties – HNB General Insurance Limited		-	-	22,968	6,121
Other Receivables		7,321	4,700	5,211	1,280
Total Other Assets		823,101	1,036,846	575,154	764,256

11.1 Staff and Advisor Loans

Loans to Staff and Advisor portfolio mainly consists of vehicle loans (95%) which are given to selected categories of Staff and Advisors. These loans are secured with guarantors, mortgage or promissory notes. Movement of these loans are given in below table.

As at 31st December,	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Staff Loans	11.1.a	369,392	339,494	211,723	181,897
Advisor Loans	11.1.b	70,504	59,581	66,096	57,184
Total		439,896	399,075	277,819	239,081

11.1.a Staff Loans

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	331,723	292,853	178,545	164,333
Loans Granted during the Year	191,091	203,195	126,596	107,864
	522,814	496,048	305,141	272,197
Repayments during the Year	(163,139)	(164,325)	(97,253)	(93,652)
Balance as at 31st December	359,675	331,723	207,888	178,545
Allowance for Impairment Losses	(7)	(26)	-	-
Fair Value Adjustment on Staff Loan	9,724	7,797	3,835	3,352
Fair Value of the Loans as at 31st December	369,392	339,494	211,723	181,897

11.1.b Advisor Loans

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	57,561	42,753	55,045	40,927
Loans Granted during the Year	76,013	64,557	70,925	61,032
	133,574	107,310	125,970	101,959
Repayments during the Year	(65,241)	(49,749)	(62,209)	(46,914)
Balance as at 31st December	68,333	57,561	63,761	55,045
Allowance for Impairment Losses	(570)	(567)	(537)	(530)
Fair Value Adjustment on Advisor Loan	2,741	2,587	2,872	2,669
Fair Value of the Loans as at 31st December	70,504	59,581	66,096	57,184

11.2 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

	Note	Group		Company	
		2018	2017	2018	2017
As at 31st December,		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Withholding Tax Recoverable		165,152	97,619	149,276	89,311
Value Added Tax Recoverable		305	161	305	100
ESC Recoverable		25,384	36,191	-	-
Notional Tax on Government Securities	11.5	26,292	323,732	-	299,980
Balance as at 31st December		217,133	457,703	149,581	389,391

11.3 Fair Value Measurement

The carrying value of the Staff and Advisor loans has been computed based on the market interest rates which are prevailed at the time of granting such loan, and the fair value of the same has been computed based on the interest rates prevailed as at the reporting date. Fair value of other assets approximately equal to the carrying value since they are short-term in nature.

Accounting Policies and Notes to the Financial Statements

11. OTHER ASSETS (Contd.)

11.4 Impairment Losses on Staff and Advisor Loans

The Board of Directors has assessed potential impairment loss of Staff and Advisor loans as at 31st December 2018. Based on the assessment, no additional impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Staff and Advisor loans, other than the amounts provided.

11.5 Provision for Notional Tax Credit

As per the transitional provisions of new Inland Revenue Act, No 24 of 2017, Unclaimed Notional Tax Credits (NTC) can be claimed within three years of assessments, starting from the year of assessment 2018/19. Company assessed the probability of claimability of Notional Tax credits within the next three years time period specified and accordingly a full provision has been made against the unclaimed Notional Tax credits.

12. INSURANCE CONTRACT – DEFERRED EXPENSES

■ — Accounting Policy

DEFERRED ACQUISITION COSTS (DAC)

The direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred and amortised over the period in which the related revenues are earned. All other acquisition costs are recognised as an expense when incurred.

The DAC is applicable only to General Insurance Contracts. No DAC is calculated for Life Insurance Contracts as the acquisition costs are incurred in line with the revenue earned.

In accordance with the available regulatory guidelines of the IRCSL, the DAC is calculated based on the 1/24th basis except for the Marine policies which are computed on a 60-40 basis.

The DAC for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the Profit or Loss.

An impairment review of DAC is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in Profit or Loss.

DAC is de-recognised when the related contracts are either settled or cancelled.

As at 31st December,	Note	Group		Company	
		2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Reserve for Net Deferred Acquisition Expenses					
Reserve for Deferred Acquisition Expenses					
Balance as at 1st January		189,847	152,041	-	-
Increase in Deferred Acquisition Expenses	38.1	30,498	37,806	-	-
Balance as at 31st December		220,345	189,847	-	-
Reserve for Deferred Reinsurance Commission					
Balance as at 1st January		(84,560)	(77,090)	-	-
Decrease/(Increase) in Deferred Reinsurance commission	38.1	4,701	(7,470)	-	-
Balance as at 31st December		(79,859)	(84,560)	-	-
Total Insurance Contract – Deferred Expenses		140,486	105,287	-	-

12.1 Impairment of Deferred Expenses

The Board of Directors has assessed potential impairment loss of deferred expenses as at 31st December 2018. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date.

13. CASH AND CASH EQUIVALENTS

■ — Accounting Policy

Cash and Cash Equivalents comprise cash in hand, cash at bank, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts, if any, which form an integral part of cash management, are included as a component of Cash and Cash Equivalents for the purposes of the Statement of Cash Flows. In the Statement of Financial Position, Bank Overdrafts are included under liabilities.

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash and Cash Equivalents				
Cash in Hand	2,284	2,194	1,524	1,454
Cash at Bank with Related Parties – Hatton National Bank PLC	409,235	563,602	220,660	293,515
Cash at Bank with Other Licensed Commercial Banks & Financial Institutions	7,512	15,236	1,121	987
	419,031	581,032	223,305	295,956
Short-Term Deposits				
Non related Commercial Banks and Financial institutions	342,840	60,918	279,256	56,351
Total Cash and Cash Equivalents (a)	761,871	641,950	502,561	352,307
Bank Overdrafts				
Bank Overdrafts with Related Parties – Hatton National Bank PLC	(122,776)	(137,446)	(42,636)	(32,756)
Bank Overdrafts with Other Licensed Commercial Banks	-	(4,214)	-	-
Total Bank Overdrafts (b)	(122,776)	(141,660)	(42,636)	(32,756)
Total Cash and Cash Equivalents for the Purpose of Statement Cash Flows (a+b)	639,095	500,290	459,925	319,551

13.1 Cash Pledged as Security for Liabilities

The company has obtained a Bank Guarantee facility from Hatton National Bank PLC for sum of Rs. 18.79 Million, being the 25% of sum assessed by the Commissioner General of Inland Revenue. This facility was secured by 100% cash margin lying to the credit in the account No. 701020065023.

14. STATED CAPITAL

	No. of Shares	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	50,000,000	1,171,875	1,171,875	1,171,875	1,171,875
Balance as at 31st December	50,000,000	1,171,875	1,171,875	1,171,875	1,171,875

14.1 Rights of Ordinary Shareholders

The Ordinary Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the members of the Company.

Accounting Policies and Notes to the Financial Statements

15. RETAINED EARNINGS

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	2,381,427	1,721,675	2,373,601	1,897,936
Profit for the Year (Excluding One-Off Surplus)	2,324,154	909,752	2,094,059	725,665
Dividend Paid to Equity Holders for Previous Year	(300,000)	(250,000)	(300,000)	(250,000)
Balance as at 31st December	4,405,581	2,381,427	4,167,660	2,373,601

16. AVAILABLE FOR SALE RESERVE

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	30,685	(7,152)	17,415	(1,465)
Other Comprehensive Income for the Year	(463,849)	452,240	(441,103)	433,283
Transferred to Life Policyholders' Reserve Fund	425,139	(414,403)	425,139	(414,403)
Balance as at 31st December	(8,025)	30,685	1,451	17,415

16.1 Available For Sale Reserve comprise of the impact arising from the changes in market values of financial assets classified under the category of Available For Sale.

17. OTHER RESERVE

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	(10,760)	1,790	(9,884)	(1,886)
Actuarial Gains/(Losses) – Gratuity	6,354	(12,550)	5,489	(7,998)
Balance as at 31st December	(4,406)	(10,760)	(4,395)	(9,884)

17.1 Other reserve comprises of the actuarial gains/(losses) arising from valuation of gratuity liability as required by LKAS 19 – Employee Benefits. (Effective w.e.f. 1st January 2013).

18. LIFE POLICYHOLDERS' AVAILABLE FOR SALE RESERVE FUND

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	223,272	(191,131)	223,272	(191,131)
Other Comprehensive Income for the Year	(425,139)	414,403	(425,139)	414,403
Balance as at 31st December	(201,867)	223,272	(201,867)	223,272

18.1 The Life Policyholders' Available For Sale Reserve Fund includes the fair value gains/(losses) recorded under Other Comprehensive Income arising from life insurance related financial assets categorised under Available For Sale.

19. RESTRICTED REGULATORY RESERVE

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	-	-	-	-
Transfer of One-Off Surplus from Policyholders' Fund to Shareholders' Fund	381,156	-	381,156	-
Balance as at 31st December	381,156	-	381,156	-

19.1 Nature and Purpose of the Reserve

As per the Direction issued by the IRCSL all Life Insurance Companies are allowed to transfer One-Off Surplus attributable to Policyholders' Non-participating fund to Shareholders' fund. This transfer has been presented as a separate reserve as "Restricted Regulatory Reserve" under equity in accordance with the Direction. Further this will be discussed in the Note 20.2 in page 277.

19.2 Composition of Investments Supporting the Restricted Regulatory Reserve

Based on the Direction issued by IRCSL following Instruments have been marked to support the Restricted Regulatory Reserve of the Company.

	Group/Company	
	2018	2017
Asset Category	Fair Value Rs. '000	Fair Value Rs. '000
Term Deposits	381,935	-

20. INSURANCE CONTRACT LIABILITIES – LIFE INSURANCE

■ — Accounting Policy

INSURANCE PROVISION – LIFE INSURANCE

Life Insurance Contract Liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future benefits, the expected future management and distribution expense, less the present value of future gross premiums arising from the policy discounted at the appropriate discount rate as specified by the Insurance Regulatory Commission of Sri Lanka. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is included in the valuation.

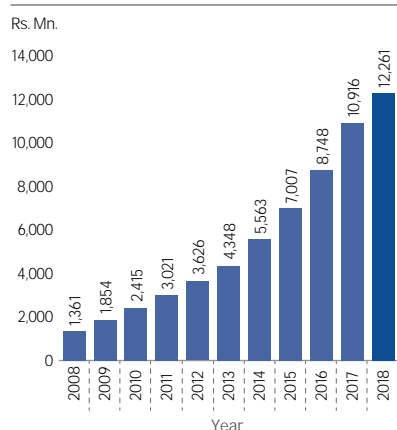
LIABILITY ADEQUACY TEST (LAT)

As required by SLFRS 4 – Insurance Contracts, the Company performed a Liability Adequacy Test (LAT) in respect of Life Insurance Contract Liabilities with the assistance of an External Actuary. In performing the LAT, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. Number of valuation techniques are applied including discounting cash flows, interest rate applied is based on the management's expectation of current market interest rates. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses.

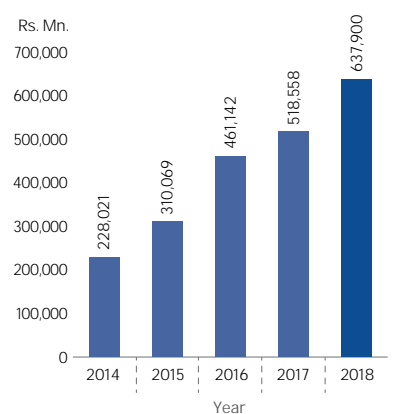
Accounting Policies and Notes to the Financial Statements

20. INSURANCE CONTRACT LIABILITIES – LIFE INSURANCE (Contd.)

Insurance Contract Liabilities - Life Fund



Surplus Distribution to Shareholders



As at 31st December,

	Note	Group/Company	
		2018	2017
		Rs. '000	Rs. '000
Insurance Contract Liabilities			
Life Insurance Fund	20.1	12,112,106	10,800,821
Claims Outstanding		149,366	115,037
Total Insurance Contract Liabilities – Life Insurance		12,261,472	10,915,858

20.1 Life Insurance Fund

The movement in the Life Insurance Fund is as follows:

	Note	Group/Company	
		2018	2017
		Rs. '000	Rs. '000
Balance as at 1st January		10,800,821	8,634,394
Change in Contract Liability due to transfer of One-Off Surplus	20.2	(381,156)	-
		10,419,665	8,634,394
Change in Contract Liabilities – Life Fund			
Increase in Life Insurance Fund Before Surplus Distribution to Shareholders		2,345,049	2,684,985
Surplus Distributed to Shareholders		(637,900)	(518,558)
Increase in Life Insurance Fund		1,707,149	2,166,427
Effect of Taxation on Surplus/Bonus Transferred to Policyholders	20.4	(14,708)	-
Change in Contract Liabilities – Life Fund		1,692,441	2,166,427
Balance as at 31st December		12,112,106	10,800,821

The valuation of the Life Insurance business as at 31st December 2018 was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of Messrs Actuarial Partners Consulting Sdn Bhd. Valuation of Life Insurance business is performed on a semi annual basis. According to the appointed Actuary's report, the reserve for the year amounted to Rs. 11,287 Million (2017 – Rs. 9,869 Million). In opinion of the appointed Actuary, the reserve is adequate to cover the liabilities pertaining to the Life Insurance business.

As recommended by the Consultant Actuary a sum of Rs. 637.9 Million (2017 – Rs. 518.6 Million) has been transferred from the Life Insurance Fund to the Shareholders' Fund for the year 2018. As per the Report of the Life Actuary, the Company's Capital Adequacy Ratio (CAR) is 319% (2017 – 358%) well above the minimum requirement of 120%.

20.2 Surplus Created due to Change in Valuation Method

As required by the IRCSL, every registered insurer was required to apply Solvency Margin (Risk Based Capital) Rules with effect from 1st January 2016. According to the Risk Based Capital rules, all Insurers are required to value Life Insurance Policy Liabilities as per the Gross Premium Valuation (GPV) method and valuation rules and methodologies stipulated by the IRCSL. The change in the valuation method from NPV to GPV resulted a release in Life Policyholder Liabilities of the Company as of 1st January 2016.

The IRCSL had directed insurance Companies to maintain this One-Off Surplus arising from change in the policy liability valuation within the long term insurance fund/insurance contract liabilities separately in the name of "Surplus created due to change in valuation method from NPV to GPV" and not to transfer/distribute any part surplus until specific instructions are issued in this regard.

Description		Participating Fund	Non-Participating Fund	Total
Value of Insurance contract liability based on NPV as at 31st December 2015	A	2,988,500	3,856,964	6,845,464
Value of Insurance contract liability based on GPV as at 31st December 2015	B	3,015,001	3,475,808	6,490,809
Zerorisation of Negative Surplus as per Direction No. 16	C	26,501	-	26,501
Surplus created due to Change in Valuation Method – One-Off Surplus as at 1st January 2016	A-B+C	-	381,156	381,156

Subsequently IRCSL, through the Direction No. 16 issued on 20th March 2018 on "Directions for identification and treatment of One-Off Surplus" Life Insurance Companies were directed to Transfer One-Off Surplus attributable to Policyholders' Non-Participating Fund to Shareholders' Fund in the relevant period. The transfer has been presented as a separate line item in the Profit or Loss as "Change in contract Liability due to transfer of One-Off Surplus" and as a separate reserve in the Statement of Financial Position as "Restricted Regulatory Reserve" under Equity in accordance with Direction. As required by the said Direction, the Company received the approval of the IRCSL for this transfer on 11th May 2018.

Further, distribution of One-Off Surplus to shareholders, held as part of the Restricted Regulatory Reserve, is subject to meeting governance requirements stipulated by the IRCSL and can only be released as dividends upon receiving approval from the IRCSL. The One-Off surplus in the shareholders' Fund will remain invested in Term deposits as disclosed in Note No. 19.2 as per the Direction of IRCSL.

The Financial ratios presented in these Annual Financial Statements have been determined in accordance with Sri Lanka Accounting Standards. Additionally the Company has voluntarily presented financial ratios without One-Off surplus impact. As per the Direction One-Off Surplus in respect of participating business is to be held within the participating fund as part of the unallocated valuation surplus and may only be transferred to the Shareholder Fund by means of bonuses to policyholders in line with Section 38 of the "Regulation of Insurance Industry, Act No. 43 of 2000".

Accounting Policies and Notes to the Financial Statements

20. INSURANCE CONTRACT LIABILITIES – LIFE INSURANCE (Contd.)

20.3 Distribution of One-Off Surplus

IRCSL will consider the distribution of One-Off Surplus when the RBC rules are revised. The distribution of one-off surplus to shareholders as dividends shall remain restricted until a Company develops appropriate policies and procedures for effective management of its business, as listed below, Further These policies should be approved by the Board of Directors of the Company and must also comply with any relevant guidance issued by IRCSL from time to time.

- Expense allocation policy setting out basis of allocation of expenses between the Shareholders' Fund and the Policyholders' Fund as well as between different lines of business within the Policyholders' Fund, particularly participating and Non-participating.
- Dividend declaration policy for universal life business.
- Bonus policy for the participating business, which should include treatment of One-Off Surplus for the purpose of bonus declaration.
- Asset Liability Management policy
- Policy on internal target Capital Adequacy Ratio.
- Considerations for transfer of funds from Policy Holders' Fund to Shareholders' Fund.

20.4 Effect of Taxation on Surplus/Bonus Transferred to Policyholders

According to the Section 67 (2) of new Inland Revenue Act No. 24 of 2017 which is effective from 1st April 2018, the surplus distributed to a life insurance policyholder who shares the profit of a person engaged in the business of life insurance, as provided in the Regulation of Insurance Industry Act, No. 43 of 2000, shall be deemed as gains and profits of the business and shall be taxed at a concessionary rate of 14% for three years of assessment after the commencement of the Act. This is a special provision introduced by the in the new Inland Revenue Act. As recommended by the Consultant Actuary, the Company declared a bonus of Rs. 105.1 Million to Life Insurance policyholders participating in the profits of the Life Insurance business. The Company has charged a tax of Rs. 14.7 Million on the said bonus which is payable to the Department of Inland Revenue as of the reporting date.

20.5 Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for Life Insurance contract Liability was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of Messers Actuarial Partners Consulting Sdn Bhd, as at 31st December 2018 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 2018. No additional provision was required against the LAT as at 31st December 2018. Refer page 212 for Actuarial Report provided by the consultant actuary for LAT.

21. INSURANCE CONTRACT LIABILITIES – GENERAL INSURANCE

■ — Accounting Policy

General Insurance Contract Liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise claims liabilities and premium liabilities.

CLAIMS LIABILITIES

Claims Liabilities are recognised in respect of both with reinsurance and without reinsurance. Claims liabilities refer to the obligation of the insurance company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. This include provision for claims reported, claims incurred but not reported (IBNR) together with related claims handling costs. Claims liabilities consist of the best estimate value of the claims liabilities and the Provision of Risk Margin for adverse Deviation (PRAD) calculated at line of business level.

PREMIUM LIABILITIES

Premium Liabilities are the higher of the aggregate of the UPR and the best estimate value of the insurer's Unexpired Risk Reserves (URR) at the valuation date and the PRAD calculated at line of business level.

The provision for unearned premium represents premium received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

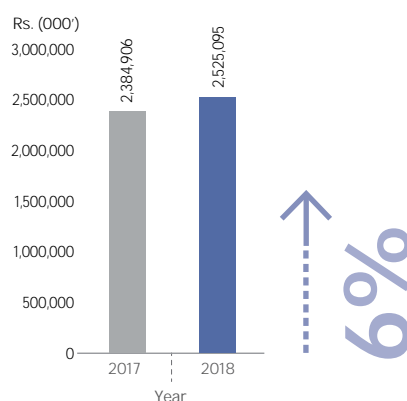
LIABILITY ADEQUACY TEST (LAT)

As required by SLFRS 4 – Insurance Contracts, the Group performed a Liability Adequacy Test (LAT) in respect of General Insurance Contract Liabilities with the assistance of the External Actuary.

TITLE INSURANCE RESERVE

Title Insurance reserve is maintained by the Group to pay potential claims arising from the Title Insurance policies. Title Insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised in the first year of the policy given the higher probability of claims occurring in the first year. From the 2nd year onwards, profit is recognised by amortising the premium received over a five year period using the straight line method. Profit in the first year will be recognised in the 2nd year and thereafter it will be periodically recognised.

Insurance Contract Liabilities - HNBGI



Accounting Policies and Notes to the Financial Statements

21. INSURANCE CONTRACT LIABILITIES – GENERAL INSURANCE (Contd.)

The General Insurance reserves as shown in the Statement of Financial Position represents the following:

	Note	Group		Company	
		2018	2017	2018	2017
As at 31st December,		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Reserves for Net Unearned Premium	21.1	1,794,696	1,592,450	-	-
Reserves for Title Insurance	21.2	49,582	34,840	-	-
Reserves for Gross Outstanding Claims	21.3	680,817	757,616	-	-
Total Insurance Contract Liabilities – General Insurance		2,525,095	2,384,906	-	-

21.1 Reserves for Net Unearned Premium

21.1.a. Reserves for Unearned Premium

	Note	Group		Company	
		2018	2017	2018	2017
As at 31st December,		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January		1,956,581	1,596,757	-	-
Increase in Reserve for Unearned Premium	28	145,520	359,824	-	-
Balance as at 31st December (a)		2,102,101	1,956,581	-	-

21.1.b. Reserve for Unearned Reinsurance Premium

	Note	Group		Company	
		2018	2017	2018	2017
As at 31st December,		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January		(364,131)	(317,896)	-	-
Decrease/(Increase) in Reserve for Unearned Reinsurance Premium	28	56,726	(46,235)	-	-
Balance as at 31st December (b)		(307,405)	(364,131)	-	-
Total Reserves for Net Unearned Premium (a+b)		1,794,696	1,592,450	-	-

21.2 Reserve for Title Insurance

	Note	Group		Company	
		2018	2017	2018	2017
As at 31st December,		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January (a)		34,840	19,611	-	-
Transfer to Title Insurance Reserve (b)		26,812	22,565	-	-
Recognition of Title Insurance Profit (c)	21.5	(12,070)	(7,336)	-	-
Transfer to Title Insurance Reserve (d=b+c)	28	14,742	15,229	-	-
Total Reserves for Title Insurance as at 31st December (a+d)		49,582	34,840	-	-

21.3 Reserves for Gross Outstanding Claims

As at 31st December,	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January		663,854	555,807	-	-
Claims Incurred during the Year		2,136,740	2,160,899	-	-
Claims Paid during the Year		(2,250,468)	(2,052,852)	-	-
Balance as at 31st December (a)		550,126	663,854	-	-
IBNR/IBNER balance as at 1st January		93,762	67,288	-	-
Increase in IBNR/IBNER		36,929	26,474	-	-
IBNR/IBNER Balance as at 31st December (b)	21.7	130,691	93,762	-	-
Total Reserves for Gross Outstanding Claims (a+b)		680,817	757,616	-	-

21.4 Reconciliation between Insurance Contract Liabilities and Technical Reserves

As at 31st December,	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Insurance Contract Liabilities – General Insurance		2,525,095	2,384,906	-	-
Reserve for Net Deferred Acquisition Expenses	12	(140,486)	(105,287)	-	-
Reinsurance on Claims Reserves		(120,953)	(293,827)	-	-
Reinsurance on Claims Reserves IBNR/IBNER		(52,770)	(29,795)	-	-
Technical Reserves		2,210,886	1,955,997	-	-

21.5 Recognition of Title Insurance Profit

Net Written Premium on Title Insurance after deducting acquisition cost has been transferred to the Title Reserves account to pay potential claims arising from the Title Insurance policies. During the year, the Group recognised Rs. 12 Million (2017 – Rs. 7.34 Million) as profit from Title Insurance.

21.6 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.

21.7 Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER)

IBNR and IBNER claims Reserves as at 31st December 2018 has been actuarially computed by Mr. Sivaraman Kumar, FIA (31st December 2017 – Mr. Mathew 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 and ensured adequate reserves are maintained.

21.8 Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for General Insurance Contract Liability was carried out by Mr. Sivaraman Kumar, FIA, for and on behalf of NMG Financial Services Consulting Pte Limited as at 31st December 2018 (31st December 2017 – Mr. Mathew Maguire FIAA) as required by SLFRS 4 – Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on semi annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31st December 2018. No additional provision was required against the LAT as at 31st December 2018. Refer page 214 for Actuarial Report provided by the consultant actuary for LAT.

Accounting Policies and Notes to the Financial Statements

22. EMPLOYEE DEFINED BENEFIT LIABILITIES

■ — Accounting Policy

DEFINED BENEFIT PLAN

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified Actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 – Employee Benefits. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

The re-measurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognised immediately in Other Comprehensive Income. Interest cost and current service cost are recognised in Profit or Loss.

Under the Payment of Gratuity Act, No. 12 of 1983, the liability to pay the gratuity to an employee arises only on completion of 5 years of continued service.

22.1 Defined Benefit Plan – Provision for Employee Benefits

	Note	Group		Company	
		2018	2017	2018	2017
As at 31st December,					
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Present Value of Unfunded Obligation	22.1.1.	140,356	126,083	84,840	73,875

22.1.1 Movement in the Present Value of the Employee Defined Benefit Plan

	Note	Group		Company	
		2018	2017	2018	2017
As at 31st December,					
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January		126,083	90,433	73,875	50,883
Provision Recognised during the Year	22.1.1.a	33,928	30,540	20,023	18,028
Actuarial (Gains)/Losses during the Plan Year	22.1.1.b	(6,354)	12,550	(5,489)	7,998
		153,657	133,523	88,409	76,909
Payments during the Year		(13,301)	(7,440)	(4,618)	(3,397)
Adjustment due to Transfer of Employees from Subsidiary Company		-	-	1,049	363
Balance as at 31st December		140,356	126,083	84,840	73,875

22.1.1.a Provision Recognised in Profit or Loss

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Current Service Cost	21,320	19,688	12,635	11,922
Interest on Obligation	12,608	10,852	7,388	6,106
Total	33,928	30,540	20,023	18,028

22.1.1.b Provision Recognised in Other Comprehensive Income

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Actuarial Gains/(Losses) due to Changes in Assumptions	11,612	(12,714)	8,296	(7,463)
Actuarial (Losses)/Gains due to Changes in Experience	(5,258)	164	(2,807)	(535)
Actuarial Gains/(Losses) during the Plan Year	6,354	(12,550)	5,489	(7,998)

As at 31st December 2018, the Gratuity liability was actuarially valued under the Projected Unit Credit (PUC) method by Consultant Actuary Mr. Pushpakumar Gunasekera (Actuary/Associate of Institute of Australia) of Messrs Smiles Global (Pvt) Ltd.

22.1.2 The Gratuity Liability is not externally funded.

22.2 Principal Assumptions Used

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(a) Discount Rate	11.5%	10.0%	11.5%	10.0%
(b) Future Salary Increase Rate	9.0%	9.0%	9.0%	9.0%
(c) Early withdrawal through Resignations				
– Less than 5 Years	21% - 41%	25% - 33%	41%	33%
– More than 5 Years	8% - 14%	9% - 10%	8.0%	10.0%
(d) Retirement Age	55 years	55 years	55 years	55 years

Accounting Policies and Notes to the Financial Statements

22. EMPLOYEE DEFINED BENEFIT LIABILITIES (Contd.)

22.3 Maturity Analysis of the Liability

As at 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Within Next 12 Months	1,851	2,436	1,851	1,526
Between 1 to 2 Years	6,081	2,590	5,707	2,175
Between 2 to 5 Years	36,547	28,287	19,891	17,630
Between 5 to 10 Years	82,290	91,563	43,804	52,544
Beyond 10 Years	13,587	1,207	13,587	-
Total	140,356	126,083	84,840	73,875

22.4 Sensitivity effect on Statement of Financial Position

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

As at 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
1% Increase in Discount Rate	(6,915)	(7,025)	(4,473)	(3,931)
1% Decrease in Discount Rate	7,671	7,858	4,998	4,369
1% Increase in Salary	8,304	8,333	5,380	4,662
1% Decrease in Salary	(7,600)	(7,571)	(4,887)	(4,244)

23. CURRENT TAX LIABILITIES

■ — Accounting Policy

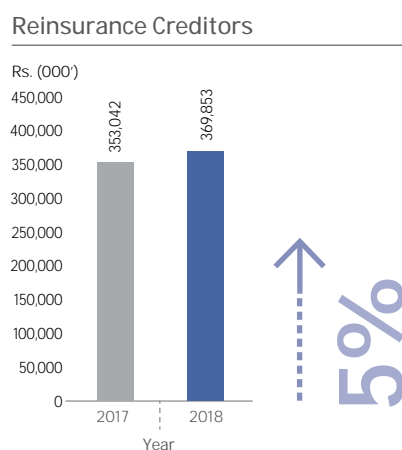
Current tax liabilities consist of amounts expected to be paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date.

As at 31st December,	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January		34,598	3,300	-	-
Current Tax for the Year		7,833	34,600	-	-
Effect of Taxation on Surplus/ Bonus Transferred to Policyholders	20.4	14,708	-	14,708	
(Over)/Under Provision Pertaining to Previous Year		(3,124)	621	-	-
		54,015	38,521	14,708	-
Tax Set Off during the Year					
Economic Service Charge		(31,474)	(3,923)	-	-
Balance as at 31st December		22,541	34,598	14,708	-

24. REINSURANCE CREDITORS

■ — Accounting Policy

Reinsurance creditors consist of premiums payable to reinsurers. Amounts payable are estimated in a manner consistent with the relevant reinsurance contract and are recognised at cost.



As at 31st December,

	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Domestic Reinsurer – National Insurance Trust Fund (NITF)	59,896	95,723	-	-
Foreign Reinsurers	309,957	257,319	116,268	90,650
Total Reinsurance Creditors	369,853	353,042	116,268	90,650

25. OTHER LIABILITIES

■ — Accounting Policy

FINANCIAL LIABILITIES

The Group initially recognises financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

OTHER LIABILITIES

Other Liabilities include accruals and advances and these liabilities are recorded at the amounts that are expected to be paid.

Accounting Policies and Notes to the Financial Statements

25. OTHER LIABILITIES (Contd.)

As at 31st December,	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Policyholders Advance Payments		106,199	85,998	106,199	85,998
Acquisition Cost Payable		152,590	139,268	75,364	69,823
Advisor Terminal Benefit Payable	25.1	211,209	173,879	189,162	156,703
Government Levies		92,739	71,331	38,749	14,494
Amounts due to Related Parties	25.2	28,156	25,701	10,614	15,300
Accrued Expenses		144,861	116,362	71,740	71,392
Co-Insurance Payable		3,430	3,682	-	-
Claims Payable		1,297	645	-	-
Staff Related Payables		202,168	133,817	129,731	90,949
Others		150,160	145,605	20,911	25,203
Total		1,092,809	896,288	642,470	529,862

25.1 Advisor Terminal Benefit Payable

As at 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Life Insurance	189,162	156,703	189,162	156,703
General Insurance	22,047	17,176	-	-
Total	211,209	173,879	189,162	156,703

25.2 Amounts due to Related Parties

As at 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Hatton National Bank PLC	28,156	25,701	10,614	15,300
Total	28,156	25,701	10,614	15,300

26. GROSS WRITTEN PREMIUM (GWP)

■ — Accounting Policy

INSURANCE PREMIUMS

Revenue Recognition

Life Insurance Business

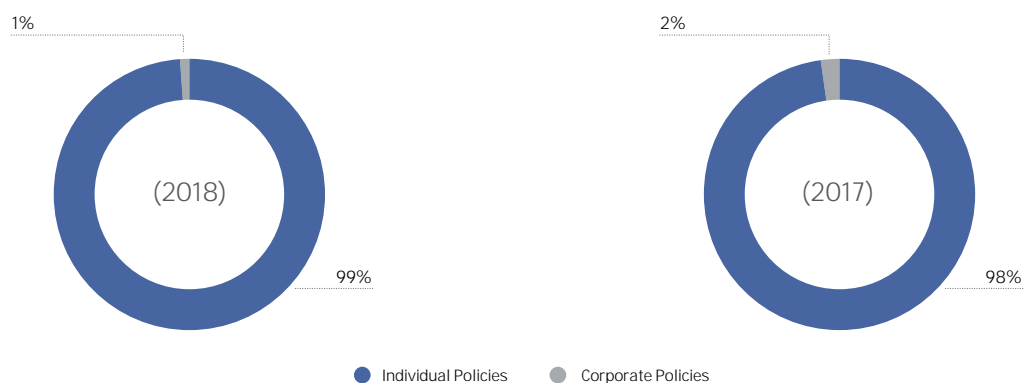
Gross Written Premium on Life Insurance contracts are recognised as revenue when a premium is due from a Policyholder (policies within the 30 day grace period are considered as due). Premium received in advance are not recorded as revenue but recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as revenue. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

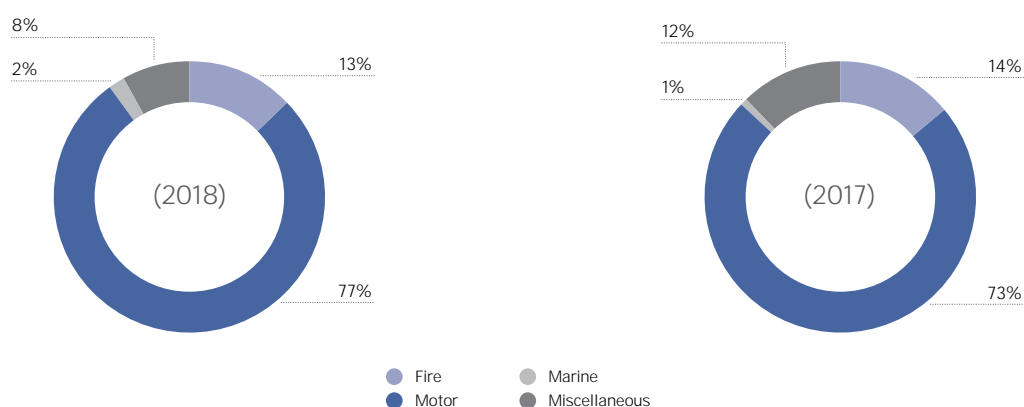
General Insurance Business

Gross Written Premium on General Insurance comprise the total premium received/receivable for the whole period of cover provided by contracts entered into during the accounting period. Premium is generally recognised upon the inception of the policy as written and is earned primarily on a pro-rata basis over the term of the related policy coverage.

Gross Written Premium – Life Insurance



Gross Written Premium – General Insurance



Accounting Policies and Notes to the Financial Statements

26. GROSS WRITTEN PREMIUM (Contd.)

For the Year Ended 31st December,	Group							
	2018				2017			
	Basic Rs. '000	*SRCC/TC Rs. '000	**Co- Insurance Local Rs. '000	Total Rs. '000	Basic Rs. '000	*SRCC/TC Rs. '000	**Co- Insurance Local Rs. '000	Total Rs. '000
General Insurance								
Fire	374,957	189,990	(10,424)	554,523	388,848	160,776	(10,274)	539,350
Motor	2,809,186	536,316	-	3,345,502	2,403,886	445,419	(263)	2,849,042
Marine	70,452	15	-	70,467	57,387	79	(15)	57,451
Miscellaneous	342,649	27,465	(31)	370,083	438,979	21,761	(80)	460,660
Adjustment for Inter Company Premiums	(6,494)	-	-	(6,494)	(23,045)	-	-	(23,045)
Gross Written Premium – General Insurance	3,590,750	753,786	(10,455)	4,334,081	3,266,055	628,035	(10,632)	3,883,458
Life Insurance								
Individual Policies				4,381,792				3,891,527
Corporate Policies				38,721				72,115
Adjustment for Inter Company Premiums				(29,898)				(25,632)
Gross Written Premium – Life Insurance				4,390,615				3,938,010
Total Gross Written Premium				8,724,696				7,821,468

For the Year Ended 31st December,	Company							
	2018				2017			
	Basic Rs. '000	*SRCC/TC Rs. '000	**Co- Insurance Local Rs. '000	Total Rs. '000	Basic Rs. '000	*SRCC/TC Rs. '000	**Co- Insurance Local Rs. '000	Total Rs. '000
Life Insurance								
Individual Policies				4,381,792				3,891,527
Corporate Policies				38,721				72,115
Total Gross Written Premium				4,420,513				3,963,642

* SRCC – (Strike Riot and Civil Commotion Cover), TC – (Terrorism Cover); both ceded to the SRCC and TC Fund

** Co-Insurance is an arrangement to share risks with domestic insurer under a special contract and the portion shared with the co-insurance partner is not considered as a part of Gross Written Premium.

27. PREMIUM CEDED TO REINSURERS

■ — Accounting Policy

Gross reinsurance premium on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Value of the reinsurance premiums are decided based on rates agreed with reinsurers.

	Group		Company	
	2018	2017	2018	2017
For the Year Ended 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
General Insurance				
Fire	505,899	522,305	-	-
Motor	129,223	105,347	-	-
Marine	61,832	50,900	-	-
Miscellaneous	146,685	232,928	-	-
	843,639	911,480	-	-
Life Insurance	215,630	189,093	215,630	189,093
Total Premium Ceded to Reinsurers	1,059,269	1,100,573	215,630	189,093

28. NET CHANGE IN RESERVES FOR UNEARNED PREMIUM

■ — Accounting Policy

Gross Written Premium of General business is deferred over the term of the underlying policies' risk attached period according to the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendment there to, Unearned premiums are the proportion of premiums that relate to the period of risk after the respective reporting period. Group uses 1/24th basis to defer the GWP of all policies except for the Marine Insurance policies and Title Insurance policies, where Marine Insurance premiums are deferred based on 60 : 40 basis and total premiums on Title Insurance are transferred to Reserve for Title Insurance for the reporting period.

Similarly Reinsurance Premiums attached to those policies are also deferred over the policies risk attached period using the same basis as mentioned above. Further, Title Insurance Reserve is maintained based on the net transfer of Net Written Premium after deducting acquisition cost and profit recognised during that period.

	Note	Group		Company	
		2018	2017	2018	2017
For the Year Ended 31st December,		Rs. '000	Rs. '000	Rs. '000	Rs. '000
General Insurance					
Change in Reserve for Unearned Premium	21.1.a.	(145,520)	(359,824)	-	-
Change in Reserve for Unearned Reinsurers Premium	21.1.b.	(56,726)	46,235	-	-
Transfer to Reserve for Title Insurance	21.2	(14,742)	(15,229)	-	-
Total Net Change in Reserves for Unearned Premium		(216,988)	(328,818)	-	-

Accounting Policies and Notes to the Financial Statements

29. NET EARNED PREMIUM

For the Year Ended 31st December,	Group					
	2018			2017		
	General	Life	Total	General	Life	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	4,340,575	4,420,513	8,761,088	3,906,503	3,963,642	7,870,145
Adjustment for Inter Company Premium	(6,494)	(29,898)	(36,392)	(23,045)	(25,632)	(48,677)
	4,334,081	4,390,615	8,724,696	3,883,458	3,938,010	7,821,468
Change in Reserve for Unearned Premium	(145,520)	-	(145,520)	(359,824)	-	(359,824)
Gross Earned Premium (a)	4,188,561	4,390,615	8,579,176	3,523,634	3,938,010	7,461,644
Premium Ceded to Reinsurance	(843,639)	(215,630)	(1,059,269)	(911,480)	(189,093)	(1,100,573)
Change in Reserve for Unearned Reinsurance Premium	(56,726)	-	(56,726)	46,235	-	46,235
Gross Reinsurance Premium (b)	(900,365)	(215,630)	(1,115,995)	(865,245)	(189,093)	(1,054,338)
Transfer to Title Insurance Reserve (c)	(14,742)	-	(14,742)	(15,229)	-	(15,229)
Total Net Earned Premium (a+b+c)	3,273,454	4,174,985	7,448,439	2,643,160	3,748,917	6,392,077

For the Year Ended 31st December,	Group/Company	
	2018	2017
	Rs. '000	Rs. '000
Gross Written Premium	4,420,513	3,963,642
Premium Ceded to Reinsurance	(215,630)	(189,093)
Total Net Earned Premium	4,204,883	3,774,549

30. INTEREST AND DIVIDEND INCOME

■ — Accounting Policy

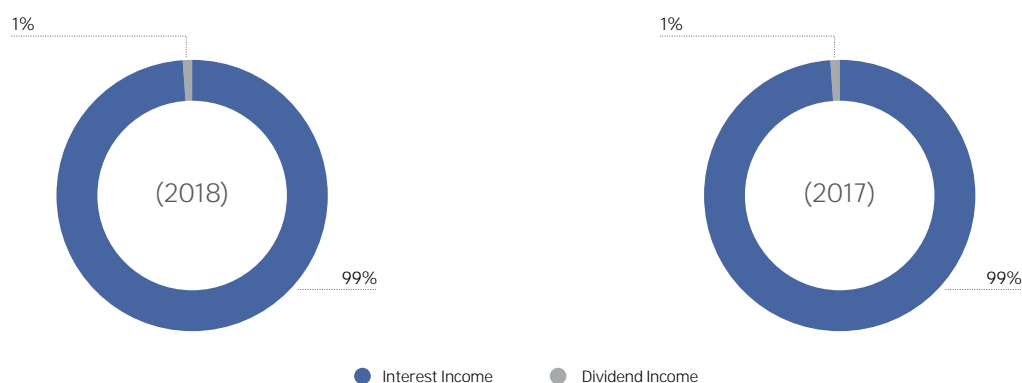
Interest Income

Interest income is recognised in Profit or Loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Dividend Income

Dividend income is recognised when the right to receive income is established which is usually the ex-dividend date of equity securities. Dividends are presented in net trading income or net income from other financial instruments at Fair Value Through Profit or Loss.

Finance Income Composition – Group



For the Year Ended 31st December,

	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income	30.1	1,883,053	1,684,689	1,588,206	1,435,151
Dividend Income	30.2	4,290	8,502	3,694	6,922
Total Interest Income and Dividend Income		1,887,343	1,693,191	1,591,900	1,442,073

30.1 Interest Income

For the Year Ended 31st December,

	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Interest Income from Financial Investments – Held to Maturity				
Treasury Bonds	2,196	23,678	2,196	23,678
Total (a)	2,196	23,678	2,196	23,678
Interest Income from Financial Investments – Loans and Receivables				
Debentures	391,284	330,015	331,704	276,885
Repurchase Agreements on Government Securities	76,841	91,822	53,737	68,643
Fixed Deposits	619,434	365,059	512,152	291,730
Staff, Advisor and Policy Loans	77,708	63,059	60,213	45,872
Total (b)	1,165,267	849,955	957,806	683,130
Interest Income from Financial Investments – Available For Sale				
Treasury Bonds	680,240	722,427	617,925	675,635
Treasury Bills	15,762	66,132	213	35,825
Total (c)	696,002	788,559	618,138	711,460
Interest Income from Cash and Cash Equivalents (d)	19,588	22,497	10,066	16,883
Total Interest Income (a+b+c+d)	1,883,053	1,684,689	1,588,206	1,435,151

Accounting Policies and Notes to the Financial Statements

30. INTEREST AND DIVIDEND INCOME (Contd.)

30.2 Dividend Income

	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
For the Year Ended 31st December,				
Equity Shares	4,176	8,330	3,614	6,802
Unit Trust	114	172	80	120
Total Dividend Income	4,290	8,502	3,694	6,922

31. NET REALISED GAINS

■ — Accounting Policy

Net Realised Gains comprises gains less losses related to Financial Instruments. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost which are recorded on occurrence of the sale, on de-recognition of investments classified as AFS, the cumulative gain or loss previously recognised in OCI is recycled to profit or loss.

	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
For the Year Ended 31st December,				
Financial Investments – Available For Sale				
Realised Gains				
Treasury Bonds	72,151	15,922	67,368	14,612
Equity Shares	592	14,563	592	13,284
Total (a)	72,743	30,485	67,960	27,896
Realised Losses				
Equity Shares	(202)	-	-	-
Total (b)	(202)	-	-	-
Total Net Realised Gains – Available For Sale (a+b)	72,541	30,485	67,960	27,896
Financial Investments – Fair Value Through Profit or Loss				
Realised Gains				
Unit Trusts	-	2	-	-
Equity Shares	915	1,896	713	893
Total (c)	915	1,898	713	893
Financial Investments – Loans and Receivables				
Realised Gains				
Debentures	-	148	-	-
Foreign Exchange	602	597	-	-
Total (d)	602	745	-	-
Total Net Realised Gains (a+b+c+d)	74,058	33,128	68,673	28,789

32. NET FAIR VALUE GAINS/(LOSSES)

■ — Accounting Policy

Net fair value gains/(losses) comprises fair value gains/(Losses) on financial assets at Fair Value Through Profit or Loss and Loans and Receivables categories and any impairment loss of Available For Sales financial assets.

	Note	Group		Company	
		2018	2017	2018	2017
For the Year Ended 31st December,		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Investments at Fair Value Through Profit or Loss					
Unrealised Gains					
Unit Trust		-	1,945	-	1,360
Equity Securities		-	6,902	-	6,902
Total (a)		-	8,847	-	8,262
Unrealised Losses					
Unit Trust		(3,089)	-	(2,160)	-
Equity Securities		(22,596)	(747)	(21,433)	-
Total (b)		(25,685)	(747)	(23,593)	-
Financial Investments at Available For Sale					
Impairment of Available For Sale Financial Assets		(7,998)	(1,856)	(7,640)	(1,447)
Total (c)	32.1	(7,998)	(1,856)	(7,640)	(1,447)
Loans and Receivables					
Unrealised Gains					
Foreign Exchange – Term Deposits (d)		42,165	3,460	13,197	838
Total Net Fair Value Gains/(Losses) (a+b+c+d)		8,482	9,704	(18,036)	7,653

32.1 Impairment of Equity Shares

Group has experienced a significant and prolonged decline in market price than Cost of equity shares categorised under AFS category hence an impairment loss is recognised in Profit or Loss.

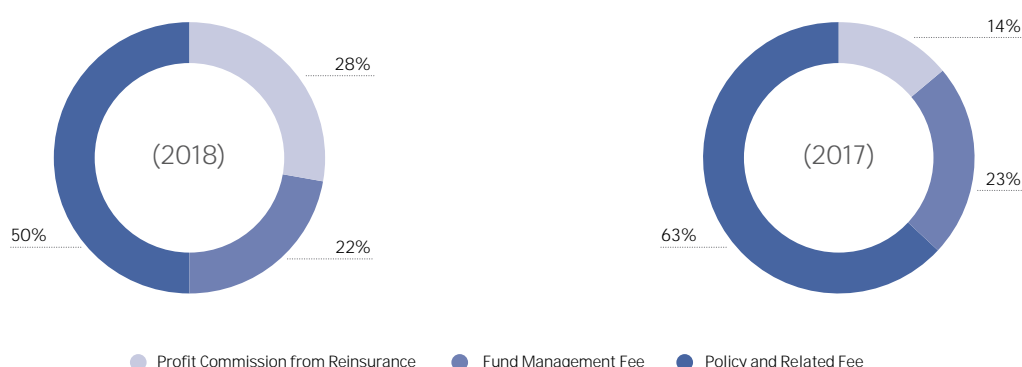
Accounting Policies and Notes to the Financial Statements

33. FEE AND COMMISSION INCOME

■ — Accounting Policy

Insurance contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as income upon receipt or become due.

Fee and Commission Income Composition – Group



For the Year Ended 31st December,

	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Profit Commission from Reinsurers	48,192	18,466	25,298	19,330
Fund Management Fee	38,084	29,516	43,531	34,059
Policy and Related Fee	86,370	81,117	10,636	8,105
Total Fee and Commission Income	172,646	129,099	79,465	61,494

34. OTHER INCOME

■ — Accounting Policy

Incomes earned on other sources, which are not directly related to the normal operations of the Group/Company are recognised as Sundry Income upon receipt or become due. Gain or Loss on disposal of an item of property, plant and equipment is calculated as the excess over the net proceeds from disposal and carrying amount at the time of disposal and recognised under other income in profit of Loss.

For the Year Ended 31st December,

	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Profit on Sale of Property, Plant and Equipment	178	5,584	171	5,934
Sundry Income	35,852	41,151	14,456	19,024
Total Other Income	36,030	46,735	14,627	24,958

35. NET INSURANCE BENEFITS AND CLAIMS PAID

■ — Accounting Policy

Benefits and claims for insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and recorded net of recoveries from Reinsurance on Claims.

Benefits and Claims Paid – Life Insurance

Claims by death and maturity are charged on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

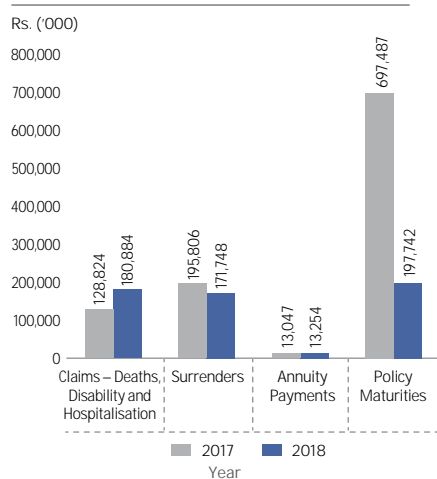
Benefits and Claims Paid – General Insurance

General Insurance claims include all claims occurred during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, reductions for the value of salvage and other recoveries.

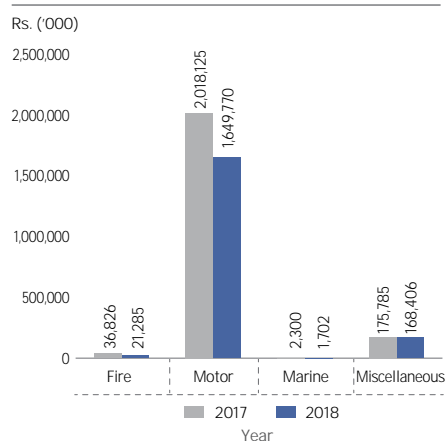
Reinsurance on Claims

Reinsurance on Claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

Net Claims Paid – HNBA



Net Claims Paid – HNBGI



Accounting Policies and Notes to the Financial Statements

35. NET INSURANCE BENEFITS AND CLAIMS PAID (Contd.)

For the Year Ended 31st December,	Group					
	2018			2017		
	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
General Insurance						
Fire	330,691	(294,451)	36,240	349,356	(329,308)	20,048
Motor	1,914,994	(38,930)	1,876,064	1,465,058	(39,294)	1,425,764
Marine	12,767	(10,467)	2,300	10,975	(9,273)	1,702
Miscellaneous	224,986	(50,292)	174,694	226,818	(58,412)	168,406
Net General Insurance Claims (a)			2,089,298			1,615,920
Life Insurance						
Claims – Deaths, Disability and Hospitalisation	200,279	(71,455)	128,824	250,904	(70,020)	180,884
Surrenders	195,806	-	195,806	171,748	-	171,748
Annuity Payments	13,047	-	13,047	13,254	-	13,254
Policy Maturities	697,487	-	697,487	197,742	-	197,742
			1,035,164			563,628
Adjustments for Inter Company Claims			(877)	-	-	(992)
Net Life Insurance Claims (b)			1,034,287			562,636
Total Net Insurance Benefits and Claims Paid (a+b)			3,123,585			2,178,556

For the Year Ended 31st December,	Company					
	2018			2017		
	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Life Insurance						
Claims – Deaths, Disability and Hospitalisation	200,279	(71,455)	128,824	250,904	(70,020)	180,884
Surrenders	195,806	-	195,806	171,748	-	171,748
Annuity Payments	13,047	-	13,047	13,254	-	13,254
Policy Maturities	697,487	-	697,487	197,742	-	197,742
Total Net Insurance Benefits and Claims Paid			1,035,164			563,628

36. NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

■ — Accounting Policy

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) are 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 quarterly basis.

Whilst 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 the relevant period.

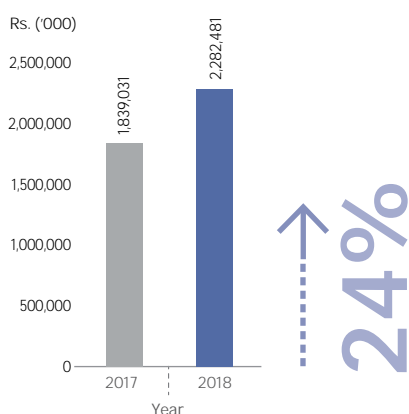
The methods used to estimate claims and the estimated claim values are reviewed regularly.

For the Year Ended 31st December,	Group		Company	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
Gross Change in Insurance Claims Outstanding				
Life Insurance (a)	34,329	1,575	34,329	1,575
General Insurance				
Fire	(177,451)	28,240	-	-
Motor	74,637	114,674	-	-
Marine	7,684	(3,707)	-	-
Miscellaneous	18,331	(4,687)	-	-
Total General Insurance (b)	(76,799)	134,520	-	-
Total Gross Change in Insurance Claims Outstanding (c = a+b)	(42,470)	136,095	34,329	1,575
Gross Change in Reinsurance Recoverable on Claims Outstanding				
Life Insurance (d)	(2,919)	10,348	(2,919)	10,348
General Insurance				
Fire	173,643	(17,088)	-	-
Motor	(1,821)	(14,044)	-	-
Marine	(6,628)	3,394	-	-
Miscellaneous	(6,901)	(3,855)	-	-
Total General Insurance (e)	158,293	(31,593)	-	-
Total Gross Change in Reinsurance Recoverable on Claims Outstanding (f = d+e)	155,374	(21,245)	(2,919)	10,348
Total Net Change in Insurance Claims Outstanding (c+f)	112,904	114,850	31,410	11,923

Accounting Policies and Notes to the Financial Statements

37. OTHER OPERATING AND ADMINISTRATION EXPENSES

Operating and Administration Expenses



	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
For the Year Ended 31st December,					
Staff Expenses	37.1	1,084,613	922,873	550,379	465,085
Administration and Establishment Expense		608,679	545,616	381,750	346,017
Selling Expenses		331,967	282,299	202,430	158,145
Provision for tax credits (Notional tax)		162,583	-	162,583	-
Amortisation of Intangible Assets		19,685	18,937	12,360	10,912
Depreciation of Property, Plant and Equipment		49,285	51,770	25,619	26,997
Directors' Fees and Remuneration		18,565	12,235	11,925	8,075
Auditor's Fees and Expenses	37.2	5,104	4,509	3,060	3,026
Legal Fees		1,710	492	1,403	226
Donations		290	300	290	300
Total Other Operating and Administration Expenses		2,282,481	1,839,031	1,351,799	1,018,783

37.1 Staff Expenses

■ — Accounting Policy

SHORT-TERM BENEFITS

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

EMPLOYEE DEFINED CONTRIBUTION PLAN

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in Profit and Loss when incurred.

EMPLOYEE PROVIDENT FUND

All employees of the Group are members of the Employees' Provident Fund (EPF). The Group and employees contribute 12% and 8% respectively of the salary to EPF.

EMPLOYEES TRUST FUND

All employees of the Group are members of the Employees' Trust Fund (ETF). The Group contributes 3% of the salary of each employee to ETF.

For the Year Ended 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Staff Salaries	634,340	558,054	314,935	274,905
Defined Contribution Plan Costs – EPF 12%	76,121	66,966	37,792	32,989
Defined Contribution Plan Costs – ETF 3%	19,030	16,742	9,448	8,247
Defined Benefit Plan Costs – Employee Benefits	33,927	30,540	17,074	15,469
Other Staff Costs	321,195	250,571	171,130	133,475
Total	1,084,613	922,873	550,379	465,085

37.2 Auditor's Fees and Expenses

For the Year Ended 31st December,	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Audit Fees and Expenses	4,250	3,131	2,575	2,156
Audit Related Fees	854	1,378	485	870
Total	5,104	4,509	3,060	3,026

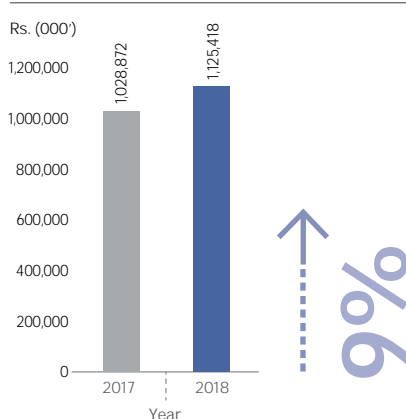
Accounting Policies and Notes to the Financial Statements

38. UNDERWRITING AND NET ACQUISITION COSTS

■ — Accounting Policy

Expenses for acquisition and maintenance of Life and General Insurance business are accounted for net of reinsurance commission on accrual basis. Reinsurance Commission Income is accrued according to the agreed terms with the reinsurers.

Underwriting and Net acquisition cost



For the Year Ended 31st December,

	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Underwriting and Acquisition Costs		1,362,146	1,263,214	862,720	836,026
Reinsurance Commission		(201,529)	(204,006)	(14,752)	(13,311)
Increase in Deferred Acquisition Expenses	38.1	(35,199)	(30,336)	-	-
Total Underwriting and Net Acquisition Costs		1,125,418	1,028,872	847,968	822,715

38.1 Increase in Net Deferred Acquisition Expenses

For the Year Ended 31st December,

	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Decrease/(Increase) in Deferred Reinsurance Commission	4,701	(7,470)	-	-
Increase in Acquisition Cost	30,498	37,806	-	-
Total Increase in Net Deferred Acquisition Expenses	35,199	30,336	-	-

39. INCOME TAX REVERSAL/(EXPENSE)

■ — Accounting Policy

Income Tax Expense comprises current and Deferred Tax. Current and deferred taxes are recognised in Profit or Loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

CURRENT TAX

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years. 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. 24 of 2017 (for first the months in accordance with Act, No. 10 of 2006).

Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in Equity or Other Comprehensive Income is recognised in Equity or Other Comprehensive Income and not in Profit or Loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

DEFERRED TAXATION

Deferred Taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount substantively enacted by the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences. As at the date of the Statement of Financial Position, the Group has deferred tax liabilities arising from Property Plant and Equipment.

Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be fully utilised. Deferred tax assets, if any, are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside Profit or Loss, if any is recognised outside Profit or Loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Accounting Policies and Notes to the Financial Statements

39. INCOME TAX REVERSAL/(EXPENSE) (Contd.)

The major components of income tax expense for the years ended 31st December are as follows:

39.1.a Tax Recognised in Profit or Loss

	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
For the Year Ended 31st December,					
Current Income Tax					
Income Tax on Current Year's Profits		7,833	34,600	-	-
Provision for tax credits (Notional tax)	11.5	103,132	-	103,132	-
(Over)/Under Provision of Current Taxes in Respect of Prior Years		(3,124)	621	-	-
Total Current Income Tax (a)		107,841	35,221	103,132	-
Deferred Income Tax					
Origination of Deferred Tax Liability		207	(742)	-	-
Origination of Deferred Tax Assets		(1,232,704)	18,688	(1,280,499)	-
Deferred Taxation (b)	39.5	(1,232,497)	(17,946)	(1,280,499)	-
Total Income Tax (Reversal)/Expense (a+b)		(1,124,656)	17,275	(1,177,367)	-

39.1.b Tax Recognised in Other Comprehensive Income

	Note	Group		Company	
		2018	2017	2018	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
For the Year Ended 31st December,					
Deferred Income Tax					
Origination of Deferred Tax Asset/(Liability)	39.5	8,288	(6,770)	-	-

39.2 Reconciliation of Effective Tax rate

	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
For the Year Ended 31st December,				
Profit for the Year	2,705,310	909,752	2,475,215	725,665
Current Tax Expenses	4,709	35,221	-	-
Provision for Tax Credits (Notional Tax)	103,132	-	103,132	-
Origination of Deferred Tax Assets	(1,232,497)	(17,946)	(1,280,499)	-
Profit Before Tax	1,580,654	927,027	1,297,848	725,665
At the Statutory Income Tax Rate of 28% (2017 – 28%)	442,583	259,568	363,397	203,186
Income Exempt from Tax	(208,920)	(223,533)	(194,239)	(203,186)
Aggregate Allowable Expenses	(7,607)	(6,175)	-	-
Aggregate Disallowed Expenses	20,360	23,328	4,933	-
Utilisation of Previous Tax Losses	(238,583)	(18,588)	(174,091)	-
Under Provision of Current Taxes in Respect of Prior Years	(3,124)	621	-	-
Provision for Tax Credits (Notional Tax)	103,132	-	103,132	-
Origination of Deferred Tax Assets	(1,232,497)	(17,946)	(1,280,499)	-
Income Tax Expenses	(1,124,656)	17,275	(1,177,367)	-

39.3 The Company and its subsidiary are liable to pay income tax at the rate of 28% of its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto.

39.4 Tax Loss Analysis

	Group		Company	
	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	5,373,043	4,708,101	5,111,360	4,374,944
Prior Year Adjustments	(81,248)	2,688	(87,104)	7,778
Tax Loss Incurred During the Year	170,709	(66,384)	170,709	-
Tax Losses Utilised during the Year	(852,082)	728,638	(621,753)	728,638
Balance as at 31st December	4,610,422	5,373,043	4,573,212	5,111,360

39.5 Deferred Taxation

	Notes	Group		Company	
		2018	2017	2018	2017
For the Year Ended 31st December,		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred Tax Assets	39.5.a & 39.5.c	1,311,091	70,100	1,280,499	-
Deferred Tax Liabilities	39.5.b	(6,209)	(6,002)	-	-
Net Deferred Tax Asset		1,304,882	64,098	1,280,499	-

As at 31st December,	Group							
	Statement of Financial Position				Profit or Loss		Other Comprehensive Income	
	2018		2017		2018	2017	2018	2017
	Temporary Difference	Tax Effect Assets/ (Liability)	Temporary Difference	Tax Effect Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Employee Benefits	55,516	15,544	52,208	14,618	927	3,544	-	-
Brought Forward Tax Losses	4,610,422	1,290,918	211,217	59,141	1,231,777	15,144	-	-
Available For Sale Financial Assets	16,531	4,629	(13,068)	(3,659)	-	-	8,288	(6,770)
Total	4,682,469	1,311,091	250,357	70,100	1,232,704	18,688	8,288	(6,770)

39.5.a Deferred Tax Assets

Employee Benefits	55,516	15,544	52,208	14,618	927	3,544	-	-
Brought Forward Tax Losses	4,610,422	1,290,918	211,217	59,141	1,231,777	15,144	-	-
Available For Sale Financial Assets	16,531	4,629	(13,068)	(3,659)	-	-	8,288	(6,770)
Total	4,682,469	1,311,091	250,357	70,100	1,232,704	18,688	8,288	(6,770)

39.5.b Deferred Tax Liability

Property, Plant and Equipment	22,174	(6,209)	21,436	(6,002)	(207)	(742)	-	-
Total	-	1,304,882	-	64,098	1,232,497	17,946	8,288	(6,770)

Accounting Policies and Notes to the Financial Statements

39. INCOME TAX REVERSAL/(EXPENSE) (Contd.)

As at 31st December,	Company							
	Statement of Financial Position				Profit or Loss		Other Comprehensive Income	
	2018		2017		2018	2017	2018	2017
	Temporary Difference	Tax Effect Assets/ (Liability)	Temporary Difference	Tax Effect Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)
	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000
39.5.c Deferred Tax Assets								
Brought Forward								
Tax Losses	4,573,212	1,280,499	-	-	1,280,499	-	-	-
Total	-	1,280,499	-	-	1,280,499	-	-	-

As per Section 67 of new Inland Revenue Act No. 24 of 2017 which is effective from 1st April 2018, the Company incurred a taxable income. The new act allows to deduct 100% of taxable income against the tax losses incurred whereas in the previous Act it was limited to 35% of the Total Statutory Income. As at 31st March 2018, Life Insurance business had a cumulative tax loss of Rs. 5,194 Million was incurred as per Section 92 Inland Revenue Act No. 10 of 2006, out of which Rs. 170 Million was incurred for the three months period from 1st January 2018 to 31st March 2018 while the balance Rs. 5,024 Million was in account of tax losses brought forward from previous years. According to the transitional provisions of new Act, brought forward tax losses can be claimed against taxable income for a period of 6 years with effect from 1st April 2018. The Company made an assessment of future taxable profits and identified that total tax losses can be claimed within the period specified in the transitional provisions. Accordingly a Deferred tax asset of Rs. 1,454.5 Million was recognised during the year of which Rs. 174.09 Million was utilised for the taxable income of Rs. 621.75 Million generated for the nine months commencing from 1st April 2018 to 31st December 2018 as per the Inland Revenue Act No. 24 of 2017.

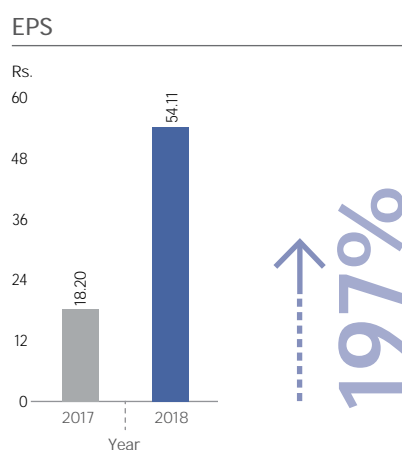
The Subsidiary company, HNB General Insurance Limited also recorded a Deferred Tax Asset amounted to Rs. 24.4 Million for net temporary difference out of this Rs. 10.09 Million was recognised on losses made in 2015 and balance Rs. 14.31 Million recognised on other temporary differences the Group does not have unrecognised deferred tax asset as at reporting date.

40. BASIC EARNINGS PER SHARE (EPS)

■ — Accounting Policy

The Group presents basic and diluted Earnings Per Share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the Profit or Loss attributable to ordinary shareholders of the Group/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.

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.



For the Year Ended 31st December,	Group		Company	
	2018	2017	2018	2017
Amounts Used as the Numerator:				
Net Profit Attributable to Ordinary Shareholders (Rs. '000)	2,705,310	909,752	2,475,215	725,665
Number of Ordinary Shares Used as the Denominator:				
Weighted of Shares as at 31st December ('000)	50,000	50,000	50,000	50,000
Basic Earnings Per Share (Rs.)	54.11	18.20	49.50	14.51

40.1 Basic Earnings Per Share – Excluding One-Off Surplus (EPS)

For the Year Ended 31st December,	Group		Company	
	2018	2017	2018	2017
Amounts Used as the Numerator:				
Net Profit (Rs. '000)	2,705,310	909,752	2,475,215	725,665
Less : One-Off Surplus (Rs. '000)	(381,156)	-	(381,156)	-
Net Profit Attributable to Ordinary Shareholders (Rs. '000)	2,324,154	909,752	2,094,059	725,665
Number of Ordinary Shares Used as the Denominator:				
Weighted of Shares as at 31st December ('000)	50,000	50,000	50,000	50,000
Basic Earnings Per Share (Rs.)	46.48	18.20	41.88	14.51

40.2 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.

Accounting Policies and Notes to the Financial Statements

41. DIVIDEND PER SHARE (DPS)

For the Year Ended 31st December,	Group/Company	
	2018	2017
Dividend per Share (Rs.)	7.00	6.00

41.1 Dividend Declared

For the Year Ended 31st December,	2018	2017
	Rs. '000	Rs. '000
Dividends to Shareholders	301,517	271,186
Tax Deducted at Source	48,483	28,814
Total	350,000	300,000

41.2 Proposed Dividend

The Board of Directors has recommended a payment of Rs. 7.00 per share as a first and final dividend on 11th February 2019 for the year ended 31st December 2018 (2017 – interim and final dividend Rs. 6.00 per share) which is subject to the approval of the shareholders at the Annual General Meeting to be held on 28th March 2019.

In accordance with Sri Lanka Accounting Standards LKAS 10 – Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31st December 2018.

Under the Inland Revenue Act, No. 24 of 2017, a withholding tax of 14% (2017 – 10%) has been imposed on dividends from 1st April 2018 onwards.

41.3 Compliance with the Section 56 and 57 of the Companies Act No. 07 of 2007

As required by the Section 56 of the Companies Act, No. 07 of 2007, the Board of Directors of the Company has satisfied the Solvency Test in accordance with the Section 57, prior to recommend the first and final dividend for the year ended 31st December 2018. A statement of Solvency completed and duly signed by the Directors on 11th February 2019 has been audited by M/S Ernst & Young Sri Lanka.

41.4 Dividend Paid during the Year

For the Year Ended 31st December,	2018	2017
	Rs. '000	Rs. '000
Interim and Final Dividend for 2017 : Rs. 6 per Share (Final Dividend for 2016 : Rs. 5 per Share)	300,000	250,000

42. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT

■ — Accounting Policy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability Or;

In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Accounting Policies and Notes to the Financial Statements

42. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

Instrument Category	Fair Value Basis	Fair Value Hierarchy
Government Securities		
Treasury Bonds & Treasury Bills	Valued using the market yields obtained from the "Weekly Economic Indicators" report published by the Central Bank of Sri Lanka (CBSL) on www.cbsl.gov.lk	Level 1
Investment in Shares		
Listed Shares	Volume Weighted Average (VWA) prices obtained from the "CSE Daily" report published by the Colombo Stock Exchange (CSE) on www.cse.lk	Level 1
Investment in Units		
Listed Units	Volume Weighted Average (VWA) prices obtained from the "CSE Daily" report published by the CSE on www.cse.lk	Level 1
Corporate Debt		
Listed/Unlisted Fixed Rate	Discounted Cash Flow (DCF) Method using current Treasury Bond rates (obtained from the "Weekly Economic Indicators" report published by the CBSL on www.cbsl.gov.lk) for similar maturity plus a risk premium. The risk premium is determined based on the upgrade/downgrade of the credit rating of the instrument	Level 2*
Fixed and Term Deposits		
Deposits more than One Year	Discounted Cash Flow (DCF) Method using Government Treasury Bond rates (obtained from the "Weekly Economic Indicators" report published by the CBSL on www.cbsl.gov.lk) for similar maturity plus a risk premium. The risk premium is determined based on the upgrade/downgrade of the credit rating of the institution.	Level 2
Other Financial Assets		
Staff and Advisor Loans	The fair value of the staff and Advisor loans has been computed based on the interest rates prevailed at reporting date.	Level 2

Listed Corporate Debt have been classified under level two in fair value hierarchy since there is no active market for these instruments even if such instruments are listed. Therefore when calculating the fair value published market prices are not used.

The following is a list of financial instruments which have not been considered under the fair value measurement hierarchy, because the carrying amount of those financial instruments is a reasonable approximation of fair value since they are short-term in nature or re-priced to current market rates frequently:

Assets	Liabilities
Cash and Cash Equivalents/Term Deposits less than one year	Reinsurance Creditors
Repo	Other Liabilities (Excluding Government Levies and Accruals)
Loans to Life Policyholders	
Reinsurance Receivables	
Premium Receivables	

42.1 Accounting Classifications and Fair Value – Group

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

42.1.a Financial Assets

As at 31st December,

	2018						
	Note	Held to	Loans and	Available	Fair Value	Total	Fair
		Maturity	Receivables	for Sale	Through	Carrying	Value
	Rs. '000	Rs. '000	Rs. '000	Profit or	Amount	Rs. '000	
Measured at Fair Value	6.3 & 6.4	-	-	6,776,591	93,025	6,869,616	6,869,616
Measured at Amortised Cost	6.2	-	10,709,515	-	-	10,709,515	10,585,692
Loans to Life Policyholders	8	-	243,113	-	-	243,113	243,113
Reinsurance Receivables	9	-	415,773	-	-	415,773	415,773
Premium Receivables	10	-	798,213	-	-	798,213	798,213
Staff and Advisor Loans	11.1	-	439,896	-	-	439,896	439,896
Cash and Cash Equivalents	13	-	761,871	-	-	761,871	761,871
Total Financial Assets		-	13,368,381	6,776,591	93,025	20,237,997	20,114,174

42.1.b Financial Liabilities

As at 31st December,

	2018			
	Note	Other	Total	Fair
		Financial	Carrying	Value
		Liabilities	Amount	
Reinsurance Creditors	24	369,853	369,853	369,853
Other Liabilities (Excluding Government Levies, Other Provisions and Accruals)		395,385	395,385	395,385
Bank Overdrafts	13	122,776	122,776	122,776
Total Financial Liabilities		888,014	888,014	888,014

42.1.c Financial Assets

As at 31st December,

	2017						
	Note	Held to	Loans and	Available	Fair Value	Total	Fair
		Maturity	Receivables	For Sale	Through	Carrying	Value
	Rs. '000	Rs. '000	Rs. '000	Profit or	Amount	Rs. '000	
Measured at Fair Value	6.3 & 6.4	-	-	6,326,735	130,285	6,457,020	6,457,020
Measured at Amortised Cost	6.1 & 6.2	180,460	8,417,430	-	-	8,597,890	8,505,981
Loans to Life Policyholders	8	-	162,285	-	-	162,285	162,285
Reinsurance Receivables	9	-	569,778	-	-	569,778	569,778
Premium Receivables	10	-	786,319	-	-	786,319	786,319
Staff and Advisor Loans	11.1	-	399,075	-	-	399,075	399,075
Cash and Cash Equivalents	13	-	641,950	-	-	641,950	641,950
Total Financial Assets		180,460	10,976,837	6,326,735	130,285	17,614,317	17,522,408

Accounting Policies and Notes to the Financial Statements

42. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

42.1.d Financial Liabilities

As at 31st December,

	2017			
	Note	Other Financial Liabilities	Total Carrying Amount	Fair Value
Reinsurance Creditors	24	353,042	353,042	353,042
Other Liabilities (Excluding Government Levies, Other Provisions and Accruals)		342,530	342,530	342,530
Bank Overdrafts	13	141,660	141,660	141,660
Total Financial Liabilities		837,232	837,232	837,232

42.1.e The Group's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in Note 44.

42.2 Accounting Classifications and Fair Value – Company

The table below sets out the carrying amounts and fair values of the Company's financial assets and financial liabilities:

42.2.a Financial Assets

As at 31st December,

	2018						
	Note	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available For Sale Rs. '000	Fair Value Through Profit or Loss Rs. '000	Total Carrying Amount Rs. '000	Fair Value Rs. '000
Measured at Fair Value	6.3 & 6.4	-	-	5,872,886	78,439	5,951,325	5,951,325
Measured at Amortised Cost	6.1 & 6.2	-	8,728,381	-	-	8,728,381	8,627,920
Loans to Life Policyholders	8	-	243,113	-	-	243,113	243,113
Reinsurance Receivables	9	-	75,926	-	-	75,926	75,926
Premium Receivables	10	-	8,046	-	-	8,046	8,046
Staff and Advisor Loans	11.1	-	277,819	-	-	277,819	277,819
Cash and Cash Equivalents	13	-	502,561	-	-	502,561	502,561
Total Financial Assets		-	9,835,846	5,872,886	78,439	15,787,171	15,686,710

42.2.b Financial Liabilities

As at 31st December,

	2018			
	Note	Other Financial Liabilities	Total Carrying Amount	Fair Value
Reinsurance Creditors	24	116,268	116,268	116,268
Other Liabilities (Excluding Government Levies, Other Provisions and Accruals)		275,140	275,140	275,140
Bank Overdrafts	13	42,636	42,636	42,636
Total Financial Liabilities		434,044	434,044	434,044

42.2.c Financial Assets

As at 31st December,

2017

	Note	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Available For Sale Rs. '000	Fair Value Through Profit or Loss Rs. '000	Total Carrying Amount Rs. '000	Fair Value Rs. '000
Measured at Fair Value	6.3 & 6.4	-	-	5,659,291	111,524	5,770,815	5,770,815
Measured at Amortised Cost	6.1 & 6.2	180,460	6,789,740	-	-	6,970,200	6,905,047
Loans to Life Policyholders	8	-	162,285	-	-	162,285	162,285
Reinsurance Receivables	9	-	65,010	-	-	65,010	65,010
Premium Receivables	10	-	7,488	-	-	7,488	7,488
Staff and Advisor Loans	11.1	-	239,081	-	-	239,081	239,081
Cash and Cash Equivalents	13	-	352,307	-	-	352,307	352,307
Total Financial Assets		180,460	7,615,911	5,659,291	111,524	13,567,186	13,502,033

42.2.d Financial Liabilities

As at 31st December,

2017

	Note	Other Financial Liabilities	Total Carrying Amount	Fair Value
Reinsurance Creditors	24	90,650	90,650	90,650
Other Liabilities (Excluding Government Levies, Other Provisions and Accruals)		241,826	241,826	241,826
Bank Overdrafts	13	32,756	32,756	32,756
Total Financial Liabilities		365,232	365,232	365,232

42.2.e The Company's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in Note 44.

Accounting Policies and Notes to the Financial Statements

42. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

42.3 Fair Value Measurement Hierarchy

The table below analyses financial investments carried at fair value, by valuation method, in respect of the fair value hierarchy disclosures below.

The different levels have been defined as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As at 31st December,		Group			
		2018			
		Fair Value Measurement Disclosed Using			
	Note	Quoted Prices in Active Markets (Level 1) Rs. '000	Significant Observable (Level 2) Rs. '000	Significant Unobservable (Level 3) Rs. '000	Total Fair Value Rs. '000
Fair Value Through Profit or Loss (FVTPL)					
Investment in Units	6.4.2	9,152	-	-	9,152
Equity Shares	6.4.1	83,873	-	-	83,873
Total (a)	6.4	93,025	-	-	93,025
Available For Sale (AFS)					
Treasury Bonds	6.3	6,555,839	-	-	6,555,839
Treasury Bills	6.3	165,467	-	-	165,467
Equity Shares	6.3.1	55,285	-	-	55,285
Total (b)	6.3	6,776,591	-	-	6,776,591
Loans and Receivable (L & R)					
Term Deposit (More than One Year)		-	2,247,907	-	2,247,907
Debentures	6.2.2	-	3,663,069	-	3,663,069
Staff and Advisor Loans	11.1	-	439,896	-	439,896
Total (c)		-	6,350,872	-	6,350,872
Total Financial Assets (a+b+c)		6,869,616	6,350,872	-	13,220,488

As at 31st December,	Group				
	2017				
	Fair Value Measurement Disclosed Using				
	Note	Quoted Prices in Active Markets (Level 1) Rs. '000	Significant Observable (Level 2) Rs. '000	Significant Unobservable (Level 3) Rs. '000	Total Fair Value Rs. '000
Fair Value Through Profit or Loss (FVTPL)					
Investment in Units	6.4.2	12,241	-	-	12,241
Equity Shares	6.4.1	118,044	-	-	118,044
Total (a)	6.4	130,285	-	-	130,285
Available For Sale (AFS)					
Treasury Bonds	6.3	6,031,354	-	-	6,031,354
Treasury Bills	6.3	217,307	-	-	217,307
Equity Shares	6.3.1	78,074	-	-	78,074
Total (b)	6.3	6,326,735	-	-	6,326,735
Held to Maturity (HTM)					
Treasury Bonds	6.1	-	181,166	-	181,166
Total (c)		-	181,166	-	181,166
Loans and Receivable (L & R)					
Term Deposit (More than One Year)		-	2,212,278	-	2,212,278
Debentures	6.2.2	-	2,650,179	-	2,650,179
Staff and Other Loans	11.1	-	399,075	-	399,075
Total (d)		-	5,261,532	-	5,261,532
Total Financial Assets (a+b+c+d)		6,457,020	5,442,698	-	11,899,718

Accounting Policies and Notes to the Financial Statements

42. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

As at 31st December,	Company				
	2018				
	Fair Value Measurement Disclosed Using				
	Note	Quoted Prices in Active Markets (Level 1) Rs. '000	Significant Observable (Level 2) Rs. '000	Significant Unobservable (Level 3) Rs. '000	Total Fair Value Rs. '000
Fair Value Through Profit or Loss (FVTPL)					
Investment in Units	6.4.2	6,400	-	-	6,400
Equity Shares	6.4.1	72,039	-	-	72,039
Total (a)	6.4	78,439	-	-	78,439
Available For Sale (AFS)					
Treasury Bonds	6.3	5,777,918	-	-	5,777,918
Treasury Bills	6.3	45,282	-	-	45,282
Equity Shares	6.3.1	49,686	-	-	49,686
Total (b)	6.3	5,872,886	-	-	5,872,886
Loans and Receivable (L & R)					
Term Deposit (More than One Year)		-	2,046,327	-	2,046,327
Debentures	6.2.2	-	3,087,967	-	3,087,967
Staff and Other Loans	11.1	-	277,819	-	277,819
Total (c)		-	5,412,113	-	5,412,113
Total Financial Assets (a+b+c)		5,951,325	5,412,113	-	11,363,438

As at 31st December,	Company				
	2017				
	Fair Value Measurement Disclosed Using				
	Note	Quoted Prices in Active Markets (Level 1) Rs. '000	Significant Observable (Level 2) Rs. '000	Significant Unobservable (Level 3) Rs. '000	Total Fair Value Rs. '000
Fair Value Through Profit or Loss (FVTPL)					
Investment in Units	6.4.2	8,560	-	-	8,560
Equity Shares	6.4.1	102,964	-	-	102,964
Total (a)	6.4	111,524	-	-	111,524
Available For Sale (AFS)					
Treasury Bonds	6.3	5,590,047	-	-	5,590,047
Equity Shares	6.3.1	69,244	-	-	69,244
Total (b)	6.3	5,659,291	-	-	5,659,291
Held to Maturity (HTM)					
Treasury Bonds	6.1	-	181,166	-	181,166
Total (c)		-	181,166	-	181,166
Loans and Receivable (L & R)					
Term Deposit (More than One Year)		-	2,009,793		2,009,793
Debentures	6.2.2	-	2,236,241	-	2,236,241
Staff and Other Loans	11.1	-	239,081		239,081
Total (d)		-	4,485,115	-	4,485,115
Total Financial Assets (a+b+c+d)		5,770,815	4,666,281	-	10,437,096

43. RELATED PARTY DISCLOSURES

43.1 Transactions with Key Management Personnel of the Company or its Parent

According to Sri Lanka Accounting Standard LKAS 24 – Related Party Disclosure, Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors (including Executive and Non-Executive Directors) of the Group/Company have been classified as Key Management Personnel of the Group/Company. In Addition, Chief Operating Officer – Life and Chief Financial Officer have also been classified as Key Management Personnel of the Group/Company further their immediate family members are also considered as related parties of the Group/Company.

Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective KMP for his/her financial needs.

Hatton National Bank PLC (Bank) is the ultimate parent of the Company, and the Board of Directors of the Bank have the authority and responsibility of planning, directing and controlling the activities of the Group/Company. The Directors of the Bank and their immediate family members have also been identified as Key Management Personnel of the Group/Company.

Accounting Policies and Notes to the Financial Statements

43. RELATED PARTY DISCLOSURES (Contd.)

Fees and transactions carried out with the related parties are given below:

For the Year Ended 31st December,	2018	2017
	Rs. '000	Rs. '000
(a). Key Management Personnel Compensation		
Directors Fee	18,565	12,235
Short-Term Employee Benefits	49,798	41,110
Post Employment Benefits	5,067	4,410
Outstanding Loan Balance Granted to KMPs	5,360	5,224

In addition to salaries, the Group/Company also provides non-cash benefits to Key Management Personnel and contributes to a defined benefit plan (Gratuity) on behalf of them.

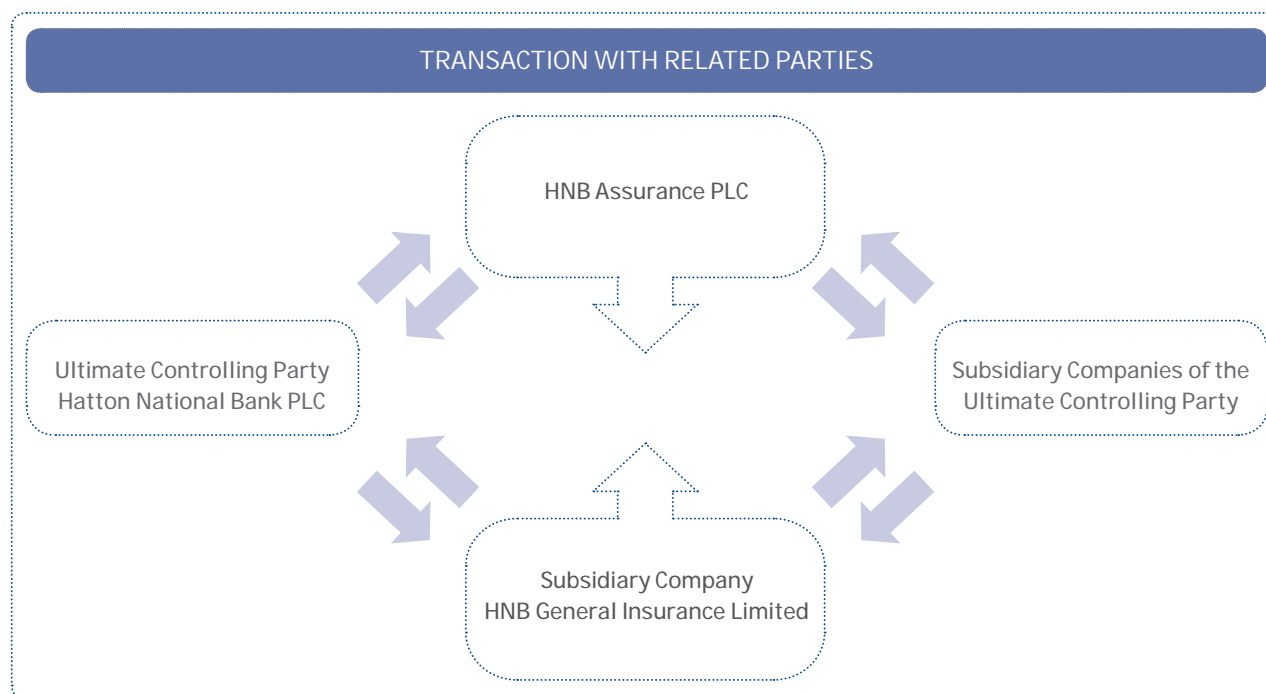
No loans have been granted to the Directors of the Group/Company.

For the Year Ended 31st December,	2018	2017
	Rs. '000	Rs. '000
(b). Other Transactions with Key Management Personal		
Insurance Premium – General Insurance	1,238	1,149
Insurance Premium – Life Insurance	781	744
Claims Paid – General Insurance	184	305
Claims Paid – Life Insurance	1,808	-

(c). Following Directors were Appointed to the Board of HNB Assurance PLC

Name of the Director	Effective Date of Appointment
Mr. D R Abeyesuriya	1st January 2018

Subsequent Appointments and resignations of the Directors after reporting date are disclosed under Note 45.b.



43.2 Transaction with Related Parties

The Group/Company carries out transactions in the ordinary course of its business with parties who are defined as related parties according to the Sri Lanka Accounting Standard LKAS 24 – Related Party Disclosures.

Transactions with related parties were made on the basis of the price in force with non-related parties, but subject to approved discounts. Outstanding balances with related parties other than balances relating to investment related transactions as at the reporting date are unsecured and interest free. Settlement will take place in cash. Such outstanding balances have been included under respective assets and liabilities together with balances arising from transactions with non-related parties.

Details of related party transactions are reported below:

43.2.a Transactions with the Subsidiary Company – HNB General Insurance Limited

For the Year Ended 31st December,	Company	
	2018	2017
	Rs. '000	Rs. '000
Insurance Premium	29,898	25,632
Insurance Expenses	6,494	23,045
Claims Received	877	992
Claims Paid	-	3,500
Administrations Expenses Reimbursement	250,752	247,939
Fund Management Fee Income	5,447	4,543
Profit Commission Expenses	12,423	8,741

Accounting Policies and Notes to the Financial Statements

43. RELATED PARTY DISCLOSURES (Contd.)

43.2.b Transactions with/between the Parent and Ultimate Controlling Party – Hatton National Bank PLC

For the Year Ended 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Nature of Transactions				
Insurance Premium	10,212	25,127	-	-
Claims Incurred	26,045	17,389	-	-
Investment Income	76,654	43,546	59,025	35,026
Administration Expenses	254,443	222,157	157,699	134,698
Rent Expenses	8,505	5,994	5,570	4,042
Other Operational Expenses	1,260	2,275	864	1,866
Dividends Paid	179,958	149,965	179,958	149,965

As at 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Nature of Transactions				
Investments (Includes Deposits and Debentures)	1,009,575	411,461	835,802	358,497
Cash at Bank Balances	286,458	426,156	178,024	260,759

43.2.c Transactions with/between Subsidiary Companies and Joint Ventures of the Ultimate Controlling Party

For the Year Ended 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(a). Sithma Development (Pvt) Ltd.				
Nature of Transactions				
Insurance Premium	632	1,534	-	-
Claims Paid	2,991	13	-	-
(b). HNB Finance Ltd.				
Nature of Transactions				
Insurance Premium	5,757	38,989	-	38,098
Claims Incurred	1,781	83,591	-	83,355
Administration Expenses	6,075	6,218	1	2,951
Interest Income	7,499	4,992	7,499	4,992
Investment in Term Deposits (As at 31st December)	50,681	50,243	50,681	50,243
(c). Acuity Partners (Pvt) Ltd.				
Nature of Transactions				
Insurance Premium	910	402	274	-
Claims Incurred	529	-	-	-
(d). Acuity Stockbrokers (Pvt) Ltd.				
Nature of Transactions				
Insurance Premium	784	226	-	-
Claims Incurred	356	-	-	-

For the Year Ended 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(e). Acuity Securities Ltd.				
Nature of Transactions				
Insurance Premium	565	108	-	-
Claims Incurred	223	-	-	-
Investment in REPO (As at 31st December)	1,078,670	643,218	786,115	464,790
Investment Income from REPO	70,608	62,223	49,575	47,264

43.2.d 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 Group/Company. Significant influence is presumed to be established if a Key Management Person of the Group/Company has more than 20% shareholding in an entity, unless otherwise reported by the Key Management Personnel. Further significant influence is also established if in the view of the respective Key Management Person, he/she has the ability to influence the operating and financial policies of an entity even in the absence of a 20% shareholding.

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of Transactions	Group		Company	
			2018	2017	2018	2017
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
Lanka Walltiles PLC	Dr. Sivakumar Selliah	Insurance Premium	2,098	1,101	-	-
	Mr. Mahendra Jayasekara	Claims Incurred	4	183	-	-
Lanka Tiles PLC	Mr. Mahendra Jayasekara	Insurance Premium	5,670	4,018	-	-
	Dr. Sivakumar Selliah	Claims Incurred	1,621	3,330	-	-
Lanka Ceramics PLC	Dr. Sivakumar Selliah	Insurance Premium	951	1019	-	-
	Mr. Mahendra Jayasekara	Claims Incurred	5,184	384	-	-
Andysel (Pvt) Ltd.	Dr. Sivakumar Selliah	Insurance Premium	-	119	-	-
M N Properties (Pvt) Ltd.	Mr. Mahendra Jayasekara	Insurance Premium	182	5	-	-
Swisstek (Ceylon) PLC	Dr. S Selliah	Insurance Premium	473	413	-	-
	Mr. J A P M Jayasekera	Claims Incurred	-	-	-	-
Swistek Aluminium Ltd.	Dr. S Selliah	Insurance Premium	133	-	-	-
	Mr. J A P M Jayasekera					
M M B L Leisure Holdings (Pvt) Ltd.	Dr. Sivakumar Selliah	Insurance Premium	-	1,101	-	-
	Mr. Mahendra Jayasekara	Claims Incurred	-	183	-	-
Lanka Financial Services Bureau	Mr. A J Alles	Insurance Premium	12	8	-	-
Capital Holdings Maharaja (Pvt) Ltd.	Ms. Eshini Mudalige	Insurance Premium	-	238	-	-
BeyondM (Pvt) Ltd.	Mr. R S Captain	Insurance Premium	285	89	-	-
		Claims Incurred	49	-	-	-
AKK Engineers (Pvt) Ltd.	Dr. L R Karunaratne	Insurance Premium	-	64	-	-
CIC Holdings PLC	Mr. R S Captain	Insurance Premium	1,288	1,312	-	-
Stassen Export (Pvt) Ltd.	Ms. D S C Jayawardena	Insurance Premium	322	331	-	-
Nicholas Education Services (Pvt) Ltd.	Mr. R A F Arseculeratne	Insurance Premium	-	154	-	-
		Claims Incurred	47	79	-	-
Vydexa (Lanka) Power Corporation (Pvt) Ltd.	Dr. Sivakumar Selliah	Insurance Premium	-	1,295	-	-

Accounting Policies and Notes to the Financial Statements

43. RELATED PARTY DISCLOSURES (Contd.)

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of Transactions	Group		Company	
			2018	2017	2018	2017
			Rs. '000	Rs. '000	Rs. '000	Rs. '000
LWL Development (Pvt) Ltd.	Mr. Mahendra Jayasekara	Insurance Premium	-	19	-	-
Polypac Secco Ltd.	Mr. R S Captain	Insurance Premium	-	349	-	-
		Claims Incurred	54	49	-	-
Lanka Aluminium Industries PLC	Mr. D S Weerakkody	Insurance Premium	28	-	-	-
Arunodhaya Industries (Pvt) Ltd.	Dr. S Selliah	Insurance Premium	186	-	-	-
Arunodhaya Investments (Pvt) Ltd.	Dr. S Selliah	Insurance Premium	208	-	-	-

43.2.e Transactions with the Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds more than 25% of the voting rights of the Ultimate parent Company Hatton National Bank PLC as at 31st December 2018 and thus has significant influence over its operation and thereby holds an indirect control over the Group/Company. Accordingly the Group/Company has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government related entities) as Related Parties according to LKAS 24 – Related Party Disclosures.

During the year ended 31st December 2018, the Group/Company has carried out transactions with the Government of Sri Lanka and other government related entities in the ordinary course of its business, the details of which are given below. All the transactions are carried out under the normal course of business at prevailing market prices.

Name of the Company/Entity	Nature of Transactions	Group		Company		
		2018	2017	2018	2017	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Government and Government Related Financial Institutes						
Government of Sri Lanka		Investment Balances as at 31st December	7,799,976	7,201,122	6,609,315	6,311,302
		Investment Income	754,223	736,348	655,796	646,099
Bank of Ceylon	Government Related Entity	Investment Balances as at 31st December	59,639	59,639	59,639	59,639
		Investment Income	6,420	22,477	6,420	21,017
HDFC Bank of Sri Lanka	Government Related Entity	Investment Balances as at 31st December	-	69,300	-	69,300
		Investment Income	7,542	9,300	7,542	9,300
National Development Bank PLC	Government Related Entity	Investment Balances as at 31st December	1,254,992	980,089	1,036,461	785,368
		Investment Income	126,755	62,551	104,265	51,560
People's Bank	Government Related Entity	Investment Balances as at 31st December	1,025,149	978,081	879,214	840,402
		Investment Income	114,683	87,294	97,280	72,614
National Savings Bank	Government Related Entity	Investment Balances as at 31st December	275,958	-	250,896	-
		Investment Income	958	-	896	-

Apart from the transactions listed above the Group has carried out transactions with other government related entities in the form of premium income, reinsurance premium, claims, taxes, utility bills, regulatory charges etc. The total of such payments made during the year ended 31st December 2017 and 2016 are as follows:

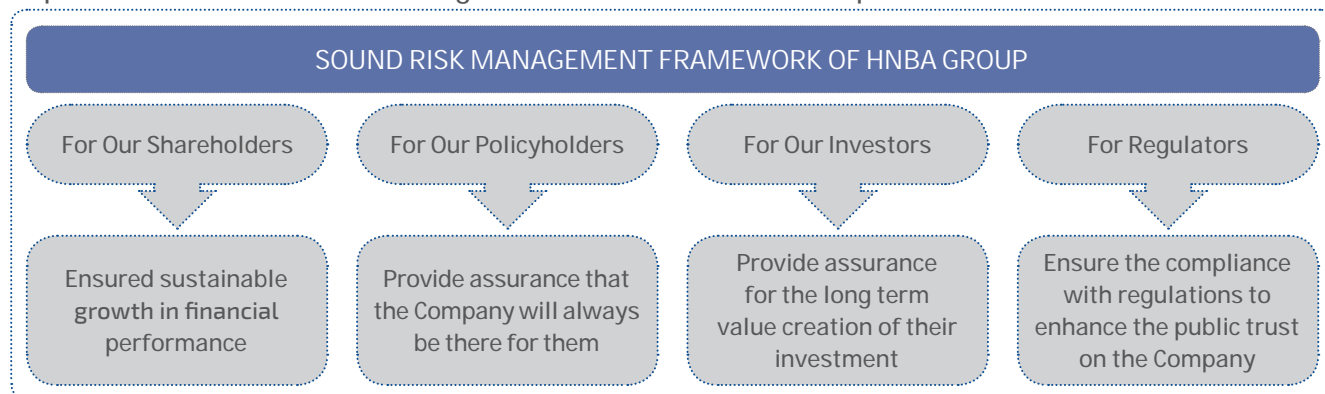
Nature of the Transaction	2018	2017
	Rs. '000	Rs. '000
Premium Income from Government Related Entities	7,668	342
Claims Paid to Government Related Entities	-	-
Reinsurance Premium Net of Commission to Government Related Entities	372,701	182,559
Taxes Paid	631,653	580,148
Regulatory Charges	107,425	111,555
Utility Expenses	53,099	53,533
Media Expenses	1,734	1,787

44. FINANCIAL RISK MANAGEMENT

Overview

Organisations should have effective risk management process to identify, assess and manage all types of risks within acceptable limits in order to support the creation of long-term value. HNBA Group recognises the importance of sound risk management in every aspect of our business and to all our stakeholders.

Importance of a Sound Risk Management Process of HNBA Group



44.1 Risk and Capital Management

(a) Governance Framework

HNB Assurance PLC Group's risk and financial management framework (RMF) provides the structure for identifying, quantifying, and mitigating risk across the Group and it protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. An effective RMF is the key to avoid the financial and reputational damage that arises from inadequate or ineffective controls in the business processes.

The Board of Directors has delegated their authorities and responsibilities to Executive Committee and Senior Management to establish Group Policy to identify and mitigate possible risks which will affect the Group adversely. Risk Management Committee comprises four Directors representing the Boards of HNBA and HNBGI and Chief Risk Officer of Hatton National Bank PLC to oversee the risk management activities of the Group. The Committee reports to the Board of Directors regarding the risk profile of the Group, risk management framework, including the significant policies and practices employed to manage risks in the Group 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 management programme.

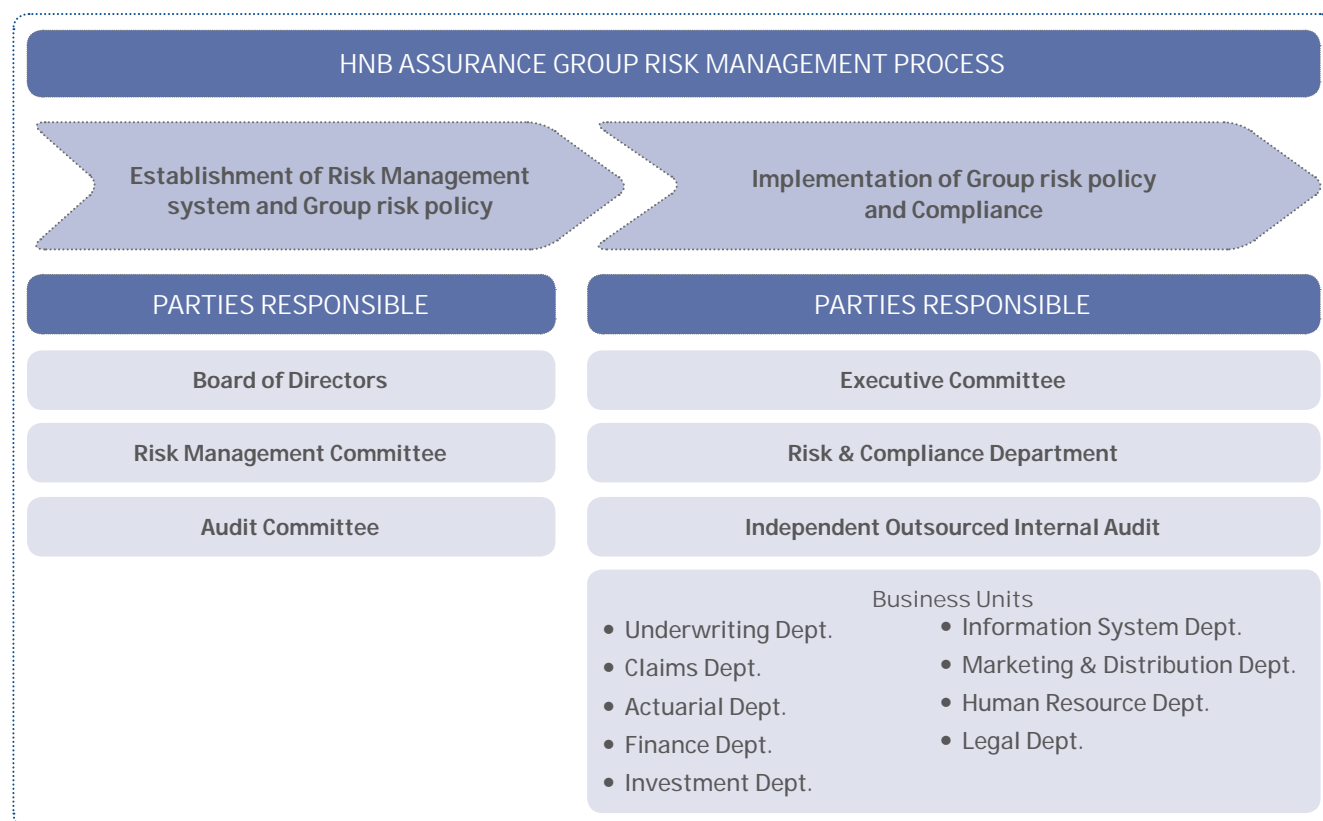
Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

A process is set for identifying Key Risk Indicators (KRIs) based on the risk register prepared by the Management based on the recommendations made by the Risk Management Committee. These KRIs are reviewed by the Executive Committee and the Risk Management Committee regularly. Significant KRIs with recommendation are reported to the Boards of HNBA and HNBGI on a monthly basis.

The Board of Directors approves the Group's risk management policies and commercial, regulatory and organisational requirements of such policies on monthly basis. These policies are defined based on the Group's identification of risk and its interpretation, limit its structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

The following diagram depicts the accountable and responsible parties for the Group's established risk management process.



Objectives of Risk Management

Taking risk is inherent to the insurance business, but such risk-taking needs to be made in an informed and disciplined manner, and within a pre-determined risk appetite and tolerance.

The major risk management objectives at HNBA Group are to:

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

(b) Capital Management Framework

The Group's capital management framework formed to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a co-ordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Group in the light of changes in economic conditions and risk characteristics. The capital requirements are forecasted on a periodic basis by the Management and the Board of Directors.

The Group has made no significant changes, from previous years, to its policies and processes of its capital structure. Thus there were no changes in the capital structure in the Company during the year.

Capital Management Objectives, Policies and Approach

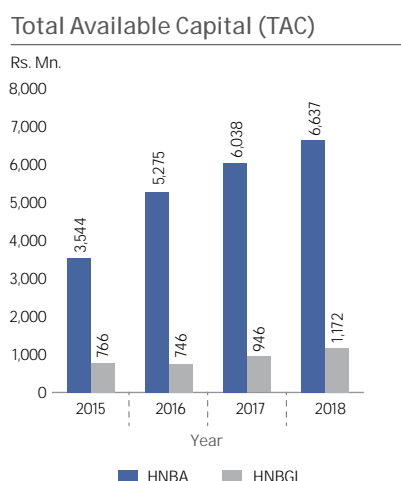
The Group has established the following capital management objectives, policies and approaches to manage the risks that affect its capital position:

- To maintain solvency levels of the Company and its subsidiary above the levels stipulated by the Regulator and thereby providing a degree of security to Policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meets the requirements of its Shareholders and Policyholders.
- To retain financial flexibility by maintaining strong liquidity.
- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the Policyholders, Shareholders 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 both companies (HNB Assurance PLC and HNB General Insurance Limited) in the Group are subject to regulatory guidelines and framework. Such regulations are there not only to prescribe approval and monitor activities, but also to impose certain restrictive provisions such as minimum Capital Requirement, Solvency Margin, Approved Assets Requirements, etc. to minimise the risk of default and insolvency on the part of the insurance company to meet unforeseeable liabilities as they arise.

The Group has complied with all these regulatory requirements throughout the financial year.

The following chart depicts the development of the Company (HNBA) and Subsidiary (HNBGI) Total Available Capital (TAC) throughout past four years.



Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

(c) Regulatory Framework

Insurance Regulatory Commission of Sri Lanka (IRCSL) primarily protects the rights of Policyholders and monitors both the Companies closely to ensure that they are satisfactorily managing affairs for the benefit of Policyholders. At the same time, IRCSL monitors that the Group maintains an appropriate solvency position to meet unforeseeable liabilities arising from economic shocks, natural disasters and etc.

The Group operates according to the requirements set by the Regulator – IRCSL. Total Available Capital and Risk based Capital Adequacy Ratios of HNBA and HNBGI as of 31st December 2018 and 2017 are as follows.

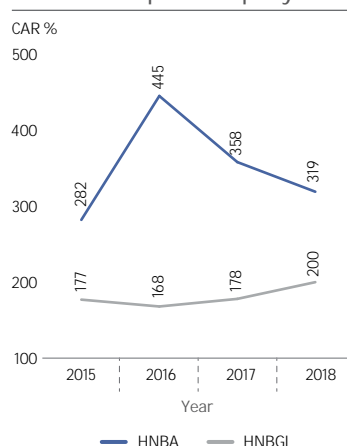
Total Available Capital (TAC) and Risk-based Capital Adequacy Ratio (CAR)

Company	31st December 2018				31st December 2017			
	Total Available Capital (TAC) Rs. '000	Regulatory Minimum Capital Requirement Rs. '000	Risk-based Capital Adequacy Ratio (CAR) %	Regulatory Minimum CAR Ratio %	Total Available Capital (TAC) Rs. '000	Regulatory Minimum Capital Requirement Rs. '000	Risk-based Capital Adequacy Ratio (CAR) %	Regulatory Minimum CAR Ratio %
HNBA	6,636,693	500,000	319	120	6,038,377	500,000	358	120
HNBGI	1,171,520	500,000	200	120	945,781	500,000	178	120

Total Available Capital and Risk based Capital Adequacy Ratios of HNBA and HNBGI were maintained in excess of the minimum requirements as prescribed by the IRCSL throughout the year.

The following chart presents Company's (HNBA) and Subsidiary's (HNBGI) Risk based Capital Adequacy Ratios (CAR) throughout past four years.

Risk based Capital Adequacy Ratio (CAR)



The zero spot curve (risk free interest rates) is used by both companies to discount asset and liability cash flows, in calculating the CAR, as stipulated in the Solvency Margin (RBC) Rules 2015 issued by the IRCSL. For an Insurance Company, the correlation of the CAR to the zero spot curve is dependent on the product mix of the Company as well as the duration of the assets and liability cash flows. Due to these reasons Company specific factors, movements in the zero spot curve has negatively correlated to the CAR of HNBA, resulting in a decline in CAR since the interest rates have increased. In addition CAR of HNBGI has increased basically due to the growth in profitability.

Thus, the operations of the Group are in compliance with the regulatory requirements of the IRCSL. Further the Group is in compliance with other regulators such as Colombo Stock Exchange (CSE), Securities and Exchange Commission of Sri Lanka (SEC), Central Bank of Sri Lanka (CBSL), Department of Inland Revenue (IRD), requirements of the Companies Act, No. 07 of 2007.

(d) Asset and Liability Management (ALM) Framework

The main risk that the Group faces, due to the nature of its investments and liabilities, is interest rate risk. The Group manages assets and liabilities to achieve long-term investment returns in excess of its obligations under insurance contracts.

Financial risks arise from interest rates, currency and equity products, all of which are exposed to general and specific market movements will have an impact on Asset and Liability Management (ALM). The Group manages these positions within a clearly defined ALM framework.

44.2 Insurance and Financial Risk

44.2.1 Introduction and Overview

As a Group providing insurance services both HNB Assurance PLC and HNB General Insurance Limited are exposed to insurance and financial risks. The following chart graphically presents all kinds of insurance and financial risks that the Group considers in Risk Management.



44.2.2 Insurance Risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of claims. Therefore, the objective of the Group is to ensure that at a given time sufficient reserves are held to cover all reported and expected future liabilities.

The 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.

Reinsurance ceded is placed on both proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure of the Group to most of the classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Group's net exposure to catastrophe losses. Retention limits for these arrangements differ by product line and territory.

Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.2.2.1 Life Insurance Contracts

HNB Assurance PLC offered life Insurance contracts include term assurance, endowment plans, annuity plans and group plans. Endowment and term assurance are conventional regular or single premium products, where lump sum benefits are payable on death, maturity or in some cases, permanent total disability. Regular endowment products acquires a surrender value upon completion of three years.

The main risks exposed in Life insurance are as follows:

MORTALITY RISK	Risk of loss arising due to policyholder death experience being different than expected.
MORBIDITY RISK	Risk of loss arising due to policyholder health experience being different than expected.
LONGEVITY RISK	Risk of loss arising due to the annuitant living longer than expected.
INVESTMENT RETURN RISK	Risk of loss arising from actual returns being different than expected.
EXPENSE RISK	Risk of loss arising from expense experience being different than expected.
POLICYHOLDER DECISION RISK	Risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location and type of risk insured by the Company.

Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as through 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 Group policies, it can impose deductibles 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.

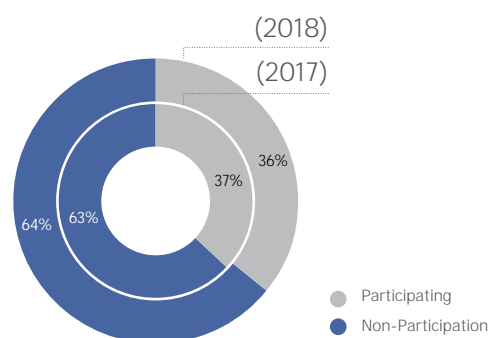
For death or disability contracts, the significant factors that could effect the insurance risks are the frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in more claims expenditure than expected. The Company limits exposure on any single life by way of retention limits agreed with the reinsurers and by having a catastrophic treaty in place.

Company also offers two single premium annuity products. The first product being "myfreedom" offers a pre-determined annuity amount for a specified time period, whilst the second product; namely "mypension", offers a fixed monthly annuity for the entire lifetime of the policyholder. Both these products offer a life cover along with its annuity payout as part of its product feature. Further during the year, the Company also issued single premium investment policies with a guaranteed maturity benefit. Company's annuity products and single premium investment products are structured such that, backing investments are maintained for those.

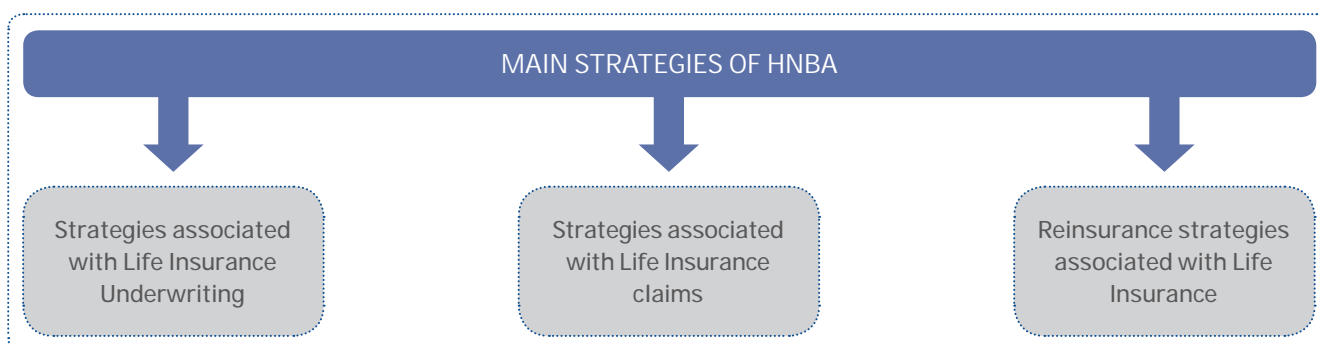
The Company continues to gradually increase the proportion of Non-Participating funds by selling more Non-Participating products such as "My Fund" and "Ranmaga". The following graph shows the concentration of the Participating and Non-Participating funds position of the Company.

Participation Fund vs. Non-Participation Fund

Participating Vs. Non-Participation



Following are the main strategies followed by the Company to mitigate above main risks associated with Life Insurance.



STRATEGIES ASSOCIATED WITH LIFE INSURANCE UNDERWRITING

- Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are adequately priced.
- An in-house Actuarial Department reviews the Life Insurance business more closely and guides the Management to take more informed pricing decisions.
- Customers are required to submit medical reports from registered laboratories.
- Focused training programmes are organised regularly for 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.

Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

STRATEGIES ASSOCIATED WITH LIFE INSURANCE CLAIMS TO MANAGE WITHIN EXPECTED LEVEL

- Valuation of the Life Insurance Contract Liabilities was carry out biannually with the support of an Independent Actuary.
- An in-house Actuarial Department reviews reserving in the Life Insurance business more closely and guide the Management to take more informed decisions.
- The support of the Reinsurers is obtained on reserving such claim liability and the share of Reinsurers.
- Claims are reserved immediately at the intimation or on the availability of information of the death or injury of an insured.
- Financial authority limits are set based on the claim limits where the maximum limit is with the claims panel which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.

REINSURANCE STRATEGIES ASSOCIATED WITH LIFE INSURANCE

- Restructuring of reinsurance agreements with Reinsurers regularly.
- Continue and maintain a very close and professional relationship with all Reinsurers and Reinsurance brokers.
- Frequent review of the outstanding Reinsurance receivables.
- Select Reinsurers with good rating.
- Monitor changes to the ratings of reinsurance companies continuously.

Reinsurance Credit Rating

The following table shows the credit ratings of the reinsurance companies with whom the Company has reinsurance arrangements at end of the reporting period.

Reinsurer	Country of Origin	Rating	Rating Agency
Munich-Re	Germany	AA	Fitch Rating
Munich-Re Retakaful	Malaysia (Retakaful branch)	AA	Fitch Rating
Hannover Re	Germany	AA-	Standard & Poor
RGA	Ireland	AA-	Standard & Poor

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 IRC SL. Assumptions and prudent estimates are determined at the date of valuation. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

MORTALITY RATES	Mortality rate is determined based on industry standard mortality tables and Company historical experience.
LONGEVITY	Assumptions are based on standard industry tables, adjustments made when appropriate to reflect the Company's own risk experience. Assumptions are differentiated by sex, underwriting class and contract type.
LAPSE RATES	Policies which do not have premium payment up to date after the grace period are considered as lapsed. The lapse rates (based on premium basis) are derived based on the average experience.
DISCOUNT RATE	<p>Life Insurance liabilities are determined as the sum of the discounted value of the expected benefits directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows.</p> <p>Risk Free Rate Risk free discount rate was used to discount the cash flows for corresponding durations for guaranteed benefits of Non-Participating and Participating insurance policies.</p> <p>Life Insurance liabilities are determined as the sum of the discounted value of the expected benefits directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows.</p> <p>Fund-Based Yield Fund-based yield was used in the Participating fund to discount the cash flows for corresponding durations where total guaranteed and non-guaranteed benefits are considered.</p>
DISTRIBUTION EXPENSE	Allowance has been made for the payment of commission to intermediaries on business. These rates exclude appropriate allowances for overriding and bonus commissions.
MANAGEMENT EXPENSE	The assumptions for management expenses are determined based on the expense analysis carried out. The management expense assumptions are developed such that all the management expenses are fully allocated to the policies.

Sensitivities

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross liabilities.

Sensitivity of the Value of Insurance Liabilities

31st December	Change in Assumptions	Impact on Gross Liabilities	
		2018	2017
		%	%
Mortality	+10%	0.29	0.31
	-10%	(0.27)	(0.31)
Discount rate	+50 basis points	(1.13)	(1.42)
	-50 basis points	1.19	1.48

Key assumptions to which the estimation of liabilities are disclosed above.

Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

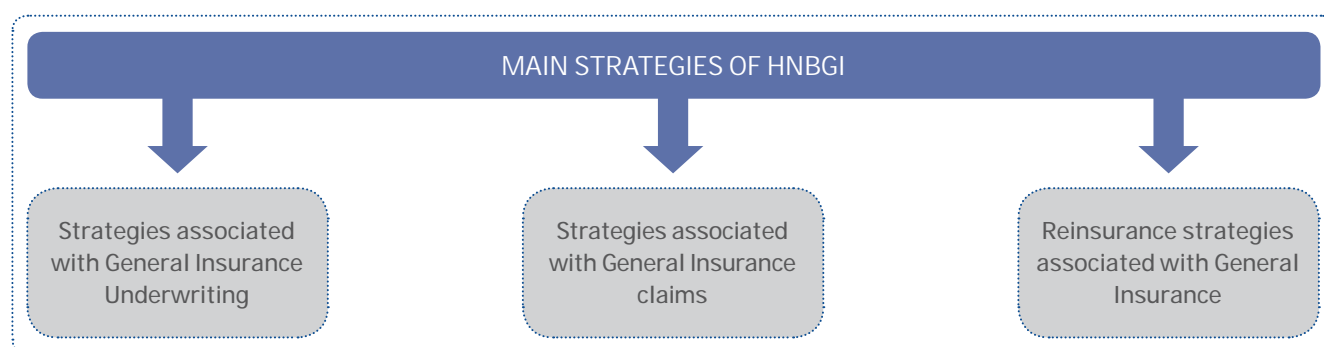
44.2.2.2 General Insurance Contracts

General Insurance contracts are offered by the fully owned subsidiary of the Company, HNB General Insurance Limited (HNBGI). HNBGI principally issues Motor, Fire, Engineering, Marine, Medical, Workmen Compensation and Miscellaneous insurance contracts.

For general insurance contracts, the most significant risks arise from

- natural disasters
- terrorist activities
- behavioral trends of people due to changing life styles
- epidemics and medical science and technology improvements
- the steady escalation of costs in respect of spare parts in the auto industry

These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. Following are the main strategies followed by the Company to mitigate above main risks associated with General Insurance.



STRATEGIES ASSOCIATED WITH GENERAL INSURANCE UNDERWRITING

- Diversification across large portfolio of insurance contracts and geographical areas.
- Training and development of underwriting staff and distribution network team. The “General Insurance Academy”, an internal training and development school, has been set up targeting the improvement of technical knowledge.
- 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.
- Statistical databases are maintained on all customer profiles and loss making customers strategically reviewed.
- Strict controls are maintained on the issuance of temporary cover notes and also limiting them to 60 days validity period.
- Periodically monitoring the Motor average premium based agreed risk appetite.
- Motor and Non Motor policies underwrite through centralised Motor and Non Motor underwriting unit.
- Build the internal flood mapping and align them with the past catastrophe incidents.
- Both the Underwriters and the distribution Managers are assigned Key Performance Indicators on both turnover and profitability, ensuring alignment of Company objectives.
- Motor Insurance pricing is determined based on a risk based pricing grid.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured and risk.

STRATEGIES ASSOCIATED WITH GENERAL INSURANCE CLAIMS TO MANAGE WITHIN EXPECTED LEVEL

- Claim intimation is carried out through a 24-hour fully fledged Customer Service Centre (CSC).
- Assessments are carried out by an independent expert panel of Assessors/Loss Adjustors working throughout the island on a 24 hour basis.
- Comprehensive estimation of costs and a high quality service to customers are granted through certified garages located island-wide.
- Claims are assessed immediately upon intimation and reserved accordingly.
- Significant outstanding claims are subjected to monthly reviews by the management.
- The service of a qualified Independent Actuary is obtained quarterly to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- All third party claim intimations are separately reviewed with the support of the legal department.
- Adequate claim reserves are maintained according to the agreed methodology adopted by the Company.
- Establish claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are established to reduce the risk exposure.
- Financial authority limits are set for claim limit giving the maximum limit to the Claims Panel which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.

REINSURANCE STRATEGIES ASSOCIATED WITH GENERAL INSURANCE

- Adequate reinsurance arrangements have been placed and Company continuously 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.
- Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Standard & Poors, AM Best or Fitch are used for reinsurance placements other than for reinsurance placed with the National Insurance Trust Fund (NITF) which is an organisation operating under Government of Sri Lanka.
- Periodic review of the credit rating and ensuring all reinsurers maintain the rating throughout the year.
- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- Clearly defined financial authority for reinsurance arrangement.

Reinsurance recoveries on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposures through prudent reinsurance arrangements, the obligation to meet claims emanating from Policyholders rests with HNBGI. Default of reinsurers does not negate the obligation and in that respect HNBGI carries a credit risk up to the extent ceded to each reinsurer.

HNBGI reinsurance placement is arranged in a manner that is neither dependent on a single reinsurer nor substantially dependent upon any single reinsurance contract. All reinsurance contracts are reviewed annually and renewed based on careful selection of reinsurers. All General Insurance reinsurance contracts are with companies holding credit ratings above the minimum stipulated by the Insurance Regulatory Commission of Sri Lanka.

Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

Reinsurance Credit Rating

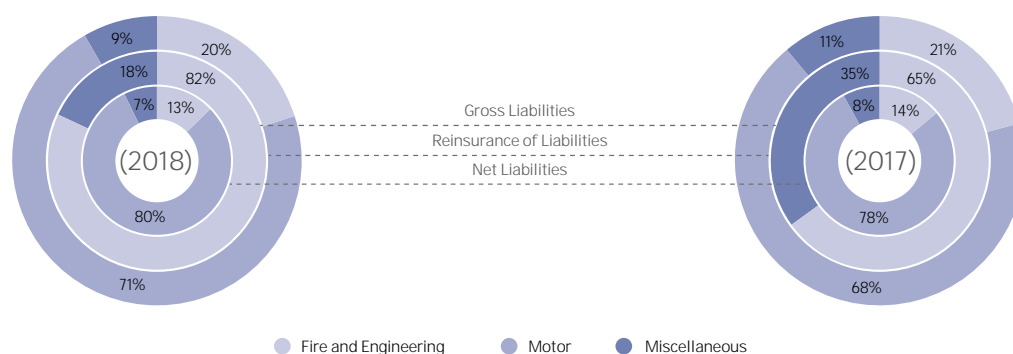
The following table shows the credit ratings of the reinsurance companies with whom HNBGI has reinsurance arrangements at end of the reporting period.

Reinsurer	Country of Origin	Rating	Rating Agency
Munich-Re	Germany	AA	A M Best
General Insurance Corporation	India	A-	A M Best
Catlin Australia Pty Ltd.	Australia	AA-	A M Best
Cathedral Syndicate CCL 3010 at Lloyds	United Kingdom	A+	A M Best
Antares Syndicate AUL 1274 at Lloyds	United Kingdom	A+	A M Best
National Insurance Trust Fund (NITF)	Sri Lanka (Government owned entity)	AA-	Fitch Rating

General Insurance Contracts

The below graph depicts the concentration of General insurance contract liabilities by type of contract:

General Insurance Contract Liabilities



Key Assumptions for Valuation of Liabilities in General Insurance

General insurance contract liability consists of reserves for net unearned premium, reserves for title insurance and reserves for gross outstanding claims including reserves for Incurred But Not Reported (IBNR) claims. The principal assumption underlying the liability estimates is that HNBGI's future claims development may follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are also used to assess the extent to which liabilities may arise in the future, but exclude one-off occurrences, changes in market factors such as public attitude to claiming, economic conditions, and internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and Government legislation affect the estimates.

The following analysis is performed for possible movements in Claims Outstanding with all other assumptions held constant, showing the impact on gross and net liabilities, Profit before Tax and equity. It should be noted that movements in these assumptions are non-linear.

Sensitivity of Claims Outstanding

As at	Sensitivity	Reported Claim Outstanding Rs. '000	Impact on Gross Liabilities Rs. '000	Impact on Net Liabilities Rs. '000	Impact on Profit Before Tax Rs. '000	Impact on Equity (After Tax) Rs. '000
31st December 2018	+/-10%	550,126	+/-55,013	+/-42,917	-/+42,917	-/+30,900
31st December 2017	+/-10%	663,854	+/-66,385	+/-37,003	-/+37,003	-/+26,642

Claims Development Table

The following table shows the estimated net claims liability (after considering reinsurance) for each successive accident year at each reporting date.

Accident Year	0 Rs. '000	1 Rs. '000	2 Rs. '000	3 Rs. '000	4 Rs. '000	5 Rs. '000	6 Rs. '000	7 Rs. '000	8 Rs. '000	9 Rs. '000	10 Rs. '000
2008	98,195	11,834	7,136	4,653	4,371	3,795	2,051	1,913	5,892	5,122	3,388
2009	115,384	7,119	3,013	1,379	1,021	4,133	2,697	1,385	8,964	6,464	-
2010	142,511	21,589	9,246	7,407	4,300	3,212	9,714	4,019	9,005	-	-
2011	204,088	19,098	3,835	2,883	1,709	3,922	2,126	3,771	-	-	-
2012	226,266	16,193	9,616	3,064	4,039	3,564	4,305	-	-	-	-
2013	207,137	11,033	3,533	1,695	1,902	2,542	-	-	-	-	-
2014	257,441	13,728	2,843	4,300	4,304	-	-	-	-	-	-
2015	391,429	25,658	8,656	8,472	-	-	-	-	-	-	-
2016	345,718	33,013	18,097	-	-	-	-	-	-	-	-
2017	497,786	21,311	-	-	-	-	-	-	-	-	-
2018	566,509	-	-	-	-	-	-	-	-	-	-

44.2.3 Financial Risk**44.2.3.1 Introduction**

The Group is exposed to different kinds of financial risks as a result of investing in financial instruments. The Group's Senior Management has established appropriate policies and procedures to identify financial risks, measure and manage in accordance with the Group's policies and risk objectives. Following are the primary risks exposed by the Group.



Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.2.3.2 Credit Risk

Risk that principal party to a financial instrument will cause a financial loss by failing to discharge an obligation by the counter party can be defined as the credit risk. The Group is exposed to credit risk from its operating activities (primarily premium receivables from Policyholders) and from its financing activities, such as deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Risk Exposure

The following table shows the maximum risk positions of financial assets which are generally subject to credit risk. The maximum risk exposure of following financial assets is equal to their carrying amounts.

Concentrations of Credit Risk

As at 31st December,	Group				Company			
	2018		2017		2018		2017	
	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%
Government Securities	7,799,976	38.5	7,201,123	40.9	6,609,315	41.9	6,311,303	46.5
Term Deposit	5,860,227	29.0	4,862,962	27.6	4,769,763	30.2	3,908,737	28.7
Corporate Debt Securities	3,770,618	18.6	2,782,466	15.8	3,172,503	20.1	2,340,207	17.2
Premium Receivable	798,213	3.9	786,319	4.5	8,046	0.1	7,488	0.1
Cash and Cash Equivalents	761,871	3.8	641,950	3.6	502,561	3.2	352,307	2.6
Staff and Advisor Loans	439,896	2.2	399,075	2.3	277,819	1.7	239,081	1.8
Reinsurance Receivables	415,773	2.1	569,778	3.2	75,926	0.5	65,010	0.5
Loans to Life Policyholders	243,113	1.2	162,285	0.9	243,113	1.5	162,285	1.2
Equity Shares	139,158	0.7	196,118	1.1	121,725	0.8	172,208	1.3
Unit Trusts	9,152	0.0	12,241	0.1	6,400	0.0	8,560	0.1
Total Credit Risk Exposure	20,237,997	100	17,614,317	100	15,787,171	100	13,567,186	100

Government Securities

Investments in Government securities consist of Treasury Bonds, Treasury Bills and Repo investments. They are considered to be risk free instruments since Government securities are fully backed by the Government of Sri Lanka.

Corporate Debt Securities

The following table shows the credit rating of Investment in Corporate Debt.

Corporate Debt Securities by Credit Rating

As at 31st December,	Group				Company			
	2018		2017		2018		2017	
	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%
AAA	179,679	4.8	31,156	1.1	166,762	5.3	18,238	0.8
AA	59,639	1.6	59,639	2.1	59,639	1.9	59,639	2.5
AA-	1,042,100	27.6	480,322	17.3	832,460	26.2	383,170	16.4
A+	719,636	19.1	594,908	21.4	630,410	19.9	532,977	22.8
A	827,809	22.0	750,484	27.0	735,691	23.2	649,966	27.8
A-	438,943	11.6	279,656	10.1	350,517	11.0	212,516	9.1
BBB+	435,132	11.5	437,724	15.7	349,736	11.0	360,801	15.4
BBB	-	-	69,300	2.5	-	-	69,300	3.0
BBB-	-	-	11,597	0.4	-	-	6,312	0.3
BB+	67,680	1.8	67,680	2.4	47,288	1.5	47,288	2.0
Total	3,770,618	100	2,782,466	100	3,172,503	100	2,340,207	100

Group has invested more than 86.7% (78.9% – 2017) of the Corporate Debt Investment in instruments which are rated A- or above by Fitch Ratings Lanka Ltd. and ICRA Lanka Ltd.

Term Deposit

Investments in term deposits consist of fixed and call deposits in Licensed Commercial Banks, Licensed Specialised Banks and Licensed Finance Companies which are disclosed under financial investments and short term deposits under cash and cash equivalents.

As at 31st December,	Group		Company	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Term Deposit under L&R	5,860,227	4,862,962	4,769,763	3,908,737
Short-Term Deposits	342,840	60,918	279,256	56,351
Total	6,203,067	4,923,880	5,049,019	3,965,088

Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

The following table shows the credit rating of the Investment in Term Deposits.

Term Deposit by Credit Rating

As at 31st December,	Group				Company			
	2018		2017		2018		2017	
	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%
AAA	275,958	4.4	-	-	250,896	5.0	-	-
AA+	1,025,149	16.5	978,081	19.9	879,214	17.4	840,402	21.2
AA	310,622	5.0	153,755	3.1	111,043	2.2	-	-
AA-	1,851,955	29.9	1,612,030	32.7	1,462,790	29.0	1,274,444	32.1
A+	1,768,859	28.6	1,311,905	26.6	1,550,328	30.7	1,122,533	28.3
A	491,443	7.9	476,115	9.7	400,896	7.9	405,823	10.2
A-	479,081	7.7	391,994	8.0	393,852	7.8	321,887	8.2
Total	6,203,067	100	4,923,880	100	5,049,019	100	3,965,088	100

Group has invested more than 92.3% (2017 – 92%) of the Term Deposit Investment in Companies rated "A" or above by Fitch Ratings Lanka Ltd. and ICRA Lanka Ltd.

Some of the specific actions undertaken by the Group to mitigate Credit Risk in investments are shown below:

During New Placements

- Adoption of a list of counterparties approved by the Investment Committee, consisting of companies which, in the opinion of the Committee, carry minimal Credit Risk.
- Checking the credit worthiness of potential investees, mainly through ratings assigned to the issuing institution or the ratings assigned to the issue.
- Obtaining explicit approval of the Investment Committee for any investments in an entity not included in the Committee approved list.
- Deciding on single party exposure limits based on the credit ratings and regulatory requirements and monitoring them closely at different levels.
- Conducting a detailed analysis of individual counterparties for each equity and corporate debt investment before taking the investment decision.
- Adhering to established guidelines regarding the acceptability of collateral and valuation parameters. The management monitors the market value of the collateral, requests for additional collateral when needed and performs an impairment valuation when applicable.
- The Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. All our investments in Repos are on DVP/RVP basis (Delivery versus Payment and Receive versus Payment).
- Adhering to the guidelines on selection of Primary dealer with regard to Government security investments.
- Preparation of checklist to ensure adherence to the Company investment policy and other regulatory requirements
- Approved financial authority limits set by Investment Committee and Board of Directors for all investment related activities.

Investment Operation and Monitoring

- Group invest in Repurchase Agreements (Repos) through number of Bank and Non-Bank Primary Dealers approved by the Central Bank of Sri Lanka (CBSL) in order to ensure minimum level of default risk for lending under overnight repo and repo transactions, in the event of their bankruptcy. During the year also, the Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. Investments in Repos are carried out on DVP/RVP basis. (Delivery versus Payment and Receive versus Payment).
- Group has taken appropriate steps to secure the securities received on investments in Repo's through a custodian (Acuity Securities Limited – A Related Company) and as well by signing Master Repurchase Agreements (MRA) with all Primary Dealing Companies Group deals with. MRA's provide the ability to the investor to recover the money due by selling the collateral securities in the secondary market in the event of a default.
- Entering in to a custodian agreement with Hatton National Bank PLC for listed equity investments.
- Obtaining specialist advice from legal experts on any issues related to investment activities.

The Group regularly reviews the policies and procedures in respect of managing the Credit Risk in investments and no significant changes were made during the year.

Staff and Agent Loans

Company has established an effective Credit Policy which evaluates staff and Advisor credit worthiness before granting loans. All loans are fair valued and tested for impairment on a periodic basis. These loans are secured with guarantors, mortgage or promissory note.

Loans to Life Policyholders

The value of each loan granted to a Life Policyholder was limited to the surrender value of those insurance policy.

Reinsurance Receivables

Reinsurance receivables made up of reinsurance receivables from claim outstanding and settled claims amounts. Following table provides information regarding the credit risk exposure on Reinsurance Receivables of the Group and the Company. Reinsurance Receivables on claims outstanding and IBNR/IBNER on claims amounts to Rs. 205.9 Million (2017 – Rs. 352.9 Million) have not been considered in this analysis since these have not crystallised. Ratings represent international ratings given by "S&P", "AM BEST" and "Fitch".

Reinsurance Receivables Based on Credit Rates (on Settled Claims)

	AA+ to AA-	A+ to A-	B+ to B-	Not Rated	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
31st December 2018					
Group	116,280	82,355	-	11,257	209,892
Company	43,767	-	-	-	43,767
31st December 2017					
Group	124,448	92,467	-	-	216,915
Company	35,770	-	-	-	35,770

Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

Premium Receivables

If the policyholder or intermediary does not settle the due premium, the Group and the Company is exposed to credit risk.

The table below provides information regarding the credit risk exposure on reinsurance receivables (on settled claims) and premium receivables of the Group and the Company according to their due period.

Age Analysis of Reinsurance and Premium Receivables

As at 31st December 2018,	≤ 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	%
Group												
Reinsurance Receivables on Settled Claims	64,316	30.6	15,015	7.2	28,412	13.6	92,875	44.2	9,274	4.4	209,892	100
Premium Receivables	500,404	62.7	297,809	37.3	-	-	-	-	-	-	798,213	100
Total	564,720	56.0	312,824	31.1	28,412	2.8	92,875	9.2	9,274	0.9	1,008,105	100

Company

Reinsurance Receivables on Settled Claims	12,282	28.1	4,854	11.1	3,986	9.1	16,358	37.3	6,287	14.4	43,767	100
Premium Receivables	8,046	100	-	-	-	-	-	-	-	-	8,046	100
Total	20,328	39.2	4,854	9.4	3,986	7.7	16,358	31.6	6,287	12.1	51,813	100

As at 31st December 2017,	≤ 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	%
Group												
Reinsurance Receivables on Settled Claims	40,896	18.9	57,937	26.6	36,813	17.0	73,763	34.0	7,506	3.5	216,915	100
Premium Receivables	529,290	67.3	257,029	32.7	-	-	-	-	-	-	786,319	100
Total	570,186	56.8	314,966	31.4	36,813	3.7	73,763	7.4	7,506	0.7	1,003,234	100

Company

Reinsurance Receivables on Settled Claims	5,186	14.5	5,157	14.4	4,297	12.0	21,130	59.1	-	-	35,770	100
Premium Receivables	7,488	100	-	-	-	-	-	-	-	-	7,488	100
Total	12,674	29.3	5,157	11.9	4,297	9.9	21,130	48.9	-	-	43,258	100

Specific actions undertaken by the Group to mitigate Credit Risk in premium receivables are shown below:

- Strict implementation of Premium Payment Warranty (PPW), ensuring that all General Insurance policies with payments outstanding for more than 60 days are cancelled.
- Conducting follow-up meetings on debt collection on a monthly basis.
- Using the latest technology (e.g.: mobile text messages) to inform customers on premium reminders and cancellation notices.
- Follow up with the customer by contacting from our Customer Relations Centre (CRC) on long outstanding balances.
- Processing claims only for the premium settled policies.

Group regularly reviews the policies and procedures in respect of managing the premium receivables under General Insurance and no significant changes were made during the year.

The Group has no significant concentration of credit risk during the reporting period.

44.2.3.3 Liquidity Risk

The risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities due to non-availability of sufficient level of liquid assets is referred to as liquidity risk. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk.

- Guidelines are set out for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet Group insurance and investment contract obligations.
- The Group follows Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy which is reviewed by the Investment Committee regularly.
- Maintaining sufficient cash balances, repo investment and other short tenure investments to accommodate expected obligations and commitments of the Group.
- Determining the maturity profiles of insurance Contract Liabilities and reinsurance assets based on the estimated timing of net cash outflows from recognised insurance liabilities.
- Reviewing the maturity mix of the investment portfolio by the management and the Investment Committee on a regular basis.
- Agreeing with the reinsurers to support in case of catastrophic events by way of cash call.
- Forecasting and planning for all large cash outflows in advance and making necessary arrangements to ensure the availability of funds to meet such outflows.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that can be accessed to meet its liquidity needs. The Group has an effective and efficient daily cash management process and due to this risk was mitigated.

The table below summarises the maturity profile of the financial assets of the Group and the Company based on remaining contractual obligations, including interest payable and receivable.

Maturity Profile of Assets & Liabilities – Group

As at 31st December 2018,

	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets					
Financial Investments	17,579,131	7,118,744	3,154,083	3,653,838	3,652,465
Loans to Life Policyholders	243,113	-	-	-	243,113
Reinsurance Receivables	415,773	415,753	20	-	-
Premium Receivables	798,213	798,213	-	-	-
Staff and Other Loans	439,896	125,493	164,297	111,870	38,236
Cash and Cash Equivalents	761,871	761,871	-	-	-
Total Assets	20,237,997	9,220,074	3,318,400	3,765,708	3,933,814
Liabilities					
Reinsurance Creditors	369,853	363,554	6,299	-	-
Other Liabilities	395,385	184,175	-	-	211,210
Bank Overdrafts	122,776	122,776	-	-	-
Total Liabilities	888,014	670,505	6,299	-	211,210

Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

As at 31st December 2017,

	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets					
Financial Investments	15,054,910	5,667,239	3,050,702	2,990,634	3,346,335
Loans to Life Policyholders	162,285	-	-	-	162,285
Reinsurance Receivables	569,778	567,551	2,227	-	-
Premium Receivables	786,319	786,319	-	-	-
Staff and Other Loans	399,075	110,861	143,729	105,141	39,344
Cash and Cash Equivalents	641,950	641,950	-	-	-
Total Assets	17,614,317	7,773,920	3,196,658	3,095,775	3,547,964
Liabilities					
Reinsurance Creditors	353,042	352,998	44	-	-
Other Liabilities	342,530	168,651	-	-	173,879
Bank Overdrafts	141,660	141,660	-	-	-
Total Liabilities	837,232	663,309	44	-	173,879

Maturity Profile of Assets & Liabilities – Company

As at 31st December 2018,

	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets					
Financial Investments	14,679,706	5,366,285	2,658,583	3,125,994	3,528,844
Loans to Life Policyholders	243,113	-	-	-	243,113
Reinsurance Receivables	75,926	75,926	-	-	-
Premium Receivables	8,046	8,046	-	-	-
Staff and Other Loans	277,819	87,235	98,942	68,034	23,608
Cash and Cash Equivalents	502,561	502,561	-	-	-
Total Assets	15,787,171	6,040,053	2,757,525	3,194,028	3,795,565
Liabilities					
Reinsurance Creditors	116,268	116,268	-	-	-
Other Liabilities	275,140	85,978	-	-	189,162
Bank Overdrafts	42,636	42,636	-	-	-
Total Liabilities	434,044	244,882	-	-	189,162

As at 31st December 2017,

	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets					
Financial Investments	12,741,015	4,271,958	2,511,470	2,668,770	3,288,817
Loans to Life Policyholders	162,285	-	-	-	162,285
Reinsurance Receivables	65,010	65,010	-	-	-
Premium Receivables	7,488	7,488	-	-	-
Staff and Other Loans	239,081	76,748	85,110	56,121	21,102
Cash and Cash Equivalents	352,307	352,307	-	-	-
Total Assets	13,567,186	4,773,511	2,596,580	2,724,891	3,472,204
Liabilities					
Reinsurance Creditors	90,650	90,650	-	-	-
Other Liabilities	241,826	85,123	-	-	156,703
Bank Overdrafts	32,756	32,756	-	-	-
Total Liabilities	365,232	208,529	-	-	156,703

The Company has no significant concentration of Liquidity risk during the reporting period.

44.2.3.4 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk namely interest rate risk, equity price risk and currency risk.



The following policies and procedures are in place to mitigate the Group's exposure to market risk.

- The Group follows Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy. The ALM guidelines are reviewed by Investment Committee regularly.
- Macro-economic indicators and their impact on the Group's Investment Portfolio are monitored closely by the Management, Investment Committee and Risk Management Committee regularly.
- Equity portfolios are reviewed by the Investment Committee on a quarterly basis.
- Impact from the market movement is monitored on a daily basis and warnings are sent to MD/CEO and CFO of high volatilities in the market.
- Total exposure to equity investments is made strictly within the agreed target asset allocation and sectorial equity limits.
- Equity investments are made in fundamentally sound stocks which are identified after an in-depth research and evaluation process by the investment management team.

Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This is considered to be the most important risk to be managed by the Group because the magnitude of the impact considered being significant.

The following table depicts the Group's and the Company's sensitivity to market yield.

Sensitivity to Interest Rate Risk

	Group				Company			
	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity
	2018	2017	2018	2017	2018	2017	2018	2017
As at 31st December,	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
100 bps Parallel Increase in All Yield Curves	-	(236,924)	-	(237,261)	-	(216,516)	-	(224,250)
100 bps Parallel Decrease in All Yield Curves	-	254,207	-	255,403	-	232,904	-	241,850

The above impact on equity arises from the Treasury Bonds and Treasury Bills classified under the Available For Sales investments.

Following table presents the financial assets and financial liabilities which are subjective to the Interest Rate Risk by the Group and the Company.

Exposure to Interest Rate Risk

31st December 2018,	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets – Group				
Financial Investments – Loans & Receivables	-	10,709,515	-	10,709,515
Financial Investments – Available For Sale	-	6,721,306	55,285	6,776,591
Financial Investments – Fair Value Through Profit & Loss	-	-	93,025	93,025
Loans to Life Policyholders	-	243,113	-	243,113
Staff and Other Loans	-	439,896	-	439,896
Cash and Cash Equivalent	-	342,840	419,031	761,871
Total Assets – Group	-	18,456,670	567,341	19,024,011
Financial Liabilities – Group				
Advisor Terminal Benefit Payable	211,209	-	-	211,209
Bank Overdrafts	-	122,776	-	122,776
Total Liabilities – Group	211,209	122,776	-	333,985

31st December 2018,	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets – Company				
Financial Investments – Loans & Receivables	-	8,728,381	-	8,728,381
Financial Investments – Available For Sale	-	5,823,200	49,686	5,872,886
Financial Investments – Fair Value Through Profit & Loss	-	-	78,439	78,439
Loans to Life Policyholders	-	243,113	-	243,113
Staff and Other Loans	-	277,819	-	277,819
Cash and Cash Equivalent	-	279,256	223,305	502,561
Total Assets – Company	-	15,351,769	351,430	15,703,199
Financial Liabilities – Company				
Advisor Terminal Benefit Payable	189,162	-	-	189,162
Bank Overdrafts	-	42,636	-	42,636
Total Liabilities – Company	189,162	42,636	-	231,798
31st December 2017,				
	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets – Group				
Financial Investments – Held to Maturity	-	180,460	-	180,460
Financial Investments – Loans & Receivables	-	8,417,430	-	8,417,430
Financial Investments – Available For Sale	-	6,248,661	78,074	6,326,735
Financial Investments – Fair Value Through Profit & Loss	-	-	130,285	130,285
Loans to Life Policyholders	-	162,285	-	162,285
Staff and Other Loans	-	399,075	-	399,075
Cash and Cash Equivalent	-	60,918	581,032	641,950
Total Assets – Group	-	15,468,830	789,391	16,258,220
Financial Liabilities – Group				
Advisor Terminal Benefit Payable	173,879	-	-	173,879
Bank Overdrafts	-	141,660	-	141,660
Total Liabilities – Group	173,879	141,660	-	315,539
Financial Assets – Company				
Financial Investments – Held to Maturity	-	180,460	-	180,460
Financial Investments – Loans & Receivables	-	6,789,740	-	6,789,740
Financial Investments – Available For Sale	-	5,590,047	69,244	5,659,291
Financial Investments – Fair Value Through Profit & Loss	-	-	111,524	111,524
Loans to Life Policyholders	-	162,285	-	162,285
Staff and Other Loans	-	239,081	-	239,081
Cash and Cash Equivalent	-	56,352	295,956	352,307
Total Assets – Company	-	13,017,965	476,724	13,494,688
Financial Liabilities – Company				
Advisor Terminal Benefit Payable	156,703	-	-	156,703
Bank Overdrafts	-	32,756	-	32,756
Total Liabilities – Company	156,703	32,756	-	189,459

Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

In order to mitigate the interest rate risk faced by the Group, the management follows the guidelines set out in the Investment Policy. Amongst other such guidelines, the policy also requires the management of the maturities of interest bearing financial assets. Compliance with the policy is monitored and the exposure and instances of noncompliance are reported to the Investment Committee. The Policy is reviewed regularly for pertinence and for changes in the risk environment.

Interest on floating rate instruments is re-priced annually whilst Interest on fixed interest rate instruments is priced at the inception of the financial instrument and is fixed until maturity.

The Company has no significant concentration of interest rate risk during the reporting period.

(b) Equity Price Risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in equity prices other than those arising due to interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

In order to manage the equity price risk, the Group's Investment Policy guides the management to set/monitor objectives and constraints on investments, diversification plans as well as limits on equity exposure.

Following table shows the equity portfolio diversification the Group and the Company.

Equity Portfolio Diversification

As at 31st December,	Group				Company			
	2018		2017		2018		2017	
	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%
Banks, Finance and Insurance	81,591	55.0	96,947	46.5	72,599	56.7	85,651	47.4
Manufacturing	25,123	16.9	52,601	25.2	22,997	17.9	48,731	27.0
Diversified Holdings	20,862	14.1	29,120	14.0	17,553	13.7	23,378	12.9
Chemicals and Pharmaceuticals	-	-	3,839	1.9	-	-	3,839	2.1
Land and Property	10,845	7.3	13,611	6.5	8,030	6.3	10,609	5.9
Closed/Open End Funds	9,152	6.2	12,241	5.9	6,400	5.0	8,560	4.7
Beverage, Food and Tobacco	737	0.5	-	-	546	0.4	-	-
Total	148,310	100	208,359	100	128,125	100	180,768	100

The sensitivity analysis below is performed for reasonably possible movements in All Share Price Index with all other variables held constant, showing the impact on profit before tax.

Percentage Change in Benchmark Index (ASPI)

	Group				Company			
	Impact on PBT		Impact on OCI		Impact on PBT		Impact on OCI	
	2018	2017	2018	2017	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
10 per cent Increase in Equity Prices	8,387	11,804	5,528	7,807	7,204	10,296	4,969	6,924
10 per cent Decrease in Equity Prices	(8,387)	(11,804)	(5,528)	(7,807)	(7,204)	(10,296)	(4,969)	(6,924)

The Group has no significant concentration of equity price risk during the reporting period.

(c) Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's principal transactions are carried out in Sri Lankan Rupees and hence, its exposure to foreign exchange risk arises primarily with respect to the US Dollar assets maintained in order to honor liabilities of foreign currency denominated insurance policies, which are sold in the ordinary course of business.

However, no material liabilities were recorded on foreign currency denominated policies as at the reporting date.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets.

Sensitivity to Foreign Currency Risk

	Group				Company			
	Amount in Foreign Currency		Amount in Foreign Currency		Amount in Foreign Currency		Amount in Foreign Currency	
	LKR Amount	LKR Amount	LKR Amount	LKR Amount	LKR Amount	LKR Amount	LKR Amount	LKR Amount
	2018	2017	2018	2017	2018	2017	2018	2017
As at 31st December,	USD '000	Rs. '000	USD '000	Rs. '000	USD '000	Rs. '000	USD '000	Rs. '000
Assets	1,657	304,593	1,367	211,485	468	86,036	374	57,725
	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
5% strengthening of rupee	(15,230)	(10,965)	(10,574)	(7,613)	(4,302)	(3,097)	(2,886)	(2,078)
5% weakening of rupee	15,230	10,965	10,574	7,613	4,302	3,097	2,886	2,078
+/- % impact on Profit	0.96%	0.41%	1.14%	0.84%	0.33%	0.13%	0.40%	0.29%

The Group has no significant concentration of currency risk during the reporting period.

Accounting Policies and Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

Risk Sensitivity of Financial Assets

This analysis has been performed for reasonably possible movements in key individual variables, while holding all other variables constant. It shows the impact on profit before tax and equity (due to changes in fair value of financial assets whose fair value movements are recorded in the Statement of Profit or Loss and Other Comprehensive Income).

An analysis of the sensitivity of financial assets and liabilities of the Group and the Company to the key impacting variables are set out in the table below.

Sensitivity on Overall Finance Assets

		Group				Company			
		Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity
As at 31st December,		2018		2017		2018		2017	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Exchange Rate	5% Strengthening of Rupee	(15,230)	(10,965)	(10,574)	(7,613)	(4,302)	(3,097)	(2,886)	(2,078)
Yield Curve	+100 Basis Points	-	(236,924)	-	(237,261)	-	(216,516)	-	(224,250)
ASPI	10% Increase	8,387	11,567	11,804	16,307	7,204	10,155	10,296	14,338
Total		(6,843)	(236,322)	1,230	(228,567)	2,902	(209,458)	7,410	(211,990)
Exchange Rate	5% Weakening of Rupee	15,230	10,965	10,574	7,613	4,302	3,097	2,886	2,078
Yield Curve	-100 Basis Points	-	254,207	-	255,403	-	232,904	-	241,850
ASPI	10% Decrease	(8,387)	(11,567)	(11,804)	(16,307)	(7,204)	(10,155)	(10,296)	(14,338)
Total		6,843	253,605	(1,230)	246,710	(2,902)	225,846	(7,410)	229,590

Note 1 – The correlation of variables will have a significant effect in determining the ultimate impact of exchange rate, interest rate and equity price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

Note 2 – It should be noted that movements in these variables are non-linear. The method used for deriving sensitivity information and significant variables has not changed from the previous period.

45. EVENTS OCCURRING AFTER THE REPORTING DATE

Except for the following mentioned post balance events there have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

45.a. Proposed Dividend

The Board of Directors has recommended a payment of a first and final dividend of Rs. 7.00 per share for the Financial year 2018 (2017 Interim and Final Dividend – Rs. 6.00 per share). More information with respect to a dividend declaration is given on Note 41.

45.b. Subsequent Changes in Directorship

Appointment to the Board of Directors

- Mr. Lintotage Udaya Damien Fernando has been appointed as a Non-Independent, Non-Executive Director to the Board of HNB Assurance PLC and its Subsidiary HNB General Insurance Limited w.e.f. 11th February 2019 subject to approval from Insurance Regulatory Commission of Sri Lanka.
- Mr. Stuart Chapman has been appointed as a Non Independent, Non-Executive Director to the Board of HNB Assurance PLC w.e.f. 11th February 2019 subject to approval from Insurance Regulatory Commission of Sri Lanka.
- Mr. Arjuna Varana Abeygunasekara has been appointed as a Non-Independent, Non-Executive Director to the Board of HNB General Insurance Limited w.e.f. 11th February 2019 subject to approval from Insurance Regulatory Commission of Sri Lanka.
- Mr. Malik Sanjaya Wijemanne has been appointed as a Non-Independent, Non-Executive Director to the Board of HNB General Insurance Limited w.e.f. 11th February 2019 subject to approval from Insurance Regulatory Commission of Sri Lanka.

Resignation from Board of Directors

- Mr. Sarath Carlyle Ratwatte, a Director of HNB Assurance PLC has tendered his resignation from being a Director of HNB Assurance PLC w.e.f. 6th February 2019.
- Mr. Aloysius Gerard Rajive Dissanayake, a Director of HNB Assurance PLC and HNB General Insurance Limited has tendered his resignation from being a Director of HNB Assurance PLC and HNB General Insurance Limited. This resignation, which is effective from 12th February 2019, has been accepted by the Board at the meeting held on 11th February 2019.

There have been no other material events occurring after the reporting date that require adjustments to or disclosure in the Condensed Consolidated Interim Financial Statements.

46. COMMITMENTS

46.1 At the year end, no capital expenditure approved by the Board and contracted for which no provision has been made in these Financial Statements (2017 – Rs. Nil).

46.2 Operating Leases

Leases as Lessee

Non-cancellable operating lease rentals are payable as follows:

As at 31st December,	Group/Company	
	2018	2017
Nature of the Transactions	Rs. '000	Rs. '000
Future Commitments on Operating Leases		
Less than One Year	118,770	116,311
Between One and Five Years	223,449	299,855
More than Five Years	2,765	6,424
Total Operating Lease Commitments	344,984	422,590

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 31st December 2018 an amount of Rs. 8.7 Million was recognised as an expense in Profit or Loss in respect of operating leases for vehicle hired (2017 – Rs. 6.2 Million). There were no contingent rent recognised as an expense during the year.

Accounting Policies and Notes to the Financial Statements

47. CONTINGENCIES

47.1 The Company received an Assessment on Value Added Tax (VAT) on Reinsurance Claims from the IRD in respect of the Year of Assessment 2010/2011 for which the Company filed responses in consultation with our Tax Consultant to IRD and upon the receipt of determination from IRD, the Company made an appeal to the Tax Appeals Commission (TAC) of Sri Lanka. The TAC has granted their final determination on 26th March 2018 confirming the determination made by IRD and dismissed the appeal made by the Company. The Company has filed a case in the Court of Appeal with the consultation of Tax Consultant and Company's Lawyers and the matter was fixed for argument on 15th and 16th May 2019. As such no provision is made in the Financial Statements for the tax in dispute and penalty which amounts to Rs. 21.99 Million.

47.2 The Company received a Notice of Assessment on VAT on Financial Services (FS) informing that the Company is liable for VAT on Financial Services for the taxable periods from 01.01.2014 to 31.12.2014. The Company made a Petition of Appeal against the assessment as the Company's stance is that, the Company is in the business of Insurance and is not liable for VAT on FS. Other insurers have also received similar assessments and have appealed against them. As such no provision is made in the Financial Statements for the tax in dispute and penalty which amounts to Rs. 31.6 Million.

47.3 The Company has received Income Tax Assessments for Life Insurance Taxation for the years of assessments 2011/2012, 2012/2013, 2013/2014, 2014/2015 and 2015/2016. In the view of Company and Company's Tax Consultant, these Assessments were issued by the Inland Revenue Department contrary to the Section 92 of Inland Revenue Act, No. 10 of 2006. Further, these Income Tax Assessments have been common Assessments for all Life Insurance companies in the insurance industry. It is the view of the industry and the Company's Tax Consultant that these assessments will not materialise. Therefore no additional provision has been made in the Financial Statements.

The Company has duly appealed against these Assessments in consultation with Tax Consultants and the status of each Assessment is provided in the table below.

Year of Assessment	Status of Assessment	Nature of Contingent Impact to the Company	Measurement of Contingent Impact to the Company
2011/2012	Pending decision from Tax Appeals Commission	Loss adjustment (Decrease in Brought forward Tax loss)	Brought forward Tax loss of Life Insurance business will be reduced by Rs. 310 Million
2012/2013	Pending decision from Tax Appeals Commission	Loss adjustment (Decrease in Brought forward Tax loss)	Brought forward Tax loss of Life Insurance business will be reduced by Rs. 278 Million
2013/2014	Pending decision from Tax Appeals Commission	Additional tax liability	An additional Tax Liability of Rs. 132 Million will arise
2014/2015	Pending decision from Commissioner General of Inland Revenue	Additional tax liability	An additional Tax Liability of Rs. 136 Million will arise
2015/2016	Pending decision from Commissioner General of Inland Revenue	Additional tax liability	An additional Tax Liability of Rs. 164 Million will arise
2016/2017	Company is in the process of Filing an appeal with the Department of Inland Revenue	Additional tax liability	An additional Tax Liability of Rs. 290 Million will arise

48. LITIGATIONS AND CLAIMS

Litigations that are pending against the Group other than those arising in the normal course of conducting insurance business In the opinion of the Directors and in consultation with the Company lawyers, litigation currently pending against the Group will not have a material impact on the reported financial results or future operations. All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

49. COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements are amended/reclassified to ensure comparability with the current year information.

As Presented in the Statement of Financial Position	Note	After Reclassification		Amount Reclassified		Prior to Reclassification	
		Group	Company	Group	Company	Group	Company
		2017	2017			2017	2017
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Other Operating and Administration Expenses	49.1	1,839,031	1,018,783	13	13	1,839,018	1,018,770
Other Insurance Related Costs	49.1	49,171	30,375	(13)	(13)	49,184	30,388

49.1 Reason for Changes in Presentation and Reclassification

Stamp duty was recorded under Other Insurance related costs has been reclassified under other Operating and Administration expenses to be in line with the current year presentation.

50. TRANSFER PRICING

Provision on transfer pricing under section 77 of the Inland Revenue Act, No. 24 of 2017 covers the transactions with associated undertakings.

During the financial year, certain transactions including provision of insurance solutions and placement of deposits have been taken place with parent entity (associated undertaking). Both HNB Assurance PLC and HNB General Insurance Limited are of the view that the transactions with parent entity have been taken place on arm's length pricing.

As the aggregate value of transactions of each companies with associated undertaking is more than Rs. 50 Million, both the companies are required to maintain separate documentation as prescribed by Transfer Pricing Regulations by IRD. The companies have prepared and maintained the relevant documentation and filings to comply with transfer pricing regulation.

51. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for these Financial Statements. Please refer to pages 209 and 210 of the Statement of Directors' Responsibility for Financial Reporting.

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Supplementary Information

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Statement of Financial Position of the Life Insurance Fund – Supplemental

As at 31st December,

	Note	Page No.	2018 Rs. '000	2017 Rs. '000
Assets				
Financial Investments	A	352	11,973,289	11,045,680
Loans to Life Policyholders	B	356	243,113	162,285
Reinsurance Receivables	C	356	75,926	65,010
Premium Receivables	10	267	8,046	7,488
Other Assets	D	356	39,102	156,912
Cash and Cash Equivalents	E	357	227,164	232,349
Total Assets			12,566,640	11,669,724
Equity and Liabilities				
Life Policyholders' Available For Sale Reserve Fund	18	274	(201,867)	223,272
Total Equity			(201,867)	223,272
Liabilities				
Insurance Contract Liabilities – Life Insurance	20	275	12,261,473	10,915,858
Reinsurance Creditors	F	357	116,268	90,650
Other Liabilities	G	357	221,152	191,227
Bank Overdrafts	E	357	24,068	18,143
Payable to Life Shareholders			145,546	230,574
Total Liabilities			12,768,507	11,446,452
Total Equity and Liabilities			12,566,640	11,669,724

The Notes to the Financial Statements as set out on pages 352 to 357 form an integral part of these Financial Statements.

Notes to the Supplemental Financial Statements – Life Insurance Fund

A. FINANCIAL INVESTMENTS

As at 31st December,

	Note	2018 Rs. '000	2017 Rs. '000
Held to Maturity (HTM)	A.1	-	180,460
Loans and Receivable (L & R)	A.2	6,231,432	5,392,691
Available For Sale (AFS)	A.3	5,663,417	5,361,005
Fair Value Through Profit or Loss (FVTPL)	A.4	78,439	111,524
Total Financial Investments		11,973,289	11,045,680

The table below shows the carrying values of these Financial Instruments together with their fair values.

As at 31st December,

	2018		2017	
	Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Held to Maturity (HTM)	-	-	180,460	181,166
Loans and Receivable (L & R)	6,231,432	6,148,506	5,392,691	5,343,795
Available For Sale (AFS)	5,663,417	5,663,417	5,361,005	5,361,005
Fair Value Through Profit or Loss (FVTPL)	78,439	78,439	111,524	111,524
Total Financial Investments	11,973,289	11,890,363	11,045,680	10,997,490

As at 31st December,

	Note	2018		2017	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
A.1 Held to Maturity (HTM)					
Treasury Bonds		-	-	180,460	181,166
Total		-	-	180,460	181,166

A.2 Loans and Receivable (L & R)

Treasury Bills – Repo		405,486	405,486	369,441	369,441
Treasury Bills – Overnight Repo		-	-	67,221	67,221
Term Deposit	A.5	3,148,308	3,132,610	3,108,539	3,142,763
Debentures	A.6	2,677,638	2,610,410	1,847,490	1,764,370
Total		6,231,432	6,148,506	5,392,691	5,343,795

A.3 Available For Sale (AFS)

Treasury Bonds		5,568,450	5,568,450	5,291,760	5,291,760
Treasury Bills		45,282	45,282	-	-
Equity Shares	A.7	49,685	49,685	69,245	69,245
Total		5,663,417	5,663,417	5,361,005	5,361,005

A.4 Fair Value Through Profit or Loss (FVTPL)

Investment in Units	A.8	6,400	6,400	8,560	8,560
Equity Shares	A.9	72,039	72,039	102,964	102,964
Total		78,439	78,439	111,524	111,524

A.5 Term Deposits

As at 31st December,

	Note	2018		2017	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Long Term and Medium Term Deposits with,					
Licensed Commercial Banks	A.5.1	1,919,079	1,911,973	1,954,022	1,959,150
Licensed Specialised Banks		100,356	100,356	-	-
Licensed Finance Companies	A.5.2	1,128,873	1,120,281	1,154,517	1,183,613
Total		3,148,308	3,132,610	3,108,539	3,142,763

A.5.1 Licensed Commercial Banks

Term Deposits with Related Parties – Hatton National Bank PLC		495,132	495,132	99,638	99,638
Others Banks		1,423,947	1,416,841	1,854,384	1,859,512
Total		1,919,079	1,911,973	1,954,022	1,959,150

A.5.2 Licensed Finance Companies

Term Deposits with Related Parties – HNB Finance Ltd.		50,681	51,919	-	-
Other Finance Companies		1,078,192	1,068,362	-	-
Total		1,128,873	1,120,281	-	-

A.6 Corporate Debt

As at 31st December,

	Note	2018		2017	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Debentures – Quoted	A.6.1	2,677,638	2,610,410	1,847,490	1,764,370
Total		2,677,638	2,610,410	1,847,490	1,764,370

A.6.1 Debentures – Quoted

Abans PLC		40,149	38,708	63,326	58,444
Access Engineering PLC		96,393	92,733	96,147	92,216
Bank of Ceylon		50,440	45,813	50,440	46,399
Commercial Bank of Ceylon PLC		174,643	170,063	27,727	27,704
Central Finance Company PLC		-	-	30,078	29,645
Commercial Credit and Finance PLC		81,298	78,367	81,298	78,023
Commercial Leasing and Finance PLC		43,900	40,261	43,900	39,780
DFCC Bank PLC		232,114	229,899	67,619	66,677
Hatton National Bank PLC		175,203	169,244	220,994	214,734
HDFC Bank of Sri Lanka		-	-	69,300	63,394
Hemas Holdings PLC		42,610	42,230	42,610	42,031
Hayleys PLC		294,671	292,953	-	-
LOLC Holdings PLC		35,794	34,295	35,794	33,614
LB Finance PLC		9,063	9,026	80,512	73,652
Lion Brewery (Ceylon) PLC		-	-	23,199	22,817
Mercantile Investment and Finance PLC		-	-	3,669	3,635
Merchant Bank of Sri Lanka & Finance PLC		32,010	29,486	56,970	53,259
National Development Bank PLC		44,473	41,425	61,384	57,149

Notes to the Supplemental Financial Statements – Life Insurance Fund

As at 31st December,

	Note	2018		2017	
		Carrying Value Rs. '000	Fair Value Rs. '000	Carrying Value Rs. '000	Fair Value Rs. '000
Nations Trust Bank PLC		153,263	153,224	78,139	77,228
Nawaloka Hospitals PLC				41,411	40,836
Pan Asia Banking Corporation PLC		38,549	37,735	38,549	36,921
People's Leasing & Finance PLC		120,354	119,605	109,623	108,291
Richard Pieris and Company PLC		32,705	32,152	42,560	41,580
Sri Lanka Telecom PLC		148,523	148,937	-	-
Sampath Bank PLC		405,866	393,114	239,035	225,120
Seylan Bank PLC		261,559	253,794	151,308	145,466
Singer (Sri Lanka) PLC		72,163	70,856	-	-
Siyapatha Finance PLC		58,275	53,631	58,275	53,120
Softlogic Finance PLC		18,238	17,809	18,239	17,655
Vallibel Finance PLC		15,383	15,050	15,384	14,980
Total Investment in Quoted Debentures		2,677,638	2,610,410	1,847,490	1,764,370

A.7 Equity Shares – Available For Sale

As at 31st December,

	2018			2017		
	No. of Shares	Cost Rs. '000	Carrying/ Fair Value Rs. '000	No. of Shares	Cost Rs. '000	Carrying/ Fair Value Rs. '000
Banks, Finance and Insurance						
Seylan Bank PLC – (Non-Voting)	201,170	9,495	8,952	217,281	10,656	12,168
Sampath Bank PLC	39,748	6,834	9,341	37,831	6,834	11,943
Central Finance Company PLC	136,844	11,192	12,138	135,653	11,192	12,521
Sector Total			30,431			36,632
Diversified Holdings						
Melstacorp PLC	39,532	2,343	1,988	39,532	2,343	2,353
Sector Total			1,988			2,353
Manufacturing						
Tokyo Cement Company (Lanka) PLC	211,002	9,598	5,317	211,002	9,598	13,926
Royal Ceramics Lanka PLC	50,000	6,067	3,730	50,000	6,067	5,725
Sector Total			9,047			19,651
Beverage, Food and Tobacco						
Distilleries Company of Sri Lanka PLC	11,713	-	189	-	-	-
Sector Total			189			-
Land and Property						
Overseas Realty (Ceylon) PLC	486,679	12,453	8,030	602,809	15,391	10,609
Sector Total			8,030			10,609
Carrying Value of Total Investment in Quoted Shares			49,685			69,245

A.8 Investment Units

As at 31st December,

	2018		2017	
	No. of Units	Carrying Value/ Fair Value Rs. '000	No. of Units	Carrying Value/ Fair Value Rs. '000
Quoted				
NAMAL Acuity Value Fund	80,000	6,400	80,000	8,560
Total Investment in Quoted Unit Trusts		6,400		8,560

A.9 Equity Shares – Fair Value Through Profit or Loss

As at 31st December,

	2018			2017		
	No. of Shares	Cost Rs. '000	Carrying Value/ Fair Value Rs. '000	No. of Shares	Cost Rs. '000	Carrying Value/ Fair Value Rs. '000
Banks, Finance and Insurance						
National Development Bank PLC	3,408	364	364	11,729	1,600	1,600
Sampath Bank PLC	62,082	11,925	14,589	59,087	11,925	18,654
Nations Trust Bank PLC	89,529	6,083	7,986	87,261	6,083	6,806
Peoples Leasing & Finance PLC	476,000	8,568	7,759	476,000	8,568	8,092
Seylan Bank PLC – (Non-Voting)	257,761	9,006	11,470	247,631	9,006	13,867
Sector Total			42,168			49,019
Diversified Holdings						
John Keells Holdings PLC	38,274	5,622	6,112	38,274	5,622	5,684
Richard Pieris and Company PLC	312,851	4,351	3,285	312,851	4,351	4,067
Vallibel One PLC	200,000	3,600	3,400	200,000	3,600	3,540
Melstacorp Ltd.	55,000	3,260	2,767	130,000	7,706	7,735
Sector Total			15,564			21,026
Beverage Food and Tobacco						
Distilleries Company of Sri Lanka PLC	22,222	-	358	-	-	-
Sector Total			358			-
Manufacturing						
Royal Ceramic Lanka PLC	28,000	4,318	2,089	28,000	4,318	3,206
ACL Cables PLC	95,200	3,016	3,522	95,200	3,016	4,036
Tokyo Cement Company (Lanka) PLC	330,869	12,278	8,338	330,869	12,278	21,838
Sector Total			13,949			29,080
Chemicals and Pharmaceuticals						
CIC Holdings PLC	-	-	-	61,920	4,363	3,839
Sector Total			-			3,839
Carrying Value of Total Investment in Quoted Shares			72,039			102,964

Notes to the Supplemental Financial Statements – Life Insurance Fund

B. LOANS TO LIFE POLICYHOLDERS

As at 31st December,	2018	2017
	Rs. '000	Rs. '000
Balance as at 1st January	133,460	99,574
Loans Granted during the Year	113,329	72,279
Repayments during the Year	(45,838)	(38,393)
	200,951	133,460
Interest Receivable	42,162	28,825
Balance as at 31st December	243,113	162,285

As at 31st December,	2018	2017	
	Note	Rs. '000	Rs. '000
C. REINSURANCE RECEIVABLES			
Reinsurance Receivable on Outstanding Claims		32,159	29,240
Reinsurance Receivable on Settled Claims	C.1	43,767	35,770
Total Reinsurance Receivable		75,926	65,010

C.1 The Age Analysis of the Reinsurance Receivable on Settled Claims is as Follows:

Up to 30 Days	12,282	5,186
31 to 60 Days	4,854	5,157
61 to 90 Days	3,986	4,297
91 to 180 Days	16,358	21,130
181 to 365 Days	6,287	-
Total Reinsurance Receivable on Settled Claims	43,767	35,770

As at 31st December,	2018	2017	
	Note	Rs. '000	Rs. '000
D. OTHER ASSETS			
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	D.1	35,588	155,207
Other Receivables		3,514	1,705
Total Other Assets		39,102	156,912

D.1 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

Withholding Tax Recoverable (WHT)	35,588	9,934
Notional Tax on Government Securities	-	145,273
Total Taxes Recoverable	35,588	155,207

As at 31st December,		2018	2017
	Note	Rs. '000	Rs. '000
E. CASH AND CASH EQUIVALENTS			
Cash in Hand		1,360	1,290
Cash at Bank with Licensed Commercial Banks		725	965
Cash at Bank with Related Parties – Hatton National Bank PLC		171,379	224,035
		173,464	226,290
Short-Term Deposits	E.1	53,700	6,059
		227,164	232,349
Bank Overdrafts		(24,068)	(18,143)
Total Cash and Cash Equivalents		203,096	214,206

E.1 Short-Term Deposits

With Licensed Commercial Banks		53,700	6,059
Total Short-Term Deposits		53,700	6,059

As at 31st December,		2018	2017
	Note	Rs. '000	Rs. '000

F. REINSURANCE CREDITORS

Foreign Reinsurer		116,268	90,650
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As at 31st December,		2018	2017
	Note	Rs. '000	Rs. '000

G. OTHER LIABILITIES

Policyholders Advance Payments		106,199	85,998
Acquisition Cost Payable		85,738	83,476
Advisor Terminal Benefit Payable		-	156,703
Government Levies		16,943	1,988
Others		12,272	19,765
Total Other Liabilities		221,152	191,227

Insurance Revenue Account

For the Year Ended 31st December,	2018	2017
	Rs. '000	Rs. '000
Life Insurance		
Gross Written Premium	4,420,513	3,963,642
Premium Ceded to Reinsurers	(215,630)	(189,093)
Net Written/Earned Premium	4,204,883	3,774,549
Net Benefits Expense	(1,066,574)	(575,551)
Net Commission	(862,720)	(836,026)
Expenses Attributable to Policyholders	(1,388,377)	(1,035,847)
Fees and Commission Income	79,465	61,494
Underwriting Surplus	966,677	1,388,619
Change in Contract Liabilities – Life Fund	(1,707,149)	(2,166,427)
Change in Contract Liability due to Transfer of One-Off Surplus	381,156	-
Interest and Dividend Income	1,591,900	1,442,073
Net Realised Gains	68,673	28,789
Net Fair Value (Losses)/Gains	(18,036)	7,653
Other Income	14,627	24,958
Surplus from Life Insurance Business (a)	1,297,848	725,665
General Insurance		
Gross Written Premium	4,340,575	3,906,503
Premium Ceded to Reinsurers	(843,639)	(911,480)
Net Written Premium	3,496,936	2,995,023
Net Change in Reserves for Unearned Premium	(216,988)	(328,818)
Net Earned Premium	3,279,948	2,666,205
Net Claims Incurred	(2,170,792)	(1,718,847)
Net Commission	(511,849)	(435,929)
Decrease in Deferred Acquisition Expenses	35,199	30,336
Expenses	(809,500)	(700,577)
Fees and Commission Income	111,051	80,889
Underwriting Deficit	(65,943)	(77,923)
Interest and Dividend Income	295,443	251,118
Net Realised Gains	5,385	4,339
Net Fair Value Gain	26,518	2,051
Other Income	21,403	21,777
Operating Profit from General Insurance Business (b)	282,806	201,361
Reconciliation of Statement of Income and Insurance Revenue Accounts		
Surplus from Life Insurance Business (a)	1,297,848	725,665
Operating Profit from the Subsidiary (b)	282,806	201,361
Profit Before Taxation	1,580,654	927,027
Income Tax Reversal/(Expense)	1,124,656	(17,275)
Profit for the Year	2,705,310	909,752

Takaful Business Analysis – Profitability

For the Year Ended 31st December,	Life-Takaful	
	2018	2017
	Rs. '000	Rs. '000
Gross Written Contribution (Premium)	2,895	2,855
Contribution (Premium) Ceded to Retakaful Companies (Reinsurers)*	(684)	(1,134)
Net Earned Contribution (Premium)	2,211	1,721
Other Income	260	147
Net Income	2,471	1,868
Total Benefits, Loss (Claims) and Other Expenses	(422)	(422)
Profit for the Year	2,049	1,446

For the Year Ended 31st December,	Non-Life – Takaful	
	2018	2017
	Rs. '000	Rs. '000
Gross Written Contribution (Premium)	500,476	455,262
Contribution (Premium) Ceded to Retakaful Companies (Reinsurers)*	(55,817)	(116,598)
Unearned Takaful Contribution (Premium)	(47,774)	(67,416)
Net Earned Contribution (Premium)	396,885	271,248
Other Income	28,363	23,704
Net Income	425,248	294,952
Total Benefits, Loss (Claims) and Other Expenses	(423,545)	(275,353)
Profit for the Year	1,703	19,599

*Reinsurance may be obtained from conventional entities in the absence of Retakaful arrangements.

Shari'ah Audit Reports of HNB Assurance PLC Takaful Unit and HNB General Insurance Limited Takaful Unit are given on pages 360 and 361 respectively.

SHARI'AH AUDIT REPORT OF HNBA TAKAFUL UNIT

We have examined the accompanying financial statement of HNBA Takaful Unit for the year ended 31st December 2018. We have also conducted our review to form an opinion as to whether HNBA Takaful Unit has complied with Shari'ah Rules and principles and also with the specific regulations and guidelines issued by us.

Managements Responsibility for the Financial Statements

HNBA Takaful units management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic Shari'ah rules and principles. Our responsibility as the Shari'ah committee is to form an independent opinion, based on our review of the operations of HNBA Takaful unit, and to report to you.

Scope of Audit and Basis of Opinion


The scope of our audit primarily involves the review of HNBA Takaful Unit's compliance with the Shari'ah Regulations and Guidelines. Our review also includes examining, on a test basis, each type of product in relation to issuance, compensations and accountings.

Opinion

In our opinion and to the best of our information and belief and according to the explanations given to us:

- a) The financials transactions undertaken by HNBA Takaful Unit, during the year ended 31st December 2018, were in accordance with the guidelines prescribed by the Shari'ah Supervisory Board and in conformity with the requirements of Takaful regulations.
- b) HNBA Takaful Unit was, in operational respect in compliance with the Shari'ah principles. Further, we also concur with the accounting policies adopted for incorporation of participant Takaful Fund into the accompanying financial statements.

We seek Allah the Almighty to grant us all success and straight – forwardness.



ASH – SHEIKH FAZIL M.FAROOK
Chairman
Shari'ah Supervisory Board



ASH – SHEIKH MURSHID M.MULAFFER
Member
Shari'ah Supervisory Board



ASH – SHEIKH HUZAIFA HUSSAIN
Member
Shari'ah Supervisory Board

SHARI'AH AUDIT REPORT OF HNB GENERAL TAKAFUL UNIT

We have examined the accompanying financial statement of HNBG Takaful Unit for the year ended 31st December 2018. We have also conducted our review to form an opinion as to whether HNBG Takaful Unit has complied with Shari'ah Rules and principles and also with the specific regulations and guidelines issued by us.

Managements Responsibility for the Financial Statements

HNBG Takaful unit's management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic Shari'ah rules and principles. Our responsibility as the Shari'ah committee is to form an independent opinion, based on our review of the operations of HNBG Takaful unit, and to report to you.

Scope of Audit and Basis of Opinion

The scope of our audit primarily involves the review of HNBG Takaful Unit's compliance with the Shari'ah Regulations and Guidelines. Our review also includes examining, on a test basis, each type of product in relation to issuance, compensations and accountings.

Opinion

In our opinion and to the best of our information and belief and according to the explanations given to us:

- a) The financials transactions undertaken by HNBG Takaful Unit, during the year ended 31st December 2018, were in accordance with the guidelines prescribed by the Shari'ah Supervisory Board and in conformity with the requirements of Takaful regulations.
- b) HNBG Takaful Unit was, in operational respect in compliance with the Shari'ah principles. Further, we also concur with the accounting policies adopted for incorporation of participant Takaful Fund into the accompanying financial statements.

We seek Allah the Almighty to grant us all success and straight – forwardness.



 ASH – SHEIKH FAZIL M. FAROOK
 Chairman
 Shari'ah Supervisory Board



 ASH – SHEIKH MURSHID M. MULAFFER
 Member
 Shari'ah Supervisory Board



 ASH – SHEIKH HUZAIFA HUSSAIN
 Member
 Shari'ah Supervisory Board

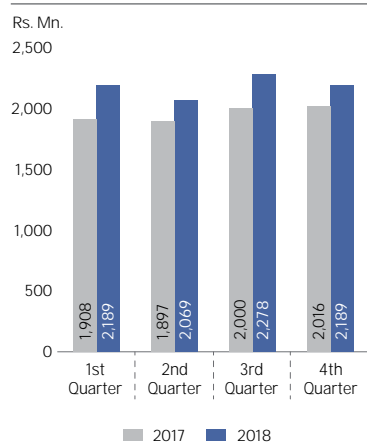
Quarterly Analysis 2018 and 2017 – Group

Statement of Profit or Loss

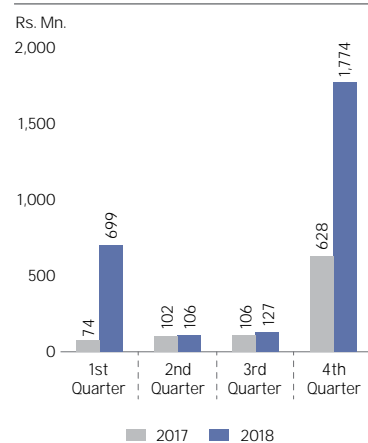
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Jan-March		Apr-Jun		Jul-Sep		Oct-Dec		Jan-Dec	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	2,188,927	1,907,987	2,069,368	1,897,244	2,277,765	2,000,395	2,188,636	2,015,842	8,724,696	7,821,468
Premium Ceded to Reinsurers	(281,611)	(237,958)	(250,078)	(310,165)	(256,098)	(237,356)	(271,482)	(315,094)	(1,059,269)	(1,100,573)
Net Written Premium	1,907,316	1,670,029	1,819,290	1,587,079	2,021,667	1,763,039	1,917,154	1,700,748	7,665,427	6,720,895
Net Change in Reserves for Unearned Premium	(133,724)	(127,415)	(71,606)	(81,606)	(58,946)	(124,029)	47,288	4,232	(216,988)	(328,818)
Net Earned Premium (a)	1,773,592	1,542,614	1,747,684	1,505,473	1,962,721	1,639,010	1,964,442	1,704,980	7,448,439	6,392,077
Other Revenue										
Interest and Dividend Income	451,586	360,345	453,084	383,066	480,319	422,475	502,354	527,305	1,887,343	1,693,191
Net Realised Gains	16,660	3,475	18,659	4,467	29,206	8,681	9,533	16,505	74,058	33,128
Net Fair Value (Losses)/Gains	(2,791)	(3,453)	(6,998)	23,303	(449)	(5,527)	18,720	(4,619)	8,482	9,704
Fee and Commission Income	45,471	47,524	35,076	41,351	32,409	27,441	59,690	12,783	172,646	129,099
Other Income	6,008	8,603	11,291	13,365	7,744	9,485	10,987	15,282	36,030	46,735
Total Other Revenue (b)	516,934	416,494	511,112	465,552	549,229	462,555	601,284	567,256	2,178,559	1,911,857
Net Income (c=a+b)	2,290,526	1,959,108	2,258,796	1,971,025	2,511,950	2,101,565	2,565,726	2,272,236	9,626,998	8,303,934
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims	(645,829)	(519,555)	(802,613)	(519,447)	(939,108)	(623,989)	(848,939)	(630,415)	(3,236,489)	(2,293,406)
Change in Contract Liabilities – Life Fund	(528,021)	(629,363)	(533,917)	(607,659)	(593,616)	(686,818)	(51,595)	(242,587)	(1,707,149)	(2,166,427)
Change in Contract Liability due to Transfer of One-Off Surplus	381,156	-	-	-	-	-	-	-	381,156	-
Other Operating and Administration Expenses	(483,988)	(432,767)	(519,387)	(466,863)	(511,964)	(448,766)	(767,142)	(490,635)	(2,282,481)	(1,839,031)
Underwriting and Net Acquisition Costs	(293,170)	(267,693)	(256,990)	(227,359)	(284,437)	(257,030)	(290,821)	(276,790)	(1,125,418)	(1,028,872)
Other Insurance Related Costs	(11,549)	(14,089)	(17,405)	(12,190)	(15,113)	(11,415)	(31,896)	(11,477)	(75,963)	(49,171)
Total Benefits, Claims and other Expenses (d)	(1,581,401)	(1,863,467)	(2,130,312)	(1,833,518)	(2,344,238)	(2,028,018)	(1,990,393)	(1,651,904)	(8,046,344)	(7,376,907)
Profit Before Taxation (c+d)	709,125	95,641	128,484	137,507	167,712	73,547	575,333	620,332	1,580,654	927,027
Income Tax (Expense)/Reversal	(10,378)	(21,599)	(22,181)	(35,369)	(41,203)	32,192	1,198,418	7,501	1,124,656	(17,275)
Profit for the Period	698,747	74,042	106,303	102,138	126,509	105,739	1,773,751	627,833	2,705,310	909,752

Note 1 – To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2017 Annual Report have been reclassified where necessary. Detail note has been given in Note 49 in page 349.

Gross Written Premium – Group



Profit for the Period – Group



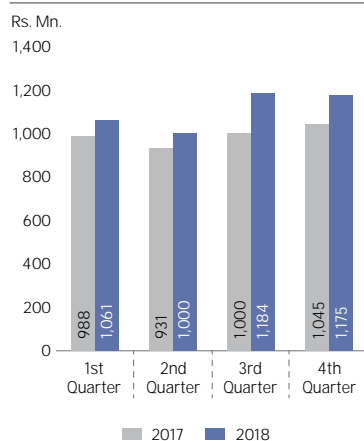
Quarterly Analysis 2018 and 2017 – Company

Statement of Profit or Loss

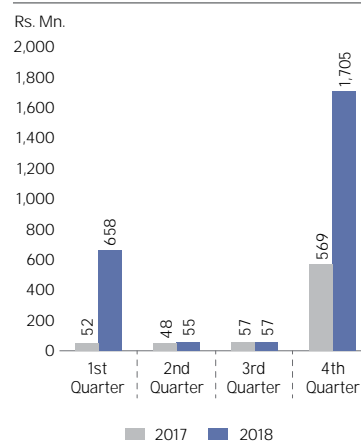
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Jan-March		Apr-Jun		Jul-Sep		Oct-Dec		Jan-Dec	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	1,061,207	987,824	1,000,191	931,313	1,184,149	999,758	1,174,966	1,044,747	4,420,513	3,963,642
Premium Ceded to Reinsurers	(51,690)	(45,836)	(52,296)	(45,776)	(54,233)	(46,522)	(57,411)	(50,959)	(215,630)	(189,093)
Net Earned Premium (a)	1,009,517	941,988	947,895	885,537	1,129,916	953,236	1,117,555	993,788	4,204,883	3,774,549
Other Revenue										
Interest and Dividend Income	383,275	304,756	381,477	321,856	403,648	355,962	423,500	459,499	1,591,900	1,442,073
Net Realised Gains	12,523	2,911	17,411	2,035	29,206	7,670	9,533	16,173	68,673	28,789
Net Fair Value (Losses)/Gains	(4,407)	(3,768)	(8,491)	19,605	(8,582)	(3,640)	3,444	(4,544)	(18,036)	7,653
Fee and Commission Income	36,975	25,075	12,528	15,518	14,665	9,945	15,297	10,956	79,465	61,494
Other Income	2,579	6,868	4,051	4,125	4,463	7,818	3,534	6,147	14,627	24,958
Total Other Revenue (b)	430,945	335,842	406,976	363,139	443,400	377,755	455,308	488,231	1,736,629	1,564,967
Net Income (c=a+b)	1,440,462	1,277,830	1,354,871	1,248,676	1,573,316	1,330,991	1,572,863	1,482,019	5,941,512	5,339,516
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims	(132,735)	(105,221)	(260,533)	(130,811)	(403,205)	(167,800)	(270,101)	(171,719)	(1,066,574)	(575,551)
Change in Contract Liabilities – Life Fund	(528,021)	(629,363)	(533,917)	(607,659)	(593,616)	(686,818)	(51,595)	(242,587)	(1,707,149)	(2,166,427)
Change in Contract Liability due to Transfer of One-Off Surplus	381,156	-	-	-	-	-	-	-	381,156	-
Other Operating and Administration Expenses	(265,161)	(236,239)	(290,331)	(256,936)	(281,107)	(249,273)	(515,200)	(276,335)	(1,351,799)	(1,018,783)
Underwriting and Net Acquisition Costs	(230,531)	(226,907)	(186,932)	(178,515)	(211,393)	(201,707)	(219,112)	(215,586)	(847,968)	(822,715)
Other Insurance Related Costs	(7,116)	(9,939)	(10,442)	(7,316)	(9,672)	(6,164)	(24,100)	(6,956)	(51,330)	(30,375)
Total Benefits, Claims and Other Expenses (d)	(782,408)	(1,207,669)	(1,282,155)	(1,181,237)	(1,498,993)	(1,311,762)	(1,080,108)	(913,183)	(4,463,664)	(4,613,851)
Profit Before Taxation (c+d)	658,054	70,161	72,716	67,439	74,323	19,229	492,755	568,836	1,297,848	725,665
Income Tax (Expense)/Reversal	-	(17,778)	(17,251)	(19,817)	(17,337)	37,595	1,211,955	-	1,177,367	-
Profit for the Period	658,054	52,383	55,465	47,622	56,986	56,824	1,704,710	568,836	2,475,215	725,665

Note 1 – To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2017 Annual Report have been reclassified where necessary. Detail note has been given in Note 49 in page 349.

Gross Written Premium - Company



Profit for the Period – Company



Decade at a Glance

HNB ASSURANCE PLC – GROUP

Statement of Financial Position

As at 31st December,	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets										
Property, Plant and Equipment	151,559	169,620	161,362	136,279	133,942	137,009	118,447	121,568	130,971	117,070
Intangible Assets	61,087	57,841	60,882	45,185	51,622	53,807	61,068	48,876	52,308	30,755
Deferred Tax Assets	1,304,882	64,098	52,922	49,394	-	2	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	2,717,415
Financial Investments	17,579,131	15,054,910	11,544,575	9,751,611	8,277,895	6,656,438	5,703,866	4,884,262	3,643,361	-
Loans to Life Policyholders	243,113	162,285	120,441	91,992	71,082	53,656	29,888	20,097	15,000	10,338
Reinsurance Receivables	415,773	569,778	494,726	141,354	162,260	105,390	162,715	130,867	122,403	73,824
Premium Receivables	798,213	786,319	623,294	345,916	364,051	301,182	247,417	231,385	231,929	157,029
Other Assets	823,101	1,036,846	770,674	625,985	683,149	575,180	482,216	397,385	337,745	471,170
Insurance Contract – Deferred Expenses	140,486	105,287	74,951	65,935	52,072	32,912	19,968	20,059	12,392	-
Cash and Cash Equivalents	761,871	641,950	625,527	386,929	173,245	144,087	209,293	190,355	81,444	94,100
Total Assets	22,279,216	18,648,934	14,529,354	11,640,580	9,969,318	8,059,663	7,034,878	6,044,854	4,627,553	3,671,701
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	375,000	375,000
Retained Earnings	4,405,581	2,381,427	1,721,675	1,174,262	1,196,546	941,820	690,197	444,057	676,118	455,851
Available For Sale Reserve	(8,025)	30,685	(7,152)	(4,748)	3,590	1,427	6,209	-	-	-
Other Reserve	(4,406)	(10,760)	1,790	(1,093)	1,177	2,172	-	-	-	-
Life Policyholders' AFS Reserve Fund	(201,867)	223,272	(191,131)	(56,350)	40,748	(4,182)	(1,191)	(22,526)	31,050	-
Restricted Regulatory Reserve	381,156	-	-	-	-	-	-	-	-	-
Total Equity	5,744,314	3,796,499	2,697,057	2,283,946	2,413,936	2,113,112	1,867,090	1,593,406	1,082,168	830,851
Liabilities										
Insurance Contract Liabilities – Life	12,261,472	10,915,858	8,747,856	7,007,080	5,562,648	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513
Insurance Contract Liabilities – General	2,525,095	2,384,906	1,921,567	1,546,265	1,279,138	1,011,102	969,443	944,321	743,049	599,364
Employee Defined Benefit Liabilities	140,356	126,083	90,433	81,001	71,493	56,637	42,360	34,129	25,076	18,180
Current Tax Liabilities	22,541	34,598	3,300	-	12,012	35,143	42,950	25,998	28,618	-
Deferred Tax Liabilities	-	-	-	-	8,845	-	-	-	-	-
Reinsurance Creditors	369,853	353,042	287,895	131,905	110,778	100,881	83,253	103,256	77,309	87,251
Other Liabilities	1,092,809	896,288	781,246	590,383	510,468	394,298	403,543	322,413	256,119	282,542
Bank Overdrafts	122,776	141,660	-	-	-	-	-	-	-	-
Total Liabilities	16,534,902	14,852,435	11,832,297	9,356,634	7,555,382	5,946,551	5,167,788	4,451,448	3,545,385	2,840,850
Total Equity and Liabilities	22,279,216	18,648,934	14,529,354	11,640,580	9,969,318	8,059,663	7,034,878	6,044,854	4,627,553	3,671,701

Statement of Profit or Loss

For the year ended 31st December,	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	8,724,696	7,821,468	6,656,694	5,447,164	4,665,618	3,877,730	3,211,232	2,984,710	2,428,183	2,115,647
Net Earned Premium	7,448,439	6,392,077	5,597,879	4,725,403	3,845,510	3,269,181	2,697,024	2,349,619	1,844,360	1,567,747
Income from Investments and Other Income	2,178,559	1,911,857	1,298,327	1,049,152	1,167,910	937,417	736,810	466,956	516,880	469,038
Net Claims and Benefits	(3,236,489)	(2,293,406)	(1,947,645)	(2,117,789)	(1,573,104)	(1,568,208)	(1,154,521)	(865,130)	(648,137)	(511,911)
Change in Contract Liabilities – Life Fund	(1,707,149)	(2,166,427)	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)
Change in Contract Liability Due to Transfer of One-Off Surplus	381,156	-	-	-	-	-	-	-	-	-
Underwriting and Net Acquisition Costs	(1,125,418)	(1,028,872)	(922,886)	(699,679)	(474,826)	(381,259)	(348,108)	(288,059)	(164,991)	(150,108)
Expenses	(2,358,444)	(1,888,202)	(1,611,869)	(1,325,214)	(1,334,634)	(1,107,209)	(981,430)	(833,221)	(746,854)	(650,677)
Profit Before Taxation	1,580,654	927,027	705,521	169,773	438,583	425,093	393,866	271,840	269,525	231,081
Income Tax (Expenses)/Reversal	1,124,656	(17,275)	(58,108)	27,571	(20,857)	(35,970)	(42,726)	(25,772)	(27,786)	(29,471)
Profit for the Year	2,705,310	909,752	647,413	197,344	417,726	389,124	351,140	246,068	241,739	201,610
Basic Earnings per Share (Rs.)	54.11	18.20	12.95	3.95	8.35	7.78	7.02	5.14	5.38	4.49
Dividend per Share (Rs.)	7.00	6.00	5.00	2.00	3.75	3.25	2.75	2.10	1.80	1.50

HNB ASSURANCE PLC/LIFE INSURANCE – COMPANY

Statement of Financial Position

As at 31st December,	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets										
Property, Plant and Equipment	104,487	119,078	112,151	94,107	-	-	-	4,276	4,573	6,174
Intangible Assets	58,782	57,841	60,882	45,185	-	-	-	22,203	20,773	14,523
Deferred Tax Assets	1,280,499	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	1,686,073
Financial Investments	14,679,706	12,741,015	9,642,596	7,849,625	5,545,833	4,270,216	3,527,422	2,935,487	2,415,853	-
Investment in Subsidiary	1,150,000	1,150,000	1,150,000	1,150,000	-	-	-	-	-	-
Loans to Life Policyholders	243,113	162,285	120,441	91,992	71,082	53,656	29,888	20,097	15,000	10,338
Reinsurance Receivables	75,926	65,010	54,814	34,269	23,446	23,626	40,716	27,848	18,617	16,283
Premium Receivables	8,046	7,488	6,805	5,592	6,943	6,710	9,573	-	-	-
Other Assets	575,154	764,256	575,676	493,571	195,023	169,032	137,795	129,223	102,556	219,625
Cash & Cash Equivalents	502,561	352,307	476,572	258,222	88,482	74,705	129,916	62,468	13,005	45,252
Total Assets	18,678,274	15,419,280	12,199,937	10,022,563	5,930,809	4,597,945	3,875,310	3,201,602	2,590,377	1,998,268
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	-	-	-	-	-	-
Retained Earnings	4,167,660	2,373,601	1,897,936	1,397,806	-	-	-	-	-	-
Available For Sale Reserve	1,451	17,415	(1,465)	53	-	-	-	-	-	-
Other Reserve	(4,395)	(9,884)	(1,886)	(2,039)	(18,780)	928	-	-	-	-
Life Policyholders' AFS Reserve Fund	(201,867)	223,272	(191,131)	(56,350)	40,748	(4,182)	(1,191)	(22,526)	31,050	-
Restricted Regulatory Reserve	381,156	-	-	-	-	-	-	-	-	-
Total Equity	5,515,880	3,776,279	2,875,329	2,511,345	21,968	(3,254)	(1,191)	(22,526)	31,050	-
Liabilities										
Insurance Contract Liabilities – Life	12,261,472	10,915,858	8,747,856	7,007,080	5,562,648	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513
Employee Defined Benefit Liabilities	84,840	73,875	50,883	44,008	31,508	6,747	4,943	4,565	3,406	2,597
Current Tax Liabilities	14,708	-	-	-	-	-	-	-	-	-
Reinsurance Creditors	116,268	90,650	39,395	37,547	30,921	24,849	29,928	28,106	25,341	24,937
Other Liabilities	642,470	529,862	485,474	422,583	283,764	221,113	215,391	170,126	115,366	117,221
Bank Overdrafts	42,636	32,756	-	-	-	-	-	-	-	-
Total Liabilities	13,162,394	11,643,001	9,323,608	7,511,218	5,908,841	4,601,199	3,876,501	3,224,128	2,559,327	1,998,268
Total Equity and Liabilities	18,678,274	15,419,280	12,199,937	10,022,563	5,930,809	4,597,945	3,875,310	3,201,602	2,590,377	1,998,268

Statement of Profit or Loss

For the year ended 31st December,	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	4,420,513	3,963,642	3,554,078	2,788,716	2,342,867	2,014,547	1,500,028	1,290,367	1,084,480	984,866
Net Earned Premium	4,204,883	3,774,549	3,395,028	2,680,753	2,215,404	1,912,749	1,371,952	1,187,671	985,283	891,808
Income from Investments and Other Income	1,736,629	1,564,967	1,031,606	783,126	707,444	578,890	428,630	297,566	339,295	311,730
Net Benefits Incurred	(1,066,574)	(575,551)	(401,677)	(280,495)	(412,383)	(679,136)	(261,771)	(62,760)	(59,900)	(63,701)
Change in Contract Liabilities – Life Fund	(1,707,149)	(2,166,427)	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)
Change in Contract Liability Due to Transfer of One-Off Surplus	381,156	-	-	-	-	-	-	-	-	-
Underwriting and Net Acquisition Costs	(847,968)	(822,715)	(748,051)	(544,673)	(386,651)	(327,858)	(294,456)	(247,379)	(177,530)	(151,995)
Expenses	(1,403,129)	(1,049,158)	(911,979)	(719,583)	(703,519)	(578,327)	(523,220)	(444,773)	(399,415)	(364,834)
Profit Before Taxation	1,297,848	725,665	656,642	457,028	228,022	181,489	165,226	172,000	156,000	130,000

Decade at a Glance

HNB GENERAL INSURANCE LTD./GENERAL INSURANCE – SUBSIDIARY

Statement of Financial Position

As at 31st December,	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
								Restated	Restated	
Assets										
Property, Plant and Equipment	47,072	50,542	49,211	42,172	133,942	137,009	118,447	117,292	126,398	110,896
Intangible Assets	2,305	-	-	-	51,622	53,807	61,068	26,673	31,535	16,102
Deferred Tax Assets	24,383	64,098	52,922	49,394	-	2	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	1,031,342
Financial Investments	2,899,425	2,313,895	1,901,979	1,901,986	2,732,062	2,386,222	2,176,444	1,948,775	1,227,508	-
Reinsurance Receivables	339,847	504,768	439,912	107,085	138,814	81,764	121,999	103,019	103,786	57,541
Premium Receivables	790,167	778,831	616,489	340,324	357,108	294,472	237,844	231,385	231,929	157,029
Other Assets	270,915	278,711	208,118	141,431	488,126	406,148	344,421	268,162	235,189	251,675
Insurance Contract – Deferred Expenses	140,486	105,287	74,951	65,935	52,072	32,912	19,968	20,059	12,392	-
Cash and Cash Equivalents	259,310	289,643	148,955	128,707	84,763	69,382	79,377	127,887	68,439	48,848
Total Assets	4,773,910	4,385,775	3,492,537	2,777,034	4,038,509	3,461,718	3,159,568	2,843,252	2,037,176	1,673,433
Equity and Liabilities										
Equity										
Stated Capital	1,150,000	1,150,000	1,150,000	1,150,000	1,171,875	1,171,875	1,171,875	1,171,875	375,000	375,000
Retained Earnings	240,876	10,781	(173,306)	(220,589)	1,196,546	941,820	690,197	444,057	676,118	455,851
Available For Sale Reserve	(12,431)	10,315	(8,642)	(7,756)	3,590	1,427	6,209	-	-	-
Other Reserve	(11)	(876)	3,676	946	19,957	1,244	-	-	-	-
Total Equity	1,378,434	1,170,220	971,728	922,601	2,391,968	2,116,366	1,868,281	1,615,932	1,051,118	830,851
Liabilities										
Insurance Contract Liabilities – General	2,525,095	2,384,906	1,921,567	1,546,265	1,279,138	1,011,102	969,443	944,321	743,049	599,364
Employee Defined Benefit Liabilities	55,516	52,208	39,550	36,993	39,985	49,890	37,417	29,564	21,670	15,583
Current Tax Liabilities	7,833	34,598	3,300	-	12,012	35,143	42,950	25,998	28,618	-
Deferred Tax Liabilities	-	-	-	-	8,845	-	-	-	-	-
Reinsurance Creditors	253,585	262,392	248,500	94,358	79,857	76,032	53,325	75,150	51,968	62,314
Other Liabilities	473,307	372,547	307,892	176,817	226,704	173,185	188,152	152,287	140,753	165,321
Bank Overdrafts	80,140	108,904	-	-	-	-	-	-	-	-
Total Liabilities	3,395,476	3,215,555	2,520,809	1,854,433	1,646,541	1,345,352	1,291,287	1,227,320	986,058	842,582
Total Equity and Liabilities	4,773,910	4,385,775	3,492,537	2,777,034	4,038,509	3,461,718	3,159,568	2,843,252	2,037,176	1,673,433

Statement of Profit or Loss

For the year ended 31st December,	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	4,340,575	3,906,503	3,141,559	2,698,176	2,322,751	1,863,183	1,711,204	1,694,343	1,343,703	1,130,781
Net Earned Premium	3,279,948	2,666,205	2,241,794	2,084,378	1,630,106	1,356,432	1,325,072	1,161,948	859,077	675,939
Income from Investments and Other Income	459,800	360,174	273,805	279,041	460,466	358,527	308,180	169,390	177,585	157,308
Net Claims and Benefits	(2,170,792)	(1,718,847)	(1,546,601)	(1,837,294)	(1,160,721)	(889,072)	(892,750)	(802,370)	(588,237)	(448,210)
Underwriting and Net Acquisition Costs	(289,873)	(214,898)	(177,847)	(160,979)	(88,175)	(53,401)	(53,652)	(40,680)	12,539	1,887
Expenses	(996,277)	(891,272)	(742,272)	(649,446)	(631,115)	(528,882)	(458,210)	(388,448)	(347,439)	(285,843)
Profit/(Loss) Before Taxation	282,806	201,362	48,879	(284,300)	210,561	243,604	228,640	99,840	113,525	101,081

HNB ASSURANCE PLC – GROUP

Statement of Cash Flows

For the year ended 31st December,	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
								Restated	Restated	
Profit Before Tax	1,580,654	927,027	705,521	169,773	438,583	425,093	393,866	271,840	269,525	231,081
Net Adjustments and Net Change in Operating Assets and Liabilities	(61,603)	582,782	586,677	999,997	348,864	(188,697)	(90,905)	389,970	522,072	531,890
Net Cash Generated from Operating Activities	1,519,051	1,509,809	1,292,198	1,169,770	787,447	236,396	302,961	661,810	791,597	762,971
Net Cash Used in Investing Activities	(1,080,246)	(1,385,046)	(953,600)	(767,836)	(595,289)	(164,102)	(179,023)	(871,645)	(748,093)	(738,236)
Net Cash Used in Financing Activities	(300,000)	(250,000)	(100,000)	(188,250)	(163,000)	(137,500)	(105,000)	318,746	(56,250)	(47,906)
Net Increase/(Decrease) in Cash and Cash Equivalents	138,805	(125,237)	238,598	213,684	29,158	(65,206)	18,938	108,911	(12,746)	(23,171)
Cash and Cash Equivalents at the beginning of the Year	500,290	625,527	386,929	173,245	144,087	209,293	190,355	81,444	94,100	117,271
Cash and Cash Equivalents at the end of the Year	639,095	500,290	625,527	386,929	173,245	144,087	209,293	190,355	81,354	94,100

Investor Information

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Return on Equity	56.71%	24.09%	24.00%	8.64%	17.30%	18.41%	18.79%	15.23%	23.00%	24.27%
Market Price per Share as at 31st December (VWA) (Rs.)	132.00	72.50	58.80	74.60	83.50	52.50	49.00	56.90	78.00	49.50
Market Price per Share as at 31st December (VWA) (Rs.) – Adjusted for Bonus Issue	132.00	72.50	58.80	74.60	83.50	52.50	49.00	56.90	66.31	44.94
Price Earning Ratio (Times)	2.44	3.98	4.54	18.89	10	6.75	6.98	11.07	12.33	10.01
Earnings Yield	40.99%	25.10%	22.02%	5.29%	10.00%	14.82%	14.33%	9.03%	8.11%	9.99%
Dividend Yield	5.30%	8.28%	8.50%	2.68%	4.49%	6.19%	5.61%	3.69%	2.31%	3.03%
Market Capitalisation (Rs. Mn.)	6,600	3,625	2,940	3,730	4,175	2,625	2,450	2,845	2,925	1,856

Employee Information

Number of Employees	992	947	903	836	829	804	723	662	597	540
GWP per Employee (Rs. Mn.)	8.80	8.26	7.37	6.52	5.63	4.82	4.44	4.51	4.07	3.92
Net Profit per Employee (Rs. '000)	2,727.13	960.67	716.96	236.06	503.90	483.98	485.67	371.70	404.92	373.35

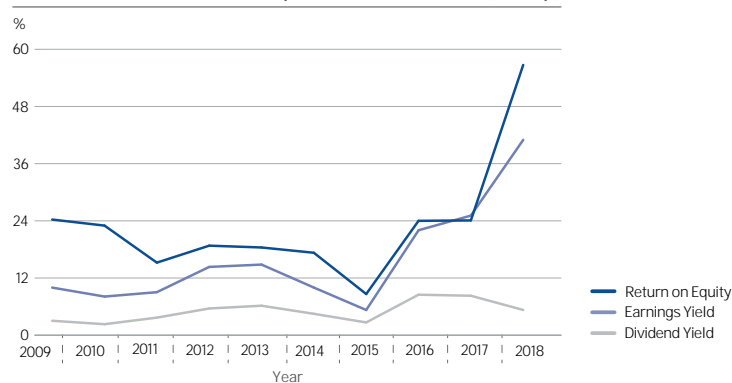
Life Insurance Operation

Net Claims Ratio (With Maturity)	25%	15%	12%	10%	19%	36%	19%	5%	6%	7%
Expense Ratio	49%	49%	48%	46%	48%	47%	59%	56%	59%	58%
Combined Ratio	74%	64%	60%	56%	67%	83%	78%	61%	65%	65%

General Insurance Operation

Net Claims Ratio	66%	64%	69%	88%	72%	66%	68%	69%	68%	66%
Expense Ratio	36%	38%	38%	35%	38%	39%	34%	34%	39%	42%
Combined Ratio	102%	102%	107%	123%	110%	105%	102%	103%	107%	108%

Investor Information – Graphical Presentation (Group)

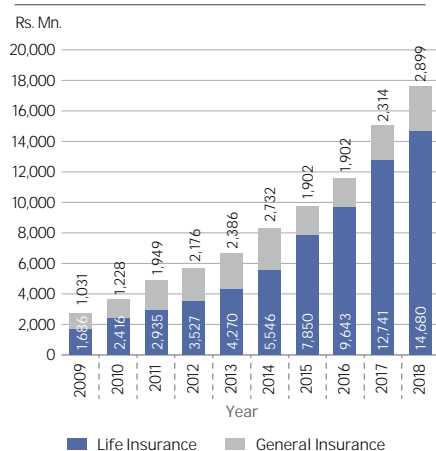


Decade at a Glance

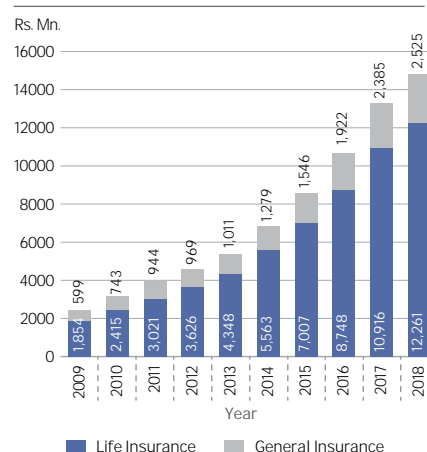
HNB ASSURANCE PLC – GROUP

Graphical Presentation

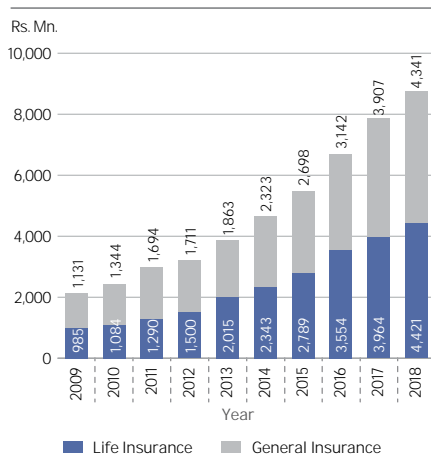
Investments/Financial Investments – Group



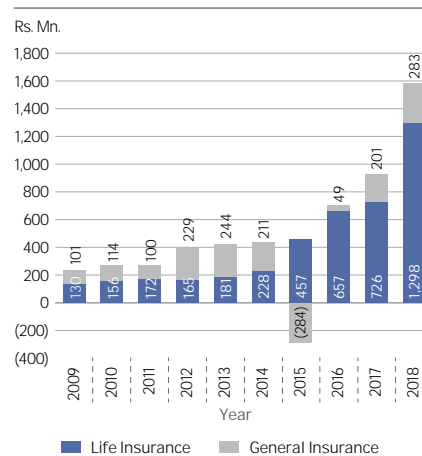
Contract Liabilities – Group



Gross Written Premium – Group



Profit Before Tax – Group



Glossary

ACQUISITION EXPENSES

All expenses which vary with and are primarily related to the acquisition of new insurance contracts and the renewal of existing insurance contracts. E.g. commissions.

ADMISSIBLE ASSETS

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

CLAIMS

The amount payable under a contract of insurance arising from the occurrence of an insured event.

CLAIMS INCURRED

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by Claims Outstanding provisions at the beginning and end of the accounting period.

CLAIMS INCURRED BUT NOT REPORTED (IBNR)

At the end of the period of account a reserve in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but not yet been reported to the insurer.

CLAIMS INCURRED BUT NOT ENOUGH REPORTED (IBNER)

A reserve made in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but no comprehensive information is available to make adequate provisions as at the reporting date.

CLAIMS OUTSTANDING RESERVE – GENERAL INSURANCE BUSINESS

The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the Balance Sheet date, including Incurred But Not Reported (IBNR), Claims Incurred But Not Enough Reported (IBNER) claims and claims handling expenses, less amounts already paid in respect of those claims.

DEFERRED ACQUISITION COST – GENERAL INSURANCE BUSINESS

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the Balance Sheet date which are carried from one accounting period to subsequent accounting periods.

NET WRITTEN PREMIUM

The balance of the Gross Written Premium after deduction of any premium paid or payable by the insurer for reinsurance ceded. Commonly identifies as Net Premium.

POLICY LOAN

A loan from the insurer to a policy holder on the security of the surrender value of a long term insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

REINSURANCE

An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (cedent – the primary insurer) against part or all of the liability assumed by the cedent under policy or policies of insurance

PREMIUM CEDED TO REINSURERS

The premium paid by the ceding Company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

REINSURANCE COMMISSION

Commission/discount received or receivable in respect of premiums paid or payable to a reinsurer.

UNEARNED PREMIUM

It represents the portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the reporting date.

UNEARNED PREMIUM RESERVE

A fund kept by a Non-Life insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

KEY INSURANCE RATIOS

Net Claims Ratio =	$\frac{\text{Net claims incurred} \times 100}{\text{Net earned premium}}$
Expense Ratio =	$\frac{\text{Net Expense incurred} \times 100}{\text{Net earned premium}}$
Combined Ratio =	$\frac{(\text{Net claims incurred} + \text{Expenses}) \times 100}{\text{Net earned premium}}$

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Notice of Meeting

Notice is hereby given that the Seventeenth (17th) Annual General Meeting of HNB Assurance PLC is convened on Thursday the Twenty Eighth (28th) day of March 2019, 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 2018, the Auditors' Report thereon.
- ii. To re-elect Mr. Jayasekera Arachchige Panduka Mahendra Jayasekera, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 86 of the Articles of Association of the Company.
- iii. To re-elect Mr. Lintotage Udaya Damien Fernando, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 92 of the Articles of Association of the Company.
- iv. To re-elect Mr. Stuart Anthony Chapman, 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 Messrs. Ernst & Young (EY) Chartered Accountants, as the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
- vi. To authorise the Directors to determine payments for the year 2019 for charitable and other purposes.
- vii. To consider and substitute the Articles of Association of the Company, if thought fit, pass the following resolution by way of a Special Resolution:

SPECIAL RESOLUTION

"THAT the articles contained in the printed document of the draft Articles of Association made available to the shareholders produced to this meeting and signed by the Chairperson and the Managing Director of the Company be approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of all the existing articles thereof".

By Order of the Board
HNB ASSURANCE PLC



Sitari Jayasundara
Board Secretary

Colombo, Sri Lanka
11th February 2019

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 Office of the Company Corporate Office, "Iceland Business Center", No. 30, Sri Uttarananda Mawatha, Colombo 03, not less than 48 hours before the time appointed for holding the meeting.

Form of Proxy

I/We
 of being *a
 member/members of the HNB Assurance PLC, hereby appoint
 of
 or

failing him/her Mirihana Arachchige Rose Chandralatha Cooray, or failing her Jayasekera Arachchige Panduka Mahendra Jayasekera, or failing him Dilshan Peter Nirosch Rodrigo, or failing him Siromi Noelle Wickramasinghe, or failing her Sivakumar Selliah, or failing him Deepthi Prasad Lokuarachchi, or failing him Darshan Ravindra Abeyseriya, or failing him Lintotage Udaya Damien Fernando, or failing him Stuart Anthony Chapman, as *my/our proxy, to represent *me/us and to vote for *me/us on *my/our behalf on the resolutions (including the under mentioned) at the Seventeenth Annual General Meeting of the Company to be convened on Thursday the 28th day of March 2019 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. 7.00 per share	In favour
	Against
To re-elect Mr. Jayasekera Arachchige Panduka Mahendra Jayasekera, as a Director of the Company	In favour
	Against
To re-elect Mr. Lintotage Udaya Damien Fernando, as a Director of the Company	In favour
	Against
To re-elect Mr. Stuart Anthony Chapman, as a Director of the Company	In favour
	Against
To re-appoint Messrs. Ernst & Young (EY) 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
To substitute the Articles of Association of the Company adopting the special resolution set out in the Notice of Meeting	In favour
	Against

Mark your preference with "✓"

Signed this day 2019.

Signature/s

Please Provide the Details :

Shareholder's NIC No./Company Registration No. :

Folio No./Number of Shares held :

Proxy holder's NIC No. (if not a Director) :

Note – See reverse hereof for instructions to complete the Proxy

**Delete inappropriate words*

Form of Proxy

INSTRUCTIONS TO COMPLETE PROXY

1. The full name and the registered address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be deposited with the Board Secretary, at the Corporate Office of the Company at "Iceland Business Centre", No. 30, Sri Uttarananda Mawatha, Colombo 03, 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

COMPANY

HNB Assurance PLC (HNBA)

FULLY OWNED SUBSIDIARY

HNB General Insurance Limited (HNBGI)

	HNB Assurance PLC	HNB General Insurance Limited
Legal Form	Public Limited Liability Company	Limited Liability Company
Date of Incorporation	23rd August 2001	30th January 2014
Company Registration No.	PQ 108	PB 5167
Tax Payer Identification (TIN) No.	134009373	139051670
VAT Registration No.	134009373-7000	139051670-7000
Principal Activities	Life Insurance Business	General Insurance Business
Telephone	+94 114 793 700	+94 114 676 700
Facsimile	+94 114 793 728	+94 114 501 166
E-mail	info@hnbassurance.com	info@hnbgeneral.com
Web	www.hnbassurance.com	www.hnbgeneral.com

FISCAL YEAR-END

31st December

REGISTERED OFFICE

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

PRINCIPAL OFFICE

No. 30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka

BOARD OF DIRECTORS

Rose Cooray	– Chairperson – Non-Executive Director (HNBA/HNBGI)
Deepthi Lokuarachchi	– Managing Director (HNBA/HNBGI)
Sarath Ratwatte	– Non-Executive Director (HNBA)*
Mahendra Jayasekera	– Independent/Non-Executive Director (HNBA)
Dilshan Rodrigo	– Non-Executive Director (HNBA/HNBGI)
Siromi Wickramasinghe	– Non-Executive Director (HNBA)
Dr. Sivakumar Selliah	– Independent/Non-Executive Director (HNBA)
Rajive Dissanayake	– Non-Executive Director (HNBA/HNBGI)
Ravi Abeyseriya	– Independent/Non-Executive Director (HNBA)
Faizal Salieh	– Independent/Non-Executive Director (HNBGI)
Marina Tharmaratnam	– Independent/Non-Executive Director (HNBGI)
Damien Fernando	– Non-Executive Director (HNBA/HNBGI)**
Stuart Chapman	– Non-Executive Director (HNBA)**
Arjuna Abeygunasekera	– Non-Executive Director (HNBGI)**
Sanjaya Wijeyamanne	– Non-Executive Director (HNBGI)**

*Stepped down from the Board after completing 10 Years on 6th February 2019.

**Appointed w.e.f. 11th February 2019 subject to approval from Insurance Regulatory Commission of Sri Lanka.

Corporate Information

EXECUTIVE COMMITTEE

Deepthi Lokuarachchi	– Managing Director/CEO (HNBA/HNBGI)
Prasanth Fernando	– Chief Operating Officer (HNBA)
Ivan Nicholas	– Chief Business Officer (HNBA)
Nilesh Amarasinghe	– Chief Investment and Strategy Officer (HNBA/HNBGI)
Sithumina Jayasundara	– Chief Technical Officer (HNBGI)
Indika Perera	– Chief Financial Officer (HNBA/HNBGI)
Jude Benjamin	– Chief Business Officer Personal Lines & Branch Network (HNBGI)
Dinesh Udawatta	– Chief Technical Officer (HNBA)
Dinuka Pattikiriarachchi	– Chief Human Resource Officer (HNBA/HNBGI)

PRINCIPAL OFFICERS

HNB Assurance PLC	– Prasanth Fernando
HNB General Insurance Limited	– Sithumina Jayasundara

SPECIFIED OFFICERS

HNB Assurance PLC	– Prasanth Fernando
HNB General Insurance Limited	– Sithumina Jayasundara

COMPANY SECRETARY

Sitari Jayasundara

REGISTRARS

Central Depository Systems Limited
Ground Floor, M & M Centre,
341/5, Kotte Road,
Rajagiriya

CONSULTANT ACTUARIES

Life Insurance

Actuarial Partners Consulting Sdn Bhd
Suite 17.02 Kenanga International,
Jalan Sultan Ismail,
50250 Kuala Lumpur, Malaysia

General Insurance

NMG Financial Services Consulting Pte Ltd.
30 Hill Street, #03-02A, Singapore 179360

Gratuity

Smiles Global (Pvt) Ltd.
14A, Boyd Place,
Colombo 03, Sri Lanka

AUDITORS

External Auditors

Ernst & Young
Chartered Accountants,
201, De Saram Place,
Colombo 10, Sri Lanka

Internal Auditors

KPMG
Chartered Accountants
32A, Sir Mohamed Macan Markar Mawatha,
P.O. Box 186,
Colombo 03, Sri Lanka

CREDIT RATING (FITCH) – HNBA & HNBGI

Insurer Financial Strength Rating A (Ika)

BANKERS

Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Sampath Bank PLC
Bank of Ceylon
National Savings Bank
HDFC Bank of Sri Lanka
DFCC Bank PLC
Pan Asia Banking Corporation PLC

REINSURANCE PANEL

Life Insurance

Munich Re Company
RGA
Hannover Re

General Insurance

General Insurance Corporation
National Insurance Trust Fund
Catlin Australia
CCL – Lloyds syndicate
AUL – Lloyds syndicate
Munich Re Company

No. 30, Iceland Business Centre,
Sri Uttarananda Mawatha,
Colombo 03, Sri Lanka.

www.hnbassuranc.com