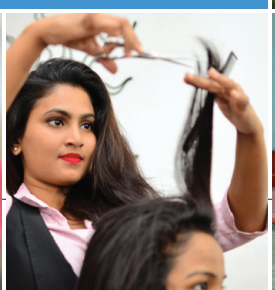
15 YEARS

DELIGHTING

OUR STAKEHOLDERS

HNB ASSURANCE

HNB Assurance PLC
Integrated Annual Report 2016



DELIGHTING OUR STAKEHOLDERS

At HNB Assurance we are very confident of our vision, our capabilities and our potential for success. For over 15 years, we have been delivering outstanding products and services in customised Life and General Insurance solutions, crafting an insurance portfolio that is customer friendly, diverse and functional. And although we're a relatively young company, we have quickly grown in size and stature to become the respected insurer we are today.

The year under review has been a challenging one yet we are pleased to report that our inherent resilience and broad based strength have kept us moving forward. That's why we are confident that the results recorded in this annual report will delight our many stakeholders, as we continue to generate sustainable value for all of them, both now and in the years that lie ahead.

Content

Our Integrated Annual Report 3

Our Business 5
About Us 6
Our Vision, Mission and Values 7
Highlights of the year 9
Delighting Our Stakeholders for 15 years 10
2016 at a Glance 12
Our Stakeholders 13
How We Deliver Sustainable Value 23
Chairperson's Message 30
Chief Executive Officer's Review 36
Board of Directors 40
Group Executive Committee 44
Management Team - HNB Assurance PLC 48
Management Team - HNB General Insurance Limited 50

Stewardship and Risk Management 52
Corporate Governance 53
Corporate Governance at HNB General Insurance Limited 88
Group Performance Governance 90
Risk Management 94
Compliance Summary 104

Management Discussion and Analysis 111
Operating Environment 112
Capital Management Reports 117
Life Insurance Review 150
General Insurance Review 160
Investment Management Review 169
Sustainable Impact Created 173
GRI Content Index for "In Accordance" - Core 176

Statutory Disclosures and Financial Statements 181
Financial Calendar 2017 182
Report of the Audit Committee 183
Report of the Human Resources and Remuneration Committee 187
Related Party Transactions Review Committee Report 189
Nomination Committee Report 191
Report of the Investment Committee 192
Report of the Risk Management Committee 194
Strategy Review Committee Report 195
Board's Statement on Internal Control 196
Annual Report of the Board of Directors on the Affairs of the Company 198
Director's Interest in Contract with the Group/ Company 209
Directors' Responsibility for Financial Reporting 210
CEO's and CFO's Responsibility Statement 211
Report of the Life Actuary 212
Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserve 213
Welcome to our Financials 2016 214
Independent Auditors' Report 215
Statement of Financial Position 216
Statement of Profit or Loss and other Comprehensive Income 217
Statement of Changes in Equity - Group 218
Statement of Changes in Equity - Company 219
Statement of Cash Flows 220
Performance Highlights 221
Accounting Policies and Notes to the Financial Statements 222
Index to the Financial Notes 230
Segmental Reporting 231

Other Information 335
Statement of Financial Position of The Life Insurance Fund - Supplemental 335
Notes to the Supplemental Financial Statements - Life Insurance Fund 336
Insurance Revenue Account 344
Quarterly Analysis 2016 and 2015 - Group 345
Quarterly Analysis 2016 and 2015 - Company 346
Decade at a Glance 347
Glossary 352
Notice Of Meeting 353
Form of Proxy 355
Investor Feedback form 357

Read this annual report online at
https://www.hnbassurance.com

Our Integrated Annual Report

REFERENCE: GRI-G4 > G4-3 > G4-17 > G4-28 > G4-30

We, HNB Assurance PLC, take great pleasure in presenting our fifth Integrated Annual Report to our valued stakeholders.

SCOPE AND BOUNDARY

Our Integrated Annual Report 2016 covers the operations of HNB Assurance PLC and its fully owned subsidiary HNB General Insurance Limited, collectively referred to as the Group, for the twelve months ended 31st December 2016. Through this report, we intend to provide a transparent, comprehensive, yet concise review of our business model, sustainable strategy, governance, operating context and performance, and future direction. Aligning the reporting process with our sustainable strategy, this report encapsulates financial, social, as well as environmental performance and impacts. There have been no changes in the scope and/or boundaries in reporting, from the previous year.

To ensure timeliness and relevance, we have included in this report, all material developments up to 09th February 2017, which is the date of the authorisation of this report by the Board of Directors.

MATERIALITY

Information contained in this report is aimed at helping our investors and other stakeholders make informed decisions about our Group and its ability to create value for them over the short, medium and long terms. Hence, we have strived to identify and report matters that are most material for such purpose through this Integrated Annual Report. Through the stakeholder engagement mechanisms disclosed on page 14 of this report, we have ensured stakeholder inclusiveness in identifying such matters. Further, through the comprehensiveness of the process adopted in determining material issues, as detailed on page 19 to 21 of this report, we believe that all material matters have been sufficiently covered through this report.

NAVIGATING THROUGH OUR REPORT

Our Business

5

Here we provide an overview of our business, share a few golden moments of our journey as we celebrate 15 years of existence, showcase the highlights of the past year, introduce our valued stakeholders, and describe our sustainable strategy in delighting them both now and in years to come. This will be followed by commentaries from our Chairperson and Chief Executive Officer, and a brief introduction to our Board of Directors and the management.

Stewardship and Risk Management

52

Details on the transparency of our governance practices and a concise description of our risk management mechanisms appear here. This is followed by a concise description of our risk management mechanisms.

Management Discussion and Analysis

111

This section gives a succinct review of our operating context, management of capital; i.e. financial, human, social and relationship, intellectual, manufactured, and natural capital, along with a review of our operating segments and sustainable impacts.

Statutory Disclosures and Financial Statements

181

Statutory disclosures as per the Companies Act, No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and other applicable regulations are given in this section, along with the Financial Statements of the Group and the Company, accounting policies, and related Notes prepared in accordance with SLFRS/ LKAS.

Other Information

335

Other important information not covered in the above sections appear here.

Our Integrated Annual Report

REFERENCE: GRI-G4 > G4-15 > G4-22 > G4-29 > G4-32 > G4-33

GUIDING FRAMEWORKS AND PRINCIPLES

This report has been prepared in compliance with the requirements of the following rules and regulations;

- Companies Act, No. 07 of 2007
- Listing Rules of the Colombo Stock Exchange (CSE)
- Regulation of Insurance Industry Act, No. 43 of 2000
- Rules and Regulations of Insurance Board of Sri Lanka (IBSL)

Further, the following guidelines and frameworks have been used to ensure that the quality of reporting conforms to the needs of our investors and other stakeholders.

- Sri Lanka Accounting Standards (LKAS/SLFRS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) - Guiding framework for the Financial Statements of the Group and the Company, as well as for all financial information contained in this Report
- Integrated Reporting Framework issued by the International Integrated Reporting Council - Guiding framework for the entire Integrated Annual Report 2016
- G4 Sustainability Reporting Guidelines "In Accordance" – Core, issued by the Global Reporting Initiative (GRI) - Guiding framework for financial, social and environmental information and assessment
- Sustainable Development Goals as set by the United Nations – Additional framework for assessment of financial, social and environmental impacts
- Code of Best Practices on Corporate Governance Issued by CA Sri Lanka and Securities and Exchange Commission of Sri Lanka (SEC) - Guiding framework for governance and related issues

ENSURING CREDIBILITY

The information presented in this report has been compiled by gathering data from all relevant departments of the organisation.

The financial information system Oracle EBS is used to obtain financial information, while the core system TCS Bancs is used as the main source of information related to insurance activities. All information related to human resources is obtained via the HRIS system. Data calculation methodologies used in this report are similar to those used in the Integrated Annual Report of 2015, which is our most recent Annual Report, and no material restatements of non-financial data were made during the period under review. Information contained in this report has been verified as applicable by;

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

Constant measures have been taken to ensure the credibility of information provided in this report.

EXTERNAL ASSURANCE

- The Financial Statements and related notes published and presented on pages 216 to 334 have been audited by Messrs. Ernst & Young, the independent Auditors of the Group. The independent Auditors' Report appears on page 215.
- Apart from the above, no other form of external assurance has been obtained for this report.

DISCLAIMER FOR FORECASTED DATA AND FORWARD-LOOKING STATEMENTS

This Integrated Annual Report contains information related to our medium and long term strategies and forecasts on the future performance of the Group. However, it must be noted that such strategies and forecasts involve risk and uncertainty arising due to future changes in the economic, political, social and legislative environments. These may cause actual results or developments to differ materially from those expressed or implied by the forward-looking statements published in this Integrated Annual Report 2016. All stakeholders are encouraged to seek professional help in assessing such aspects.

AVAILABLE FORMS

Integrated Annual Report 2016

CD – Rom	Print	Online
Posted to all shareholders	Available on request	Available as PDF at www.hnbassurance.com

Sinhala and Tamil translations of Chairperson's Message, CEO's Review and Key Financial Statements are available.

Print	Online
Available on request	Available as PDF at www.hnbassurance.com

Every sunrise holds a promise; a promise of another beautiful day, a promise of determination and hope, a promise of charm and adventure. Just like the gleaming promise of sunrise, we undertake a special promise. A promise to stand right beside you, to hold your hand in your hour of need and to be a pillar of strength throughout your life.

Our Business

About Us 6
Our Vision, Mission and Values 7
Highlights of the year 9
Delighting Our Stakeholders for 15 years 10
2016 at a Glance 12
Our Stakeholders 13
How We Deliver Sustainable Value 23
Chairperson's Message 30
Chief Executive Officer's Review 36
Board of Directors 40
Group Executive Committee 44
Management Team - HNB Assurance PLC 48
Management Team - HNB General Insurance Limited 50

Our Business

REFERENCE: GRI-G4 > G4-3 > G4-4 > G4-5 > G4-6 > G4-7 > G4-13 > G4-31

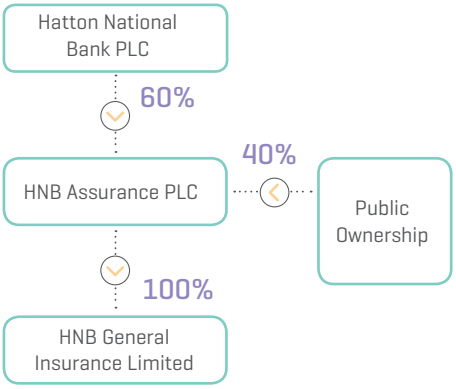
ABOUT US

HNB Assurance PLC (HNBA) is Sri Lanka's sixth largest Life Insurer, with a fully owned subsidiary, HNB General Insurance Limited (HNBGI), that provides General Insurance solutions.

Established in 2001 as a fully owned subsidiary of Hatton National Bank PLC (HNB), HNBA has been listed on the Colombo Stock Exchange since 2003. As at the end of 2016, our market capitalisation stood at Rs. 2.9 Billion. HNB continues to be our main shareholder with 59.99% ownership of the issued ordinary share capital.

We cater to the insurance needs of customers spread throughout the island, through our network of 58 branches and our Head Office based in Colombo. During the year under review, we relocated our Head Office to No. 30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03. The strength of our presence across the country is depicted on page 137.

OUR OWNERSHIP STRUCTURE



HNB Assurance completed another milestone of its journey providing protection with a spirit of caring, 15 years of professionalism in fulfilling insurance needs.

Over the years we have been able to meet the expectations and delighting our stakeholders in many aspects. We have delivered consistent growth in revenue while maintaining sound financial stability. We have been contributing to the national economy and have created direct employment opportunities for over 900 Sri Lankans and indirect income generation opportunities through our field staff over another 2,000. We were able to cross Rs. 6 Billion in combined GWP and to record a group profit more than Rs. 600 Million in the 15th year of operation.

Further we have ambitious growth targets in GWP, profitability and market share by 2020 where we expect to delight our stakeholders continuously.

We welcome any inquiries from our stakeholders and we can be contacted through the following mediums

info@hnbassurance.com

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

www.hnbassurance.com

+94 114 384 384
+94 114 793 700

Investor Feedback form is given on page 357 of this Annual Report

REFERENCE: GRI-G4 > G4-56

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

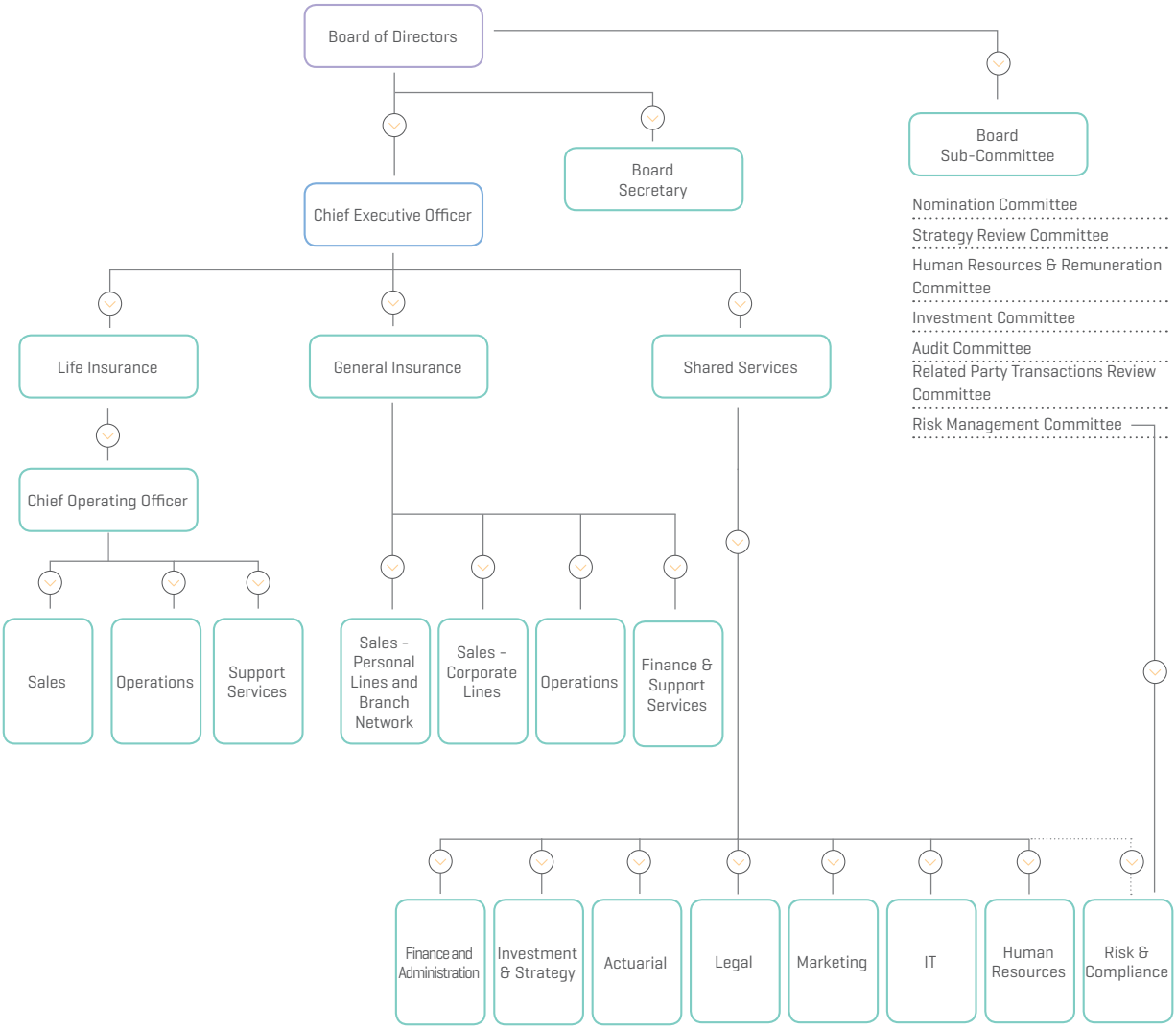
Our Values

- 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

Our Business

REFERENCE: GRI-G4 > G4-34

OUR ORGANISATIONAL CHART



Highlights of the year

REFERENCE: GRI-G4 > G4-9

FINANCIAL CAPITAL

GWP
Rs. **6.7** Bn ▲ 22%

2015 - Rs. 5.4 Bn

PAT
Rs. **647** Mn ▲ 228%

2015 - Rs. 197 Mn

EPS
Rs. **12.95** ▲ 228%

2015 - Rs. 3.95

DPS
Rs. **5.00** ▲ 150%

2015 - Rs. 2.00

Total Assets
Rs. **14.5** Bn ▲ 25%

2015 - Rs. 11.6 Bn

ROE
24% ▲ 15.4%

2015 - 8.6%

RELATIONSHIP AND SOCIAL CAPITAL

Customers

No. of Policyholders
266,351

2015 - 257,812

Branches
58

2015 - 54

Policyholder Dividend Rate
8%

2015 - 7.5%

Business Partners

No. of Advisors
2,062

2015 - 1,815

Advisor Training Programmes
344

2015 - 328

Community

No. of Water Projects
7

2015 - 3

Investment in Community
Rs. **3** Mn

2015 - Rs. 3 Mn

HUMAN CAPITAL

Employees
903

2015 - 836

Profit per Employee
Rs. **0.72** Mn

2015 - Rs. 0.24 Mn

NATURAL CAPITAL

Electricity Saving
18,796 kWh

2015 - 51,640 kWh

Water Saving
149,334 l.

2015 - 410,280 l.

Delighting Our Stakeholders for 15 years

2007

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

2009

Our effort of responsible corporate reporting is recognised as we win the First International Award for Best Presented Accounts – Corporate Governance presented by South Asian Federation of Accountants (SAFA)

2011

We made a Right Issue of 6.25 Million shares to meet the future regulatory changes.

2013

Delighting our customers we establish a new Customer Service Centre (CSC)

2003

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

2001

Commencing the journey of delighting our stakeholders

2015

HNB ASSURANCE

HNB General Insurance

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

2016

Our efforts in delighting our stakeholders are recognized as we become the winner of the Micro Insurance Contribution category and CSR Contribution category at the 1st edition of Fintelekt Insurance Industry Awards 2016 held in association with the Insurance Association of Sri Lanka (IASL)

To better serve our customers we moved our Head Office premises to a new location.

2016 at a Glance

JANUARY Successful adoption of Risk Based Capital Regime

FEBRUARY Top Ten Best Integrated Reports - Institute of Certified Management Accountants of Sri Lanka – Excellence in Integrated Reporting Awards 2016

MARCH Staff Conference of HNB Assurance PLC and HNB General Insurance Limited

APRIL HNB Assurance PLC Sales convention to recognise the best performers

MAY Deepthi Lokuarachchi appointed as the new Chief Executive Officer

JUNE Bancassurance convention to recognise the contribution made by them

JULY Winner - Micro Insurance Contribution category and CSR Contribution category at Fintelekt Insurance Industry Awards 2016

AUGUST 41 MDRT winners for 2016

SEPTEMBER Opened two new branches at Wattala and Kadawatha expanding our distribution network

NOVEMBER Celebrated 15th Anniversary of HNB Assurance PLC

DECEMBER Silver Award – Insurance Sector Companies - 52nd CA Sri Lanka Annual Report Awards 2016

To better serve our customers we moved our Head Office premises to a new location

AWARDS AND ACCOLADES

Winner – Insurance Sector - South Asian Federation of Accountants (SAFA) Best Presented Annual Reports 2015

Silver Award – Insurance Sector Companies - 52nd CA Sri Lanka Annual Report Awards 2016

Top Ten Best Integrated Reports - Institute of Certified Management Accountants of Sri Lanka – Excellence in Integrated Reporting Awards 2016

Winner - Micro Insurance Contribution category and CSR Contribution category - Fintelekt Insurance Industry Awards 2016

Our Stakeholders

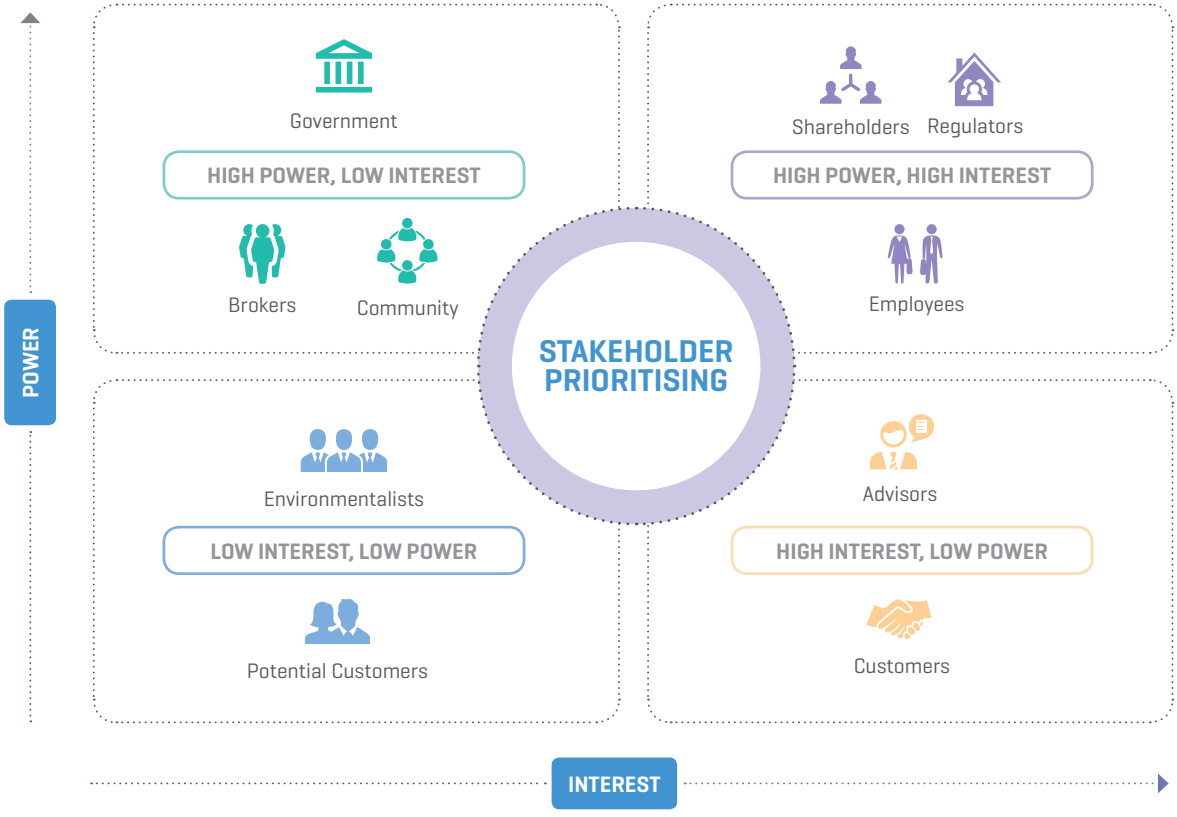
REFERENCE: GRI-G4 > G4-24 > G4-25

Our stakeholders lie at the core of our value creation model. They provide us with capital or help us build the different forms of capital. The value adding activities we engage in, create economic, social and environmental impacts on each of our stakeholders. Thus, we believe our success is defined by the success of our stakeholders.

Amongst the diverse categories of stakeholders, we have identified six key stakeholders of the Group, after due consideration of the degree to which we depend on the stakeholders' support and/or the stakeholders' capacity to influence our strategic goals and organisational performance, and the level of interest they have in the Group and its operations.

Our Key Stakeholders	Contribution to Our Business Model
Shareholders	Provide financial capital anticipating an attractive return on investment
Customers	Purchase our products and services to achieve their financial goals and manage life's uncertainties
Employees	Provide skills and expertise to deliver on our promises to all other stakeholders
Business Partners	Channel business to us and aid us in providing services
Regulators	Govern financial stability and industry conduct
Community	Provide us a platform to operate in, and is a source for future customers, employees and business partners

ENGAGING WITH OUR STAKEHOLDERS



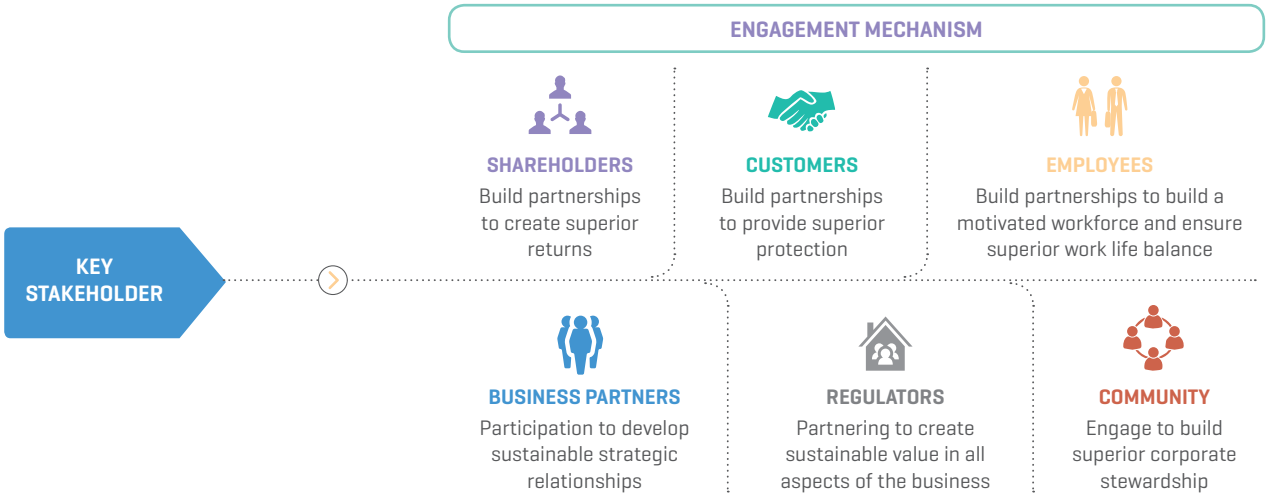
Our Stakeholders

REFERENCE: GRI-G4 > G4-24 > G4-25 > G4-26 > G4-27

With the objective of creating a win-win outcome for both the Group and our stakeholders, we take constant measures to maintain a strong level of communication with our stakeholders and to engage with them on a continuous basis. Effort is put in to identifying their views and concerns, and where feasible incorporated to the decisions we make and in our strategies.

Considering the many stakeholders we have and their varying interests, which may sometimes conflict, it is essential that we prioritise our engagement mechanisms. Accordingly, the matrix appearing on page 13 categorises the stakeholder engagement based on the extent of influence and interest they exercise on us, is used to prioritise our stakeholders. The said matrix also determines the engagement mechanism required to be followed to satisfy the varying needs of our stakeholders.

The following diagram and table present the continuous engagement mechanisms followed by us, to deliver value to our stakeholders.



Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response
			Continuous	Monthly	Quarterly	Bi-Annually	Annually		
Shareholders & Investors	Timely and relevant information to existing/potential investors	Interim Financial Reports			✓			Attractive dividends and appreciation of the share value	The Dividend paid increased to Rs. 5 per share (2015: Rs. 2.00) during the year with the increased profitability and the gross dividend reached a value of Rs. 250 Mn.
		Annual Reports					✓		The share price of the Company decreased to Rs. 58.80 in 2016 from Rs. 74.60 in 2015. This was mainly due to the low performance of the overall equity market of the country.
	Decisions through the exercise of voting rights	Annual General Meeting					✓	Maintaining liquidity of shares	HASU traded 81.25% of market days

REFERENCE: GRI-G4 > G4-26 > G4-27

Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response
			Continuous	Monthly	Quarterly	Bi-Annually	Annually		
Shareholders & Investors	Raise concerns	Annual General Meeting					✓	Clarifications about Financial / Operational Ratios	Shareholder suggestions taken into account in providing financial/ operational information in Annual Report
							✓	Convenience of attending AGM	AGM is scheduled considering shareholder requests made at former AGMs.
		Access to Chairperson/ Chief Executive Officer/ Board Secretary via email/letter/ telephone	✓					Information about the Company in languages other than English	The Chairperson's message, Chief Executive Officer's Review and the Key Financial Statements are provided in Sinhala and Tamil languages along with the Annual Report on request of shareholders.
Employees	Create and maintain a motivated workforce	Company Intranet	✓					Attractive remuneration	Salaries on par with industry and other allowances
	Be a responsible and a reputed employer	Staff conference					✓	Recognition and Appreciation	Best performing employees are recognised with the 'Chairman's Award for Excellence'
	Get valued input from employees to improve the value creation process	Management Meetings/ Distribution Management Meetings			✓			Information about the performance of the Company and job security	Educate and inform employees on the performance and the future prospects of the organisation.
		Employee surveys					✓	Work-life balance	Build the responses into the formulation of the human resource strategies
								Identify training needs	Providing training opportunities
		Whistle-blowing policy and process	✓					Ethical practices of work	Investigate the concerns raised and take necessary actions
		Exit interviews	✓					Expressing their level of satisfaction	Feedback is shared with top management for future development of human capital
		Open-door culture	✓					Communication with the management	All senior level employees welcome communication
		Performance reviews				✓		Career growth and development	Two way communication to improve the relationships between the employee and management which provide opportunities for development and growth

Our Stakeholders

REFERENCE: GRI-G4 > G4-26 > G4-27

Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response
			Continuous	Monthly	Quarterly	Bi-Annually	Annually		
Customers	Customer assistance	Online help-desk	✓					Assistance for claim intimation and information on products and policies	A state-of the-art Customer Service Centre and 24/7 helpline each for Life and General businesses
	Identify insurance needs and providing high level of service	Branch network and customer service centre	✓					Act as customer touch points offering products and continued services	Branch network was expanded to 58 branches to improve convenience and the service of the Customer Service Centre is strengthened to provide better service levels.
	Product awareness	Propaganda vehicle travelling island-wide creating product awareness	✓					Innovative and comprehensive range of products to cover all insurance needs	Continuously engage in product development
	Improve customer loyalty and interaction	Interactive trilingual corporate website, Facebook page and Android applications	✓					Easy access to information	Maintain consistent service levels and training front line staff to provide better customer service
		Web inquiries	✓						
		Customer satisfaction survey	✓					Aligning customer needs with the services of the Company	Incorporate the findings into the strategies developed

REFERENCE: GRI-G4 > G4-26 > G4-27

Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response
			Continuous	Monthly	Quarterly	Bi-Annually	Annually		
Regulator (IBSL)	Adherence to rules and regulations	Continuous submission of returns as stipulated by the IBSL			✓			Maintaining Solvency and Capital adequacy	Prompt response to queries
	Clarifications on rules and regulations set by them	Submission of other documentation as per regulator's stipulations e.g. new advertisements, Annual Report, etc.	✓						Submission of statutory returns on target dates
	Approval for new products	Submission of product proposals						Policyholder protection	Submit product proposals well in advance of the product launch date
Business Partners	Win-win relationships with downstream business partners such as Advisors, Assessors, Brokers, Garages and Financial Institutions who directly deal with our customers	Dissemination of information on our achievements and strategies		✓				Need for Training	344 training programmes carried out for Advisors with over 4,600 participants
		Sales Clinics conducted for Advisors		✓				Prompt payments	Payments made on a monthly basis for Advisors and Brokers on an agreed date
		Award ceremony for HNB branches and Advisors				✓		Rewards	Top performing HNB branches are recognised bi-annually
		Training offered to Advisors and Brokers	✓						Top performing Advisors are recognised annually
	Gain the financial backing of our Reinsurers	Communication via e-mail with Reinsurers	✓					Higher reinsurance premium	Transact only with at least an A- rated reinsurance providers in the industry
		Regular meetings with Reinsurers	✓						

Our Stakeholders

REFERENCE: GRI-G4 > G4-16 > G4-26 > G4-27

Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response
			Continuous	Monthly	Quarterly	Bi-Annually	Annually		
Community	Contribute to the development of the communities which we are a part of	Media statements	✓					Community needs such as water facilities for schools, equipment needs of hospitals/ sports teams and other community groups	Review such requests and fulfil them if they fall in to our CSR criteria
	Discharge our responsibility as a good corporate citizen	Consultation of community members through our branch network to identify community needs	✓					Support needed to conduct academic/ professional conferences, performing arts, music and theatre, publication of books, etc.	Ensure sustainability of our CSR initiatives by keeping in touch with target communities and fulfilling maintenance needs
	Provide information about our activities	Maintaining a dialogue with community representative groups such as National Blood Bank, Cultural foundations, etc.	✓						

We emphasise that these mechanisms were not built for the mere purpose of preparing this report. The Group is fully committed to engaging with key stakeholders and to deliver value to all, as an integral component of both its operational and strategic performance aspects.

ENSURING SUSTAINABILITY

Sustainability, in all aspects, is a core focus of our business, and we consider it our duty to create sustainable value for all our stakeholders. Thus, our strategies are designed to ensure such value is created through the processes and procedures in place within the organisation. While our value creation model does not pose any direct negative impacts to the environment, our processes are also designed to minimise any indirect negative impact that may inadvertently be caused to the environment.

Our approach to sustainability takes a holistic view and a top-down perspective. The Board of Directors is entrusted with the ultimate responsibility of ensuring sustainability, and the management operates under their guidance. The Sub-Committees of the Board and the Group Executive Committee operate with the view of further ensuring sustainability in all aspects of operations.

Our Endorsements

As a sustainable business and a responsible corporate citizen, we endorse standards, codes and guidelines as stated on page 4. Further, our external commitments are extended to the below mentioned organisations by virtue of membership;

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

REFERENCE: GRI-G4 > G4-18 > G4-19

MATERIAL MATTERS

We believe that identifying the aspects of the business that receive the highest interest of stakeholders, as well as those that have the highest impact on stakeholders, is vital in formulating the strategies of the Group. Identifying such material matters also enables us to deliver sustainable outcomes to all our stakeholders through our value creation model.

Report Content and Aspect Boundaries

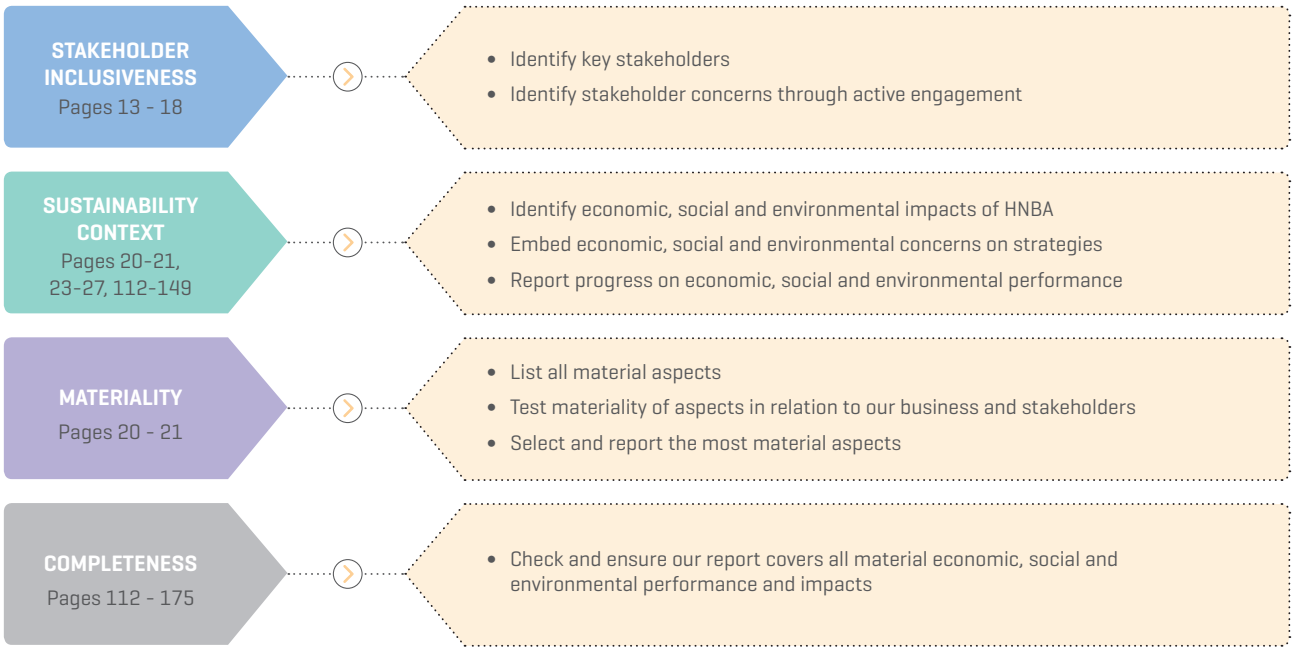
The material aspects disclosed in this Report have been determined based on the GRI-G4 Guidelines set by the Global Reporting Initiative (GRI). These guidelines outline the indicators used in disclosing the economic, environmental and social performance of the Group.

In addition to the general guidelines, the specific Financial Sector Disclosures issued by GRI, which focus on sustainability performance relevant to companies in the financial services sector, have also been followed. Furthermore, when defining the boundary for reporting, consideration has been given to sustainability impacts that occur within our Group and where possible, at the premises of our business partners as well.

Material Aspects and Impact Identification Process

Material aspects and impacts are identified using the following process which adheres to the guidelines set by GRI.

Material Aspects and Impact Identification Process

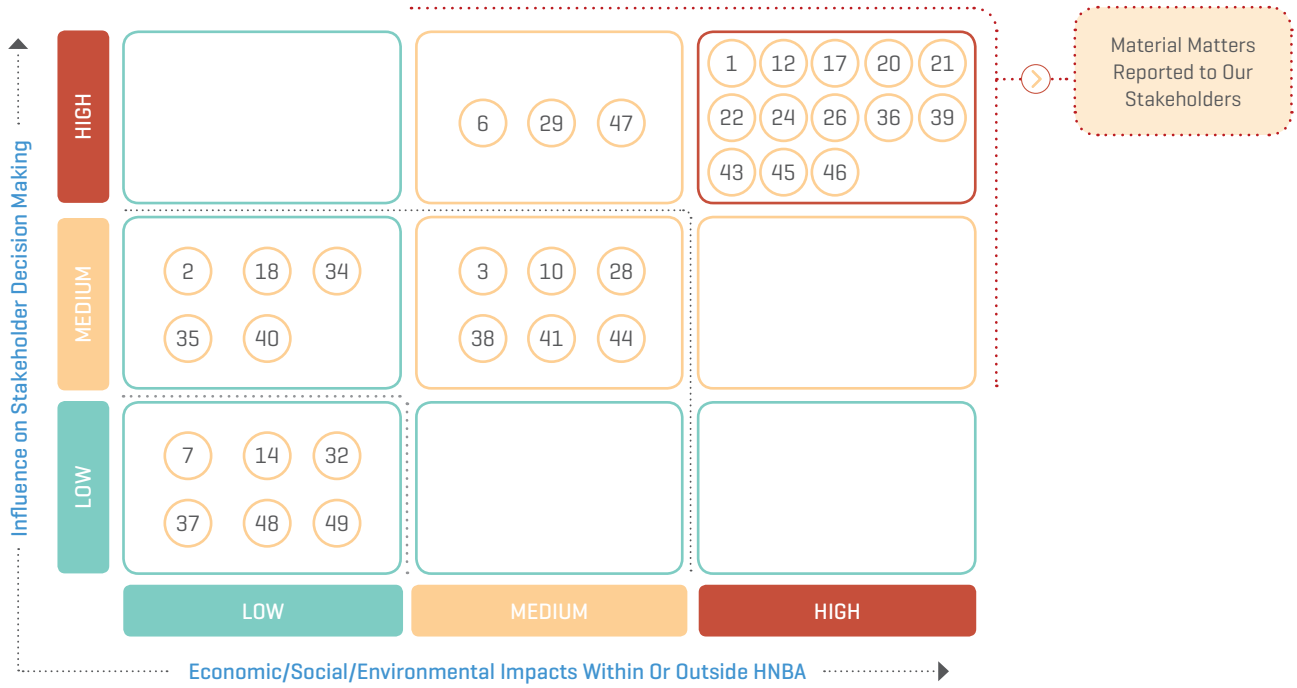


Our Stakeholders

REFERENCE: GRI-G4 > G4-18 > G4-19 > G4-20 > G4-21 > G4-23

Materiality Matrix

The materiality matrix outlined below presents the results generated from the Material Aspects and Impact Identification Process.



After identifying material aspects, we also proceed to identify the boundaries of such aspects, based on economic, social or environmental impacts created both within the Group and/or outside the Group. Given below is the identified list of material aspects, along with their level of materiality, and their boundaries. No significant changes were reported from previous reporting period in the scope and aspect boundaries

GRI Category	No.	Aspect	Sustainability Significance	Materiality Within the Organisation	Materiality External to the Organisation	Reporting Status
Economic	1	Economic Performance	●	●	●	Reported
	2	Market Presence	●	●	●	Not Reported
	3	Indirect Economic Impacts	●	●	●	Reported
	4	Procurement Practices	n/a	n/a		
Environmental	5	Materials	n/a	n/a		
	6	Energy	●	●	●	Reported
	7	Water	●	●	●	Not Reported
	8	Biodiversity	n/a	n/a		
	9	Emissions	n/a	n/a		
	10	Effluents and Waste	●	●	●	Reported
	11	Products and Services	n/a	n/a		
	12	Compliance	●	●	●	Reported
	13	Transport	n/a	n/a		
	14	Overall	●	●	●	Not Reported
	15	Supplier Environmental Assessment	n/a	n/a		
	16	Environmental Grievance Mechanisms	n/a	n/a		

● High ● Moderate ● Low n/a - not applicable

REFERENCE: GRI-G4 > G4-18 > G4-19 > G4-20 > G4-21

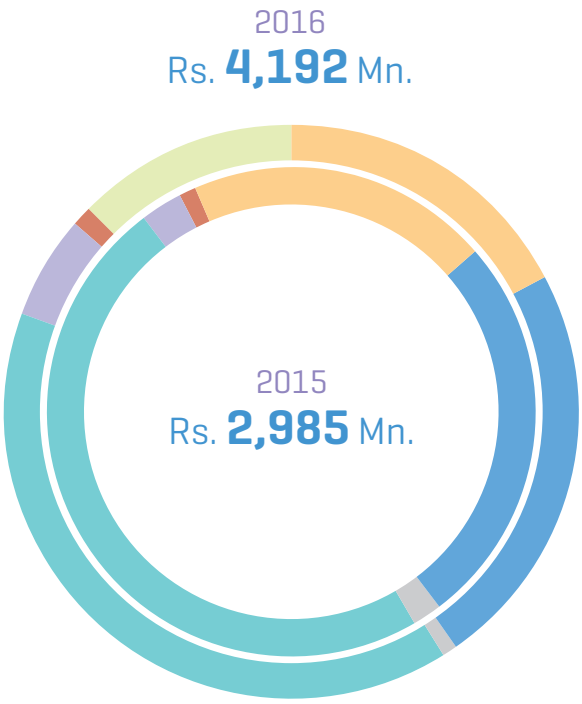
GRI Category	No.	Aspect	Sustainability Significance	Materiality Within the Organisation	Materiality External to the Organisation	Reporting Status
Social - Labour Practices and Decent Work	17	Employment	●	●	●	Reported
	18	Labour/Management Relations	●	●	●	Not Reported
	19	Occupational Health and Safety	n/a	n/a		
	20	Training and Education	●	●	●	Reported
	21	Diversity and Equal Opportunity	●	●	●	Reported
	22	Equal Remuneration for Women and Men	●	●	●	Reported
	23	Supplier Assessment for Labour Practices	n/a	n/a		
	24	Labour Practices Grievance	●	●	●	Reported
Social – Human Rights	25	Investment	n/a	n/a		
	26	Non-Discrimination	●	●	●	Reported
	27	Freedom of Association and Collective Bargaining	n/a	n/a		
	28	Child Labour	●	●	●	Reported
	29	Forced or Compulsory Labour	●	●	●	Reported
	30	Security Practices	n/a	n/a		
	31	Indigenous Rights	n/a	n/a		
	32	Assessment	●	●	●	Not Reported
	33	Supplier Human Rights Assessments	n/a	n/a		
	34	Human Rights Grievance Mechanisms	●	●	●	Not Reported
Social - Society	35	Local Communities	●	●	●	Not Reported
	36	Anti-Corruption	●	●	●	Reported
	37	Public Policy	●	●	●	Not Reported
	38	Anti-Competitive Behaviour	●	●	●	Reported
	39	Compliance	●	●	●	Reported
	40	Supplier Assessment for Impacts on Society	●	●	●	Not Reported
	41	Grievance Mechanisms for Impacts on Society	●	●	●	Reported
Social – Product Responsibility	42	Customer Health and Safety	n/a	n/a		
	43	Product and Service Labelling	●	●	●	Reported
	44	Marketing Communications	●	●	●	Reported
	45	Customer Privacy	●	●	●	Reported
	46	Compliance	●	●	●	Reported
	47	Product Portfolio	●	●	●	Reported
	48	Audit	●	●	●	Not Reported
	49	Active Ownership	●	●	●	Not Reported

● High ● Moderate ● Low n/a - not applicable

Our Stakeholders

REFERENCE: GRI-G4 > G4-DMA > G4-EC1

VALUE ADDED TO OUR STAKEHOLDERS



LIFE POLICYHOLDERS

2016 Rs. **1,708** Mn.
2015 Rs. 1,463 Mn.

BUSINESS PARTNERS

2016 Rs. **1,012** Mn.
2015 Rs. 753 Mn.

EMPLOYEES

2016 Rs. **767** Mn.
2015 Rs. 597 Mn.

EXPANSION AND GROWTH

2016 Rs. **392** Mn.
2015 Rs. 9 Mn.

SHAREHOLDERS

2016 Rs. **250** Mn.
2015 Rs. 100 Mn.

GOVERNMENT

2016 Rs. **60** Mn.
2015 Rs. 60 Mn.

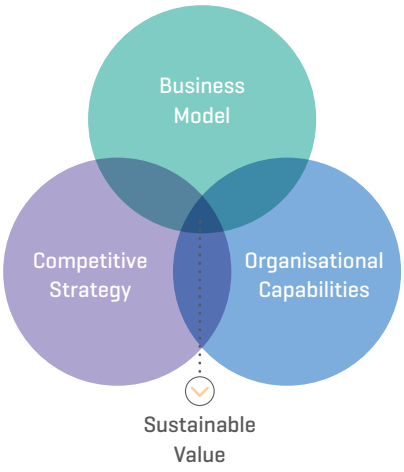
COMMUNITY

2016 Rs. **3** Mn.
2015 Rs. 3 Mn.

How We Deliver Sustainable Value

REFERENCE: GRI-G4 > G4-14

As a responsible corporate citizen, we primarily focus on delivering sustainable value to all our stakeholders, and such value is created by focusing on three important aspects.



Operating in a dynamic environment, our constant focus and attention is placed on utilising our business process, competitive strategies and organisational capabilities to enhance our performance, and thereby to achieve our goals and objectives.

COMPETITIVE STRATEGY

Our competitive strategy determines how we compete in the market place and how successful we are in delivering sustainable value to our stakeholders. We focus on growing our business both in terms of the top-line and the bottom-line, by satisfying the insurance needs of our customers, and thereby provide sustainable returns to our shareholders whilst satisfying the needs of other key stakeholders.

In broad terms, our Life Insurance strategy is focused differentiation where we identify certain segments of the market and offer them a unique value proposition. HNBGI focuses on underwriting segments of preferred risks and offer a superior value proposition to those segments in terms service.

We believe our strategies need to be revisited on a regular basis to realign ourselves with the changes in the dynamic environment we operate in. The changed strategies are then incorporated into our business model to deliver the best value addition to all our stakeholders.

During the year under review, a Board Sub-Committee was formed specifically to focus on guiding strategy development and reviewing the strategy implementation process of the Group. In reflection of its importance, the Committee is headed by the Chairperson of the Board of Directors, and includes a Non-Executive Director each from HNBA and HNBGI who bring additional knowledge and experience. During the year under review, the Committee met on ten occasions. Further details of the actions of the Committee can be read on page 195.

The Group carries its strategic planning exercise on an annual basis, developing the strategic plan for a three year time horizon. The plan, for the next three years is developed at the end of the current year, and it lays down the strategies to be adopted to achieve our long term goals and short term objectives.

The strategic plan development commences with a review of the external environment and our internal capabilities. Extensive research is carried out to understand the changes and the developments of the external environment we operate in. Effort is put into developing strategies to address risks and capture market opportunities identified, by capitalising on our capabilities. This is done by the senior distribution management, the management of the support divisions and the Executive Committee, through a series of discussions and deliberations. The Strategic Plan Review Committee then reviews the plan and recommends it to the Board. We have detailed our strategy development process under the performance governance section appearing on pages 90-93.

How We Deliver Sustainable Value

OUR STRATEGY

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

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

Strategic Focus Areas

Improve Business Growth
by exploiting new profitable market segments

Maximise Investment Returns
by strategic allocation of investment assets

Create Sustainable Shareholder Value
by improving the efficiency and profitability of the business operation

Create a Place Where you can shine
by ensuring right people are at the right role producing effective and efficient results

Enhance Customer Service and Deliver Brand Promise
to improve customer satisfaction levels and increase brand loyalty

Meet Regulatory Changes
to strengthen the stability of the business operation

Maintain Win-Win Partnerships
to build synergies

Give Back to Society
ensuring sustainability of the community we operate in

Minimise the Negative Impact to the Environment
reducing our carbon foot print and protecting our Mother Nature

Key Enablers

Aligning marketing and operational activities to align customer needs and expectations to our product offerings

Engage with our key stakeholders and build sustainable partnerships

Provide leadership to create sustainable value to all our key stakeholders and promote responsible corporate citizenship

Support our employees to achieve career progression and development while achieving organisational objectives

Risks and Opportunities Driving Competitive Strategy

Identification of Risks and Opportunities in the external environment shaping the insurance industry and the economy as a whole plays a vital role in formulating our strategies. Identification of Risks and Opportunities well in advance enables us to align our business strengths to capture the market opportunities and address the risks

Opportunities	Risks	Our Response
Economy and Interest Rates		
Growth in middle class income earning population creates a market for personal and health insurance products Growth in infrastructure and construction industry creates market opportunities for General Insurance	Interest rate volatilities affect the demand for Life Insurance products as well as investment income earned. It will also affect the liability value due to the new risk based valuation model adopted in compliance with the regulations of our regulator. This will have an adverse effect on the topline as well as the bottom line of the Company and also the solvency. Increased taxes on vehicles, depreciating Rupee and limits on leasing business deters new vehicle registrations, increase spare part costs resulting in higher claims costs	Strengthen our distribution network to capture new market opportunities Offer new products to meet changing customer needs Sound investment management practices in place to mitigate risks related to investments and investment income Refining the risk based pricing model to offer a better value proposition to preferred classes of Motor business
Demographics		
The increase in aging population creates markets for Life and Health insurance products Low Life Insurance market penetration creates market expansion opportunities	Increase in aging population will compel us to offer more retirement benefit and medical related insurance plans Urbanisation will increase the risk exposure from natural and man-made catastrophes	Offering products such as 'My Pension' to cater the changing demographics Introducing new investment products under the 'Super Five' series HNBA opened 3 new branches to expand reach
Technology		
Digital advancements creates opportunities to tap new sales and service channels	The customer needs and expectations becomes sophisticated with increasingly technologically sophisticated population Technological use affects the pricing and business model New technologies pose both positive and negative effects on data privacy and protection	HNBA offered e-life, an four step insurance product Centralised the motor underwriting process to provide improved efficiency and offer a better service to customers Introducing performance dashboards to improve efficiency of business processes Systems and processes in place to mitigate cyber security threats
Regulations		
New Risk Based Capital model enables us to strengthen solvency and increase customer confidence and enhance the relationship built with them	High costs related to implementation of new regulations Limited access to expertise knowledge	Develop our processes to cater the new RBC requirements Offer training opportunities to employees on regulatory environment Working with consultant Actuaries experienced with the Risk Based Capital model Building capabilities of the internal actuarial team to adopt the model smoothly Assessment of impact of capital adequacy ratio on key investment, product and expense decisions

OUR BUSINESS MODEL

REFERENCE: GRI-G4 > G4-12

INPUTS

Financial Capital
- Funds from shareholders and providers of capital

117

Human Capital
- Knowledge , skills and attitudes of employees

126

Intellectual Capital
- Brand and Reputation
- Company culture
- Expertise knowledge
- Systems and Processes

144

Manufactured Capital
- Premises
- IT infrastructure

146

Social and Relationship Capital
- Customers
- Business Partners
- Community

135

Natural Capital
- Energy
- Water
- Fuel

147

BUSINESS CONTEXT

External Variables Impacting Value
- Monetary and Fiscal Policy changes
- Fluctuation in trade deficit
- Political instabilities
- Regulatory changes
- Global economic changes
- Change in demographics

VALUE IN

- Relationship Management
- Management, Product Branding, Marketing and Sales
- Product Development

OUR PROFIT FORMULA

Revenues
- Insurance premiums
- Investment income
- Reinsurance commission and Profit Commission
- Fund management fees

Costs
- Reinsurance premiums
- Business acquisition cost
- Staff costs
- Administration costs
- Marketing and business development costs
- Finance costs
- Taxes

VALUE PROPOSITIONS

Customer

Providing superior protection to all our customers by meeting their insurance needs professionally with a spirit of caring.

Shareholders

Consistently delivering superior returns to our shareholders through well managed business operations and investment management

REFERENCE: GRI-G4 > G4-4 > G4-9 > G4-12

Our Material Risks

- Volatility in Interest rates affecting investment income, liability valuations and customer preference for savings over insurance
- High inflation and falling disposable incomes affecting demand for insurance
- Severe price competition and substitutes for insurance solutions offered by banks and financial institutions
- Increasing the risk of man-made and natural catastrophes
- Performance in equity markets and Exchange rate volatilities affecting investment income
- Sophisticated customer expectations with technological developments
- Changing demographics affecting nature of products offered
- High costs involved with implementation of new regulations

OUR PRODUCTS AND OUTPUTS

Life Insurance

- Protection plans
- Retirement plans
- Child insurance plans
- Group life plans
- Mortgage protection plans
- Takaful solutions

General Insurance

- Motor Insurance
- Fire and Engineering Insurance
- Marine Insurance
- Medical Insurance
- Workmen's Compensation Insurance
- Takaful solutions

Employees

Ensure superior work-life balance and personal development through inculcating a culture of learning and growth to achieve personal and professional development

Society

Delivering sustainable value to all our stakeholders through superior corporate stewardship

OUTCOMES

Financial Capital

- Delivering attractive shareholder returns
- Ensuring financial stability and growth

Human Capital

- Ensuring employee satisfaction and motivation
- Ensuring a rewarding and progressive careers
- Fair treatment and provision of equal opportunities
- Safe working environments

Intellectual Capital

- Building the right organisational and governance structure
- Inculcating values promoting a performance culture
- Enhancing knowledge and building internal capabilities
- Investing in systems and refining processes

Manufactured Capital

- Creating long term value through investments in building premises, IT infrastructure and other equipment

Social and Relationship Capital

- Delighting our customers
- Creating win-win partnerships
- Creating employment opportunities
- Developing communities around us

Natural Capital

- Conserving energy resources and reducing our carbon footprint

How We Deliver Sustainable Value

OUR VALUE CREATION MODEL

Our value creation model captures the business process in place to deliver the protection promised by us to our customers. We uphold the promise made by us by adopting an integrated approach of value creation. In this integrated approach, the six forms of capital work as inputs assisting the value creation process and we manage these inputs in a manner that maximises the value created. These six forms of capital are combined to provide innovative insurance solutions to our customers, and the process of combining them is the core of our business operation. The level of customer satisfaction and loyalty is dependent on the efficiency of this core process of the value creation model.

The output of the value creation model is sustainable value addition to all our stakeholders in terms of superior protection to customers, superior returns to shareholders, career advancement and work-life balance to employees, winning partnerships and superior corporate stewardship to the general public.

Please refer pages 26 to 27 for a comprehensive illustration of our business model.

ORGANISATIONAL CAPABILITIES

The capabilities possessed by us facilitate our value creation process to achieve a competitive advantage, thereby delivering sustainable value to all our stakeholders. Our capabilities are what make us different in the industry, and we have taken measures to enhance our business capabilities by investing in human capital, intellectual capital, financial capital and manufactured capital. Our organisational capabilities enable us to improve the business processes and differentiate ourselves in the market, in turn adding sustainable value to our key stakeholders. Concurrently, our capabilities also enable us to adapt ourselves to the changing dynamics of the environment.

OUR PROGRESS TOWARDS SUSTAINABLE VALUE CREATION

Input Capital	Strategic Focus	Goal for 2016	Progress in 2016	Goals for 2019
Financial Capital	Improving Business Growth	Group GWP - Rs. 6.5 Bn Company Market Share - 5.5% Premium Persistency - 83.5%	Group GWP -Rs. 6.7 Bn Company Market Share - 5.6% Premium Persistency - 84.5%	Improve our market share and be the 5th largest player in the Life Insurance industry and the 7th player in the General Insurance industry
	Maximising Investment Returns	Yield - 8.85%	Yield - 10.42%	Maintain an Investment Yield above 10% guaranteeing the best return to our shareholders and policyholders
	Creating Sustainable Shareholder Value	ROE - 22% Company PAT - Rs. 624 Mn Group PAT - Rs. 699 Mn A(lka) Fitch Credit Rating - HNBA and HNBGI	ROE -24% Company PAT -Rs. 600 Mn Group PAT - Rs. 647 Mn A(lka) Fitch Credit Rating - HNBA and HNBGI	Improve shareholder wealth by delivering attractive profits and dividends. Achieve a credit rating of A+ (lka) to enhance stakeholder confidence
Human Capital	Create a Place Where You Can Shine	Reduce Employee Turnover Below 15% Improve Work-Life Balance Encourage Professional Education	Employee Turnover - 16% Family Outing Organised by the Welfare Society 79 New Employees did Professional Exams during the Year	Secure a position as one of Sri Lanka's best employers

Input Capital	Strategic Focus	Goal for 2016	Progress in 2016	Goals for 2019
Social and Relationship Capital	Enhance Customer Service and Deliver Brand Promise	Expand the Distribution Network Conduct Regular Customer Surveys	58 Branches Comprehensive research conducted by a leading market research firm which identified market gaps and insurance requirements of customers	Identify the varying needs of our customers and deliver responsible products to meet the changing needs of our customers
	Meet Regulatory Changes	Transition to the RBC Regime	Successfully transferred to the RBC Regime Onsite inspection by the regulator concluded no major concerns	Further ensure compliance with all regulatory requirements governing the Insurance Industry and listed entities of the country
	Maintain Win-Win Partnerships	Increase Advisor Force to 2,150 Enhance Group Synergies	Advisors - 2,062 GWP Generated from HNB and HNB Grameen Channels Reached Rs. 1,869 Mn	Continue to work closely with all our business partners and enhance the relationship maintained with them to improve our value creation process
	Give Back to Society	Enhance Access to Clean Drinking Water Promote Healthy Living Among Communities	7 Projects were carried out During the Year Launch of 'Suwathi Diwiyata Magak' Program	Be a responsible corporate citizen and continue to improve the living standards of the community we engage with
Natural Capital	Minimise Negative Impact to the Environment	Reduce Carbon Footprint Created	Saved 80 Trees, 8,247 l of Oil, 18,796 kWh Electricity, 149,334 l of Water, 14m^3 Land Fill and Reduced Green House Gas Emission by 4,669 kg	Continue to reduce carbon foot print Give back to mother nature as a member of Bio Diversity Sri Lanka

Chairperson's Message

Rose Cooray
Chairperson

On behalf of the Board of Directors, it gives me great pleasure to welcome you to the 15th Annual General Meeting of the Company and to present to you the Audited Financial Statements and the Annual Report for the year ended 31st December 2016. My pleasure is further heightened because, as I promised at the last Annual General Meeting, the Company has strived hard to deliver satisfactory results, while laying the foundation and adopting fundamentals for sustainable growth. As such, profitability and sustainability were the key drivers of our performance in 2016.

Despite an environment of persistent stiff competition, and rising to the occasion to meet our legal and social obligations in two devastating calamities that hit the nation leading to reported claims of over Rs. 880 Million for the Group, the Group has achieved a 22% growth in the top-line and a growth of 228% in the bottom-line, in comparison with 2015 .

Despite an environment of persistent stiff competition, and rising to the occasion to meet our legal and social obligations in two devastating calamities that hit the nation leading to reported claims of over Rs. 880 Million for the Group, the Group has achieved a 22% growth in the top-line and a growth of 228% in the bottom-line, in comparison with 2015.

ECONOMIC ENVIRONMENT - "CHALLENGING"

Sri Lanka's Gross Domestic Product (GDP) is estimated to have grown at a moderate rate of under 5% in 2016 (2015: 4.8%), with growth in the first three quarters declining to 4% from 5.6% a year ago, in the back drop of a 2.5% decline in the agricultural sector due to the adverse weather conditions experienced throughout the year. The services sector recorded an average growth of 4.8% during the same period, while the industry sector recorded a comparatively impressive growth of 5.7%. Despite economic growth slowing down, the Central Bank of Sri Lanka (CBSL) tightened its monetary policy stance during the year by increasing the policy rate on two occasions, and by increasing the Statutory Reserve Ratio (SRR) by 1.5% in response to the higher than expected credit growth. However, headline inflation, as measured by the YoY change in the CCPI, remained relatively low at 4.1% in December 2016.

The economy witnessed a decline in gross official external reserves during the year, the key contributory factors being the large dues on foreign debt service payments and the net foreign outflow from the capital market. Nevertheless, foreign reserves, which declined to USD 5.3 Billion by mid-2016, improved with positive investor sentiment following the negotiation of the Extended Fund Facility with the IMF to support the Balance of Payments and the Government's economic reform agenda. The resulting reversal in the outflow from the Government securities market, together with the proceeds of the International Sovereign Bond (ISB) and the syndicated loans, improved gross official reserves to USD 6.5 Billion by end-September 2016, while the year is believed to have ended with gross official reserves at USD 6 Billion. In terms of exchange rates, the Rupee was relatively stable during the year, in comparison with the previous year, depreciating 3.8 % against the USD.

The major economic reforms agreed upon under the Extended Fund Facility programme include a flexible inflation targeting monetary policy framework, greater flexibility in foreign exchange management, reducing the budget deficit by increasing Government revenue, and the Government exiting identified loss making enterprises. Consequently, several measures introduced towards revenue based fiscal consolidation that focused on augmenting government revenue resulted in an increase in the Government's tax revenue by approximately 15%. The budget deficit of 2016 is estimated to be approximately 5.5% of GDP.

The tightened monetary policy stance of the CBSL appeared to be effective, although marginally, as reflected in the decline in the private sector credit growth during the second half of the year to 22% in October from the approximately 27% in the first half of the year. Moreover, the increase of import duty on vehicles several times during the year resulted in a more than 25% drop in vehicle imports, when compared to the previous year.

The Government placed high importance on attracting FDIs through public-private partnerships, and a number of expansionary projects of the private sector were initiated in 2016, which are expected to deliver promising results for 2017. Moreover, with a view of attaining development goals, the Government,

Chairperson's Message

through the budget for the year 2017, focused on supporting SMEs, exports and construction sectors. I believe that such policies, along with the increased possibility of regaining GSP+, the lifting of the ban on the export of fish to Europe, and improved economic activity in some key export markets, will boost the performance of the exports sector.

However, the increase of taxes across the economy is likely to negatively impact the purchasing power of consumers, while leading to reduced investments consequent to low retained profits of the private sector. Despite multiple measures introduced in the fiscal arena throughout 2016, the country entered 2017 with a high debt burden, which impedes all development efforts of the Government. Further, the looming drought conditions in most parts of the country are likely to continue to impact adversely on the agriculture sector, thereby posing a threat to GDP growth in 2017. Adverse weather will also create negative impacts on electricity generation and electricity prices.

The global economy is presently under a transitional period. Elections are due in two important European countries in 2017. Economic policy changes that are taking place in Europe, the shift in policies in USA, especially on trade, coupled with possible hikes in interest rates by the Federal Reserve have already created uncertainty on the external front.

Against this background, it is imperative that the Government implements a well-coordinated, consistent and cohesive set of development-oriented policies, with an efficient implementation and monitoring mechanism, in order to stand strong in a challenging environment.

INSURANCE INDUSTRY – "COMPETITIVE AND DYNAMIC"

The insurance industry in the country is evolving to be a vibrant industry recording positive growth, albeit slowly. We have seen a sharp growth in Life and General premiums, in line with GDP growth, since 2014. In 2016, Gross Written Premium in the Life Insurance industry recorded a 19% growth, while the General Insurance industry showed a growth of 14%. In absolute amounts, the total GWP recorded was Rs. 63.6 Billion and Rs. 76.6 Billion for the Life and General Insurance industries, respectively. However, the total insurance industry only accounts for approximately 3% of the total assets of the financial sector.

The structure of the industry has witnessed a notable transformation during the last three years, stemming mainly from the regulatory changes implemented by the Insurance Board of Sri Lanka (IBSL), aimed at improved governance and the efficient use of capital. The industry, during the recent past, experienced a challenging period in meeting these requirements, which include the maintenance of increased capital, the segregation of composite companies, public listing of companies and shifting to the Risk Based Capital regime.

Since 2014 the industry has seen four major acquisitions, and it was reported that companies were on the lookout for mergers and sales in 2016, hinting at potential further market consolidation, especially in the General Insurance segment. Rendering such reports accurate, the industry witnessed the acquisition of two General Insurance companies by two big industry players, and consequently, as at the end of 2016 there were 12 Life Insurance companies, 12 General Insurance companies and three Composite Insurance companies in the country.

Despite numerous initiatives to increase awareness on insurance products, the low interest rate regime that prevailed during the early part of 2016, and the acceleration of the aging population, the insurance industry continue to remain significantly under penetrated during the year, as reflected by only 12% of the total population possessing Life Insurance cover.

The year also saw an escalation of challenges faced by the insurance industry. I observe that throughout the current year too, stiff competition was a defining factor in the insurance industry, with some players resorting to price undercutting. The adverse weather conditions that prevailed during the year caused a phenomenal rise in claims on floods and accidents. Further, the lower number of vehicle registrations stemming from higher taxes, reduced loan to value ratio and increased interest rates during the second half of the year further challenged the General Insurance industry.

Life GWP

Rs. 3.6 Bn

27% Growth

General GWP

Rs. 3.1 Bn

16% Growth

Life and General GWP Recorded 27% and 16% growth respectively, surpassing the average industry growth rates in both segments

GOVERNANCE AND REGULATIONS – "TOWARDS SOUNDNESS IN THE INSURANCE INDUSTRY"

HNB Assurance PLC is a company well-respected for its transparency in corporate governance. Continuing to uphold this reputation, I note with pleasure that both HNB Assurance PLC and HNB General Insurance Limited have both regulatory and voluntary governance best practices. A detailed report on the governance aspects of the Group appears on pages 53 to 110.

Regulations within the insurance industry have experienced a dynamic phase as of late. As highlighted in my last year's message, as per the terms of the Regulation of Insurance Industry Amendment Act, No. 03 of 2011, all Composite Insurance companies were required to segregate their business before 01st January 2015. Most insurance companies, including HNBA, have completed the segregation process. However, three companies, including a large player in the market, have not complied with the regulation so far,

REFERENCE: GRI-G4 > G4-1

challenging the achievement of regulatory objectives on the development of a stable and healthy industry. Therefore, during 2016 too, all other companies, including your Company, conducted their business activities in an uneven playing field. I am pleased to inform you that your Group, during 2016, complied with all regulatory requirements. The Group carried out RBC reporting from the beginning of the year, while maintaining capital adequacy ratios above the minimum regulatory levels throughout the year. No major lapses were reported with respect to regulatory compliance or any other procedures followed by the Group in the regulator's Onsite Supervisory Report for 2016.

PERFORMANCE OF THE GROUP– "SUSTAINABLE, PROFITABLE AND SAFE"

Against this background, I am indeed pleased to inform that the Group recorded Profit After Tax (PAT) of Rs. 647 Million for the year, at a growth of 228% over the previous year. This is the highest PAT the Group has posted since its inception, and it was achieved mainly through improved performance in the Life Insurance business, assisted by the turnaround performance recorded by the subsidiary HNB General Insurance Limited (HNBGI).

Life Insurance recorded GWP of Rs. 3.6 Billion for the year, depicting a growth of 27% over the previous year, with Endowment business continuing to be the core, contributing to 86% of the total GWP of Life Insurance. This growth rate is remarkable, when compared with the growth rate of 19% we achieved last year, and is approximately 11% higher than the growth rate achieved by our closest peer. The introduction of minimum premium and placing greater focus on the sale of more profitable products, together with improved premium persistency, mainly contributed to this performance. This performance led to the increase in our number of Million Dollar Round Table (MDRT) winners from 14 last year to 41 in the current year, the highest number recorded in the past 15 years.

When the subsidiary recorded a loss of Rs. 227 Million last year, I informed the shareholders that going forward, improving the profitability of the business would be the key focus of HNBGI. I also outlined some such strategies in the

> A great turnaround in General Insurance business making Rs. 227 Million loss to a profit of Rs. 47 Million in 2016.

Annual Report of 2015. Keeping up with this focus, HNBGI was successful in reducing its claims ratio, which was the key cause of the losses in the previous year, from 88% to 69% during 2016. Such decline was the result of strategic alterations made to the business mix aimed at rectifying this situation. Consequently, the overall combined ratio dropped to 107% from 123% in 2015, despite the backdrop of high claims on account of adverse weather conditions. I indicated in the previous Annual Report that "seamless efforts will be taken towards implementing and monitoring the progress of the company strategies", and accordingly, a new Board Sub-Committee on Strategy Plan Implementation was established in the beginning of the year. This Committee met monthly for this purpose, and played a proactive role in the turnaround of the Company. All such changes, together with the hard work of the dedicated and motivated team, resulted in HNBGI recording its turnaround at the end of the first quarter itself, registering a profit of Rs. 2 Million. However, this progress witnessed a setback during the second and the third quarters, due to devastating floods followed by an incident of fire, where the reported claims on the Company totalled Rs. 880 Million. However, remarkable performance in the last quarter enabled the Company to record GWP of Rs. 3.1 Billion, registering a growth of 16% in 2016. This performance exceeded the industry average growth rate by 2 percentage points, and resulted in Profit After Tax of Rs. 47 Million.

These satisfactory achievements, which were noticeably above market expectations, have not only brought financial benefits to our shareholders, but have also laid the foundation for a stronger and steadier Group. During the current year, the Life Fund grew by Rs. 1.7 Billion, at a growth of 25%, while our funds under management have increased by 25% to reach Rs. 9.9 Billion. The Company remains among the top 100 brands in the country, and both HNBA and HNBGI have been assigned Insurer Financial Strength Ratings of "A" lka with a stable outlook by Fitch Ratings Lanka Limited. Moreover, both Companies have carefully selected its re-insurance panel with re-insurers with a rating of "A", giving us a sense of confidence and dependability. With these achievements, your Company now is poised for further growth, both organic and inorganic.

DIVIDEND - "EPS AT RS. 12.95"

On the basis of the performance recorded by the Company for the year 2016, the Board of Directors is pleased to propose a first and final dividend of Rs. 5.00 per share, which is a 150% increase compared to the previous year. Earnings per share of the Company for the year 2016 is recorded at Rs. 12.95.

INVESTMENT IN SOCIAL AND RELATIONSHIP CAPITAL - "COMMITTED"

Continuing its many social responsibility initiatives, the Company invested in its award-winning CSR initiative, Water Stewardship Programme, for the 8th consecutive year. We were able to identify many schools which lacked basic access to drinking water in rural areas of the country, and accordingly, seven schools in the regions of Ampara, Batticoloa, Theldeniya and Galgamuwa benefited under the Water Stewardship CSR initiative during the year, increasing the total number of facilitated schools to 43. In addition, the Company took pride in organising a blood donation camp named 'Blood Drive', for the 11th consecutive year. The Company sponsored many healthy living initiatives promoting a healthy lifestyle. Further, with the aim of uplifting arts and culture in the country, HNBA felicitated many veteran artiste in the country. I reiterate that guided by our strong belief in the need for giving back to the community in which we operate and its people, the Company makes use of every opportunity and takes every measure to draw smiles across our nation.

Chairperson's Message

REFERENCE: GRI-G4 > G4-1

ACCOLADES – "RECOGNITION"

Proving the growing excellence of the Company, HNB Assurance and HNB General Insurance were able to clinch many awards and accolades during the current year too. The Company's Integrated Annual Report 2015 was recognised as the Winner at SAFA Awards under the Insurance category. Meanwhile, the Company was able to win another top award for its Integrated Annual Report at the CMA Integrated Annual Report Awards, as well as at the 52nd Annual Report Awards Ceremony organised by the Institute of Chartered Accountants of Sri Lanka. The Company received two awards at the Insurance Industry Awards of Sri Lanka, which was organised jointly by Fintelekt and the Insurance Association of Sri Lanka. These awards were presented for the Water Stewardship CSR initiative and for the Company's contribution towards Micro-Insurance.

Silver Award – Insurance Sector Companies - 52nd CA Sri Lanka Annual Report Awards

Neethta Maha Vidyalaya - Ampara – Installation of a purified drinking water system under the 'Water Stewardship' initiative of HNB Assurance

LOOKING AHEAD - "OPTIMISTIC"

As a relatively young player which just completed 15 years in business, HNB Assurance PLC has achieved sustained growth through the years. The Company has been able to secure the position as the sixth largest Life Insurance provider in a 15-player market, and will continuously strive to maintain the growth momentum in both the top-line and the bottom-line, in order to create greater shareholder value while leveraging on the strength of its parent company, Hatton National Bank PLC. The Company is desirous of achieving the above by further realigning its product portfolio towards greater growth and profitability potential, while repositioning its product offerings to reflect greater protection. The Company will continue to leverage the strength of the Advisor channel, its largest channel in reaching customers, while focusing on capitalising on the synergies that exist within the Hatton National Bank Group.

Having made an admirable turnaround in an extremely competitive and difficult market, HNBGI will focus on improving the profitability of the business while gradually increasing growth in the top-line. A few structural changes have already been implemented towards this purpose and greater emphasis will be placed on strengthening the Company's business development channels while improving customer experience via the greater use of technology. The Company, at present, is exploring possibilities for inorganic growth, which will be strategically advantageous in the long run.

ACKNOWLEDGEMENTS – "THANK YOU"

A few key management personnel, including Mr. Niranjan Manickam Acting Chief Executive Officer, Mr. Vipula Dharmapala Chief Financial Officer, Chief Information Officer Mr. Namal Gunawardena, Head of Human Resources Ms. Shalika Hewawickrama and Ms. Shiromi Halloluwa, Board Secretary resigned from their positions during the year. I wish to place on record, my sincere appreciation and thanks to all of them for their invaluable contributions towards the Company.

I also wish to thank all HNBA staff members, especially those who are in charge of driving Bancassurance initiatives, for their support in achieving an unprecedented growth in this channel during the year.

APPOINTMENTS – "WELCOME"

Ms. Marina Tharmaratnam, who possesses many years of experience in the insurance industry, was appointed as an independent Non-Executive Director to the Board of Directors in HNBGI with effect from 01st September 2016.

Mr. Deepthi Lokuarachchi, who has held many senior positions in the insurance industry over a career of 23 years, was appointed as the CEO of HNBA and HNBGI with effect from 02nd May 2016. Prior to his latest appointment, he held the position of CEO at Sri Lanka Insurance Corporation.

I warmly welcome both of them to the Company, and I believe their experience in the industry and their skills will inject the Company with the strength to achieve new heights.

Mrs. Sitari Jayasundara, Head of Legal at HNBA and the Board Secretary for HNBGI, was appointed as the Secretary to the HNBA Board. I extend her a warm welcome on behalf of the Board of Directors of HNBA.

APPRECIATION

I wish to extend our appreciation to the Chairperson, Director General and other officials of the IBSL for their continued support during 2016. I also wish to thank the Insurance Ombudsman for the contribution he makes for the betterment of the industry.

I warmly acknowledge and appreciate the strong support, cooperation and guidance extended to me by all my fellow Directors and thank them for having stood by me throughout this period. Without their unstinted support, I would not have been able to steer the Company during this challenging year. I also wish to convey my sincere appreciation to the new CEO, the management team and the staff, for their dedicated and sustained commitment to deliver superior results during the year.

Finally, on behalf of the Board, I thank all our stakeholders for the trust placed in us, and wish to assure you once again that we will continue to deliver greater sustainable value to our shareholders, and other stakeholders while upholding the highest level of ethical and corporate governance standards.

Rose Cooray
Chairperson

09th February, 2017.

Chief Executive Officer's Review

Deepthi Lokuarachchi
Chief Executive Officer

It gives me great pleasure to present to you the Integrated Annual Report and the Financial Statements of HNB Assurance PLC (HNBA) for the year ended 31st December 2016. This is our fifth Integrated Annual Report that covers the triple bottom-line performance of the Company and its fully owned subsidiary, HNB General Insurance Limited (HNBGI).

I also note, with pleasure, that the year 2016 marked our 15th successful year of operations in providing Life and General Insurance solutions. As reflected in the theme of this report and as in the past, we will continuously strive to delight our stakeholders in the years to come.

It is indeed with pride that I report that HNBA, along with its fully owned subsidiary HNBGI, achieved Rs. 647 Million as Group Profit After Tax for the period ended 31st December 2016, marking an impressive 228% growth compared to the prior year. Further, the Group surpassed the Rs. 6 Billion mark in revenue, recording Rs. 6.7 Billion as consolidated Gross Written Premium. The incremental growth in revenue reflects that we are one of the fastest growing insurance groups in the industry.

Year 2016 marked our 15th successful year of operations in providing Life and General Insurance solutions. As reflected in the theme of this report, as in the past, we will continuously strive to delight our stakeholders in the years to come as well

CHALLENGING ENVIRONMENT

The year under review was indeed challenging for the insurance sector, both on the macroeconomic front, as well as due to the severe floods experienced in the month of May, which resulted in an unusually high volume of claims in numbers and value. This eroded the margins of the General Insurance business, in turn limiting investment opportunities. On the Life Insurance the increase in interest rates diverted such income towards savings and investments.

The year 2016 commenced with an important milestone in the Sri Lankan insurance industry, as it transitioned from the solvency regime to the RBC (Risk Based Capital) regime, under the new guidelines implemented by the Insurance Board of Sri Lanka (IBSL). RBC rules require a minimum capital to be maintained to compensate the risks undertaken by insurance companies.

Going forward, the insurance industry will take a more resilient approach in risk engagement, both in terms of products and investment of funds, to suit the requirements of the new regime. These new requirements will direct companies towards a stronger capital base, auguring consolidation among players, as was proved by the General Insurance industry witnessing two acquisitions during the year under review. Due to the existing fierce price competition in the General Insurance industry, market participants will continue to look for mergers and acquisitions, and we believe this trend will continue during the coming year as well.

PERFORMANCE OVERVIEW

Life Insurance Business

Despite the challenging environment, the year 2016 proved remarkably victorious for the Life Insurance business of the Group. Gross Written Premium reached Rs.3.6 Billion, growing by 27%, and surpassing the industry growth of 19%. With this achievement, HNBA maintained its sixth place in the market. It is pertinent to note that we were able to notably accelerate our growth compared to the 19% growth achieved in 2015.

It is also noteworthy that Endowment Policies, which grew by 32% compared to the previous year, contributed a sizable 86% of GWP, with two products, namely My Fund and Ranmaga, sharing the limelight, while Mortgage Reducing Policies recorded a growth of 15%. This change of product mix is a result of the Company making a concerted effort to fortify its regular premium endowment portfolio. The first-year policy lapse ratio was maintained at 46%, assisted by the endeavours of the distribution management team to drive customer segmentation, as well as novel approaches adopted to carry out policy administration and maintenance.

HNBA recorded its highest ever net profit of Rs. 600 Million, with a 40% growth over the previous year's net profit of Rs. 427 Million. The surplus transfer from the Life Insurance business also marked a 49% growth, to reach Rs. 461 Million, compared to Rs. 310 Million in 2015.

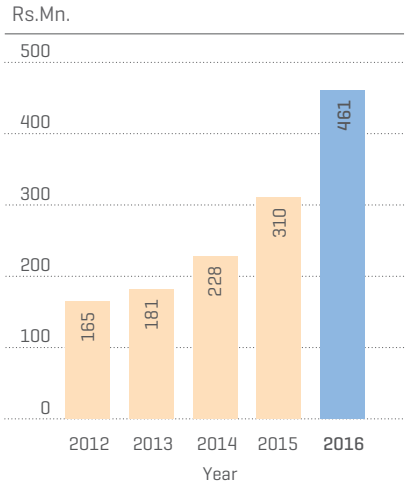
The Life Fund reached the Rs. 8.6 Billion mark upon the conclusion of the year, and the Company declared a maximum bonus of Rs. 54 per Rs. 1,000 to policyholders and a 8% dividend rate for policyholders of fund-based products.

While the results of our efforts to enhance the quality of Advisors is reflected in

Chief Executive Officer's Review

the impressive top-line, the quest to maintain a high level of professionalism has resulted in the Company being able to produce 41 Advisors qualified to attend the world renowned Million Dollar Round Table, with one member capturing the coveted Top of the Table Membership, and another taking the pride of being a Court of the Table Member. This is an impressive outcome, especially when noting that only 14 members of the agency force qualified in the previous year.

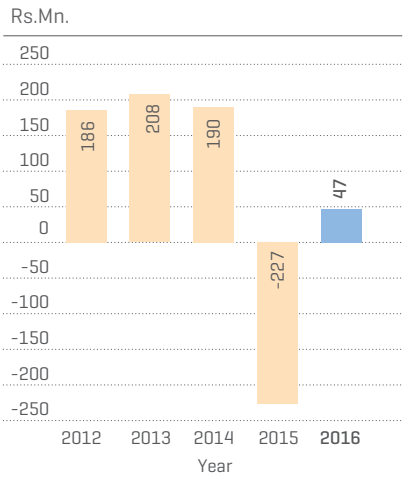
Life Surplus Transfer



General Insurance Business

The General Insurance business of the Group recorded a healthy growth in terms of both its top and bottom lines. The many adverse scenarios, which proved challenging in 2015, were successfully managed in 2016. General Insurance, by its nature, is highly susceptible to unforeseen shocks and hence, the management's capability to make timely judgments well in advance to be in a state of preparedness to meet such challenges is a critical necessity for success. Such preparation was executed effectively in 2016 through our Enterprise Risk Management strategies focusing on risk selection, pricing and expense management. These three core elements were handled exceptionally by the team, resulting in the development of a sustainable business model for the future, and also making a material contribution towards the growth of consolidated

Profit After Tax - General Insurance (PAT)



revenue and profits in 2016. Accordingly, the Company recorded a 16% growth in GWP to reach Rs. 3.1 Billion, and recorded a profit of Rs. 47 Million for the year.

I am certain that the resolve of a committed workforce, invigorated by the sweet scent of success, led by a dynamic team of managers who in turn are guided by a Board with far-sighted thinking, will provide a springboard to leap towards sustained profitability at HNBGI in the future.

Investment

Despite a challenging macroeconomic environment, we are extremely happy to share that our fund management efforts during the year resulted in outperforming market benchmarks for both fixed income and equity investments. Our investment portfolios recorded a momentous investment income growth of 25% to reach Rs. 1.1 Billion for the year. The parent company's contribution to the investment income of the Group was Rs. 958 Million, a growth of 31%, which was supported by a 25% growth in funds under management, as well as prudent investment strategies implemented.

The subsidiary, HNBGI, contributed with an investment income of Rs. 187 Million, which is a 0.9% drop compared to the previous year. Here, expectations could not be maintained due to fund outflows on account of claims related to the flood.

Greater accuracy in forecasting changes in economic indicators, including interest rates, and enhanced superiority in market timing while managing risks adequately, helped increase interest income by 35%. The uncertainty which prevailed over stock market activity caused the Company to reduce its exposure, and consequently the opportunity to make capital gains was curtailed. However, I am of the view that it was a prudent step taken in the right direction to maintain a stable outcome. Our timely fund management decisions saw the equity portfolios outperform the benchmark All Share Price Index (ASPI) by 8.1% on average. Mention needs to be made of the in-house expertise of the fund management team of the Company, which was instrumental in recording improvements in the bottom-line of the Company for yet another year.

Capital Adequacy and Stability

Both HNBA and HNBGI made a smooth transition to the Risk Based Capital (RBC) regime from the previous solvency regime. Both businesses had participated in the RBC road test and compulsory parallel run in the previous years and had obtained expert advice from External Actuaries to build up internal capabilities to successfully implement the new model. HNBA recorded a Capital Adequacy Ratio (CAR) of 445% while HNBGI's CAR was 168% as of 31st December 2016, after providing for all contract and other liabilities.

Fitch Ratings Lanka Limited reaffirmed the National Long Term Rating and Insurer Financial Strength Rating at "A (lka)" with a stable outlook for both entities for yet another year, which is a sound reflection of the Group's financial stability.

Fitch Ratings Lanka Ltd. reaffirmed the National Long Term Rating and Insurer Financial Strength Rating at "A (lka)" with a stable outlook for both entities for yet another year, which is a sound reflection of the Group's financial stability

ACKNOWLEDGEMENTS

I wish to express my sincere appreciation to the Chairperson and Board of Directors for the fullest support, guidance and encouragement that has always been forthcoming to me and the Company.

I also thank the Chairperson, Director General and staff of IBSL for their support.

I convey my special thanks to the members of the Executive Committee, Heads of Divisions, Managers, staff members and members of the sales and field forces, for their unstinted support in achieving exceptional results during the year.

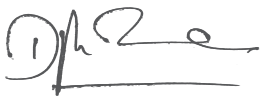
I would be failing in my duty if I do not make special mention and thank all the Brokers, Re-insurers, intermediaries, network and strategic partners for their support and cooperation.

WAY FORWARD

I believe that the insurance market will continue to be challenging in the years to follow until the effects of RBC stabilises. Competition will further intensify, although we do observe some consolidation in the General Insurance industry. The dynamic pace of the regulatory changes will play a major role in market dynamics. It is envisaged that in general the insurance industry will see more opportunities, mostly in Non-Motor and Life Insurance.

In the coming years, we will continue to optimise our product mix in order to deliver maximum profitability. Product mix targeted growth through the General Insurance business will focus more on aggressive market penetration, while we further fine-tune our pricing policy with the help of external and internal actuaries. Through increased reach and target marketing, we will continue to penetrate the market more aggressively, while strategic partnerships forged with the Group will also play a key role in the coming year.

We will consider human resources and information technology as the key business drivers in the future and therefore will continue our investments in these segments. Continued efforts will be made to innovate and bring novel experiences to the local insurance industry. I firmly believe the successful strategies implemented during the year under review will enable us to further increase returns on our investments during the coming years and to deliver sustainable value to all our stakeholders.



Deepthi Lokuarachchi
Chief Executive Officer

09th February, 2017.

Board of Directors

Standing Left to Right

- **Sarath Ratwatte**
  Independent Non-Executive Director - HNB Assurance PLC
- **Mahendra Jayasekera**
  Independent Non-Executive Director - HNB Assurance PLC
- **Dr. Sivakumar Selliah**
  Independent Non-Executive Director - HNB Assurance PLC

Seated Left to Right

- **Rose Cooray**
  Chairperson/Non-Executive Director - HNB Assurance PLC and HNB General Insurance Limited
- **Siromi Wickramasinghe**
  Non-Executive Director - HNB Assurance PLC

Standing Left to Right

- **K Balasundaram**
  Independent Non-Executive Director - HNB Assurance PLC
- **Faizal Salieh**
  Independent Non-Executive Director - HNB General Insurance Limited
- **Dilshan Rodrigo**
  Non-Executive Director - HNB Assurance PLC and HNB General Insurance Limited
- **Thimal Perera**
  Non-Executive Director - HNB Assurance PLC and HNB General Insurance Limited

Seated Left to Right

- **Marina Tharmaratnam**
  Independent Non-Executive Director - HNB General Insurance Limited
- **Sitari Jayasundara**
  Company Secretary - HNB Assurance PLC and HNB General Insurance Limited

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. Cooray is a Director of Hatton National Bank PLC and was the Senior Director till the 30th of October 2014. Having served the Central Bank of Sri Lanka for over thirty five years she retired as the Deputy Governor and counts over forty years of experience in the financial sector. She is the Chairperson of Ceylon Guardian Investment Trust PLC, Ceylon Investment PLC, Sithma Development (Private) Limited and HNB General Insurance Limited and a Director of HNB Grameen Finance Limited and Guardian Capital Partners PLC.

On release from the Central Bank, she had served the Ministry of Finance and Planning in the capacity of Director General Fiscal Policy and Economic Affairs Department for nearly 6 years. She represented the Government on the Boards of DFCC Bank, Sri Lanka Institute of Information Technology, Sri Lanka Telecom, Ceylon Electricity Board, De La Rue Currency and Security Print (Pvt) Ltd, Export Development Board, National Housing and Development Authority and represented the Monetary Board on West Coast Power (Pvt) Ltd.

She has functioned as the Vice Chairperson of the Institute of Bankers of Sri Lanka for 5 years and has served on a number of Committees at national level covering a variety of subjects representing the Ministry of Finance and the Central Bank. She has also represented the Central Bank and the Ministry of Finance at various international meetings and seminars.

Mrs. Cooray has been extensively involved in policy making in the financial sector and implementing projects and special programmes especially in the area of regional development and microfinance. She has wide experience in negotiating loans with multilateral and other donors as well as bilateral trade agreements on behalf of the Government. Her articles/papers have been published in professional journals.

Sarath Ratwatte

Independent Non-Executive Director - HNB Assurance PLC

FCMA (UK), CGMA

He counts over 35 years of private sector experience in the fields of Accounting, Financial and Treasury Management, Project Financing and 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.

Mahendra Jayasekera

Independent Non-Executive Director - HNB Assurance PLC

FCA, BSc Special Hons - University of Sri Jayawardenapura

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

Siromi Wickramasinghe

Non-Executive Director - HNB Assurance PLC

Attorney – at – Law

Presently is a Director of Agstar PLC. Also functions as the Head of Credit Counselling Centre. A Fellow member of the Chartered Management Institute, UK. Counts over 34 years of multi-functional and progressive experience in the Sri Lankan Banking Sector including 13 years in the Corporate Management level of Hatton National Bank PLC. Previously held the position of Chairperson of HDFC Bank, General Manager / CEO of Lankaputhra Development Bank, Chairperson of Ceybank Asset Management Company, (a subsidiary of Bank of Ceylon), Director of Commercial Bank of Ceylon PLC, Commission Member of the SEC and a Director of Sri Lanka Banks' Association Guarantee Ltd.

Dr. Sivakumar Selliah

Independent Non-Executive Director - HNB Assurance PLC

(MBBS, M.Phil)

Dr. Selliah holds an MBBS degree and a Master's Degree (M.Phil). He has over two decades of diverse experience in various fields which include areas of manufacturing, healthcare, plantations, packaging, logistics and retail.

He currently holds the position of Deputy Chairman of Asiri Hospitals Holdings PLC, 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, Horana Plantation PLC and Lanka Ceramic PLC. Dr. Selliah is the Chairman of JAT Holdings Pvt Ltd, Cleanco Lanka Pvt Ltd and the Deputy Chairman of Central Hospital Private Ltd. He is also the Chairman of JAT Global PVT Ltd, Greensands Private Ltd and Vydexa (Lanka) Power Corporation Pvt Ltd. Dr. Selliah serves on the Audit Committee, Investment committee, Risk committee, Strategic planning committee, Related Party Transaction committee and Remuneration Committee of some of the companies listed above.

K Balasundaram

Independent Non-Executive Director - HNB Assurance PLC

Director/Chief Executive Officer of Mercantile Merchant Bank and Pathfinder Group of Companies.

Also serves on the Boards of MMBL Money Transfer Private Limited (Joint Venture with Aitken Spence), Saffron Aviation Private Limited and Sentinel Reality Private Limited (Joint Venture with John Keells), Yarl Hotels Private Limited (Joint Venture with Jetwings), Intertek Lanka Private Limited (Joint Venture with Intertek UK), Energizer Lanka Private Limited (Joint Venture with Energizer USA). Counts over 49 years of experience in Corporate Finance and Business Management having worked in Manufacturing and Service Industries

including Public Quoted Companies, Board of Investment Companies and Statutory Boards.

Dilshan Rodrigo

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

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

Chief Operating Officer of Hatton National Bank PLC and Director of Acuity Securities Ltd, Acuity Partners Ltd, Guardian Acuity Asset Management Ltd., Credit Information Bureau of Sri Lanka, Sithma Development (Pvt) Ltd., and HNB General Insurance Ltd. 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.

Thimal Perera

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

ACA

Mr. Perera was appointed to the Board of HNB Assurance PLC in January 2016. Presently he holds the position of DGM Retail and SME Banking of HNB PLC. He is also a Director of HNB General Insurance Ltd and HNB Grameen Finance Ltd

A banker by profession, he has over 20 years of banking experience with foreign exposure in the Middle Eastern and the Northern African regions. He is a Chartered Accountant and Finalist CIMA (UK).

Mr. Perera serves as a member of the Audit, Strategy Review and Related Party Transaction Review Board sub-committees.

Faizal Salieh

Independent Non-Executive Director - HNB General Insurance Limited

BA (Econ) Hons, MBA, FCPM

Has over 03 decades of 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, and several Government and Non-Governmental Committees in the fields of finance, economic affairs, housing, construction and tertiary education.

Well known for the outstanding leadership role he has played in initiating, developing and furthering the practice of interest-free banking in Sri Lanka based on the principles of profit and loss sharing and establishing Amana Bank as the first interest-free licensed commercial bank in Sri Lanka in which he was the founding Managing Director and CEO.

He also presently serves as a Non-Executive Independent Director on the Boards of Cargills Bank, The Ceylon Chamber of Commerce, The Sri Lanka Institute of Directors and the Distance Learning Centre, and is a Council Member and Financial Sector Consultant at Gerson Lehrman Group, USA.

Marina Tharmaratnam

Independent Non-Executive Director - HNB General Insurance Limited

FCA

Ms. Tharmaratnam is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. She holds a Post Graduate Diploma in Marketing from the Chartered Institute of Marketing, UK and a Diploma with Distinction in Computer Systems and Design from the National Institute of Business Management. Her career spans over 4 decades where she has held many senior positions in multiple industries ranging from banking and insurance to heavy machinery. She served Union Assurance as its Director / CEO. She has held Board Positions in the capacity of Director 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. In addition, she was the President of the Sri Lanka Institute of Directors in 2007 and 2008, 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-USJ)

Appointed Company Secretary in September 2016. Presently work as Head of Legal HNB Assurance PLC and HNB General Insurance Limited and Company Secretary of HNB General Insurance Limited. Counts over 17 years' experience in the legal profession and heading the Legal Department of HNB Assurance PLC for over 7 years.

Group Executive Committee

Standing Left to Right

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

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

Dinesh Udawatta
Chief Technical Officer – HNB Assurance PLC

Seated Left to Right

Ivan Nicholas
Chief Business Officer – HNB Assurance PLC

Deepthi Lokuarachchi
Chief Executive Officer - HNB Assurance PLC and HNB General Insurance Limited

Standing Left to Right

- **Nilesh Amarasinghe**
  Chief Investment & Strategy Officer- HNB Assurance PLC and HNB General Insurance Limited
- **Sithumina Jayasundara**
  Chief Technical Officer– HNB General Insurance Limited
- **Pushpika Seneviratne**
  Chief Actuary - HNB Assurance PLC and HNB General Insurance Limited

Seated Left to Right

- **Prasantha Fernando**
  Chief Operating Officer – HNB Assurance PLC
- **Chandana L. Aluthgama**
  Chief Business Officer (Corporate Lines) – HNB General Insurance Limited

Group Executive Committee

Deepthi Lokuarachchi

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

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

Deepthi was appointed as the Chief Executive Officer of HNBA and HNBGI on 02nd May 2016. Deepthi counts over two decades of professional experience in the fields of general management, distribution and risk management and overall operations management. He commenced his career at Eagle Insurance where he held various key positions including General Manager Distribution and Risk Management. Advancing in his career, Deepthi moved to AIG Insurance Ltd where he held the position of Deputy Chief Executive and Chief Operating Officer in charge of the Sri Lankan and Maldivian Operations. Deepthi also served as the Chief Executive Officer of Orient Insurance Limited Sri Lanka and the Chief Executive Officer of Sri Lanka Insurance Corporation Ltd prior to joining HNBA. He has also held the presidency of the Sri Lanka Insurance Institute and served as the vice president of the Insurance Association of Sri Lanka.

Prasantha Fernando

Chief Operating Officer – HNB Assurance PLC

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

Prasantha joined HNB Assurance in 2012. Currently he is serving as the Chief Operating Officer of HNB Assurance PLC. He served as General Manager - Life Insurance for three years prior to being promoted as Chief Operating Officer. Prior to joining HNB Assurance, he held the position of Assistant General Manager, Life Operations at Aviva NDB Insurance PLC. He counts over 22 years of experience in the Life Insurance Industry. Prasantha is also a founder council member of Association of Chartered Insurance Professionals (ACIP) and serves 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.

Chandana L. Aluthgama

Chief Business Officer (Corporate Lines) – HNB General Insurance Limited

B Com Sp. (Kelaniya), FCMI (UK), MBA (Colombo)

Chandana joined HNBA in 2004 as the Business Development Manager and was promoted as the Head of Corporate Business Development in January 2009 and subsequently as the Chief Business Officer in 2014. He counts over 25 years' experience in business development, operations, claims management, branch operations, corporate marketing, Bancassurance, and channel management. He is also a visiting Lecturer at the Postgraduate Unit of the University of Colombo - Management and Finance Faculty. Has presented research papers at local and international conferences. He has undergone extensive training both locally and overseas including at Generali Insurance AG, Vienna, Austria and NUS Business School, Singapore. Chandana served at Eagle Insurance PLC as the Manager Bancassurance prior to joining HNBA and is the immediate past Secretary of the Royal College Union and represented the Executive Committee of the Colombo University Alumni. He also serves as the Principal Officer of HNB General Insurance.

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 32 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 PLC.

Nilesh Amarasinghe

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

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

Nilesh joined HNB Assurance in 2005. Nilesh has close to 12 years of experience in Capital Markets specialising in investment management/fund management. Having joined HNBA as a Management Trainee, Nilesh served HNBA as Assistant Manager – Investments, Manager – Investments and Head of Investment and Strategy prior to assuming the role as the Chief Investment and Strategy Officer.

Sithumina Jayasundara

Chief Technical Officer– HNB General Insurance Limited

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

Sithumina joined HNB General Insurance in July 2014. He counts over 17 years' experience in several local and International Industry Organisations. Holds a Diploma in Computer Studies, an Associate member of the Chartered Insurance Institute of UK, and a Senior Associate of the Australian and New Zealand Institutes.

He has also obtained foreign exposure through different training programmes in General Insurance and specialised in the Reinsurance field. At present Sithumina holds the position of a Senior Council Member 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 the Assistant Treasury at The Association of Chartered Insurance Professionals (ACIP).

Jude Benjamin

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

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

Dinesh Udawatta

Chief Technical Officer – HNB Assurance PLC

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

Dinesh joined HNB Assurance in 2003. Currently he is serving as the Chief Technical Officer for Life Insurance. He served as Head of Operations - Life Insurance for two years prior to being promoted as CTO. He counts over 14 years of experience in the Life Insurance Industry. He has undergone extensive training both locally and overseas including at Munich Re, Munich, Germany and FALIA, Japan.

Indika Perera

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

BBMgt – Hons (SP in Acc.), ACA, ACMA

Indika counts over 15 years' of experience in finance field where he possesses more than 10 years' experience in Insurance, 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 as Finance Manager in 2007 to join Insurance Group in Bahrain where he served in Group Internal Audit Division and Group Finance Division. After 5 years of exposure, he returned to the country and served as the Assistant Vice President at Acuity Securities Limited, and Vice President – Operations Control at Orient Insurance Limited before he rejoined HNB Assurance in 2015 as Head of Finance. Currently he serves as the Chief Financial Officer of both HNB Assurance PLC and HNB General Insurance Limited.

Pushpika Seneviratne

Chief Actuary - HNB Assurance PLC and HNB General Insurance Limited

B.Sc Hons (Colombo), M.Sc Actuarial Hons (UK), ASA (US), FCMA (UK), CGMA, CERA

Having joined HNB Assurance in 2011 as Assistant Manager and being instrumental in setting-up the Actuarial Department within HNBA, Pushpika currently works in the capacity of Chief Actuary, leading the Actuarial Department catering to Life and General Insurance segments. Prior to taking-up this role, she functioned as the Manager – Actuarial, Associate Actuary and Head of Actuarial at HNBA. Former to joining HNBA Pushpika was attached to Ceylinco-Life and Eagle Insurance where she embarked on her Actuarial journey 10 years ago.

Having qualified as an Associate Actuary from the Society of Actuaries US, Pushpika is one of the few qualified Actuaries in the country and the only local Actuary to attain the Chartered Enterprise Risk Analyst (CERA) whilst also being a Fellow member of the Chartered Institute of Management Accountants (CIMA). Pushpika is a member of the Actuarial sub-committee of Insurance Association of Sri Lanka.

Management Team - HNB Assurance PLC

Dinesh Yogaratnam
Head of Marketing

Geethani Saram
Head of Support Services

Hiran Fernandopulle
Zonal Head

Tharaka Perera
Head of IT

Sitari Jayasundara
Head of Legal & Company Secretary

Rohan Hemantha
Senior Manager – Risk and Compliance

Salinda Perera
Senior Manager – Administration

Padma Dahanayake
Senior Manager – Life Servicing

Harendra Ramasinghe
Senior Zonal Manager – Southern

Madawa Gunaratne
Senior Manager – Partnerships

Prasad Thambawita
Senior Manager – Life Claims & Call Centre

Sudath Perera
Senior Manager - National Sales Training & Development

Punsirini Perera
Senior Manager – Finance

Ananda Kulasooriya
Zonal Manager – North Western

Kamini Gunawardene
Manager – Marketing

A L D H Liyanage
Zonal Manager – Metro

N Sugunan
Zonal Manager - North & East

Kapila Jayarathne
Regional Manager

Jagath Gaspe
Zonal Manager – Central

Dasun Siriwardana
Manager – Corporate Life

B G Dhanawardena
Regional Manager

Ritchie Adaman
Manager – Actuarial

Sameera Gamage
Project Manager – IT

Anuradha Ranasinghe
Manager – MRP

Ayanthi Wettesinghe
Manager – Human Resources

Management Team - HNB General Insurance Limited

Chitparan Vivekanandan
Head of Finance & Support Services

A R Bazlin Salih
Zonal Head – Southern

Sajeewa Chandrasena
Zonal Head – Central

Ajantha Amarasighe
Head of Broker Management

Hazana Caffoor
Senior Manager – Motor

Hifly Huzair
Senior Manager Takaful

Thameera Walpita
Senior Manager – Motor Claims

Sanath Ranaweera
Chief Engineer

T. Rizepan
Zonal Manager – North & East

Jehan Haniff
National Sales Training & Development Manager

Sanjeewani Pitadeniya
Manager – Customer Relations

Devaka Jayasinghe
Manager – Broker Development

Dayan Georgesz
Manager – Bancassurance

Harin Darshana
Zonal Manager – Metro

Damayanthi Nelumdeniya
Cluster Manager

Samudra Jayawardena
Cluster Manager

Samanthi Liyanage
Manager – Non Motor Underwriting

Anushika Wikramasinghe
Manager – Motor Processing

Dilum Medahinna
Manager – Title Insurance

Life is a journey full of adventure and challenges; a journey paved with dedication, enthusiasm and success. We provide you with the shield of protection, the rock of confidence and the utmost support you need to make your dreams a reality whilst taking on the challenges of tomorrow.

Stewardship and Risk Management

Chairperson's Statement 53
Corporate Governance 54
Corporate Governance at HNB General Insurance Limited 88
Group Performance Governance 90
Risk Management 94
Compliance Summary 104

Chairperson's Statement

Dear Stakeholders,

Your Company over the years has strived to practice best corporate governance principles, as we firmly 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. It has been our policy to continuously improve the corporate governance and best practices framework. We have ensured that the Company is managed based on these principles, 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 established 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 highest integrity throughout.

The underlying theme of this framework is to create a norm of professionalism and good ethics.

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 sets out the main responsibilities of the Board. The Board is provided with appropriate and timely information paving the way for healthy Boardroom discussions on matters that need the approval and direction of the Board. The Share Dealing Policy provides guidance on dealing in shares of the Company, while the Code of Conduct and Ethics guides the behaviour of the Board itself. Additionally, charters have been adopted for all Board Sub-Committees, clearly outlining their duties and responsibilities. To further reflect its commitment towards good corporate governance, the Board carries out an evaluation of its own performance at the end of each year.

Corporate Governance Initiatives during the Year

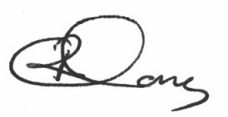
In 2016, the Board took several measures to further improve the corporate governance framework of the Company. The new Chief Executive Officer appointed in the middle of the year has been entrusted with the day-to-day management of the Company, implementing the decisions of the Board while giving leadership to the corporate management team.

A new Independent Director with extensive experience in insurance was invited to join the Company's subsidiary, and was also appointed as a member of a Group Board Sub-Committee thereby strengthening the capacity of the Board on independent analysis on Company matters. The Board Nomination Committee was reconstituted and the charter of the Nomination Committee was adopted. In addition, 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 to overlook the implementation of the corporate plan of the Company and to make recommendations to the Board with respect to strategies conducive towards the growth of the Company in keeping with the changing business environment. Further, the frequency of Board Sub-Committee meetings was increased during the year; giving opportunity to Directors to closely interact with the management team on business activities and the practices followed. Charters of all other Board Sub-Committees as well as the Company's policies including the Whistleblowing Policy were reviewed by relevant Committees and the Board to be in line with developing best practices.

Compliance with Corporate Governance Codes

The report that follows demonstrates the governance framework of the Company and how it has complied with the Code of Best Practice on Corporate Governance (the Code) issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and Rule No. 7.10 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange (CSE).

As required by the above Code, 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
09th February, 2017.

Corporate Governance

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 Board Sub-Committees, reinforce this commitment. These corporate governance policies, charters and values, together with the laws applicable to the Company, constitute the corporate governance framework of the Company. Broadly, our corporate governance framework rests on two important principles:

- the need to adopt and improve corporate governance principles and practices continuously, in light of our experiences, regulatory requirements, international developments and stakeholder expectations
- the need to comprehensively disclose the Company's corporate governance principles and practices. Accordingly, this report aims to provide an overview of the corporate governance framework of the Company, including the structure, principles, policies and practices of corporate governance at HNB Assurance

We have been improving our corporate governance framework and the disclosure of our corporate governance practices continuously over the years. Our efforts in this regard have been recognised on a number of instances, during the last 10 years.

Awards Won by the Corporate Governance Report

Annual Report 2015
Merit award – *Corporate Governance Disclosures at the South Asian Federation of Accountants (SAFA) Best Presented Annual Reports*

Annual Report 2013
Silver award - Corporate Governance Disclosure at the CA Sri Lanka Annual Report Awards

Annual Report 2011
Third place - Corporate Governance Disclosure at the CA Sri Lanka Annual Report Awards

Annual Report 2009
First runner-up - Corporate Governance Disclosure at the South Asian Federation of Accountants (SAFA) Best Presented Annual Reports

Annual Report 2008
Joint Silver award - Corporate Governance Disclosure at the CA Sri Lanka Annual Report Awards

THE CORPORATE GOVERNANCE STRUCTURE OF HNB ASSURANCE PLC

A standard corporate governance model interconnects the dynamic relation between three key stakeholders – the Shareholders, the Board of Directors and the Management. The roles of these stakeholders are distinct but complementary to the core objectives and the smooth functioning of the institution.

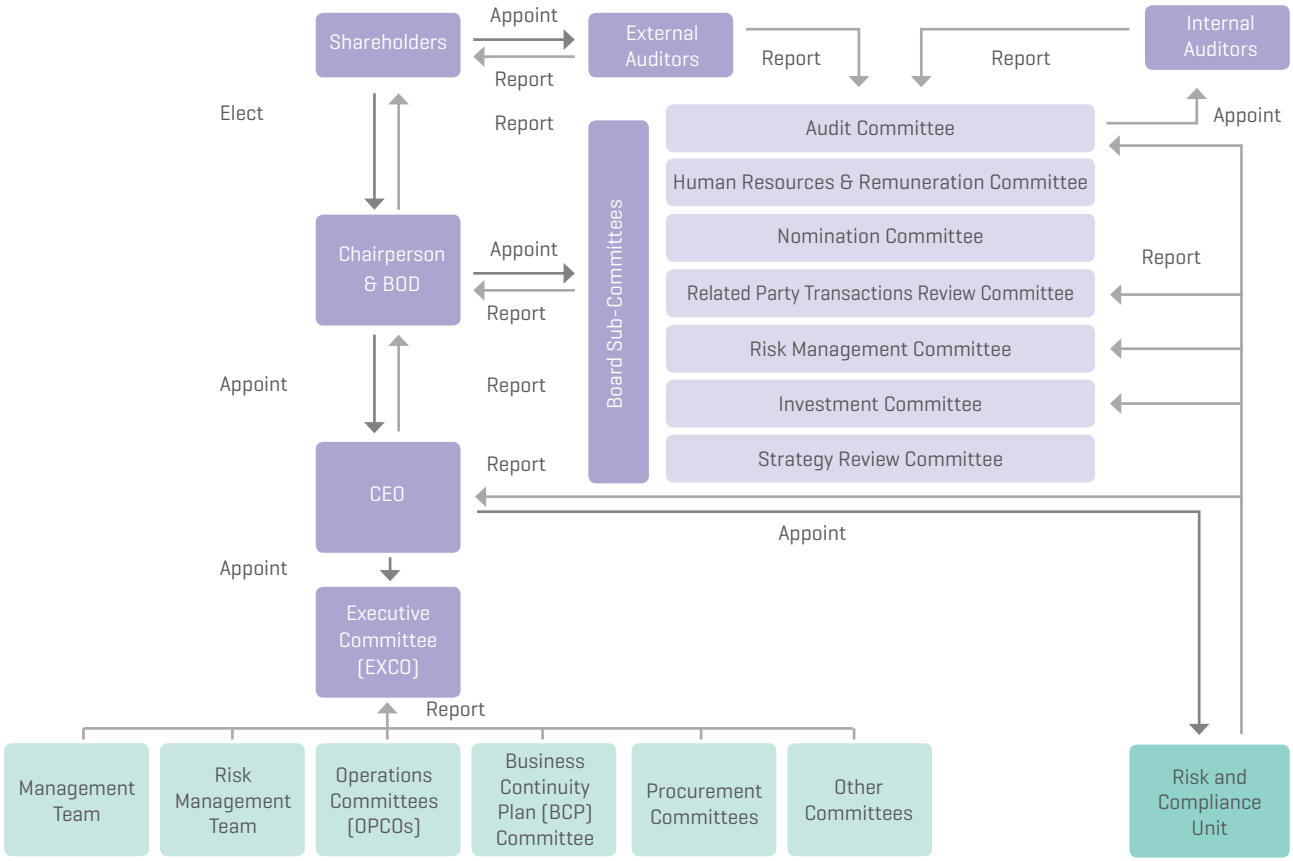
Accordingly, HNB Assurance's corporate governance structure is modelled to establish the fundamental relationship among Shareholders, the Board, the Management, and other stakeholders. Policies, charters and procedures, through which ethical values and corporate objectives are set and the plans for achieving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

Corporate Governance Improvements in 2016

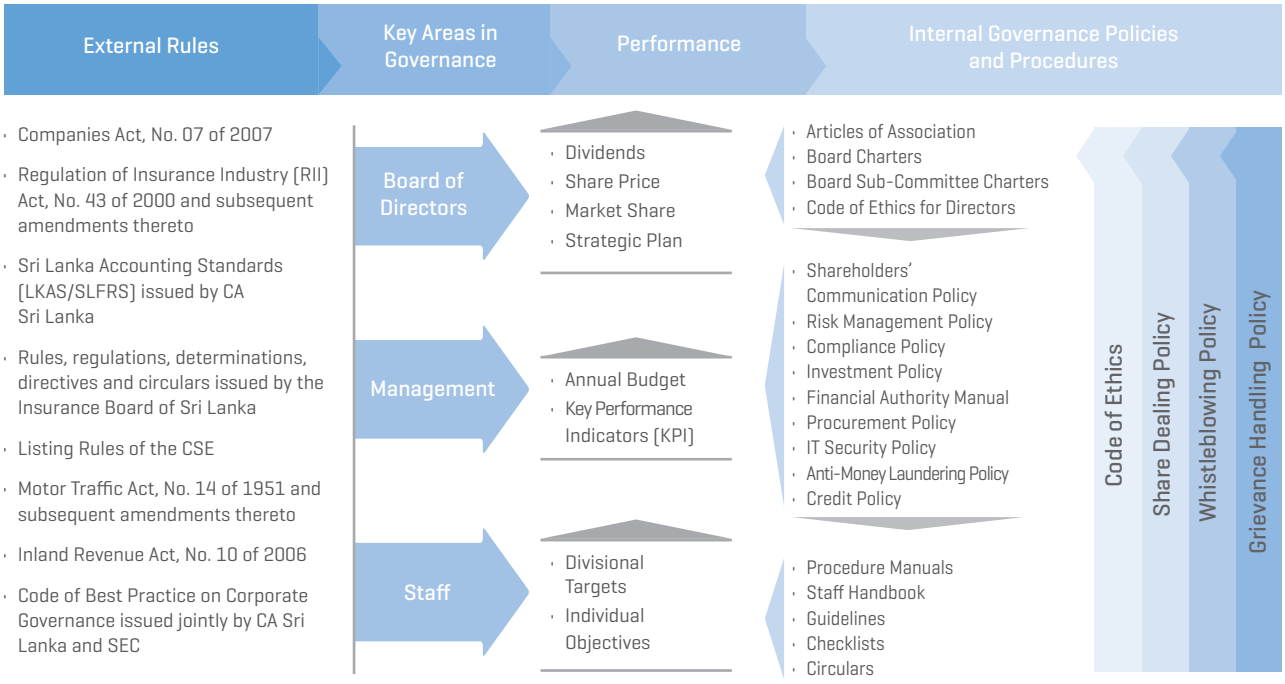
- Reconstituted the Board Nomination Committee and adopted the Charter for the Nomination Committee
- Established a new Board Sub-Committee named the 'Strategy Review Committee'
- Remuneration Committee was expanded to include matters pertaining to human resources and the Committee was renamed as 'Human Resources and Remuneration Committee'
- Frequency of Board Sub-Committee meetings was increased
- A new independent Director with extensive experience in insurance was invited to join the Company's subsidiary and was also appointed as a member of the Group Board Investment Committee
- Reviewed all Board and Board Sub-Committee Charters
- Reviewed and updated all the policies of the Company
- Revised the Whistleblowing Policy of the Company
- Complaints Handling Policy was adopted

REFERENCE: GRI-G4 > G4-34

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 HNB ASSURANCE (HNBA)



Corporate Governance

CORPORATE GOVERNANCE REPORT

HNB Assurance PLC ('the Company') and its subsidiary ('the Group') is committed to maintaining a high standard of corporate governance in compliance with the Code of Best Practice on Corporate Governance ('Code') issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC), as well as Rule No. 7.10 of Listing Rules on Corporate Governance issued by the Colombo Stock Exchange (CSE). The principles set out in these Codes have been adopted by us to shape our corporate governance structure.

Section D.5 of the Code issued by the CA Sri Lanka and SEC requires the Directors to disclose the extent to which the Company adheres to established principles and practices of good corporate governance, and to include a corporate governance report in the Company's Annual Report, setting out the manner and extent to which the Company has complied with the principles and provisions of this Code. Accordingly, this report provides the details of the Company's practices that were in place during the financial year ended 31st December 2016 in compliance with the relevant requirements of the Code.

Furthermore, we wish to state 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 sound corporate governance as an effective management tool. Therefore, we have also provided enhanced disclosures relating to the Company's corporate governance policies and practices, in instances where it exceeds the requirements of the Code.

STATEMENT OF COMPLIANCE

HNB Assurance PLC is fully compliant with the Code of Best Practice on Corporate Governance issued jointly by CA Sri Lanka and SEC. In addition, the Company is fully compliant with Rule No. 7.10 of the Listing Rules issued by the CSE on Corporate Governance.

Our status of compliance with each Section of the Code of Best Practice on Corporate Governance issued jointly by CA Sri Lanka and SEC appears on pages 56 to 84. We have also included a table which summarises the status of compliance with Rule No. 7.10 of the Listing Rules of the CSE, on pages 85 to 87.

COMPLIANCE WITH CODES OF CORPORATE GOVERNANCE

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

This Code, issued in 2008 and revised in 2013, serves the primary objective of establishing good corporate governance practices in Sri Lanka, and deals with seven key areas a company should focus on when developing its corporate governance structure.

Section - 1

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

} Focuses on the Company

Section - 2

E. Institutional Shareholders
F. Other Investors
G. Sustainability Reporting

} Focuses on the shareholders

The Company has complied with all Sections of the above Code and the status of compliance with each section is given below;

SECTION - 1

A. Directors

A.1 The Board

Principle: Every public company should be headed by an effective Board.

The Company is headed by an effective Board which is collectively responsible for the long term success of the Company. The Board, directly and through its Committees and the Chairman of the Board provides direction to senior management, generally through the Chief Executive Officer, to pursue the best interests of the Company.

Number of meetings

The 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. Accordingly, 12 Board meetings were held during 2016. In addition, Sub-Committee meetings are held depending on the requirement. The number of Board meetings and Sub-Committee meetings held during 2016, together with the individual attendance of Board members, is given on page 203.

Section A.1.1
The Board should meet regularly. Board meetings should be held at least once in every quarter of a financial year - ***Complied***

Agenda setting process, information and minutes of the meetings

The Board Secretary draws up the agenda in consultation with the Directors prior to each Board meeting, as delegated by the Chairperson. 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. The minutes of meetings are sent to all Directors in a timely manner for their comments and record. Similar processes apply to Board Sub-Committee meetings as well. All Board Sub-Committee minutes are tabled at the Board meeting that follows immediately.

Responsibilities of the Board

The fundamental role of the Board is to provide entrepreneurial and coherent leadership and direction within a framework of prudent and efficient controls which enables risks to be assessed and managed. The Charter of the Board of Directors sets out the main responsibilities of the Board. A summary of how the Board discharged its duties during the year are given below:

Section A.1.2
Responsibilities of the Board - ***Complied***

Ensuring the formulation and implementation of a sound business strategy

The CEO, together with the management team, develops corporate strategies, annual budgets, and action plans to implement corporate strategies, on an annual basis, under the direction of the Board. The corporate plan and the annual budget are approved by the Board every year, and the achievement of the objectives set in the plan is closely monitored by the Board.

Accordingly, the CEO and the management presented the Company's Strategy for 2017 – 2019 to the Board in December 2016. Meanwhile, the implementation of the corporate plan and the budgets presented in previous years were monitored through Key Performance Indicators (KPIs) at each Board meeting.

During the year the Board established a new Board Sub-Committee, namely 'Strategy Review Committee', to ensure better monitoring of the implementation of the Company's strategy and to set the direction for the development of future strategies. The Committee met once a month during 2016.

Corporate Governance

Ensuring that the Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy
The Board actively works to ensure that the CEO and the management team continue to have the right balance of skills, experience and knowledge necessary to discharge their responsibilities in accordance with the highest standards of governance.

The Board through the Human Resources and Remuneration Committee of the Board is involved in the recruitment of the senior management paying due attention to knowledge, skills and experience. Accordingly during the year, the Human Resources and Remuneration Committee of the Board interviewed applicants for senior management posts who were short-listed by management and decided on their appointments and designations. The profiles of the CEO, the members of the Executive Committee (EXCO) and the members of the management team are provided on pages 44 to 51.

Ensuring the adoption of an effective CEO and key management personnel succession strategy
Succession plans are in place for the 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. During the year, employees occupying some of the key managerial positions resigned and the vacant positions were filled by recruiting qualified and experienced personnel from the industry. The succession plan will be revised to be in line with the changes of the Company in 2017.

Ensuring effective systems to secure the integrity of information, internal controls, business continuity and risk management
Effective systems and procedures are in place to ensure the integrity of information, internal controls and information security. Such systems are continuously monitored by the management, Internal and External Auditors, and at times by independent experts.

The Company has a Business Continuity Plan (BCP) which is implemented through the BCP team. During the year, Head Office operations were interrupted on two occasions. The operations of the Company were carried out according to the BCP during these instances.

Effective mechanisms are also in place to identify, assess and manage/mitigate risks faced by the Company. Accordingly, the Board has set up the Audit Committee, Related Party Transactions Review Committee, Investment Committee, Risk Management Committee, Human Resources and Remuneration Committee and the Strategy Review Committee, to ensure that the Company has proper systems and controls. Please refer the Reports by the Board Sub-Committees on pages 183 to 195 for more information on their functions.

Ensuring compliance with laws, regulations and ethical standards
The Board of Directors, having identified the importance of compliance requirements, have adopted a Compliance Policy to provide direction on the compliance activities of the Company. A compliance checklist, covering applicable laws and regulations, is signed-off by the management monthly, and is tabled at meetings of the Audit Committee and the Risk Management Committee.

Additionally, the Compliance Officer monitors compliance with applicable laws, rules and regulations. Compliance reports prepared by him are thereby presented to the Board, Audit Committee, Risk Management Committee and the Investment Committee, on a regular basis.

Upholding the Company's commitment to abide by the rules set out by the regulator, the Company submitted all returns to the Insurance Board of Sri Lanka (IBSL) within the stipulated time limits. Further, all IBSL returns were subject to the review of the Risk and Compliance Department and the Audit Committee.

SUMMARY OF THE COMPLIANCE POLICY

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

Submissions and payments to Regulatory Authorities

The Company has submitted the following returns and payments to the IBSL, CSE, Central Bank of Sri Lanka (CBSL), Department of Inland Revenue, Registrar General of Companies, National Council for Road Safety, Employees' Trust Fund Board, National Insurance Trust Fund and Commissioner of Motor Traffic, within the stipulated time period.

Information	Frequency of Submission	Compliance Status
Insurance Board of Sri Lanka (IBSL)		
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	Monthly	√
ETF Return	Half Yearly	√
Registrar General of Companies		
Annual Accounts	Annually	√
Annual Returns	Annually	√
Change of Directors and Company Secretary (Form 20)	As required	√
National Council for Road Safety		
Contribution to Road Safety Fund Payment	Monthly	√
Commissioner of Motor Traffic		
Luxury and Semi-Luxury Tax Payment	Monthly	√
National Insurance Trust Fund (NITF)		
Crop Insurance Levy	Quarterly	√

Corporate Governance

Regulatory reports submitted to IBSL during 2016 are given below.

Submissions to IBSL	Date of Submission		Deadline set by IBSL
	HNB Assurance PLC	HNB General Insurance Limited	
Annual Audited Financial Statement for the year ended 31st December 2015	01st March 2016	01st March 2016	30th June 2016
Annual Statutory Returns for the year ended 31st December 2015	30th June 2016	30th June 2016	30th June 2016
Circular 29 Auditor's Compliance Certificate	30th June 2016	30th June 2016	30th June 2016
Risk Assessment Summary	31st March 2016	31st March 2016	31st March 2016
Quarterly Returns and Compliance Certifications 31st December 2015 (4th Quarter) 31st March 2016 (1st Quarter) 30th June 2016 (2nd Quarter) 30th September 2016 (3rd Quarter)	 10th February 2016 15th May 2016 15th August 2016 15th November 2016	 10th February 2016 15th May 2016 15th August 2016 15th November 2016	 15th February 2016 15th May 2016 15th August 2016 15th November 2016
Statement of Reinsurance Arrangements	02nd March 2016	01st February 2016	15th March 2016
Actuarial Report and Abstracts	30th June 2016	30th June 2016	30th June 2016
Management Letter issued by the External Auditors for year ended 31st December 2015	30th June 2016	30th June 2016	30th June 2016

Compliance with Colombo Stock Exchange (CSE) Listing Requirements
During the year the Company complied with all Listing Requirements relating to dividend payments, submission of Interim Financial Statements, circulation of Annual Reports, contents of the annual report, corporate governance and announcements to the CSE. Further details on these aspects are given on the following pages of this report.

- Listing Rules on contents of the annual report applicable for Annual Report 2016 are given in detail from pages 104 to 108

- Requirements as per the Companies Act, No. 07 of 2007 on contents of the annual report applicable for Annual Report 2016 are given in detail on page 109

- Announcements to the CSE during 2016 are given on page 110

Ensuring all stakeholder interests are considered in corporate decisions
The Board ensures that the interests of all stakeholders are considered and safeguarded in making corporate decisions. Further details in this regard are discussed in the Management Discussion and Analysis on pages 112 to 172.

Recognising sustainable business development in corporate strategy, decisions and activities
The Board recognises the necessity of sustainable business development in the corporate strategy, decisions and activities. Please refer the Management Discussion and Analysis from pages 112 to 180 for more information on the Company's activities with regard to sustainable business development.

Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations -
The Company's accounting policies are fully in line with Sri Lanka Accounting Standards (SLFRS/LKAS) which were adopted from the financial year 2012 onwards. Further, the accounting policies are reviewed annually to be in line with the changing business requirements and best practices in the industry.

Please refer the Independent Auditor's Report, which affirms that the Company's Financial Statements are in line with Sri Lanka Accounting Standards, given on page 215.

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.
During 2015, the Company's fully owned subsidiary HNBGI reported losses due to the increase in its claims cost. Therefore, an extensive amount of time was spent by the Board, the Audit Committee and the Risk Management Committee, in analysing the reasons for such losses, discussing remedial action and monitoring their implementation. Moreover, during 2016 the frequency of Board Sub-Committee meetings was increased to obtain greater control over the operations of the Company. Further, a Strategy Review Committee was formed during the year to ensure that the plans set out to overcome the changes in business are appropriately implemented.

Directors' compliance with the laws of the country, as applicable to the business enterprise
A Code of Conduct and Ethics for Directors has been 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. This Code has identified the importance of compliance with laws and regulations. As per the Code, 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. They are also expected to promote ethical behaviour and create a culture of compliance with all applicable laws, rules and regulations.

A summary of the Code of Conduct and Ethics for Directors is given on page 83.

Section 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. – ***Complied***

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.

Advices and Services of the Company Secretary
Ms. Shiromi Halloluwa, an Attorney-at-Law who functioned as the Company Secretary and Secretary to the Board of Directors of the Company resigned from the Company with effect from 30th September 2016. The Board of Directors accepted the resignation and appointed Mrs. Sitari Jayasundara, an Attorney-at-Law by profession, as the Company Secretary and the Secretary to the Board of Directors with effect from 30th September 2016. Her role is to support the Chairperson, the Board and the Sub-Committees of the Board by ensuring the proper flow of information and that Board policies and procedures are followed.

Section A.1.4
All Directors should have access to the advice and services of the Company Secretary and the role of the Company Secretary – ***Complied***

Although the Company Secretary reports to the Chairperson on Board related matters, all Directors may call upon her at any time for advice and assistance in respect of their duties and the effective operation of the Board and Board Sub-Committees. The Board Secretary also plays a critical role in maintaining the relationship between the Company and its shareholders and regulators, including assisting the Board in discharging its obligations to shareholders.

The role of the Company Secretary is in line with Schedule F of the Corporate Governance Code issued by the CA Sri Lanka and SEC, which includes her duties relating to Board meetings, general meetings, compliance with Memorandum and Articles of Association, coordinating the circulation of Financial Statements, preparing the Directors' Report for the Annual Report, maintaining registers, filing information and returns with the Registrar of Companies, reviewing the Company's corporate governance policies and practices in line with applicable rules, ensuring compliance and managing relations with the CSE, etc.

Corporate Governance

Independent Judgment of Directors

All Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.

The Board is conscious of its obligation to ensure that the Directors avoid conflicts between their duty towards the Company and towards their other interests. All Directors are expected to make decisions objectively, avoiding conflicts of interest and in the best interests of the Company.

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 305 to 310 for information on Related Party Disclosures and Directors' Interests in Contracts, respectively. The Board has established a Related Party Transactions Review Committee to review all related party transactions.

Section A.1.5
All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct - ***Complied***

Dedicating 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. Details on the Directors' attendance at Board and Board Sub-Committee meetings are given on page 203. The number of Board seats held by Directors, in companies other than HNBA, is given in the table below.

Section A.1.6
Dedicating adequate time and effort by the Directors - ***Complied***

Name of the Director	Number of Board Seats held other than in HNBA			
	Listed	Non-Listed	Executive	Non-Executive
M A R C Cooray	03	03	-	06
S C Ratwatte	01	-	-	01
J A P M Jayasekera	04	04	04	04
K Balasundaram	-	31	27	04
D P N Rodrigo	-	06	-	06
S N Wickramasinghe	01	-	-	01
Dr. S Selliah	09	11	-	20
N H T I Perera	-	02	-	02

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.

Section A.1.7
Training for New and Existing Directors – ***Complied***

A.2 Chairman and Chief Executive Officer

Principle: Division of responsibilities at the head of the Company

Division of responsibilities at the head of the Company

The posts of Chairperson and CEO were held separately by Mrs. Rose Cooray and Mr. Niranjan Manickam, respectively until 02nd May 2016. From 02nd May 2016, Mr. Deepthi Lokuarachchi functions as the Chief Executive Officer. This segregation ensures a clear distinction between the Chairperson's responsibility to manage the Board and the CEO's responsibility to manage the Company's business, and thereby ensures the balance of power and authority

Section A.2.1
Disclosure required if the positions of the Chairman and the CEO are combined– ***Not Applicable***

A.3 Chairperson's Role

Principle: The Chairperson's role in preserving good corporate governance

Role of the Chairperson

Section A.3.1
Role of the Chairperson– ***Complied***

The Non-Executive Chairperson is responsible for chairing and managing the operations of the Board, as well as for monitoring the performance of the CEO and the Company. The Chairperson provides leadership to the Board, and ensures that the opinions of all Directors are appropriately considered in decision making. She fulfils this function by facilitating and encouraging all Directors, particularly the Independent Non-Executive Directors and Non-Executive Directors, to voice their views and concerns openly. She also ensures the formation of constructive relations between CEO and Non-Executive Directors so that the decisions made by the Board fairly reflect a consensus. A summary of the responsibilities of the Chairperson is given below:

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

Role of the Chief Executive Officer

Enhanced Disclosure
Role of the Chief Executive Officer

The Chief Executive Officer is responsible to the Board for managing the business of the Company. He is responsible for the effective implementation of the strategies and policies agreed by the Board, and for leading the management to fulfil the objectives set by the Board. The Board has given broad authority to the Chief Executive Officer, and he is accountable to, and reports to, the Board on the performance of the business. A summary of the responsibilities of the CEO is given below;

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

The Chief Executive Officer, supported by the Executive Committee, provides the Board with high quality information and recommendations to help yield informed decisions on all areas regarding the strategies of the Company.

Corporate Governance

A.4 Financial Acumen

Principle: Availability of sufficient financial acumen and knowledge to offer guidance on matters of finance

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.

Members of our Board and their qualifications/experience in finance are as given below:

M A R C Cooray B.A. (Hons) (University of Ceylon, Peradeniya), MSc. (Strathclyde University U.K) - Chairperson and Non-Executive Director (Former Deputy Governor with experience over 35 years in the Central Bank of Sri Lanka and nearly 6 years of experience in the Ministry of Finance)

S C Ratwatte FCMA (UK), CGMA - Independent Non-Executive Director (Chartered Global Management Accountant and experienced treasurer)

J A P M Jayasekera FCA, BSc Special Hons - (University of Sri Jayawardenapura) - Independent Non-Executive Director (Chartered Accountant with over 20 years of experience in accounting, capital markets and general management)

K Balasundaram - Independent Non-Executive Director (Over 49 years of experience in finance)

D P N Rodrigo MBA (Cranfield University, UK) FCMA (UK), CGMA, FCCA (UK) – Non-Executive Director (Senior banker with extensive experience in the banking sector)

S N Wickramasinghe Attorney–at–Law – Non-Executive Director (Banker with over 34 years of multifunctional and progressive experience in the Sri Lankan banking sector)

Dr. S Selliah MBBS, M.Phil - Independent Non-Executive Director (Over 24 years of experience as an investor in the CSE and a company Director)

N H T I Perera ACA – Non-Executive Director (Chartered Accountant and a senior banker with over 20 years of experience in the banking sector)

Further details on the Directors are given in their profiles on pages 40 to 43.

A.5 Board Balance

Principle: The Board should have a balance of Executive and Non-Executive Directors

Presence of Non-Executive Directors

As at the date of this Annual Report, the Board comprised eight Directors, all of whom are Non-Executive. As per the Code two or one third of the total number of Directors, whichever is higher, should be Non-Executive

Section A.5.1
*Non-Executive Directors - **Complied***

Role of the Non-Executive Directors

The Non-Executive Directors scrutinise the management's performance in achieving agreed corporate goals and objectives, and monitor the reporting of the Company's performance.

They also assure clarity and accuracy on the reporting of financial information, and ensure that controls and systems of risk management are effectively in place. They constructively challenge the management in all areas, which is vital for upholding objectivity.

Enhanced Disclosure
Role of the Non-Executive Directors

Presence of Independent Directors

50% of the Directors of the Company are independent. Mr. S C Ratwatte, Mr. J A P M Jayasekera, Mr. K Balasundaram and Dr. S Selliah are Independent Non-Executive Directors. As per the Code two or one third of Non-Executive Directors appointed to the Board, whichever is higher, should be 'independent' Therefore, the number of Independent Non-Executive Directors is in excess of the requirement by the Code.

In addition to their expertise and fresh perspectives, Independent Directors also bring independent judgment to the Board, and take an unbiased stance in situations where conflicts of interest may arise.

Section A.5.2
*Number of Independent Non-Executive Directors - **Complied***

All four Independent Non-Executive Directors meet the criteria for independence as per the Code of Best Practice on Corporate Governance (Code) and Listing Rules, and are deemed to be independent of management and free of business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment. The other Non-Executive directors are not considered 'Independent' since they are nominee directors of the parent Company, 'Hatton National Bank PLC'.

Section A.5.3
Criteria to evaluate "independence"
- Complied

Non-Executive Directors have submitted a declaration of Independence or Non-Independence as per the Code. Relevant declarations were tabled at the Board Meeting held on 09th February 2017.

Section A.5.4
Annual declaration **-**
Complied

The Board, on page 202 of this Annual Report, has determined the Independence or Non-Independence of each Director. This was declared at the Board meeting held on 09th February 2017.

Section A.5.5
Annual determination of 'Independence' **-**
Complied

Alternate Directors, Senior Independent Director and meeting without the presence of the Executive Directors

The Company does not have any Alternate Directors. Further, the roles of the Chairperson and the CEO of the Company are separated. Therefore, the requirement to appoint a Senior Independent Director has not arisen. The Company also does not have any Executive Directors.

Section A.5.6, A.5.7, A.5.8 & A.5.9
Alternate Directors, Senior Independent Director and Meeting without Executive Directors
- Not Applicable

All decisions of the Board were taken unanimously and there were no concerns raised by the Directors during the year which needed to be recorded in the Board minutes. However, if such concerns do arise, the Company's policy is to record them accordingly.

Section A.5.10
Recording of concerns – ***Complied***

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. 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.

A.6 Supply of Information

Principle: The Board should be provided with timely information, in a form and of a quality appropriate to enable it to discharge its duties

The management ensures that a set of timely, accurate, relevant and comprehensive information is provided to the Directors before the Board meeting every month, with adequate time for them to review the same and prepare for discussions. All significant financial and non-financial information for the period are included in these analyses.

Section A.6.1
Management's responsibility to provide the Board with appropriate and timely information – ***Complied***

In addition, the Board requests additional information with respect to areas such as the Company's operations, industry and competitors, risk management, laws and regulations and corporate governance, as the need arises. The management provides any such information in a timely manner.

A comprehensive set of Board papers is sent to all Directors seven days in advance of each Board meeting, allowing sufficient time to review the affairs to be discussed.

Section A.6.2
Adequate time for effective Board meetings – ***Complied***

Corporate Governance

A.7 Appointments to the Board

Principle: There should be a formal and transparent procedure for the appointment of new Directors to the Board.

Section A.7.1
Presence of a Nomination Committee - ***Complied***

The Nomination Committee comprises of three Directors including the Chairperson. During the year one Nomination Committee meeting was held. The composition, responsibilities and other information of the Nomination Committee are disclosed in the table below.

Criteria	Comment
Membership	Three Directors
Chairman	M A R C Cooray (Chairperson - Non-Executive Director)
Other Members	J A P M Jayasekera (Member - Independent Non-Executive Director) (appointed with effect from 29th July 2016) D P N Rodrigo (Member - Non-Executive Director) (appointed with effect from 29th July 2016)
Secretary	Board Secretary
Invitees	Chief Executive Officer
Minimum Meeting Frequency	As and when necessary
Main Functions of the Committee	Exercise general oversight with respect to the governance of the Board of Directors Ensure the implementation of the approved procedure in selecting and appointing Directors and 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. Ensure Directors, CEO and the Key Management Personnel are fit and proper persons to hold office as required by the Companies Act and other applicable statutes. Consider and recommend from time to time the requirements of additional/new expertise and the succession arrangements for retiring Directors. 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

Section A.7.2
Annual assessment of the Board composition - ***Complied***

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.

All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the CSE. Mr. Thimal Perera was appointed to the Board during the year and this was communicated to the CSE on 08th January 2016.

Section A.7.3
Disclosure of details of new Directors to shareholders - ***Complied***

In addition, according to the terms of the Regulation of Insurance Industry Act, prior approval from the Insurance Board of Sri Lanka (IBSL) is obtained for all new appointments.

The Annual Report of the Board of Directors also carries details of new appointments of Directors. Please refer page 202 for details of new appointments

A.8 Re-election

Principle - All Directors should be required to submit intervals and at least once every three years

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, subject to applicable regulations and approval of regulatory authorities. Any Director so appointed shall hold office until the next Annual General Meeting, where he/she is then eligible for re-election.

Section A.8.1
Appointment and re-election of Non-Executive Directors - ***Complied***

Mrs. Rose Cooray and Mr. Thimal Perera were re-elected by the shareholders at the Annual General Meeting held on the 29th March 2016.

Section A.8.2
Election of Directors by the shareholders - ***Complied***

Further, according to Section 86 of the Articles of Association of the Company, Directors other than the Chairman, the Managing Director and Nominee Directors have to retire by rotation at least once every three years. Accordingly, Mr. Sarath Ratwatte is due to retire by rotation and be re-elected at the Annual General Meeting to be held on 29th March 2017.

A.9 Appraisal of Board Performance

Principle: The Board should periodically appraise its own performance in order to ensure that Board responsibilities are satisfactorily discharged.

The Board appraised itself on its performance in the discharge of its key responsibilities. The results of the appraisal were tabled at the Board meeting held on 09th February 2017.

Section A.9.1
Appraisal of the Board Performance - ***Complied***

Annual Self-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 and the role of Board Sub-Committees, proceedings of meetings and the 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 and to support the achievement of the Company's objectives.

Section A.9.2
Annual self-evaluation of the Board and its Committees - ***Complied***

Evaluation of the Audit Committee and the Risk Management Committee

The Audit Committee and the Risk Management Committee also carried out self-assessments to ensure they function effectively and efficiently and discharge their responsibilities as outlined in their Charters. In addition, the management also assessed the performance of the Audit Committee, using a checklist covering its responsibilities, as derived from its Charter.

Section A.9.3
Disclosure of evaluation procedure - ***Complied***

The results of both the self-assessments and the management's assessment of the Audit Committee were tabled for the Board, and these results are expected to be used to further enhance the effectiveness of these two Committees.

Corporate Governance

A.10 Disclosure of Information in Respect of Directors

Principle: Shareholders should be kept advised of relevant details in respect of Directors

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.

Section A.10.1 *Disclosures on Directors in the Annual Report -* ***Complied***

Disclosure Requirement	Page Nos.
Name, qualifications and brief profile	40-43
The nature of his/her expertise in relevant functional areas	42-43
Immediate family and/or material business relationships with other Directors of the Company	209 & 305-310
Executive, Non-Executive and/or Independent Director	202
Names of listed companies in Sri Lanka in which the Director concerned serves as a Director	42-43
Names of other companies in which the Director concerned serves as a Director	42-43
Number/percentage of Board meetings of the Company attended during the year	203
The total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an Executive or Non-Executive capacity	62
Names of Board committees in which the Director serves as Chairman or a member	203
Number/percentage of committee meetings attended during the year	203

A.11 Appraisal of Chief Executive Officer

Principle: The Board should be required, at least annually, to assess the performance of the CEO.

The Board, in consultation with the 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 CEO every year.

Section A.11.1 *Setting annual targets for MD/CEO* ***- Complied***

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 of 2016 were;

- Market Share
- Profitability
- Dividend Payout
- Underwriting Results
- Premium Persistency
- Remuneration of Employees
- Gross Written Premium for Life and General Insurance

The Board monitored the achievement of these targets throughout the year and provided guidance to the CEO where necessary.

The performance of the CEO is evaluated by the Board at the end of each year, based on the agreed objectives described above. Remuneration for the CEO is determined based on the achievement of these set targets.

Section A.11.2 *Evaluation of the performance of the MD/CEO -* ***Complied***

B DIRECTORS' REMUNERATION

B.1 Remuneration Procedure

Principle: Companies should establish a formal and transparent procedure for developing policies on remuneration. No Director should be involved in deciding his/her own remuneration.

A Remuneration Committee has been appointed and functions within agreed terms of reference. Please refer pages 187 to 188 for the Report of the Human Resources and Remuneration Committee.

Section B.1.1 *Presence of a Remuneration Committee -* ***Complied***

Responsibilities of the Human Resources and Remuneration Committee during 2016 and up to the date of this report and a summary of the work undertaken on behalf of the Board, is given below:

Criteria	Comment
Membership	Three Non-Executive Directors (two of whom are independent)
Chairman	K Balasundaram - Independent Non-Executive Director
Other Members	S C Ratwatte - Independent Non-Executive Director M A R C Cooray - Non-Executive Director (Appointed with effect from 08th January 2016)
Secretary	Board Secretary
Invitees	Chief Executive Officer, Chief Financial Officer and Manager-Human Resources
Minimum Meeting Frequency	Quarterly (Nine meetings were held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Charter of the Human Resources and Remuneration Committee, which is reviewed annually. Some such key responsibilities are: Reviewing and making recommendations to the Board on the remuneration package for the CEO, top management and other employees of the Company Reviewing and making recommendations to the Board on annual increments, promotions, etc. Reviewing and ensuring that the Company has a sound performance appraisal process for employees at all levels Reviewing the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the market place Please refer the Report of the Human Resources and Remuneration Committee on pages 187 to 188 for more details.

The Human Resources and Remuneration Committee consists of Non-Executive Directors and the Chairman is an Independent Non-Executive Director. Members of the Committee are given below.

Section B.1.2 & B.1.3 *Composition and Disclosure of the members of the Remuneration Committee in the Annual Report -* ***Complied***

K Balasundaram (Chairman) - Independent Non-Executive Director

S C Ratwatte (Member) - Independent Non-Executive Director

M A R C Cooray (Member) - Non-Executive Director (appointed with effect from 08th January 2016)

The Human Resources and Remuneration Committee report providing the details of the responsibilities of the Committee, remuneration policy of the Company, etc. is given on pages 187 to 188.

Corporate Governance

Non-Executive Directors who are nominees of the parent company are paid a nominal fee for their attendance at the Board and Sub-Committee meetings. Other Non-Executive Directors are remunerated in line with market practices, based on attendance at Board and Sub-Committee meetings.

Section B.1.4 *Determination of remuneration of Non-Executive Directors* - ***Complied***

The Chairperson of the Board is also a member of the Human Resources and Remuneration Committee. The Chief Executive Officer 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.

Section B.1.5 *Ability to seek professional advice by the Committee* - ***Complied***

B.2 The Level and Make Up of Remuneration

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.

The Company does not have any Executive Directors as at the date of this report. However, the Human Resources and Remuneration Committee and the Board ensures that the CEO is provided with an appropriate remuneration package.

Section B.2.1 *Remuneration of Executive Directors* - ***Not Applicable***

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.

Section B.2.2 *Comparison of remuneration with other companies* - ***Complied***

The Remuneration Committee considers remuneration levels of the Group when deciding HNBA's remuneration packages.

Section B.2.3 *Comparison of remuneration with other companies in the Group* - ***Complied***

The performance-related elements of the remuneration package of the CEO and other executive employees are linked to corporate and individual performance.

Section B.2.4 *Performance-based remuneration* - ***Complied***

The Company does not have any share option scheme for the Directors or employees at present.

Section B.2.5 *Executive share options* - ***Not-Applicable***

The Company does not have any Executive Directors as at the date of this report.
Objectives for the CEO are set at the beginning of the year to align his interests with those of the Company. Accordingly his remuneration, including the performance bonus, is decided based 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.

Section B.2.6 *Designing performance-based remuneration of Executive Directors/ CEO* - ***Complied***

Termination of the CEO is governed by his contract of service/employment.

Section B.2.7 & B.2.8 *Compensation commitments on early termination -* ***Complied***

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

Section B.2.9 *Remuneration of Non-Executive Directors -* ***Complied***

B.3 Disclosure of Remuneration

Principle: The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole

The aggregate remuneration paid to the CEO and Non-Executive Directors is disclosed on page 305 of this Report. The Report of the Human Resources and Remuneration Committee, which highlights the Remuneration Policy of the Company, is given on pages 187 to 188.

Section B.3.1 *Disclosure of Remuneration -* ***Complied***

C RELATIONS WITH SHAREHOLDERS

C.1 Constructive Use of the Annual General Meeting (AGM) and Conduct of General Meetings –

Principle: The Board should use the AGM to communicate with shareholders and should encourage their participation.

The AGM is the most awaited meeting of the Company's shareholders, since it provides an opportunity for direct communication between themselves and the Board of Directors. The Company uses the AGM as a tool to effectively communicate with shareholders and to allow them a reasonable opportunity to ask questions from the Board of Directors.

Notice of the AGM is circulated to all shareholders 15 working days ahead, in accordance with the requirements of the Companies Act.

All members of the Board and the senior management make an effort to attend the AGM and answer questions and concerns raised by the shareholders. A representative (usually the engagement partner) of the External Auditors also attends the AGM and takes questions from shareholders relating to their audit of the Company's Financial Statements, if required.

The most recent shareholders' meeting was the 14th Annual General Meeting (AGM) of the Company held on 29th March 2016, at the Auditorium on Level 22 of "HNB Towers", at No: 479, T.B. Jayah Mawatha, Colombo 10.

Proceedings at the Annual General Meeting

The Company has a mechanism 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.

Section C.1.1 *Use of proxy votes -* ***Complied***

Corporate Governance

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 favour of the resolutions relating to those items at the 14th Annual General Meeting (AGM) of the Company are set out below:

Section C.1.2
Separate resolutions for substantially separate issues and adoption of annual report and accounts - ***Complied***

Resolution	Percentage of Votes
Declaration of a dividend of Rs. 2.00 per share	100%
Re-election of Mrs. M A R C Cooray as a Director of the Company	100%
Re-election of Mr. N H T I Perera as a Director of the Company	100%
Re-election of Mr. J A P M Jayasekera as a Director of the Company	100%
Re-election of Mr. K Balasundaram as a Director of the Company	100%
Re-appointment of Messrs. Ernst & Young, Chartered Accountants, the Auditors for the ensuing year/authorise the Directors to fix their remuneration.	100%
Authorise the Directors to determine payments for charitable and other purposes	100%

The Chairperson of the Board ensures that the Chairmen of Board Sub-Committees are present at the AGM to answer any query by shareholders.

Section C.1.3
Availability of Chairmen of Board committees at the AGM - ***Complied***

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.

The Annual Report of 2015 was submitted to the CSE on 01st March 2016 and was posted to all shareholders by 02nd March 2016. The AGM was held on 29th March 2016.

Section C.1.4
Adequate notice of the AGM - ***Complied***

Please refer page 353 for the Notice of Meeting of the 15th AGM to be held on 29th March 2017.

The proxy form given on pages 355 to 356, which includes a summary of the procedures governing voting at the General Meetings, is circulated to all shareholders.

Section C.1.5
Summary of procedures governing voting at the General Meeting - ***Complied***

C.2 Communication with Shareholders

Principle: The Board should implement effective communication with shareholders.

All financial information released to the shareholders and the public is authorised by the Chief Executive Officer and/or Chief Financial Officer. 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 released to the public is approved by the Chief Executive Officer and/or Chief Operating Officer and is communicated through the Head of Marketing.

Section C.2.1
A channel to reach all shareholders of the Company in order to disseminate timely information - ***Complied***

The Company has adopted a 'Shareholders' Communication Policy' with the purpose of ensuring that the Company's shareholders and the investment community at large are provided with ready, equal and timely access to balanced and understandable information about the Company, in order 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.

Section C.2.2
Disclose the policy and methodology for communication with shareholders - ***Complied***

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

SUMMARY OF THE SHAREHOLDERS' COMMUNICATION POLICY

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

Reports to Shareholders

Annual Report

The Annual Report is the main document the Company uses to inform its shareholders on the affairs of the Company. Efforts are made to include a significant amount of important non-financial information that extends beyond regulatory requirements, in the Annual Report.

Section C.2.3
Disclose how the Company has implemented the above policy and methodology - ***Complied***

Our efforts in providing a comprehensive report have been recognised at numerous awards ceremonies, both local and international.

Corporate Governance

Awards Won by the 2015 Annual Report

52nd Annual Report Awards conducted by CA Sri Lanka
- Silver Award – Insurance Sector Companies

South Asian Federation of Accountants (SAFA) Best Presented Annual Reports
- Winner – Insurance Sector

Institute of Certified Management Accountants of Sri Lanka – Excellence in Integrated Reporting Awards 2016
- Top Ten Best Integrated Reports

Awards Won by the 2014 Annual Report

51st Annual Report Awards conducted by CA Sri Lanka
- Gold Award – Insurance Sector Companies

South Asian Federation of Accountants (SAFA) Best Presented Annual Reports
- 1st Runner up – Insurance Sector
- Merit Award – Corporate Governance Disclosures

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 CEO's Review, Statement of Financial Position, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity were distributed along with our previous annual reports. This year too, the Company will continue the distribution of above reports in Sinhala and Tamil languages.

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. The table below demonstrates the dates on which the Annual Report has been released to the CSE in the past.

Annual Report	Date of Submission to the Colombo Stock Exchange (CSE)
Annual Report – 2015	01st March 2016
Annual Report – 2014	27th February 2015
Annual Report – 2013	04th March 2014
Annual Report – 2012	01st March 2013
Annual Report – 2011	28th February 2012

Interim Financial Statements

As per the Listing Rules of the CSE, the obligation of the Company extends only to the submission of Interim Financial Statements to the CSE which, in turn, will release it to the public. However, as a self-imposed best practice, the Company also communicates the Interim Financial Statements to the public through the following methods;

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

All efforts are taken to ensure the accuracy of information published, and accordingly, a voluntary interim audit was performed for the 6 month period ended 30th June 2016. 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 30th June 2016 were based on audited numbers.

Furthermore, in order to ensure the accuracy of the information disseminated to the public, all press releases and other communications relating to financial results are approved by the Chief Executive Officer and/or Chief Financial Officer prior to release.

Sustainability Reporting

Information on the Company's sustainability policies and practices are given on pages 173 to 180 in the sustainability section of this Annual Report and on the Company's website. This includes the ways in which the Company seeks to achieve sustained profits for shareholders, develop long-lasting customer relationships, value our employees and manage the social and environmental impacts of our business.

Corporate 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, names of the Board of Directors and the Executive Committee members, information on new products, news and announcements are available on this website, which could be accessed at www.hnbassurance.com.

Corporate Governance

Section C.2.4
Disclose the contact person for such communication - ***Complied***

The Company Secretary and the CEO will be the main contact persons with regard to any public disclosures. Therefore, any clarification or further information with regard to any information published about the Company should be directed to the Chief Executive Officer, Mr. Deepthi Lokuarachchi, through the following channels.

Telephone	-	+94 11 2436182 / +94 11 4793701
E-mail	-	deepthi.lokuarachchi@hnbassurance.com
Address	-	Chief Executive Officer HNB Assurance PLC Iceland Business Centre, No. 30 Sri Uttarananada Mawatha, Colombo 03, Sri Lanka.

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

Telephone	-	+94 11 2421909 / +94 11 4793702
E-mail	-	indika.perera@hnbassurance.com
Address	-	Chief Financial Officer HNB Assurance PLC Iceland Business Centre, No. 30 Sri Uttarananada Mawatha, Colombo 03, Sri Lanka.

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

All shareholders have been encouraged to use this form and provide their comments regarding the Company. The feedback so received is attended to by the Board or the management as appropriate. Please refer page 357 for the Investor Feedback Form.

Section C.2.5
A process to make all Directors aware of major issues and concerns of shareholders - ***Complied***

Responding to Shareholders' Enquiries

Matters of shareholders 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., are handled by the Company Secretary through the Registrars of the Company (SSP Corporate Services). Any other matters raised are forwarded to the Chairperson and/or to the Chief Executive Officer for necessary action.

If there are any major issues and/or concerns raised by shareholders, they are brought to the attention of all Directors by the Company Secretary. No such issues and/or concerns were raised by the shareholders during the year.

Section C.2.6
The person to contact in relation to shareholders' matters - ***Complied***

Shareholders are encouraged to maintain direct communication with the Company. The Company Secretary is the main contact person in relation to such matters. They may raise inquiries and concerns with the Board by contacting the Company Secretary, Ms. Sitari Jayasundara, through the following channels.

Telephone	-	+94 11 4793732
E-mail	-	sitari@hnbassurance.com
Address	-	Company Secretary – HNB Assurance PLC Iceland Business Centre, No. 30 Sri Uttarananada Mawatha, Colombo 03, Sri Lanka.

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

The Company's aim is to provide an appropriate reply to written requests from shareholders, within a reasonable time. If those queries raise a matter of general interest to shareholders, the Company will take this into account and will address them in subsequent corporate communications to all shareholders.

Section C.2.7
The process for responding to shareholder matters - ***Complied***

C.3 Major and Material Transactions

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

Section C.3.1
Proposed major transactions – ***Not Applicable***

There were no major transactions during the year.

Submission of Information to the CSE/Shareholders

Extended Disclosure
- Communication with Institutional Shareholders, Analysts and Media Releases

The Company acknowledges the importance of publishing essential information with the CSE as required by the Listing Rules and ensures that all such requirements are met in a timely manner. Further, we ensure that all relevant information is provided to shareholders, even beyond regulatory requirements. The table on page 110 demonstrates the dates on which important information was released to the CSE/ shareholders during the year 2016.

Communication with Institutional Shareholders, Analysts and Media Releases

We are committed to maintain 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/analysts 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 of maintaining confidentiality of price sensitive information.

Further, the management reviews research reports on HNBA prepared by various institutions. Under normal circumstances, the Company will make no comment on the analyst's financial projections or opinions. However, where a research report contains inaccurate information, the Chief Executive Officer or an officer designated by him will inform the analyst of the correct information, if such information is already in the public domain and is not price sensitive.

Inquiries on Media Releases

In order to keep the shareholders, analysts and the general public updated on the developments of the Company, information is published from time-to-time through media releases, the Company's website and social media.

D ACCOUNTABILITY AND AUDIT

D.1 Financial Reporting

Principle: Board responsibility for statutory and regulatory reporting

Section D.1.1
Board's responsibility for statutory and regulatory reporting - ***Complied***

The Company presents its Financial Statements in line with Sri Lanka Accounting Standards (SLFRS/ LKAS) and other applicable laws and regulations.

The Board's responsibility for financial reporting is given on page 210. Further, the Interim Annual Financial Statements were published on a timely basis during 2016. All regulatory reports were filed by their due dates and price sensitive information was disclosed to the CSE on a timely basis during the year. Dates of releasing information to the CSE during 2016 are disclosed on page 110.

Corporate Governance

The following information has been declared in the Annual Report of the Board of Directors from pages 198 to 208.

Section D.1.2 *Declarations by Directors in the Directors' Report -* ***Complied***

- Declaration that the Company has not engaged in any activity which contravenes laws and regulations is given on pages 200 and 205
- Declaration that the Directors have declared all material interests in contracts involving the Company is given on pages 200 and 204
- Declaration that the Company has made all endeavours to ensure the equitable treatment of shareholders is given on pages 200 and 204
- Declaration that the business is a going concern is given on pages 199 and 200
- Declaration that the Directors have conducted a review of the internal controls, covering financial, operational and compliance controls and risk management is given on pages 199 and 200

Page 210 contains the statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements.

The Auditor's Report is provided on page 215.

Section D.1.3 *Statements by Directors and Auditors -* ***Complied***

The Management Discussion and Analysis is given on pages 112 to 180 of this Annual Report, which covers the disclosure requirement under this Code, as indicated below.

Section D.1.4 *The Annual Report should contain a 'Management Discussion and Analysis'-* ***Complied***

Required Disclosure	Page Numbers
Industry structure and developments	152 to 168
Opportunities and threats	25
Risks and concerns	25, 98 to 103
Internal control systems and their adequacy	196 to 197
Social and environmental protection activities carried out by the Company	141 to 143, 147 to 149
Financial performance	117 to 125
Material developments in human resource management/industrial relations	126 to 134
Prospects for the future	28 to 29, 125, 134, 143, 145, 149, 159, 168, 172

The declaration of the Company as a 'going concern' is given in the Directors' Report on page 199.

Section D.1.5 *Declaration on the going concern of the Business -* ***Complied***

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.

Section D.1.6 *Summon an Extraordinary General Meeting (EGM) -* ***Not Applicable***

Related Party Transactions

Related party transactions during the year are given on pages 305 to 310.

Section D.1.7
Disclosure of Related Party Transactions in the Annual Report - ***Complied***

The Board has established a Related Party Transactions Review Committee to review and approve all related party transactions of the Company. The Committee met four times during the year.
Details of the work carried out by the Related Party Transactions Review Committee appear in the table below.

Criteria	Comment
Membership	Three Non-Executive Directors
Chairman	S C Ratwatte - Independent Non-Executive Director
Other Members	J A P M Jayasekera, Independent Non-Executive Director N H T I Perera – Non-Executive Director (appointed with effect from 09th February 2016)
Secretary	Senior Manager - Risk and Compliance
Invitees	Chief Executive Officer, Chief Financial Officer and other EXCO Members
Minimum Meeting Frequency	Quarterly
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Charter of the Related Party Transactions Review Committee. Some such key responsibilities are: Ensuring that the Company complies with the rules set out in Section 09 of the Listing Rules and the Code of Best Practices on Related Party Transactions issued by the SEC Reviewing all proposed related party transactions, subject to the exceptional transactions given in the Code, in advance Sharing information with the Audit Committee and the Board of Directors as necessary and as appropriate, to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities with regard to related party transactions Please refer the Report of the Related Party Transactions Review Committee on pages 189 to 190 for more details.

D.2 Internal Control

Principle: The Board should maintain a sound system of internal controls to safeguard shareholders' investments and the Company's assets.

Section D.2.1
Directors to conduct an annual review of internal controls - ***Complied***

The Board has the overall responsibility for the system of internal controls and has delegated some of these responsibilities to the Audit Committee, Risk Management Committee, Related Party Transactions Review Committee, Human Resources and Remuneration Committee and the Investment Committee. These Committees review internal control processes of the Company. During the year the Company's procurement procedure was reviewed and implemented a new process. Further, all policies of the Company were reviewed during the year.

Corporate Governance

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, developed based on the policies adopted by the Company as well as laws and regulations.

Section D.2.2
The need for an internal audit function - ***Complied***

In order to strengthen the independence of the internal audit function, it has been outsourced to Messrs. KPMG. During 2016, the Internal Auditors issued 12 reports to the senior management and the Audit Committee, covering various operational and financial aspects of the Group/Company, including the operation of the branch network. The Internal Auditors were also given the opportunity during the year to meet with the Audit Committee, without the presence of the management.

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.

Section D.2.3
Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls - ***Complied***

In order to strengthen the review of the risk management function of the Company, the Board has established a Risk Management Committee. 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.

Minutes of both Audit Committee and the Risk Management Committee meetings are tabled at Board meetings for review.

Internal Controls at HNBA

Extended Disclosure
on the Internal Control Process of the Company

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 whilst 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 for establishing, maintaining and operating an effective system of internal controls lies with the Board of Directors and the senior management. The Audit Committee also performs a supervisory role in this regard, via the frequent review of the effectiveness of the Company's system of internal controls, as well as the review of reports submitted by the Internal Auditors and the management regarding the same.

The Board's Statement on Internal Control is given on pages 196 and 197.

Section D.2.4
Statement of internal control - ***Complied***

D.3 Audit Committee

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.

The Audit Committee comprises three Directors, all of whom are Non-Executive. Two Directors of the Committee are Independent Non-Executive Directors, while the Chairman is an Independent Non-Executive Director.

Section D.3.1
Composition of the Audit Committee - ***Complied***

Please refer the Report of the Audit Committee on pages 183 to 186 for details on the functions of the Audit Committee.

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.

Section D.3.2
Duties of the Audit Committee on the review of objectivity of the External Auditor - ***Complied***

Messrs. Ernst & Young, the Auditors of the Company, has given a declaration of its independence to the Audit Committee, as per the relevant rules.

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 being undertaken by the External Auditors, with no adverse effect on the independence of their audit work or the perception of such independence.

Extended Disclosure
External Auditors

During the year, the External Auditors provided the following audit and permissible non-audit services to the Company:

Year End Audit as at 31st December 2016
Special Purpose Audit as at 30th June 2016
Certification of Solvency Report for the purpose of dividend declaration
Certification of Insurance Solvency

Details regarding the fees paid to External Auditors appear on page 199.

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.

Auditor Rotation Policy

The Company has adopted an Auditor Rotation Policy, whereby the Company's External Auditor is required to be changed every five years.

The Audit Committee operates with clearly defined terms of reference which are reviewed annually. Key areas of focus in the Charter of the Audit Committee are;

Section D.3.3
Terms of reference of the Audit Committee - ***Complied***

- Composition
- Internal audit
- Financial reporting
- Risk management and internal control
- Related party transactions
- Meetings
- External audit
- Compliance and litigation
- Reporting responsibilities
- Other responsibilities

Determination of the independence of the Auditors and the basis of such declaration is given on page 184

Section D.3.4
Disclosures required by the Audit Committee in the Annual Report - ***Complied***

Names of the Directors comprising the Audit Committee are set out on page 183 of the Annual Report.

Report of the Audit Committee is given on pages 183 to 186

Corporate Governance

The responsibilities of the Audit Committee during 2016 and up to the date of this report, and a summary of the work undertaken on behalf of the Board, are given below:

Criteria	Comment
Membership	Three Non-Executive Directors (two of whom are independent)
Chairman	J A P M Jayasekera (FCA), Independent Non-Executive Director
Other Members	S C Ratwatte - Independent Non-Executive Director N H T I Perera - Non-Executive Director (Appointed with effect from 08th January 2016)
Secretary	Board Secretary
Invitees	M O F Salieh - Director, HNB General Insurance Limited, Chief Executive Officer, Chief Financial Officer, Other EXCO Members, Finance Manger, Senior Manager - Risk and Compliance, External & Internal Auditors and Consultant Actuaries and other officers when required
Minimum Meeting Frequency	Quarterly (Seven meetings were held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Charter of the Audit Committee, which is reviewed annually. Some of the key responsibilities of the Committee are: Overseeing the process of preparation and presentation of the Financial Statements (both interim and annual) Reviewing the Company's internal control and risk management process Monitoring and reviewing the effectiveness of the external and internal audit functions Making recommendations to the Board on the remuneration, appointment, re-appointment and removal of External and Internal Auditors Continuously reviewing the Company's compliance with financial reporting requirements such as Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act, Regulation of Insurance Industry Act and other regulations of the Insurance Board of Sri Lanka Please refer the Report of the Audit Committee on pages 183 to 186 for more details.

D.4 Code of Business Conduct & Ethics

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.

The Company has introduced a Code of Business Conduct and Ethics for Directors. 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.

Section D.4.1
Disclosures on presence of Code of Business Conduct and Ethics - ***Complied***

Code of Conduct & Ethics

A Code of Conduct and Ethics for Directors has been 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.

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. The Chairperson of the Board has affirmed this in her statement on page 53 that there is no violation of the Code of Business Conduct & Ethics.

Section D.4.2
Affirmation by the Chairperson - ***Complied***

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 Behaviour - Directors are expected to promote ethical behaviour and create a culture of compliance with all applicable laws, rules and regulations.

Protection and Proper Use of Company Assets - All Directors must protect the Company's assets and ensure their efficient use.

Enforcement - The Board (or the disinterested members of the Board) will review and investigate any allegation of a breach of this policy by a Director, with or without the participation of any Director who may be the subject of such report.

Dealing with Shares of the Company

In view of strengthening governance, a Share Dealing Policy and Code has been adopted by the Company. This Code is applicable to the following officers and employees;

Extended disclosure:
Share dealing Policy

Chairperson
All Non-Executive Directors
Members of the Executive Committee (EXCO)
Members of the Investment Division
Members of the Actuarial Department and
All other employees in possession of any insider information
Chief Executive Officer
Board Secretary
Members of the Finance Division
Members of the Risk and Compliance Department

Key Restrictions as per the Policy

The following key restrictions are applicable for persons identified in the policy, when dealing with shares of the Company.

Dealing in shares of the Company can only be carried out during open periods.

The 'Open Period' commences after four (04) market days upon announcing the quarterly results of the Company and terminates after the 15th day of the last month of each quarter.

Corporate Governance

Dealing in Company shares should not be based on short term considerations. Generally, such shares should not be sold within six months of purchase and purchases should not be made within six months of any sale. Dealing in shares of any listed company within the HNB Group at any time, when in possession of unpublished price sensitive information in relation to those shares, should not be done. The terms of this Policy is applicable to all connected/related persons of persons named in this Policy.

D.5 Corporate governance disclosure

Principle: Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.

Pages 56 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 jointly by the SEC and the CA Sri Lanka (Code).

Section D.5.1 *Disclosure of Compliance with the Corporate Governance Code - **Complied***

SECTION 2. - SHAREHOLDERS

E. Institutional Investors

E.1 Shareholder Voting

Principle: Should ensure institutional shareholders' voting intentions are translated into practice.

Please refer pages 72 to 73 for details on shareholder communication, under C.2.1 and C.2.2

Section E.1.1 *Communication with Shareholders - **Complied***

E.2 Evaluation of Governance Disclosures

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 53 to 84.

F. Other Investors

F.1 Investing /Divesting Decision

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.

F.2 Shareholder Voting

Principle: The Company must encourage individual shareholders to participate in General Meetings and exercise voting rights.

All shareholders are encouraged to participate at general meetings and cast their votes.

G. Sustainability Reporting

G.1 Principles of Sustainability Reporting

Principle: Importance of Sustainability Reporting

The Company, having identified the importance of sustainability reporting, provides a detailed review of its sustainability initiatives. Sustainability reporting requirements as per this Code and the page numbers for the relevant disclosures in this Annual Report are given in the following table.

Code Reference	Disclosure Requirement	Page Reference
G.1.1	Principle 1 – Economic Sustainability	117 to 125
G.1.2	Principle 2 – The Environment	147 to 149
G.1.3	Principle 3 – Labour Practice	126 to 134
G.1.4	Principle 4 – Society	141 to 143
G.1.5	Principle 5 – Product Responsibility	138
G.1.6	Principle 6 – Stakeholder Identification, Engagement & Effective Communication	13 to 18
G.1.7	Principle 7 – Sustainable Reporting to be Formalised	3 to 4 and 18 to 21

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 56 for the statement of compliance.
7.10.1	Non-Executive Directors	Two or one-third of the total number of Directors, whichever is higher, shall be Non-Executive Directors.	Compliant	All eight Directors of HNBA function as Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors appointed to the Board, whichever is higher, shall be independent.	Compliant	Four out of 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 2016.
7.10.3 (a)	Disclosures Relating to Directors	The Board shall disclose the names of the Independent Directors in the Annual Report.	Compliant	Please refer page 202 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 40 to 43.
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Exchange for dissemination to the public.	Compliant	Appointment of Mr. Thimal Perera was informed to the Exchange on 08th January 2016, 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 187 and 188.

Corporate Governance

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.5 (a)	Remuneration Committee (Contd.)	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	Mr. K Balasundaram (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 69.
7.10.5 (c)		The Annual Report should set out names of the Directors serving in the Remuneration Committee	Compliant	Please refer pages 69 and 187 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 187 and 188.
		Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer pages 204 and 305 of the Annual Report of the Board of Directors.
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 186.
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.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.6 (a)	Audit Committee (Contd.)	Chairman or one member of the Committee should be a member of a recognised professional accounting body.	Compliant	All members are members of recognised professional accounting bodies. Please refer page 183 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 82 for a brief description of the functions of the Committee and pages 183 to 186 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 184 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

Corporate Governance at HNB General Insurance Limited

HNB General Insurance Limited (HNBGI) was incorporated on 30th January 2014 as a limited liability company, and is a fully owned subsidiary of HNB Assurance PLC. Its business operations commenced from 01st January 2015, after the segregation of Life and General Insurance businesses of HNB Assurance PLC. HNBGI uses best practices as given in the Corporate Governance Codes issued by the CA Sri Lanka and the SEC as guidance to its Corporate Governance framework. Corporate governance Rules as per the Listing Rules of CSE also shape its Corporate Governance Framework.

THE BOARD AND THE DIRECTORS OF HNB GENERAL INSURANCE LIMITED

As at the date of this report, 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
M O F Salieh	Independent Non-Executive director	22nd September 2014
D P N Rodrigo	Non-Executive Director	21st December 2015
N H T I Perera	Non-Executive Director	21st December 2015
M Tharmaratnam	Independent Non-Executive director	01st September 2016

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

Non-Executive Directors

All Directors of HNBGI are Non-Executive and therefore the requirement on the minimum number of Non-Executive Directors as per corporate governance codes, is satisfied.

Independent Non-Executive Directors

HNBGI has two Independent Directors as at the date of this Annual Report. During the year Ms. Marina Tharmaratnam was appointed as an Independent Non-Executive director. Accordingly, with this appointment HNBGI satisfies the requirement of minimum number of independent directors.

Roles of the Chairperson and the Chief Executive Officer of HNBGI

The functions of the Chairperson and the Chief Executive Officer are separated, to ensure balance of power and authority. Mrs. Rose Cooray and Mr. Niranjan Manickam held the positions of Chairperson and the Chief Executive Officer (Acting), respectively until 02nd May 2016. From 02nd May 2016, Mr. Deepthi Lokuarachchi functions as the Chief Executive Officer.

Board Meetings

12 Board meetings were held during 2016 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	12	12
M O F Salieh	12	11
D P N Rodrigo	12	10
N H T I Perera	12	12
M Tharmaratnam	03	03

A - Number of meetings held in the period during the year when the Director held office

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

Therefore, the reports of the Board Sub-Committees given on pages 183 to 195 relate to the operations of HNBGI as well. The Corporate Governance Codes allow the Audit and Remuneration Committees of the parent company to function as the subsidiary's Audit and Remuneration Committees, provided that the parent company is listed on the stock exchange. Since this requirement is satisfied, HNBGI is identified as complying with the requirements of the Corporate Governance codes relating to Board Sub-Committees.

Mr. Faizal Salieh, who is the Independent Non-Executive Director of HNBGI, attends the Audit Committee meetings by invitation. Mrs. Rose Cooray and Mr. Dilshan Rodrigo, who are members of the

Board of HNBGI, are also members of the Group Risk Management Committee of HNB Assurance PLC. Further Mrs. Rose Cooray is a member of the Group Human Resources and Remuneration Committee. The Strategy Review Committee which was formed in 2016 has Mrs. Rose Cooray, Mr. Faizal Salieh and Mr. Thimal Perera as its members representing HNBGI. During the year Mrs. Marina Tharmaratnam was appointed to the Group Investment Committee. Therefore, these Board Sub-Committees of HNB Assurance PLC have a representative from the Board of HNBGI and these Directors ensure that the matters relating to HNBGI are addressed/ discussed adequately at such meetings. Minutes of all Board Sub-Committee meetings of HNB Assurance PLC are tabled at the Board meetings of HNBGI, for review of the Board.

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 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 has been developed for HNBGI. A separate Risk Appetite Statement has also been prepared for HNBGI, based on its operations. Additionally, a Statement of Key Risk Indicators (KRI), covering the high/critical risks of the Company, is prepared on a monthly basis. This KRI Statement is tabled at the Risk Management Committee meetings for review. A Compliance Checklist, assessing compliance with applicable laws and regulations, is also prepared monthly for HNBGI. Relevant operational managers who are responsible for compliance with relevant rules and regulations sign off this 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.

Group Performance Governance

The Group/Company regards the governance of its performance to be of paramount importance and hence has set up numerous controls to secure that the performance objectives of the Group/Company are met. The Board of Directors assumes the primary responsibility with respect to performance governance, and it operates via its Sub-Committees, namely, Audit Committee, Investment Committee, Human Resources and Remuneration Committee, Risk Management Committee, Strategy Review Committee and Related Party Transactions Review Committee, to maintain adequate supervision over performance.

STRATEGY REVIEW COMMITTEE

During the year the Board established the 'Strategy Review Committee' with the objective of reviewing and monitoring closely the implementation of the three year strategic plan of the Group/Company and to keep the Board informed of the progress of implementation and make any recommendations that are deemed necessary in the strategies for the early turnaround of the business of HNB General Insurance Limited and further development of the activities of HNB Assurance PLC. 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.

CORPORATE PLANNING AND BUDGETING

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, analyses the external environment and evaluates the results of each company by benchmarking it against competitors. Further, an assessment is performed to identify major internal strengths and weaknesses of the Group/Company. Subsequent to both analyses, the corporate planning team, under the patronage of the Chief Executive Officer, 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 and using the input from the branch and field management. 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 Chief Executive Officer, 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 Chief Executive Officer 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. Systematic mid-year appraisals are carried out to ensure the objectives assigned to each employee are on track to being met.

The Executive Committee examines the corporate plan at regular intervals to guarantee that the objectives are fulfilled. In addition, the progress of the business is routinely reviewed by the Board Strategy Review Committee as well. During the year the management team developed 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 117, 126, 135, 139 and 141.

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	Vision and Mission Strategic Plan	Corporate planning team consisting of EXCO members and key operational managers Board Strategy Review Committee Board of Directors	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	Risk Appetite Statement Underwriting Procedure Manuals Guidelines Credit Policy Anti-Money Laundering Policy	Operations Committee - Life (HNBA) Operations Committee - General (HNBGI) Risk and Compliance Department	Implementation of system controls in line with procedure manuals, wherever possible Updating of procedure manuals and guidelines based on changes in the environment Immediate notification to responsible officers via SMS and e-mail, in the event policies are issued beyond reinsurance limits Regular Operational Committee meetings (OPCOs)
Claims Management	Procedure Manuals Guidelines Claims Reserving Policy Manual of Financial Authority Customer Service Standards	Operations Committee – Life (HNBA) Operations Committee – General (HNBGI) Claims Panel Claims Sub-Panel Risk and Compliance Department	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
Investment Management	Investment Policy Financial Authority Manual	Segregation of Investment Front Office and Back Office to ensure compliance with set policies Board Investment Committee Risk and Compliance Department	Periodic meetings with CEO and CFO Providing frequent updates of investment related KPIs and KRIs Independent monitoring by the Risk and Compliance Department Quarterly review by Board Investment Committee
Sales and Distribution	Company Budget Annual Targets Individual Objectives	Operations Committee - Life Sales (HNBA) Operations Committee- General Sales (HNBGI) Management Team EXCO Risk and Compliance Department	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

Group Performance Governance

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Product Development	Product Development Policy	Operations Committee - Life (HNBA) Operations Committee - General (HNBGI) Product Development Committees Risk and Compliance Department	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	Financial Authority Manual Procedure Manuals Guidelines Procurement Policy and Procedures Annual Budget	Operations Committee - Finance and Administration Procurement Committees Procurement Unit Risk and Compliance Department	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	IT Security Policy Disaster Recovery Plan	Operations Committee - IT Segregation of IT Operations and IT System Developments IT Security Administrator Risk and Compliance Department	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	Corporate Plan Annual Budgets	Executive Committee (EXCO)	A detailed review of the Company's actions towards Corporate Social Responsibility is given on pages 141 to 143.
Human Resources	Remuneration Policy Code of Ethics Share Dealing Policy Staff Handbook Whistleblowing Policy Grievance Handling Policy Performance Appraisal Process	CEO's forums to provide opportunities for the operational staff to raise their concerns directly with the CEO, without the presence of the management Human Resources and Remuneration Committee Risk and Compliance Department	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

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Risk Management	Risk Management Policy Business Continuity Plan	Business Continuity Plan (BCP) Committee Board Risk Management Committee Audit Committee Risk and Compliance Department External assistance as needed	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	Compliance Policy Document Retention Policy	Operations Committees Audit Committee Board Risk Management Committee Risk and Compliance Department	Tabling a monthly Compliance Report to the Board on the Company's compliance with applicable laws and regulations by Senior Manager - Risk and Compliance Tabling a Compliance Report at the Audit Committee and Board Risk Management Committee meetings by Senior Manager - Risk and Compliance Preparation of a monthly Compliance Checklist on all applicable regulations Checking of all Compliance Reports by the Risk and Compliance Department and review of such reports by the Audit Committee, prior to submission to the regulator

Risk Management

INSURANCE INDUSTRY AND RISK MANAGEMENT

Risk management can be defined as activities that are undertaken to reduce exposure to loss. For insurance companies risk management is of utmost importance because insurance is necessarily the business of risk acceptance. Hence, risk management is a fundamental aspect of the industry's business activities.

RISKS FACED BY THE COMPANY

Considering the current developments in the macro-economic environment, all industries today face dynamic factors that are beginning to transform the way business is conducted. In this environment the Group/Company is also faced with risks which, if not properly managed, would hamper the progress of the Group/Company.

Some such key risks faced by the Group/Company are:

- Increasing road accidents and increased cost of medical treatment resulting in high motor and medical claim costs
- Price competition due to a high number of players in the insurance market
- High staff turnover and lack of skilled employees in the labour market
- High life policy lapses due to the prevailing economic environment
- Increasing threats on information security
- High volatility in interest rates
- Increasing regulatory requirements such as requirement for all insurance companies to be listed, moving into a Risk Based Capital (RBC) regime, Anti-Money Laundering requirements, changes in Accounting Standards, foreign regulatory requirements such as FATCA, etc.

Thus, all insurance companies in particular are compelled to focus on the fundamentals of risk management.

RISK MANAGEMENT RESPONSIBILITY

As a part of the overall Corporate Governance framework and to ensure a safe and sound operation of the Group/Company, the Board is responsible for overseeing that the Group/Company has in place effective systems and functions to address the key risks it faces. Accordingly, the Board has adopted a Risk Management Policy to give direction to the management on carrying out the Risk Management activities of the Group/Company. The Board has also established a Risk Management Committee to oversee the Risk Management activities of the Group/Company.

RISK MANAGEMENT OBJECTIVES

The Group's Risk Management programme is designed to achieve the following objectives:

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

RISK MANAGEMENT AND INTERNAL CONTROL

We believe a strong internal control environment is essential to provide 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 Senior Management.

Summary of the Risk Management Policy

- 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

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 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 procedure.

- 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 STRUCTURE AND RESPONSIBILITIES

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

The Board and Board Sub-Committees

The Board of Directors is ultimately responsible for the sound and prudent management of the 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 is 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 risk management and internal control, the audit process, and the monitoring process for compliance with laws and regulations.

The Risk Management Committee is responsible for assisting the Board in fulfilling its responsibility with respect to 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 page 194.

THREE LINES OF DEFENCE FOR RISK MANAGEMENT

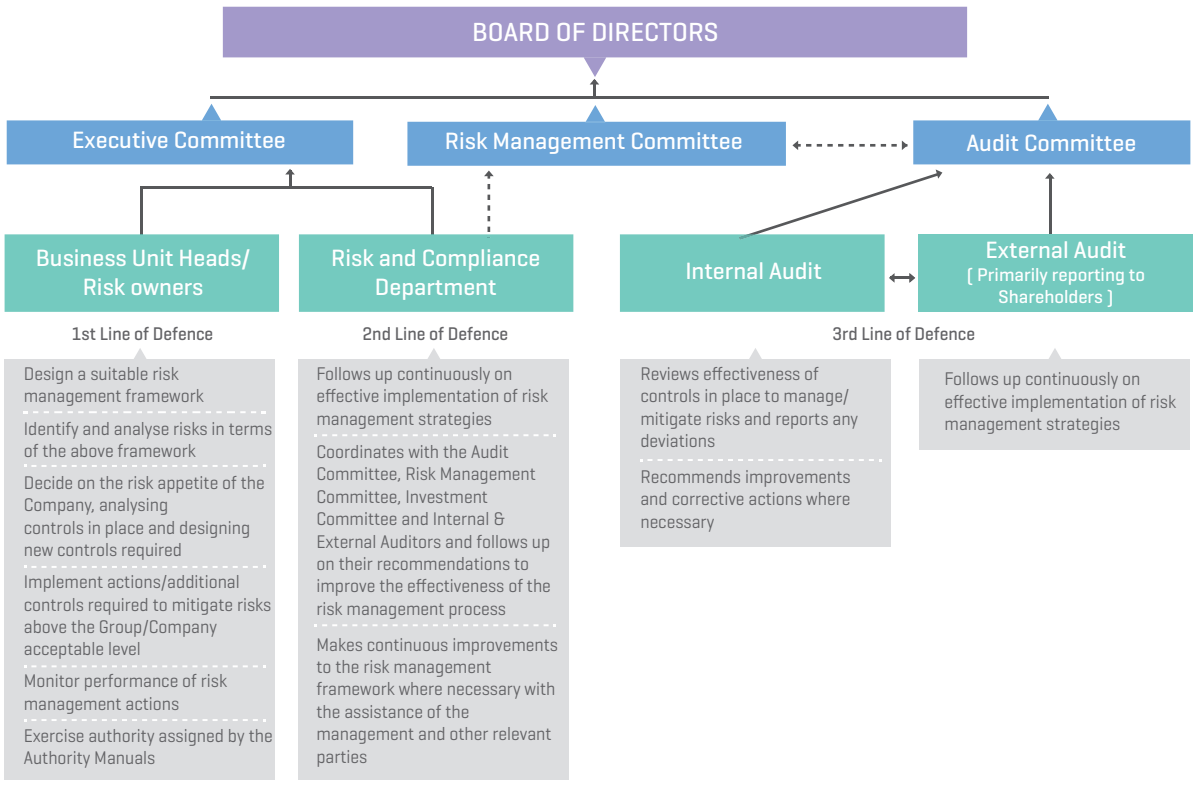
HNBA's Risk Management structure is formulated with Lines of Defence to manage the risks effectively.

1st Line of Defence

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 Defence

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. Business unit managers maintain procedures and systems to ensure that regulations and guidelines are followed.



Risk Management

3rd Line of Defence

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

Product development, pricing, underwriting, claims management, reinsurance management, investment management and financial and regulatory reporting represent the core activities conducted by our Group/Company. In carrying out these core activities, the Company is faced with a wide range of risks which are often interlinked and, if not properly managed, could threaten the ability of the Group/Company to achieve its objectives. The Group/Company therefore adopts a holistic approach to correctly identify, measure, monitor and control these risks.

RISK IDENTIFICATION

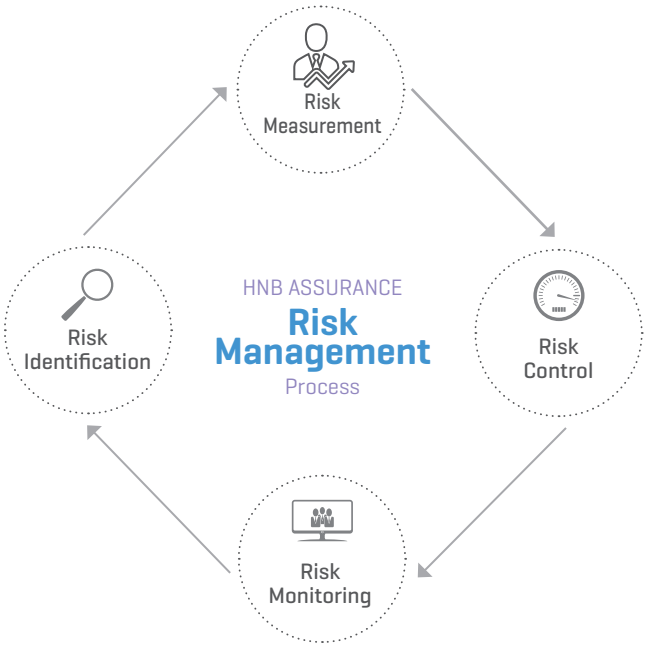
As an insurance company, the Group/Company is exposed to a number of risks specific to our business in addition to generic risks faced by all others in the environment we operate in. Each of these risks has the potential to harm our financial performance or hinder the achievement of our strategic objectives.

The risks we face can be divided into seven main categories:

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

Risk Register

The Group/Company has developed a Risk Register identifying the key risks faced by the Group/Company, considering both core and supporting activities of the business.



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.

RISK MONITORING

Key Risk Indicators

The Group/Company has identified Key Risk Indicators (KRIs) on all major risks faced by the Group/Company. All identified KRIs were monitored on a continuous basis and the results are reported at the Risk Management Committee meetings.

Monitoring by the Risk and Compliance Department

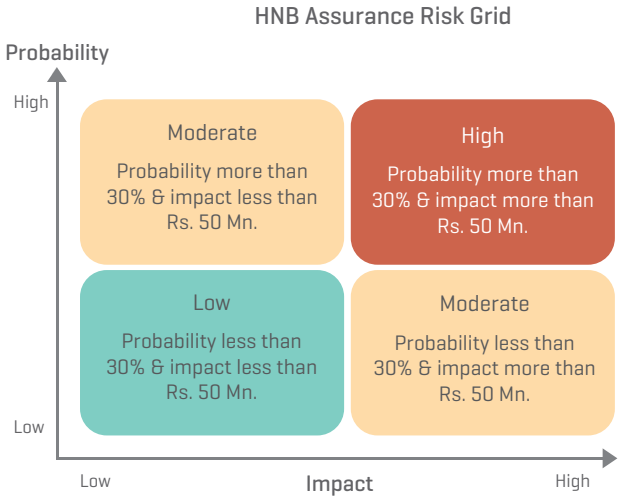
The Risk Register includes the risk management actions taken by the Group/Company for all identified risks. As a matter of routine, a follow-up on the Risk Register is carried out by the Risk and Compliance Department in order to ensure that all agreed actions have been implemented and also to update the risk profile of the Group/Company to suit the changing environment.

Monitoring by Internal Auditors

Internal Auditors have developed their internal audit plan to ensure that all controls identified in the Risk Register are effectively implemented. Therefore, any control lapses identified during audits are reported in their audit reports which are tabled 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. During the year the Committee started meeting every month considering the challenges faced by the Group/Company.



Monitoring by the Audit Committee

The minutes of the Risk Management Committee meetings are reviewed by the Audit Committee. Further, the Audit Committee reviews all Internal Audit Reports and Management Letters issued by Internal and External Auditors. The Audit Committee also communicates with the Risk Management Committee on areas where the attention of the Risk Management Committee is deemed necessary.

Monitoring by the Board

The Board reviews the KRIs on a quarterly basis. In addition the minutes of the Risk Management Committee meetings, the Audit Committee meetings are also tabled at the Board for review by all Directors. A report on the Group's compliance activities with the applicable rules and regulations is reviewed by the Board on a monthly basis.

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

During the year, the Group/Company continued to report to the 'Board Integrated Risk Management Committee' (BIRMC) of Hatton National Bank PLC (HNB), the parent Company. Accordingly, four reports providing details of the Group's risk management activities: summary of the financial results, KRIs, and the details of the high risks faced by the Group/Company and the risk mitigation steps taken on those identified risks were submitted to the said committee.

RISK CONTROL

All identified risks in the Company are evaluated by the Management and relevant business units to check the adequacy of existing controls. If the existing controls are adequate to mitigate/manage the risk identified, no additional controls are established. However, if the Management and relevant business units are of the view that the existing controls are not adequate, further action is discussed and agreed upon. Relevant members of the Risk Management Team are given the responsibility to ensure that new controls agreed upon are implemented to mitigate/manage the identified risks within a given time frame.

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 follows.

Risk Management

Risk	Mitigation Strategies
The risk management actions relating to core operational functions of the Life Insurance Business	
Underwriting Risks 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	• 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 Further details on underwriting risk management is given in Note 43.2.2.1 from pages 314 to 316.
Reinsurance Risk Reinsurance risk refers to: - retaining risks beyond the Company's net retention capacity without having adequate reinsurance; or - the inability of reinsurers to meet their commitments due to insufficient financial strength.	• Frequent review of the outstanding Reinsurance receivables. • A very close and professional relationship is maintained with all reinsurers and reinsurance brokers. • Only reinsurers with 'A' or above ratings are used as reinsurers. • Changes to the ratings of reinsurance companies are continuously monitored. Further details on reinsurance risk management is given in Note 43.2.2.1 from pages 314 to 316.
Claim Risk 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.	• 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. Further details on claims risk management is given in Note 43.2.2.1 from pages 314 to 316.

Risk	Mitigation Strategies
Risks Relating to Tax Changes in the Life Insurance Business As per the tax calculation method applicable to Life Insurance business (i.e. 'Investment Income' less 'Management Fees') 'most of the companies in the industry including our Life Insurance business were making tax losses and hence were not liable for taxes. However, the budget presented for the year 2016 proposed to define the 'Management Fee' different to what the insurance companies refer now in practice, which is likely to create an Income Tax Liability in the business.	• As at the date of this report, the Inland Revenue Department has not defined the term 'Management Fee' and the Company's representatives together with the industry experts are discussing with the Inland Revenue Department of a probable definition to the term 'Management Fee'.
Risk of Substitutes Interest rates in the country are on an increasing trend, and as a result, 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.	• The Company is focusing on different promotional mechanisms to sell Investment type products and is reducing the dependency on Single Premium products. • The Company has taken steps to increase the protection element in life insurance new business.
The risk management actions relating to core operational functions of the General Insurance Business under HNB General Insurance Limited	
Underwriting Risk Please refer the table on page 98 above for the description of 'Underwriting Risk'	• 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 discontinuing loss making agreements. • During the year a 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 at an early stage. • Not renewing the policies of loss making customers. Increasing the renewal prices based on the profitability. Further details on underwriting risk management is given in Note 43.2.2.2 from pages 317 to 320.

Risk Management

Risk	Mitigation Strategies
Reinsurance Risk Please refer the table on page 98 above for the description of 'Reinsurance Risk'	• 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 which are rated highly by Standard & Poor's or A.M. Best is used. Please refer page 320 for the Credit Ratings of the Company's Reinsurer Portfolio. • Changes to the ratings of reinsurance companies are continuously monitored. • During the year there were significant losses to the Company as a result of floods that occurred in the country during the month of May 2016. The Company paid claims worth of Rs. 576 Million due to this incident. However, the Company was able to recover a substantial portion of this amount from reinsurers and the net impact to the Company was Rs. 22 Million. This shows the strength of the Company's reinsurance arrangements. Further details on reinsurance risk management is given in Note 43.2.2.2 from pages 317 to 320.
Claims Risk Please refer the table on page 98 above for the description of 'Claims Risk'	• During the year steps were taken to strengthen the motor claims department by increasing the staff by recruiting experienced staff from the industry. • Motor claims engineering and motor claims processing functions were segregated during the year to ensure proper segregation of duties. • Assessments are carried out by a panel of assessors/loss adjustors working throughout the island on a 24-hour basis. • Claims Outstanding Reserving Policy has been developed and claims reserving is carried out based on this policy. • 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. • The Company has outsourced the medical claims management function to a third party specialised in claim handling and management operation. • 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. Further details on claims risk management is given in Note 43.2.2.2 from pages 317 to 320.

Risk	Mitigation Strategies
Credit Risk Credit risk is identified as the risk pertaining to uncertainty on the debtors' ability to meet obligations due to the Company.	• 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 with the participation of Finance, Distribution and Underwriting staff on a monthly basis. 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.
Increased Number of Road Accidents and Increase Repair Cost of Vehicles	• 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. • Claims frequency and average claims 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.
Tax Increases on Motor Vehicle Imports	• Closely working with Hatton National Bank (HNB) to increase percentage of business channelled through the Bank. • Expanding the Agents channel to target more non-leasing business.
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.	
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.	• A target asset allocation limits are set by the Investment Committee for HNBA Funds and HNBGI Fund by the Investment Committee in consultation with the Management and Risk Committee. • Sectorial 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 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 placements other than Government Securities with all applicable rules and guidelines. This needs to be submitted for approval from the relevant financial authority as specified in the Group Investment Policy. 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 on a monthly basis.

Risk Management

Risk	Mitigation Strategies
Credit Risk This relates to the risk of not being able to recover the capital and/or interest relating to investments.	• 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, 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. Please refer page 321 (financial risk section) for further information.
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.	• The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy which is reviewed by Investment Committee regularly.
Market Risk – Interest Rate Risk 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.	• The Group follows the 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. • 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 ability of the Company to hold such investments.
Market Risk – Equity Price Risk The risk of fluctuation in equity investments due to change in equity market prices	• Total exposure to equity investments is made strictly within the agreed target asset allocation and sectorial 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 of market movement is monitored on a daily basis and warnings sent to CEO and CFO of high impact volatilities.

Risk	Mitigation Strategies
The risk management actions taken relating to the management of the Human Resources Risk	
High Staff Turnover Ratio	• Motivating employees through rewarding schemes and trainings. • Counselling employees as and when they need counselling. • Conduct exit interviews. • Periodically carrying out induction programmes. • Analysis on 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	• 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.

Compliance Summary

SHARE INFORMATION

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

1. STOCK EXCHANGE LISTING

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

2. SUBMISSION OF FINANCIAL STATEMENTS TO THE CSE

As required by the Listing Rules, the Audited Financial Statements for the year ended 31st December 2015 were submitted to the CSE on 01st March 2016. The Interim Financial Statements for the year/ quarter ended 31st December 2016, was submitted to the CSE on 15th February 2017. The Audited Financial Statements for the year ended 31st December 2016 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 1.4 in Accounting Policies on pages 198 and 222 respectively.

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

The 20 largest shareholders as at 31st December 2016 together with their shareholding as at 31st December 2015 are given below.

Name of the Shareholder	2016		2015	
	Shareholding	% on Issued Shares	Shareholding	% on Issued Shares
Hatton National Bank PLC A/C No.1	29,993,000	59.99	29,993,000	59.99
The Ceylon Guardian Investment Trust PLC A/C No.2	2,000,000	4.00	2,000,000	4.00
Mercantile Merchant Bank Ltd	913,265	1.83	913,265	1.83
Janashakthi General Insurance Limited	824,425	1.65	824,425	1.65
Bank of Ceylon A/C Ceybank Century Growth Fund	651,894	1.30	648,244	1.30
Mr. Mohamed Faizer Hashim	530,534	1.06	530,534	1.06
Salamander Investments (Pvt) Ltd	475,000	0.95	475,000	0.95
Mrs. Abiramipillai Kailasapillai	400,000	0.80	200,000	0.40
Waldock Mackenzie Ltd/Mr. S. N. P. Palihena & Mrs. A. S. Palihena	400,000	0.80	300,000	0.60
Mrs. Arunthathi Selliah	400,000	0.80	200,000	0.40
Arunodhaya (Pvt) Ltd	400,000	0.80	400,000	0.80
Arunodhaya Investments (Pvt) Ltd	400,000	0.80	400,000	0.80
Arunodhaya Industries (Pvt) Ltd	400,000	0.80	400,000	0.80
Union Assurance PLC/No.1 A/C	336,266	0.67	336,266	0.67
Mr. Dalpethado Duleep Fairlie George joint Mrs. Hewa Fonsekage	314,085	0.63	-	-
Phoenix Ventures (Pvt) Ltd	260,000	0.52	260,000	0.52
Corporate Holdings (Pvt) Ltd A/C No.01	245,103	0.49	242,700	0.49
Mr. Madduma Hetti Vidanelage Upali Gunatilaka	202,080	0.40	201,643	0.40
Mr. Kailasapillai Aravinthan	200,000	0.40	200,000	0.40
Andysel (Pvt) Ltd	200,000	0.40	200,000	0.40
	39,545,652	79.09		

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

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

	2016		2015	
	No. of Shares	% on Issued Shares	No. of Shares	% on Total No. of Shares
Public Shareholding	19,328,462	38.66	19,604,654	39.21

	2016		2015	
	Shareholders	% on Total No. of Shareholders	Shareholders	% on Total No. of Shareholders
Number of Shareholders	3,463	99.71	3,514	99.69

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 2016	No. of Shares as at 31st December 2015
Mrs. M A R C Cooray - (Chairperson)	18,035	5,000
Mr. M U de Silva (Resigned w.e.f. 08th January 2016)	Not Applicable	3,000
Mr. S C Ratwatte	14,666	14,666
Mr. J A P M Jayasekera	83,057	5,000
Mr. K. Balasundaram	10,000	10,000
Mr. D P N Rodrigo	180	180
Mrs. S N Wickramasinghe	52,500	52,500
Dr. S Selliah	100,000	100,000
Mr. N H T I Perera	100	Not Applicable
MR. D P Lokuarachchi - (Chief Executive Officer)	Nil	Not Applicable

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 94 to 103.

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 NUMBER 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

Compliance Summary

12. SHAREHOLDINGS

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

There were 3,473 registered shareholders as at 31st December 2016 (2015 - 3,525). The distribution and Composition of shareholders as per the above rule are as follows,

Shareholding	Resident			Non-Resident			Total		
	No. of Share-holders	No. of Shares	% on Total No. of shares	No. of Share-holders	No. of shares	% on Total No. of shares	No. of Share-holders	No. of shares	% on Total No. of shares
1 – 1,000 Shares	2,063	638,312	1.26	9	2,634	0.01	2,072	640,946	1.27
1,001 – 10,000 Shares	1,227	4,327,855	8.65	10	52,598	0.11	1,237	4,380,453	8.76
10,001 –100,000 Shares	127	3,424,970	6.85	5	148,082	0.30	132	3,573,052	7.15
100,001 –1,000,000 Shares	29	9,309,549	18.62	1	103,000	0.21	30	9,412,549	18.83
Over – 1,000,000 Shares	2	31,993,000	63.99	0	0	0.00	2	31,993,000	63.99
Total	3,448	49,693,686	99.37	25	306,314	0.63	3,473	50,000,000	100.00

b) Analysis of Shareholders

i. Resident/Non-Resident

	31st December 2016			31st December 2015		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	3,448	49,693,686	99.37	3,498	49,663,417	99.32
Non-Resident	25	306,314	0.63	27	336,583	0.68
Total	3,473	50,000,000	100	3,525	50,000,000	100

ii. Individual /Institutional

	31st December 2016			31st December 2015		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,363	10,284,555	20.57	3,414	10,477,805	20.95
Institutional	110	39,715,445	79.43	111	39,522,195	79.05
Total	3,473	50,000,000	100	3,525	50,000,000	100

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

The details relating to the share performance are given below.

	2016	2015	2014	2013	2012
Number of Transactions	1,288	1,808	3,111	1,778	1,465
Number of Shares Traded	1,587,252	1,201,027	4,937,695	4,589,817	1,347,828
Value of Shares Traded (Rs.)	98,598,781	103,016,431	373,672,883	242,310,103	61,959,216
Market Capitalisation (Rs. Mn.)					
HNB Assurance PLC	2,940	3,730	4,175	2,625	2,450
CSE	2,745,406	2,937,998	3,104,863	2,459,897	2,167,581
Dividend per Share (Rs.)	5.00	2.00	3.75	3.25	2.75
Dividend Payment (Rs. Mn.)	250	100	187.5	162.5	137.5
Dividend Payout (%)	38.61	50.63	44.89	41.76	39.17
Basic Earnings per Share (Rs.)	12.95	3.95	8.35	7.78	7.02
Net Asset Value per Share (Rs.)	53.94	45.68	48.28	42.26	37.34
Market Price per Share(Rs.)					
Highest	72.90	93.50	98.00	57.00	56.90
Lowest	53.00	69.40	52.20	47.00	36.30
Year end (VWA)	58.80	74.60	83.50	52.50	49.00
P/E Ratio (Times)	4.54	18.89	10.00	6.75	6.98

14. VALUATION OF PROPERTY PLANT AND EQUIPMENT (RULE NUMBER 7.6 (XII))

The Company uses the cost method as the accounting policy for maintaining records of Property, Plant and Equipment and the market value of such assets is considered not materially different to the book value. Details relating to the changes in the Company's fixed assets are given in Note 4 to the Financial Statements on pages 238 to 242.

15. INCREASE IN THE STATED CAPITAL (RULE NUMBER 7.6 (XIII))

The Company did not raised 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 CORPORATE GOVERNANCE (RULE NUMBER 7.6 (XV))

Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c, and 7.10.6 c of Section 7 of the rules are given in the Corporate Governance Report on pages 85 to 87.

18. RELATED PARTY TRANSACTIONS (RULE NUMBERS 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 42 to the Financial Statements on pages 305 to 310.

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 42 to the Financial Statements on pages 305 to 310.

Compliance Summary

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. However, the percentage of aggregate amount of transactions carried out with Acuity Securities Ltd was 9.9%. Therefore, the details of the transactions carried out with Acuity Securities Ltd are given below:

Name of the Related Party	Relationship	Nature of the Transaction	Amount of the transaction Rs. '000	Aggregate amount as a percentage of Gross Written Premium	Terms and Conditions of the Related Party Transaction
Acuity Securities Ltd	Joint venture company of the ultimate parent company	Insurance Premium	92		Same as per terms and conditions of insurance policies issued by HNBGI
		Investment in Government Security REPO	606,967		As per the Master REPO Agreement
		Investment Income from Government Security REPO	50,901		As per Government Security market rates
Aggregate amount of transactions			657,960	9.9%	

In addition to the above, the Company carried out transactions with the Government of Sri Lanka and its related entities, where the aggregate amount of transactions have exceeded 10% of the Company's Gross Written Premium. Government of Sri Lanka has considered as a related entity of the Company considering the significant influence it has on the ultimate parent company, Hatton National Bank PLC. The terms and conditions of transactions carried out with the Government of Sri Lanka and its related entities were similar to those applicable to the general public. Details of transactions with the Government of Sri Lanka and its related entities are given on pages 309 and 310 under Note 42.2.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 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS

Details of the implementation process and the impact to the Group from proposed SLFRS 9 - Financial Instruments and SLFRS 15 - Revenue from Contracts with Customers are given on page 229 under Note 03 to the Financial Statements.

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 198
Signed Consolidated Financial Statements of the Group for the accounting period completed	Section 168 (1) (b)	Please refer page 216
Auditors' Report on Consolidated Financial Statements of the Group	Section 168 (1) (c)	Please refer page 215
Changes in Accounting Policies made during the accounting period - Group and the Company	Section 168 (1) (d)	Please refer page 199
Particulars of entries in the Interests Register of the Company during the accounting Period	Section 168 (1) (e)	Please refer pages 203 and 204
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 205
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 199
Auditors' relationship or any interest with the Company and its subsidiary	Section 168 (1) (j)	Please refer page 199
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 208

DISCLOSURE REQUIREMENTS AS PER SCHEDULE – H OF THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA AND THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

Subject		Reference	Relevant section in this Annual Report
Annual Report	Chairman and CEO	A.2.1 and A.5.7	Please refer pages 62 and 65
	Board Balance	A.5.5	Please refer page 65
	Nomination Committee	A.7.1	Please refer page 66
	Appointment of New Directors	A.7.3	Please refer page 67
	Appraisal of Board Performance	A.9.3	Please refer page 67
	Board Related Disclosures	A.10.1	Please refer page 68
	Disclosure of Remuneration	B.3 and B.3.1	Please refer page 71
	Major and Material Transactions	C.3 and C.3.1	Please refer page 77
	Audit Committee	D.3.4	Please refer pages 81 and 82
	Code of Business Conduct and Ethics	D.4.1 and D.4.2	Please refer pages 82 and 83
	Going Concern	D.1.5	Please refer page 78
	Communication with shareholders	C.2.2, C.2.3, C.2.4,C.2.5, C.2.6, C.2.7	Please refer pages 73 to 77
B. Remuneration Committee Report	Members of Remuneration Committee	B.1.3	Please refer page 69
C. Directors' Report	Directors' Report	D.1.2	Please refer page 78
D. Financial Statements	Financial Statements	D.1.3	Please refer page 78
	Related Party Transactions	D.1.7	Please refer page 79

Compliance Summary

Subject		Reference	Relevant section in this Annual Report
E. Management Report	Management Report	D.1.4	Please refer page 78
F. Corporate Governance Report	Corporate Governance Report	D.5.1	Please refer page 84
G. Audit Committee Report	Audit Committee Report	D.3.3	Please refer page 81
H. Statement on Internal Control	Statement on Internal Control	D.1.3 and D.2.3	Please refer pages 78 and 80
I. Sustainability Reporting	Sustainability Reporting	G.1 to G.1.7	Please refer page 84

IMPORTANT COLOMBO STOCK EXCHANGE (CSE) / SHAREHOLDER COMMUNICATIONS DURING 2016

Nature of Information	Date in 2016
Announcement to the CSE on the resignation of Mr. M.U. De Silva from the Board	08th January 2016
Announcement to the CSE on the appointment of Mr. Thimal Perera to the Board	08th January 2016
Dividend announcement to the CSE	09th February 2016
Submission of unaudited interim financial statements for the year ended 31st Dec 2015 to the CSE	11th February 2016
Circulation of unaudited interim financial statements for the year ended 31st Dec 2015 to shareholders	15th February 2016
Publication of unaudited financial statements for the year ended 31st Dec 2015 in the print media (Daily FT)	01st March 2016
Submission of audited Annual Report for the year ended 31st Dec 2015 to the CSE	01st March 2016
Circulation of audited Annual Report for the year ended 31st Dec 2015 to shareholders	02nd March 2016
Annual General Meeting (AGM)	29th March 2016
Announcement to the CSE on the appointment of Mr. Deepthi Lokuarachchi as the CEO	02nd May 2016
Submission of unaudited interim financial statements for the 01st quarter ended 31st Mar 2016 to the CSE	03rd May 2016
Circulation of unaudited interim financial statements for the 01st quarter ended 31st Mar 2016 to shareholders	11th May 2016
Publication of unaudited interim financial statements for the 01st quarter ended 31st Mar 2016 in the print media (Daily FT)	19th May 2016
Submission of unaudited interim financial statements for the 02nd quarter ended 30th June 2016 to the CSE	12th August 2016
Circulation of unaudited interim financial statements for the 02nd quarter ended 30th June 2016 to shareholders	18th August 2016
Publication of unaudited interim financial statements for the 02nd quarter ended 30th June 2016 in the print media (Daily FT)	22nd August 2016
Announcement to the CSE on the change of Company Secretary	30th September 2016
Submission of unaudited interim financial statements for the 03rd quarter ended 30th September 2016 to CSE	07th November 2016
Circulation of unaudited interim financial statements for the 03rd quarter ended 30th September 2016 to shareholders	15th November 2016
Publication of unaudited interim financial statements for the 03rd quarter ended 30th September 2016 in the print media (Daily FT)	17th November 2016
Announcement to the CSE on the change of principle place of business	08th December 2016

With a caring spirit and a deeper understanding of our cultural values, economic values, and social justice, we empower the people of the communities scattered across our Motherland to reach the greatest heights of their dreams.

Management Discussion and Analysis

Operating Environment 112
Capital Management Reports 117
Life Insurance Review 150
General Insurance Review 160
Investment Management Review 169
Sustainable Impact Created 173
GRI Content Index for "In Accordance" - Core 176

Operating Environment

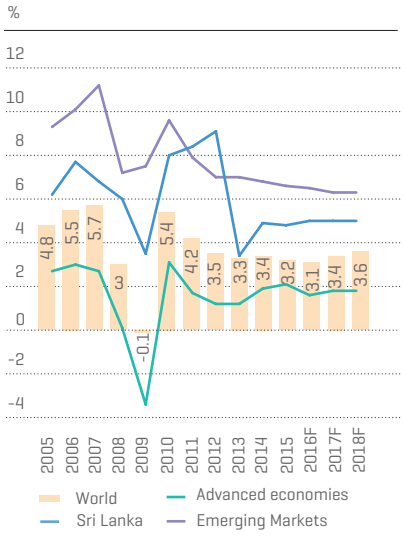
ECONOMIC ENVIRONMENT

GLOBAL ECONOMIC OUTLOOK

The year 2016 was a fairly turbulent year for the world, as many shocks and surprises in political and socio economic conditions generated significant impacts on worldwide economies, leading to the downward revision of the projected global economic growth in 2016 to 3.1%.

During the year, the US Federal Reserve increased policy rates by 25 basis points, leading to emerging markets suffering heavy fund outflows as investors moved to the more lucrative developed economies. Brexit and the sensational US presidential election also created many uncertainties in the global economy, further increasing worldwide interest rates and extending losses in equity markets, but having a positive effect on safe heaven asset prices, for example the Japanese Yen, US Dollar and gold.

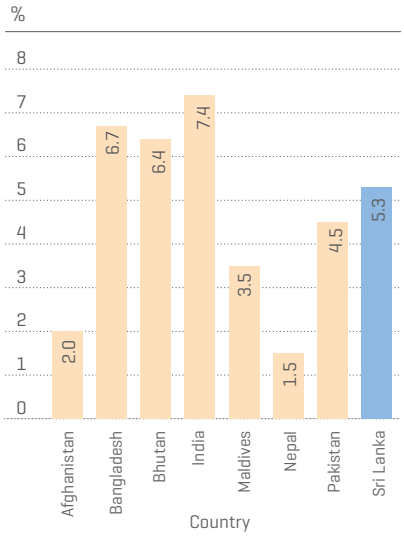
GDP Growth : World, Advanced Economies, Emerging Markets & Sri Lanka



Source: International Monetary Fund

These conditions meant that emerging economies found themselves challenged yet again by dual challenges – slow internal growth and a tighter external economic environment, leading inevitably to a decline in their growth. Such decline could be attributed to cyclical factors as well as the decline in potential output amidst the lacklustre global economic outlook. In the ensuing years, the focus of emerging markets should therefore be on structural reforms that rebalance economies towards internal stimulation and enhanced fiscal discipline.

Regional GDP Growth 2016



Estimated Growth Rate

Source: Asian Development Bank

ECONOMIC OUTLOOK OF SRI LANKA

2016: A Year of Economic Refurbishment

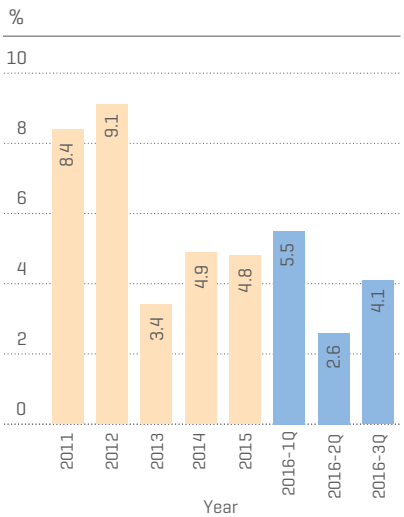
While focusing on growth, inflation, BOP, capital market changes and foreign exchange, the government tried to inject FDIs in order to maintain the growth momentum of the domestic economy. During the year, Gross Official Reserves hit historically low levels due to higher foreign debt servicing costs and declining exports. During the month of June, the Gross Official Reserve hit USD 5.3 Billion. To overcome the Balance of Payments crisis, in June 2016 the International Monetary Fund (IMF) approved a 36 month Extended Fund Facility arrangement, with certain recommendations for economic reforms, such as moving to an inflation targeting framework, reducing credit growth, increasing tax collection, reducing the budget deficit, rebuilding foreign exchange reserves, and improving public finance management, especially in state-owned enterprises.

As a measure of keeping inflation and foreign exchange rates at controlled levels, the Monetary Board of the Central Bank of Sri Lanka increased policy rates twice during the year, by 50 basis points (bps) on each occasion. This increase in interest rates, in the backdrop of fiscal tightening measures and high global market volatility, resulted in a near term economic slowdown. Consequently, the economy is expected to remain sluggish for the next year as well, at a growth of approximately 5%, with declining public consumption, adverse weather conditions and slow global economic conditions posing major threats for growth expectations.

Tightened Growth

The first three quarters of the year saw the domestic economy recording a subdued growth rate of 4%, compared to the 5.6% growth rate recorded in the previous year. The growth rates in the three major sectors of the economy - Agriculture, Industry and Services, stood at -2.5%, 5.7%, and 4.8%, respectively, for the first three quarters of 2016. The Services sector, which is the main contributor to GDP, recorded only a growth of 4.8% during the same period.

GDP Growth 2011 - 2016

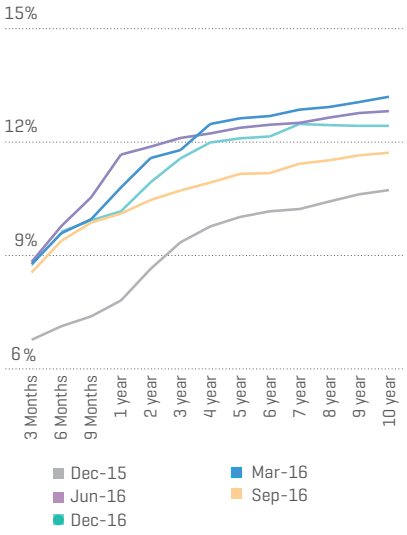


Source: Central Bank of Sri Lanka

Inflation Targeted Interest Rates

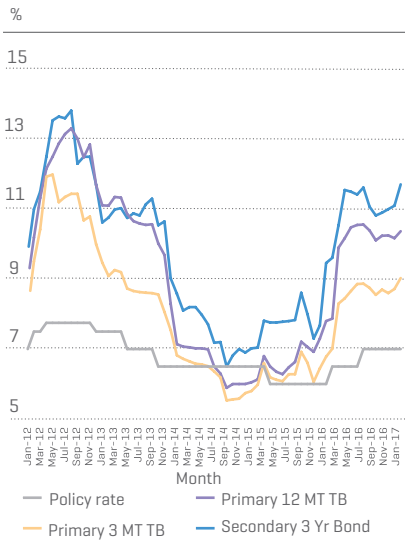
During February and July of 2016, policy rates were increased, by 50 bps on each occasion. The benchmark 12 month treasury yield increased by 306 bps to reach 10.17% during the year, while the Average Weighted Prime Lending Rate (AWPLR) increased by 402 bps to 11.52%. Amidst numerous monetary tightening measures, private sector credit growth YoY decreased to 22% in October 2016, from 25.7% at the beginning of the year, in line with the CBSL's target of reducing credit growth to 20% by the year end.

Government Securities Yield Curve



Source: Central Bank of Sri Lanka

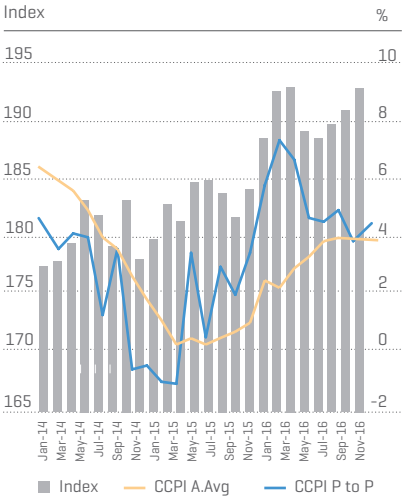
Interest Rates



Source: Central Bank of Sri Lanka

Single Digit Inflation

CCPI Headline Inflation (YTD)



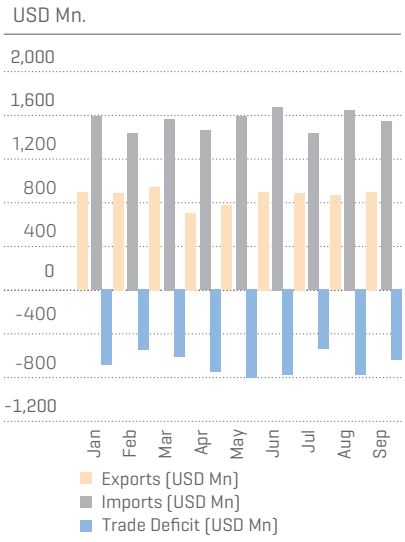
Source: Department of Census and Statistics

Headline inflation cooled down to 4.1% on a YoY basis as at the year end, with the highest levels being recorded in the months of June and July due to the increase in VAT across all items in the basket and the increase in prices of food due to supply slowdown caused by adverse weather conditions. Despite supply-side threats such as floods and a weakening Rupee, 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, was recorded at 6.3% as at the end of the year. In 2017, we expect the rate of inflation to remain at single-digit levels, although increasing marginally from current levels.

External Trade

On a cumulative basis, export earnings during the first nine months of 2016 was slightly down by 2.6%, YoY, to USD 8,618 Million, mainly due to the decline in export earnings from transport equipment and petroleum products. Meanwhile, on a cumulative basis, expenditure on imports increased marginally by 0.2% to USD 15,852 Million, affected by the decline in imports of personal vehicles, fuel, commercial transport equipment, cereals, and milling industry products. The increased duty on imported vehicles and the prevailing low global oil prices contributed heavily to the contraction in the import bill for the year. The cumulative trade deficit during the first ten months of 2016 increased to USD 7,234 Million from USD 6,973 Million recorded during the same period of 2015.

External Trade Performance - 2016



Source: Central Bank of Sri Lanka

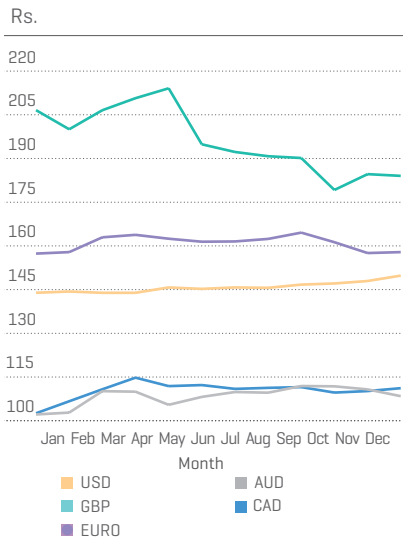
Exchange Rate

During the year, the Rupee was under pressure due to declining foreign reserves. By the first half of the year, Gross Official Reserves had fallen to historical low levels, to USD 5.3 Billion. However, with the aid of the IMF Extended Fund Facility and the issue of sovereign bonds valued at USD 1.5 Billion, Sri Lanka's Gross Official Reserves increased to USD 6.06 Billion by the year end, equivalent to 4.2 months of imports.

On the currency front, the Rupee depreciated by 3.98 % against the US Dollar during the year. The Rupee also depreciated against the Euro by 0.3%, the Canadian Dollar by 7% and the Australian Dollar by 3.16% during this period, while appreciating against the Sterling Pound by 13.82%.

Operating Environment

Exchange Rates Fluctuations - 2016

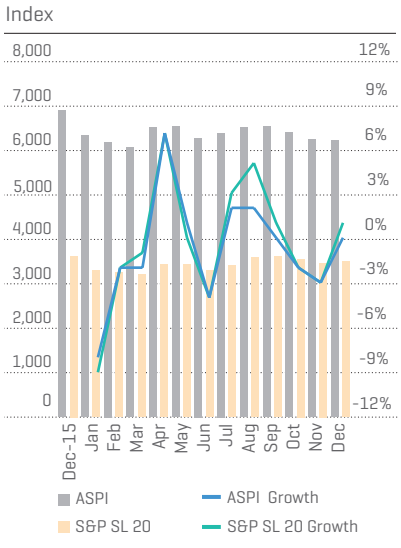


Source: Central Bank of Sri Lanka

Extended Losses in the Stock Market

The lack of policy consistency amidst global economic risks hindered investor confidence, causing a steep drop in the Colombo Stock Exchange (CSE). For the year, both ASPI and S&P SL 20 indices shed 9.7% and 3.56% respectively. Rising interest rates resulted in negative sentiments towards the CSE, with investors preferring fixed income securities over shares. The CSE underperformed in 2016 compared to other global indices, becoming one of the worst performers in emerging Asian markets.

Stock Market Performance

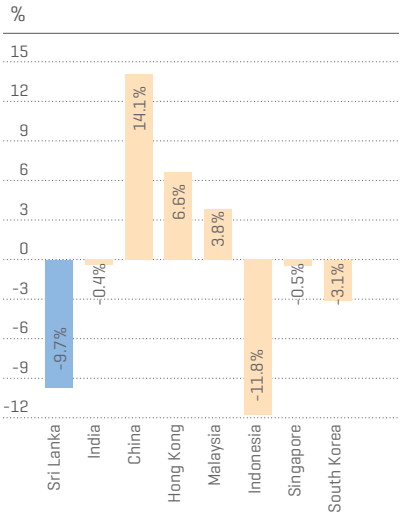


Source: Colombo Stock Exchange

Foreign investors contributed to 42.5% of market turnover in 2016, compared to 34.4% in 2015. Further, total Net Foreign Inflows amounted to Rs. 63.5 Billion during 2016, compared to the Rs. 5.4 Billion of Net Foreign Outflow in 2015.

The proposal to remove tax exemptions on fixed income securities, implemented via Budget 2017, might lure institutional investors to equity markets in 2017. While more volatility is expected in the market, we believe sectors such as Construction, Food and Beverages, and Textile will continue to perform well during the coming year.

YTD Returns 2016 - Colombo Stock Exchange Vs. Regional Markets



THE YEAR AHEAD

The year 2016 ended with the country's macroeconomic position reaching a level of relative stability, in line with introduced economic reforms. However, some areas of the economy, such as credit growth and foreign exchange rates, still need to be uplifted to a desirable level. We do not see the Central Bank of Sri Lanka shifting towards an expansionary monetary policy stance in the coming year, and hence a reduction in interest rates is unlikely. On the global front, uncertainties and increasing interest rates will drive money out of emerging markets. Sri Lanka is expected to be impacted largely from such equity market outflows, and hence, we expect further pressure on both exchange rates and interest rates. As the BOP pressure continues in to the next year, we expect the Rupee to depreciate further, by approximately 5%. We also expect that the Government will continue to increase the efficiency in revenue collection and expand the tax base in order to cover the increasing budget deficit, making any tax exemptions or a reduction in tax levels unlikely. Our forecast is therefore a tightly controlled economic environment where economic growth will continue to be slow, at least for the first half of the year 2017.

REGULATORY REVIEW

OVERVIEW

The Regulation of Insurance Industry Act, No. 43 of 2000, and its Amendment Act, No. 03 of 2011, coupled with the subordinate regulations issued by the Insurance Board of Sri Lanka (IBSL), primarily regulate the insurance industry in Sri Lanka. Therefore, the Group's activities are governed by the above regulations as well. In addition, the Group is also subject to the rules and regulations issued by the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka and other laws/ regulations applicable to a Sri Lankan corporate entity.

COMPLIANCE WITH REGULATIONS AND GUIDELINES

Shift to the Risk Based Capital (RBC) Framework

In order to monitor insurance companies in the country, the IBSL implemented a Risk Based Capital Framework, replacing the previous Solvency Framework. Guidelines on the transfer were detailed in the directive 'Solvency Margin (Risk Based Capital) Rule 2015' issued in December 2015, to be effective from 01st January 2016. The Group successfully participated in the RBC Road Test from September 2012 and smoothly transitioned to the new framework from 01st January 2016 onwards. All IBSL returns relating to 2016 were made under this new framework.

As per the new RBC rules, every insurer shall maintain a minimum Capital Adequacy Ratio of 120%, and maintain minimum Total Available Capital of Rs. 500 Million, calculated as per the guidelines given in the rules. Accordingly, the Capital Adequacy Ratios of HNB Assurance PLC (HNBA) and HNB General Insurance Limited (HNBGI) were recorded at 445% and 168%, respectively, as at 31st December 2016. Total Available Capital of HNBA and HNBGI stood at Rs. 5,275 Million and Rs. 746 Million respectively, by the year end.

One of the main features of the new RBC rules is that the insurance liabilities are valued based on the current market rates. By its very nature, the Life Insurance business generates long-term liabilities, although there is limited availability of long-term assets in the financial markets. Therefore, due to this mismatch between assets and liabilities under the new RBC rules, most Life Insurance providers are exposed to a greater risk where the volatility in market interest rates is high. However, when market interest rates are on an upward trajectory, such rules have a positive impact on the business. This risk is minimised in the General Insurance business since its liabilities are mostly limited to a period of one year.

An additional feature of the new rules is that both Life and General insurers need to be conscious of their business mixes, asset and liability management (ALM), credit ratings of institutions where financial investments are made and ratings of reinsurers, to maintain a healthy CAR and Total Available Capital. Further, investments made in related parties which are prudentially regulated financial institutions are required to be considered a deduction from capital for the purposes of RBC calculations. Consequently, investments in corporate debt made in the parent company, Hatton National Bank PLC, which were considered as solvent under the previous solvency rules, are not considered as admissible under the new rules. Apart from the above, no other significant impact is identified as arising from the new rules, with respect to the Group's operations.

In line with the RBC rules, the IBSL revised the regulations issued under Determination-1 which provides guidelines on the limits of investments to be maintained by insurers.

Both HNB Assurance PLC and HNB General Insurance Limited have complied with the above new regulations.

Guidelines on Complaints-Handling by Insurers and Brokers

The IBSL, with the view of recognising the insurance industry as a provider of quality services to customers, issued guidelines on complaints-handling which are applicable for both insurers and brokers. The guidelines require the adoption of a complaints-handling policy, establishing a complaints-handling function, maintaining records of complaints, analysing information, periodic submission to IBSL, etc.

In line with these guidelines, both HNB Assurance PLC and HNB General Insurance Limited developed complaints-handling policies, which were approved by the respective Boards. The Group has already identified an officer in each Company to be in charge of complaints-handling, as required by the guidelines, and has implemented necessary action from 01st January 2017.

Good Practices in Conducting Inquiries on Insurance Agents

The IBSL also issued guidelines on good practices in conducting inquiries on insurance agents. Most practices set out in the relevant guidelines are already being practiced by the Group. However, further action was taken to improve the Group's practices, based on the criteria given in the guidelines, where applicable.

Guidelines on Conducting Investigations on Insurance Claims

Insurers utilise the service of investigators in the claims management process, to investigate and detect fraudulent claims. However, with a view of promoting public confidence on the insurance industry, the IBSL issued guidelines on conducting investigations on insurance claims, to ensure that investigators act independently and impartially, while maintaining confidentiality and being mindful of the interests of both the insurers and claimants. The Group has educated all investigators about these guidelines and has requested them to act independently, considering the interests of the claimants as well.

Directions to Submit Policy Documents to IBSL

During the year, the IBSL issued Circular No. 30, directing all insurance companies to keep the IBSL informed of the date of launch of any new insurance product and submit documents relating to the new product to the IBSL in advance. Accordingly, all Life insurers are required to submit documents in relation to insurance products at least 45 days prior

Operating Environment

to the launch. The Group will follow these criteria when launching new products in the future.

Proposed Guidelines on Segregating Insurance Funds

The IBSL has informed that they will be issuing guidelines on the management of insurance funds in 2017. The objective of these guidelines is to ensure the proper attribution of assets and returns of assets, liabilities and expenses to the relevant business, through the proper segregation of insurance funds. While the General Insurance business will not have a significant impact from these guidelines, the Life Insurance business is required to segregate its fund under these guidelines. In anticipation of these guidelines, we have already taken steps to comply with the requirements, based on draft guidelines.

COMPLIANCE WITH CSE LISTING RULES AND SEC DIRECTIVES

Revision of Rules on Minimum Public Holding Applicable to Listed Public Companies

During the year, the Colombo Stock Exchange issued a circular revising the minimum public holding applicable to all listed public companies. The revised rules provide listed public companies with a wider range of options in their compliance with the Rules on Minimum Public Holding. However, even before the change of the regulation, HNB Assurance PLC had consistently maintained its minimum public shareholding well within these regulations. The Company's public shareholding over the last five years is given in the following table.

Year	Public Shareholding	
	%	No. of Shareholders
2016	38.66	3,463
2015	39.21	3,514
2014	39.14	3,467
2013	39.76	3,662
2012	39.86	3,773

Related Party Transactions - Section 09 of the CSE Listing Rules

Section 09 of the CSE Listing Rules, on related party transactions, came into effect on 01st January 2016. As per the rules, a Related Party Transactions Review Committee is required to be established, and this committee is required to monitor the related party transactions of the Company. The Company had already voluntarily adopted the above rules and had established a Related Party Transactions Review Committee in 2014. This committee met four times during the year and reviewed all related party transactions coming under the purview of this rule.

FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA)

As required in the Foreign Account Tax Compliance Act (FATCA), the company 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 redesigned its documents to capture this information when issuing new policies. The Company's FATCA registration details are given below.

FATCA ID : QVSWYL
GIIN : QVSWYL.99999.SL.144

INSURERS TO BE LISTED ON A LICENSED STOCK EXCHANGE

As per section 52 (1) of the Regulation of Insurance Industry (Amendment) Act, No. 03 of 2011, insurers who were in operation, holding a license, as at the date of this Act, are required to be listed on a Stock Exchange licensed under the Securities and Exchange Commission of Sri Lanka by February 2016. However, in 2015 the IBSL clarified that any new company registered as an insurer, including insurers who registered following the segregation of companies, has a three year period to list on a stock exchange in terms of section 15A of the Regulation of Insurance Industry Act, No. 43 of 2000, as amended by the Regulation of Insurance Industry (Amendment) Act, No. 03 of 2011.

Therefore, the Company's fully owned subsidiary, HNB General Insurance Limited, is required to be listed on the Stock Exchange before 31st December 2017. However, during the year certain industry developments occurred, necessitating this requirement to be re-determined by the regulator. The Group is closely watching these developments in order to agree on the most efficient governing model, and will comply with the directions which will be issued by the regulator.

Capital Management Reports

FINANCIAL CAPITAL REPORT

Financial Capital Comprises of the funds obtained from shareholders as equity, and available for the organisation to produce products and services

OVERVIEW

The financial performance of the Group over our steady journey of 15 years is the perfect embodiment of the strategies we have adopted to generate the best possible financial value addition for our stakeholders. We place great importance on the efficient management of financial capital, as it is the medium through which we transact with many of our key stakeholders.

PAT Growth
228%

EPS Growth
228%

DPS Growth
150%

Inv. Income Growth
25%

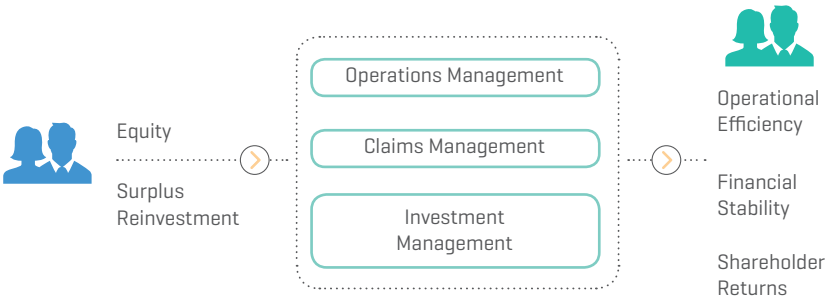
Total Assets Growth
25%

KEY PERFORMANCE INDICATORS

Indicator	2016	2015	2014	2013	2012	Growth 2016
GWP (Rs. Mn.)	6,657	5,447	4,666	3,878	3,211	22%
Investment Income (Rs. Mn.)	1,145	918	1,032	852	662	25%
Profit After Tax (Rs. Mn.)	647	197	418	389	351	228%
Funds Under Management (Rs. Mn.)	11,941	9,939	8,291	6,660	5,806	20%
Market Capitalisation (Rs. Mn.)	2,940	3,730	4,175	2,625	2,450	(21%)
Market Share	4.78%	4.50%	4.50%	4.00%	3.70%	n/a
Return on Equity	24.00%	8.64%	17.30%	18.40%	18.79%	n/a
Earnings Per Share (Rs.)	12.95	3.95	8.35	7.78	7.02	228%
Dividends Per Share (Rs.)	5.00	2.00	3.75	3.25	2.75	150%
Dividend Payment (Rs. Mn.)	250	100	187.5	162.5	137.5	150%
Market Price Per Share (Rs.)	58.80	74.60	83.50	52.50	49.00	(21%)
P/E Ratio (Times)	4.54	18.89	10.00	6.75	6.98	(76%)

n/a - *not applicable*

OUR MANAGEMENT APPROACH



"The Group achieved a growth rate of 22% in GWP surpassing the industry growth of 16% while achieving a remarkable profit growth of 228% during 2016."

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

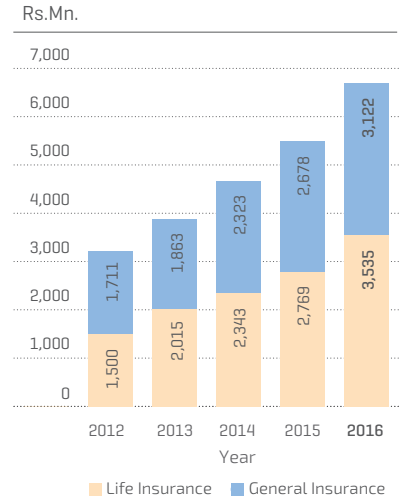
Capital Management Reports

OUR OPERATIONAL RESULTS

The year 2016 marked another year where we, at HNBA, kept our promise of 'Delighting Our Stakeholders' with exemplary financial performance, while navigating through turbulent seas. Our operational performance during this second year since the segregation of Life and General Insurance businesses showcased the ability of both business lines to flourish on their own, with strong growth in top-line as well as the bottom-line.

Gross Written Premium (GWP)

Gross Written Premium - Group



Group GWP grew by a noteworthy 22% during the year, surpassing the Rs. 6 Billion mark, to reach Rs. 6.7 Billion (2015: Rs. 5.4 Billion). This was driven by an impressive 27% growth in the Life Insurance business, which contributed with GWP of Rs. 3.6 Billion (2015: Rs. 2.8 Billion), while General Insurance supplemented with a GWP of Rs. 3.1 Billion (2015: Rs. 2.7 Billion) by achieving a growth of 16% over the previous year.

The Group has been consistent in expanding its topline over the years. In terms of consolidated GWP, the annual average growth rate for the last five years is 18%, while the compound annual growth rate (CAGR) is at 17%, surpassing the industry CAGR of 12%. The keys to outperforming the industry in terms of GWP are the focused strategies on attracting new business and improving renewal retention in both business lines by continuous follow up of renewals. These strategies and a detailed analysis of the GWP of the two business lines are further elaborated in Business Reviews appearing on pages 150 to 168.

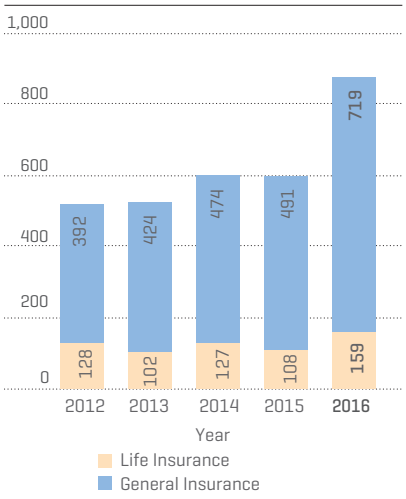
GWP

Insurance premium from customers is the revenue of an Insurer.

2016: **22%** ▲

Reinsurance

Premium Ceded to Reinsurers - Group



The Group ceded 13% of its GWP as reinsurance premiums, amounting to Rs. 878 Million (2015: Rs. 599 Million). General Insurance accounted for 82% (2015: 82%) of the reinsurance outgo of the Group, at Rs. 719 Million (2015: Rs. 491 Million). Reinsurance outgo increased by 47% compared to the previous year due to the 46% increase in outgo of General Insurance business, which was driven by the change in the business mix and the increased volume of business. The non-motor insurance segment, which carries a high proportion of reinsurance, increased by 40% compared to 2015.

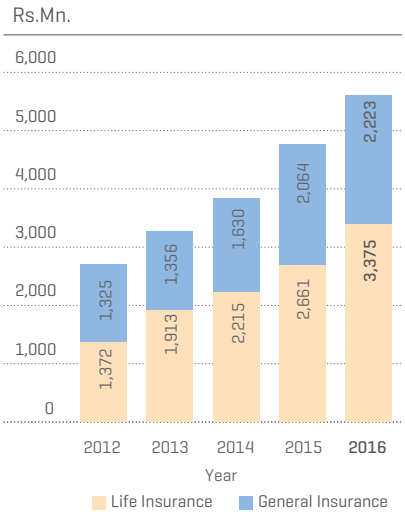
Reinsurance

Insurance premium paid by the Insurer to the reinsurer for accepting part of the risk

2016: **47%** ▲

Net Earned Premium (NEP)

Net Earned Premium - Group



Net Earned Premium (NEP) of the Group recorded 18% growth in 2016 to reach Rs. 5,598 Million (2015: Rs. 4,725 Million). Life Insurance accounted for 61% (2015: 57%) of the NEP of the Group while General Insurance accounted for the balance 39% (2015: 43%). However, the proportion of NEP to GWP decreased to 84% (2015: 87%) primarily due to the increase in reinsurance outgo, the reasons for which were discussed above, while the increase in the Unearned Premium Reserves in General Insurance also had an impact.

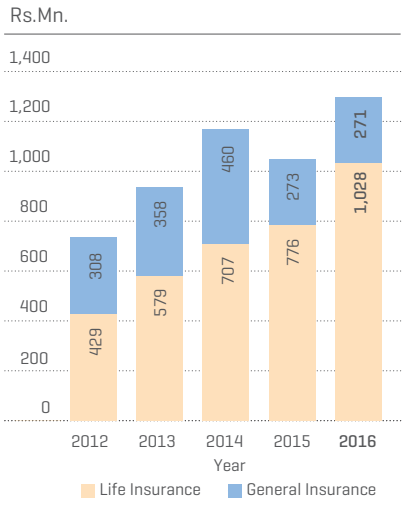
NEP

GWP adjusted for reinsurance premium and for the premiums not yet earned by insurer

2016: **18%**

Investment and Other Income

Investment and Other Income - Group



Investment income and other income of the Group, which comprises interest and dividend income, realised and fair value gains, fee, commission and other income, grew by 24% to reach Rs. 1,299 Million (2015: Rs. 1,049 Million).

The Group earned Rs. 1,180 Million (2015: Rs. 871 Million) as interest and dividend income during the period, marking a growth of 35%, whilst other income increased by 17% over 2015. With the increase in interest rates consequent to the tightening monetary policy stance of the Central Bank, the Group experienced realised and unrealised losses of Rs. 35 Million against the gain of Rs. 47 Million earned in 2015. The losses in 2016 is after the Rs. 6 Million unrealised foreign exchange gains during 2016.

Investment & Other Income

Interest, dividends and gains or losses from financial investments, and interest on loans to staff, Advisors and policyholders and other income

2016: **24%**

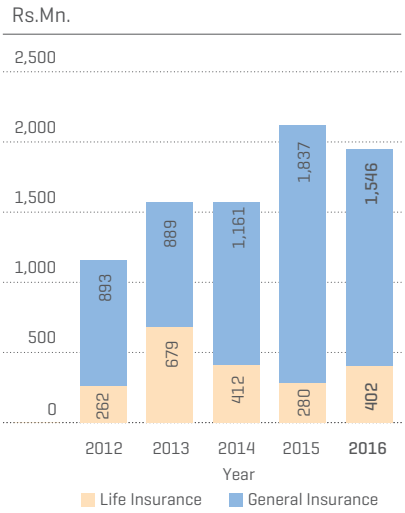
Other Revenue	2016 Rs. Mn	2015 Rs. Mn	Growth
Interest & Dividend Income	1,180	871	35%
Net Realised Gains	(29)	30	(197%)
Net Fair Value Gains	(6)	17	(139%)
Fees, Commission & Other Income	154	131	17%
Total	1,299	1,049	24%

Investment income and other income of the Company, which accounted to 79% of the Group, recorded a 32% increase compared to 2015. Investment Income and Other Income of HNBGI, which accounted for the balance, decreased by 2% compared to the previous year. This too was primarily due to the losses made on equity investments and the low quantity of funds under management during the first half of the year. Fees, commission and other income increased by 17%.

Capital Management Reports

Net Claims and Benefits

Net Claims and Benefits - Groups



During the year, Net Claims and Benefits reduced by 8% to Rs. 1,948 Million from the Rs. 2,117 Million recorded in 2015. This was due to the decrease in Net Claims and Benefits of General Insurance, which fell by 16% from Rs. 1,837 Million to Rs. 1,546 Million, consequent to the low amount of claims experienced in Motor and Medical insurance classes. Net Claims and Benefits of Life Insurance, which only accounted for 21% of the Group Net Claims and Benefits, increased by 43% to reach Rs. 402 Million (2015: Rs. 280 Million) consequent to the increase in claims of Group Life Policies.

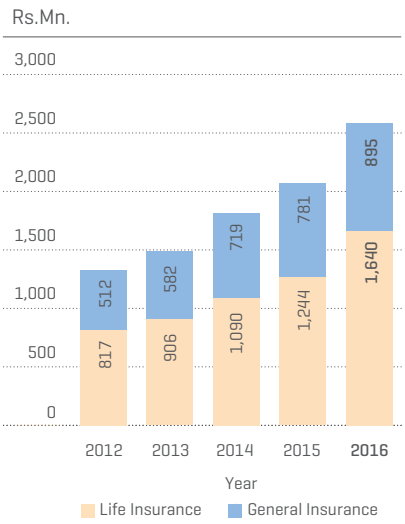
Net Claims and Benefits

Claims paid or payable to customers, net of reinsurance recoveries on those claims

2016: **8%**

Operating Expenses

Operating Expenses - Group



Underwriting and Net Acquisition Costs, which is a variable cost driven by growth in GWP, increased by 32% during the year recording a value Rs. 923 Million (2015: Rs. 700 Million). The growth was driven by a 37% increase in acquisition costs of Life Insurance, which accounted for 81% of the Group's Net Acquisition Cost. A very high commission is paid to intermediaries in the Life Insurance industry, especially in the initial years of acquiring a policy, and the 41% growth in New Business Premiums is what drove this cost during the year. The acquisition cost of General insurance also grew by 11%, again consistent with the GWP growth of 16%.

Operating, Administration and Other Expenses increased by 21% in 2016, mainly due to the increase in staff cost, a major part of which consisted of investing in front office staff, as well as business development expenses aimed at GWP growth. Life Insurance accounted for 56% of the Operating, Administration and Other Expenses of the year.

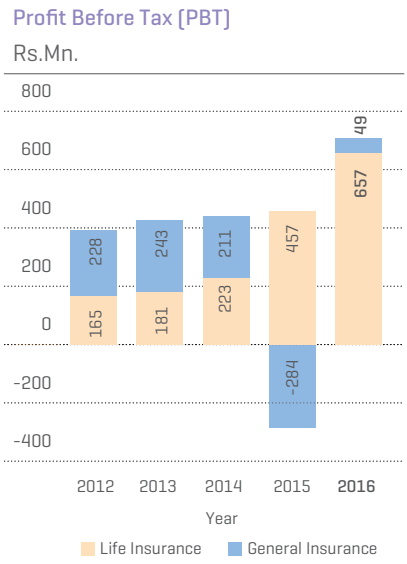
Underwriting and Net Acquisition Costs

Expenses incurred by the Insurer to acquire business, net of commission from reinsurers

2016: **32%**

	2016 Rs. Mn	2015 Rs. Mn	Growth
Underwriting and Net Acquisition Costs	923	700	32%
Other Operating and Administration Expenses	1,573	1,296	21%
Other Insurance Related Costs	39	29	34%
Total Expenses	2,535	2,025	25%

Profit Before Tax (PBT)



Profit Before Tax of the Group improved significantly, recording a growth of 316%. The contribution made by HNB Assurance PLC was Rs. 657 Million (2015: Rs. 457 Million), and this includes the Life Surplus Transfer to Shareholders amounting to Rs. 461 Million in 2016, compared to the Rs. 310 Million last year. Improved performance of the General Insurance business also contributed to the high PBT achieved by the Group. During 2016, we were able to turnaround the General Insurance business of our subsidiary, which resulted in its PBT of Rs. 49 Million, as opposed to the loss of Rs. 284 Million recorded in the previous year.

PBT

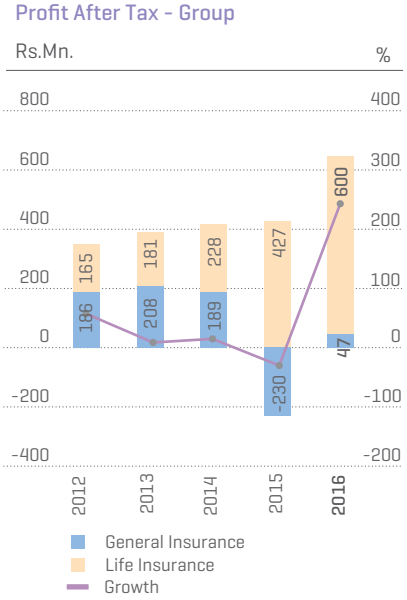
Earnings by the business after deducting all expenses, before income taxes

2016: **316%**

Income Tax Expense / Reversal

The Income Tax Expense of the Group was Rs. 58 Million (2015: Rs. 28 Million reversal). Income Tax expense of HNB Assurance PLC increased to Rs. 56 Million (2015: Rs. 29 Million). This expense is the provision made for the Notional Tax Credits (NTC) of the Company. In 2016, the Company has made such provision with the consultation of the External Auditors, as the Life Insurance Business has been recording tax losses since inception and a tax liability may not arise in the near future. Since there is no tax liability to set off tax credits, a provision has been made against the NTC recorded as tax credits. Meanwhile, HNB General Insurance Limited recorded income tax expense of Rs. 3.3 Million with a deffered tax reversal of Rs. 1.7 Million which was Rs. 57 Million in 2015.

Profit After Tax (PAT)



PAT of the Group increased impressively, marking a growth rate of 228%, to reach Rs. 647 Million (2015: Rs. 197 Million). The turnaround of the performance of our subsidiary was a major contributory factor for the improved profitability of the Group. HNBGI made Rs. 47 Million PAT (2015: Rs. 227 Million loss), while HNBA also recorded a 40% increase in profits to record PAT of Rs. 600 Million (2015: Rs. 427 Million). This includes a Rs. 461 Million (2015: Rs. 310 Million) profit transfer from the Life Insurance business.

PAT

Earnings after deducting all expenses, including income taxes

2016: **228%**

Other Comprehensive Income

The Group recorded fair value losses on Available for Sale Financial (AFS) assets amounting to Rs. 153 Million (2015: Rs. 87 Million loss) due to the increase in market interest rates which resulted in fair value losses on investments in Treasury Bonds and Bills, as well as due to the poor performance of the equity market. A loss of Rs. 14 Million was transferred to the Statement of Profit and Loss, as opposed to the Rs. 19 Million gain on equity investments transferred in 2015.

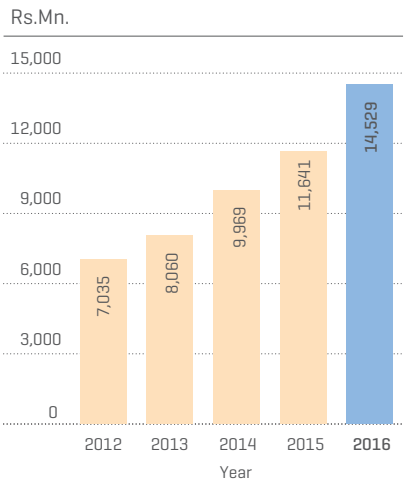
Capital Management Reports

OUR FINANCIAL STRENGTH

Our financial strength showcases the stability of our business operations and our ability to meet policyholder obligations without compromising the wealth of our equity holders.

Total Assets

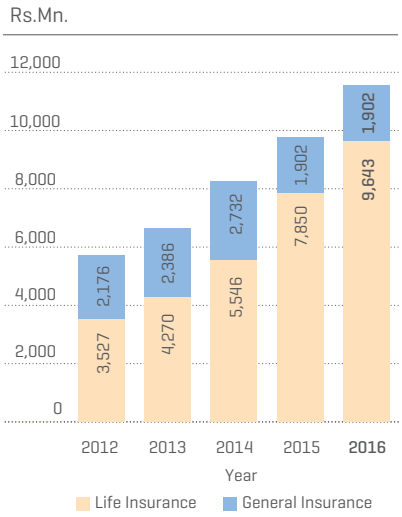
Total Assets - Group



We have been able strengthen our financial position every year of our business operation. During 2016, the Total Asset base of the Group grew by a healthy 25%, to reach a value of Rs. 14.5 Billion, as against the Rs. 11.6 Billion recorded during the previous year.

Financial Investments

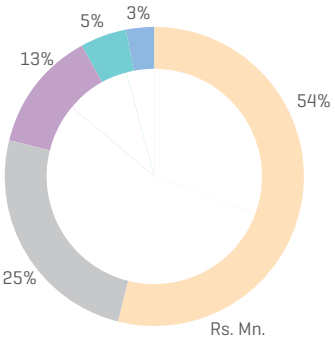
Financial Investments - Group



Financial Investments	2016 Rs. Mn	2015 Rs. Mn	Growth
Held-to-Maturity (HTM)	174	473	(63%)
Loans and Receivable (L & R)	5,344	6,444	(17%)
Available for Sale (AFS)	5,870	1,659	254%
Fair Value Through Profit or Loss (FVTPL)	157	1,176	(87%)
Total Financial Investments	11,545	9,752	18%

A major part of our assets is maintained as Financial Investments, with the motive of ensuring high returns to our shareholders and policyholders. In 2016, 79% (2015 – 84%) of Total Assets were maintained as financial assets and this amounted to Rs. 12 Billion (2015: Rs. 10 Billion), marking 18% growth. Investments of HNBA accounted for 84% of the Group's investments and amounted to Rs. 9.6 Billion (2015: Rs. 7.8 Billion). Investments of HNBGI showed no growth due to the high outflow of claims on account of the floods experienced during the year.

Asset Allocation - Group



	Rs. Mn.
Gov.Sec	6,581
Corporate Debt	3,066
Term Deposits	1,598
Cash	625
Equity	288
Unit Trusts	11

We take constant measures to maintain the optimum asset allocation of financial investments with the intention of obtaining the best returns while minimising the risk of such investments.

Investments made on Government Securities were increased during the year to take advantage of the increasing interest rates, which were more attractive than risk weighted deposit rates.

Exposure to the equity market was further reduced during the year on account of the poor performance of the overall equity market.

We classify all term deposits, investments in repos and corporate debt as Loans and Receivables. Investments in this category decreased during the year, due to the moving of funds from repos and term deposits to long term risk free securities, with the objective of capitalising on the prevailing high interest rates.

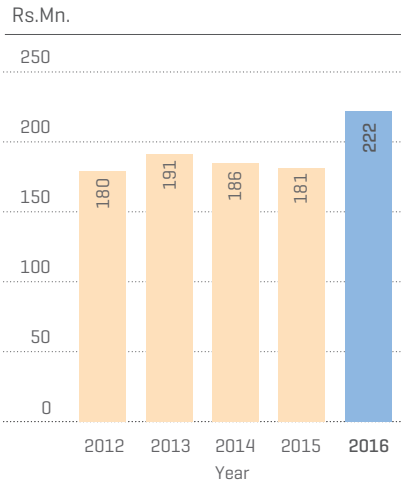
During the year, the Group did not classify any new investments in the HTM category. Accordingly, investments in this category declined with the maturity of Treasury Bonds, which were the only investments held under this category. The FVTPL category decreased by 87% due to the sale/maturity of Treasury Bonds and equity classified under this category at the beginning of the year.

The Group has some Treasury Bills, Bonds and equity investments classified as AFS as of the year end. The 254% increase in this category is due to investments made in Treasury Bonds during the year to capitalise on high interest rates.

Intangible Assets and Property, Plant and Equipment (PPE)

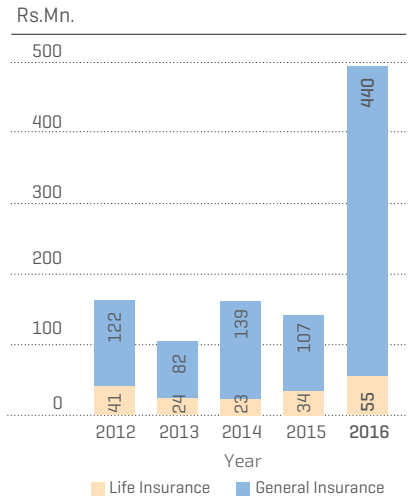
During the year 2016, PPE grew by 18%, reaching a value of Rs. 161 Million (2015: Rs. 136 Million). Investments in intangibles increased to Rs. 61 Million (2015: Rs. 45 Million). Both PPE and intangibles represented 2% of the Total Asset base of the Group as of the year end.

Intangible Assets and PPE - Group



Reinsurance Receivable

Reinsurance Receivable - Group



Reinsurance Receivable of the Group grew by a significant 250% to reach Rs. 495 Million (2015: Rs. 141 Million). The main reason for the increase is due to the increase in Reinsurance receivable of HNBGI, which rose to Rs. 440 Million (2015:Rs. 107 Million). A major proportion of this is on account of flood related claims, which occurred in May 2016.

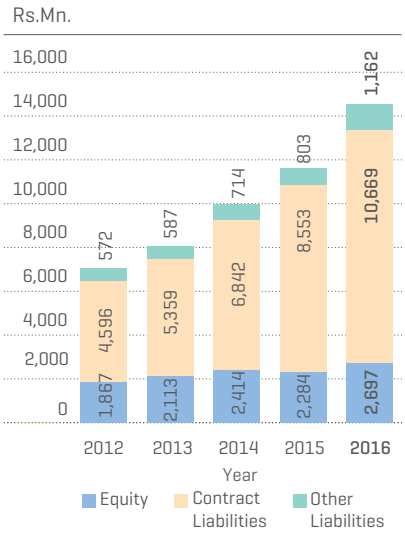
Loans to Life Policyholders and Premiums Receivable

During the year, loans to the value of Rs. 50 Million (2015: Rs. 38 Million) were granted to Life Policyholders, thereby increasing the Policy Loan balance to Rs. 120 Million, at a growth of 30%. More details on Policy Loans are available on page 257.

Premiums Receivable from customers stood at Rs. 623 Million at the end of 2016 (2015: Rs. 346 Million) at an increase of 80%. Premiums Receivable for General Insurance accounted for 99% of this balance, and the growth is due to the high GWP achievement in the last two months of the year.

Capital Structure

Capital Structure - Group

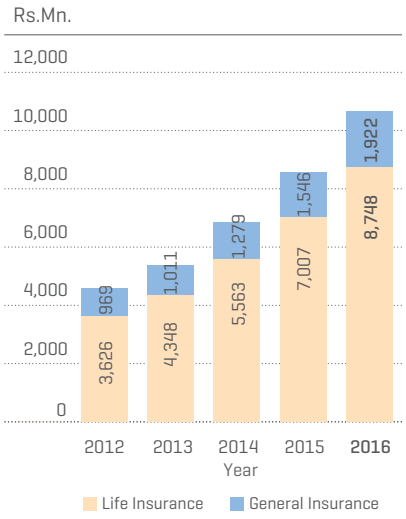


The asset base of the Group is mainly funded by insurance contract liabilities, equity and other liabilities. Insurance contract liabilities contributed to 73% of total funding, while equity and other liabilities contributed to 19% and 8%, respectively. Equity of the Group increased by 19%, with the increased profitability of the Group.

Life Insurance contract liabilities, maintained to meet future obligations, grew by 25%, reaching a value of Rs. 9 Billion (2015: Rs. 7 Billion). The significant growth in the Life Fund is primarily due to the 27% growth in the Life Insurance business during the year, as well as the lower maturities experienced.

Insurance Contract Liabilities

Insurance Contract Liabilities - Group



The valuation method of the Life Insurance Fund changed from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) from 01st January 2016, as required by the Solvency Margin Rules (Risk Based Capital) guidelines issued by the Insurance Board of Sri Lanka. As such, the Life Fund liability valuation has been done using the GPV basis and keeping the fund values for all fund based products sold by the Company.

The valuation was carried out by our Consultant Actuary Mr. Hassan Scott Odierno, of Actuarial Partners Consulting Sdn Bhd, and his report appears on page 212

Further details of the Life Insurance contract liability can be read on page 265 to 267.

Liability Adequate Tests (LAT) were carried out for Life Insurance contract liabilities, to meet the requirements of SLFRS – 4 Insurance Contracts, by Mr. Hassan Scott Odierno, of Actuarial Partners Consulting Sdn Bhd, and it was concluded that The Company has maintained adequate provisions to meet future obligations to policyholders.

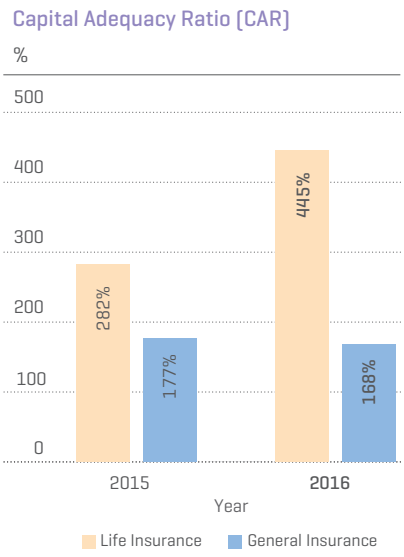
General Insurance contract liabilities grew by 24%, to reach Rs. 1.9 Billion (2015: Rs. 1.5 Billion). General Insurance liabilities are maintained in the form of Net Unearned Premium (UEP), net claims

Capital Management Reports

outstanding, Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER). The Consultant Actuary for General Insurance, Mr. Matthew Maguire of NMG Consulting, carried out the liability valuation, and his report, which appears on page 213, certifies that the provisions made are adequate for the UEP, IBNR/IBNER and claims outstanding reserves. Further details on the General Insurance contract liabilities can be found on pages 268 to 270.

Liability Adequate Tests (LAT) were carried out for General Insurance contract liabilities, to meet the requirements of SLFRS – 4 Insurance Contracts, by Mr. Matthew Maguire of NMG Consulting, and it was concluded that the Company has maintained adequate provisions to meet future obligations to policyholders.

Capital Adequacy Ratio (CAR)



Capital Adequacy Ratio indicates our ability to absorb risks relative to capital availability, and communicates the stability and efficiency of financial capital management practices.

Both the parent and the subsidiary were able to maintain the CAR above the required minimum rates, reaching 445% and 168%, respectively.

OUR VALUE CREATION TO SHAREHOLDERS

Over our existence of 15 years, we have always delivered sustainable value to our shareholders in the form of wealth creation. The strategies adopted by the management are consistently focused on this objective and we have been successful in enhancing the wealth of our shareholders through dividend income, capital appreciation and improvement of net assets.

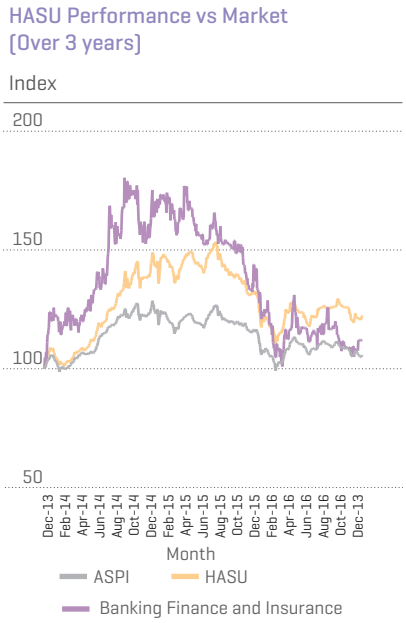
Share Information

Total number of shares in issue as at 31st Dec 2016	50,000,000
Public shareholding as at 31st Dec 2016	38.66%
CSE Ticker	HASU.N0000
Bloomberg Code	HASU: SL

Share Price Performance

The share price of HASU declined to Rs. 58.80 in 2016 from Rs. 74.60 recorded in 2015. The decline was mainly due to the overall lower performance experienced in the Colombo Stock Exchange amidst economic and political uncertainties prevailing in the market.

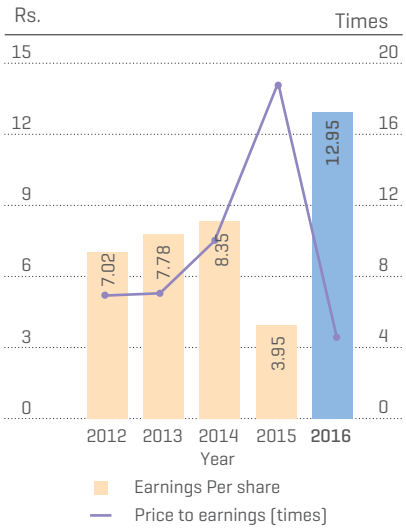
HASU posted a strong level of capital appreciation, at Compound Annual Growth Rate (CAGR) of 10.41% for the four year period from 31st December 2012 to 31st December 2016, and was able to maintain a high level of market liquidity, at 81.25%, by trading on 195 days out of 240 market days.



Earnings per Share (EPS) and Price to Earnings (PE)

The improved bottom-line of the Group has enabled us to improve the EPS significantly, to Rs. 12.95 compared to the Rs. 3.95 recorded in 2015. This marks an improvement of 228%. The Price to Earnings ratio decreased during the year, reaching a value of 4.54 times, compared to the 18.90 times recorded in 2015. The decrease of the PE ratio was due to the lower market price experienced and the improved profitability of the Group during the year.

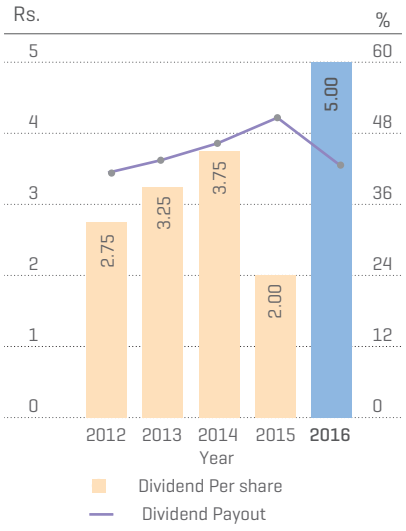
EPS vs PE



Dividends

The Board of Directors has approved a first and final dividend of Rs. 5 per share (2015: Rs. 2 per share) for the year ended 31st December 2016. The significant hike in the bottom-line allowed us to improve the gross dividend to Rs. 250 Million (2015: Rs. 100 Million). Dividend Payout Ratio was 39% (2015: 51%).

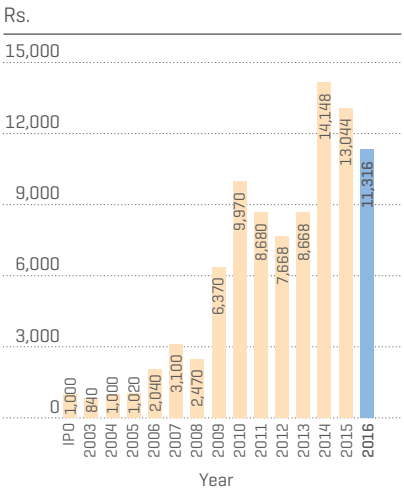
Dividend per Share vs Dividend payout



Value Added to Our Initial Shareholders

For an investor who invested Rs. 1,000 at our Initial Public Offering (IPO) in 2003 HASU has generated an accumulated wealth of Rs. 11,316 as at the end of 2016. Accordingly, our initial investors are rewarded with a CAGR of 18.98% over a period of 14 years.

Rs. 1,000/- Invested at HASU IPO



CONTINUING TO DELIGHT OUR STAKEHOLDERS

We will enhance the value addition of our stakeholders, by improving the profitability and efficiency of our operations, while maintaining a balance between growth and our responsibility to honour corporate governance practices. We also endeavour to maintain a healthy financial position, to protect the financial interests of our stakeholders.

Capital Management Reports

HUMAN CAPITAL

Human Capital The competencies, capabilities and experience of our employees, and their motivation and commitment towards achieving our strategies, form the core of our Human Capital

OVERVIEW

Since our inception 15 years ago, we have always valued our employees as indispensable stakeholders of our business model. The knowledge, skills and capabilities of our employees, and their motivation and commitment in achieving our strategies, form the core of our Human Capital. We also acknowledge that human capital drives and operationalises other forms of capital, thereby adding value to all other stakeholders.

OUR MANAGEMENT APPROACH

We believe it is essential to continuously develop human capital, due to its pivotal role in our value creation process. Our strategic priority in human capital development is 'creating a place where you can shine', thereby becoming a respected employer of choice. Reflecting this importance placed on human capital, we have centralised all human resource functions, through the Human Resource Division at the Group level.

Additionally, the Human Resources and Remuneration Committee of the Board of Directors has expanded its role, to guide and oversee all human resource related concerns, in addition to remuneration. Thus, the Human Resources and Remuneration Committee, headed by an independent Non-Executive Director, now guides the development of human capital. Considering the importance of the functions of the Committee, the Chairperson of the Group serves as a member of the Committee.

KEY PERFORMANCE INDICATORS

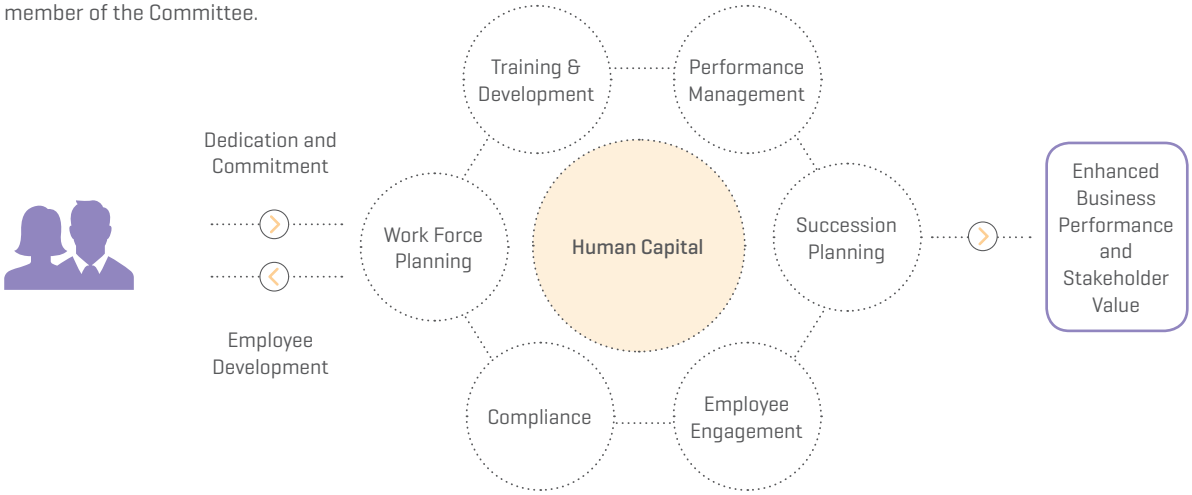
Indicator	2016	2015	2014	2013	2012	Growth 2016
Number of Staff	903	836	829	804	723	8%
GWP Per Employee (Rs. Mn.)	7.37	6.52	5.63	4.82	4.44	13%
Profit Per Employee (Rs. Mn.)	0.72	0.24	0.50	0.48	0.49	200%
Training hours Per Employee (hrs)	6.60	17.23	17.70	20.40	25.80	(62%)
Employee Turnover (without Fixed Term Contract Staff)	16%	21%	13%	14%	17%	n/a

n/a - not applicable

We focus on getting the right people in the right roles to produce effective and efficient outcomes. This involves an interrelated set of activities, ranging from workforce planning, training and development, performance management, employee engagement, compliance with employee related regulations to succession planning. These activities are aimed at building a competent, experienced and empowered workforce with a high level of motivation and commitment.

Our approach to Human Capital is guided by 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



REFERENCE: GRI-G4 > G4-DMA > G4-10

WORKFORCE PLANNING

To deliver the best value addition to our stakeholders, it is essential that we identify employees with the skills, experience and attitudes that best fit our culture and value creation model. All human resource planning is done by the centralised Group Human Resource Division, in consultation with the managers of the respective companies and functions.

Diversity Management

We consider diversity in human capital as a corporate strength. As at the end of the year, the Group employed 903 individuals (2015: 836) and this marked an 8% increase over the previous year, supporting the growth of the Group.

We are an equal opportunity employer. A strict 'no discrimination' policy is practiced on gender, religion, race, political ideology or any other socio-economic facet.

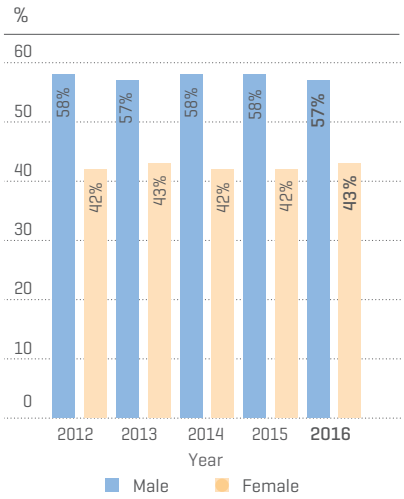
Given below are the key demographics and diversity management facets of the Group.

Diversity Management Facets

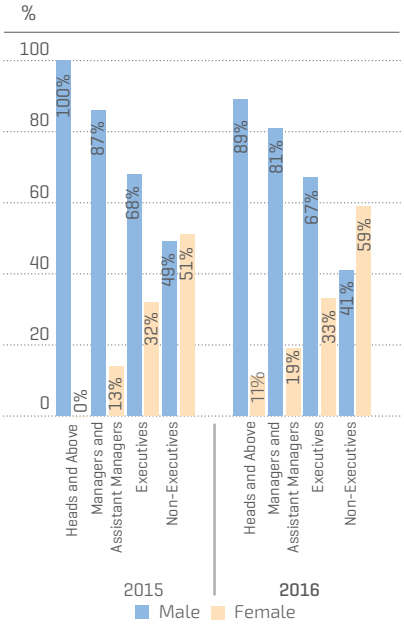
Employees by Segment

Segment	2016	2015
Life Insurance	60%	60%
General Insurance	40%	40%

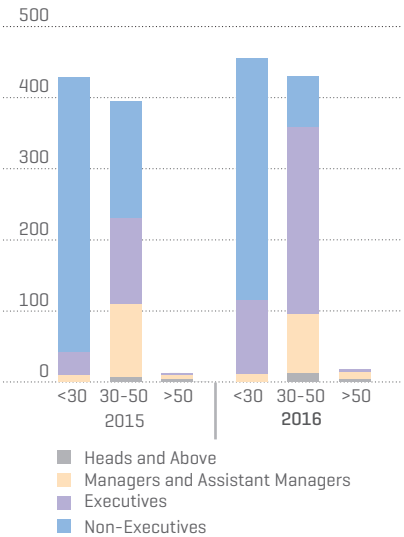
Gender Composition



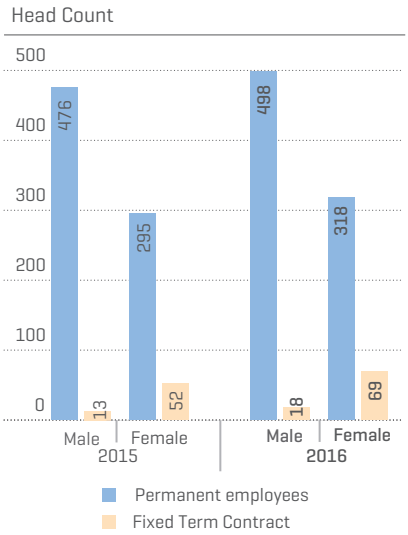
Employees by Staff Category and Gender



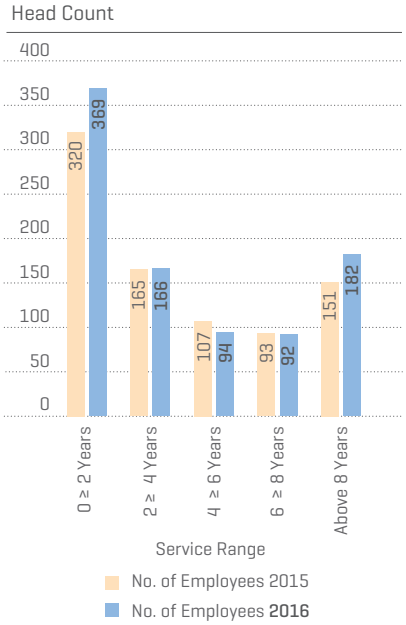
Employees by Staff Category and Age



Employees by Employment Contract and Gender



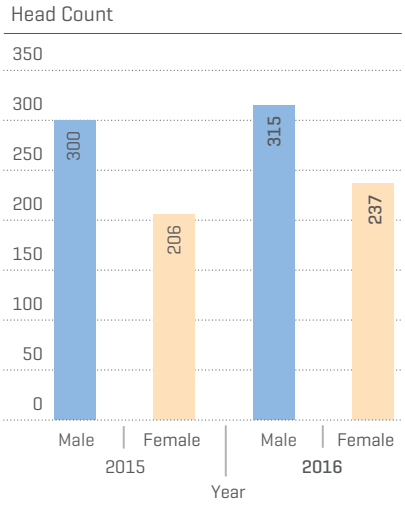
Employees by Service Range



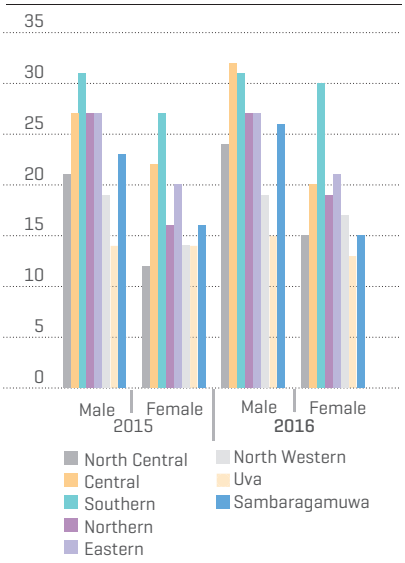
Capital Management Reports

REFERENCE: GRI-G4 > G4-DMA > G4-10 > G4-LA1

Employee Head Count - Western Province



Employee Head Count - Other Provinces

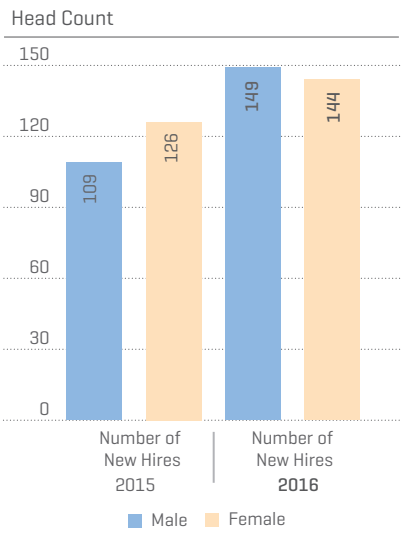


Talent Attraction

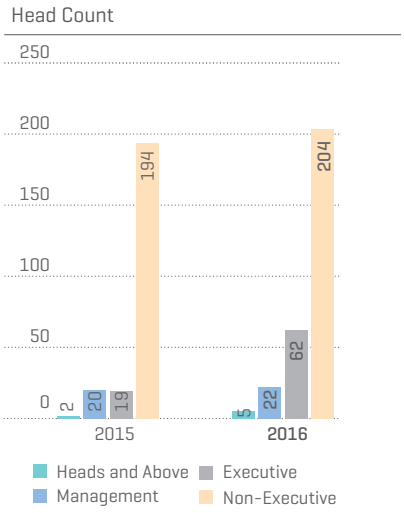
The success of the Group is dependent upon the talent of our workforce. Our recruitment model is based on professional and academic qualifications, capabilities, experience and the right attitude. We encourage organic growth of our human capital and provide our employees with opportunities to develop and enhance themselves. To fill vacant positions, we also source externally, through career fairs, head hunters, online advertising and human resource outsourcing. We maintain a rigorous selection process, where we initially shortlist applicants that best suit the job profile, interview them, and conduct assessment centres. Interviews are conducted by the management, in consultation with line managers, to ensure the most suitable applicant is selected.

Talent Attraction Facets

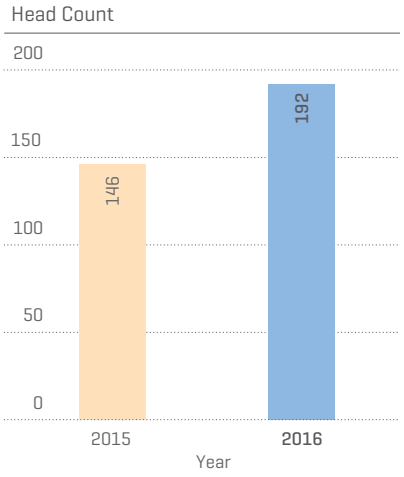
New Recruits by Gender



New Recruits by Staff Category

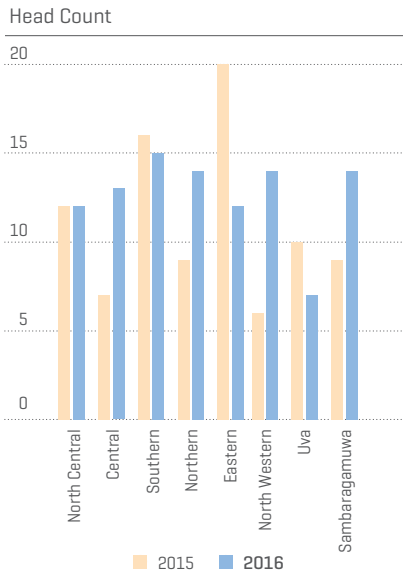


New Recruits - Western Province



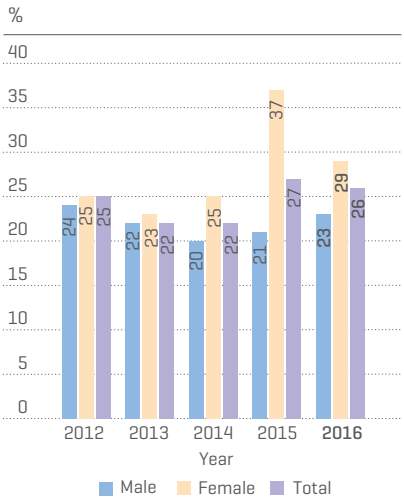
REFERENCE: GRI-G4 > G4-LA1 > G4-LA12

New Recruits - Other Provinces

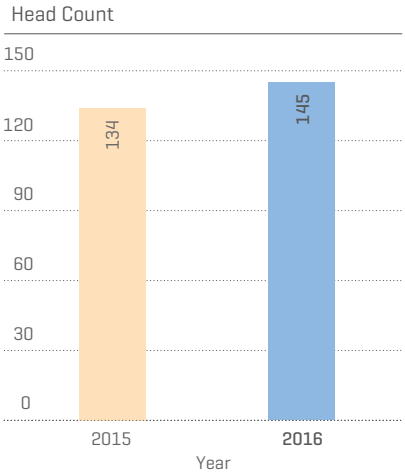


Talent Retention Facets

Employee Turnover by Gender



Employee Turnover - Western Province



Talent Retention

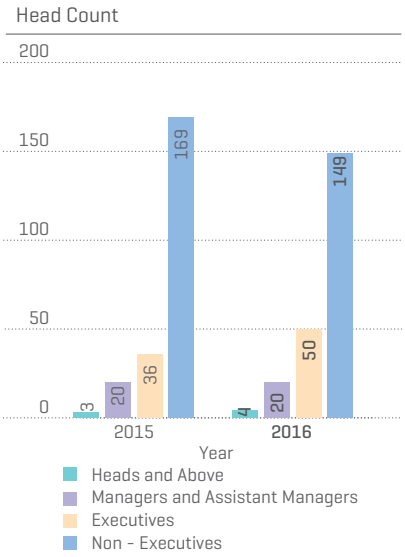
Retaining the best talent within the organisation is important in sustaining our value creation model. We continuously encourage our employees to grow with the Company, and offer career guidance and counselling, as well as personality and professional development opportunities. We also have in place a comprehensive grievance handling process, to improve employee retention.

During the year, we placed special emphasis on reducing employee turnover, and were successful in reducing it to 26% from the 27% of the previous year. It must be noted that employee turnover for females, in particular, has reduced significantly to 28% compared to 37% recorded last year. We have taken steps to further reduce the turnover of employees in the future, by focusing on employee development and work-life balance.

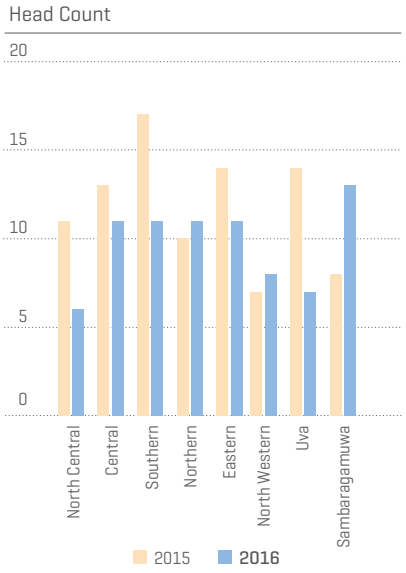
Employee Turnover by Contract

Indicator	2016	2015
Employee Turnover (with Fixed Term Contract Staff)	26%	27%
Employee Turnover (without Fixed Term Contract Staff)	16%	21%

Employee Turnover by Staff Category



Employee Turnover - Other Provinces



Capital Management Reports

REFERENCE: GRI-G4 > G4-DMA > G4-LA2 > G4-LA9

TRAINING AND DEVELOPMENT

Developing a competent and talented workforce in terms of technical, functional and managerial competencies and soft skills required to meet the challenges of the dynamic market is a key priority in our human resource strategies. Our training and development policy focuses on identifying competency and skill gaps of employees and offering training and development opportunities to address such identified gaps. This would enable us to enhance the value created to our stakeholders, while empowering individual employees to achieve their personal career aspirations.

We offer internal, external, and overseas training opportunities to our employees to enhance their skill levels and competencies.

Internal Training

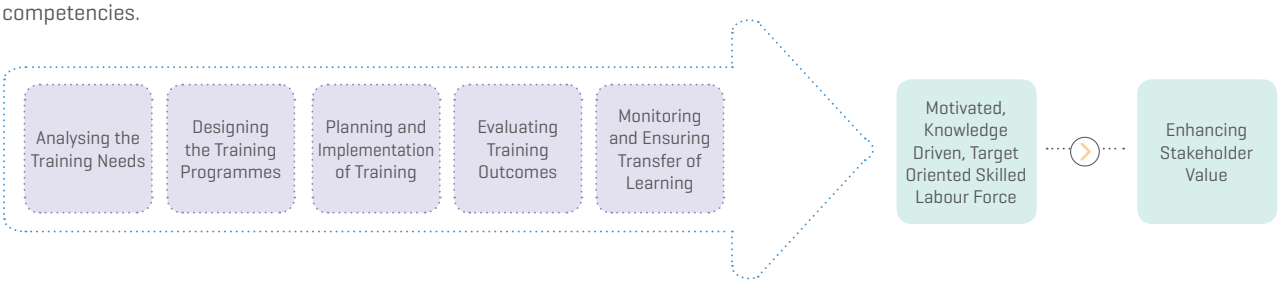
We use internal resource personnel to provide training on corporate values, technical expertise and operational knowledge. We have two internal training departments equipped with professional trainers in the areas of both Life Insurance and General Insurance, who conduct training programmes for our sales force.

External Training

External training opportunities are provided to enhance the exposure of our employees regarding developments in the industry and business arenas, both locally and internationally.

Induction Programme

We conduct a comprehensive induction programme for all new recruits within two months of absorption into the Group. These programmes cover familiarisation of business operations, processes, systems, Company values and the Code of Ethics and Conduct. The top management addresses the new recruits at the induction, reflecting the open culture practiced within the Group. Feedback is obtained from new recruits after three months of employment, to identify possible future improvements to the induction process.



Training Facets

Training Programmes for Employees

	2016	2015
Internal	30	47
External	48	96
Overseas	8	11
Total	86	154

Training Hours per Employee

	2016	2015
Managers and Assistant Managers	6.5	29.7
Executives	3.6	9.5
Non-Executives	9.3	17.8
Total	6.6	17.2

To further enhance the value of our human capital, the following opportunities are made available to our employees;

- We have entered into a partnership with Sri Lanka Institute of Marketing (SLIM) to conduct in- house sales and marketing training programmes.
- An e-learning system is made available for employees to enhance their knowledge on a variety of areas.
- We conduct annual outbound training programmes for employees of all departments.
- The Company bears the annual subscription costs of employees who hold membership of professional bodies.

SPECIAL ACHIEVEMENTS IN 2016

- The Company produced 41 MDRT winners
- Five employees won SLIM NASCO Awards
- The team representing HNBA became the winners of 'CIMA Tour de Colombo 2016' competition
- Our rugby team emerged the Plate Runners-Up in the tournament organised by the Synergy Rugby and Football Academy

REFERENCE: GRI-G4 > G4-DMA > G4-11 > G4-LA11 > G4-LA13 > G4-HR3

- We reimburse exam fees upon the successful completion of an examination of a professional body, and offer honorarium payments for employees who become professionally qualified.
- Interest free loans are offered to finance educational needs.
- We offer corporate membership to the library at British Council, Colombo, and also maintain an in-house library facility.
- We offer study leave and duty leave to encourage employees' educational endeavours.
- Employee achievements are recognised through the intranet and via external communication channels such as the Company's 'Puwath' magazine and press articles

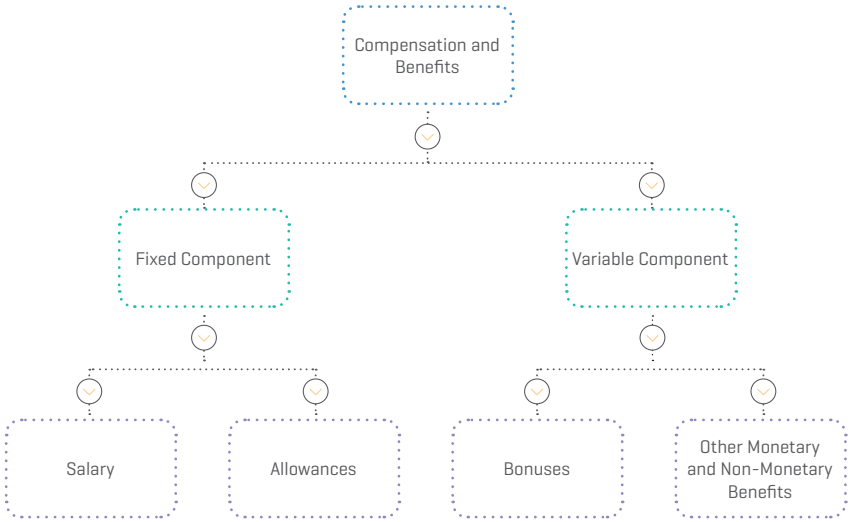
PERFORMANCE MANAGEMENT

A comprehensive performance management system is in place to ensure that the overall corporate objectives trickle down to individual employee objectives in their respective fields. Performance levels of employees are measured against the performance objectives assigned to each individual at the beginning of the year, through a fair and transparent appraisal process. This performance appraisal system focuses on various aspects including, but not limited to, the achievement of objectives, personal growth and the improvement of competencies.

Our performance appraisal cycle comprises of year-end and mid-year performance appraisals. The mid-year appraisal is conducted to review the progress in the achievement of objectives and targets set, and to provide feedback for improvement. The year-end appraisal focuses on evaluating employees against the achievement of the set targets and objectives, and their personal growth. The results determine promotions, increments and bonuses. No employees were covered under collective bargaining agreements.

Compensation and Benefits

The compensation package received by our employees is linked to their performance. No discrimination is made based on gender, religion, race, political ideology or any other socio-economic facet. Increments, bonuses and promotions are purely based on the level of performance exhibited during the year. The Human Resources and Remuneration Committee reviews the promotions and increments proposed by the management and recommend to the Board, based on the needs of the Group. Compensation packages are based on the Remuneration Policy of the Company.



Capital Management Reports

Rewards and Recognition

We believe that recognising the untiring efforts of our cadre is vital in maintaining a motivated workforce. Hence, we recognise and reward exceptional performance of our employees through different means, such as 'Chairman's Award', Sales Convention and other awards ceremonies, foreign tours and other monetary and non-monetary benefits.

During the year, 10 outstanding employees of both HNBA and HNBGI were awarded with the 'Chairman's Award for Excellence', the most prestigious award one could receive during his/her years of service with the Company.

SUCCESSION PLANNING

Developing future leaders to take up managerial roles is an important aspect of our human capital development model. Future leaders are identified via our comprehensive performance management scheme, and identified employees are constantly empowered and mentored to assume future leadership positions.

During the year 2016, the top management of the Company experienced a major change in its composition, with the appointment of new EXCO members. This was done with the intention of creating a strong team of future leaders who could take the Company to greater heights.

The management trainee programme of the Company is a major part of our succession planning process, where well-rounded candidates are absorbed in to the organisation with the intention of moulding them into becoming future leaders.

EMPLOYEE ENGAGEMENT

Our employee engagement mechanisms ensure that we build a strong connection with our employees, meeting their needs and expectations. These include process and decision transparency, employee grievance handling, promotion of a safe work place, recreational and welfare activities, an 'open-door' culture and the Companies' intranets.

Chairman's Awards winners of HNB Assurance with their Accolades at the HNB Assurance Staff Conference

Chairman's Awards winners of General Insurance with their Accolades at the HNB General Insurance Staff Conference

Best Sales Person Ms. Kumudumalee Silva Receiving Her Award at the 11th HNB Assurance Sales Convention

HNB General Insurance Achievers with their Accolades at the 2nd HNB General Insurance Sales Convention

Recreational Facilities and Employee Welfare Activities

- Free access to St. Joseph's College gym, badminton court and swimming pool to all staff members
- Free access to the gym facility of the new Head Office premises for Head Office staff members
- Staff Conference
- Death Donation Scheme
- Family Outing
- Vesak Bakthi Gee and Lantern Competition
- Pirith Ceremony

Blessings to the new Head Office building premises

The Annual Staff Gathering of HNB Assurance PLC and HNB General Insurance Limited

Interdepartmental Vesak Bakthi Geetha Competition

REFERENCE: GRI-G4 > G4-DMA > G4-EC3 > G4-LA16

Employee Engagement Mechanisms

Employee Safety and Health

- Strict standards are established to ensure a safe and injury-free environment for all our employees at both the Head Office and branches, at all times.
- We conduct a monthly clinic, where employees could receive free medical consultation.
- Each division is appointed with a trained member of the First Aid Committee and a floor warden.

Recreational Facilities and Welfare Activities

- Promoting work-life balance, we offer many recreational facilities to our employees free of charge.
- The Group has an established Welfare Society to initiate employee welfare activities.

Grievance Handling

- Grievances of our employees are handled with care and with confidentiality to ensure the restoration of employee satisfaction. We have a formal grievance handling procedure which has been communicated to all staff members in English, Sinhala and Tamil languages.
- The grievance resolving responsibility lies with the Manager - Human Resources, Heads of Divisions and all Managers of the organisation.
- During the year, minor grievances were brought into light by employees and all such grievances were resolved successfully.

'Open-Door' Culture

- An open-door culture is fostered within the Group, enabling employees to interact with any senior member of the staff, including the CEO and the EXCO, at any time, without prior appointments.

Companies' Intranets

- Both HNBA and HNBGI have their own intranets, which allow the employees of the respective companies to access information, such as Company codes and policies, procedures and guidelines, the gallery of Company events, etc.
- The intranet also creates a platform for employee recognition, as special achievements and promotions of employees are communicated through the intranet.

COMPLIANCE

Abiding by all rules and regulations governing employment practices, both mandatory and voluntary, is an important aspect of our human resource policy. Constant effort is put forward to create a good working environment for all employees through compliance with rules and regulations.

Defined Contribution and Benefit Plans

Defined Contribution Plans

Meeting regulatory requirements, we contribute to two defined contribution plans, i.e. Employee Provident Fund (EPF) and Employee Trust Fund (ETF), as per the Act, No. 15 of 1958 and Act, No. 16 of 1980 and subsequent amendments. We contribute 12% to EPF and 3% to ETF on behalf of our employees and all relevant payments were made to the EPF and ETF on time.

EPF/ETF Contributions by the Group

	2016 Rs. Mn	2015 Rs. Mn
EPF	56.33	45.96
ETF	14.08	11.49

Defined Benefit Plan

Employees who have served the Group continuously for more than five years are entitled to a gratuity payment, as per the Payment of Gratuity Act, No. 12 of 1983. Accordingly, employees are eligible to receive, as the gratuity payment, an amount equal to half a month's basic salary for each year served. During the year, the gratuity liability was valued by Smiles Global (Pvt) Limited, using the Projected Unit Credit (PCU) method.

Gratuity Liability of the Group

	2016 Rs. Mn	2015 Rs. Mn
Opening liability	81.00	71.49
Additional provision made for the year	24.14	22.20
Actuarial (gain)/ loss during the plan year	(2.88)	2.27
Payments during the year	(11.83)	(14.96)
Closing liability	90.43	81.00

Capital Management Reports

REFERENCE: GRI-G4 > G4-DMA > G4-10 > G4-HR5 > G4-HR6 > G4-SO4 > G4-SO5

Human Rights and Child Labour

As a responsible corporate citizen, the protection of human rights is strictly embedded to our value system, and no discrimination is entertained within the work environment. We adhere to all labour laws prevailing in the country and all employees are required to strictly adhere to the Code of Ethics of the organisation.

We do not employ any children in our business operations and all our employees are over the age of 18 years. Moreover, no forced or compulsory labour is entertained in the Group. To ensure this, all recruitment activities are handled centrally by our Human Resource (HR) Division, which also closely monitors the number of working hours and leave utilisation of all employees.

During 2016, no cases of child or forced/compulsory labour practices were reported at HNBA, HNBGI or at any of the suppliers we deal with. Additionally, similar to the previous year, no cases of human rights violations were recorded during the year.

Resignation, Termination and Transfer of Employees

A clear policy for resignation, termination and transfer of employees is laid out in our Human Resources Manual, for the reference of all employees. Any employee who wishes to resign from his/her duties and responsibilities, is required to do so in accordance with the terms and conditions of his/her contract of employment. The Group's retirement age is set at 55 years.

Resigning employees are required to attend an exit interview with the Human Resource Department, to obtain feedback. Such feedback is shared with the senior management, and is used for the future improvement of our HR practices. Employees may be terminated by the Group for reasons specified in the HR Manual, after following the stated fair and equitable procedure.

Employee transfers are accommodated on the request of employees, subject to availability of vacancies in the requested areas of work.

Integrity and Ethical Conduct

All employees are required to adhere to the corporate value of treasuring integrity and ethical conduct. We strongly cultivate values of anti-corruption in our work place and all employees are required to adhere to the following policies developed by the Company. Therefore, no such incidents were reported during the year. All policies are made available to employees of the Group via the intranet and emails.

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

Whistleblowing practices are heavily promoted within the organisation, to raise the alarm on any fraudulent activity or malpractice taking place within the Group. The confidentiality of employees is always guaranteed by the members of the senior management/Board, and such employees would not be subjected to any sort of discrimination.

We ensure maximum adherence to all rules and regulations applicable to the jurisdiction of Sri Lanka. The senior management, HR Division and Risk and Compliance Department monitor the levels of compliance with all applicable rules and regulations governing all aspects of our business operations. As with the previous year, this year too no fines or monetary sanctions were imposed on the Group for non-compliance with rules and regulations.

CONTINUING TO DELIGHT OUR STAKEHOLDERS

In the coming years, continuous efforts will be taken to further strengthen our human capital by attracting, developing and retaining talent within the organisation to enhance the value generated to our stakeholders. Special focus will be placed on further reducing the employee turnover by improving our engagement activities.

To enhance the value of our human capital, greater emphasis will be given to providing more training and development opportunities to our employees with a through analysis of their specific training needs. A complete revamp is planned to the Human Resource Management system, to improve efficiency of the human resource function and to better monitor human capital development.

SOCIAL AND RELATIONSHIP CAPITAL

Social and Relationship Capital – The relationships and networks between stakeholders and the organisation, and the organisation and communities, that nurture everyone's well-being

OVERVIEW

Our successful journey of 15 years is ample evidence of the strong relationships we have built with our stakeholders. Being an insurance services provider, it is of utmost importance that we build and maintain strong and sustainable relationships to distinguish us from our competitors.

CUSTOMERS

We have always endeavoured to delight our customers by adding value to their lives through relationships built on trust, care and confidence.

KEY PERFORMANCE INDICATORS

Indicator	2016	2015	2014	2013	2012	Growth 2016
Claims and Benefits - Incurred (Rs. Mn.)	1,948	2,118	1,573	1,568	1,154	(8%)
Number of Branches	58	54	51	51	51	7%
Number of New Products	3	3	4	9	4	0%
% of Customer Complaints Settled	77%	54%	54%	78%	80%	n/a
Bonus for Policyholders (Rs. Mn.)	83	86	109	90	83	(4%)
Rate of Dividend for Non-Participating Policyholders	8%	7.50%	8%	9%	9%	7%
Average GWP per Bancassurance Officer (Rs. Mn.)	5.19	4.29	2.26	1.78	1.32	20%

n/a - *not applicable*

OUR MANAGEMENT APPROACH

We strive to achieve our vision of becoming 'Sri Lanka's most admired and trusted partner in meeting insurance needs professionally, with a spirit of caring'. This is why we consider it our utmost priority to secure the future of our customers. We consider customer satisfaction to be the most important yardstick in measuring our success.

Capital Management Reports

REFERENCE: GRI-G4 > G4-PR6

Understanding Customer Needs

In this modern dynamic environment, understanding the changing needs of our target customers is an important element when providing effective, cost efficient solutions to meet their insurance needs. Modern customers demand mobility, privacy and security from insurance providers. Constant effort is put into identifying ways of delivering such customer demands in a unique manner, to generate our competitive advantage in the market place.

Market and Customer Research

- During the year, comprehensive research was carried out to understand and identify existing gaps in our knowledge on customer behaviour in selecting a Life Insurance product in the market.
- Research was carried out during the year to identify the effectiveness of the claim process of the General Insurance business.
- Our propaganda vehicle travelled around the country identifying the insurance needs of people in rural areas.
- We use the expertise of intermediary agents to gather information on competitor activities.

Innovative Product and Service Design

The success of our business is dependent on the products and services offered by us. We introduce new products after careful analysis of the unmet customer needs in the market or needs that are not fully addressed by our competitors. Prior to introduction, our product development committee, comprising actuaries, insurers and professionals from other key disciplines, deliberate on the features, risks involved, pricing and profitability. Approval is obtained from the Insurance Board of Sri Lanka prior to the launch of products and we take steps to ensure that all products confirm to all relevant rules and regulations and no product of the Company was banned during the year.

Brand Visibility

Creating a strong brand value is the key to product visibility and customer attraction in the market place. During the year, we carried out numerous activities to position our brand and to enhance brand visibility and awareness across our target market.

Introduction of New Brand Guidelines

A new set of guidelines were developed with the aim of creating a unique identity for the brands. Accordingly, a structured brand architecture was developed for HNB Assurance PLC and HNB General Insurance Limited in a manner that leverages the corporate brand in to the product enabling the product logos to benefit from the equity of the corporate brand.

Liya Harasara - 4th Edition

Liya Harasara - 4th edition was launched to celebrate the International Women's Day

Batticaloa Trade Fair

A brand building activity for HNBGI was carried out at the Batticaloa Trade Fair, with over 100,000 participants

Four Seasons of Protection

The 'Four seasons of Protection' campaign was launched with the theme 'Holding Hands'

Press Releases

Press articles were published to increase brand awareness among customers

Social and Digital Presence

Brand presence of HNB Assurance PLC and HNB General Insurance Limited were seen on multiple social and digital platforms. Social platforms such as Facebook, Twitter, LinkedIn, WordPress and YouTube were used as a platform to communicate and create awareness, thereby connecting with various stakeholders of the brand and building strong relationships.

Enhancing Customer Service

Customer service is the key differentiator in our business. Creating a positive customer experience is a value embedded in to our employees and sales force, as we believe that the positive impact created on our customers will determine our current and future revenue.

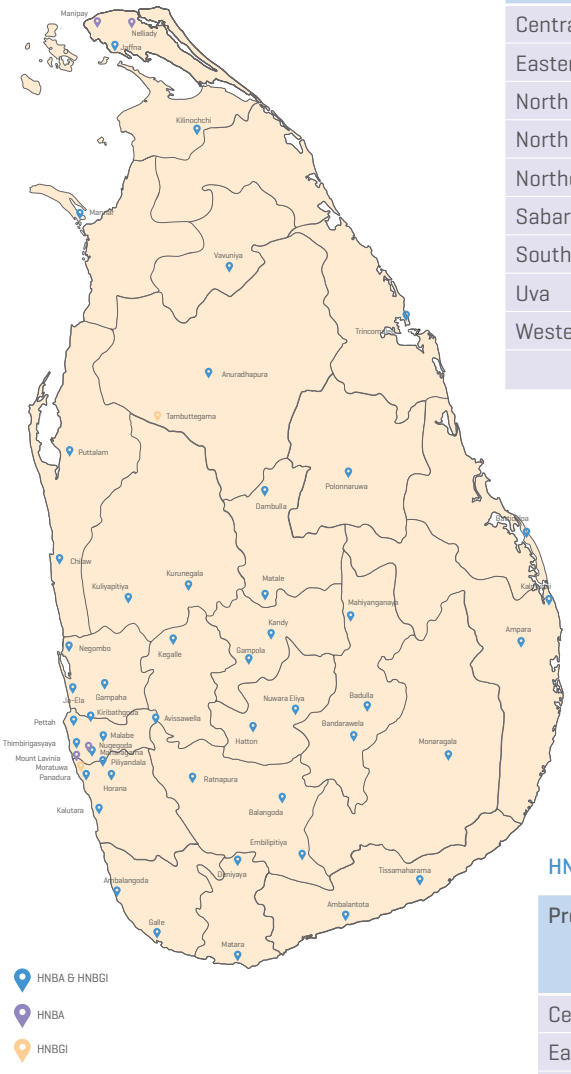
Customer Touch Points

We interact with our customers through many channels to enhance their convenience and accessibility. The following diagram depicts our customer touch points.

REFERENCE: GRI-G4 > G4-8

Distribution Network and Bancassurance Units

Over the years, we have built a strong distribution network, comprising 58 branches covering the entire nation. In addition, we have also placed Bancassurance Officers at selected branches of our parent, Hatton National Bank PLC. It enables us to reach customers in all corners of the country and provide them with the insurance solutions most suited to them and also helps them when purchasing policies, making premium payments, changing policies, in the event of a claim or when addressing any other concern.



HNB Assurance PLC

Province	GWP		Number of Bancassurance Units	Number of Staff	Number of Advisors
	Rs. Mn.	Contribution			
Central	253	7%	17	34	169
Eastern	185	5%	21	33	135
North Central	106	3%	9	16	58
North Western	257	7%	14	26	129
Northern	310	9%	17	32	193
Sabaragamuwa	176	5%	12	23	130
Southern	370	10%	20	34	141
Uva	173	5%	9	17	111
Western	1,724	49%	81	327	611
	3,554	**100%**	**200**	**542**	**1,677**

HNB General Insurance Limited

Province	GWP		Number of Assessors	Number of Staff	Number of Advisors
	Rs. Mn.	Contribution			
Central	319	10%	7	28	46
Eastern	116	4%	3	15	32
North Central	116	4%	3	13	26
North Western	143	5%	2	10	15
Northern	88	3%	2	14	23
Sabaragamuwa	201	6%	4	17	34
Southern	315	10%	6	27	70
Uva	135	4%	3	12	25
Western	1,709	54%	30	225	114
	3,142	100%	60	361	385

Capital Management Reports

REFERENCE: GRI-G4 > G4-DMA > G4-SO7 > G4-SO8 > G4-SO11 > G4-PR4 > G4-PR7 > G4-PR8 > G4-PR9 > G4-FS7

Delivering Our Promise

Upholding the promises made to our customers forms the foundation for our relationship. This is because the interaction between and insurer and the insured is built on trust, a key principle of insurance. Keeping our promises will determine the level of satisfaction and loyalty of customers, while also paving the way to attracting new customers through referrals. Thus, we have invested heavily on customer relationship management tools and techniques to ensure the best value addition to our customers. We have also adhered to highest ethical guidelines in providing all services to our customers and no legal action was filed against the Company during 2016.

PRODUCT SAFETY

All products delivered by us ensure highest level of safety and conform to regulatory and voluntary codes of best practices governing product development and marketing communication. No monetary fines were imposed on the Company on non-compliance of product safety during the years

PRODUCT DETAILS

All products delivered by us carry comprehensive information which is required by the customers to make their purchasing decisions. Complete information is published on policy documents, brochures and on media advertisements. During the year no product was subjected to regulatory concerns and no fines were imposed on the Company on non-compliance of laws and regulations concerning product information and labelling

CUSTOMER COMPLAINTS

We have established following mechanisms to address customer complaints;

Policy Conservation Unit (PCU) – Complaints, inquiries and issues related to insurance solutions

Customer Grievance Management Unit (CGMU) - Grievances related to Advisors

Claims Panel – Grievances related to claim settlement

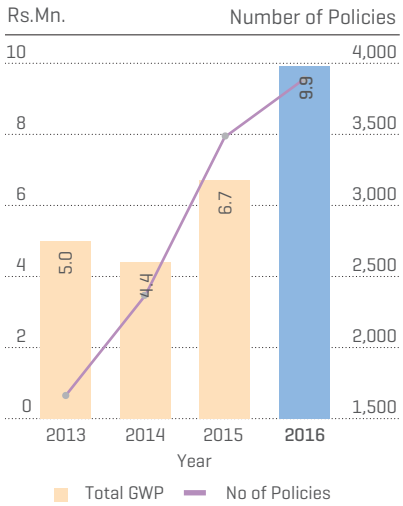
CUSTOMER PRIVACY

The importance of protecting the information disclosed by our customers is embedded in our value system and all our Employees and Advisors give due attention in protecting the confidentiality of the information of our customers. In 2016 we did not receive any complaints regarding compromising the confidentiality of customer information disclosed

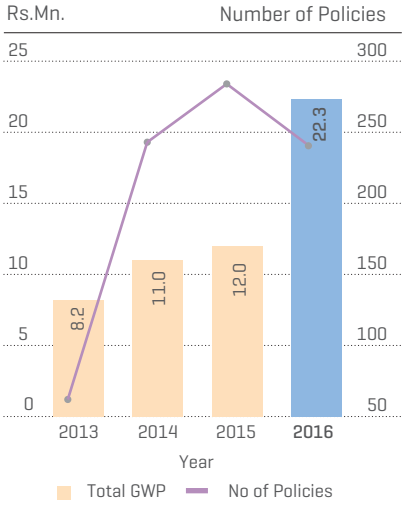
SOCIAL BENEFITS

We consider treating all customer segments an important aspect of sustainable growth of the Company and hence we have always extended our supporting hand to low income earning customers through our parent HNB. We have introduced the Micro Insurance and Ran Aswanu Product to provide protection to low income earning customers

Customer Related Policy Details - Micro Insurance



Customer Related Policy Details - Ran Aswanu



REFERENCE: GRI-G4 > G4-12 > G4-13

BUSINESS PARTNERS

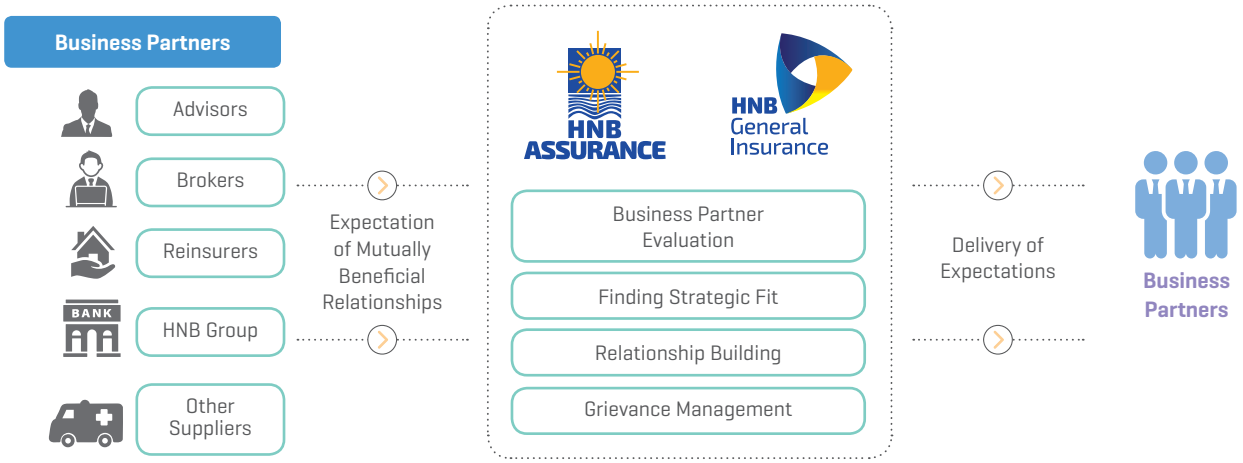
Business partners play a major role in our value chain and in creating sustainable value to our stakeholders. The strategic alliances created with our business partners help us to deliver value to all our stakeholders by creating win-win partnerships and synergies. To ensure these synergies, we only partner with business partners who share similar business values and ethics.

KEY PERFORMANCE INDICATORS

Indicator	2016	2015	2014	2013	2012	Growth 2016
Number of Advisors	2,062	1,815	1,533	1,507	1,643	14%
Commission Paid to Intermediaries (Rs. Mn.)	880	686	600	494	437	28%
Average GWP per Active Advisor (Rs. Mn.)	1.47	1.32	1.34	1.17	0.83	11%
Number of Brokers	48	57	55	52	49	(16%)
Number of Assessors	60	100	143	128	106	(40%)
Fees paid to Assessors (Rs. Mn.)	23.4	26.2	18	14	15	(11%)
Acquisition cost as a % of GWP	13%	12%	13%	13%	11%	N/A

n/a - not applicable

OUR MANAGEMENT APPROACH



Business Partner Evaluation

We have built a strong positive reputation in the industry over the years, and this has enabled us to command best practices among our business partners. We are very careful and organised in selecting business partners with whom we build long term relationships. A strict procedure of due diligence is carried out to evaluate their values, practices and operations.

During the year no transaction or dealing was recorded with unwarranted business partners exercising unethical or discriminative business practices.

Evaluation Criteria

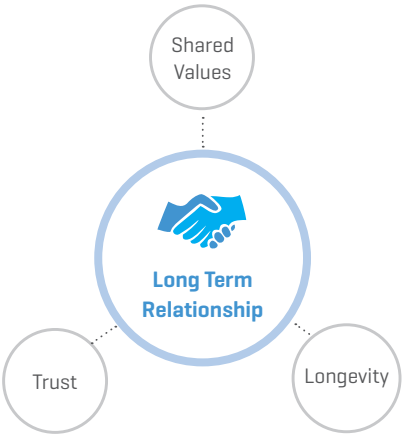
- ✓ Quality of Service
- ✓ Ethical Business Practices
- ✓ Compliance with Laws and Regulations
- ✓ Protection of Human Rights

Finding Strategic Fit

We always seek business partners that fit our set of corporate values. We only enter into relationships with business partners who foster integrity, transparency and commitment for excellence. Dealing with such business partners has enabled us to create the best value to all our stakeholders and to enhance the level of confidence they place on us.

Building Long Term Relationships

Maintaining long term relationships with our business partners is a key aspect in building relationship capital in the Company. Dealing with business partners who strategically fit our business model and corporate values has enabled us to maintain healthy long term relationships, thereby enhancing the quality of the relationship capital of the organisation.



Capital Management Reports

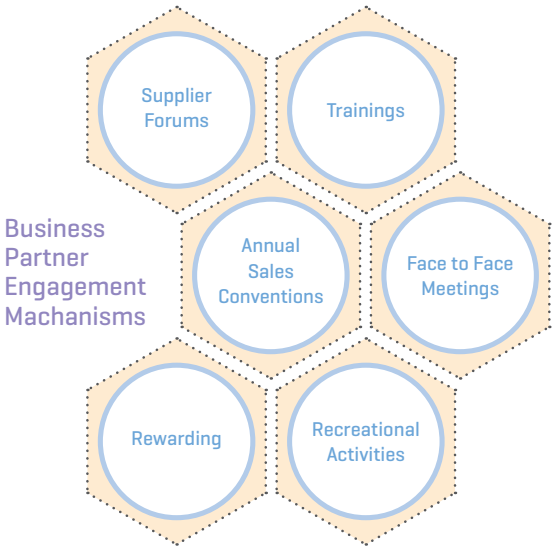
REFERENCE: GRI-G4 > G4-13

Engagement with Business Partners

We believe constant engagement with our business partners is vital in maintaining healthy relationships. It enables us to understand their concerns and respond to their needs effectively, thereby strengthening our relationship with them.

Grievance Management

We encourage open communication and regular feedback with our business partners, which reduce the space for conflicts and grievances. Critical and constructive engagement with all partners is promoted within the organisation with the aim of strengthening the long term relationships built over the years.



For the first time in the history of the Sri Lankan insurance industry, eight sales professionals attached to HNB General Insurance Limited were found competent as Sales Representatives and are eligible to receive the internationally acclaimed NVQ (Level) 4 certificate awarded by the Tertiary and Vocational Education Commission (TVEC) of Sri Lanka.

Relationship with Business Partners

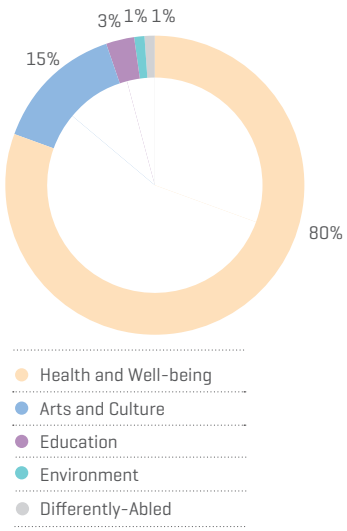
Business Partner	What We Expect	What We Offer
Insurance Advisors and Brokers	• Achievement of target premium income • Exceptional customer service • Honest dealing with customers	• Monetary rewards for target achievement • Recognition for outstanding behaviour through awards • Competitions that guarantee attractive prizes for winners • Opportunities to expedite development and growth
Reinsurers	• Rating of "A" or above from Standard & Poor, or equivalent rating from AM Best • Financial strength, service standards and reputation • Due settlement of reinsurance claims	• Access to a fast growing secondary customer base • Timely settlement of reinsurance premiums
Suppliers Relating to Claims	• Services at a reasonable price • Adherence to expected service standards • Prompt service and timely communication	• Preferred supplier status [through agreements] • Recommendation to customers, prompting word of mouth promotion
HNB Group	• Access to HNB branch network and brand	• Recognition for business channels • Sponsoring HNB branch level events
Other Suppliers	• Goods and services of specified quality • Ethical business practices • Sound after-sales services • Delivery on time and credibility	• Purchases at reasonable prices [no unfair bargaining] • Preferred supplier status [supplier registration process] • Equal opportunities to all registered suppliers [monitored through procurement policy]

REFERENCE: GRI-G4 > G4-DMA > G4-EC1 > G4-EC7

COMMUNITY

Our value creation model is committed to maximise the positive impact created on society. We do so by investing in resources on projects focusing on current social issues and thereby supporting and empowering communities. Our community engagement mechanism has many facets and our approach to Corporate Social Responsibility (CSR) is based on active collaboration, participation and dialogue with the communities we deal with. During the year, we invested around Rs. 3 Million on community development projects and created a positive impact on the lives of many.

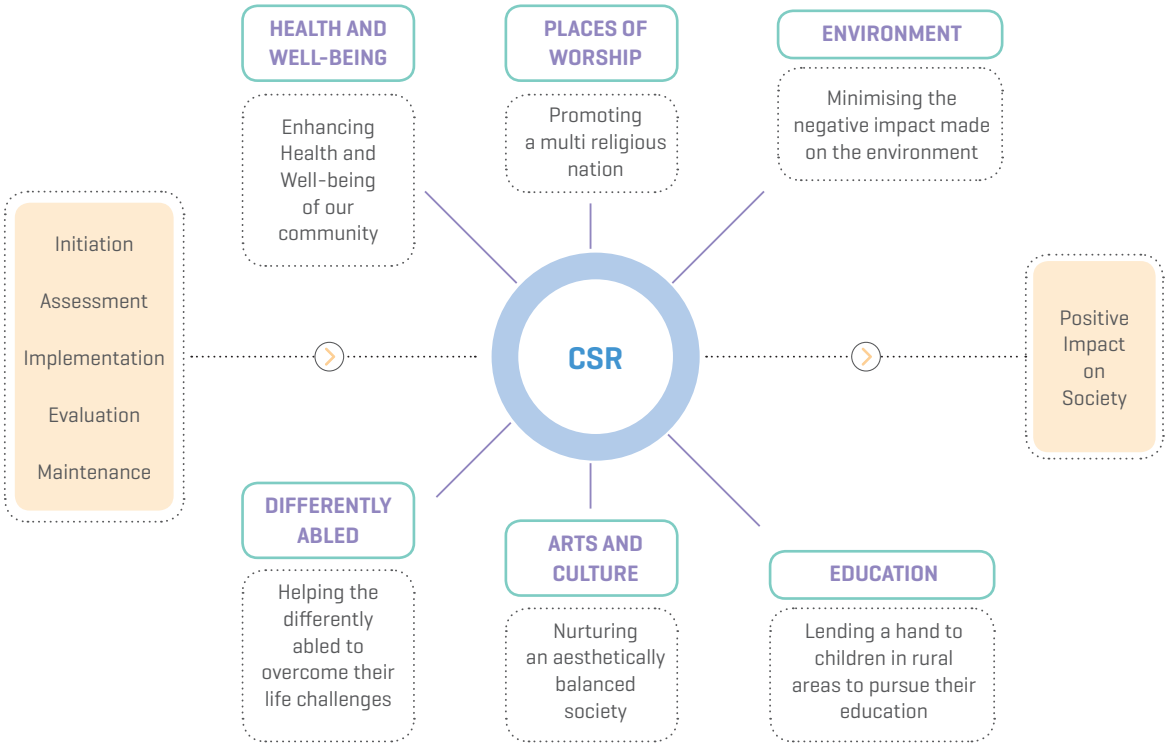
Investment in Community - 2016



KEY PERFORMANCE INDICATORS

Indicator	2016	2015	2014	2013	2012	Growth 2016
Number of Micro Insurance Policies	3,889	3,480	2,361	1,663	2,078	12%
Total Number of School Water Projects completed (cumulative)	43	36	33	27	21	19%
Total Investment in Community (Rs. Mn.)	3	3	3	3	2	-

OUR MANAGEMENT APPROACH



Capital Management Reports

REFERENCE: GRI-G4 > G4-EC7

HEALTH AND WELL-BEING

Suwathi Diwiyata Magak

We launched the programme 'Suwathi Diwiyata Magak' during the year, focusing on providing assistance and educating people on a number of topics aligned with healthy living, such as promoting a quality childhood, handling and creating awareness on non-communicable diseases. Through this programme, the Company organised several outdoor events, which included a physical fitness session, a discussion panel led by a health professional and opportunities for medical check-ups.

Blood Drive

The annual blood donation campaign, in its 11th consecutive year, was held at HNB Assurance Head Office premises on 23rd September 2016. We were able to collect 150 healthy blood pints, with the participation of 180 donors.

Healthy Living Symposiums

We joined hands with the College of Community Physicians of Sri Lanka and proudly sponsored a series of five healthy living symposiums across the country. Each symposium aimed to educate the general public on a number of topics bearing an impact on creating a quality childhood.

Pibidena Kekulu Fund

During the year, a financial contribution was made to the 'Pibidena Kekulu Fund' of the Cancer Care Association of Sri Lanka.

Water Stewardship

Continuing the water stewardship initiative of the Company, water purifying facilities were installed in several identified schools over the past year. The main objective of this initiative is to continuously improve access to clean drinking water in rural areas of the country, where people walk for miles in search of clean drinking water.

Udispattuwa Secondary School – Teldeniya

This school is located in Udispattuwa, off the Kandy – Mahiyanganaya main road. Being located atop a hill, the water supply provided by the National Water Supply and Drainage Board does not reach the school in sufficient quantities. To overcome this situation, the school had erected a tube well within the premises of the school, connected to a water source located downhill. We donated an electric motor and necessary equipment, including 04 tap line units, for the installation of a mechanism to efficiently extract water from the source and to pump it to tanks, from which it could be distributed to the students in the school.

Warankatagoda Maha Vidyalaya - Ampara

This school is located in Warenketagoda, on the Ampara - Mahiyangana Road, and has a student population of 1,400. This school receives water from the National Water Supply and Drainage Board, but lacks the storage and distribution infrastructure to be able to satisfactorily meet the needs of the student population. Donations were made to install 3 water tanks within the school.

Pallegama Secondary School – Deniyaya

This school is located in Deniyaya, approximately 6 km from the town on the boarder of the Sinharaja forest reserve. The school obtains water through a dilapidated system from the town, which is sourced through the forest reserve. As a result, water quantities were insufficient for the consumption of the students. Donations were made to modernise the existing water system.

Neethta Maha Vidyalaya- Ampara

This school is situated approximately 35 km from Ampara, in Neetha, Madawalalanda. Water in the area is salty and unfit for human consumption. The school does not receive water supply from the National Water Supply and Drainage Board due its distance from the source of main supply. It only receives water from the adjoining Navy camp once a week, and does not have adequate storage facilities. Hence, donations were made for the installation of a water tank on a tower, and for the construction of a system of taps for the students to use.

Suwathi Diviyata Magak Session 01

The 11th HNB Assurance Blood Drive - A Blood Donation Camp Organised by HNB Assurance and HNB General Insurance

The Western Provincial Health Symposium on Building Awareness among Key Stakeholders to Promote a Healthy Life Style from Birth to Retirement.

An event held in aid of the 'Pibidenu Kekulu Fund' of the Cancer Care Association of Sri Lanka

Donation of a Purified Drinking Water System to Udispattuwa Secondary School in Teldeniya

REFERENCE: GRI-G4 > G4-EC7

Godakumbura Secondary School- Kotapola

This school is located in Kotapola, approximately 8 km away from the Deniyaya town, on the boarder of the Sinharaja forest reserve. 125 students are studying in this school, which conducts classes up to G.C.E O/L. Though the school possesses a well, it did not have a proper system to distribute water within the school premises. A donation was made to enhance the exiting water system and to expand the distribution of water within school premises.

Mylambavely Sri Vigneswara Viddyalayam- Batticola

This school is located in Batticaloa, approximately 3 km away from the Batticaloa Town. Though the school has a dug well, extracted water cannot be used for drinking purposes due to its low quality. A donation was made to construct a deep tube well and a system to extract, store and distribute water.

Eriyawa Mahinda Primary School – Galgamuwa

This school is located in the Galgamuwa Education Division in Mahawa. The school lacks access to purified drinking water, as the water in the area is unfit for consumption. A donation was made to implement a Reverse Osmosis Water Purification plant.

ARTS AND CULTURE

Felicitating Veteran Artists

HNB Assurance took great strides in acknowledging the contribution of several artists of the yester-year to the entertainment industry in Sri Lanka. Accordingly, appreciation was made in the form of financial assistance to Mrs. Chrithra Wakista, a renowned stage, film and teledrama actress, for her outstanding acting skills, Mrs. Daya de Alwis for her extraordinary lyrical, composing and announcing skills, and to Mr. Mervin Priyantha, an exceptional mouth organist with over 40 years of experience in the music industry.

DIFFERENTLY-ABLED

With a deeper understanding about the needs of the differently-abled, guided by our true spirit of caring, we donated books to the Ceylon School for the Deaf and Blind, Ratmalana.

EDUCATION

Pitakanda Vidyalaya, Bulutota, Embilipitiya

We donated material required to build an aesthetic room in this school. The school accommodates 150 students and is known for showcasing their aesthetic talents, although the school operates with minimum facilities. This donation helped the school to develop a separate premises for dancing and other activities, in order to support the students.

PLACES OF WORSHIP

Cash donations were made to four places of worship, each representing a major religion in Sri Lanka.

ENVIRONMENT

With a pledge to protect the environment, HNB Assurance became a proud member of Bio Diversity Sri Lanka. Through this, we vouched to sponsor several projects focusing on protecting the environment.

A Reverse Osmosis Water Purification Plan was Donated to Eriyawa Mahinda Primary School in Galgamuwa

The Importance of Water Shown in a Graphical Form by a Student of Warankatagoda Maha Vidyalaya in Ampara

CONTINUING TO DELIGHT OUR STAKEHOLDERS

Social and relationship capital plays a significant part in our value creation model and we pay great emphasis on its development, to better serve all our key stakeholders. We will continue to offer best quality products and services to our customers and thereby improve the revenue lines of the Company. We will also continue to work closely with our business partners, further strengthening the relationships built with them, by creating win-win partnerships to enhance our value generation process. We will continue to be a responsible corporate citizen by investing more resources on community development projects, enriching the positive impacts made on the greater community we engage with.

Felicitating Our Veteran Artists, Mrs. Chrithra Wakista, Mrs. Daya de Alwis and Mr. Mervin Priyantha at the 11th HNB Assurance Sales Convention

Donation of a Purified Drinking Water System to Godakumbura Secondary School in Katapola

Donation of a Drinking Water System to Pallegama Secondary School in Deniyaya

Capital Management Reports

INTELLECTUAL CAPITAL

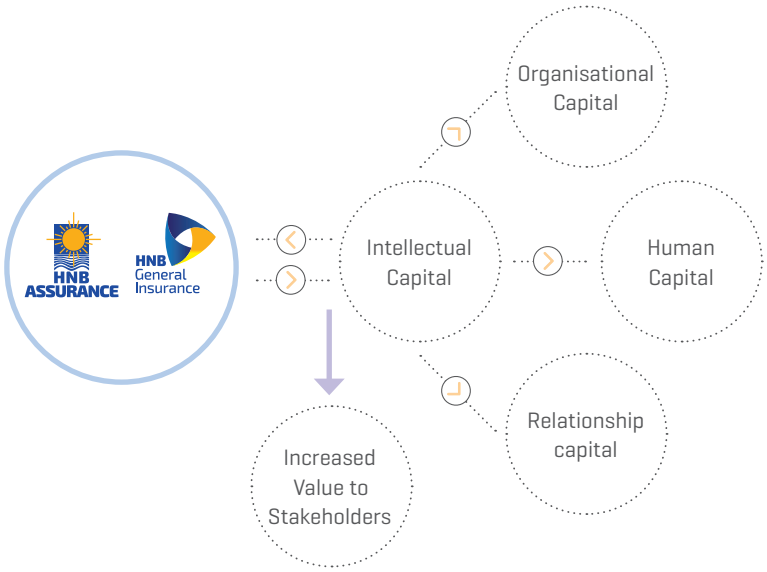
Intellectual Capital Knowledge, systems, procedures and protocols in place to achieve the vision and mission of the organisation

OVERVIEW

Intellectual capital is the organisation-based knowledge, systems, procedures and protocols in place to achieve our vision and mission. Although it is essentially in intangible form, and does not appear in our Financial Statements as an asset, identification and development of intellectual capital is pivotal in creating value to all our stakeholders.

OUR MANAGEMENT APPROACH

We consider intellectual capital to be a major value driver of our business operations. However, it needs to be built over time through carefully articulated strategies. Thus, we place great emphasis on building and shaping our intellectual capital by managing relationship capital, human capital and organisational capital to enhance the value delivered to our stakeholders.



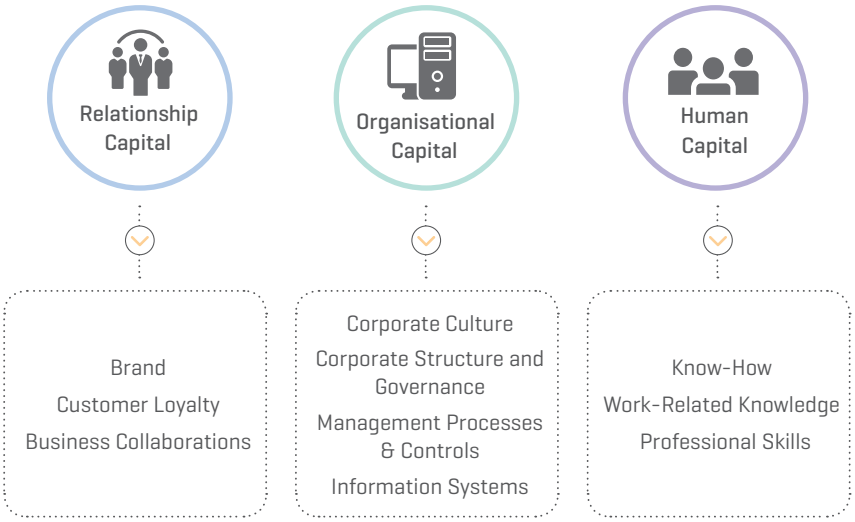
RELATIONSHIP CAPITAL

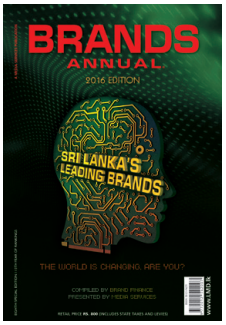
As the insurance arm of a leading commercial bank, Hatton National Bank (HNB), our most significant intellectual capital is our association with HNB. As 'HNB Assurance' and 'HNB General Insurance', carrying a part of the 'HNB' brand, we are inevitably linked to the values and trust signifying 'HNB'. This is a unique competitive advantage we carry over our competitors and thus, this is our most unique form of intellectual capital.

Both HNB Assurance and HNB General Insurance Limited have been assigned 'A' (lka) rating, with a stable outlook, from Fitch Ratings Lanka Limited, for National Long Term Rating and Insurer Financial Strength Rating. These signify our financial strength and claim paying ability, and thus remain a key form of relational capital.

Further, the Group maintains strong business collaborations with business partners, including our parent HNB, 'A' rated panel of re-insurers, advisors, insurance brokers, financial institutions, claim assessors, spare-part dealers and garages, among others. These collaborations lead to higher business volumes, lower costs, and superior customer satisfaction. Details on the strategies used to strengthen relationships are given on pages 139.

Due to the essentiality of trust in delivering insurance, customer referrals play a key role in our business operations. Accordingly, customers recommending us to their friends is a primary form of exhibiting customer loyalty in our business. Having identified this, the Group implements numerous strategies to build customer loyalty. These range from maintaining a strong financial position and a comprehensive range of insurance solutions to innovation and technology, and our 'spirit of caring'.





For the 4th consecutive year, the Company has been included in the prestigious LMD Top 100 Brands in Sri Lanka, with a brand value of Rs. 700 Million

HNBA is among the Top 100 Brands in Sri Lanka

HNBA and HNBGI are top-of-the-mind insurance brands for Sri Lankan citizens

135,027
Life Insurance Policyholders

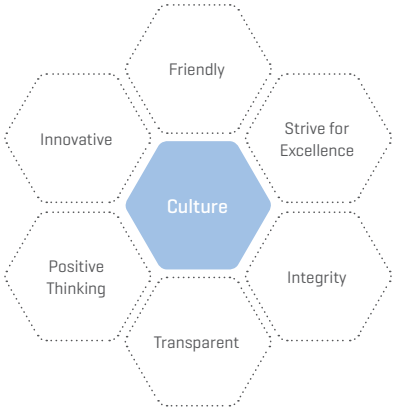
131,324
General Insurance Policyholders

ORGANISATIONAL CAPITAL

Living by our mission, we have established an innovative culture in the Company and our subsidiary, where new ideas and suggestions are welcome at all times.

Corporate Culture

The culture at HNBA could be illustrated as follows;



Management Processes and Controls

All management processes of HNBA are distinctive and create a unique value proposition to our stakeholders.

Corporate Structure and Governance

Our organisational structure, illustrated on page 8, is designed to best operationalise our business model. As a responsible corporate citizen, integrity and transparency are a top-most priority. Therefore, while implementing unique value creating processes, we also have ensured control systems within the Company that allow us to maintain a high level of integrity. Details on corporate governance are further discussed on pages 52 to 110.

Information Systems

The Group has taken numerous initiatives to improve its information systems and processes. Our primary systems are the core insurance application and the finance system, which are used for all information needs of the Group, along with other ancillary systems. We are in the final stage of implementing the actuarial software called 'Prophet', to strengthen our actuarial function.

We periodically revisit our processes to identify gaps and areas for improvement and to improve efficiency and effectiveness. During the year under review, we centralised the motor underwriting process in order to provide a superior service to our customers. Further, a workflow system was developed and implemented to streamline the centralised motor underwriting process.

One salient feature of the workflow systems are performance dashboards. Such dashboards have given the decision makers the complete visibility of the process, thereby enabling the delivery of high quality services to customers, with much better turnaround times.

HUMAN CAPITAL

We continuously endeavour to enhance the expert knowledge of our human capital. High importance is placed upon acquiring knowledge and experience through external trainings and qualifications. The expert knowledge of our people is spread across various disciplines, and key members of all divisions and the distribution management are professionally qualified in their respective fields. Strategies adopted and performance indicators used to monitor and develop our human capital appear on page 126.

CONTINUING TO DELIGHT OUR STAKEHOLDERS

In the coming years, the Group will continue to invest in strengthening our intellectual capital, enabling us to face market competition with a distinct advantage. The development of new software to further strengthen our processes and to increase efficiency is one area that we will focus on. Further, we also intend to exploit 'big data' to improve pricing and market segmentation analysis, and to identify customer needs, while our processes will be revisited and re-engineered where necessary. Simultaneously, brand building activities will be carried out, and our unwavering efforts to enhance human capital will proceed as discussed in the Human Capital Review.

Capital Management Reports

MANUFACTURED CAPITAL

Manufactured Capital - Physical objects which are not natural objects, that are available to a business to use in the production of goods or services

OVERVIEW

Being a service provider operating in the insurance industry, our business model does not require heavy investments in manufactured capital. Nevertheless, the limited investments in manufactured capital we do hold, play a vital role in our value creation process.

MANAGEMENT APPROACH

Our investment in manufactured capital mainly comprise of the following categories;

- Office Equipment
- Furniture, Fittings and Fixtures
- Motor Vehicles
- IT Equipment
- Long Term Lease Premises

We attempt to maintain manufactured capital at a minimum in order to avoid tying up of capital in assets which are not considered for regulatory asset calculations.

Office Equipment

- Rs. 61 Million invested in office equipment as at 31st December 2016
- The carrying value of office equipment is Rs. 11 Million

Furniture, Fittings and Fixtures

- Rs. 155 Million invested in Furniture, Fittings and Fixtures, as at 31st December 2016
- The carrying value of Furniture, Fittings and Fixtures is Rs. 80 Million

Motor Vehicle

- Rs. 21 Million invested in Motor Vehicles as at 31st December 2016
- The carrying value of Motor Vehicles is Rs. 2 Million

IT Equipment

- Rs. 210 Million invested in IT equipment as at 31st December 2016
- The carrying value of IT equipment is Rs. 68 Million

Long Term Lease Premises

- All our branch premises and our Head Office operate on long term lease agreements

REFERENCE: GRI-G4 > G4-DMA > G4-EN3 > G4-EN23

NATURAL CAPITAL

Natural Capital Renewable and non-renewable resources in the environment that support the organisation to achieve its vision and mission

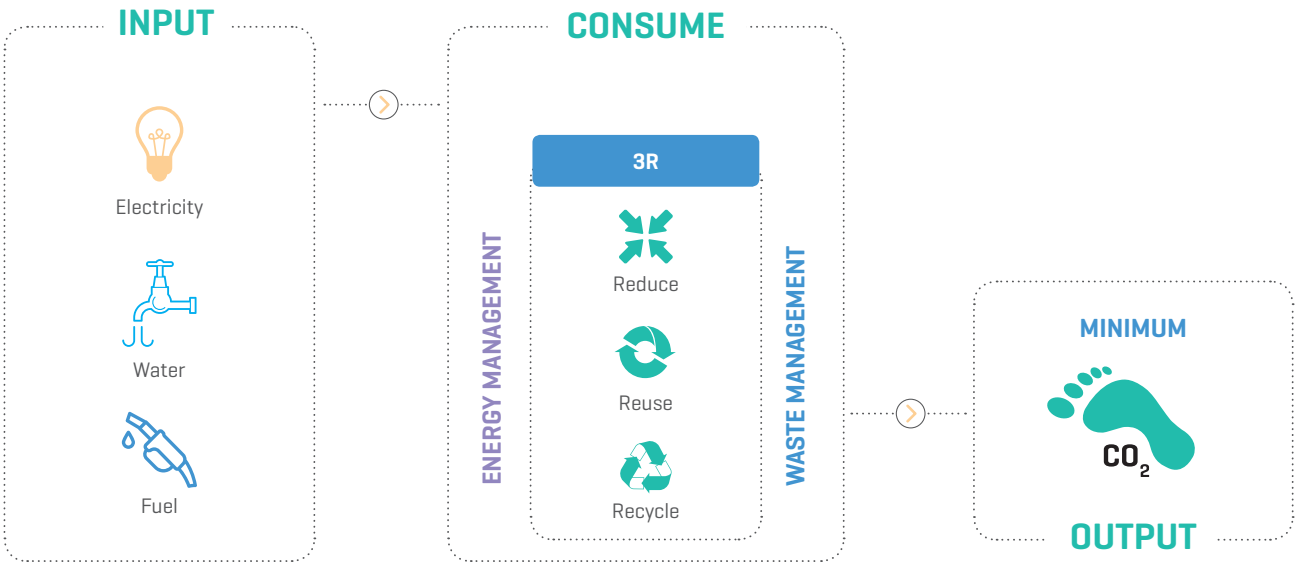
OVERVIEW

As any other organisation, we too use natural resources to conduct our business activities. Any such renewable or non-renewable environmental resource, used in the past, at present or in the future, to achieve our vision and mission, is what we identify as environmental capital. As the supply of any environmental resource is limited, we consider it our duty to use it sustainably, in a manner that does not hinder its availability to future generations.

OUR MANAGEMENT APPROACH

Conserving natural capital is considered to be a vital part of our sustainable business model. As an insurance service provider, the impact of our business model on the environment is relatively low. However, we consider it our responsibility to conserve environmental resources, and hence, we take constant measures to identify and quantify the impacts made by us on the natural environment. This vigilant approach assists us to reduce any negative impacts we may make, while promoting positive impacts.

Energy, water and paper are the main resources used within our business model as natural resources. Our approach is simple; reduce, recycle and reuse, and thereby minimise our carbon footprint.



INPUT ENERGY MANAGEMENT

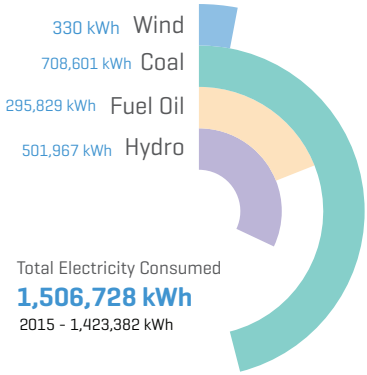
Electricity

We use electricity to carry out our daily operations, and this is the main source of energy used in our business model. We have taken measures to reduce the units of energy consumed by us, with the view of reducing our carbon footprint.

Initiatives taken to Reduce Electricity Consumption

- Promote use of alternative energy sources
  - Our new Head Office premises uses solar power to generate electricity and this has reduced our per unit electricity cost by approximately 15%
- Use of LED bulbs to save energy at Head Office premises
- Strict monitoring of electricity usage at the branch level

The use of alternate energy sources commenced from December 2016. Thus, the full impact of savings will only be realised in the next year.

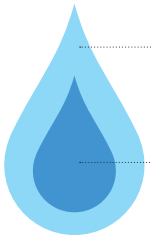


Capital Management Reports

REFERENCE: GRI-G4 > G4-EN3 > G4-EN23 > G4-FS8 > G4-DMA

Water

Water is mainly used for cleaning, sanitation and drinking needs. Water required for cleaning and sanitation needs is received from the National Water Supply and Drainage Board, and by harvesting rain water. Water for drinking needs is received in the form of purified drinking water obtained from deep tube wells. Used water is discharged through the local sewage system and measures are taken to ensure no water is disposed in a manner harming the biodiversity or natural habitats of our surroundings.



12,533,000 LITERS
OTHER PURPOSES

316,673 LITERS
DRINKING WATER

Fuel

We use fuel for business travelling and employees' daily commuting purposes. Business travelling is monitored and reimbursements are only made to a maximum percentage of the business generated. Excessive use of fuel is discouraged, with the system of reimbursing the fuel costs of employees being set to a maximum of a predetermined limit.

490,196 LITERS
2015 - 482, 682 LITERS
FUEL USED

OUTPUT ENERGY MANAGEMENT

Waste

As a service organisation, paper is our main form of waste. The 3R's, or Reduce, Reuse and Recycle, are constantly encouraged within the organisation to manage waste. All forms of e-waste are disposed in an environmentally friendly manner, through e-waste collectors.

Reduce
- Automation of Processes
- Use of multipurpose efficient printers
- Using both side of paper for printing

Reuse
- Reuse of used paper for internal communication
- Reuse of cardboard boxes for document archiving

Recycle
- Recycle of all paper used in Head Office through Neptune Papers Pvt.Ltd
- Segregation of waste material into Organic , composite and non-degradable waste

Savings Achieved in 2016

8,247 LITERS
OIL

18,796 KWH
ELECTRICITY

149,334 LITERS
WATER

80
TREES

14 M^3
LAND FILL

4,699 KG
GREEN HOUSE EMISSION

REFERENCE: GRI-G4 > G4-DMA > G4-EN29

EXTENDED RESPONSIBILITIES

As a responsible corporate citizen, we have embedded our values on protecting the natural environment into our products as well. Accordingly, we offer 'MotorGuard Eco Insurance' for hybrid vehicles, which are more energy efficient. During the year, 6,593 such policies were issued, generating GWP of Rs. 260 Million.

We have also taken initiatives to promote and embed 'Green Ethics' within our workforce. Measures are taken to change the thinking and behavioural patterns of our employees, to promote energy conservation and sustainability.

Due to our responsible corporate behaviour, no law or regulation related to the environment was violated during the period under review, and no significant fines were levied on us for non-compliance with rules and regulations related to the environment.

CONTINUING TO DELIGHT OUR STAKEHOLDERS

We commit ourselves to the betterment of the community and the well-being of the people through environment conservation. In the coming years too, we will work towards measuring and minimising our carbon footprint, while taking measures to create a positive impact on Mother Nature, to ensure long term sustainability.

BIODIVERSITY SRI LANKA

With a pledge to protect the environment, HNB Assurance PLC became a proud member of Bio Diversity Sri Lanka. Through this, we vouch to sponsor several projects focusing on protecting the environment

Life Insurance Review

OUR PERFORMANCE DASHBOARD

Strategic Imperatives

1. Understanding the Market
2. Improve Underwriting & Investment Income
3. Capitalising on Distribution Channels
4. Deliver Customer Satisfaction
5. Improve Operational Efficiency
6. Provide High Returns to Shareholders & Policyholders

PREMIUM PERSISTENCY

2015	2016
82.6%	84.5%

Our focus on high quality and sustainable business acquisition increased this KPI

LAPSE RATIO

2015	2016
46%	46%

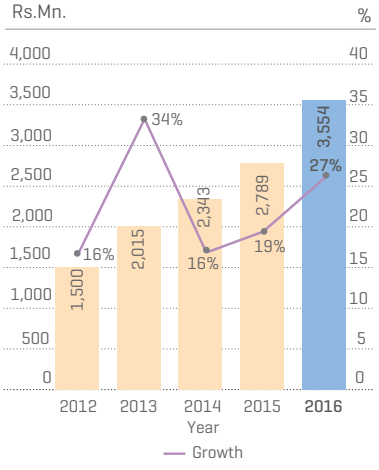
We continued to implement new strategies in premium collection and policy revival

MARKET SHARE

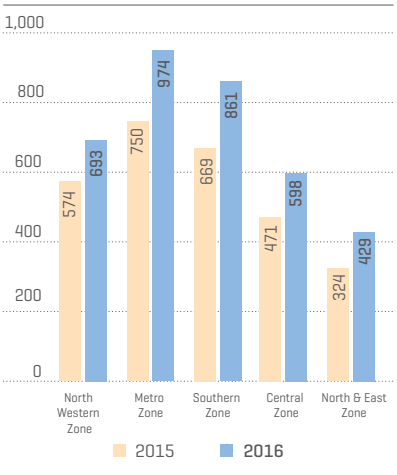
2015	2016
5.2%	5.6%

Above industry growth in our top-line contributed to the increased market share

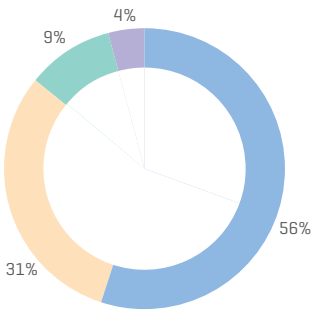
Gross Written Premium - Life Insurance



Zone-wise GWP Performance



Premium Type - Life Insurance 2016



	Rs.Mn.
Renewal Premium	1,975
New Business Premium	1,099
Single Premium	352
Group Life Premium	128

Our Key Financial Performances

	2016 Rs.'000	2015 Rs.'000	Growth
Gross Written Premium	**3,554,078**	**2,788,716**	**27%**
Net Earned Premium	3,395,028	2,680,753	27%
Investment Income & Other Revenue	1,031,606	783,126	32%
Net Income	**4,426,634**	**3,463,879**	**28%**
Net Insurance Benefits and Claims	(401,677)	(280,495)	43%
Change in Contract Liabilities - Life Fund	(1,708,285)	(1,462,100)	17%
Other Expenses	(1,660,030)	(1,264,256)	31%
Total Benefits, Claims and Other Expenses	**(3,769,992)**	**(3,006,851)**	**25%**
Profit Before Taxation	**656,642**	**457,028**	**44%**
Income Tax (Expenses)/Reversals	(56,512)	(29,383)	92%
Profit for the Period	**600,130**	**427,645**	**40%**

NUMBER OF POLICIES

2015	2016
123,295	135,027

Constant training and development of our staff and advisors supported us to attract new customers

CAR RATIO

2015	2016
282%	445%

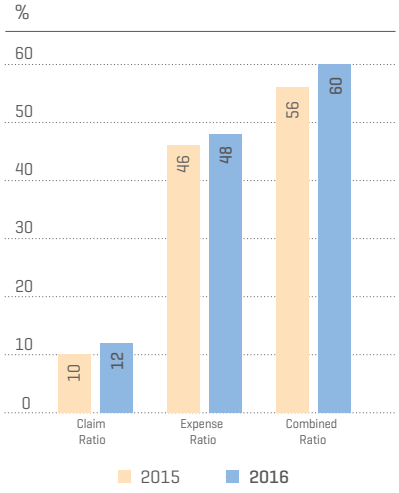
Prudent investment guidelines and risk management policies have improved the stability of the Company

DIVIDEND FOR POLICYHOLDERS

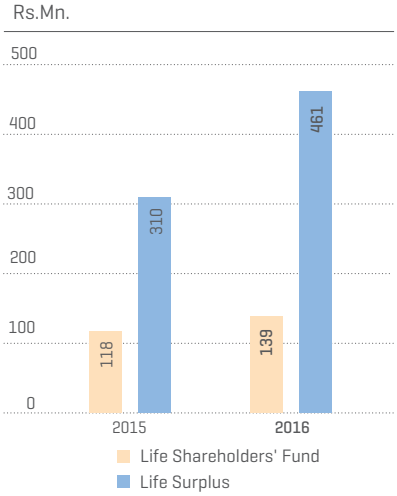
2015	2016
7.5%	8%

Increase in dividend rates was mainly driven by the market changes

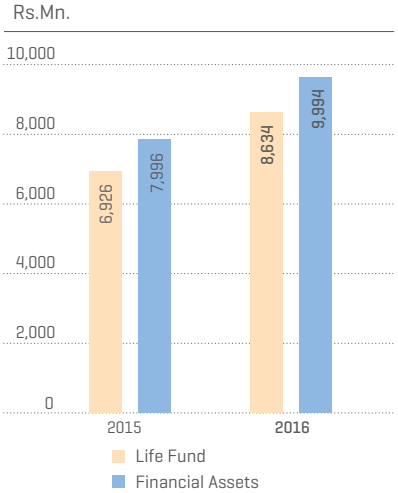
Ratio Comparison



Profit After Tax (PAT)



Stability of the Life Fund



Life Insurance Review

OVERVIEW

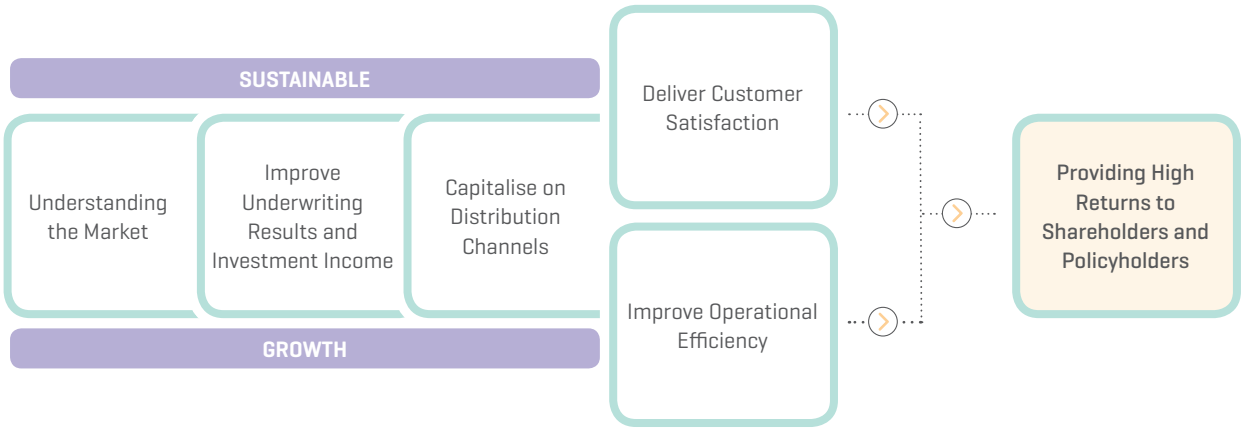
2016 was a successful year for the Life Insurance business, albeit in a dynamic and complex environment that posed challenges on many fronts. The singular resolve of the Company to create value to all its stakeholders provided the impetus of crafting and implementing strategies that helped in surpassing benchmarks set by the industry, as well as its own past performance.

The Company achieved Gross Written Premium of Rs 3.6 Billion during the year, at a growth of 27% compared to Rs 2.8 Billion achieved in 2015. Further, the Company was able to make a surplus transfer from the Life Insurance business to shareholders of Rs. 461 Million, compared to Rs. 310 Million made in 2015. Meanwhile, the Net Profit of HNB Assurance PLC was recorded at Rs. 600 Million, 40% higher than the Net Profit of 2015.

WHERE WE FOCUS

The focus of the business is on sustained growth in revenue, and growth that provides attractive returns to our shareholders and policyholders. The focus on sustained growth has enabled the Company to provide high dividends and bonuses, on top of the protection our policyholders require. The following diagram is an illustration of the strategic imperatives that the Company focused on during the year.

Strategic Imperatives



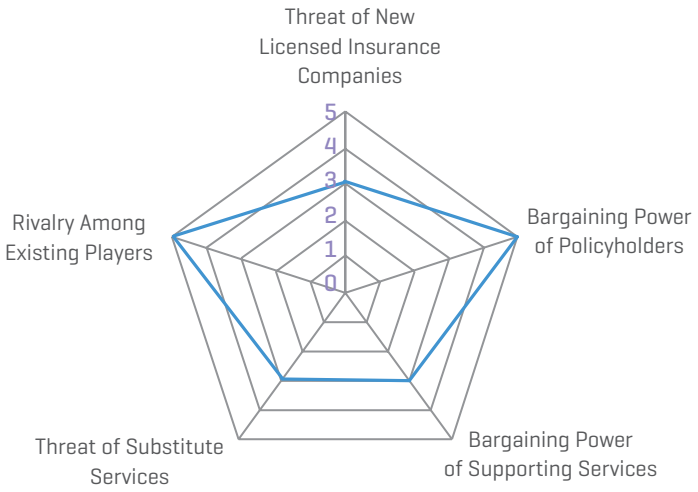
IMPERATIVE 1: UNDERSTANDING THE MARKET

The economic environment has a profound impact on the Company's operations. Sluggish economic growth meant that households had lower disposable income. However, the hike in market interest rates influenced customers to channel their funds to alternate instruments that provided higher returns than insurance.

We believe that understanding market conditions lays the foundation for the success of a business, and hence, expanding this understanding is a priority in the Life Insurance business. At HNBA, this takes the form of analysing market conditions and conducting surveys, as part of the planning process.

Force	Detailed Analysis	Impact on HNBA
Threat of New Licensed Insurance Companies	Regulatory requirement of minimum capital of Rs. 500 Million and the implementation of the Risk Based Capital (RBC) model will reduce the threat of new entrants. Life Insurance, which is inherently a long term product, leads customers to choose providers that have strong brand equity, which in turn would pose a barrier to new entrants. Life Insurance distribution is greatly dependent on a strong and vibrant sales force. Not having access to such a sales force would hamper a new entrant's ability to succeed in the market.	Moderate
Threat of Substitute Services for Life Insurance	Even though direct substitutes for Life Insurance do not exist in the market. Many commercial banks are offering investment plans that have incorporated a free Life Insurance cover. This could be identified as a potential substitute with regard to certain segments of the market	Moderate

Force	Detailed Analysis	Impact on HNBA
Bargaining Power of Supporting Services	Many Reinsurers operating in the global market are willing to extend their services. Since there is a very low switching cost, companies can enter in to an agreement with any Reinsurer with an appropriate financial rating. Extensive availability of supporting services such as hospitals, laboratories etc., increases the bargaining power of the Company.	Moderate
Bargaining Power of Policyholders	In relation to the Life Insurance business, the bargaining power of the policyholders on existing policies reduces once the premium payments have been made. This, however, is not the case with regard to new policies.	High
Rivalry Among Existing Insurance Companies	Even though the insurance penetration rate is 12% of the population, rivalry is high amongst industry players who target those sections in society with larger chunks of disposable income. Regulatory interventions limit unhealthy competition. Nonetheless certain large scale insurance companies being non-compliant with the segregation rules has created an uneven battlefield.	High



Based on the above analysis, it is understood that the most intense threats arise due to the rivalry among existing players and the high bargaining power of policyholders. Accordingly, these factors were given due consideration in the strategy formulation process of the Company.

Company had the objective to cross the Rs. 3 Billion milestone in GWP in the year we celebrate 15 years in business.

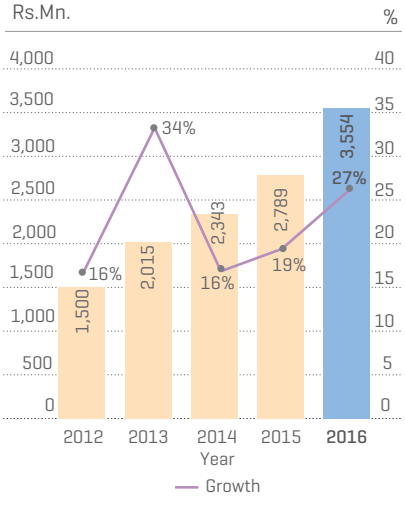
IMPERATIVE 2: IMPROVE UNDERWRITING RESULTS AND INVESTMENT INCOME

Increase Growth in GWP

GWP	2016	2015	2014	2013	2012
Industry (Rs. Mn.)	63,553	53,586	44,650	40,873	37,046
HNBA (Rs. Mn.)	3,554	2,789	2,343	2,015	1,500
Market Share	5.59%	5.20%	5.20%	4.90%	4%
Growth (Industry)	19%	20%	9%	10%	5%
Growth (HNBA)	27%	19%	16%	34%	16%
Rank	6	6	6	7	7

As indicated in the above table, the Company outperformed the industry during the year, thereby maintaining its market position. This was made possible by the growth rates in New Business, Renewal and Group Life categories, which were well above industry growth rates. In addition, the Company demonstrated a compound annual growth rate (CAGR) of 22% over the past five years, well above the industry CAGR of 13%.

Gross Written Premium - Life Insurance



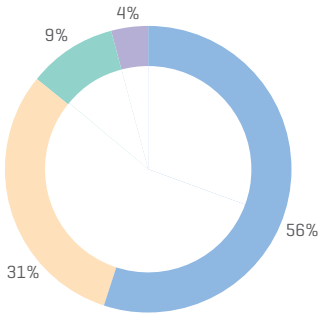
Life Insurance Review

Achieve a Profitable GWP Mix

We believe that achieving a high GWP growth alone would not enhance the value delivered to stakeholders in the Life Insurance business. Therefore, we maintain a healthy business mix, deliberated and agreed upon by both the management and the Board of Directors, which is communicated to all layers of the Company and the distribution network.

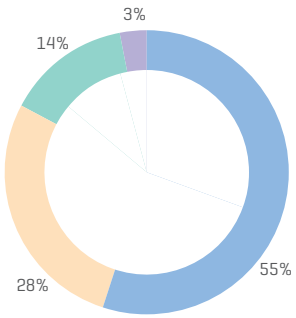
Type	HNBA					INDUSTRY				
	Rs. Mn.		Growth	% Contribution		Rs. Mn.		Growth	% Contribution	
	2016	2015		2016	2015	2016	2015		2016	2015
New Business Premium	1,099	781	41%	31%	28%	16,847	13,295	27%	27%	25%
Renewal Premium	1,975	1,539	28%	56%	55%	37,561	32,516	16%	59%	61%
Single Premium	352	384	(8%)	9%	14%	5,675	4,804	14%	9%	9%
Group Life	128	85	52%	4%	3%	3,470	2,971	23%	5%	5%
Total	3,554	2,789	27%	100%	100%	63,553	53,586	19%	100%	100%

Premium Type - Life Insurance 2016



	Rs.Mn.
Renewal Premium	1,975
New Business Premium	1,099
Single Premium	352
Group Life Premium	128

Premium Type - Life Insurance 2015



	Rs.Mn.
Renewal Premium	1,539
New Business Premium	781
Single Premium	384
Group Life Premium	85

Strategies Implemented to Achieve NBP & RNW

- Focus on selling profitable Endowment policies, with target based incentives
- Expansion of the policy conservation unit to focus on First Year Premiums and Renewals to reduce lapses
- Encourage the sales force to achieve international standards by qualifying for Million Dollar Round Table (MDRT) membership
- Revamped training modules targeting Endowment policies
- Enhancements in premium payment methods
- Campaigns and competitions focusing on NBP conducted throughout the year and across the island

New Business Premiums (NBP) and Renewal Premiums (RNW)

Endowment NBP lays a strong foundation for future growth, as Regular Premium business ensure continuous stream of GWP. Our focus is to make headway through the growth in Endowment business, and we succeeded in achieving GWP of Rs. 1,099 Million in 2016, compared to Rs. 781 Million in 2015, at a growth of 41%. It is noteworthy that the Company has been able to achieve on of the highest growth rates in the industry in relation to NBP.

Premiums of Endowment policies from the second year onwards, known as Renewal GWP, grew by 28% (2015: 21%) over the previous year. Renewals accounted for 56% of the Company's Life Insurance GWP.

Strategies Implemented to Achieve Group Life Policies

- Enter in to strategic partnerships with large corporate clients
- Strengthen selling proposition by enhancing customer service

Single Premium GWP

The Company continued to capitalise on available market opportunities, to grow the Mortgage Reducing Policy (MRP) business category by 15% (2015: 52%), while the Micro Insurance business portfolio grew by 47% (2015: 54%). A decision to reduce investment based Single Premium products was taken after considering the external market conditions and the long term direction of the Company.

Manage Claims and Benefits

	2016 Rs. Mn	2015 Rs. Mn	Growth
Death Claims	173	83	108%
Hospitalisation Claims	27	13	113%
Maturity Claims	104	119	(12%)
Surrenders	84	55	54%
Annuities	12	11	13%
Total Net Claims and Benefits	402	280	43%

The Net Claims and Benefits of the Company increased by 43% to Rs. 402 Million during the year (2015: Rs. 280 Million) due to the increase in death claims incurred from enhanced portfolio of Group Life, Mortgage Reducing and Endowment policies during the year. A concerning factor was the increase in surrenders during the year.

Consequently, the Claims Ratio also increased to 12%, inclusive of maturities, and 9%, exclusive of maturities. The Company is in the process of analysing the causes for this increase and remedial action will be taken as necessary.

Managing Expenses

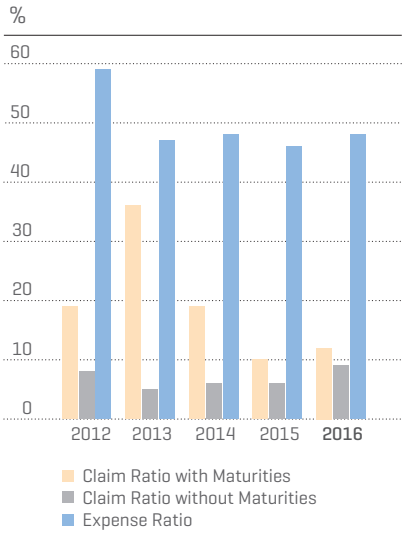
The Company incurred Rs. 1,660 Million (2015: Rs. 1,264 Million) as expenses during the year, a 31% increase compared to the previous year.

The highest growth in expenses was in the underwriting and net acquisition costs category, mainly including commissions and incentives to the sales channels, which increased by 37%. A high achievement of Endowment business and specially, the increase in NBP category was the underlying reason for higher outflow to Advisors and other intermediaries.

Operating and Administration expenses increased by 26%, mainly due to the increase in staff costs and business development expenses. Consequently, the Expense Ratio increased by 2% to reach 48% in 2016 (2015: 46%).

We conduct analyses of expenses on an on-going basis to ensure that we allocate adequate resources, pay proper attention to core activities of the Company and reduce heavy investments in non-value adding activities. Additionally, an expense study is carried out annually, and is used for the management of expenses and for the preparation of the budget of the Company for the following year.

Life Claims and Expense Ratio



Improve Investment Income

The Company recorded investment income of Rs. 958 Million (2015: Rs. 732 Million), at a 31% growth over the previous year. Interest and dividend income increased by 40%, due to the increase in interest rates and the increase in funds under management. The impressive GWP achievement enabled the Company to grow its funds under management by 25% to reach Rs. 9.9 Billion by end December 2016. However, the Company did suffer fair value losses and realised losses on financial investments, which amounted to Rs. 30 Million 2016, as opposed to the gain of Rs. 27 Million recorded in 2015.

Further details on investment income and fund management is discussed in the Investment Management Review appearing on pages 192 to 193.

"HNBA has been able to achieve one of the highest growth rates in NBP among the players in the industry. We are really proud of our 41 MDRT winners for 2016 which is a significant increase compared to 14 winners last year."

Prasantha Fernando
Chief Operating Officer - HNB Assurance PLC

Life Insurance Review

IMPERATIVE 3: CAPITALISE ON DISTRIBUTION CHANNELS

Expand the Branch Network

We consider it important to exhibit strong physical presence, in the form of branches that are strategically located throughout the island . After carefully scrutinising the socio-economic factors and business potential, we opened 03 new branches during the year, in the following areas.

- Wattala
- Kadawatha
- Mathugama

With the addition of these new locations, our branch count increased to 56. The distribution network shown on page 137 demonstrates our presence throughout the island.

Strengthen Distribution Channels

Distribution channels are the connection between us and our customers. Therefore, improving the effectiveness of our distribution channels is always a priority for the Company. At HNBA, we mainly focus on 3 types of distribution channels namely, Insurance Advisors, Bancassurance Units and Direct and Alternate channels.

Channel	Rs. Mn.		Growth %	Contribution %	
	2016	2015		2016	2015
Insurance Advisors	2,377	1,928	23%	67%	69%
Bancassurance	981	712	38%	28%	26%
Direct and Alternative Channels	196	149	32%	5%	5%
Total	3,554	2,789	27%	100%	100%

Eventhough Life Insurance business has a very high dependence on the Advisor channel the Company focuses on expanding Bancassurance and other channels to reduce overdependancies on any one channel. Increased training and development activities targeting the Bancassurance channel were conducted, while providing them with sufficient infrastructure. Our efforts materialised during the year, with the Bancassurance channel showing a growth of 38%.

Further details on initiatives taken to engage with our channels appear in the review on Social and Relationship Capital appearing on page 140.

Strategies Implemented to Improve the Effectiveness of Distribution Channels

- Training programmes with high focus on professional development
- Emphasis on improving the average premium size
- Increased frequency of engagement with the distribution channels
- Further categorisation of the Advisor channel and providing appropriate training

Engagement initiatives with our distribution channels

IMPERATIVE 4: DELIVER CUSTOMER SATISFACTION

Product Initiatives

We strive to identify, understand, and cater to the varying needs of our customers. For this purpose, we conduct market and customers research through leading research institutions and use the results as input in our product development and customer satisfaction enhancement initiatives.

Our product development teams constantly engage in the review of existing products and the designing of new product features to meet the changing needs of our customers.

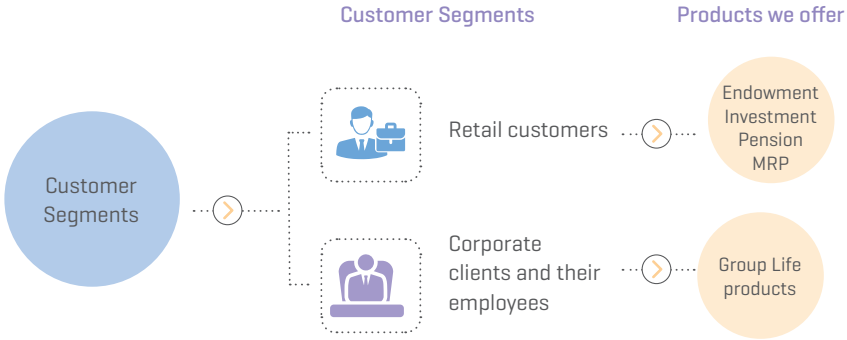
- During the year under review, we introduced 3 new products under the Super Five series
- A new rider cover was introduced to cater to the demographic changes identified in our market trend analysis
- A customised version of the product Ranmaga was introduced to HNB staff members, with the intention of providing a superlative service for them, as members of the same Group.

Summarised below are the changes incorporated to our products over time, in response to changes in economic and demographic factors.

Trend	Our Response
Changing behaviour of customers and demographics As per statistical data, life expectancy in Sri Lanka has increased and birth rates have decreased. This changes the structure of the society and strengthens the individual's need for financial stability.	Active and on-going engagement with existing and potential customers to increase awareness and provide assistance in financial decisions Introduce products that suit the requirements of an aging population
Volatility in financial markets Volatile macro-economic conditions have been both favourable and unfavourable for the Company. Increased interest rates drove demand away from single premium investment type policies of the Company, while positively impacting the investment income of the Company.	Introduce an array of products, supporting the sustainability of our business Attention placed on the sale of endowment policies, when increased interest rates negatively impact the sales of investment type policies

Being Attentive to Customer Requirements

We understand the need to identify the specific requirements of different customers. Therefore, we carry out a need based analysis for every customer type, prior to our initial contact with them. Our product categories are designed based on these specific requirements of the different customer segments. Further details on customer engagement can be read on pages 135 to 138 of the review of Social and Relationship Capital.



Life Insurance Review

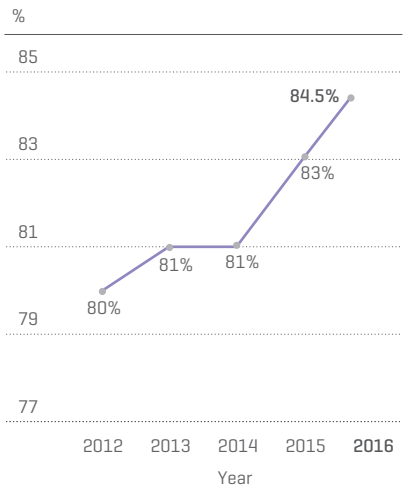
IMPERATIVE 5: IMPROVE OPERATIONAL EFFICIENCY

Improve Premium Persistency and Policy Retention

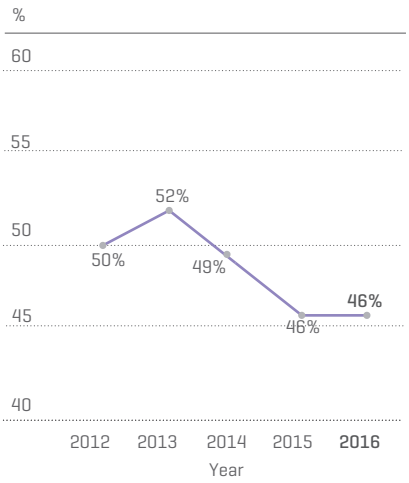
By the end of December 2016, the Company's premium persistency ratio had increased to 84.5% (2015: 83%). Improving this ratio was an enormous challenge for the Company, which was achieved through carefully crafted strategies. Strengthening of the policy conservation unit played a key role in this achievement, along with the untiring efforts of the branch network and other distribution channels. Increased premium persistency ratio is an indication that policies retain with the Company for a longer period. The Company perceives higher persistency as a sign of a healthy and sustainable business, and we strive to work towards improving this ratio further, in the coming years.

The lapse ratio is used as an indicator of whether appropriate need based selling has taken place. During the year, the first year lapse ratio was maintained between 44% and 46%. However, we observe that lapse ratios of the Company have improved over the years, with the formation of the policy conservation unit and training on need based selling delivered to advisors and Bancassurance officers.

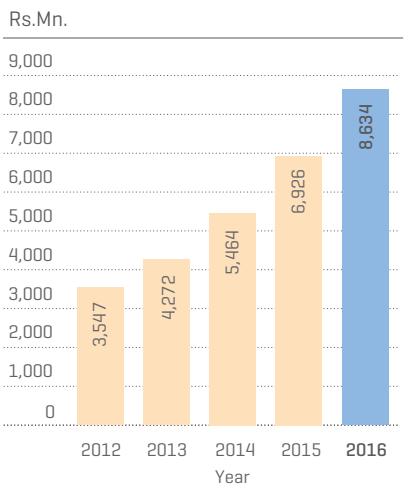
Premium Persistency Ratio



First Year Lapse Ratio



Growth of the Life Fund



Increased Efficiency in Processes

The aim of the Company is to expand our business operation while reducing overhead costs, thereby making our operations more efficient and effective.

We strive to incorporate best practices in to our processes, and during the year under review we revisited our processes and revised procedure manuals, where necessary. All employees in the underwriting, servicing and claims operations are provided benchmarks against which their performance is monitored on a monthly basis. In addition, we also revamped workflows in the Life Insurance operational units, to include revised benchmarks and performance dashboards and thereby to expedite the processes. Further, a workflow system was introduced to track and expedite improvements to the core and ancillary systems.

IMPERATIVE 6: PROVIDE HIGH RETURNS TO POLICYHOLDERS AND SHAREHOLDERS

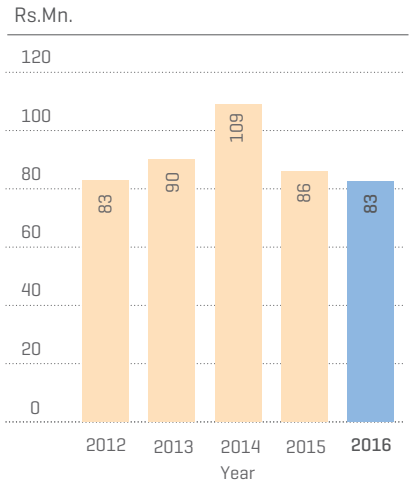
Strong Life Fund

The Life fund grew by 25% in 2016 and reached Rs. 8.6 Billion, with the growth of our Life Insurance business. During the year, we also completed the segregation of the Life Fund based on the nature of the policies being sold, upon the guidance provided by the regulator.

Bonus and Dividends to Policyholders

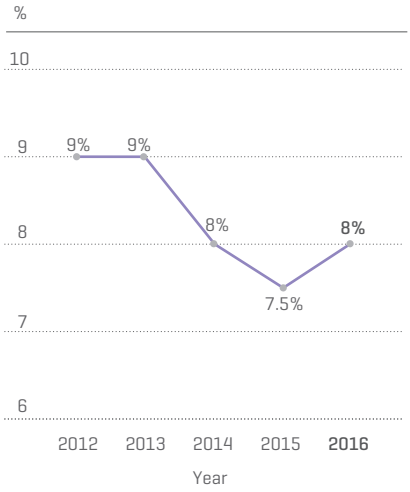
The Company declared an annual bonus of Rs. 83 Million to participating policyholders in 2016. The bonus entitlement depends on the type of product and the year of purchase of the policy and accordingly, the highest bonus rate of Rs.54 per Rs. 1,000 sum assured is enjoyed by the policyholders who purchased policies from 2002 to 2006.

Policyholder Annual Bonus



The Company also declared an attractive dividend of 8% to the policyholders of the two fund-based products, namely "Myfund" and "Ranmaga". This increase, from a dividend of 7.5% declared in 2015, was driven by increased investment returns. Fund based products continue to be the largest contributors to the Endowment premium, contributing Rs. 2.2 Billion. A total Rs. 160 Million was declared as dividends during the year, a significant increase from Rs. 88 Million declared last year.

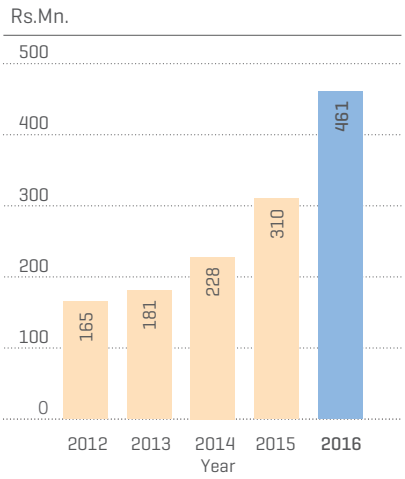
Policyholder Dividend Rate



Surplus to Shareholders

Surplus distributed to our shareholders recorded a significant growth of 49%, to reach Rs. 461 Million (2015: Rs. 310 Million), even after reserving for due allowances for all liabilities, including bonuses and dividends for Life Insurance policyholders. The surplus transfer was decided after the year-end valuation of the Life Fund carried out by our Consultant Actuary Mr. Hassan Scott Odierno, FSA, from Actuarial Partners Consulting Sdn Bhd.

Life Surplus Transfer



Profit derived from the Life Shareholders' Fund amounted to Rs. 139 Million in 2016 (2015: Rs. 118 Million), after deducting an unutilised Notional Tax Credit of Rs. 4.6 Million (2015: Rs. 1.6 Million). On a cumulative basis, the Company recorded Rs. 600 Million in Profit After Tax (2015: Rs. 428 Million), at a growth of 40%.

SUMMARY AND THE WAY FORWARD

The Life Insurance business has recorded a remarkable performance during the year 2016, which has encouraged us to target the achievement of greater heights in the future, in order to provide enhanced value for all our stakeholders. Creating brand awareness, increasing customer reach, driving value through correct partnerships are areas that will continue to be our focus. Further, in terms of IT initiatives, we expect to improve data analytics to produce high quality information for decision making. We will also further re-engineer our processes to improve efficiency, while reducing non-value adding costs.

Improving transparency through detailed reporting and by increasing the frequency of engagement with stakeholders will be other areas of focus to further strengthen the corporate reputation of the Company. We will also increase investments to improve the living standards of the community that we operate in and from where we gather our six capitals.

We believe these initiatives would enhance our customer services and improve the value we create to all our stakeholders in the coming years.

General Insurance Review

OUR PERFORMANCE DASHBOARD

Strategic Imperatives

1. Understanding the Market
2. Improve Underwriting & Investment Income
3. Capitalising on Distribution Channels
4. Deliver Customer Satisfaction
5. Improve Operational Efficiency
6. Provide High Returns to Shareholders

MOTOR : NON-MOTOR MIX

2015	2016
76:24	71:29

More focus was given to maintain a balanced business mix

MOTOR CLAIMS RATIO

2015	2016
88%	69%

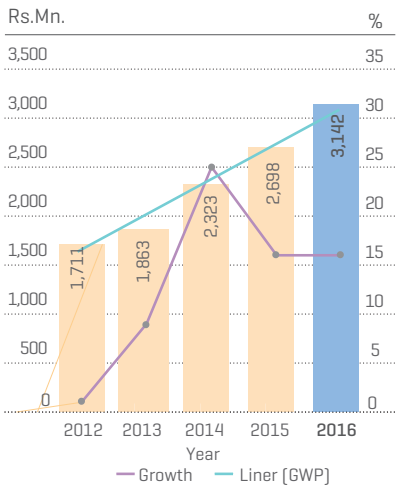
Pricing and underwriting based on risk enabled notable improvement in the ratio

TAKAFUL GWP (Rs.Mn)

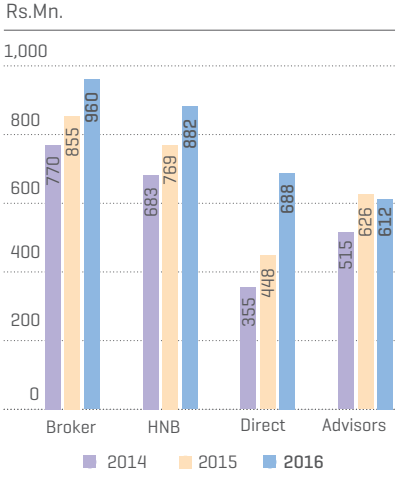
2015	2016
128	300

Contribution made by Takaful arm has increased significantly improving the overall topline.

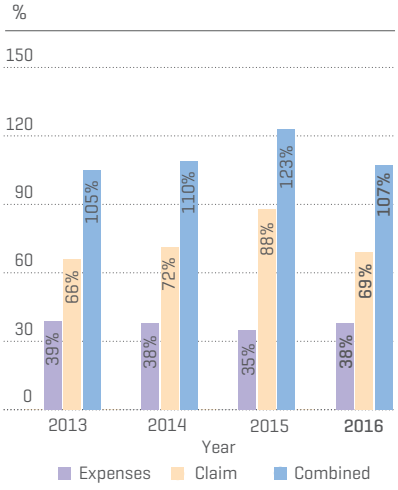
Gross Written Premium - General Insurance



Channel-wise GWP - General Insurance



Combined Ratio - General Insurance



Our Key Financial Performances

	2016 Rs.'000	2015 Rs.'000	Growth
Gross Written Premium	**3,141,559**	**2,698,176**	**16%**
Net Earned Premium	2,241,794	2,084,378	8%
Investments Income and Other Revenue	273,810	279,041	(2%)
Net Income	**2,515,604**	**2,363,419**	**6%**
Net Insurance Benefits and Claims	(1,546,601)	(1,837,294)	(16%)
Other Expenses	(920,124)	(810,425)	14%
Total Benefits, Claims and Other Expenses	(2,466,725)	(2,647,719)	(7%)
Profit/(Loss) Before Taxation	**48,879**	**(284,300)**	**117%**
Income Tax (Expenses)/Reversals	(1,596)	56,954	(103%)
Profit/(Loss) for the Period	**47,283**	**(227,346)**	**121%**

NUMBER OF POLICIES

2015	2016
134,517	131,324

With the new pricing structure and increase in average premium the policy count has reduced slightly

CAPITAL ADEQUACY RATIO (CAR)

2015	2016
177%	168%

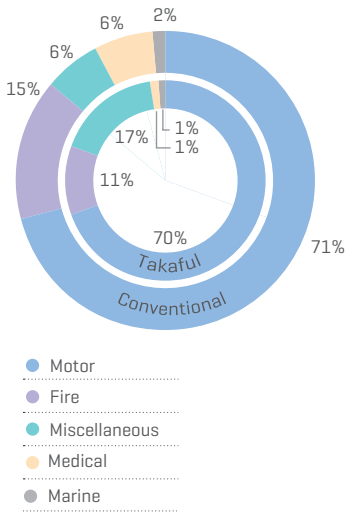
With the increase in claims liabilities, the CAR reduced during the year

MARKET SHARE

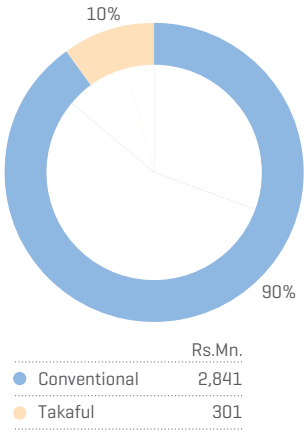
2015	2016
4.0%	4.1%

Focused strategies enabled us to improve our market share

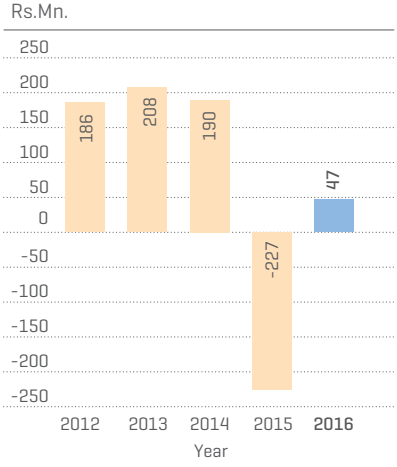
Class-wise Contribution - 2016



GWP Mix - Conventional vs. Takaful 2016



Profit After Tax - General Insurance (PAT)



General Insurance Review

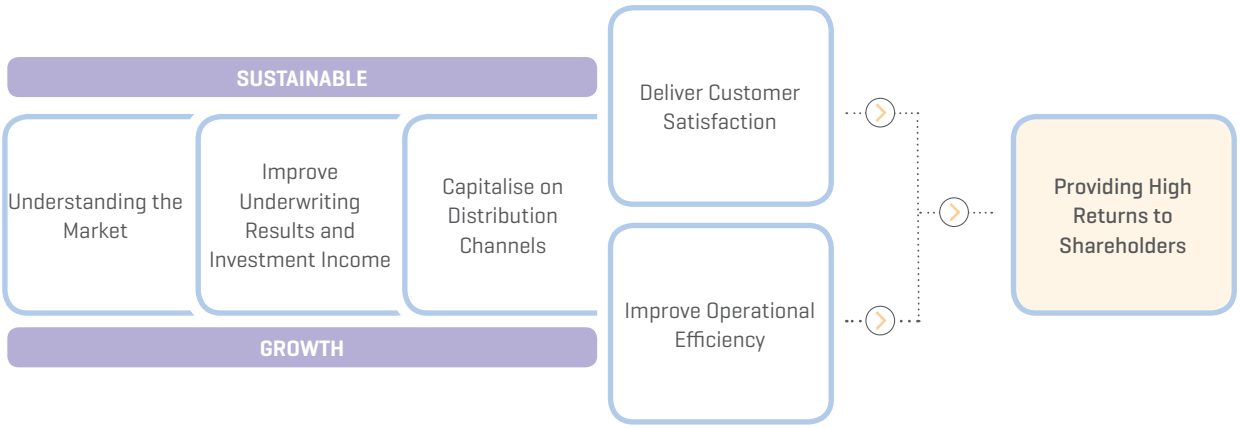
OVERVIEW

The General Insurance segment achieved a Gross Written Premium (GWP) of Rs. 3.1 Billion during the year, (2015: Rs. 2.7 Billion) marking a 16% growth. Most importantly, the profitability of HNB General Insurance Limited turned around to a net profit of Rs. 47 Million from a loss of Rs. 227 Million in 2015. The strategic decisions taken by the management under the guidance of the Board, proper implementation of such strategies, and close and continuous monitoring resulted in this great turnaround.

WHERE WE FOCUS

The prime focus of our General Insurance segment is sustainable growth in revenue and profits, to provide high return to our shareholders, whilst meeting the needs of all other stakeholders. We concentrate on the following strategic imperatives to achieve our prime focus.

Strategic Imperatives



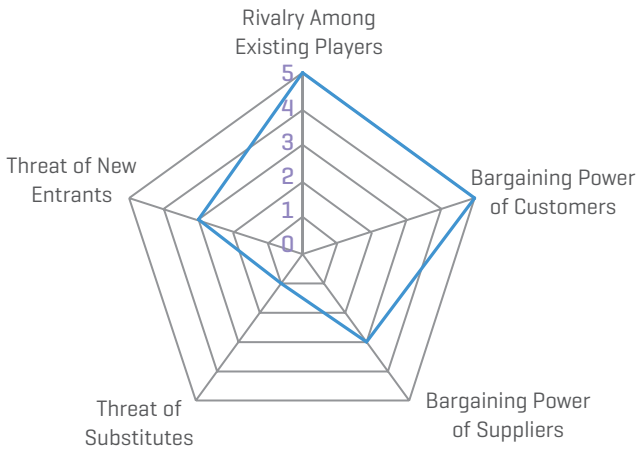
STRATEGIC IMPERATIVE 1: UNDERSTANDING THE MARKET

During the year, many factors led to changes in the business environment of the General Insurance industry. Moderate growth conditions observed in the Gross Domestic Production (GDP), increase in import taxes, and the Government's controls in the leasing sector slowed down overall motor imports compared to previous years. Simultaneously, there was a slowdown in the infrastructure development programmes undertaken by the Government, although private sector condominium and hotel development projects continued to flourish.

The analysis of such market conditions is a key component of the planning process at HNB General Insurance (HNBGI). We have used Porter's Five Forces Framework to understand the market conditions affecting our business operations.

Force	Detailed Analysis	Impact on HNBGI
Threat of New Entrants	Regulatory requirement of minimum capital of Rs. 500 Million and the implementation of the Risk Based Capital (RBC) model will reduce the threat of new entrants. Recent market consolidation will intensify the price competition, again limiting opportunities for new entrants.	Moderate
Threat of Substitutes	Close substitutes cannot be found in the insurance industry. The purchase of at least a third party Motor Insurance cover is a regulatory requirement.	Low
Bargaining power of Suppliers	Many reinsurers operating in the global market are willing to extend their services. Since there is a very low switching cost, companies can enter in to an agreement with any reinsurer with an appropriate financial rating.	Moderate

Force	Detailed Analysis	Impact on HNBGI
Bargaining Power of Customers	Intense price competition between rivals increases the bargaining power of customers. Minimal differentiation of products further lowers customers' switching costs. Customers mostly choose the best price over the service component.	High
Rivalry Among Existing Players	Low product differentiation and high price competition intensify the rivalry amongst existing players in the market.	High



Accordingly, we identify that the organisation's success depends on the bargaining power of customers and the rivalry among existing players. Therefore the management takes continuous efforts to manage these forces and drive the Company towards success, and thereby to delight all stakeholders.

STRATEGIC IMPERATIVE 2: IMPROVE UNDERWRITING RESULTS AND INVESTMENT INCOME

Growth in GWP

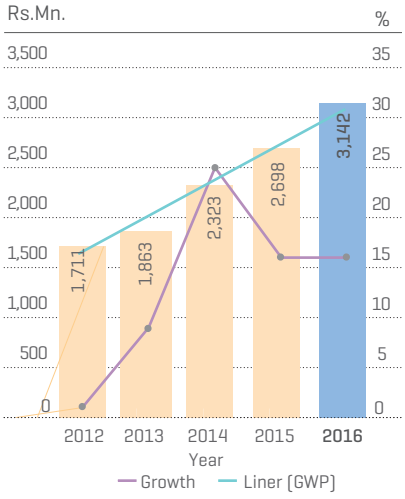
GWP	2016	2015	2014	2013	2012
Industry (Rs. Mn.)	76,622	67,387	58,439	56,236	49,694
HNBGI (Rs. Mn.)	3,142	2,698	2,323	1,863	1,711
Market Share	4.1%	4.0%	3.9%	3.3%	3.4%
Growth Industry	14%	15%	4%	13%	15%
Growth HNBGI	16%	16%	25%	9%	1%

HNBGI recorded a GWP of Rs. 3.1 Billion, at a growth rate of 16%, surpassing the industry growth rate of 14% during this year as well. HNBGI has continuously surpassed the industry growth rate over the past five years, achieving a Compound Annual Growth Rate (CAGR) of 13% compared to the industry CAGR of 12%.

The motor class is considered the main contributor to the GWP of the General Insurance industry, contributing about 64%. During the year, this segment grew by 15%, which is a remarkable growth amidst the drop in vehicle imports. However, HNBGI was only able to achieve a growth of 9% in the motor class, due to the changed business strategy targeting profitability.

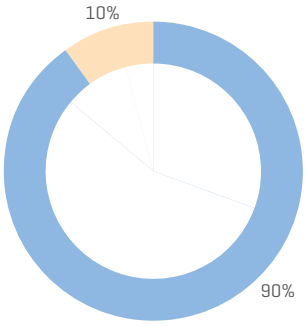
Meanwhile, the Takaful arm made a significant contribution for the growth achieved during the year, with an impressive 128% growth in GWP to Rs. 301 Million, compared to the Rs. 132 Million in 2015.

Gross Written Premium - General Insurance



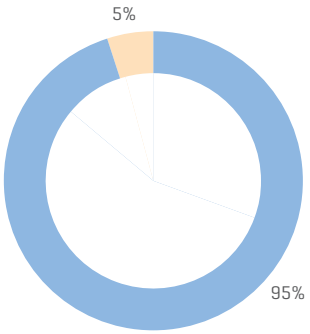
General Insurance Review

GWP Mix - Conventional vs. Takaful 2016



	Rs.Mn.
Conventional	2,841
Takaful	301

GWP Mix - Conventional vs. Takaful 2015



	Rs.Mn.
Conventional	2,566
Takaful	132

Achieve a Profitable GWP Mix

With the objective of improving profitability with a balanced portfolio of the business, HNBGI implemented new strategies for the motor class in 2016. The contribution made by the motor class to the total GWP stood at 71% compared to the 76% in 2015. More focus was placed on improving the revenue generated from non-motor Insurance products, with the aim of managing the claims ratio and the profitability of HNBGI. The non-motor segment grew by an impressive 40%, achieving a GWP of Rs. 913 Million, compared to Rs. 649 Million recorded in 2015.

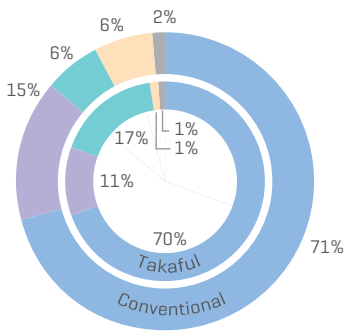
During the year, the fire class dominated the non-motor insurance segment, with a contribution of Rs. 462 Million

Strategies implemented to achieve a profitable GWP mix

- Monitoring of monthly GWP achievement along with the pricing model
- Implementation of an incentive scheme aligning the GWP targets, mix and profitability
- Encouraging the underwriting of large policies, especially in the non-motor segment
- Continuous monitoring of the business mix, concentrating on major and sub business categories

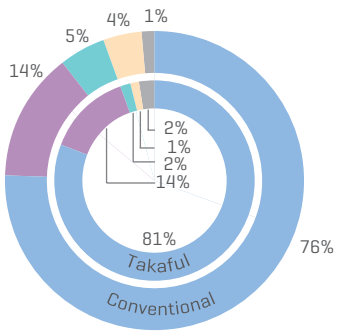
[Rs. 2015: Rs. 372 Million] generated in 2016. This converts to a growth of 24%, surpassing the industry growth of 14%. Marine, medical and miscellaneous classes also grew impressively during the year, passing the industry growth of such classes. The contribution made by Takaful insurance to non-motor insurance increased to 10% compared to the mere 4% recorded last year, following the growth of Takaful operations by 258%.

Class-wise Contribution - 2016



- Motor
- Fire
- Miscellaneous
- Medical
- Marine

Class-wise GWP Contribution - 2015



- Motor
- Fire
- Medical
- Miscellaneous
- Marine

Risk Based Pricing

The profitability of the General Insurance business was significantly improved with the adoption of the risk based pricing model in motor insurance. Since the motor segment contributes to 71% of the total GWP, the pricing of each product is considered to be a critical success factor for HNBGI. Therefore, we continue to engage in extensive study of the market and the claims experience of the motor segment. Accordingly, a risk based pricing approach was developed, enabling consumers to enjoy competitive rates whilst compelling high risk drivers to pay a premium for the additional risk we undertake.

Management of Claims

A key target we set for ourselves this year was to reduce the claims ratio to acceptable levels. The adaptation of the risk based pricing model, coupled with the renewal review matrix model, were the key strategies used in reducing the claims cost of the motor class. These tools enabled us to incorporate all potential risks in the pricing of our products and also to identify remedial action to be taken over loss making policies.

We succeeded in reducing the claims ratio of HNBGI to 69% during the year, from a staggering 88% in 2015, driven by the reduced claims experience in the motor and medical classes. Although the claims ratio of the marine class increased due to the impact of the flood situation, and in the miscellaneous class due to the high personal accident claims during the year, the value of net claims incurred from these classes was merely 1% of total net claims. As such, the management of the claims ratio through the strategies discussed above was the key in turning around our business from a loss of Rs. 227 Million last year to a profit of Rs. 47 Million in 2016.

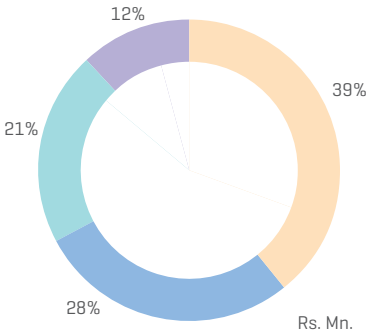
Class Wise Net Claims Incurred and Claims Ratio

	HNBGI	Motor	Non - Motor	Non-Motor by Class			
				FIR & ENG	MED	MIS	MRN
Claims Incurred - 2016 (Rs. Mn.)	1,547	1,382	165	18	134	12	1
Claims Ratio – 2016	69%	69%	73%	43%	90%	38%	23%
Claims Incurred - 2015 (Rs. Mn.)	1,837	1,643	194	15	176	2	1
Claims Ratio – 2015	88%	88%	91%	38%	126%	8%	16%

Management of Expenses

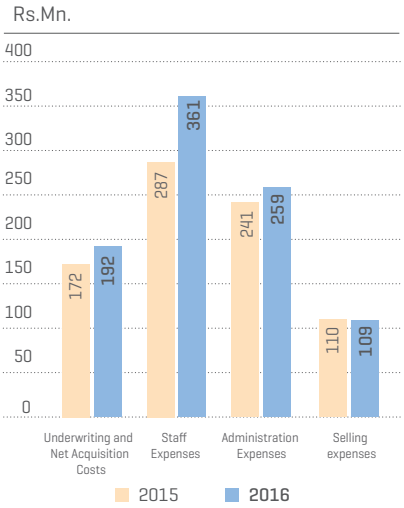
Expense management is a key area which impacts the profitability of the Company. However, during the year the total expenses increased to Rs. 920 Million (2015: Rs. 810 Million), marking a 14% growth. Net acquisition costs increased by 12% due to the variable costs associated with acquiring business and the implementation of a sales incentive scheme focused on profitability. Other administration and operating expenses grew by 14% with the increase in staff costs and business development expenses, due to investments made in recruiting skilled staff at the management level to strengthen the core functions (sales, underwriting and claims) and due to the centralisation of the underwriting process.

Expense Analysis - 2016



Rs. Mn.	
Staff Expenses	361
Administration Expenses	259
Underwriting and Net Acquisition Costs	192
Selling expenses	109

Expense Analysis 2016 vs. 2015

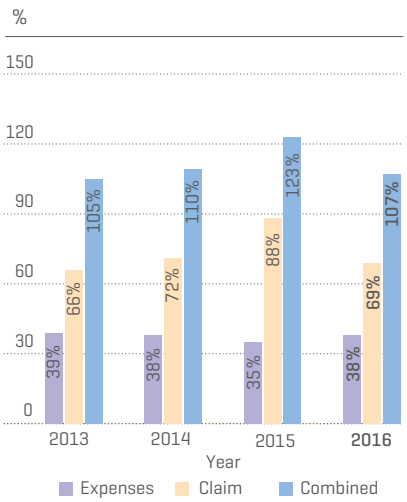


Combined Ratio Management

Managing the combined ratio at acceptable levels is a key financial objective which affects the underwriting surplus of a General Insurance company. This is because it encompasses all three factors affecting the underwriting surplus/ deficit, namely Net Earned Premium, Claims and Expenses.

HNBGI's combined ratio during the year reduced to 107%, from 123% in 2015, mainly as a result of the improvement in the claims ratio. This in turn enabled the Company to reduce its underwriting deficit to Rs. 152 Million (2015: Rs. 482 Million).

Combined Ratio - General Insurance



Contribution from Investment Income

The Company recorded an investment income of Rs. 187 Million (2015: Rs. 189 Million) which is a 1% drop compared to 2015. This was due to the reduction in the investment funds, mainly due to the losses recorded in the latter part of 2015 and due to the claims paid on floods amounting to Rs. 576 Million. As this key variable fell short of the target in the current year, growing the fund size to improve investment income is a key objective for the coming year.

STRATEGIC IMPERATIVE 3: CAPITALISE ON DISTRIBUTION CHANNELS

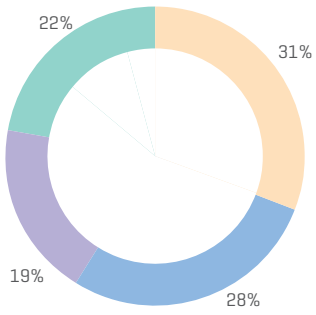
We focus on capitalising on our distribution channels, both through expansion of existing channels and the introduction of new channels.

During the year under review, HNBGI did not open any new branches, but undertook various initiatives in order to expand our customers reach. Distribution channels, such as brokers, HNB branches, and advisors, were expanded through training and development, sponsorship of events and relationship management, thereby enabling the improvement of their contribution to our business. The following table summarises the performance of our distribution channels, further details on relationship management in relation to business channels could be read in the Social and Relationship Capital section appearing on page 140.

General Insurance Review

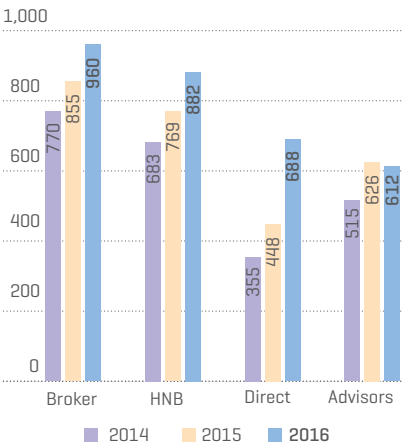
Channel	Brief Description	GWP (2016)	GWP (2015)	Growth (%)
Brokers	The highest contributor to HNBGI GWP is the broker channel. The broker network was expanded by tying up with new brokers and enhancing the rapport with existing brokers.	Rs. 960 Million	Rs. 855 Million	12%
Advisors	Within our channel mix, the highest growth rate in terms of GWP is observed in the advisor channel. Strong focus was placed during the year on developing the advisor force through new recruitments, enhancing competencies by training and development activities. During 2016, 63 training programmes were carried out island-wide to develop skills of our Advisor force. We were able to improve the performing advisor percentage by 21% during the year.	Rs. 612 Million	Rs. 448 Million	36%
HNB	We consider our relationship with HNB as a key element in our competitive advantage, permitting us to capitalise on the Bank's branch network in order to form links with its wide array of clients from all corners of the country. The senior management of both companies possesses a strong understanding of the scope for mutual value creation, and their commitment to increase the contribution from this channel has led to win-win situations for both companies and their stakeholders.	Rs. 882 Million	Rs. 769 Million	15%
Direct	The direct business channel consists of business derived from direct customers and business introductions by our employees. The direct channel exhibited a low growth percentage this year, compared to the 22% growth last year, mainly attributable to the volatility in vehicle prices.	Rs. 688 Million	Rs. 626 Million	10%

GWP Contribution by Channels (2016)



	Rs.Mn.
Broker	960
HNB	882
Insurance Advisors	612
Direct	688

Channel-wise GWP - General Insurance
Rs.Mn.



STRATEGIC IMPERATIVE 4: DELIVER CUSTOMER SATISFACTION

Being Attentive to Customer Requirements

Identifying the changing customer needs is vital for the success of a business. Hence, HNBGI continued to take multiple measures to satisfy customer requirements. Our 51 branches operating island wide, with 361 staff members and 385 advisors, is catered to deliver the best services to our customers. Moreover, our 24/7 call centre was also enhanced during the year, with the aim of effectively raising responsiveness to customer queries.

Comprehensive Product Portfolio

HNBGI offers a comprehensive product portfolio to cater to all General Insurance needs of our customers. Given below are the products offered by us to address such insurance needs.

CONVENTIONAL SOLUTIONS

Motor Solutions

- MotorGuard
- MotorGuard Extra
- MotorGuard Eco
- MotorGuard Riders
- MotorGuard Agro

Non-Motor Solutions

- Marine
- MyHome
- Engineering
- Health
- Fire
- Casualty
- MyCard
- MyHealth
- Sesatha
- Workmen's Compensation
- TravelMax
- MyTravel

TAKAFUL SOLUTIONS

- Takaful Solutions

Further details of these products can be found at https://www.hnbgeneral.com

Improve the Claims Process

Our claims management process is a key benchmark in assessing customer satisfaction levels, since the ultimate objective of the customer is to receive financial protection against the risks faced by them. During the year, several initiatives were taken to improve the claims process. Our Call Centre operation, which is the first contact point of customers who are intimating a claim, was strengthened by increasing the number of trained Call Centre assistants. The objective was to attend to customer calls and provide assistance within a minimum time.

Further, HNBGI continued to strengthen the assessor force, through recruitments, and by enhancing the quality of service delivery through various training programmes their quality, through trainings. Accordingly, the number of assessors stationed island-wide was increased to 63 from 57 in 2015. Further, to provide a high quality service, HNBGI conducted 9 training programmes island-wide, on customer service, related to assisting customers in the unfortunate event of an accident. For the first time, our assessor panel was provided with first aid equipment and safety jackets, strengthening their service delivery.

These initiatives enabled HNBGI to expand and expedite the onsite claims inspection process and the on-site claim settlement process. Further developments targeting these processes will be conducted during the coming year.

STRATEGIC IMPERATIVE 5: IMPROVE OPERATIONAL EFFICIENCY

Improve Process Efficiency

The underwriting processes of both motor and non-motor segments were centralised during the year, thereby enabling us to achieve higher levels of process efficiency. Consequently, we were able to reduce the time taken for the underwriting process and to enhance customer satisfaction levels. Improvements in the customer information database also enabled us to improve claims payment standards.

Developing In-House Actuarial Expertise

Actuarial expertise is a major value driver in the insurance industry, especially with the shift in the regulatory framework to a risk based regime. During the year under review, our actuarial team actively contributed to revise the pricing structures of the General Insurance product portfolio, thereby impacting the profitability of the business. Their expertise is also used in product development, with the analysis of large volumes of data related to our customers and their needs. In addition, we also conduct analysis related to expense, from an actuarial perspective, with the intention of reducing costs.

> "HNBGI managed to bring down the claims ratio to 69% this year from 88% in 2015 with proper risk based pricing and claim control mechanisms while improving customer satisfaction."

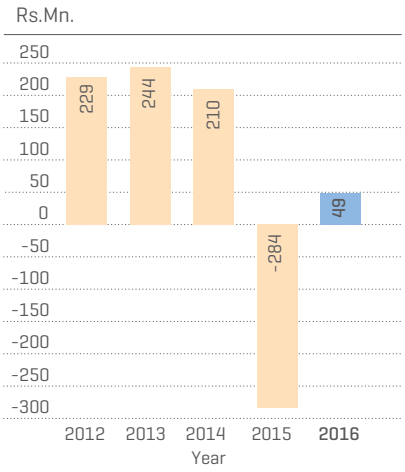
Sithumina Jayasundara
Chief Technical Officer - HNB General Insurance Limited

General Insurance Review

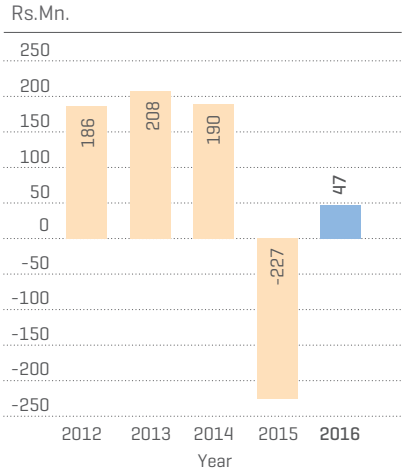
STRATEGIC IMPERATIVE 6: PROVIDE HIGH RETURNS TO SHAREHOLDERS

Upholding the promise made during the previous year, HNBGI was able to deliver a profit to our shareholders during 2016. Accordingly, during the year HNBGI achieved a Profit Before Tax (PBT) of Rs. 49 Million, against the loss of Rs. 284 Million recorded last year, marking an impressive growth of 117%. The reduction in the claims cost was a major contributor towards this achievement. Concurrently, the Profit After Tax of HNBGI grew by 121%, reaching a value of Rs. 47 Million during the year, reversing the loss of Rs. 227 Million in 2015.

Profit Before Tax - General Insurance (PBT)



Profit After Tax - General Insurance (PAT)



SUMMARY AND THE WAY FORWARD

Despite the challenges of the economic and regulatory environment and intense price competition, HNBGI was able to display a transcendent performance, by focusing on the critical success factors of the business, during the year under review. This, in turn, enabled us to add great value to our stakeholders.

In moving forward, we intend to continue the momentum created in our business performance, and thereby delivering continuous value addition to all our stakeholders. Plans are in place to improve the profitability of HNBGI while achieving growth in the top-line, to deliver sustainable value to all.

The focus on increasing the contribution made by non-motor insurance to the top-line would be continued in 2017 as well, with the aim of improving the profitability of the product mix of the Company while managing the claims costs. The management will continue to analyse the business segments to identify profitable and non profitable aspects.

We have identified the Takaful Insurance arm to be a very profitable business area, and hence, more attention would be given to further expand this business segment, to increase the market share and its contribution to the top-line of HNBGI.

HNBGI is further planning to increase the contribution of the bank, broker and advisor channels, giving attention to their needs and exploring more opportunities.

We also have plans to invest in a new core system, facilitating improved business processes and enhanced efficiency levels. This will enable us to achieve greater operational efficiencies and improve customer satisfaction levels, whilst reducing expenses.

Investment Management Review

OUR PERFORMANCE DASHBOARD

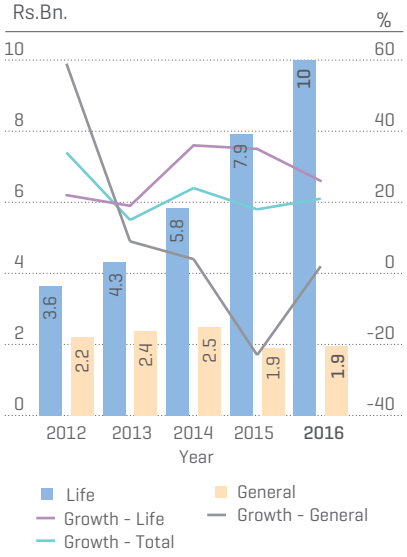
Strategic Imperatives

1. Understanding the Market
2. Managing Investment Funds
3. Strategic Asset Allocation
4. Increase Investment Returns

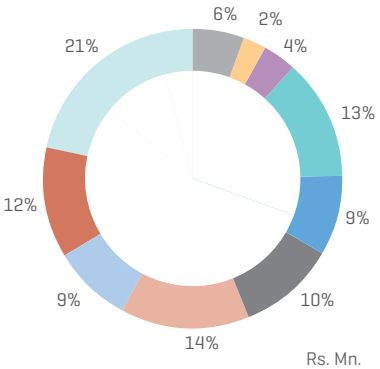
OUTLOOK FOR 2017

We expect the growth momentum to continue, with improved macroeconomic conditions and strategic allocation of assets in our investment portfolios.

Funds Under Management

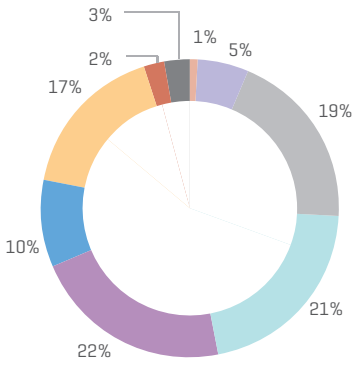


Maturity mix - Group (2016)



	Rs. Mn.		
0-30 Days	623	1-2 Yrs	1,134
30-60 Days	269	2-3 Yrs	1,515
60-90 Days	401	3-4 Yrs	925
90-180 Days	1,394	4-5 Yrs	1,302
180-365 Days	953	> 5 Yrs	2,323

Corporate Bond Rating - Group (2016)



	Rs. '000		
AAA	31,154	A-	291,759
AA	166,122	BBB+	518,080
AA-	595,844	BBB	69,300
A+	649,968	BBB-	79,277
A	664,972		

Investment Management

OVERVIEW

The Group achieved an Investment Income of Rs. 1,145 Million (2015: Rs. 918 Million) marking a growth of 25%. Our funds under management surpassed Rs. 11.9 Billion (2015: Rs. 9.9 Billion) recording an 20% growth. For us, investment management is a primary function in our value creation model which manages the funds generated from our ordinary course of business as well as the funds of our shareholders balancing return, risk and liquidity.

UNDERSTANDING THE MARKET

During 2016, we operated in a tightly controlled economic environment with monitory tightening, fund outflows from the emerging markets, dried out Foreign Direct Investments and the pressure on the balance of payment drove both the equity and fixed income asset prices to negative territory.

The Government increased the policy rates twice during the year with 50 bps in each occasion and increased the statutory reserve ratio (SRR) by 50 bps during the year. The intense monitory tightening that took place during the year saw drying up the market liquidity and drastic increase in the interest rates. The 12 month T bill increased 306 bps during the year to reach 10.2% while the interest rates increased across the board in other tenures by similar margins.

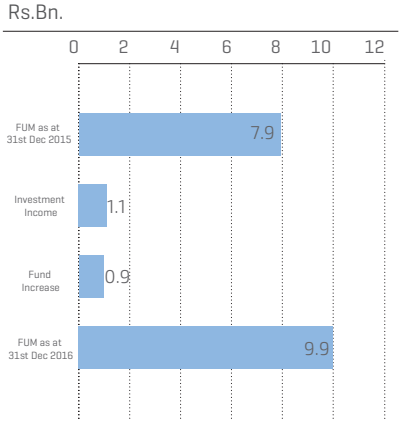
MANAGING INVESTMENT FUNDS

The funds under management of the Group grew by Rs. 2,102 Million recording a growth of 20% during the year. The total funds under management value stood at Rs. 11.9 Billion as at 31st December 2016 (2015: Rs. 9.9 Billion). The increase in funds under management was mainly driven by Rs. 1,145 Million of investment income and Rs. 957 Million of cash inflows into the Company by daily business operations.

During the year the Funds under Management of the Life Insurance Business including shareholders' funds grew by healthy 26% reaching a value of Rs. 9.9 Billion (2015: Rs. 7.9 Billion) with the growth of the business and investment income generated. However, Funds under Management of General Insurance business remained unchanged at a value of Rs. 1.9 Billion due to the high claims outgo and the Reinsurance Receivable values recorded as of the Balance Sheet date.

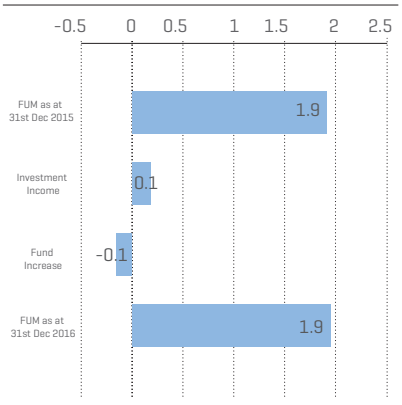
Life Insurance Funds under Management

FUM Growth Composition - Life Insurance 2016



General Insurance Funds under Management

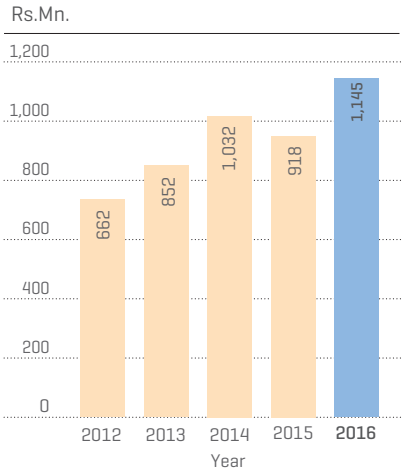
FUM Growth Composition - General Insurance 2016



INCREASE INVESTMENT RETURNS

The investment income of the Group grew by a healthy 25% reaching a value of Rs. 1,145 Million compared to the Rs. 918 Million recorded in 2015. This is a noteworthy achievement considering the challenging investment environment experienced with capital markets of the country. However, our investment division was able to capture the benefit of increased interest rates by investing in longer tenure instruments with high interest rates. In spite of the external challenges faced by the Group with related to investment income, we were able to maintain an average yield of 11% giving attractive returns to both our shareholders and policyholders.

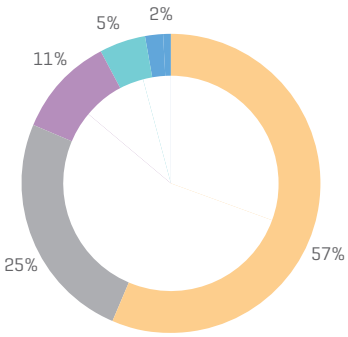
Investment Income



STRATEGIC ASSET ALLOCATION

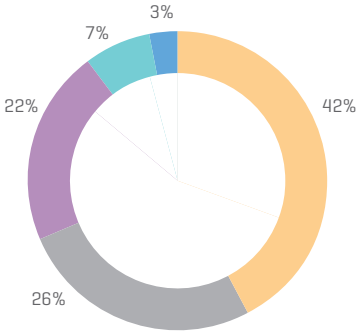
The healthy growth in investment income stems from the strategic asset allocation of the Group. Year 2016 was the first year that the Sri Lankan insurance industry operated under the Solvency Margin (Risk Based Capital or RBC) rules. Under the RBC regime all investments are subjected to a capital charge based on the risk borne by the investment based on the credit rating and instrument type. Therefore we kept a close eye on the impact on the Capital Adequacy Ratio (CAR) while making amendments to our investment portfolios during the year.

Asset Allocation - HNBA



	Rs.Mn.
Gov.Sec	5,717
Corporate Debt	2,526
Term Deposits	1,159
Cash and Other Deposits	477
Equity	233
Unit Trusts	7

Asset Allocation - HNBGI



	Rs.Mn.
Gov.Sec	864
Corporate Debt	540
Term Deposits	439
Cash and Other Deposits	149
Equity	55
Unit Trusts	4

Equity Portfolio

The exposure to equity investments was reduced in both Life Insurance and General Insurance with the low performance in the overall equity market of the country. With the falling asset prices, capital gains for the year 2016 were hard to come by. With the turmoil experienced in the listed equity space, the Group recorded a realized loss of Rs. 22 Million for the year through the sale of some equity investments with prolonged accumulated losses. The unrealised losses on listed equity investments amounted to Rs. 12 Million. However these numbers are still a commendable achievement given the market conditions where on average our equity portfolios outperformed the benchmark All Share Price Index by 8.1%.

Debt Portfolio

Investments made in corporate debt as a percentage of total Funds under management further reduced to 25% and 26% in Life and General Insurance respectively compared to the 30% and 31% invested in the previous year. The reduction was mainly due to the attractiveness of the Government Securities market which provided higher risk weighted returns.

Government Securities

The exposure on Government Securities was increased significantly during the year to capture the benefits of the high interest rates which prevailed in the economy. By the end of the year 57% of our Life Insurance investment portfolio and 42% of the General insurance investment portfolio comprised of Government Securities compared to 50% and 36% respectively in 2015.

Maturity Mix

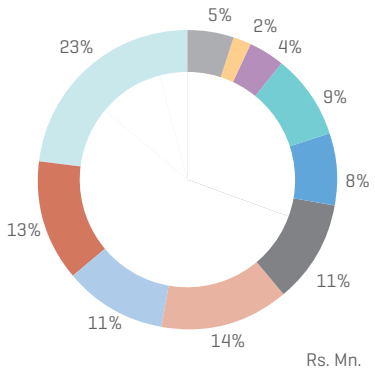
When allocating investment funds into different asset categories, a great emphasis is also given to the maturity mix to ensure the match between the assets and liabilities of the portfolios. During the year 2016, 71.6% of the assets in the Life fund were invested in assets maturing after one year to reduce the asset liability maturity mismatch of the Life fund improving the Life Insurance Capital Adequacy Ratio (CAR). Due to higher liquidity requirements in General Insurance fund, 57.6 % of the portfolio was invested in assets maturing less than one year.

> "The Group recorded an exceptional investment income growth of 25% to reach Rs. 1.1 Billion for the year 2016. This was possible due to greater accuracy in forecasting economic indicators, altering the strategic asset allocation and enhanced superiority in market timing while managing risks adequately."

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

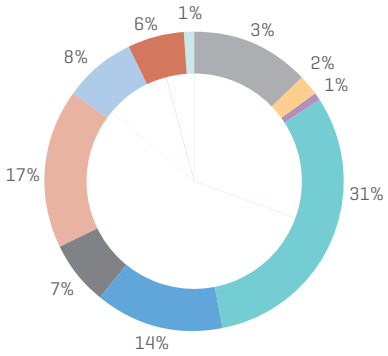
Investment Management

Maturity mix - HNBA



	Rs. Mn.		
0-30 Days	472	1-2 Yrs	1,056
30-60 Days	239	2-3 Yrs	1,379
60-90 Days	380	3-4 Yrs	1,078
90-180 Days	886	4-5 Yrs	1,318
180-365 Days	821	> 5 Yrs	2,318

Maturity mix - HNBGI



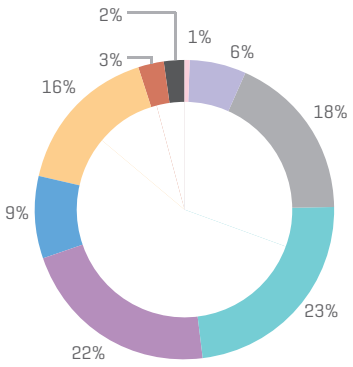
	Rs. Mn.		
0-30 Days	261	1-2 Yrs	134
30-60 Days	30	2-3 Yrs	322
60-90 Days	21	3-4 Yrs	165
90-180 Days	596	4-5 Yrs	121
180-365 Days	272	> 5 Yrs	26

Risk Profiles

We always take measures to adhere to the risk management framework of the Group while maximizing 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.

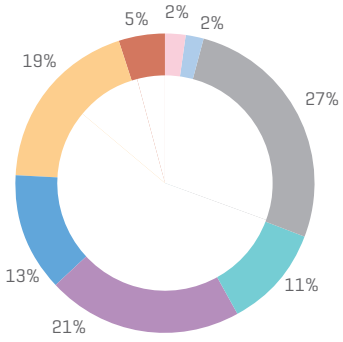
A detailed report of the investment risks faced by the company and measures taken to eliminate or minimize such risks appears under the Risk Management Report on pages 101 and 102.

Corporate Bond Rating - HNBA



	Rs. '000		
AAA	18,237	A-	221,850
AA	155,982	BBB+	414,371
AA-	452,277	BBB	69,300
A+	589,022	BBB-	53,600
A	551,448		

Corporate Bond Rating - HNBGI



	Rs. '000		
AAA	12,917	A-	69,910
AA	10,140	BBB+	103,709
AA-	143,568	BBB-	25,677
A+	60,946		
A	113,524		

INVESTMENT OUTLOOK FOR 2017

Continuing the momentum of 2016, we expect to further improve our investment income during 2017 with the improved macroeconomic environment expected.

We do not expect Central Bank of Sri Lanka to change its stance on the monitory tightening in near future. Therefore we will be continuing to invest mainly in fixed income securities especially on longer term investments from the Life fund while continuing to alter our equity exposure based on the market fundamentals.

While we are expecting the year 2017 to bring more of regulatory changes to the insurance industry and insurance fund management, we will continue to serge 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.

Sustainable Impact Created

Being a Responsible corporate citizen we consider it our duty to create positive impacts to the society and environment we operate in and we have aligned our sustainable value creation process with the Global Reporting Initiatives – G4 guidelines and also the Sustainability Development Goals of the United Nations. While our sustainable impacts are discussed throughout this report, the navigation to such disclosure is given in the GRI – G4 Content Index appearing on page 176 to 180 and the following presents the positive contribution made by us to the achievement of such Sustainability Development Goals set for 2030.

End poverty in all its forms everywhere

- Empowering low income earning customer segments by providing protection through Micro Insurance and Ranaswanu products

Ensure healthy lives and promote well-being for all at all ages

- 'Suwathi Diwiyata Magak' program launched during the year focusing on providing assistance and educating people on healthy living, quality childhood and non-communicable diseases
- Annual blood donation campaign organized to contribute to the National Blood Bank
- Collaborating with College of Community Physicians of Sri Lanka to conduct healthy living symposiums
- Donation to the 'Pibidena Kekulu Fund' of the Cancer Care Association of Sri Lanka
- Monthly doctor visits to ensure the health and well-being of our employees
- Provision of medical insurance covers for employees and their families

Ensure inclusive and quality education for all and promote lifelong learning

- Donating material to build an aesthetic room in Pitakanda Vidyalaya, Bulutota, Embilipitiya

Achieve gender equality and empower all women and girls

- During the year newly recruited female representation in our workforce improved to 39% from 36% recorded in 2015 promoting gender equality

Ensure access to water and sanitation for all

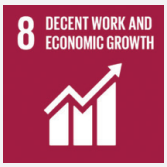
- Continuously improve access to clean drinking water in rural areas of the country through our water stewardship programmes and during the year 7 projects were carried out to increase access to clean drinking water

Sustainable Impact Created

Ensure access to affordable, reliable, sustainable and modern energy for all

- Adopting the 3R concept in energy utilisation and take steps to save energy and reduce our carbon foot print
- Head Office building premise was shifted to a new location which uses solar power for electricity generation and rainwater harvesting for sanitation and cleaning purposes of the building

Promote inclusive and sustainable economic growth, employment and decent work for all



- Providing employment opportunities for 2,062 insurance advisors, 903 employees and 60 assessors improving their income levels

Reduce inequality within and among countries

- The island wide branch network established providing employment opportunities contributes to reducing income inequality
- Advisors recruited from across the island contributes to reducing income inequality

Make cities inclusive, safe, resilient and sustainable

- Empowering regional development through provision of micro insurance

Ensure sustainable consumption and production patterns

- Through recycle of paper used in business operations saved 8,247 litres of oil, 18,796 Kwh of electricity, 149,334 litres of water, 80 trees, 14 m^3 of landfill and 4,669 kg of greenhouse gas emission

Take urgent action to combat climate change and its impacts

- Initiatives are in place to improve energy efficiency and increase the dependency on renewal energy sources

Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss

- Obtaining membership of 'Bio Diversity Sri Lanka' with the pledge of protecting the environment

Promote just, peaceful and inclusive societies

- Best practices of corporate and enterprise governance to ensure transparency of our operations
- Whistle-Blowing and anti-corruption policies ensuring zero-corruption in the Company
- Board of Directors, the highest authority of the Company is appointed by the shareholders

Revitalize the global partnership for sustainable development

- As an Insurance Service provider every measure is taken to ensure sustainable value creation and development of the nation and the globe

Note : We have not reported on the Zero Hunger and Life Below water Sustainability Development Goals as we do not create any material impact on them directly.

GRI Content Index for "In Accordance" - Core

GENERAL STANDARD DISCLOSURES		Page	External Assurance
STRATEGY AND ANALYSIS			
G4-1	Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	33-34	None
ORGANIZATIONAL PROFILE			
G4-3	Report the name of the organization.	3,6	None
G4-4	Report the primary brands, products, and services.	6, 27	None
G4-5	Report the location of the organization's headquarters.	6	None
G4-6	Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	6	None
G4-7	Report the nature of ownership and legal form.	6	None
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	137	None
G4-9	Report the scale of the organization, including:	9, 27	None
a.	Total number of employees		
b.	Total number of operations		
c.	Net sales (for private sector organizations) or net revenues (for public sector organizations)		
d.	Total capitalization broken down in terms of debt and equity (for private sector organizations)		
e.	Quantity of products or services provided		
G4-10			None
a.	Report the total number of employees by employment contract and gender.	127	
b.	Report the total number of permanent employees by employment type and gender.		
c.	Report the total workforce by employees and supervised workers and by gender.	127	
d.	Report the total workforce by region and gender.	128	
e.	Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors.	127	
f.	Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	134	
G4-11	Report the percentage of total employees covered by collective bargaining agreements.	131	None
G4-12	Describe the organization's supply chain.	26, 27, 139	None
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including:	6	None
a.	Changes in the location of, or changes in, operations, including facility openings, closings, and expansions	6	
b.	Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations)	6	
c.	Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	139-140	
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	23	None
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	4	None

GENERAL STANDARD DISCLOSURES		Page	External Assurance
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization:	18	None
	Holds a position on the governance body		
	Participates in projects or committees		
	Provides substantive funding beyond routine membership dues		
	Views membership as strategic		
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17		3	None
a.	List all entities included in the organization's consolidated financial statements or equivalent documents.		
b.	Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.		
G4-18		19-21	None
a.	Explain the process for defining the report content and the Aspect Boundaries.		
b.	Explain how the organization has implemented the Reporting Principles for Defining Report Content.		
G4-19	List all the material Aspects identified in the process for defining report content.	19-21	None
G4-20	For each material Aspect, report the Aspect Boundary within the organization, as follows:	20-21 20-21 20-21	None
	Report whether the Aspect is material within the organization		
	If the Aspect is not material for all entities within the organization (as described in G4-17), select one of the following two approaches and report either: The list of entities or groups of entities included in G4-17 for which the Aspect is not material or the list of entities or groups of entities included in G4-17 for which the Aspects is material		
	Report any specific limitation regarding the Aspect Boundary within the organization		
G4-21	For each material Aspect, report the Aspect Boundary outside the organization, as follows:	20-21	None
	Report whether the Aspect is material outside of the organization		
	If the Aspect is material outside of the organization, identify the entities, groups of entities or elements for which the Aspect is material. In addition, describe the geographical location where the Aspect is material for the entities identified		
	Report any specific limitation regarding the Aspect Boundary outside the organization		
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	4	None
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	20	None
STAKEHOLDER ENGAGEMENT			
G4-24	Provide a list of stakeholder groups engaged by the organization.	13-14	None
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	13-14	None
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	14-18	None
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	14-18	None
REPORT PROFILE			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	3	None
G4-29	Date of most recent previous report (if any).	4	None
G4-30	Reporting cycle (such as annual, biennial).	3	None

GRI Content Index for "In Accordance" - Core

GENERAL STANDARD DISCLOSURES		Page	External Assurance
G4-31	Provide the contact point for questions regarding the report or its contents.	6	None
G4-32			
a.	Report the 'in accordance' option the organization has chosen.	4	None
b.	Report the GRI Content Index for the chosen option.	4	
c.	Report the reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines.	4	
G4-33			
a.	Report the organization's policy and current practice with regard to seeking external assurance for the report.	4	None
b.	If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided.	N/A	
c.	Report the relationship between the organisation and the assurance providers.	N/A	
d.	Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report.	N/A	
GOVERNANCE			
G4-34	Report the governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	8, 55	None
ETHICS AND INTEGRITY			
G4-56	Describe the organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	7	None

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	G4-DMA and Indicators	Page	Omissions	External Assurance
Category: Economic				
Economic Performance	G4-DMA	22, 141	None	None
	G4-EC1 Direct economic value generated and distributed	22, 141	None	None
	G4-EC3 Coverage of the organisation's defined benefit plan obligations	133	None	None
Indirect Economic Impacts	G4-DMA	141	None	None
	G4-EC7 Development and impact of infrastructure investments and services supported	141-143	None	None
Category: Environmental				
Energy	G4-DMA	147	None	None
	G4-EN3 Energy consumption within the organisation	9, 147, 148	None	None
Effluents and Waste	G4-DMA	147, 148	None	None
	G4-EN23 Total weight of waste by type and disposal method	147, 148	None	None
Compliance	G4-DMA	149	None	None
	G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	149	None	None

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	G4-DMA and Indicators	Page	Omissions	External Assurance
Category: Social				
Subcategory: Labour Practices and Decent Work				
Employment	G4-DMA	127, 128	None	None
	G4-LA1 Total number and rates of new employee hires and employee turnover by age group, gender and region	128, 129	None	None
	G4-LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	130	None	None
Training and Education	G4-DMA	130	None	None
	G4-LA9 Average hours of training per year per employee by gender, and by employee category	130	None	None
	G4-LA11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	131	None	None
Diversity and Equal Opportunity	G4-DMA	127	None	None
	G4-LA12 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	129	None	None
Equal Remuneration for Women and Men	G4-DMA	131	None	None
	G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	131	None	None
Labour Practices Grievance Mechanisms	G4-DMA	133	None	None
	G4-LA16 Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	133	None	None
Subcategory: Human Rights				
Non-Discrimination	G4-DMA	131	None	None
	G4-HR3 Total number of incidents of discrimination and corrective actions taken	131	None	None
Child Labour	G4-DMA	134	None	None
	G4-HR5 Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	134	None	None
Forced or Compulsory Labour	G4-DMA	134	None	None
	G4-HR6 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	134	None	None
Subcategory: Society				
Anti-Corruption	G4-DMA	134	None	None

GRI Content Index for "In Accordance" - Core

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	**G4-DMA and Indicators**	**Page**	**Omissions**	**External Assurance**
	G4-SO4 Communication and training on anti-corruption policies and procedures	134	None	None
	G4-SO5 Confirmed incidents of corruption and actions taken	134	None	None
Anti-competitive Behaviour	G4-DMA	138	None	None
	G4-SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	138	None	None
Compliance	G4-DMA	138	None	None
	G4-SO8 Monetary value of significant fines and total number of non-monetary sanctions for non compliance with laws and regulations	138	None	None
Grievance Mechanisms for Impacts on Society	G4-DMA	138	None	None
	G4-SO11 Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	138	None	None
Subcategory: Product Responsibility				
Product and Service Labelling	G4-DMA	138	None	None
	G4-PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	138	None	None
Marketing Communications	G4-DMA	138	None	None
	G4-PR6 Sale of banned or disputed products	136	None	None
	G4-PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	138	None	None
Customer Privacy	G4-DMA	138	None	None
	G4-PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	138	None	None
Compliance	G4-DMA	138	None	None
	G4-PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	138	None	None
Product Portfolio	G4-DMA	138	None	None
	G4-FS7 Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	138	None	None
	G4-FS8 Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	148	None	None

Sustainable business growth with a caring spirit has become the cornerstone of our corporate philosophy. We strive to fulfill our stakeholder expectations by delivering value through ethical business practices, transparency and good governance.

Statutory Disclosures and Financial Statements

Financial Calendar 2017 182
Report of the Audit Committee 183
Report of the Human Resources and Remuneration Committee 187
Related Party Transactions Review Committee Report 189
Nomination Committee Report 191
Report of the Investment Committee 192
Report of the Risk Management Committee 194
Strategy Review Committee Report 195
Board's Statement on Internal Control 196
Annual Report of the Board of Directors on the Affairs of the Company 198
Director's Interest in Contract with the Group/ Company 209
Directors' Responsibility for Financial Reporting 210
CEO's and CFO's Responsibility Statement 211
Report of the Life Actuary 212
Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserve 213
Welcome to our Financials 2016 214
Independent Auditors' Report 215
Statement of Financial Position 216
Statement of Profit or Loss and other Comprehensive Income 217
Statement of Changes in Equity - Group 218
Statement of Changes in Equity - Company 219
Statement of Cash Flows 220
Performance Highlights 221
Accounting Policies and Notes to the Financial Statements 222
Index to the Financial Notes 230
Segmental Reporting 231

Financial Calendar 2017

Requirement	Achievements in 2016	Targets set for 2017
Interim Financial Statements		
1st Quarter (ended 31st March)	3rd May 2016	Before 15th May 2017
2nd Quarter (ended 30th June)	12th August 2016	Before 15th August 2017
3rd Quarter (ended 30th September)	07th November 2016	Before 15th November 2017
4th Quarter (ended 31st December)	15th February 2017	Before 28th February 2018
Annual Report and Financial Statements to Shareholders		
2015	01st March 2016 (Annual Report submission to CSE.)	
2016		On or Before 07th March 2017
14th Annual General Meeting	29th March 2016	
15th Annual General Meeting		29th March 2017
Dividend Payment	07th April 2016	On or Before 07th April 2017

Report of the Audit Committee

COMPOSITION

The Audit Committee ("the Committee") of HNB Assurance PLC ("the Company" or "HNBA") is a standing committee of the Board of Directors ("Board") appointed by and responsible to the Board. The Committee comprises of three (03) Non-Executive Directors, two (02) of whom are independent. The composition of the Committee complies with the requirements of Section 7.10 of the Listing Rules of the CSE and the Code of Best Practice on Corporate Governance ("Code") issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The following Directors functioned as members of the Committee during the year:

Name	Position	Date of Appointment to the Committee	Qualifications
J A P M Jayasekera – Chairman	Independent Non-Executive Director	11th December 2012	FCA, BSc Special (Hons.) (University of Sri Jayewardenepura)
S C Ratwatte – Member	Independent Non-Executive Director	30th January 2009	FCMA (UK), CGMA
N H T I Perera – Member	Non-Executive Director	08th January 2016	ACA

The members bring a multitude of varied expertise and knowledge to the Audit Committee, enabling the effective conduct of its operations. The Chairman of the Audit Committee is a fellow member of the Institute of Chartered Accountants of Sri Lanka. More information on the members of the Audit Committee can be found in their brief profiles on pages 42 to 43 of this Annual Report.

Mr. M O F Salieh, Independent Non-Executive Director of HNB General Insurance Limited (HNBGI), attends meetings by invitation. The Board Secretary functions as the Secretary to the Audit Committee.

Further, the Chief Executive Officer and Chief Financial Officer attend all meetings by invitation. Other Executive Committee members of HNBA and HNBGI ("Group"), Chief Actuary, Senior Manager Finance, Senior Manager - Risk and Compliance and Head of Finance and Support Services of HNB General Insurance Limited are invited to attend meetings where necessary. Additionally, Internal Auditors, External Auditors and Consultant Actuaries also attend meetings by invitation, when required.

MEETINGS

The Committee met seven (07) times during the financial year, and the attendance of each member at these meetings is given on page 203 of the Annual Report. Agendas of the meetings were prepared and distributed to the Committee sufficiently in advance of the meetings, along with briefing materials.

CHARTER OF THE COMMITTEE

The terms of reference of the Committee is defined in the Charter of the Audit Committee, which is reviewed annually. The purpose of the Committee is to assist the Board in fulfilling its responsibility in relation to the oversight of the financial reporting process, the system of control, the audit process including internal audit and external audit, and the process for monitoring compliance with rules and regulations of the Company as well as of its fully owned subsidiary, HNBGI.

OBJECTIVES

The Audit Committee, whose primary purpose is to assist the Board in performing its duties effectively and efficiently, works towards meeting the following objectives:

- To ensure that the financial reporting system is able to present accurate and timely financial information to the Board of Directors, regulators and shareholders
- To ensure that the Financial Statements are prepared in accordance with Sri Lanka Accounting Standards (LKAS), Sri Lanka Financial Reporting Standards (SLFRS), Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and other relevant laws and regulations
- To liaise with the 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
- To review the design and implementation of internal control systems and take steps to strengthen them where necessary
- To ensure that the conduct of the business is in compliance with the applicable laws and regulations of the country and the policies and procedures of the Company
- To assess the independence of the External Auditors and to monitor the performance of both Internal and External Auditors
- To evaluate the Company's ability to continue as a going concern in the foreseeable future

Report of the Audit Committee

The Audit Committee is empowered to seek any information if so desires from the management and staff of the Company or from external parties. The Committee is also authorised to meet the management and staff, External and Internal Auditors, Consultant Actuaries, regulators or outside counsel, in order to achieve the objectives stated above.

RESPONSIBILITIES AND ACTIVITIES CARRIED OUT DURING THE YEAR

The responsibilities of the Committee and the activities carried out during the year are detailed below.

Financial Reporting

The Committee, in acknowledgement of its responsibility to monitor the financial reporting process of the Group, reviewed the following areas, in consultation with the External Auditors and the management where necessary:

- Significant accounting and reporting issues
- Developments in the financial reporting framework (Sri Lanka Accounting Standards – SLFRS/LKAS)
- Consistency of the adopted accounting policies and methods, and their compliance with the Sri Lanka Accounting Standards (LKAS) and Sri Lanka Financial Reporting Standards (SLFRS)
- Disclosure requirements and other applicable accounting and financial reporting requirements such as the Companies Act, No. 07 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto

The Committee reviewed all four (04) Interim Financial Statements and the Annual Financial Statements for the year 2016 before the statements were recommended to the Board.

In the absence of any significant changes in accounting standards, it is noted that there were no material changes to the Company's accounting policies in the year 2016.

Compliance with Laws and Regulations

The Committee reviewed the compliance checklists signed-off by the management, which incorporates all compliance related submissions under the prevailing laws and regulations for the year 2016. Further, the Committee also reviewed the compliance reports submitted by Senior Manager - Risk and Compliance, in order to ensure that the Company adheres with statutory requirements, including those stipulated by the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

Statutory Reporting to the Insurance Board of Sri Lanka (IBSL)

The Committee reviewed and approved all quarterly and annual statutory returns submitted during the year to the Insurance Board of Sri Lanka (IBSL) under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

External Audit

During the year, the Committee continued to review the external audit plan and the methodology, with the objective of understanding the quality control/ assurance processes adopted by the External Auditors. The Committee conducted meetings with the External Auditors to discuss the audit scope and plan. Discussions were also carried out between the Committee, the management and the External Auditors regarding the co-ordination of the audit effort to assure that the External Auditors have access to required information and the co-operation of all employees.

Additionally, the Committee scrutinised the Report of the Auditors and the Management Letter, in consultation with the External Auditors and the management, and overlooked 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 Audit Committee also reviewed and recommended for approval to the Board, the fees payable to the statutory auditors for the interim and final audits for the financial year ended 31st December 2016.

Appointment of External Auditors

Messrs. Ernst & Young, Chartered Accountants, were appointed as the External Auditors of the Company for the financial year ended 31st December 2016, at the Annual General Meeting held on 29th March 2016. The Committee reviewed the performance of the External Auditors during the year and has recommended to the Board that Messrs. Ernst & Young be re-appointed as the External Auditors of the Company for the financial year ending 31st December 2017, subject to the approval of the shareholders at the Annual General Meeting to be held on 29th March 2017.

Provision of Non-Audit Services

The Committee is responsible for reviewing the nature of any non-audit services the External Auditor may undertake to provide, to ensure that auditor independence is not impaired. It is noted that no advisory services were provided by Messrs. Ernst & Young to the Company during the year.

Independence of External Auditors

The Audit Committee evaluates 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 their independence or give rise to conflict of interest.

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 which may have a bearing on their independence within the meaning of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC), as well as the Guidelines for Listed Companies on Audit and Audit

Committees issued by the Securities and Exchange Commission of Sri Lanka (SEC).

Internal Audit

The Committee monitors the effectiveness of the internal audit function and is responsible for approving the appointment or removal of the Internal Auditors. The Committee is also responsible for reviewing and approving the internal audit plan, scope and reporting requirements of the Company annually, while ensuring that the Internal Auditors are independent of the activities it audits and that the audits are performed with impartiality, proficiency and due professional care.

Additionally, in the year under review, the Internal Auditors presented to the Committee the significant issues identified in 12 internal audit reports, covering the operations of all branch locations and several Head Office functions i.e. underwriting, claims, reinsurance, credit control, finance, investments, etc. The Committee took steps to make the internal audit reports available to the External Auditors as well.

The Committee is also tasked with approving the fees for the Internal Auditors on an annual basis.

The Audit Committee met the Internal Auditors without the presence of the management once during the year.

REPORTS OF EXTERNAL ACTUARIES

The Audit Committee received written reports from independent External Actuaries for both Life and General Insurance businesses. Both valuations reports had been carried out in accordance with the Solvency Margin (Risk Based Capital) Rules 2015, issued by the IBSL, which came in to effect from 01st January 2016. The observations and comments included in these reports with regard to the valuation of Life Insurance Policyholder Liabilities as well as Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER) of the General Insurance business were reviewed by the Committee. In addition, the Committee also reviewed the assumptions underlying these valuations with regard to their rationality and compliance with the regulations and guidelines issued by the IBSL. The review was made with the participation of both External Actuaries who provided all clarifications sought by the Committee.

The Committee 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 2016 were adequate. Please refer to pages 265, 267, 268 and 270 of the Financial Statements for a detailed disclosure on LAT.

In addition, the Committee reviewed the Gratuity Valuation Report produced by the appointed Actuary (as required by LKAS 19 – Employee Benefits) and discussed the methodology and rationality of assumptions used by the Actuary, with the management. All reports produced by External Actuaries were made available for the review of the External Auditors.

INTERNAL CONTROL AND RISK MANAGEMENT

The review of the internal control environment of the Group is a routine task of the Committee, and is carried out mainly through the assessment of management and audit reports as well as through discussions with the Management/Auditors. The Committee overlooked the implementation of the actions taken to address the gaps identified in the internal controls of the Group.

The Committee conducted an evaluation on the efficacy of the Group's risk management process through the Risk Management Committee. (Please refer the Report of the Risk Management Committee on page 194 for details). Moreover, in continuing past practices, the 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 overlooked the implementation of the actions recommended.

[The Board's Statement on Internal Controls appears on pages 196 to 197]

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 Internal Auditors in respect of controls related to IT systems, and discussed with the management regarding the appropriate actions required to mitigate identified risks.

Fraud Risk

The Committee reviews the numerous measures in place to reduce the risk of fraud. The following measures were in place to mitigate fraud risk during the year:

- The Procurement Policy, approved by the Board, is complied with in respect of all procurement activities. All major procurements are made through the newly formed centralised Procurement Unit with the approval of the Procurement Committees of the Group.
- The formal Whistleblowing Policy enables employees to raise concerns on fraudulent activities on the condition of anonymity.
- Senior Manager - Risk and Compliance, Internal Auditors and External Auditors review the processes of the Company continuously to identify and mitigate the risk of fraud.

The Audit Committee makes a conscious effort to ensure that the risk of fraud is minimised.

Risk Management Committee

The Board has appointed a Risk Management Committee, assigned with direct responsibility for monitoring the risk management activities of the Group. Consequently, some responsibilities in respect of risk management which were previously held by the Audit Committee, are now assigned to the Risk Management Committee, which consists of three (03)

Report of the Audit Committee

Non-Executive Directors, one of whom is independent. Nevertheless, the Audit Committee continues to be responsible for establishing a sound risk management framework.

The Audit Committee is kept well informed of the Group's risk management function through the information provided by the Risk Management Committee through the minutes of its meetings, which are tabled at the meetings of the Audit Committee. Accordingly, the minutes of the Risk Management Committee meetings held during the year 2016 were reviewed by the Audit Committee.

A detailed report of the Risk Management Committee is given on page 194.

Related Party Transactions Review Committee

The Related Party Transactions Review Committee ("RPT Committee") operates with the intention of evaluating the related party transactions of the Group, to ensure that such transactions take place in a manner acceptable to the Code of Best Practices on Related Party Transactions issued by the SEC and Section 09 of the Listing rules. Thus, the duty of monitoring and reviewing related party transactions, which was previously vested on the Audit Committee, now lies with the RPT Committee.

The RPT Committee includes three Non-Executive Directors, two of whom are Independent, as made mandatory by the Code and the Listing Rules. The Committee met four (04) times during the year.

A detailed report of the Related Party Transactions Review Committee appears on pages 189 to 190.

Whistleblowing Policy

The Audit Committee supervises a formal Whistleblowing 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. The 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
- Chief Executive Officer
- Manager - Human Resources

All concerns raised during the year under the Whistleblowing Policy were duly investigated and appropriate actions were taken.

COMPLIANCE WITH THE LISTING RULES OF THE CSE AND THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

The Company fully adheres to the Corporate Governance Rules set out in Section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Please refer pages 56 to 87 for further information.

PERFORMANCE EVALUATION OF THE COMMITTEE

The ultimate objective of the evaluation of the Committee is to improve the effectiveness of its activities and enhance its support to the management and the Board of Directors.

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. Summary results of both evaluations were tabled and discussed at Board meetings as well.

CONCLUSION

The Committee, along with the management, reviewed the system of internal controls and risk management procedures of the Group, and necessary actions were taken to improve the same. Thus, the Committee is satisfied with the Group's implementation of internal controls and risk management framework and that they lead to the adequate safeguarding of the Group's assets. 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 provides reasonable assurance that the Financial Statements of the Group are true and fair.

Mahendra Jayasekera
Chairman - Audit Committee

Colombo, Sri Lanka.
09th February, 2017.

Report of the Human Resources and Remuneration Committee

COMPOSITION

The Human Resources and Remuneration Committee ("the Committee") of HNB Assurance PLC ("the Company" or "HNBA") is a standing committee of the Board of Directors ("Board") appointed by, and responsible to the Board. The Committee reviews the human resources and remuneration aspects of the Company and its fully owned Subsidiary HNB General Insurance Limited ("HNBGI"). The Committee comprises three (03) Non-Executive Directors, two of whom are independent. The composition and the activities of the Committee complies with the requirements of corporate governance as per Section 7.10 of the Listing Rules issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

The following Directors functioned as the members of the Committee during the year.

Name	Position	Date of Appointment to the Committee
K Balasundaram – Chairman	Independent Non-Executive Director	11th December 2012
S C Ratwatte – Member	Independent Non-Executive Director	30th January 2009
M A R C Cooray – Member	Non-Executive Director	08th January 2016

The Board Secretary functions as the Secretary to the Committee. The Chief Human Resources Officer of Hatton National Bank PLC attends meetings by invitation.

The Chief Executive Officer, the Chief Financial Officer and Manager – Human Resources attended all Committee meetings during the year, by invitation, except when matters pertaining to them were discussed.

MEETINGS

The Committee met nine (09) times during the financial year, and the attendance of each member at these meetings is given on page 203 of the Annual Report.

CHARTER OF THE COMMITTEE

The terms of reference of the Committee is defined in the Charter of the Human Resources and Remuneration Committee, which is reviewed periodically. The purpose of the Committee is to provide recommendations to the Board on remuneration (cash and non-cash benefits) payable to the Chairman, Chief Executive Officer (CEO), Non-Executive Directors and members of the senior management.

OBJECTIVES

Responsibilities and Activities Conducted During the Year

- Maintain a competitive, attractive and reasonable remuneration package for employees at all levels, on par with industry standards, bearing in mind business performance and long term shareholder returns
- Interview applicants who were short-listed by the management for senior management posts and decide on their appointments and designations
- Recommend promotions of employees to the Board of Directors
- Ensure that the remuneration packages of employees are linked to individual performance, responsibility, expertise and contribution
- Ensure formal and transparent procedures in implementing the Remuneration Policy of the Company
- Recommend annual increments, bonuses and changes in perquisites and incentives
- Ensure that no Director is involved in setting his own remuneration package
- Ensure that the Company's remuneration structure complies with the budgetary relief allowance of Workers Act, No. 04 of 2016 and the National Minimum Wage Workers Act, No. 03 of 2016

Additionally, during the year, the Committee commenced the discussion and review of employee related issues, their welfare, satisfaction levels and HR related audit/compliance issues, thereby providing policy direction for the human resource strategy of the Company.

REMUNERATION PRINCIPLES

The Remuneration Policy of the Company;

- should be reasonable, attractive, competitive and linked to individual performance, and
- should be in line with both industry standards and the Company's performance

REMUNERATION PACKAGE

Employees

The remuneration packages of employees consist of a fixed component and a variable component. In addition, other benefits are available to employees, as noted below.

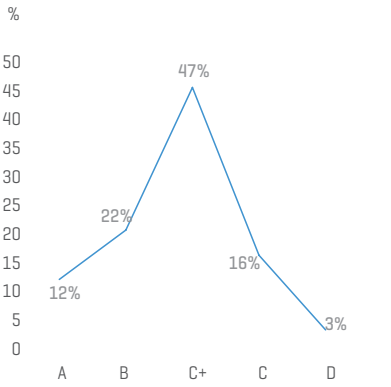
Report of the Human Resources and Remuneration Committee

Fixed Components	Basic Salary
Variable Components	Annual bonus for all staff
	Incentive for the distribution management team, other marketing personnel and Bancassurance officers
Other Benefits and Facilities	Vehicle loans (selected categories of staff)
	Educational loans and education assistance scheme
	Professional membership subscription scheme
	Other loans (Emergency, Wedding, etc.)
	Insurance benefits
	Holiday bungalow (selected categories of staff) and recreational facilities

Fixed Components

The basic salary, which is the fixed component of the remuneration package, is based on the scope and complexity of the role, and is reviewed annually. Annual performance appraisals are conducted, and increments and promotions are granted purely based on the results of such exercises. The distribution of performance grading in the year-end appraisal process is shown in the graph below. Overall competence and performance are key factors that determine an individual's base pay.

Distribution of Appraisal Grades



Variable Components

The main component of variable pay is the annual bonus to employees at all levels, based on individual performance, as evaluated at the annual performance appraisals, as well as the performance of the Company. In addition, the distribution management team, other marketing personnel in the distribution network and Bancassurance officers are entitled to an incentive scheme based on the achievement of business targets under pre-determined criteria.

Other Employee Benefits

Benefits provided to employees include vehicle loans, educational and other loans, insurance benefits such as the staff health insurance cover, critical illness cover and the personal accident cover, regular health check-ups, and free medical consultations through a reputed medical services provider.

Retirement Benefits

As per regulatory requirements, a defined contribution plan has been made available to employees, where the Company contributes to EPF and ETF. Additionally, employees who have completed five years of service are entitled for a gratuity benefit. There are no retirement benefits for employees, other than those mentioned above.

BOARD OF DIRECTORS

No remuneration is paid to Non-Executive Directors other than the fees paid based on their participation at Board and Sub-Committee meetings. The total fees and remuneration paid to all Directors is disclosed on page 305 of this Annual Report. Non-Executive Directors are not entitled to retirement benefits.

KEY MANAGEMENT PERSONNEL (KMP)

The Committee places special emphasis on reviewing the performance of KMP and the determination of their remuneration packages. KMP recruitment, development and succession planning are also areas which receive the Committee's attention.

SHARE OWNERSHIP PLANS FOR DIRECTORS AND KMP

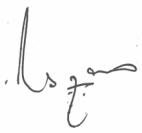
The Company does not have a share ownership plan for Directors and KMP.

DIRECTORS' SHAREHOLDING

Information on Directors' shareholding is provided on page 105.

PERSONAL LOANS FOR DIRECTORS

No Director is entitled to loans from the Company.



K. Balasundaram
Chairman – Human Resources and Remuneration Committee

Colombo, Sri Lanka.
09th February, 2017.

Related Party Transactions Review Committee Report

COMPOSITION

The Related Party Transactions Review Committee ("the Committee") of HNB Assurance PLC ("HNBA") , appointed by and responsible to the Board of Directors of both HNB Assurance PLC and HNB General Insurance Ltd ("HNBGI"), consists of three (03) Non-Executive Directors, two of whom are independent.

The following Directors functioned as members of the Committee during the year:

Name	Position	Date of Appointment to the Committee	Qualifications
S C Ratwatte – Chairman	Independent Non-Executive Director	27th March 2014	FCMA (UK), CGMA
J A P M Jayasekera – Member	Independent Non-Executive Director	27th March 2014	FCA, BSc Special Hons - University of Sri Jayewardenepura
N H T I Perera – Member	Non-Executive Director	09th February 2016	ACA

Brief profiles of the Directors representing the Committee are given on pages 42 and 43 of this Annual Report.

Senior Manager - Risk and Compliance functions as the Secretary to the Committee.

The Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Senior Manager Finance attend meetings by invitation.

MEETINGS

The Committee held four (04) meetings during the year under review. Members' attendance at meetings is given on page 203 of this Annual Report.

CHARTER OF THE COMMITTEE

The Charter of the Related Party Transactions Review Committee clearly sets out the purpose, membership, authority duties and responsibilities of the Committee. The purposes 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 or substantial shareholders taking advantage of their positions.

In order to discharge the duties and responsibilities effectively and efficiently, the Committee has been authorised to:

- Receive regular reports from the management, and be provided with any information it requests relating to its responsibilities;
- Establish policies and procedures that provide general pre-approvals to certain classes or types of related party transactions;
- Review and evaluate the terms and conditions, and to determine the advisability, of any related party transaction;
- Determine whether the relevant related party transaction is fair, and in the best interest of the Company and its shareholders as a whole;
- Recommend to the Board what action, if any, should be taken by the Board with respect to any related party transaction;
- Obtain the 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; and
- 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 full Committee at its next meeting

RESPONSIBILITIES

The following key responsibilities have been set out in the Charter;

- Ensure that the Company complies with the rules set out in the Code.
- Review, in advance, all proposed related party transactions, 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 necessary and appropriate, to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities with regard to related party transactions.

Related Party Transactions Review Committee Report

REVIEW OF RELATED PARTY TRANSACTIONS

The Committee reviewed all related party transactions of the Company for the year 2016.

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

In the opinion of the Committee, the terms of these transactions were not more favourable to the related parties than those generally available to the public. All details of such related party transactions entered in to during the year are given in Note 42 to the Financial Statements on pages 305 to 310 of this Annual Report.

The minutes of the Committee meetings were tabled at Board meetings, for the review of the Board.

POLICIES AND PROCEDURES

The Chief Financial Officer is responsible for reporting to the Committee, for its review and approval/disapproval, the information set out under 'Appendix 9 A' of the Listing Rules at the minimum, in respect of each related party transaction proposed to be entered into, except those under Section 9.5 of the Listing Rules. In addition, on a quarterly basis, the Chief Financial Officer is required to report to the Committee, the approved related party transactions actually entered into by the Company.

The Committee has approved the Related Party Transactions Declaration Form, which needs to be filled by the Directors and key management personnel of the Company.

DECLARATION

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.

Sarath Ratwatte
Chairman - Related Party Transactions Review Committee

Colombo, Sri Lanka.
09th February, 2017.

Nomination Committee Report

COMPOSITION

The Nomination Committee ("the Committee") of HNB Assurance PLC ("the Company" or "HNBA") is a committee of the Board of Directors ("Board") appointed by and responsible to the Board. The Committee comprises of three Non-Executive Directors, one of whom is independent.

The following members functioned as members of the Committee during the year

Name	Position	Date of Appointment to the Committee	Qualifications
M A R C Cooray - Chairperson	Non-Executive Director	01st October 2015	BA (Hons) (University of Ceylon, Peradeniya), MSc. (Strathclyde University, UK)
J A P M Jayasekera – Member	Independent Non-Executive Director	29th July 2016	FCA, BSc Special (Hons) (University of Sri Jayewardenepura)
D P N Rodrigo – Member	Non-Executive Director	29th July 2016	FCMA (UK), CGMA

The Board Secretary functions as the secretary to the Committee and the Chief Executive Officer attends meetings by invitation where necessary.

MEETINGS

The Committee met once during the financial year, and the attendance of each member at the meeting is given on page 203 of the Annual Report.

The Minutes of the Nomination Committee meetings are tabled at Board meetings enabling all Board members to have access to them.

CHARTER OF THE COMMITTEE

The Terms of Reference of the Committee are defined in the Nomination Committee Charter. The purpose of the Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to the selection/appointment of new Directors, re-appointment of current Directors and selection/appointment of the CEO.

RESPONSIBILITIES OF THE COMMITTEE

Responsibilities of the Committee can be outlined as follows:

- 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 and the CEO;
- Taking into account the performance and contribution made by Directors towards the overall discharge of responsibilities of the Board, to make recommendations on the re-election of current Directors to the Board of Directors;
- To set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO;
- To ensure Directors, CEO and the Key Management Personnel are fit and proper persons to hold office as required by the Companies Act and other applicable statutes;
- To consider and recommend from time to time the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel;
- To provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment
- To regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes;
- Review and recommend to the Board new/additional Corporate Governance Principles of the Board and any changes to such Principles taking 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

During the year, the Committee recommended the appointment of Ms. Marina Tharmaratnam as an Independent Non-Executive Director to the Board of our fully owned subsidiary HNB General Insurance Limited with the aim of bringing in further expertise knowledge to the Board of HNB General Insurance Limited, as well as to the Group

CONCLUSION

The Committee is satisfied that the combined knowledge and experience of the Board matches the demands facing the Company.

Rose Cooray
Chairperson - Nomination Committee

Colombo, Sri Lanka.
09th February, 2017.

Report of the Investment Committee

COMPOSITION

The Investment Committee of HNB Assurance PLC, appointed by and responsible to the Board of Directors of both HNB Assurance PLC (HNBA) and HNB General Insurance Ltd (HNBGI), consists of the following members, all of whom possess expertise in numerous relevant areas including, but not limited to, investments, risk management, fund management and finance.

Name	Position	Date of Appointment to the Committee	Qualifications
S C Ratwatte - Chairman	Independent Non-Executive Director (HNBA)	11th December 2012	FCMA(UK), CGMA
S N Wickramasinghe - Member	Independent Non-Executive Director (HNBA)	09th January 2014	Attorney-at-Law
Dr. S Selliah - Member	Independent Non-Executive Director (HNBA)	31st October 2014	MBBS, M. Phil
M Tharmaratnam - Member	Independent Non-Executive Director (HNBGI)	01st January 2017	FCA, Dip. M, MCIM
R Dissanayake - Member	Assistant General Manager Strategy/ Chief Strategy Officer (HNB)	11th December 2012	BBA (Colombo), ACMA (UK), CFA (USA)

The primary purpose of the Investment Committee is to assist the Board in reviewing investment policies, strategies and the performance of the investment portfolios of HNBA and HNBGI. The Chief Financial Officer functions as the Secretary to the Investment Committee. The CEO, Chief Investment and Strategy officer, Chief Actuary, Senior Manager – Risk and Compliance and the middle management of the investment front office and back office attend meetings by invitation.

MEETINGS

The Committee met on eight (08) occasions during the year 2016, with the objective of discussing the performance of the investment portfolios of the Group, as well as to dispense advice and guidance on the formulation and implementation of investment strategies.

In order to keep the Board of Directors updated as to the proceedings of the investment function of the Group, minutes of the Investment Committee meetings were tabled at each Board meeting immediately following a meeting of the Investment Committee. Guidance and advice of the Board of Directors were bestowed upon the investment function continuously throughout the year.

Moreover, the Committee maintained regular communication with the management, discussing matters as and when they arose, in order to identify the optimum course of action that should be embarked upon.

AUTHORITY AND RESPONSIBILITIES

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 on their adoption.

The Charter defines the following functions as the key responsibilities of the Investment Committee;

- 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

ACTIVITIES CARRIED OUT DURING THE YEAR

- The Committee met after the expiry of each month during the first half of the year, and after the expiry of each quarter during the second half of the year. Accordingly, eight (08) meetings were held in 2016. The management

tabled a report at each meeting, providing details on the macro - economy, the investment strategy and the performance of each investment portfolio.

- Extensive discussions were held during these meetings, on economic, political, social and other conditions that could impact the performance of the Group's investment returns, and the investment strategy was structured upon agreements reached during such discussions.
- Apart from these scheduled meetings, the Committee also maintained constant dialogue with the management throughout the year, discussing matters as and when they arose. Any issues that needed the attention of the Investment Committee was promptly attended to and solutions reached, through close communication between the Investment Committee and the top management.
- A comprehensive revision to the Group Investment Policy was carried out at the beginning of the year, and necessary changes were incorporated to the Policy accordingly. The investment management and risk mitigation functions were also further strengthened by introducing new sections on the selection and single party exposure limits of primary dealers.
- The Group Investment Policy was segregated during the year, with the approval of the Board, to reflect separate Investment Policies for HNB Assurance PLC and HNB General Insurance Ltd.
- The Committee provided guidance on maximising investment returns while working within the Group's investment risk appetite, to simultaneously ensure the achievement of budgeted income and adherence to all internal guidelines and external regulations. The Committee also extended its assistance to areas such as asset allocation, maturity mix and asset and liability management of the funds.
- Regular and strict scrutiny was maintained throughout the year in relation to compliance with applicable criteria, guidelines and policies stipulated in the Company's Investment Policy as well as with statutory rules and regulations. Senior Manager - Risk and Compliance tabled a separate report at each meeting affirming the state of compliance with all such requirements.

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.

Sarath Ratwatte
Chairman - Investment Committee

Colombo, Sri Lanka.
09th February, 2017.

Report of the Risk Management Committee

OBJECTIVE

The Risk Management Committee ("the Committee") of HNB Assurance PLC ("the Company" or "HNBA") is a standing committee of the Board of Directors ("Board"). The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to the oversight of the risk management framework, including the significant policies and practices used in managing risks, of the Company and its fully owned subsidiary, HNB General Insurance Limited ("HNBGI").

AUTHORITY

In order to discharge its duties and responsibilities effectively and efficiently, the Committee has been empowered to have direct access to, 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.

COMPOSITION

The Risk Management Committee of HNB Assurance PLC comprises three Non-Executive Directors. The members of the Committee have vast experience in risk management, finance, banking and business management. The members of the Committee are:

- Mr. Dilshan Rodrigo
  – *Chairman (Non-Executive Director)*
- Mrs. Rose Cooray
  – *Member (Non-Executive Director)*
- Mr. K Balasundaram
  – *Member (Independent Non-Executive Director)*

Brief profiles of the Directors representing the Committee are given on pages 42 to 43 of this Annual Report.

Senior Manager - Risk and Compliance functions as the Secretary to the Risk Management Committee.

The Chief Executive Officer, Chief Financial Officer, and other Executive Committee members attend meetings by invitation.

CHARTER OF THE RISK MANAGEMENT COMMITTEE

The Charter of the Risk Management Committee clearly sets out the purpose, membership, authority, duties and 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 to stress testing
- Review and approve the Company's Risk Assessment Report and receive reports on the Company's adherence to significant risk limits
- Develop a risk appetite statement for the Company and review it along with the management, by periodically assessing performance with the established risk appetite
- Review and discuss with the management on issues raised by Internal/External Auditors that impact upon the risk management framework of the Company
- Monitor whether the decisions relating to functions with high risks are taken in accordance with established delegated authorities

MEETINGS

The Committee met eleven (11) times during the financial year under review, and the attendance of each member at these meetings is given on page 203 of this Annual Report.

ACTIVITIES OF THE COMMITTEE

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, 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 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 Charter of the Risk Management Committee and carried out a self-evaluation on the performance of the Committee

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, and at the Board meetings of HNBA and HNBGI for the information of other members of the Board.

Dilshan Rodrigo
Chairman - Risk Management Committee

Colombo, Sri Lanka.
09th February, 2017.

Strategy Review Committee Report

COMPOSITION

The Strategy Review Committee ("the Committee") of HNB Assurance PLC ("the Company" or "HNBA") and HNB General Insurance Limited ("HNBGI") is a committee of the Board of Directors ("Board") appointed by and responsible to the Board, and consists of minimum of two (02) members each from the Board of HNB Assurance PLC and HNB General Insurance Limited.

The following are the members of the Strategy Review Committee

Name	Position	Date of Appointment to the Committee	Qualifications
M A R C Cooray – Chairperson	Non-Executive Director	08th January 2016	BA (Hons) (University of Ceylon, Peradeniya), MSc. (Strathclyde University, U.K.)
Dr. S Selliah – Member	Independent Non-Executive Director	08th January 2016	MBBS, M.Phil
M O F Salieh– Member	Independent Non-Executive Director	08th January 2016	BA (Econ) Hons., MBA, FCPM
N H T I Perera – Member	Non-Executive Director	08th January 2016	ACA
D Lokuarachchi – Member	Chief Executive Officer	02nd May 2016	Attorney-at-Law, ACII (UK)

Mr. N Amarasinghe - Chief Investment and Strategy Officer, functions as the Secretary to the Committee

MEETINGS

The Committee met eleven (11) times during the financial year, and the attendance of each member at the meetings is given on page 203 of the Annual Report. The Committee closely monitored and had extensive discussions at these meetings on Key Performance Indicators (KPIs) and Key Strategic Decisions and implementation of them. The Committee also made relevant recommendations for improving performance of the Group/Company. Apart from these scheduled meetings, the Committee also maintained a constant dialogue with the management throughout the year with regard to its progress on performance.

CHARTER OF THE COMMITTEE

The terms of reference of the Committee is defined in the Strategy Review Committee Charter, which is reviewed annually. The purpose of the Committee is to review and monitor closely the implementation of the three year strategic plan of the Group/Company, to keep the Board informed of the progress of implementation and make any recommendations that are deemed necessary in the strategies for the early turnaround of the business of HNBGI and further development of the activities of HNBA.

RESPONSIBILITIES AND ACTIVITIES CARRIED OUT DURING THE YEAR

The responsibilities of the Committee and the activities carried out during the year are detailed below.

- Review the front burner document containing materially significant short term activities, change of processes, etc.;
- Identify Key Management Persons responsible for implementation of each activity giving timelines;
- Identifying medium and long term strategies and monitoring implementation;
- To review and make recommendations to the Board on the forecasts made on KPIs;
- To keep the Board updated regarding the implementation and achievements against each target; and
- Review the strategy plan developed for the next three years.

Rose Cooray
Chairperson - Strategy Review Committee

Colombo, Sri Lanka.
09th February, 2017.

Board's Statement on Internal Control

RESPONSIBILITY

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control and risk management mechanism in place at HNB Assurance PLC, ("the Company"). The Company has in place a comprehensive system of internal controls, covering risk management and financial, organisational, operational and compliance controls. However, as with the inherent limitations of any system, such systems of internal control are designed to manage, rather than to eliminate risks that may impede the achievement of the Company's objectives. In this light, the system of internal controls can only provide reasonable, but not absolute, assurance against material misstatement of financial information and records; or against financial loss or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company, as well as for enhancing the system of internal controls in response to changes in the business environment or regulatory guidelines. This process is put in place for the year and is 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 islandwide, 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 186.
- A Risk Management Committee has been established to assist the Board to oversee the risk management framework of the Company. The management has prepared a Risk Register identifying all key risks faced by the Company, as well as existing and proposed controls to mitigate such identified risks. This Risk Register has been shared with the Internal Auditors to ensure compliance with existing controls and to prepare the internal audit plan focusing on the significant risks faced by the Company.
- Key Risk Indicators (KRIs) have been identified for all major operations of the Company and a KRI report is prepared monthly. A summary of the KRI report is included in the Risk Dashboard and presented to the Risk Management Committee.
- The Risk and Compliance Department follows up on audit recommendations and ensures that the recommendations are implemented. A report is tabled at each Audit Committee meeting by the Risk and Compliance Department on the progress of implementing the actions agreed to by the management.
- A compliance checklist covering all applicable laws and regulations is signed-off by the management monthly, and is tabled at Audit Committee meetings. Compliance reports prepared by the Senior Manager - Risk and Compliance are also presented to the Audit Committee, Risk Management Committee and the Investment Committee on a regular basis. A monthly report to the Board is submitted by the Senior Manager - 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,

Mahendra Jayasekera
Chairman - Audit Committee

Rose Cooray
Chairperson

Colombo, Sri Lanka.
09th February, 2017.

Annual Report of the Board of Directors on the Affairs of the Company

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY AND STATEMENT OF COMPLIANCE OF THE CONTENTS OF THE ANNUAL REPORT AS REQUIRED BY SECTION 168 OF THE COMPANIES ACT, NO. 07 OF 2007

Preface

The Board of Directors of HNB Assurance PLC ("the Company") takes pleasure in presenting this Annual Report on the affairs of the Company and the Group, along with the Audited Financial Statements of the Company and the Consolidated Financial Statements of the Group for the year ended 31st December 2016 and the Auditors' Report on those Financial Statements. These conform to the requirements of the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, the Companies Act, No. 07 of 2007, the Listing Rules of the Colombo Stock Exchange (CSE), other Rules and Regulations of the Insurance Board of Sri Lanka and best practices on corporate governance.

This report was reviewed and approved by the Board of Directors on 09th February 2017.

General

HNB Assurance PLC was incorporated on 23rd August 2001 as a limited liability company under the Companies Act, No. 17 of 1982. The Company re-registered as per the requirements of the Companies Act, No. 07 of 2007 on 09th August 2007 and bears the Company Registration Number PQ 108. The Company is domiciled in Sri Lanka and its registered office is situated at No. 479, T B Jayah Mawatha, Colombo 10.

The ordinary shares of the Company have been listed on the main board of the Colombo Stock Exchange (CSE) since November 2003.

Fitch Ratings Lanka Ltd has re-affirmed HNB Assurance PLC's and its fully owned subsidiary HNB General Insurance Limited's National Long-Term Ratings and National Insurer Financial Strength Ratings at 'A(lka)' during 2016. All ratings were affirmed with a stable outlook.

Principal Place of Business

During the year under review, the Company and its subsidiary relocated their principal place of business from No. 10, Sri Uttarananda Mawatha, Colombo 03, to No. 30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03.

The information provided in the following report is in line with the requirements of Section 168 of the Companies Act, No. 07 of 2007, and are guided by best practices on corporate governance.

Vision, Mission and Corporate Conduct

The vision and mission of HNB Assurance PLC is given on page 7 of this Annual Report. In achieving its vision and mission, the Company's employees maintain the highest level of ethical standards and integrity in their conduct, conforming to the Company's values as stated on page 7 on this report, and the Company's Code of Business Conduct and Ethics.

Principal Business Activities

As per the requirements of Section 168 (1) (a) of the Companies Act, No. 07 of 2007, the principal business activities of the Company and the Group during the year are given below.

Company

The principal business activity of the Company, which is the conducting of Life Insurance business, remained unchanged during the year under review.

Subsidiary

The principal business activity of the Company's fully owned subsidiary, HNB General Insurance Limited, is conducting General Insurance business, and this too remained unchanged during the year under review.

Within the framework of the main business of the Company/ Group, HNB Assurance PLC offers Family (Life) Takaful products to the market, while HNB General Insurance Limited offers General Takaful products, under the approval of the Insurance Board of Sri Lanka. The Takaful 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.

Review of Performance

The Chairperson's Statement on pages 30 to 35, the Chief Executive Officer's Review on pages 36 to 39, the Management Discussion and Analysis on pages 111 to 172 and the Audited Financial Statements on pages 216 to 334 contain a review of the financial and operational performance of the Company and the Group and the important events that took place during the year, as required by Section 168 (1) (a) of the Companies Act, No. 07 of 2007. These reports form an integral part of this Annual Report of the Board of Directors. Segmental contribution to Group revenue, results, assets and liabilities are disclosed in Section 06 to the Financial Statements on pages 232 to 235.

Future Developments

Anticipated future developments of the Company are presented in detail in the Chairperson's Statement on pages 30 to 35, the Chief Executive Officer's Review on pages 36 to 39, and the Management Discussion and Analysis on pages 111 to 172, as required by Section 168 (1) (a) of the Companies Act, No. 07 of 2007.

Financial Statements

The Financial Statements of the Company and the Group are prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and comply with the requirements of the Companies Act, No. 07 of 2007. They also provide information as required under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, other Rules and Regulations of the Insurance Board of Sri Lanka and the Listing Rules of the Colombo Stock Exchange (CSE).

Financial Statements for the year ended 31st December 2016, duly signed by the Chief Financial Officer and two Directors, are presented on pages 216 to 334 as per Sections 151 and 152 of the Companies Act, No. 07 of 2007. These statements form an integral part of the Annual Report of the Board of Directors (as per Section 168 (1) (b) of the Companies Act).

Directors' Responsibility for Financial Reporting

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and the Company to reflect a true and fair view of the operations and the state of affairs. The Directors confirm that these Financial Statements appearing on pages 216 to 334 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act, No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, the Listing Rules of the Colombo Stock Exchange (CSE) and the Corporate Governance Code issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Statement of Directors' Responsibility for Financial Reporting is given on page 210 and forms an integral part of this report.

Auditors' Report

The External Auditors of the Company, Messrs. Ernst & Young, audited the Financial Statements of the Company and the Consolidated Financial Statements of the Group for the year ended 31st December 2016, and their statement is given on page 215 as required by Section 168 (1) (c) of the Companies Act, No 07 of 2007. This too forms an integral part of this report.

Significant Accounting Policies

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 223 to 229, complying with Section 168 (1) (d) of the Companies Act, No. 07 of 2007.

In the absence of significant changes in accounting standards, there were no material changes to the Company's accounting policies in the year 2016.

Going Concern

The Board of Directors has conducted necessary reviews and inquiries to assess the Company's/Group's ability to continue as a going concern and is satisfied that it has the necessary resources to continue its business operations into the foreseeable future. The Board has conducted a review of the Company's and its subsidiary's strategic plans for the ensuing years, future prospects and risks, capital expenditure requirements and cash flows, and have not encountered any material uncertainties that may cast significant doubt upon the Company's/Group's ability to continue as a going concern. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Appointment and Remuneration of Independent Auditors

Messrs. Ernst & Young, Chartered Accountants, functioned as the Auditors of the Company and its subsidiary during the year under review. As required by Section 168 (1) (i) of the Companies Act, No. 07 of 2007, fees related to audit and audit related services carried out by the Auditors is presented in Note 36 to the Financial Statements, on page 286.

Based on the declaration provided by Messrs. Ernst & Young, and as far as the Directors are aware, the Auditors do not have any relationship with, or interest in, the Company and the subsidiary, other than that of an Auditor (Section 168 (1) (j) of the Companies Act, No. 07 of 2007).

The retiring Auditors have expressed their willingness to continue as the Auditors of both HNB Assurance PLC and HNB General Insurance Limited. Accordingly, with the recommendation of the Audit Committee and the Board of Directors, resolutions will be proposed at the Annual General Meeting of HNB Assurance PLC to be held on 29th March 2017 and at the Annual General Meeting of HNB General Insurance Limited also to be held on the same date, for their re-appointment and for granting of authority to the Directors to fix their remuneration.

More details on the work carried out by the Auditors and the Audit Committee are presented in the Report of the Audit Committee on pages 183 to 186.

Internal Controls and Risk Management

The Company/Group has strong internal controls and risk management processes in place and the Directors and the management are committed to the highest standards of financial, operational and risk management controls for the Company /Group.

The Board is ultimately responsible for the Company's/Group's system of internal controls and for reviewing its effectiveness. The Board is of the view that the system of internal controls in place is sound and adequate to provide a reasonable assurance

Annual Report of the Board of Directors on the Affairs of the Company

regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements. The Board's Statement on Internal Controls is given on pages 196 to 197 and forms an integral part of this report.

The Board confirms that there is an ongoing process to identify, evaluate and manage significant risks of the Company/Group, and during the year the Board reviewed this process through its Risk Management and Audit Committees, supported by the Internal Auditors. Further details on the risk management initiatives of the Company/Group are detailed in the Risk Management Report on pages 94 to 103, the Report of the Risk Management Committee on page 194 and the Report of the Audit Committee on pages 183 to 186.

Enterprise Governance

Directors' Declaration

The Directors declare that;

a) all applicable laws and regulations have been complied with by the Company, in conducting its business activities,

b) the Directors have disclosed all material interests in contracts involving the Company and have refrained from voting on matters in which they were materially interested,

c) the Company has made all endeavours to ensure that all shareholders have been treated equitably,

d) the business is a going concern with supporting assumptions or qualifications as necessary, 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.

The Board of Directors is committed to maintain an effective corporate governance structure and processes, to be in compliance with all relevant rules, regulations and best practices on Corporate Governance, extending beyond regulatory requirements. As a Company listed on the main board of the Colombo Stock Exchange (CSE), HNB Assurance PLC is fully compliance with the Listing Rules on corporate governance. In addition, the Company is in compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). More details on the best practices on governance can be read on pages 52 to 110 under the Enterprise Governance section.

Financial Results and Appropriations

Gross Written Premium (GWP)

The GWP of the Group during the period under review was Rs. 6.7 Billion (2015 – Rs. 5.4 Billion) while the GWP of the Company was Rs. 3.6 Billion (2015 – Rs. 2.8 Billion). The segmental analysis of revenue is given in Note 25 of the Financial Statements on pages 276 to 277.

Profits and Appropriations

Profits After Tax (PAT) of the Group was recorded at Rs. 647 Million (2015 – Rs. 197 Million) and marked a growth of 228%. The PAT of the Company reached Rs. 600 Million (2015 – Rs. 428 Million) during the year, at a growth of 40%.

The Statement of Profit or Loss and Other Comprehensive Income of the Company/Group is given on page 217 and the details on the appropriation of profits are given below.

	Group		Company	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Profit Before Taxation (PBT)	705,521	169,773	656,642	457,028
Income Tax Reversal/(Expenses)	(58,108)	27,571	(56,512)	(29,383)
Profit for the Year	647,413	197,344	600,130	427,645
Unappropriated Profit Brought Forward	1,174,262	1,196,546	1,397,806	1,189,039
Super Gain Tax	-	(31,378)	-	(31,378)
Share Issue Transaction Costs - Subsidiary	-	(750)	-	-
Profits Available for Appropriation	1,821,675	1,361,762	1,997,936	1,585,306
Dividends Paid	(100,000)	(187,500)	(100,000)	(187,500)
Unappropriated Profit Carried Forward	1,721,675	1,174,262	1,897,936	1,397,806

Dividends

In terms of the provisions of Section 56 (3) of the Companies Act, No. 07 of 2007, the Board of Directors is satisfied with the Solvency Test immediately after the distribution of the first and the final dividend of Rs. 5.00 (2015 – Rs. 2.00) proposed by the Board of Directors. The dividend will be paid partly out of dividends received and partly out of taxable profits of the Company. Dividends to be paid out of profits will be subject to withholding tax. The proposed final dividend is payable on or before 07th April 2017 to holders of issued and paid-up ordinary shares of the Company, as at the close of business on the 29th of March 2017.

The Statement of Solvency prepared by the Board was audited by our External Auditors Messrs. Ernst & Young.

The Company's Dividend Pay-Out Ratio for the year is 39% (2015: 51%), which is well above the minimum dividend pay-out as stated in the Deemed Dividend Tax Rule.

Reserves

Transfers to/from reserves of the Company/Group are shown in the Statement of Changes in Equity appearing on pages 218 and 219 and a summary of the same is given below.

	Group		Company	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
Retained Earnings	1,721,675	1,174,262	1,897,936	1,397,806
Available For Sale Reserves	(7,152)	(4,748)	(1,465)	53
Other Reserves	1,790	(1,093)	(1,886)	(2,039)
Life Policyholders Reserve Fund	(191,131)	(56,350)	(191,131)	(56,350)
Total	1,525,182	1,112,071	1,703,454	1,339,470

Annual Report of the Board of Directors on the Affairs of the Company

The Board of Directors

Composition

The Board of Directors of the Company consists of eight (08) (2015 – eight (08)) Directors, each of whom possesses wide financial and commercial knowledge and experience. The names of the Directors who held office during the year, as required by Section 168 (1) (h) of the Companies Act, No. 07 of 2007, is given below. Brief profiles of the Directors are given on pages 40 to 43.

Name of Director	Director Since	Executive/Non-Executive	Independent/ Non-Independent
M A R C Cooray – Chairperson	06th July 2015	Non-Executive	Non-Independent
S C Ratwatte	30th January 2009	Non-Executive	Independent
J A P M Jayasekera	03rd December 2012	Non-Executive	Independent
K Balasundaram	03rd December 2012	Non-Executive	Independent
D P N Rodrigo	01st July 2013	Non-Executive	Non-Independent
S N Wickramasinghe	02nd October 2013	Non-Executive	Non-Independent
Dr S Selliah	17th June 2014	Non-Executive	Independent
N H T I Perera	08th January 2016	Non-Executive	Non-Independent
M U de Silva (Resigned on 08th January 2016)	25th March 2004	Non-Executive	Non-Independent

Changes in Directorate

Mr. N H T I Perera (Non-Executive Director) was appointed to the Board as a Non-Executive Director with effect from 08th January 2016, in terms of Article 92 of the Articles of Association of the Company, and was re-elected after he retired at the Annual General Meeting of the Company held on the 29th of March 2016, as per the same Section of the Articles of Association of the Company.

Mr. M U de Silva (Non-Executive Director) resigned from the Directorship of the Company on 08th January 2016.

Retirement and Re-election of Directors

Mr. S C Ratwatte retires at the AGM under Articles 85 and 86 of the Articles of Association of the Company and offers himself for re-election under the said Articles. The re-election of the aforesaid Director has the unanimous support of the Board.

No existing Director has reached the age of 70 years and therefore, Sections 210 and 211 of the Companies Act do not apply.

List of Directors of HNB General Insurance Limited

Names of the Directors of the Subsidiary are as follows:

Name of Director	Director Since	Executive/Non-Executive	Independent/ Non-Independent
M A R C Cooray – Chairperson	30th June 2015	Non-Executive	Non-Independent
D P N Rodrigo	21st December 2015	Non-Executive	Non-Independent
N H T I Perera	21st December 2015	Non-Executive	Non-Independent
M O F Salieh	22nd September 2014	Non-Executive	Independent
M Tharmaratnam	01st September 2016	Non-Executive	Independent

Board Sub-Committees

The Board of Directors, while assuming overall responsibility and accountability for the management and oversight of the Company/Group, has appointed Board Sub-Committees to ensure more effective control over certain affairs of the Company, conforming to the corporate governance standards of the Listing Rules of the Colombo Stock Exchange (CSE) and industry best practices. Accordingly, the following Board Sub-Committees functioned during the year;

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

Directors' Meetings

Information related to the number of Board and other Sub-Committee meetings held during the year and the attendance of each Director at such meetings, is given below.

Name of Director	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nominations Committee Meetings	Investment Committee Meetings	Risk Management Committee Meetings	Related Party Transactions Review Committee meetings	Strategy Review Committee Meetings
M A R C Cooray – Chairperson	12/12*		9/9	1/1*		11/11		11/11*
S C Ratwatte	12/12	7/7	9/9		8/8*		4/4*	
J A P M Jayasekera	9/12	7/7*		1/1			4/4	
K Balasundaram	10/12		9/9*			11/11		
D P N Rodrigo	12/12			1/1		11/11*		
S N Wickramasinghe	11/12				8/8			
Dr S Selliah	10/12				8/8			11/11
N H T I Perera	9/12	4/7					1/4	9/11

* Chairman/Chairperson of the Committee

Interest Register and Interest in Contracts or Proposed Contracts

A Directors' Interest Register is maintained by the Company as per the requirements of Section 168 (e) of the Companies Act, No. 07 of 2007. All Directors of the Company have disclosed their interests in other companies to the Board and such interests are recorded in the Directors' Interest Register, conforming to Sections 192 (1) and 192 (2) of the Companies Act, No. 07 of 2007.

The information related to Directors' interest in contracts is given on pages 209 and 305 to 310 of the Financial Statements, which forms an integral part of the Annual Report of the Board of Directors.

The Directors of the Company have had no direct or indirect interests in any contracts or proposed contracts with the Company, other than those disclosed on pages 305 to 310. Further, as a practice of good governance, Directors have refrained from voting on any contract or matter in which they have a material interest.

Annual Report of the Board of Directors on the Affairs of the Company

Information related to the Directors' interest in shares of the Company is presented below,

Name of Director	31st December 2016	31st December 2015
M A R C Cooray – Chairperson	18,035	5,000
S C Ratwatte	14,666	14,666
J A P M Jayasekera	83,057	5,000
K Balasundaram	10,000	10,000
D P N Rodrigo	180	180
S N Wickramasinghe	52,500	52,500
Dr S Selliah	100,000	100,000
N H T I Perera	100	-
M U de Silva [resigned w.e.f. 08th January 2016]	Not Applicable	3,000

The Directors' interest in shares have not changed between 31st December 2016 and 09th February 2017, the date of this report.

Directors' Remuneration

Details regarding Directors' fees and emoluments, including post-employment benefits, for the financial year ended 31st December 2016, are given in Note 42 of the Financial Statements as per the requirements of Section 168 (1) (f) the Companies Act, No. 07 of 2007. Further, Directors are not entitled to obtain any loan from the Company and no remuneration is paid to Non-Executive Directors other than the fees paid on attendance at Board and Board Sub-Committee meetings.

Related Party Transactions

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 required by Section 9.3.2 (d) of the Listing Rules, the Board confirms that the Company has complied with all requirements as per Section 9 of the Listing Rules.

The Directors have disclosed transactions, if any, with related parties, in terms of Sri Lanka Accounting Standard (LKAS) 24-Related Party Disclosures, which has been adopted in the preparation of these Financial Statements, and such transactions disclosed by the Directors are given in Note 42 to the Financial Statements on pages 305 to 310, which forms an integral part of this report.

The Related Party Transactions Review Committee, set up by the Board as required by Section 9 of the Listing Rules, is responsible for reviewing the related party transactions of the Company. The Committee comprises three (03) Non-Executive Directors, two of whom are independent. The Chairman of the Committee is an Independent Non-Executive Director.

Employee Share Ownership/Option Plans

The Company does not have any employee share ownership/ option plans.

Share Information

Information related to distribution and composition of shareholding, earnings, dividends, net assets, market price per share, and share trading, are given on pages 104 to 107.

Shareholding

The distribution and analysis of shareholding is given on page 104 of this Annual Report. As at 31st December 2016, HNB Assurance PLC had 3,473 registered ordinary shareholders (2015 – 3,525).

Major Shareholders

Information related to the top 20 shareholders, the percentage held by each shareholder as at 31st December 2016, and comparable shareholding as at 31st December 2015 are presented on pages 104 to 106.

Hatton National Bank PLC holds 59.99% (2015 - 59.99%) shares of HNB Assurance PLC. Mrs. Rose Cooray, Director of HNB, Mr. Dilshan Rodrigo, Chief Operating Officer of HNB, Mr. Thimal Perera, DGM – Retail & SME Banking of HNB, and Mrs. Siromi Wickramasinghe, represent the main shareholder on the Company's Board.

Equitable Treatment of Shareholders

The Company has at all times ensured that all shareholders are treated equitably. Further establishing this principle, the Chairperson's Message, the CEO's Review, the Statement of Financial Position, the Statement of Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity are available in Sinhala and Tamil languages to our shareholders on request.

Donations

As required by Section 168 (1) (g) of the Companies Act, No. 07 of 2007, information pertaining to donations made by the Company during the year is given below.

During the period under review, the Company made charitable donations worth Rs. 300,000 (2015 – Rs. 300,000) to different parties of the society, and all donations undertaken were approved by the shareholders through a resolution passed at the Annual General Meeting held on 29th March 2016.

Pitakanda Vidyalaya – Bulutota, Embilipitiya

Pitakanda Vidyalaya presently operates with minimum facilities and lacks a proper place to conduct aesthetic studies. HNB Assurance PLC donated Rs. 200,000 to build an aesthetic room for the children in the school and the donation was made to purchase materials for the proposed building.

Religious Places

Donations worth of Rs. 100,000 was made to places of worship belonging to the four main religions of the country to support identified activities of such religious places.

The Company did not make any donations to political parties or politically influential activities during the year under review.

Taxation

The income tax rate applicable to both the Company and its Subsidiary during the period under review is 28% (2015 – 28%), and income tax is computed based on rates enacted or substantively enacted as at the Reporting Date.

The income tax of the Company and the Subsidiary is given in Note 38 to the Financial Statements on pages 288 to 291.

The Company does not recognise any deferred tax asset in Life Insurance as it is not probable that future taxable profits will be adequate to fully utilise the available tax losses in the foreseeable future.

The Company has utilised tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences in the Life business. The unrecognised deferred tax asset as at 31st December 2016 in the Life Insurance business amounted to Rs. 1,225 Million (2015 - Rs. 954 Million).

Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits. As explained in Note 38 to the Financial Statements, a deferred tax asset has been recognised in HNB General Insurance Limited to the probable extent that future taxable profits will be available.

The Company and the Group are liable to pay a Crop Insurance Levy to the National Insurance Trust Fund Board on a quarterly basis at 1% (2015 - 1%) of the after tax profit of the Company and the Group.

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 Board of Sri Lanka, and the employees, by the Company and its Subsidiary, have been made on time or where relevant, provided for.

Compliance with Laws and Regulations

To the best knowledge of the Directors, the Company and its Subsidiary have complied with applicable rules and regulations, and has not acted in contravention of any rule or regulation of the country's laws and regulations.

A compliance checklist is signed-off every month by responsible officers and reported to the Boards of HNBA and HNBGI, the Audit Committee and the Risk Management Committee, while a report on the Company's compliance with important compliance requirements is tabled at Board meetings monthly. The Company /Group has submitted all returns and other required details to the relevant authorities on or before the due dates.

Implementation of Risk Based Capital

The Insurance Board of Sri Lanka (IBSL) rescinded the previously applicable Solvency Margin Rules with effect from 31st December 2015 and introduced the Solvency Margin (Risk Based Capital) Rules with effect from 01st January 2016. With the implementation of this rule, all insurers are required to maintain a minimum Total Available Capital of Rs. 500 Million, calculated as per the Rules. In addition, companies are also required to maintain a minimum Capital Adequacy Ratio of 120%.

The Company participated in the compulsory parallel run conducted by the IBSL in 2014 and 2015, as well as in the Road Test conducted prior to 2014, and thereby built its processes and internal capabilities to adopt the new regime. Through this, and with the assistance of external actuarial expertise, both the Company and its Subsidiary were able to comply with the Solvency Margin (Risk Based Capital) Rules successfully from 01st January 2016. Both the Company and its Subsidiary continue to improve its processes to align the Life and General Insurance businesses with the new model.

Financial Investments

Financial investments of the Company and the Group mainly comprise the investment portfolios, which have been segregated into different categories as required by Sri Lanka Accounting Standards (SLFRS/LKAS).

Annual Report of the Board of Directors on the Affairs of the Company

The financial investments held by the Group as at 31st December 2016 amounted to Rs. 11,545 Million (2015 - Rs. 9,752 Million).

The details of the financial investments is given in Note 06 to the Financial Statements on pages 244 to 256.

Property, Plant and Equipment (PPE)

Capital expenditure on the acquisition of property, plant and equipment during the year by the Company amounted to Rs. 53.9 Million (2015 - Rs. 39.7 Million) and Rs. 75.4 Million (2015 - Rs. 53.6 Million) for the Group. The carrying value of property, plant and equipment of the Company amounted to Rs. 112.2 Million (2015 - Rs. 94.1 Million) and Rs. 161.4 Million (2015 - Rs. 136.3 Million) for the Group, as at the reporting date.

An analysis of the property, plant and equipment of the Company /Group, additions and disposals made, together with the depreciation charge for the year, is set out in Note 04 to the Financial Statements on pages 238 and 242.

Following their initial recognition, property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Intangible Assets

Capital expenditure on the acquisition of intangible assets for the Company/Group during the year amounted to Rs. 35.8 Million (2015 - Rs. 10.7 Million), which mainly includes expenditure incurred on the acquisition of computer software. The carrying value of intangible assets as at the reporting date of the Company/Group amounted to Rs. 60.9 Million (2015 - Rs. 45.2 Million).

Movements of intangible assets from the balance as at 01st January 2016 to the balance as at 31st December 2016, additions and disposals made, together with the amortisation charge for the year, are set out in Note 05 to the Financial Statements on pages 243 to 244.

Following their initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Capital Commitments

At the year end, there existed no capital expenditure approved by the Board and contracted, for which no provision has been made in Financial Statements (2015 – Nil).

Liabilities and Provisions

The Directors have taken all reasonable steps to ensure that adequate provisions were made for all known liabilities. Accordingly, the Directors have arranged a Consultant Actuary to value the Life Fund and the relevant report is given on page 212.

Further, adequate provisions have been made for unearned premiums and Claims Outstanding, including provisions for Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) in HNB General Insurance Limited. The Directors have also consulted an independent Actuary for the process of valuing IBNR and IBNER Reserves and his report is given on page 213.

Moreover, the Company/Group also carried out the Liability Adequacy Test (LAT) in respect of both Life and General Insurance Contract Liabilities (Insurance Provisions) as required by SLFRS 4 - Insurance Contracts, with the assistance of Consultant Actuaries, and were able to conclude that the recorded liabilities are adequate to meet future obligations arising from insurance contracts. The Company/Group has decided to perform the LAT on a semi-annual basis.

The gratuity liability of the Company/Group was also valued by an independent Actuary as required by LKAS 19-Employee Benefits.

As at the date of this report, the Directors are aware of any circumstances which would render inadequate, the provisions made in the Financial Statements.

Contingencies

After due consultation with the lawyers of the Company/Group, the Directors are of the opinion that litigation currently pending against the Company would not have a material impact on the reported financial results of the Company/Group. All pending litigations for claims of the Company/Group have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

Events Occurring After The Reporting Date

The payment of a first and final dividend of Rs. 5.00 per share for the year ended 31st December 2016 (2015 - Rs. 2.00 per share) is to be approved at the Annual General Meeting to be held on 29th March 2017. More information with respect to the dividend declaration is given on Note 40 on page 293.

Except for the above-mentioned events, no material events that require adjustments to or disclosure in the Financial Statements, have occurred after the reporting date.

Stated Capital and Reserves

The Stated Capital of the Company as at 31st December 2016 was Rs. 1,171,875,000 (2015 - Rs. 1,171,875,000), comprising 50,000,000 ordinary shares.

There were no changes in the Stated Capital during the year.

The total retained earnings of the Company and the Group as at 31st December 2016 amounted to Rs. 1,897.9 Million (2015 - Rs. 1,397.8 Million) and Rs. 1,721.7 Million (2015 – Rs. 1,174.3 Million), respectively. The movement of reserves is shown in the Statement of Changes in Equity on pages 218 to 219.

Environment Protection

The Company/Group is aware that the business operations carried out may have an indirect or direct impact on the environment we operate in. Therefore, we consider it to be our duty to minimise the negative impact made to the environment. Policies are in place to promote the protection of the environment, and awareness is created among employees to promote environment friendly actions and behaviour.

To the best knowledge of the Board, the Company/Group has endeavoured to comply with the relevant environmental laws and regulations and has not engaged in any activity that is harmful or hazardous to the environment. Activities carried out by the Company/Group to protect the environment and promote environment friendly practices are described in detail on pages 141 to 143 and 147 to 149.

Human Capital

The Company/Group believes that employees are the main value creators of the organisation and has adopted policies and practices to ensure the attraction and retention of the best talent available in the industry. As an equal opportunity provider, we recruit employees from both internal and external sources, from all religions, ethnicities and all parts of the country. Further, career opportunities, training and development, promotions and benefits are offered purely based on individual merit and their contribution to the productivity of the Company/Group, irrespective of gender, race or religion.

The recruitment of human resources is done based on the staff requirement forecast carried out every year. The forecast relies on the expected expansion of the distribution network, profitability, Expense Ratio, level of automation and system implementation, productivity, skill level and volume of work.

A brief description of the Company's/Group's HR Policy and the remuneration methodology is given in the Report of the Human Resources and Remuneration Committee on pages 187 to 188. Further information on human resources of the Group/Company and the activities related to human resources can be read on pages 126 to 134.

There have been no material issues pertaining to employees and industrial relations of the Company and the Group during the year.

Code of Conduct and Ethics

The behaviour of the employees of the Company /Group is governed by a Code of Business Conduct and Ethics, and all employees, without exception, are required to adhere to the said Code of Conduct. During the year under review no major violations were observed, except for a few insignificant incidents at the operational level of the organisation, over which appropriate and prompt action was taken.

The Board of Directors is also governed by a Code of Conduct and Ethics, and during the year no violations of this Code were recorded.

Appraisal of Board Performance

The performance of the Board during the year is reviewed by circulating a self-assessment questionnaire. The responses of the questionnaire were shared among all Board members and suggestions and ideas for further improvements were discussed in detail. Suggestions deemed appropriate were adopted by the members to enhancement Board performance. The Secretary to the Board and the top management follows up on the progress of implementing such agreed actions.

Whistleblowing Policy

A Whistleblowing Policy is operative within the Company and the same has been communicated to all members of staff. This enables any member of the Company to raise issues with the management and the Board, in order to identify possible risks faced by the Company, at an early stage.

No serious concerns were raised through this medium during the year.

Reports of the Board Sub-Committees

The table below provides references to the Reports of Board Sub-Committees.

Committee	Page Number
Audit Committee	183 to 186
Human Resource and Remuneration Committee	187 to 188
Nominations Committee	191
Risk Management Committee	194
Related Party Transactions Review Committee	189 to 190
Investment Committee	192 to 193
Strategic Plan Review Committee	195

Annual Report of the Board of Directors on the Affairs of the Company

Annual General Meeting

The fifteenth 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 29th day of March 2017 at 10.00 in the forenoon. The Notice of the Annual General Meeting is on page 353 of the Annual Report.

Acknowledgement of the Content of the Report

As required by Section 168 (1) (k) of the Companies Act, No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this Annual Report.

Signed for and on behalf of the Board

Rose Cooray
Chairperson

Mahendra Jayasekera
Director

Sitari Jayasundara
Board Secretary

Colombo, Sri Lanka.
09th February, 2017.

Director's Interest in Contract with the Group/Company

Necessary disclosures on all related party disclosures as required by the Sri Lanka Accounting Standard -LKAS 24 'Related Party Disclosures' are detailed in Note 42 to the Financial Statements on pages 305 to 310 of this Annual Report.

The following table gives additional details on transactions conducted by the Company 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 but is the Chairperson / Chairman or a Director of such entities.

Name of the Company	Name of the Director	Name of Transaction	Insurance Segment	2016 Rs.'000	2015 Rs.'000
Lanka Ceramics PLC	Dr. Sivakumar Selliah	Insurance Premium	HNBGI	920	1,062
	Mr. J A P M Jayasekara	Claims Incurred	HNBGI	103	274
Horana Plantation PLC	Dr. Sivakumar Selliah	Insurance Premium	HNBGI	-	8
		Claims Incurred	HNBGI	26	1,715
ODEL PLC	Dr. Sivakumar Selliah	Insurance Premium	HNBGI	-	31
		Claims Incurred	HNBGI	-	72
Softlogic Holding PLC	Dr. Sivakumar Selliah	Insurance Premium	HNBGI	458	-
Ceylon Investment PLC	Ms. M.A.R.C Cooray	Insurance Premium	HNBGI	59	-

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Company and Consolidated Financial Statement of the Company and its subsidiary (Group), prepared in accordance with the provisions of the Companies Act, No. 07 of 2007, is set out in the following statement. The responsibilities of the External Auditors in relation to the Financial Statements/ Consolidated Financial Statements are set out in the Report of the Auditors, given on page 215 of the Annual Report.

As per the provisions of the Companies Act, No. 07 of 2007 the Directors are required to prepare Financial Statements for each financial year and place them before the annual general meeting. The Financial Statements comprise the Statement of Financial Position as at 31st December 2016, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended and Notes thereto.

The Financial Statements of the Company and the Consolidated Financial Statement of the Company and its subsidiary give a true and fair view of:

1. The state of affairs of the Company and the Group as at the date of the Statement of Financial Position; and
2. The financial performance of the Company and the Group for the financial year ended 31st December 2016.

In preparing these Financial Statements/Consolidated Financial Statements, the Directors are required to ensure that:

1. Appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgments and estimates have been made and that they are reasonable and prudent;
3. All applicable accounting standards as relevant have been followed; and
4. Information required by and otherwise comply with the Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43, of 2000 and subsequent amendments thereto, and the Listing Rules of the Colombo Stock Exchange (CSE) or requirements of any other regulatory authority are provided in full.

The Directors are also required to ensure that the Company 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.

The Directors also have a responsibility to ensure that the Company and the Group maintain sufficient accounting records to disclose with reasonable accuracy the Financial Position of the Company/Group.

These Financial Statements/Consolidated Financial Statements which have been prepared and presented in the Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act, No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, Regulation of Insurance Industry Act, No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

The Directors have also taken reasonable steps to establish and maintain appropriate systems of internal controls to safeguard the assets of the Company/Group, prevent and detect frauds and other irregularities, and to secure as far as practicable the accuracy and reliability of records.

Directors are required to prepare the Consolidated Financial Statements of the Group and the Financial Statements of the Company and to provide the Company's External Auditors, Messrs Ernst & Young, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary to express their independent audit opinion on the Consolidated Financial Statements of the Group and the Financial Statements of the Company (Page No. 215).

Further, as required by the Section 56 (2) of the Companies Act, No. 07 of 2007, the Board of Directors has confirmed that the Company, based on the information available, would satisfy the solvency test immediately after the distribution of dividends, in accordance with the Section 57 of the Companies Act, No. 07 of 2007, and has obtained a certificate from the Auditors, prior to declaring a final dividend of Rs. 5.00 per share for this year, to be paid on or before 07th April 2017.

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments including taxes and duties in relation to all relevant regulatory and statutory authorities which were due and payable by the Group/Company as at the reporting date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board

Sitari Jayasundara
Board Secretary

Colombo, Sri Lanka.
09th February, 2017.

CEO's and CFO's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the requirements of the Companies Act, No. 07 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto.

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the Financial Statements.

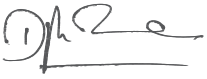
The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to these Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Company's state of affairs is reasonably presented. To ensure this, the Company has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by Messrs Ernst & Young, Chartered Accountants, the Independent Auditors.

The Audit Committee of the Company meets periodically with the Internal Auditors and the External Auditors to review the manner in which these Auditors are performing their responsibilities, and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

We confirm that the Company has complied with all applicable laws and regulations, and guidelines, and that there are no material litigations that are pending against the Company other than those arising in the normal course of conducting insurance business.

Also, taxes, duties and all statutory payments by the Company and in respect of the employees of the Company as at the reporting date have been paid or where relevant accrued.



Deepthi Lokuarachchi
Chief Executive Officer

Indika Perera
Chief Financial Officer

Colombo, Sri Lanka.
09th February, 2017.

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

09th February 2017

To the Shareholders of HNB Assurance PLC.

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER 2016

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December 2016. 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 2016, 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 2016, the Company maintained a Capital Adequacy Ratio of 445% calculated as per the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Board 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 2016 as required by SLFRS 4 - Insurance Contracts and the assets are sufficiently adequate as compared to liabilities under the LAT.

Hassan Scott Odierno
Actuary

Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserve

31 January 2017

To the shareholders of HNB General Insurance Ltd

HNB General Insurance Ltd 31 December 2016 Net IBNR and LAT Certification

I hereby certify that the Central Estimate of IBNR provision of LKR 51,766,366 is adequate in relation to the Claim Liability of HNB General Insurance Ltd as at 31 December 2016, net of reinsurance (discounted). This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate to meet the future liabilities, including the claims handling expenses, in respect of the Company's incurred claims obligations as at 31 December 2016, 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 LKR 1,298,471,526 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of HNB General Insurance Ltd as at 31 December 2016, 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.

Matthew Maguire
Fellow of the Institute of Actuaries of Australia (FIAA)
For and on behalf of NMG Financial Services Consulting
Dated 31 January 2017

T: +65 6325 9855 F: +65 6325 4700 E: contact@NMG-Group.com
www.NMG-Group.com
30 Hill Street, #03-02A, Singapore 179360

Content

Welcome to our Financials 2016

Section - 01

This section consists key Financial Statements relating to financial performance, position and cash flows of the Group and the Company which comprises the following,

pg. - 215	Independent Auditors' Report
pg. - 216	Statement of Financial Position
pg. - 217	Statement of Profit or Loss and Other Comprehensive Income
pg. - 218	Statement of Changes in Equity - Group
pg. - 219	Statement of Changes in Equity - Company
pg. - 220	Statement of Cash Flows

Section - 02

This section consists the highlights and analysis of financial performance which comprises the following,

pg. - 221	GWP - Life Insurance
pg. - 221	GWP - General Insurance
pg. - 221	Group Revenue Composition
pg. - 221	Finance Income Composition Life Insurance
pg. - 221	Finance Income Composition General Insurance
pg. - 221	Total Assets - Life Insurance
pg. - 221	Total Assets - General Insurance
pg. - 221	Total Assets - Group

Section - 03

This section consists a description of reporting entity, principal activities of Company and Subsidiary entity and identification of Financial Statements and authorisation which comprises the following,

pg. - 222	Reporting Entity
pg. - 222	Consolidated Financial Statements
pg. - 222	Date of authorisation for issue
pg. - 222	Principal Activities and Nature of Operations
pg. - 222	Parent Entity and Ultimate Parent Entity
pg. - 222	Responsibility for Financial Statements
pg. - 222	Number of Employees

Section - 04

This section consists basis of accounting and other significant accounting policies which comprises the following,

pg. - 223	Basis of Preparation
pg. - 224	Basis of Consolidation
pg. - 225	Product Classification
pg. - 225	Foreign currency transactions
pg. - 225	Impairment of Financial Assets
pg. - 226	Cash Flow Statement
pg. - 227	Significant Accounting Judgments, Estimates and Assumptions

Section - 05

This section consists new accounting standards issued but not effective as at the reporting date which comprises the following,

pg. - 229	SLFRS 9 - Financial Instruments: Classification and Measurement
pg. - 229	SLFRS 15 - Revenue from Contracts with Customers

Section - 06

This section consists segmental results relating to financial performance, position and cash flows of the Life insurance business and General insurance business which comprises the following,

pg. - 232	Statement of Financial Position - Segmental Review - 2016
pg. - 233	Statement of Financial Position - Segmental Review - 2015
pg. - 234	Statement of Profit or Loss - Segmental Review - 2016
pg. - 235	Statement of Profit or Loss - Segmental Review - 2015
pg. - 236	Statement of Cash Flows - Segmental Review - 2016
pg. - 237	Statement of Cash Flows - Segmental Review - 2015

Section 7

This section consists specific accounting policies and financial notes

All the detail notes and accounting policies are disclosed from pages 238 to 334 and relevant index of references for each note is disclosed in page 230

Independent Auditors' Report

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HNB ASSURANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of HNB Assurance PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiary ("Group"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal controls as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

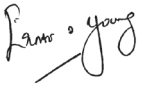
As required by Section 163(2) of the Companies Act, No. 7 of 2007, we state the following:

a) The basis of opinion, scope and limitations of the audit are as stated above.

b) In our opinion:

- 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,
- the financial statements of the Company give a true and fair view of its financial position as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
- the financial statements of the Company and the Group comply with the requirements of Section 151 and 153 of the Companies Act, No. 07 of 2007.

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 Board of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.



9 February 2017
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 Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga 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 2016 Rs.'000	Group 2015 Rs.'000	Company 2016 Rs.'000	Company 2015 Rs.'000
Assets						
Property, Plant and Equipment	4	238	161,362	136,279	112,151	94,107
Intangible Assets	5	243	60,882	45,185	60,882	45,185
Deferred Tax Assets	38	290	52,922	49,394	-	-
Financial Investments	6	244	11,544,575	9,751,611	9,642,596	7,849,625
Investment in Subsidiary	7	256	-	-	1,150,000	1,150,000
Loans to Life Policyholders	8	257	119,941	91,992	119,941	91,992
Reinsurance Receivables	9	258	494,726	141,354	54,814	34,269
Premium Receivables	10	259	623,294	345,916	6,805	5,592
Other Assets	11	260	770,674	625,985	575,676	493,571
Insurance Contract - Deferred Expenses	12	262	74,951	65,935	-	-
Cash and Cash Equivalents	13	263	625,527	386,929	476,572	258,222
Total Assets			14,528,854	11,640,580	12,199,437	10,022,563
Equity and Liabilities						
Equity Attributable to the Equity Holders of Parent						
Stated Capital	14	264	1,171,875	1,171,875	1,171,875	1,171,875
Retained Earnings	15	264	1,721,675	1,174,262	1,897,936	1,397,806
Available For Sale Reserve	16	264	(7,152)	(4,748)	(1,465)	53
Other Reserves	17	265	1,790	(1,093)	(1,886)	(2,039)
Life Policyholders' Available For Sale Reserve Fund	18	265	(191,131)	(56,350)	(191,131)	(56,350)
Equity Attributable to the Equity Holders of Parent			2,697,057	2,283,946	2,875,329	2,511,345
Non Controlling Interest			-	-	-	-
Total Equity			2,697,057	2,283,946	2,875,329	2,511,345
Liabilities						
Insurance Contract Liabilities - Life Insurance	19	265	8,747,856	7,007,080	8,747,856	7,007,080
Insurance Contract Liabilities - General Insurance	20	268	1,921,567	1,546,265	-	-
Employee Defined Benefit Liabilities	21	271	90,433	81,001	50,883	44,008
Current Tax Liabilities	22	274	3,300	-	-	-
Reinsurance Creditors	23	274	287,895	131,905	39,395	37,547
Other Liabilities	24	275	780,746	590,383	485,974	422,583
Total Liabilities			11,831,797	9,356,634	9,324,108	7,511,218
Total Equity and Liabilities			14,528,854	11,640,580	12,199,437	10,022,563

The Notes to the Financial Statements as set out on pages 222 to 334 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 the preparation and presentation of these Financial Statements.
Signed and on behalf of the Board;

Rose Cooray
Chairperson

J. A. P. M. Jayasekara
Director

Colombo, Sri Lanka.
09th February, 2017.

Statement of Profit or Loss and other Comprehensive Income

For the Year Ended 31st December,	Note	Page No.	Group 2016 Rs.'000	Group 2015 Rs.'000	Company 2016 Rs.'000	Company 2015 Rs.'000	Change % Group	Change % Company
Gross Written Premium	25	276	6,656,694	5,447,164	3,554,078	2,788,716	22	27
Premium Ceded to Reinsurers	26	277	(877,713)	(599,084)	(159,050)	(107,963)	47	47
Net Written Premium			5,778,981	4,848,080	3,395,028	2,680,753	19	27
Net Change in Reserves for Unearned Premium	27	278	(181,102)	(122,677)	-	-	48	-
Net Earned Premium	28	278	5,597,879	4,725,403	3,395,028	2,680,753	18	27
Other Revenue								
Interest and Dividend Income	29	279	1,180,085	871,049	987,959	705,571	35	40
Net Realised (Losses)/Gains	30	281	(29,119)	30,025	(22,435)	22,512	(197)	(200)
Net Fair Value (Losses)/Gains	31	282	(6,461)	16,583	(7,793)	4,028	(139)	(293)
Fees and Commission Income	32	282	128,798	116,294	62,858	44,742	11	40
Other Income	33	283	25,024	15,201	11,017	6,273	65	76
Total Other Revenue			1,298,327	1,049,152	1,031,606	783,126	24	32
Net Income			6,896,206	5,774,555	4,426,634	3,463,879	19	28
Net Benefits, Claims and Expenses								
Net Insurance Benefits and Claims Paid	34	283	(1,966,759)	(1,984,358)	(387,829)	(299,271)	(1)	30
Net Change in Insurance Claims Outstanding	35	285	19,114	(133,431)	(13,848)	18,776	(114)	(174)
Change in Contract Liabilities - Life Fund	19	265	(1,708,285)	(1,462,100)	(1,708,285)	(1,462,100)	17	17
Other Operating and Administration Expenses	36	286	(1,572,964)	(1,296,185)	(886,845)	(701,809)	21	26
Underwriting and Net Acquisition Costs	37	287	(922,886)	(699,679)	(748,051)	(544,673)	32	37
Other Insurance Related Costs			(38,905)	(29,029)	(25,134)	(17,774)	34	41
Total Benefits, Claims and Other Expenses			(6,190,685)	(5,604,782)	(3,769,992)	(3,006,851)	10	25
Profit Before Taxation			705,521	169,773	656,642	457,028	316	44
Income Tax (Expense)/Reversal	38	288	(58,108)	27,571	(56,512)	(29,383)	(311)	92
Profit for the Year			647,413	197,344	600,130	427,645	228	40
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			(153,476)	(87,480)	(147,913)	(80,350)	75	84
-Realised (Gains)/Losses transferred to Income Statement	30	281	14,466	(19,242)	11,614	(20,218)	175	157
-Net Change in fair value of Available For Sale financial assets transferred to Life Policyholders Available For Sale reserve fund	18	265	134,781	97,098	134,781	97,098	39	39
-Related Tax	38	288	1,825	1,286	-	-	42	-
Items that will never be reclassified to profit or loss								
Actuarial Gain/(Losses) on Defined Benefit Plans	21	271	2,883	(2,270)	153	(3,216)	227	105
Total Other Comprehensive Income for the year, net of related tax			479	(10,608)	(1,365)	(6,686)	105	80
Total Comprehensive Income for the year			647,892	186,736	598,765	420,959	247	42
Profit attributable to :								
Equity Holders of the Parent			647,413	197,344			228	-
Non Controlling Interest			-	-			-	-
Profit for the Year			647,413	197,344			228	-
Total Comprehensive Income Attributable to :								
Equity Holders of the Parent			647,892	186,736			247	-
Non Controlling Interest			-	-			-	-
Total Comprehensive Income for the year			647,892	186,736			247	-
Earnings Per Share								
Basic Earnings Per Share (Rs.)	39	292	12.95	3.95	12.00	8.55	228	40
Dividend Per Share (Rs.)	40	293	-	-	5.00	2.00	-	150

The Notes to the Financial Statements as set out on pages 222 to 334 form an integral part of these Financial Statements.

Statement of Changes in Equity - Group

For the year ended 31st December 2016,	Stated Capital	Retained Earnings	Available for Sale Reserve	Other Reserves	Life Policy holders' Available For Sale Reserve Fund	Total Equity
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January 2015 (a)	1,171,875	1,196,546	3,590	1,177	40,748	2,413,936
Super Gain Tax - (Note 15.1) (b)	-	(31,378)	-	-	-	(31,378)
Total Comprehensive Income for the year						
Profit for the Year (c)	-	197,344	-	-	-	197,344
Other Comprehensive Income for the Year, net of tax						
Net Change in fair value of Available For Sale financial assets	-	-	(105,436)	-	-	(105,436)
Net Change in fair value of Available For Sale financial assets - Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	97,098	-	-	97,098
Actuarial Losses on Defined Benefit Plans	-	-	-	(2,270)	-	(2,270)
Total Other Comprehensive Income (d)	-	-	(8,338)	(2,270)	-	(10,608)
Total Comprehensive Income for the year (e=c+d)	-	197,344	(8,338)	(2,270)	-	186,736
Net Change in fair value of Available For Sale financial assets - Transferred from Available For Sale Reserve	-	-	-	-	(97,098)	(97,098)
Transactions with owners recorded directly in equity						
Distributions to owners of the Parent						
Dividend Paid to equity holders - for 2014	-	(187,500)	-	-	-	(187,500)
Share Issue Transaction Cost - Subsidiary	-	(750)	-	-	-	(750)
Total Distributions to owners of the Parent (f)	-	(188,250)	-	-	(97,098)	(285,348)
Balance as at 31st December 2015 (a+b+e+f)	1,171,875	1,174,262	(4,748)	(1,093)	(56,350)	2,283,946
Balance as at 01st January 2016 (g)	1,171,875	1,174,262	(4,748)	(1,093)	(56,350)	2,283,946
Total comprehensive income for the year						
Profit for the Year (h)	-	647,413	-	-	-	647,413
Other Comprehensive Income for the Year, net of tax						
Net Change in fair value of Available For Sale financial assets	-	-	(137,185)	-	-	(137,185)
Net Change in fair value of Available For Sale financial assets - Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	134,781	-	-	134,781
Actuarial Gain on Defined Benefit Plans	-	-	-	2,883	-	2,883
Total Other Comprehensive Income (i)	-	-	(2,404)	2,883	-	479
Total Comprehensive Income for the year (j=h+i)	-	647,413	(2,404)	2,883	-	647,892
Net Change in fair value of Available For Sale financial assets - Transferred from Available For Sale Reserve	-	-	-	-	(134,781)	(134,781)
Transactions with owners recorded directly in equity						
Distributions to owners of the Parent						
Dividend Paid to equity holders - for 2015 (Note 40)	-	(100,000)	-	-	-	(100,000)
Total Distributions to owners of the Parent (k)	-	(100,000)	-	-	(134,781)	(234,781)
Balance as at 31st December 2016 (g+j+k)	1,171,875	1,721,675	(7,152)	1,790	(191,131)	2,697,057

The Notes to the Financial Statements as set out on pages 222 to 334 form an integral part of these Financial Statements.

Statement of Changes in Equity - Company

For the year ended 31st December 2016,	Stated Capital	Retained Earnings	Available for Sale Reserve	Other Reserves	Life Policy holders' Available For Sale Reserve Fund	Total Equity
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January 2015 (a)	1,171,875	1,189,039	3,523	1,177	40,748	2,406,362
Super Gain Tax - (Note 15.1) (b)	-	(31,378)	-	-	-	(31,378)
Total Comprehensive Income for the year						
Profit for the Year (c)	-	427,645	-	-	-	427,645
Other Comprehensive Income for the Year, net of tax						
Net Change in fair value of Available For Sale financial assets	-	-	(100,568)	-	-	(100,568)
Net Change in fair value of Available For Sale financial assets - Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	97,098	-	-	97,098
Actuarial Losses on Defined Benefit Plans	-	-	-	(3,216)	-	(3,216)
Total Other Comprehensive Income (d)	-	-	(3,470)	(3,216)	-	(6,686)
Total Comprehensive Income for the year (e=c+d)	-	427,645	(3,470)	(3,216)	-	420,959
Net Change in fair value of Available For Sale financial assets - Transferred from Available For Sale Reserve	-	-	-	-	(97,098)	(97,098)
Transactions with owners recorded directly in equity						
Distributions to owners of the Company						
Dividend Paid to equity holders - for 2014	-	(187,500)	-	-	-	(187,500)
Total Distributions to owners of the Company (f)	-	(187,500)	-	-	(97,098)	(284,598)
Balance as at 31st December 2015 (a+b+e+f)	1,171,875	1,397,806	53	(2,039)	(56,350)	2,511,345
Balance as at 01st January 2016 (g)	1,171,875	1,397,806	53	(2,039)	(56,350)	2,511,345
Total comprehensive income for the year						
Profit for the Year (h)	-	600,130	-	-	-	600,130
Other Comprehensive Income for the Year, net of tax						
Net Change in fair value of Available For Sale financial assets	-	-	(136,299)	-	-	(136,299)
Net Change in fair value of Available For Sale financial assets - Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	134,781	-	-	134,781
Actuarial Gain on Defined Benefit Plans	-	-	-	153	-	153
Total Other Comprehensive Income (i)	-	-	(1,518)	153	-	(1,365)
Total Comprehensive Income for the year (j=h+i)	-	600,130	(1,518)	153	-	598,765
Net Change in fair value of Available For Sale financial assets - Transferred from Available For Sale Reserve	-	-	-	-	(134,781)	(134,781)
Transactions with owners recorded directly in equity						
Distributions to owners of the Company						
Dividend Paid to equity holders - for 2015 (Note 40)	-	(100,000)	-	-	-	(100,000)
Total Distributions to owners of the Company (k)	-	(100,000)	-	-	(134,781)	(234,781)
Balance as at 31st December 2016 (g+j+k)	1,171,875	1,897,936	(1,465)	(1,886)	(191,131)	2,875,329

The Notes to the Financial Statements as set out on pages 222 to 334 form an integral part of these Financial Statements.

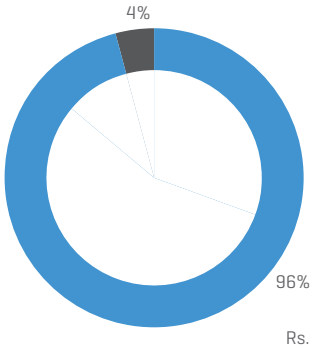
Statement of Cash Flows

For the Year Ended 31st December,	Note	Page No.	Group 2016 Rs.'000	Group 2015 Rs.'000	Company 2016 Rs.'000	Company 2015 Rs.'000
Cash Flow From Operating Activities						
Profit Before Taxation			705,521	169,773	656,642	457,028
Adjustments for:						
Interest Income	29	279	(1,166,369)	(843,579)	(976,943)	(687,104)
Dividend Income	29	279	(13,716)	(27,470)	(11,016)	(18,467)
Amortisation of Intangible Assets	05	243	20,107	17,226	20,107	17,226
Depreciation	04	238	44,878	51,116	31,708	38,082
Provision for Employee Benefits	21	271	24,142	22,201	13,984	12,849
Net Fair Value Losses/(Gains)	31	282	6,461	(16,583)	7,793	(4,028)
Net Realised Losses/(Gains)	30	281	29,119	(30,025)	22,435	(22,512)
Unrealised Gain on assets Transferred			-	(3,523)	-	(3,523)
Losses/(Gains) on Sale of Property, Plant and Equipment	36/33	286/283	3,763	(46)	2,592	(15)
			(346,094)	(660,910)	(232,698)	(210,464)
Net Change in Operating Assets	A		(787,055)	65,699	(130,454)	(24,825)
Net Change in Operating Liabilities	B		2,447,424	1,812,602	1,806,015	1,533,751
Cash Flows from Operating Activities			1,314,275	1,217,391	1,442,863	1,298,462
Gratuity Paid	21	271	(11,827)	(14,963)	(8,156)	(11,292)
Income Tax Paid	22	274	-	(1,280)	-	-
Economic Service Charge (ESC) Paid			(10,250)	-	-	-
Super Gain Tax Paid	15	265	-	(31,378)	-	(31,378)
Net Cash Generated From Operating Activities (a)			1,292,198	1,169,770	1,434,707	1,255,792
Cash Flows from Investing Activities						
Net Acquisition of Investment Securities			(1,937,075)	(1,442,522)	(1,920,005)	(1,294,693)
Interest Received			1,079,377	711,684	880,938	568,571
Dividend Received			13,625	27,198	10,858	18,467
Investment in Subsidiary			-	-	-	(150,000)
Acquisition of Intangible Assets	05	243	(35,804)	(10,789)	(35,804)	(10,789)
Acquisition of Property, Plant and Equipment	04	238	(75,393)	(53,596)	(53,895)	(39,679)
Proceeds from the Sale of Property, Plant and Equipment			1,670	189	1,551	146
Net Cash Used in Investing Activities (b)			(953,600)	(767,836)	(1,116,357)	(907,977)
Cash Flows from Financing Activities						
Dividend Paid	40	293	(100,000)	(187,500)	(100,000)	(187,500)
Share Issue Related Costs Paid- Subsidiary	15	264	-	(750)	-	-
Net Cash Used in Financing Activities (c)			(100,000)	(188,250)	(100,000)	(187,500)
Net Increase in Cash and Cash Equivalents (a+b+c)	C		238,598	213,684	218,350	160,315
Cash and Cash Equivalents at the beginning of the Year			386,929	173,245	258,222	171,217
Cash and Cash Equivalents Transferred to HNBGI Limited on Segregation			-	-	-	(73,310)
Cash and Cash Equivalents at the end of the Year	13	263	625,527	386,929	476,572	258,222
Notes to the Cash Flow Statement						
A. Change in Operating Assets						
Increase in Deferred Expenses			(9,016)	(13,863)	-	-
Increase in Loans to Life Policyholders			(27,949)	(20,910)	(27,949)	(20,910)
(Increase) / Decrease in Reinsurance Receivables			(353,372)	20,906	(20,545)	(10,823)
(Increase) / Decrease in Premium Receivables			(277,378)	18,135	(1,213)	1,351
(Increase) / Decrease in Other Assets			(119,340)	61,431	(80,747)	5,557
Net Change in Operating Assets			(787,055)	65,699	(130,454)	(24,825)
B. Change in Operating Liabilities						
Increase in Other Liabilities			175,356	79,916	63,391	82,693
Increase in Insurance Contract Liabilities - General Insurance			375,302	267,127	-	-
Increase in Insurance Contract Liabilities - Life Insurance			1,740,776	1,444,432	1,740,776	1,444,432
Increase in Reinsurance Creditors			155,990	21,127	1,848	6,626
Net Change in Operating Liabilities			2,447,424	1,812,602	1,806,015	1,533,751
C. Increase/(Decrease) in Cash and Cash Equivalents						
Net Cash and Cash Equivalents at the end of the Year	13	263	625,527	386,929	476,572	258,222
Net Cash and Cash Equivalents at the beginning of the Year			386,929	173,245	258,222	97,907
Net Increase in Cash and Cash Equivalents			238,598	213,684	218,350	160,315

The Notes to the Financial Statements as set out on pages 222 to 334 form an integral part of these Financial Statements.

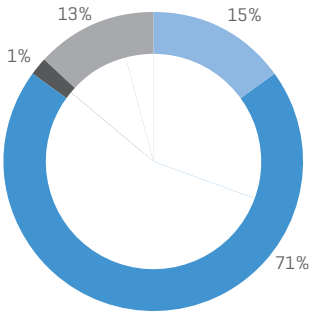
Performance Highlights

GWP - Life Insurance (2016)



	Rs. '000
Individual Policies	3,426,072
Corporate Policies	128,006

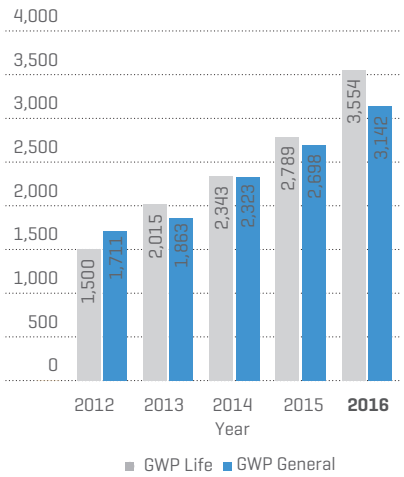
GWP - General Insurance (2016)



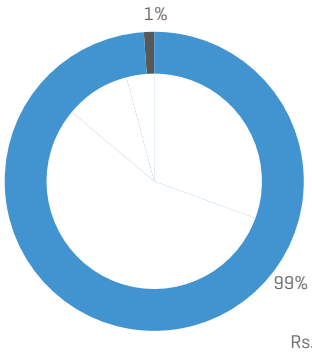
	Rs. '000
Fire	461,583
Motor	2,229,050
Marine	42,051
Miscellaneous	408,875

Revenue Composition - Group

Rs.Mn.

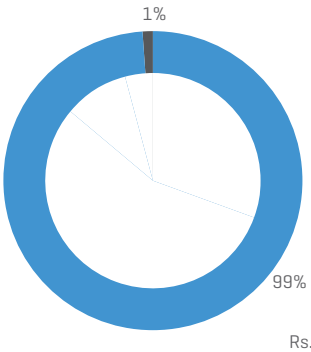


Finance Income Composition - Life Insurance (2016)



	Rs. '000
Interest Income	976,943
Dividend Income	11,016

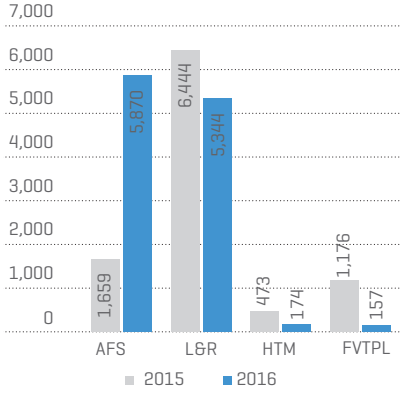
Finance Income Composition - General Insurance (2016)



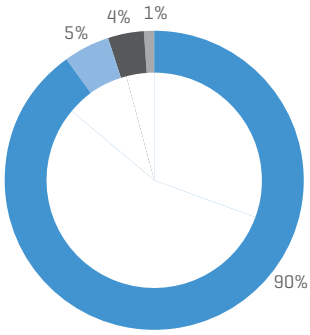
	Rs. '000
Interest Income	189,425
Dividend Income	2,700

Financial Investments - Group

Rs.Mn.

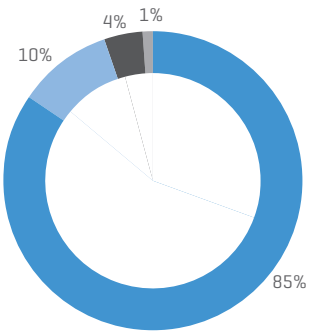


Total Assets - Life Insurance (2016)



	Rs. '000
Financial Assets	10,974,156
Other Assets	575,676
Cash and Cash Equivalents	476,572
Property, Plant and Equipment, Intangible Assets	173,033

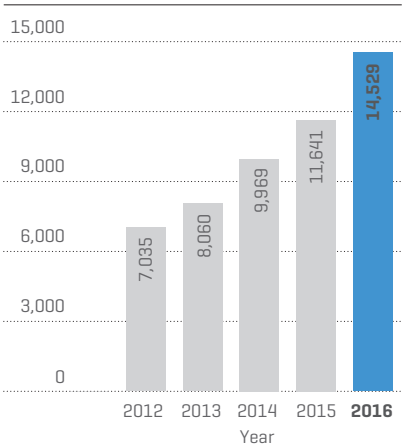
Total Assets - General Insurance (2016)



	Rs. '000
Financial Assets	2,958,380
Other Assets	335,991
Cash and Cash Equivalents	148,955
Property, Plant and Equipment	49,211

Total Assets - Group

Rs.Mn.



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 Company and Group 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 Iceland Business Centre, No.30, Sri Uttarananda Mawatha, Colombo 03. The Ordinary Shares of the Company are listed on the Colombo Stock Exchange (CSE). The Company regulated under the Insurance Industry Act, No. 43 of 2000 and amendments thereto.

For further information please refer the 'Inner Back cover' of this Annual Report.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended and as at 31st December 2016, comprise " the Company" referring to HNB Assurance PLC as the holding Company and the " the Group" referring to HNB Assurance PLC and its fully owned subsidiary HNB General Insurance Limited has been consolidated therein.

1.3 Date of authorisation for issue

The Financial Statements for the year ended 31st December 2016, were authorised for issue by the Board of Directors on 09th February 2017.

1.4 Principal Activities and Nature of Operations

The principal activity of the Company and its Subsidiary is as follows,

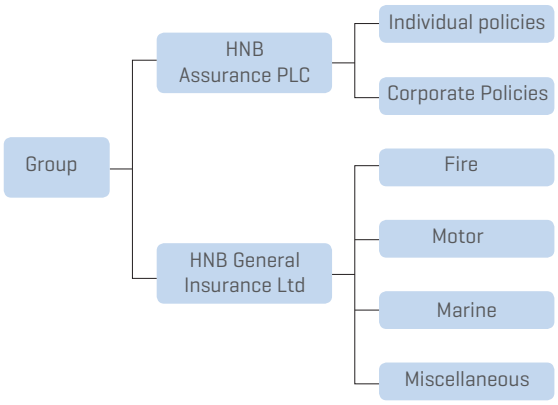
The Company

HNB Assurance PLC is primarily involves in Life Insurance Business providing 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 for premium payments made by the insured.

Fully Owned Subsidiary

HNB General Insurance Limited is primarily involved in General Insurance Business providing General Insurance solutions for both individual and corporate customers. Insurance other than 'Life Insurance' falls under the category of General Insurance. Fire, Motor, Marine and Miscellaneous insurance are the main categories under General Insurance.



1.5 Parent Entity and Ultimate Parent Entity

The Group's 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 incorporated in Sri Lanka. The Financial Statements of the parent and subsidiary have a common financial year which ends on December 31st.

1.6 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements as per the provisions of the Companies Act, No. 7 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 the Financial Statements is set out in detail in the statement of Directors' responsibility report in the Annual Report. (Refer page number 210)

1.7 Number of Employees

The staff strength of the Group as at 31st December 2016 is 903. (2015 – 836)

2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Consolidated Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards, promulgated by the Institute of Chartered Accountants of Sri Lanka (CA-Sri Lanka) and comply with the requirements of the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and the listing rules of the CSE.

The Consolidated Financial Statements include the following components:

- a Statement of Financial Position providing the information on the financial position of the Group and the Company as at the year-end (Refer page 216);
- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Company for the year under review (Refer page 217);
- a Statement of Changes in Equity-Group depicting all changes in shareholders' equity (Refer page 218);
- a Statement of Changes in Equity-Company depicting all changes in shareholders' equity (Refer page 219);
- a Statement of Cash Flows providing 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 (Refer pages 220); and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 222 to 334).

2.1.1 Basis of Measurement

The Consolidated Financial Statements have been prepared on an accrual basis and under the historical cost convention except for the following material items in the Financial Statements.

Item	Basis of measurement	Note No.	Page reference
Financial instruments at Fair Value Through Profit or Loss	at fair value	6.4	249
Available For Sale financial assets	at fair value	6.3	249
Defined benefit obligations	Actuarially valued and recognised at present value of the defined benefit obligation	21	271
Policyholders' liabilities	Actuarial determined values based on actuarial guidelines issued by IBSL	19	265
Incurred But Not Reported/ Incurred But Not Enough Reported	Actuarial determined values based on actuarial Methodologies	20	268

The Group and the Company present 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.

2.1.2 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 page numbers 335 to 343 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.

Accounting Policies and Notes to the Financial Statements

2.1.3 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 financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

2.1.4 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by Sri Lanka Accounting Standards LKAS 01 on 'Presentation of Financial Statements'.

2.1.5 Comparative information

The Consolidated Financial Statements provide comparative information in respect of the previous period. The Presentation and Classification of assets and liabilities in the Financial Statements of the previous year have been amended, where relevant for better presentation and to be comparative with those of the current year. [Note 47 of Page 334]

2.2 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Group and its investees that are considered as subsidiaries as at 31st December 2016.

Subsidiaries

Subsidiaries are investees that the Group has control over. Specifically, the Group controls an investee if, and only if, the Group 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 Group has less than a majority of the voting or similar rights of an investee, the Group 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 Group's voting rights and potential voting rights

The Group 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 Group, 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.

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.

Loss of control

Upon the loss of control of a subsidiary, the Group derecognises 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.

2.3 Product Classification

SLFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred.

Insurance contracts

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.

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.

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.

Product Portfolio of the Group

The Group checks all its new insurance products for compliance with SLFRS 4 at the product modelling stage and ensures that no insurance products are launched if it does not meet the above criterion. As such, all products sold by the Group are insurance contracts and therefore classified as Insurance contracts under the SLFRS 4 – Insurance Contracts. Thus, the Group does not have any investment contracts within its product portfolio as at the reporting date.

2.4 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 costs 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.

2.5 Impairment of Financial Assets

2.5.1 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.

Accounting Policies and Notes to the Financial Statements

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 impairment losses were recognised during the financial year.

2.5.2 Impairment of financial assets carried at Available For Sale financial assets (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 is impaired. If the asset is determined to be impaired, the cumulative loss is recognised in profit or loss in the 'Investment Income' and removed from the Available For Sale reserve.

In the case of debt instruments classified as Available For Sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in Profit or Loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of '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.

2.5.3 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.

2.6 Cash Flow Statement

The Cash Flow Statement has been prepared using the Indirect Method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Interest and dividend received are classified as 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.

2.7 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group 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 ongoing basis and revisions to accounting estimates are recognised prospectively.

Information about critical assumptions, judgments and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are included in the following notes:

2.7.1 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.

2.7.2 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 Company's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

2.7.3 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, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

2.7.4 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

Accounting Policies and Notes to the Financial Statements

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.

2.7.5 Valuation of defined benefit obligation - Gratuity

The cost of defined benefit plans which is gratuity, is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates.

Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used by the Actuary in the estimates are contained in Note 21.

2.7.6 Deferred tax assets and liabilities

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 18.

2.7.7 Notional Tax Credit

The Company has done an assessment of the taxable profit in future against which the Company is eligible to setoff notional tax paid. Based on this assessment the Company has made a provision for the amount of notional tax which cannot be utilised in the near future. However in future if adequate taxable profit is available Company will right back and claim such notional tax provision.

2.7.8 Assessment of Impairment

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.

2.7.9 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. The time of concluding legal claims is uncertain; and is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions

The table below provides the references of this report which discusses the estimates in detail.

Significant Accounting Estimates and Judgments	Disclosure Reference	
	Note No.	Page No.
Insurance Contract Liabilities – Life Insurance	19	265
Insurance Contract Liabilities – General Insurance	20	268
Liability Adequacy Test (LAT) - Life Insurance - General Insurance	 19.4 20.7	 267 270
Fair Value of Financial Instruments	6	249
Valuation of defined benefit obligation – Gratuity	21	271
Deferred tax assets and liabilities	38.6	290
Assessment of Impairment	2.5	225
Deferred Acquisition Cost	12	262

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.

New or amended standards	Summary of the requirements	Possible impact on Consolidated Financial Statements
Sri Lanka Accounting Standard (SLFRS 9) –"Financial Instruments: Classification and Measurement"	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, and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of SLFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.	As per the Amendments to SLFRS 4 -Insurance Contracts issued by CA Sri Lanka on 24th November 2016, since the activities of the Group are predominantly connected with insurance, Group considers for applying the temporary exemption for SLFRS 09
Sri Lanka Accounting Standard (SLFRS 15) –"Revenue from Contracts with Customers"	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including Sri Lanka Accounting Standard (LKAS 18) – "Revenue", Sri Lanka Accounting Standard (LKAS 11) – "Construction Contracts" and IFRIC 13 – "Customer Loyalty Programmes". This standard is effective for the annual periods beginning on or after 01 January 2018. The Group will adopt these standards when they become effective.	Since SLFRS 4 – Insurance Contracts is scope out from this standard. Therefore, we may not have a significant impact to insurance transactions from this standard. However, there could be an impact to other revenue transaction with the implementation of this standard. The Group is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 15 currently.

Index to the Financial Notes

	Page No,
Segmental Reporting	
Statement of Financial Position - Segmental Review - 2016	232
Statement of Financial Position - Segmental Review - 2015	233
Statement of Profit or Loss - Segmental Review - 2016	234
Statement of Profit or Loss - Segmental Review - 2015	235
Statement of Cash Flows - Segmental Review - 2016	236
Statement of Cash Flows - Segmental Review - 2015	237

The accounting policies which effect following items have been disclosed as per the below mentioned table.

	Note	Page No,
Specific Notes to the Statement of Financial Position		
Property, Plant and Equipment	4	238
Intangible Assets	5	243
Financial Investments	6	244
Investment in Subsidiary	7	256
Loans to Life Policyholders	8	257
Reinsurance Receivables	9	258
Premium Receivables	10	259
Other Assets	11	260
Insurance Contract - Deferred Expenses	12	262
Cash and Cash Equivalents	13	263
Stated Capital	14	264
Retained Earnings	15	264
Available For Sale Reserve	16	264
Other Reserve	17	265
Life Policyholders' Available For Sale Reserve Fund	18	265
Insurance Contract Liabilities - Life Insurance	19	265
Insurance Contract Liabilities - General Insurance	20	268
Employee Benefit Liabilities	21	271
Current Tax Liabilities	22	274
Reinsurance Creditors	23	274
Other Liabilities	24	275

	Note	Page No,
Specific Notes to the Statement of Profit or Loss and Other Comprehensive Income		
Gross Written Premium	25	276
Premium Ceded to Reinsurers	26	277
Net Change in Reserves for Unearned Premium	27	278
Net Earned Premium	28	278
Interest and Dividend Income	29	279
Net Realised (Losses)/Gains	30	281
Net Fair Value (Losses)/Gains	31	282
Fees and Commission Income	32	282
Other Income	33	283
Net Insurance Benefits and Claims Paid	34	283
Net Change in Insurance Claims Outstanding	35	285
Change in Contract Liabilities - Life Fund	19	265
Other Operating and Administration Expenses	36	286
Underwriting and Net Acquisition Costs	37	287
Income Tax/Deferred Taxation	38	288
Other Specific Notes		
Basic Earnings Per Share	39	292
Dividend Per Share	40	293
Financial Assets, Liabilities And Fair Value Measurement	41	294
Related Party Disclosures	42	305
Financial Risk Management	43	311
Events Occurring After The Reporting Date	44	332
Commitments	45	332
Contingencies	46	332
Comparative Information	47	334
Transfer Pricing	48	334
Directors' Responsibility Statement	49	334

Segmental Reporting

Accounting Policy

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 primary format for segment reporting is based on business segments. The business segments are determined based on the Group 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 into 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.

The activities of the Group are located mainly in Sri Lanka. 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 Reporting

Statement of Financial Position - Segmental Review - 2016

As at 31st December 2016,	Life Insurance	General Insurance	Consolidation Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets				
Property, Plant and Equipment	112,151	49,211	-	161,362
Intangible Assets	60,882	-	-	60,882
Deferred Tax Assets	-	52,922	-	52,922
Financial Investments	9,642,596	1,901,979	-	11,544,575
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders	119,941	-	-	119,941
Reinsurance Receivables	54,814	439,912	-	494,726
Premium Receivables	6,805	616,489	-	623,294
Other Assets	575,676	208,118	(13,120)	770,674
Insurance Contract - Deferred Expenses	-	74,951	-	74,951
Cash and Cash Equivalents	476,572	148,955	-	625,527
Total Assets	12,199,437	3,492,537	(1,163,120)	14,528,854
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	1,897,936	(173,306)	(2,955)	1,721,675
Available For Sale Reserves	(1,465)	(8,642)	2,955	(7,152)
Other Reserves	(1,886)	3,676	-	1,790
Life Policyholders' Available For Sale Reserve Fund	(191,131)	-	-	(191,131)
Equity Attributable to the Equity Holders of Parent	2,875,329	971,728	(1,150,000)	2,697,057
Non-Controlling Interest	-	-	-	-
Total Equity	2,875,329	971,728	(1,150,000)	2,697,057
Liabilities				
Insurance Contract Liabilities - Life Insurance	8,747,856	-	-	8,747,856
Insurance Contract Liabilities - General Insurance	-	1,921,567	-	1,921,567
Employee Defined Benefit Liabilities	50,883	39,550	-	90,433
Current Tax Liabilities	-	3,300	-	3,300
Reinsurance Creditors	39,395	248,500	-	287,895
Other Liabilities	485,974	307,892	(13,120)	780,746
Total Liabilities	9,324,108	2,520,809	(13,120)	11,831,797
Total Equity and Liabilities	12,199,437	3,492,537	(1,163,120)	14,528,854

The Notes to the Financial Statements as set out on pages 238 to 334 form an integral part of these Financial Statements.

Statement of Financial Position - Segmental Review - 2015

As at 31st December 2015,	Life Insurance	General Insurance	Consolidation Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets				
Property, Plant and Equipment	94,107	42,172	-	136,279
Intangible Assets	45,185	-	-	45,185
Deferred Tax Assets	-	49,394	-	49,394
Financial Investments	7,849,625	1,901,986	-	9,751,611
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders	91,992	-	-	91,992
Reinsurance Receivables	34,269	107,085	-	141,354
Premium Receivables	5,592	340,324	-	345,916
Other Assets	493,571	141,431	(9,017)	625,985
Insurance Contract - Deferred Expenses	-	65,935	-	65,935
Cash and Cash Equivalents	258,222	128,707	-	386,929
Total Assets	10,022,563	2,777,034	(1,159,017)	11,640,580
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	1,397,806	(220,589)	(2,955)	1,174,262
Available For Sale Reserves	53	(7,756)	2,955	(4,748)
Other Reserves	(2,039)	946	-	(1,093)
Life Policyholders' Available For Sale Reserve Fund	(56,350)	-	-	(56,350)
Equity Attributable to the Equity Holders of Parent	2,511,345	922,601	(1,150,000)	2,283,946
Non-Controlling Interest	-	-	-	-
Total Equity	2,511,345	922,601	(1,150,000)	2,283,946
Liabilities				
Insurance Contract Liabilities - Life Insurance	7,007,080	-	-	7,007,080
Insurance Contract Liabilities - General Insurance	-	1,546,265	-	1,546,265
Employee Defined Benefit Liabilities	44,008	36,993	-	81,001
Reinsurance Creditors	37,547	94,358	-	131,905
Other Liabilities	422,583	176,817	(9,017)	590,383
Total Liabilities	7,511,218	1,854,433	(9,017)	9,356,634
Total Equity and Liabilities	10,022,563	2,777,034	(1,159,017)	11,640,580

The Notes to the Financial Statements as set out on pages 238 to 334 form an integral part of these Financial Statements.

Segmental Reporting

Statement of Profit or Loss - Segmental Review - 2016

For the Year Ended 31st December 2016,	Life Insurance	General Insurance	Consolidation Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	3,554,078	3,141,559	(38,943)	6,656,694
Premium Ceded to Reinsurers	(159,050)	(718,663)	-	(877,713)
Net Written Premium	3,395,028	2,422,896	(38,943)	5,778,981
Net Change in Reserves for Unearned Premium	-	(181,102)	-	(181,102)
Net Earned Premium	3,395,028	2,241,794	(38,943)	5,597,879
Other Revenue				
Interest and Dividend Income	987,959	192,126	-	1,180,085
Net Realised Losses	(22,435)	(6,684)	-	(29,119)
Net Fair Value (Losses)/Gains	(7,793)	1,332	-	(6,461)
Fees and Commission Income	62,858	73,029	(7,089)	128,798
Other Income	11,017	14,007	-	25,024
Total Other Revenue	1,031,606	273,810	(7,089)	1,298,327
Net Income	4,426,634	2,515,604	(46,032)	6,896,206
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims Paid	(387,829)	(1,579,563)	633	(1,966,759)
Net Change in Insurance Claims Outstanding	(13,848)	32,962	-	19,114
Change in Contract Liabilities - Life Fund	(1,708,285)	-	-	(1,708,285)
Other Operating and Administration Expenses	(886,845)	(728,501)	42,382	(1,572,964)
Underwriting and Net Acquisition Costs	(748,051)	(177,852)	3,017	(922,886)
Other Insurance Related Costs	(25,134)	(13,771)	-	(38,905)
Total Benefits, Claims and other Expenses	(3,769,992)	(2,466,725)	46,032	(6,190,685)
Profit Before Taxation	656,642	48,879	-	705,521
Income Tax Expense	(56,512)	(1,596)	-	(58,108)
Profit for the Year	600,130	47,283	-	647,413

The Notes to the Financial Statements as set out on pages 238 to 334 form an integral part of these Financial Statements.

Statement of Profit or Loss - Segmental Review - 2015

For the Year Ended 31st December 2015,	Life Insurance	General Insurance	Consolidation Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	2,788,716	2,698,176	(39,728)	5,447,164
Premium Ceded to Reinsurers	(107,963)	(491,121)	-	(599,084)
Net Written Premium	2,680,753	2,207,055	(39,728)	4,848,080
Net Change in Reserves for Unearned Premium	-	(122,677)	-	(122,677)
Net Earned Premium	2,680,753	2,084,378	(39,728)	4,725,403
Other Revenue				
Interest and Dividend Income	705,571	165,478	-	871,049
Net Realised Gains/(Losses)	22,512	10,468	(2,955)	30,025
Net Fair Value Gain	4,028	12,555	-	16,583
Fees and Commission Income*	44,742	81,612	(10,060)	116,294
Other Income*	6,273	8,928	-	15,201
Total Other Revenue	783,126	279,041	(13,015)	1,049,152
Net Income	3,463,879	2,363,419	(52,743)	5,774,555
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims Paid	(299,271)	(1,685,087)	-	(1,984,358)
Net Change in Insurance Claims Outstanding	18,776	(152,207)	-	(133,431)
Change in Contract Liabilities - Life Fund	(1,462,100)	-	-	(1,462,100)
Other Operating and Administration Expenses*	(701,809)	(638,191)	43,815	(1,296,185)
Underwriting and Net Acquisition Costs*	(544,673)	(160,979)	5,973	(699,679)
Other Insurance Related Costs	(17,774)	(11,255)	-	(29,029)
Total Benefits, Claims and other Expenses	(3,006,851)	(2,647,719)	49,788	(5,604,782)
Profit/(Loss) Before Taxation	457,028	(284,300)	(2,955)	169,773
Income Tax (Expenses) / Reversal	(29,383)	56,954	-	27,571
Profit/(Loss) for the Year	427,645	(227,346)	(2,955)	197,344

The Notes to the Financial Statements as set out on pages 238 to 334 form an integral part of these Financial Statements.

*These figures have been reclassified and a detail note has been given in note number 47 in page 334

Segmental Reporting

Statement of Cash Flows - Segmental Review - 2016

For the Year Ended 31st December 2016,	Note	Life Insurance Rs.'000	General Insurance Rs.'000	Consolidation Adjustment Rs.'000	Total Rs.'000
Cash Flow From Operating Activities					
Profit Before Taxation		656,642	48,879	-	705,521
Adjustments for:					
Interest Income		(976,943)	(189,426)	-	(1,166,369)
Dividend Income		(11,016)	(2,700)	-	(13,716)
Amortisation of Intangible Assets		20,107	-	-	20,107
Depreciation		31,708	13,170	-	44,878
Provision for Employee Benefits		13,984	10,158	-	24,142
Net Fair Value Losses/(Gains)		7,793	(1,332)	-	6,461
Net Realised Losses		22,435	6,684	-	29,119
Loss on Sale of Property, Plant and Equipment		2,592	1,171	-	3,763
		(232,698)	(113,396)	-	(346,094)
Net Change in Operating Assets	A	(130,454)	(669,721)	13,120	(787,055)
Net Change in Operating Liabilities	B	1,806,015	654,529	(13,120)	2,447,424
Cash Flows from Operating Activities		1,442,863	(128,588)	-	1,314,275
Gratuity Paid		(8,156)	(3,671)	-	(11,827)
Economic Service Charges (ESC) Paid		-	(10,250)	-	(10,250)
Net Cash Generated From/(Used in) Operating Activities (a)		1,434,707	(142,509)	-	1,292,198
Cash Flows from Investing Activities					
Net Acquisition of Investment Securities		(1,920,005)	(17,070)	-	(1,937,075)
Interest Received		880,938	198,439	-	1,079,377
Dividend Received		10,858	2,767	-	13,625
Acquisition of Intangible Assets		(35,804)	-	-	(35,804)
Acquisition of Property, Plant and Equipment		(53,895)	(21,498)	-	(75,393)
Proceeds from the Sale of Property, Plant and Equipment		1,551	119	-	1,670
Net Cash (Used in)/Generated From Investing Activities (b)		(1,116,357)	162,757	-	(953,600)
Cash Flows from Financing Activities					
Dividend Paid		(100,000)	-	-	(100,000)
Net Cash Used in Financing Activities (c)		(100,000)	-	-	(100,000)
Net Increase in Cash and Cash Equivalents (a+b+c)	C	218,350	20,248	-	238,598
Cash and Cash Equivalents at the beginning of the Year	13	258,222	128,707		386,929
Cash and Cash Equivalents at the end of the Year		476,572	148,955	-	625,527
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Increase in Deferred Expenses		-	(9,016)	-	(9,016)
Increase in Loans to Life Policyholders		(27,949)	-	-	(27,949)
Increase in Reinsurance Receivables		(20,545)	(332,827)	-	(353,372)
Increase in Premium Receivables		(1,213)	(276,165)	-	(277,378)
Increase in Other Assets		(80,747)	(51,713)	13,120	(119,340)
Net Change in Operating Assets		(130,454)	(669,721)	13,120	(787,055)
B. Change in Operating Liabilities					
Increase in Other Liabilities		63,391	125,085	(13,120)	175,356
Increase in Insurance Contract Liabilities - General Insurance		-	375,302	-	375,302
Increase in Insurance Contract Liabilities - Life Insurance		1,740,776	-	-	1,740,776
Increase in Reinsurance Creditors		1,848	154,142	-	155,990
Net Change in Operating Liabilities		1,806,015	654,529	(13,120)	2,447,424
C. Increase in Cash and Cash Equivalents					
Net Cash and Cash Equivalents at the end of the Year		476,572	148,955	-	625,527
Net Cash and Cash Equivalents at the beginning of the Year		258,222	128,707	-	386,929
Net Increase in Cash and Cash Equivalents		218,350	20,248	-	238,598

The Notes to the Financial Statements as set out on pages 238 to 334 form an integral part of these Financial Statements.

Statement of Cash Flows - Segmental Review - 2015

For the Year Ended 31st December 2015,	Note	Life Insurance Rs.'000	General Insurance Rs.'000	Consolidation Adjustment Rs.'000	Total Rs.'000
Cash Flow From Operating Activities					
Profit / (Loss) Before Taxation		457,028	(284,300)	(2,955)	169,773
Adjustments for:					
Interest Income		(687,104)	(156,475)	-	(843,579)
Dividend Income		(18,467)	(9,003)	-	(27,470)
Amortisation of Intangible Assets		17,226	-	-	17,226
Depreciation		38,082	13,034	-	51,116
Provision for Employee Benefits		12,849	9,352	-	22,201
Net Fair Value Gains		(4,028)	(12,555)	-	(16,583)
Net Realised Gains		(22,512)	(10,468)	2,955	(30,025)
Unrealised Gain on assets Transferred		(3,523)	-	-	(3,523)
Gain on Sale of Property, Plant and Equipment		(15)	(31)	-	(46)
		(210,464)	(450,446)	-	(660,910)
Net Change in Operating Assets	A	(24,825)	81,507	9,017	65,699
Net Change in Operating Liabilities	B	1,533,751	287,868	(9,017)	1,812,602
Cash Flows from Operating Activities		1,298,462	(81,071)	-	1,217,391
Gratuity Paid		(11,292)	(3,671)	-	(14,963)
Income Tax Paid		-	(1,280)		(1,280)
Super Gain Tax Paid		(31,378)	-	-	(31,378)
Net Cash Generated From/(Used in) Operating Activities (a)		1,255,792	(86,022)	-	1,169,770
Cash Flows from Investing Activities					
Net Acquisition of Investment Securities		(1,294,693)	(147,829)	-	(1,442,522)
Investment in Subsidiary		(150,000)	-	150,000	-
Interest Received		568,571	143,113	-	711,684
Dividend Received		18,467	8,731	-	27,198
Acquisition of Intangible Assets		(10,789)	-	-	(10,789)
Acquisition of Property, Plant and Equipment		(39,679)	(13,917)	-	(53,596)
Proceeds from the Sale of Property, Plant and Equipment		146	43	-	189
Net Cash Used in Investing Activities (b)		(907,977)	(9,859)	150,000	(767,836)
Cash Flows from Financing Activities					
Dividend Paid		(187,500)	-	-	(187,500)
Proceeds from issue of shares		-	150,000	(150,000)	-
Share Issue Related Costs Paid- Subsidiary		-	(750)	-	(750)
Net Cash (Used in)/Generated From Financing Activities (c)		(187,500)	149,250	(150,000)	(188,250)
Net Increase in Cash and Cash Equivalents (a+b+c)	C	160,315	53,369	-	213,684
Cash and Cash Equivalents at the beginning of the Year		88,482	84,763	-	173,245
Cash Transferred on Segregation		9,425	(9,425)	-	-
Cash and Cash Equivalents at the end of the Year	13	258,222	128,707	-	386,929
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Increase in Deferred Expenses		-	(13,863)	-	(13,863)
Increase in Loans to Life Policyholders		(20,910)	-	-	(20,910)
Increase/(Decrease) in Reinsurance Receivables		(10,823)	31,729	-	20,906
Decrease in Premium Receivables		1,351	16,784	-	18,135
Decrease in Other Assets		5,557	46,857	9,017	61,431
Net Change in Operating Assets		(24,825)	81,507	9,017	65,699
B. Change in Operating Liabilities					
Increase Other Liabilities		82,693	6,240	(9,017)	79,916
Increase in Insurance Contract Liabilities - General Insurance		-	267,127	-	267,127
Increase in Insurance Contract Liabilities - Life Insurance		1,444,432	-	-	1,444,432
Increase in Reinsurance Creditors		6,626	14,501	-	21,127
Net Change in Operating Liabilities		1,533,751	287,868	(9,017)	1,812,602
C. Increase/(Decrease) in Cash and Cash Equivalents					
Net Cash and Cash Equivalents at the end of the Year		258,222	128,707	-	386,929
Net Cash and Cash Equivalents at the beginning of the Year		88,482	84,763	-	173,245
Cash and Cash Equivalents Transferred to/from HNBGI Limited on Segregation		9,425	(9,425)	-	-
Net Increase in Cash and Cash Equivalents		160,315	53,369	-	213,684

The Notes to the Financial Statements as set out on pages 238 to 334 form an integral part of these Financial Statements.

Accounting Policies and Notes to the Financial Statements

4. PROPERTY, PLANT AND EQUIPMENT (PPE)

Accounting Policy

Basis of Recognition

Property, Plant and Equipment are tangible items that are held for servicing or for administrative purposes and are expected to be used for more than one year.

Property, Plant and Equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset 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 and the costs of dismantling and removing the items and restoring at the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

The Group applies the cost model to 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.

Repairs and maintenance

Repairs and maintenance are charged to Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

Depreciation

The Group provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

The estimated useful lives for the current and comparative years as 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 assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

4. PROPERTY, PLANT AND EQUIPMENT (PPE) (Contd.)

Accounting Policy

De-recognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of an item of Plant and Equipment is included in Profit or Loss when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is derecognised.

Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in property, plant and equipment, awaiting for capitalisation.

Leased assets – Lessee

The determination of whether an arrangement is a lease or contains a lease is based on the substance of the arrangement at the inception date.

Finance Leases

Finance leases that transfer to the 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 the Income Statement. 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 are operating leases. Operating lease payments are recognised as an expense in Profit or Loss on a straight line basis over the lease term.

Accounting Policies and Notes to the Financial Statements

4. PROPERTY, PLANT AND EQUIPMENT (PPE) (Contd.)

	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 01st January 2015	154,109	21,388	56,413	49,697	62,963	344,570
Additions during the year	21,098	-	4,700	4,780	23,018	53,596
Disposals during the year	(228)	-	(419)	(950)	(872)	(2,469)
Balance as at 31st December 2015	174,979	21,388	60,694	53,527	85,109	395,697
Balance as at 01st January 2016	174,979	21,388	60,694	53,527	85,109	395,697
Additions during the year	34,993	-	3,896	8,855	27,649	75,393
Disposals during the year	(78)	-	(3,891)	(1,347)	(18,629)	(23,945)
Balance as at 31st December 2016	209,894	21,388	60,699	61,035	94,129	447,145
Accumulated Depreciation and Impairment Losses						
Balance as at 01st January 2015	103,774	11,045	41,975	24,079	29,755	210,628
Depreciation for the year	18,400	4,042	5,458	4,624	18,592	51,116
Depreciation on Disposals	(191)	-	(419)	(844)	(872)	(2,326)
Balance as at 31st December 2015	121,983	15,087	47,014	27,859	47,475	259,418
Balance as at 01st January 2016	121,983	15,087	47,014	27,859	47,475	259,418
Depreciation for the year	19,673	4,013	4,872	4,844	11,476	44,878
Depreciation on Disposals	(41)	-	(2,456)	(1,061)	(14,955)	(18,513)
Balance as at 31st December 2016	141,615	19,100	49,430	31,642	43,996	285,783
Carrying Value as at 31st December 2016	68,279	2,288	11,269	29,393	50,133	161,362
Carrying Value as at 31st December 2015	52,996	6,301	13,680	25,668	37,634	136,279

4.1.a Acquisition of PPE during the year

During the financial year, the Group acquired PPE to the aggregate value of Rs. 75.4 Million (2015- Rs. 53.6 Million). Cash payments amounting to Rs. 75.4 Million (2015 - Rs. 53.6 Million) were made by the Group during the year to purchase of PPE.

4. PROPERTY, PLANT AND EQUIPMENT (PPE) (Contd.)

	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 01st January 2015	126,550	15,304	43,583	30,213	43,175	258,825
Additions during the year	15,474	-	2,479	2,595	19,131	39,679
Disposals during the year	(228)	-	(381)	(784)	(809)	(2,202)
Balance as at 31st December 2015	141,796	15,304	45,681	32,024	61,497	296,302
Balance as at 01st January 2016	141,796	15,304	45,681	32,024	61,497	296,302
Additions during the year	23,636	-	3,343	5,718	21,198	53,895
Disposals during the year	-	-	(3,594)	(868)	(10,846)	(15,308)
Balance as at 31st December 2016	165,432	15,304	45,430	36,874	71,849	334,889
Accumulated Depreciation and Impairment Losses						
Balance as at 01st January 2015	87,201	8,629	33,161	15,622	21,571	166,184
Depreciation for the year	14,646	2,521	3,964	2,791	14,160	38,082
Depreciation on Disposals	(191)	-	(381)	(690)	(809)	(2,071)
Balance as at 31st December 2015	101,656	11,150	36,744	17,723	34,922	202,195
Balance as at 01st January 2016	101,656	11,150	36,744	17,723	34,922	202,195
Depreciation for the year	15,035	2,497	3,433	2,877	7,866	31,708
Depreciation on disposals	-	-	(2,293)	(706)	(8,166)	(11,165)
Balance as at 31st December 2016	116,691	13,647	37,884	19,894	34,622	222,738
Carrying Value as at 31st December 2016	48,741	1,657	7,546	16,980	37,227	112,151
Carrying Value as at 31st December 2015	40,140	4,154	8,937	14,301	26,575	94,107

4.1.b Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs.53.9 Million (2015 - Rs. 39.7 Million). Cash payments amounting to Rs. 53.9 Million (2015- Rs.39.7 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 (PPE) (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	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Computer Equipment	90,619	48,010	76,959	41,744
Office Equipment	35,980	27,271	27,812	22,431
Fixtures	19,307	6,246	17,049	5,921
Furniture and Fittings	8,870	3,705	5,656	2,284
Motor Vehicles	5,317	5,185	5,317	5,185
Total	160,093	90,417	132,793	77,565

4.3 PPE pledged as security for Liabilities

There were no items of Property, Plant and Equipment in the Group and Company , pledged as securities for liabilities during the year. (2015 - 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

The Board of Directors has assessed the potential impairment indicators of PPE as at 31st December 2016. 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 Property, Plant and Equipment during the year. (2015 - Nil)

4.7 Temporarily idle Property, Plant and Equipment

There were no temporarily idle property as at the year ended 31st December 2016. (2015 - Nil)

5. INTANGIBLE ASSETS -GROUP & COMPANY

Accounting Policy

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. 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.

Amortisation

Amortisation is recognised in Profit or Loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is six years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

De-recognition

An Intangible Asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de-recognition of such Intangible Assets is included in Profit or Loss when the item is derecognised.

As at 31st December,	2016	2015
	Rs.'000	Rs.'000
Cost		
Balance as at 01st January	164,122	153,333
Acquisition /Capitalised during the year	35,804	10,789
Balance as at 31st December (a)	199,926	164,122
Accumulated Amortisation and Impairment Losses		
Balance as at 01st January	118,937	101,711
Amortisation for the year	20,107	17,226
Balance as at 31st December (b)	139,044	118,937
Carrying amount as at 31st December (a-b)	60,882	45,185

5.1 Acquisition of Intangible Assets during the year

During the financial year, the Group/Company acquired/capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 35.8 Million (2015 - Rs. 10.7 Million). Cash payments amounting to Rs. 35.8 Million (2015 - Rs. 10.7 Million) were made during the year for purchase of Intangible Assets. (Computer Software)

Accounting Policies and Notes to the Financial Statements

5. INTANGIBLE ASSETS -GROUP & COMPANY (Contd.)

5.2 Fully amortised Intangible Assets in use

Intangible Assets includes fully amortised Computer software which are in the use of normal business activities having a gross carrying amounts of Rs. 93.7 Million. (2015 - Rs. 47.5 Million)

5.3 Title restriction on Intangible Assets

There were no restrictions that existed on the title of the Intangible Assets of 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 2016. 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. (2015 - 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 and measurement

The Group initially recognises Loans and Receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group determines the classification of its financial assets at initial recognition. At inception a financial asset was classified in one of the following categories:

1. Held-To-Maturity investments (HTM);
2. Loans and receivables (L&R);
3. Available For Sale (AFS) financial assets, as appropriate; and
4. Fair Value Through Profit or Loss (FVTPL).

A financial asset is measured initially at fair value plus transaction costs, except in the case of financial assets recorded at Fair Value Through Profit or Loss. Transaction cost in relation to financial assets of Fair Value Through Profit or Loss is recognised in profit or loss.

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the Group ability. Financial assets are classified as at 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.

Purchases or sales 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 sell/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/derecognise the asset.

6. FINANCIAL INVESTMENTS (Contd.)

Accounting Policy

The Group existing types of financial assets and their classifications are shown in the table below.

Category	Classification criteria	Financial Asset
Held-To-Maturity	Non-derivative financial assets with fixed or determinable payments and fixed maturities Held-To-Maturity when the Group has the intention and ability to hold until maturity.	Treasury Bonds
Loans and Receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as Loans and Receivables	REPO, Overnight REPO, Term Deposits, *Corporate Debt, Loans to Policyholders, Staff and Advisor Loans, Reinsurance Receivable, Premium Receivable, Other receivables, Cash and Cash Equivalents
Available For Sale	Equity investments classified as Available For Sale are those that are neither classified as held for trading nor designated at Fair Value Through Profit or Loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions	Treasury Bonds, Treasury Bills, Listed Equity Shares,
Fair Value Through Profit or Loss	Financial assets at Fair Value Through Profit or Loss include financial assets held for trading and those designated upon initial recognition at Fair Value Through Profit or Loss. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at Fair Value Through Profit or Loss, the following criteria must be met: ◉ The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, Or ◉ The assets and liabilities are part of a Group financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with the Group investment strategy.	Treasury Bonds, Treasury Bills, Listed Equity Shares, Unit Trusts

*Corporate Debt - The Group classifies quoted Corporate Debt under this category since there is no active market for these instruments even if such instruments are listed.

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

Accounting Policy

Subsequent measurement

Held-To-Maturity financial assets (HTM)

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. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and Receivables (L&R)

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 'Investment Income' in profit or loss.

Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Available For Sale financial assets (AFS)

Subsequent to initial measurement, Available For Sale financial assets are measured at fair value, with unrealised gains or losses recognised in Other Comprehensive Income (OCI) in the Available For Sale reserve.

Interest earned whilst holding Available For Sale investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding Available For Sale investments are recognised in profit or loss as 'Investment Income' when the right of the payment has been established. When the asset is derecognised, the cumulative gain or loss is recognised in the Investment Income.

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.

When a financial asset is reclassified out of the available for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to profit or loss.

6. FINANCIAL INVESTMENTS (Contd.)

Accounting Policy

Financial assets at Fair Value Through Profit or Loss (FVTPL)

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.

Interest is accrued and presented in 'Investment income' or 'Finance cost', respectively, using the Effective Interest Rate (EIR). Dividend income is recorded in the 'Investment Income" when the right to the payment has been established.

The Group evaluates its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, Available For Sale or Held-To-Maturity depends on the nature of the asset.

Derecognition of Financial Instruments

Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or, when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or, in which the 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 derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRs/LKASs or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

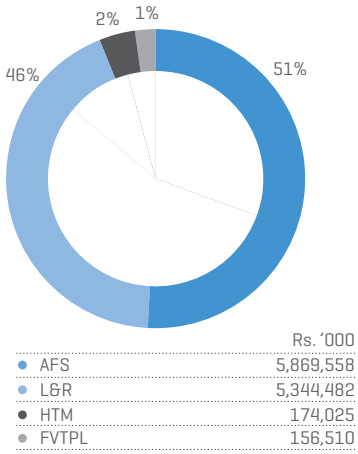
Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

Financial Investments

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Held-To-Maturity (HTM)	(Note 6.1)	174,025	472,565	174,025	320,426
Loans and Receivable (L & R)	(Note 6.2)	5,344,482	6,444,029	4,253,239	5,151,718
Available For Sale (AFS)	(Note 6.3)	5,869,558	1,659,296	5,095,600	1,559,525
Fair Value Through Profit or Loss (FVTPL)	(Note 6.4)	156,510	1,175,721	119,732	817,956
Total Financial Investments		11,544,575	9,751,611	9,642,596	7,849,625

Financial Investments - Group (2016)



6. FINANCIAL INVESTMENTS (Contd.)

The following table consists of the fair values of the financial investments together with their carrying values.

Fair Value Through Profit or Loss investments and Available For Sale investments have been valued at fair value. Held-To-Maturity investments and loans and receivable investments are valued at amortised cost.

As at 31st December,	Group				Company			
	2016		2015		2016		2015	
	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
Held-To-Maturity	174,025	177,193	472,565	490,095	174,025	177,193	320,426	336,302
Loans and Receivable	5,344,482	5,008,761	6,444,029	6,327,441	4,253,239	3,982,721	5,151,718	5,069,303
Available For Sale	5,869,558	5,869,558	1,659,296	1,659,296	5,095,600	5,095,600	1,559,525	1,559,525
Fair Value Through Profit or Loss	156,510	156,510	1,175,721	1,175,721	119,732	119,732	817,956	817,956
Total Financial Investments	11,544,575	11,212,022	9,751,611	9,652,553	9,642,596	9,375,246	7,849,625	7,783,086

As at 31st December,		Group				Company			
		2016		2015		2016		2015	
		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
6.1 Held-To-Maturity									
- Treasury Bonds		174,025	177,193	472,565	490,095	174,025	177,193	320,426	336,302
Total		174,025	177,193	472,565	490,095	174,025	177,193	320,426	336,302
6.2 Loans and Receivable									
- Repo		439,554	439,554	1,127,963	1,127,963	439,554	439,554	991,471	991,471
- Overnight Repo		240,688	240,688	987,173	987,173	128,811	128,811	824,148	824,148
- Term Deposit	(Note 6.5)	1,597,762	1,574,241	1,295,949	1,315,190	1,158,787	1,138,582	909,695	926,191
- Corporate Debt	(Note 6.6)	3,066,478	2,754,278	3,032,944	2,897,115	2,526,087	2,275,774	2,426,404	2,327,493
Total		5,344,482	5,008,761	6,444,029	6,327,441	4,253,239	3,982,721	5,151,718	5,069,303
6.3 Available For Sale									
- Treasury Bonds		4,424,246	4,424,246	1,410,500	1,410,500	4,135,569	4,135,569	1,360,150	1,360,150
- Treasury Bills		1,302,371	1,302,371	48,492	48,492	839,293	839,293	29,095	29,095
- Equity Shares	(Note 6.7)	142,941	142,941	200,304	200,304	120,738	120,738	170,280	170,280
Total		5,869,558	5,869,558	1,659,296	1,659,296	5,095,600	5,095,600	1,559,525	1,559,525
6.4 Fair Value Through Profit or Loss									
- Treasury Bonds		-	-	699,014	699,014	-	-	497,717	497,717
- Equity Shares	(Note 6.8)	145,178	145,178	236,299	236,299	112,532	112,532	163,036	163,036
- Investment in Units	(Note 6.9)	11,332	11,332	240,408	240,408	7,200	7,200	157,203	157,203
Total		156,510	156,510	1,175,721	1,175,721	119,732	119,732	817,956	817,956

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.4.1 HNB Assurance PLC and HNB General Insurance Limited, in its normal course of business invest in Repurchase Agreements (Repos) through various Primary Dealers approved by the Central Bank of Sri Lanka (CBSL). During the year, the Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. All our investments in Repos are on DVP/RVP basis. (Delivery vs. Payments and Received vs. Payments)

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 to sign a Master Repo Agreement (MRA) with all the Primary Dealing Companies Group deals with. MRA's provide the facility to the investor or investee to recover the money due by selling the collateral securities in the secondary market in the event of a default by either party.

As at 31st December,	Group				Company			
	2016		2015		2016		2015	
	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
6.5. Term Deposits								
Licensed Commercial Banks (Note 6.5.1)	1,098,655	1,092,227	249,395	252,433	825,091	819,799	111,815	114,843
Licensed Specialised Banks	-	-	505,247	526,297	-	-	409,460	427,278
Registered Finance Companies	499,107	482,014	541,307	536,460	333,696	318,783	388,420	384,070
Total	1,597,762	1,574,241	1,295,949	1,315,190	1,158,787	1,138,582	909,695	926,191
6.5.1 Licensed Commercial Banks								
Term Deposits with Related Parties - Hatton National Bank PLC	152,366	152,366	146,391	146,401	79,571	79,571	74,775	74,775
Other Banks	946,289	939,861	103,004	106,032	745,520	740,228	37,040	40,068
Total	1,098,655	1,092,227	249,395	252,433	825,091	819,799	111,815	114,843
6.6 Corporate Debt								
Debentures - Quoted - [Note 6.6.1]	3,066,478	2,754,278	2,967,058	2,831,795	2,526,087	2,275,774	2,370,529	2,272,136
Debentures - Unquoted - [Note 6.6.2]	-	-	65,886	65,320	-	-	55,875	55,357
Total	3,066,478	2,754,278	3,032,944	2,897,115	2,526,087	2,275,774	2,426,404	2,327,493

6. FINANCIAL INVESTMENTS (Contd.)

6.6.1 Debentures - Quoted

As at 31st December,	Group				Company			
	2016		2015		2016		2015	
	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	166,122	164,384	140,965	150,172	155,982	154,029	130,829	139,086
Commercial Bank of Ceylon PLC	43,421	38,716	-	-	43,421	38,716	-	-
DFCC Bank PLC	168,240	153,768	92,493	87,854	150,880	136,907	75,134	70,939
Hatton National Bank PLC	263,946	238,941	152,440	148,270	249,552	225,306	138,050	133,864
National Development Bank PLC	87,841	76,089	85,381	81,281	82,492	71,149	80,034	75,997
Nations Trust Bank PLC	93,124	86,116	35,311	34,680	93,124	86,116	35,311	34,680
Pan Asia Banking Corporation PLC	67,680	59,824	67,680	63,195	47,288	41,751	47,288	44,106
Sampath Bank PLC	322,028	274,075	321,473	290,383	255,625	218,825	255,261	232,185
Seylan Bank PLC	211,968	192,427	189,032	180,899	162,748	152,718	139,824	139,112
HDFC Bank of Sri Lanka	69,300	62,706	68,679	67,277	69,300	62,706	68,679	67,277
Central Finance Company PLC	30,078	29,508	41,887	43,270	30,078	29,508	35,983	37,402
Commercial Credit and Finance PLC	213,502	187,690	213,478	198,379	152,530	134,099	152,513	141,730
Commercial Leasing and Finance PLC	65,850	54,961	62,612	58,246	65,850	54,961	62,612	58,246
Lanka Orix Leasing Company PLC	56,244	48,375	135,734	126,799	40,905	35,182	120,397	112,974
LB Finance PLC	97,865	86,898	97,830	93,666	87,193	77,422	87,162	83,452
Mercantile Investment & Finance PLC	11,597	10,913	11,594	11,338	6,312	5,940	6,310	6,171
Merchant Bank of Sri Lanka & Finance PLC	132,431	115,000	189,863	175,320	109,100	95,725	139,308	128,563
People's Leasing & Finance PLC	169,128	156,017	118,316	115,374	137,134	127,456	91,407	90,206
Siyapatha Finance PLC	134,241	110,978	108,875	91,270	100,483	84,097	75,124	62,976
Softlogic Finance PLC	31,154	28,103	31,148	28,989	18,237	16,451	18,234	16,970
Vallibel Finance PLC	46,150	41,540	46,152	43,470	30,767	27,693	30,768	28,980
Sector Total	2,481,910	2,217,029	2,210,943	2,090,132	2,089,001	1,876,757	1,790,228	1,704,916
Beverage Food and Tobacco								
Lion Brewery (Ceylon) PLC	69,572	67,929	99,333	101,354	40,584	39,625	57,944	59,123
Sector Total	69,572	67,929	99,333	101,354	40,584	39,625	57,944	59,123
Construction and Engineering								
Access Engineering PLC	126,509	110,516	126,509	117,923	111,328	97,254	111,328	103,772
Sector Total	126,509	110,516	126,509	117,923	111,328	97,254	111,328	103,772
Diversified Holdings								
Hayleys PLC	-	-	46,617	47,727	-	-	41,437	42,424
Hemas Holdings PLC	57,504	53,646	57,553	56,495	42,610	39,866	42,597	41,739
Richard Pieris and Company PLC	58,341	54,260	58,654	57,150	49,890	46,343	50,206	48,812
Softlogic Holdings PLC	-	-	58,187	57,843	-	-	58,184	57,843
Sector Total	115,845	107,906	221,011	219,215	92,500	86,209	192,424	190,818
Health Care								
Nawaloka Hospitals PLC	56,940	55,168	56,940	58,928	41,411	40,122	41,411	42,857
Sector Total	56,940	55,168	56,940	58,928	41,411	40,122	41,411	42,857
Trading								
Abans PLC	186,474	169,887	195,113	190,264	132,860	119,536	130,808	126,304
Singer (Sri Lanka) PLC	29,228	25,843	57,209	53,979	18,403	16,271	46,386	44,346
Sector Total	215,702	195,730	252,322	244,243	151,263	135,807	177,194	170,650
Total Investment in Quoted Debentures	3,066,478	2,754,278	2,967,058	2,831,795	2,526,087	2,275,774	2,370,529	2,272,136

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.6.2 Debentures - Unquoted

As at 31st December,	Group				Company			
	2016		2015		2016		2015	
	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
Abans PLC	-	-	25,841	25,467	-	-	25,841	25,467
National Development Bank PLC	-	-	40,045	39,853	-	-	30,034	29,890
Total Investment in Unquoted Debentures	-	-	65,886	65,320	-	-	55,875	55,357

6.7. Equity Shares

Available For Sale (AFS)

As at 31st December,	Group						Company					
	2016			2015			2016			2015		
	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ 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)	241,000	12,347	14,219	241,000	12,347	17,593	210,000	10,656	12,390	210,000	10,656	15,330
Sampath Bank PLC	109,749	24,877	28,579	108,802	25,352	26,983	93,831	21,312	24,434	91,356	21,312	22,656
Central Finance Company PLC	206,743	25,370	20,674	100,037	25,370	25,309	177,653	21,805	17,765	85,961	21,805	21,748
Sector Total			63,472			69,885			54,589			59,734
Diversified Holdings												
Vallibel One PLC	-	-	-	301,877	7,860	6,490	-	-	-	201,877	5,231	4,340
Melstacorp Limited	39,532	2,344	2,344	-	-	-	39,532	2,344	2,344	-	-	-
Sector Total			2,344			6,490			2,344			4,340
Hotel and Travels												
Aitken Spence Hotel Holdings PLC	-	-	-	80,112	6,805	5,448	-	-	-	80,112	6,805	5,448
Palm Garden Hotels PLC	-	-	-	69,000	3,795	2,629	-	-	-	45,900	2,525	1,749
Sector Total			-			8,077			-			7,197
Investment Trusts												
Renuka Holdings PLC	-	-	-	425,000	15,408	11,433	-	-	-	425,000	15,408	11,433
Sector Total			-			11,433			-			11,433
Manufacturing												
Tokyo Cement Company (Lanka) PLC	388,568	22,074	23,003	408,568	23,004	20,020	285,568	16,266	16,906	285,568	16,266	13,993
Royal Ceramics Lanka PLC	83,000	10,072	9,587	83,000	10,072	9,230	50,000	6,067	5,775	50,000	6,067	5,560
Teejay Lanka PLC	453,681	10,817	19,418	863,681	20,118	30,661	453,681	10,817	19,418	863,681	20,118	30,661
Sector Total			52,008			59,911			42,099			50,214
Beverage, Food and Tobacco												
Distilleries Company of Sri Lanka PLC	-	-	-	9,883	2,048	2,431	-	-	-	9,883	2,048	2,431
Sector Total			-			2,431			-			2,431
Chemical and Pharmaceuticals												
CIC Holdings PLC - (Non-Voting)	141,915	9,698	9,650	141,915	9,698	11,523	141,915	9,698	9,650	141,915	9,698	11,523
Sector Total			9,650			11,523			9,650			11,523
Power and Energy												
Lanka IOC PLC	-	-	-	340,000	19,703	12,614	-	-	-	254,000	14,718	9,423
Sector Total			-			12,614			-			9,423
Land and Property												
Overseas Realty (Ceylon) PLC	773,335	19,640	15,467	773,335	19,564	17,940	602,809	15,391	12,056	602,809	15,315	13,985
Sector Total			15,467			17,940			12,056			13,985
Total Investment in Equity Shares (AFS)			142,941			200,304			120,738			170,280

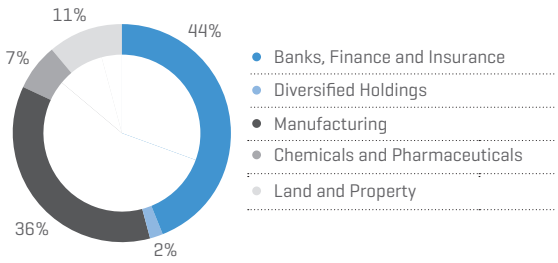
6. FINANCIAL INVESTMENTS (Contd.)

6.8. Equity Shares

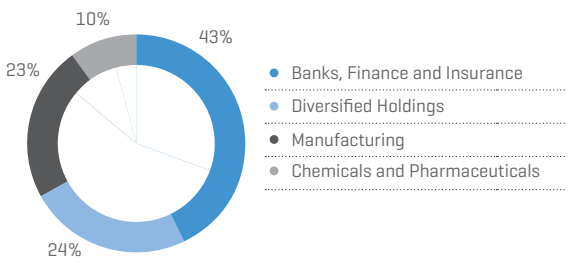
Fair Value Through Profit or Loss (FVTPL)

As at 31st December,	Group						Company					
	2016			2015			2016			2015		
	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ 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	11,299	1,600	1,763	78,200	9,519	15,179	11,299	1,600	1,763	53,200	5,980	10,326
Sampath Bank PLC	82,657	17,088	21,524	80,477	17,088	19,958	57,646	11,318	15,011	56,126	11,318	13,919
Nations Trust Bank PLC	97,674	6,768	7,902	253,261	17,120	21,856	87,261	6,083	7,059	174,261	11,640	15,039
DFCC Bank PLC	-	-	-	30,000	3,765	5,043	-	-	-	30,000	3,765	5,043
People's Leasing & Finance PLC	721,543	12,988	12,411	912,800	16,430	20,082	476,000	8,568	8,187	596,000	10,728	13,112
Seylan Bank PLC - (Non-Voting)	315,283	11,633	18,602	390,283	14,636	28,491	239,332	9,006	14,121	239,332	9,006	17,471
Sector Total			62,202			110,609			46,141			74,910
Beverage Food and Tobacco												
Distilleries Company of Sri Lanka PLC	-	-	-	60,000	10,648	14,760	-	-	-	40,000	7,099	9,840
Sector Total			-			14,760			-			9,840
Diversified Holdings												
John Keells Holdings PLC	48,274	7,864	7,000	54,278	10,185	9,667	48,274	7,864	7,000	42,240	7,864	7,523
Richard Pieris and Company PLC	722,851	10,342	5,783	962,851	13,457	8,184	722,851	10,342	5,783	722,851	10,342	6,144
Vallibel One PLC	375,000	6,764	6,975	375,000	6,764	8,063	250,000	4,500	4,650	250,000	4,500	5,375
Melstacorp Limited	240,000	14,226	14,232	-	-	-	160,000	9,484	9,488	-	-	-
Sector Total			33,990			25,914			26,921			19,042
Manufacturing												
Royal Ceramics Lanka PLC	51,550	7,901	5,954	128,000	19,819	14,234	28,000	4,318	3,234	83,000	12,918	9,230
Dipped Products PLC	5,798	545	503	34,220	4,061	3,764	-	-	-	25,720	3,264	2,829
ACL Cables PLC	186,800	7,570	11,301	93,400	7,570	11,292	125,200	4,850	7,575	62,600	4,850	7,568
Tokyo Cement Company (Lanka) PLC	275,724	12,278	16,323	435,604	19,070	21,345	275,724	12,278	16,323	325,724	13,711	15,960
Kelani Cables PLC	-	-	-	44,300	5,035	5,679	-	-	-	27,000	3,058	3,461
Sector Total			34,081			56,314			27,132			39,048
Hotels and Travels												
Palm Garden Hotels PLC	-	-	-	23,000	4,537	876	-	-	-	15,300	2,975	583
Sector Total			-			876			-			583
Chemicals and Pharmaceuticals												
CIC Holdings PLC	163,085	12,817	14,905	185,000	15,731	18,556	135,000	10,915	12,338	135,000	10,915	13,541
Haycarb PLC	-	-	-	20,500	3,547	3,380	-	-	-	13,000	2,245	2,144
Sector Total			14,905			21,936			12,338			15,685
Construction and Engineering												
Access Engineering PLC	-	-	-	255,000	6,163	5,890	-	-	-	170,000	4,109	3,928
Sector Total			-			5,890			-			3,928
Total Investment in Equity Shares (FVTPL)			145,178			236,299			112,532			163,036

Diversification - AFS (Equity Shares) 2016



Diversification - FVTPL (Equity Shares) 2016



Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.9 Investments in Unit

Fair Value Through Profit or Loss (FVTPL)

As at 31st December,	Group				Company			
	2016		2015		2016		2015	
	No. of Units	Carrying Value/ Fair Value	No. of Units	Carrying Value/ Fair Value	No. of Units	Carrying Value/ Fair Value	No. of Units	Carrying Value/ Fair Value
		Rs.'000		Rs.'000		Rs.'000		Rs.'000
Quoted								
NAMAL Acuity Value Fund	114,400	10,296	114,400	10,708	80,000	7,200	80,000	7,488
Total Investment in Quoted Unit Trusts		10,296		10,708		7,200		7,488
Unquoted								
Ceybank Savings plus Money Market Fund	-	-	1,800,000	18,577	-	-	1,800,000	18,577
Ceylon Income Fund	-	-	2,686,703	36,700	-	-	1,896,813	25,910
First Capital Wealth Fund	-	-	56,111	67,439	-	-	30,405	36,543
NAMAL High Yield Fund	-	-	2,686,567	39,408	-	-	2,686,567	39,408
NDB Wealth Income Fund	-	-	989,198	10,330	-	-	581,959	6,078
Comtrust Money Market Fund	-	-	383,877	4,498	-	-	-	-
Guardian Acuity Money Market Fund	-	-	4,155,034	51,772	-	-	1,861,814	23,199
Comtrust ADL Mudarabah Fund	96,781	1,036	96,781	976	-	-	-	-
Total Investment in Unquoted Unit Trusts		1,036		229,700		-		149,715
Total Investments in Unit Trusts		11,332		240,408		7,200		157,203

6. Financial Investments (Contd.)

6.10 Movement in the Carrying Values of Financial Investments - Group

	Held-To-Maturity	Loans and Receivable	Available for Sale	Fair Value Through Profit or Loss	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
As at 01st January 2015	782,667	5,408,961	1,600,593	485,674	8,277,895
Purchases	-	145,470,124	860,367	1,528,789	147,859,280
Maturities	(365,475)	(144,877,541)	(505,589)	-	(145,748,605)
Disposals	-	(154,557)	(339,235)	(842,214)	(1,336,006)
Fair value gains / (losses) and Foreign Currency Translation recorded in Profit or Loss	-	10,692	-	4,761	15,453
Amortisation adjustment / Accrued Interest	55,373	573,723	130,639	680	760,415
Realised gains / (losses) recorded in Profit or Loss	-	12,627	18,675	(1,969)	29,333
Fair value loss recorded in Other Comprehensive Income	-	-	(106,154)	-	(106,154)
As at 31st December 2015	472,565	6,444,029	1,659,296	1,175,721	9,751,611
As at 01st January 2016	472,565	6,444,029	1,659,296	1,175,721	9,751,611
Purchases	-	129,030,472	6,757,737	14,226	135,802,435
Maturities	(334,074)	(130,581,731)	(2,786,817)	-	(133,702,622)
Disposals	-	(104,450)	(52,420)	(1,010,095)	(1,166,965)
Fair value gains/(losses) and Foreign Currency Translation recorded in Profit or Loss	-	5,844	(4,373)	(8,128)	(6,657)
Amortisation adjustment / Accrued Interest	35,534	548,620	449,611	2,218	1,035,983
Realised gains/(losses) recorded in Profit or Loss	-	1,698	(14,466)	(17,432)	(30,200)
Fair value loss recorded in Other Comprehensive Income	-	-	(139,010)	-	(139,010)
As at 31st December 2016	174,025	5,344,482	5,869,558	156,510	11,544,575

Accounting Policies and Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.11 Movement in the Carrying Values of Financial Investments - Company

	Held-To-Maturity	Loans and Receivable	Available for Sale	Fair Value Through Profit or Loss	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
As at 01st January 2015	530,353	4,245,548	1,434,081	326,305	6,536,287
Purchases	-	110,068,539	767,160	1,152,649	111,988,348
Maturities	(249,687)	(109,583,137)	(380,139)	-	(110,212,963)
Disposals	-	(43,527)	(304,862)	(662,760)	(1,011,149)
Fair value gains / (Losses) Foreign Currency Translation recorded in Profit or Loss	-	1,423	-	2,605	4,028
Amortisation adjustment / Accrued Interest	39,760	459,225	123,635	509	623,129
Realised gains recorded in Profit or Loss	-	3,647	16,695	(1,352)	18,990
Fair value gains recorded in Other Comprehensive Income	-	-	(97,045)	-	(97,045)
As at 31st December 2015	320,426	5,151,718	1,559,525	817,956	7,849,625
As at 01st January 2016	320,426	5,151,718	1,559,525	817,956	7,849,625
Purchases	-	96,149,888	6,025,766	9,484	102,185,138
Maturities	(174,474)	(97,427,278)	(2,693,910)	-	(100,295,662)
Disposals	-	(65,000)	(44,681)	(692,219)	(801,900)
Fair value gains / (Losses) Foreign Currency Translation recorded in Profit or Loss	-	1,143	(3,335)	(5,601)	(7,793)
Amortisation adjustment / Accrued Interest	28,073	442,122	400,148	1,579	871,922
Realised gains recorded in Profit or Loss	-	646	(11,614)	(11,467)	(22,435)
Fair value gains recorded in Other Comprehensive Income	-	-	(136,299)	-	(136,299)
As at 31st December 2016	174,025	4,253,239	5,095,600	119,732	9,642,596

7. INVESTMENT IN SUBSIDIARY - COMPANY

Accounting Policy

Investments in subsidiaries are 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,		2016			2015		
	Principal Activity	No. of Shares	Holding	Cost	No. of Shares	Holding	Cost
				Rs.'000			Rs.'000
HNB General Insurance Ltd. (Unquoted)	General Insurance Business	115,000,000	100%	1,150,000	115,000,000	100%	1,150,000
Balance as at 31st December				1,150,000			1,150,000

The Company incorporated a fully owned subsidiary, HNB General Insurance Ltd on 30th January 2014 in order to transfer the General Insurance business w.e.f. 01st January 2015 in line with the requirement to segregate Life and General Insurance businesses as required by the RII (Amendment) Act No. 03 of 2011.

8. LOANS TO LIFE POLICYHOLDERS - GROUP & COMPANY

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 dies before the full repayment of the loan, the loan balance is deducted from the death benefit. Policyholder Loans are reviewed for impairment at each reporting date.

As at 31st December,	2016	2015
	Rs.'000	Rs.'000
Balance as at 01st January	77,309	61,652
Loans Granted during the Year	49,642	37,769
Repayments during the year	(27,377)	(22,112)
Balance as at 31st December	99,574	77,309
Interest Receivable	20,367	14,683
Total	119,941	91,992

8.1 The surrender value of the policies for which policy loans have been granted as at 31st December 2016 amounted to Rs. 214.7 Million. (2015-Rs. 162.9 Million)

If the total receivable of the loan, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Company has a first lien on all policies which are subject to policy loans. This mitigates the Company's credit exposure on Policy Loans.

The Company grants policy loans at a rate equivalent to the market rate, hence initial recognition is at Fair Value.

8.2 Number of Policy Loans due as at 31st December 2016 was 2,192 (2015 - 1,997)

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 2016. 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 to recognised reinsurers through formal reinsurance arrangements.

Reinsurance assets include the balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance is recorded gross in the Statement of Financial Position unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the 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 derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Reinsurance Receivable on Outstanding Claims	(Note 9.1)	339,119	94,070	39,588	20,945
Reinsurance Receivable on Settled Claims	(Note 9.2)	155,607	47,284	15,226	13,324
Total Reinsurance Receivables		494,726	141,354	54,814	34,269

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:

	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Up to 30 days	24,471	22,010	3,525	7,434
31 to 60 days	13,416	5,521	4,848	1,422
61 to 90 days	30,802	9,513	6,853	1,378
91 to 180 days	77,391	7,309	-	3,090
181 to 365 days	9,527	2,887	-	-
Over 365	-	44	-	-
Total	155,607	47,284	15,226	13,324

9.3 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 2016. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Reinsurance Receivables. Please refer Note 43 (Page No. 320) for Reinsurance rating analysis.

10. PREMIUM RECEIVABLES

Accounting Policy

Insurance receivables from General Insurance are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Collectability of premiums is reviewed on an ongoing basis.

According to the Premium Payment Warranty (PPW) directive issued by the Insurance Board of Sri Lanka (IBSL), 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. Premium will be reversed if those premiums are not settled during the subsequent month, and thus the policies will be lapsed as per the Company policy.

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Premium Receivable From;					
General Insurance					
Policyholders		315,286	182,085	-	-
Related Parties	(Note 10.1)	46,720	10,604	-	-
Advisor, Brokers and Intermediaries		254,483	147,635	-	-
		616,489	340,324	-	-
Life Insurance					
Policyholders		13,604	12,245	13,604	12,245
Impairment loss on Premium Default		(6,799)	(6,653)	(6,799)	(6,653)
		6,805	5,592	6,805	5,592
Total Premium Receivables	(Note 10.2)	623,294	345,916	6,805	5,592

10.1 Premium Receivable from Related Parties

General Insurance					
Hatton National Bank PLC		19,604	5,142	-	-
HNB Assurance PLC		12,742	-	-	-
HNB Grameen Finance Ltd		306	316	-	-
Sithma Development (Pvt) Ltd		3,739	200	-	-
Acuity Stock Brokers (Pvt) Ltd		102	104	-	-
Acuity Partners (Pvt) Ltd		136	94	-	-
Acuity Securities Ltd		109	220	-	-
Other Related Entities		9,982	4,528	-	-
Total		46,720	10,604	-	-

Accounting Policies and Notes to the Financial Statements

10. PREMIUM RECEIVABLES (Contd.)

10.2 Impairment Losses on Premium Receivables

The Board of Directors has assessed potential impairment loss of premium receivable as at 31st December 2016. Since the Group has adopted the Premium Payment Warranty (PPW) ruling issued by Insurance Board of Sri Lanka (IBSL), no long outstanding balances are left in Premium Receivables. Thus, there is no need for an additional impairment loss provision other than amounts provided. The age analysis of these premium receivables is as follows:

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
General Insurance				
Up to 30 days	427,795	214,583	-	-
31 to 60 days	188,694	125,741	-	-
Life Insurance				
Up to 30 days	6,805	5,592	6,805	5,592
Total	623,294	345,916	6,805	5,592

11. OTHER ASSETS

Accounting Policy

Other assets (Receivables and dues from Related Parties) are recognised at cost less accumulated impairment losses.

Inventories

Inventories include all consumable items which are stated at lower of cost and net realisable value.

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Staff and Advisor Loans	(Note 11.1)	353,472	281,505	214,492	172,157
Advance Payments		119,137	79,727	99,608	67,600
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note 11.2)	282,203	255,413	242,318	240,689
Co - Insurance Receivables		3,240	1,532	-	-
Inventories		3,940	2,002	2,102	1,983
Amounts due from Related Parties- HNB General Insurance Limited		-	-	13,120	9,017
Other Receivables		8,682	5,806	4,036	2,125
Total		770,674	625,985	575,676	493,571

11. OTHER ASSETS (Contd.)

11.1 Staff and Advisor Loans

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Staff Loans	(Note 11.1.b)	309,408	239,590	172,231	134,165
Advisor Loans	(Note 11.1.c)	44,064	41,915	42,261	37,992
Total		353,472	281,505	214,492	172,157

11.1.a The Carrying value of the staff and Advisor loans has been computed based on the market interest rates which prevailed at the time of granting the loan, and the fair value of the same has been computed based on the interest rates prevailed at the reporting date.

11.1.b Staff Loans

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	226,425	230,519	127,823	126,357
Loans granted during the year	222,968	167,741	120,249	80,937
	449,393	398,260	248,072	207,294
Repayments during the year	(156,540)	(171,835)	(83,739)	(79,471)
Balance as at 31st December	292,853	226,425	164,333	127,823
Allowance for Impairment Losses	(2,996)	(2,936)	(2,315)	(2,331)
Fair Value Adjustment on Staff Loan	19,551	16,101	10,213	8,673
Fair value of the loans as at 31st December	309,408	239,590	172,231	134,165

11.1.c Advisor Loans

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	41,489	41,707	37,514	38,557
Loans granted during the year	44,073	36,320	42,210	32,850
	85,562	78,027	79,724	71,407
Repayments during the year	(42,809)	(36,538)	(38,797)	(33,893)
Balance as at 31st December	42,753	41,489	40,927	37,514
Allowance for Impairment Losses	(524)	(523)	(492)	(492)
Fair Value Adjustment on Advisor Loan	1,835	949	1,826	970
Fair value of the loans as at 31st December	44,064	41,915	42,261	37,992

11.1.d Impairment Losses on Staff & Advisor Loans

The Board of Directors has assessed potential impairment loss of Staff & Advisor loans as at 31st December 2016. 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.

Loans to staff and Advisors portfolio mainly consists of vehicle loans (95%) which are given to selected categories of staff and field Advisors. These loans are secured with guarantors, mortgage or promissory note.

Accounting Policies and Notes to the Financial Statements

11. OTHER ASSETS (Contd.)

11.1.e Loans of any type are not granted to Directors of the Group and Company.

11.2 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Withholding Tax Recoverable		104,361	101,012	99,673	98,362
Value Added Tax Recoverable		378	214	346	28
ESC Recoverable		21,440	6,400	-	-
Notional Tax on Government Securities	(Note 11.2.a)	156,024	147,787	142,299	142,299
Total		282,203	255,413	242,318	240,689

11.2.a Notional Tax on Government Securities

Balance as at 01st January		147,787	153,026	142,299	152,721
Notional tax additions during the year		64,749	34,870	56,512	29,383
Notional tax utilised during the year		-	(10,726)	-	(10,422)
Impairment loss on Unutilised Notional Tax	(Note 11.2.a.1)	(56,512)	(29,383)	(56,512)	(29,383)
Balance as at 31st December		156,024	147,787	142,299	142,299

11.2.a.1 Provision for Notional Tax unutilised

The amount accumulated as Notional Tax Credit (NTC) during the year amounting to Rs. 56.5 Million (2015-Rs. 29.4 Million), where a 100% provision has been made by the Company due to unavailability of taxable profit in foreseeable future. The Company is eligible to write back and setoff this provision against any future tax liability if arises.

12. INSURANCE CONTRACT - DEFERRED EXPENSES

Accounting Policy

Deferred Acquisition Costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred and amortised over the period in which the related revenues are earned. All other acquisition costs are recognised as an expense when incurred.

The DAC is applicable only to 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 Insurance Board of Sri Lanka (IBSL), the DAC is calculated based on the 1/24th basis except for the Marine policies which are computed on a 60-40 basis.

The Deferred Acquisition Costs for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the statement of profit or loss.

An impairment review of DAC is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss. No such indication of impairment was experienced during the year.

DAC is derecognised when the related contracts are either settled or disposed.

12. INSURANCE CONTRACT - DEFERRED EXPENSES (Contd.)

As at 31st December,		Group 2016 Rs.'000	Group 2015 Rs.'000	Company 2016 Rs.'000	Company 2015 Rs.'000
Reserve for Net Deferred Acquisition Expenses					
Reserve for Deferred Acquisition Expenses					
Balance as at 01st January		122,865	97,273	-	97,273
Balance Transferred to HNBA GI Limited on segregation		-	-	-	(97,273)
Increase in Deferred Acquisition Expenses	(Note No 37.1)	29,176	25,592	-	-
Balance as at 31st December		152,041	122,865	-	-
Reserve for Deferred Reinsurance Commission					
Balance as at 01st January		(56,930)	(45,201)	-	(45,201)
Balance Transferred to HNBA GI Limited on segregation		-	-	-	45,201
Increase in Deferred Acquisition Expenses	(Note No 37.1)	(20,160)	(11,729)	-	-
Balance as at 31st December		(77,090)	(56,930)	-	-
Total Reserve for Net Deferred Acquisition Expenses		74,951	65,935	-	-

13. CASH AND CASH EQUIVALENTS

Accounting Policy

Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts, if any, which form an integral part of cash management, are included as a component of cash and cash equivalents for the purposes of the Statement of Cash Flows. In the Statement of Financial Position, bank overdrafts are included under liabilities.

As at 31st December,		Group 2016 Rs.'000	Group 2015 Rs.'000	Company 2016 Rs.'000	Company 2015 Rs.'000
Cash in Hand		2,130	1,869	1,450	1,186
Cash at Bank with Related Parties - Hatton National Bank PLC		182,265	163,937	111,407	105,306
Cash at Bank with Licensed Commercial Banks & Other Financial institutions		44,604	33,664	12,542	5,710
		228,999	199,470	125,399	112,202
Short Term Deposits	(Note 13.1)	396,528	187,459	351,173	146,020
Total		625,527	386,929	476,572	258,222
13.1 Short Term Deposits					
With Related Parties - Hatton National Bank PLC		-	2,054	-	-
Other Non related Commercial Banks and Financial institutions		396,528	185,405	351,173	146,020
Total		396,528	187,459	351,173	146,020

Accounting Policies and Notes to the Financial Statements

14. STATED CAPITAL

As at 31st December,	Group		Company	
	2016		2015	
	Number of Shares	Rs.'000	Number of Shares	Rs.'000
Balance as at 01st January	50,000,000	1,171,875	50,000,000	1,171,875
Balance as at 31st December	50,000,000	1,171,875	50,000,000	1,171,875

14.1 Rights of Ordinary Shareholders

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the members of the Company.

15. RETAINED EARNINGS

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January		1,174,262	1,196,546	1,397,806	1,189,039
Super gain Tax	(Note 15.1)	-	(31,378)	-	(31,378)
Profit for the Year		647,413	197,344	600,130	427,645
Share Issue Transaction Cost - Subsidiary		-	(750)	-	-
Dividend Paid to equity holders for previous year		(100,000)	(187,500)	(100,000)	(187,500)
Balance as at 31st December		1,721,675	1,174,262	1,897,936	1,397,806

15.1 Super Gain Tax

As per the provision of Part III of the Finance Act, No. 10 of 2015 which was certified on 30th October 2015, the Company is liable for Super Gain Tax of Rs. 31.4 Million. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the Financial Statement relating to the year of assessment which commenced on 01st April 2013. The Act supersedes the requirements of Sri Lanka Accounting Standards hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24th November 2015.

16. AVAILABLE FOR SALE RESERVES

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	(4,748)	3,590	53	3,523
Other Comprehensive Income for the year	(137,185)	(105,436)	(136,299)	(100,568)
Transferred to Life Policyholders Reserve Fund	134,781	97,098	134,781	97,098
Balance as at 31st December	(7,152)	(4,748)	(1,465)	53

16.1 Available For Sale Reserves comprise of the impact arising from the changes in market values of Financial Assets classified under Available For Sale. (AFS)

17. OTHER RESERVES

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	(1,093)	1,177	(2,039)	1,177
Actuarial Gains/(Losses) - Gratuity	2,883	(2,270)	153	(3,216)
Balance as at 31st December	1,790	(1,093)	(1,886)	(2,039)

17.1 Other Reserves comprises of the Actuarial Gains/(Losses) arising from valuation of Gratuity Liability as required by LKAS 19 - Employee Benefits. (Effective w.e.f. 01st January 2013)

18. LIFE POLICYHOLDERS' AVAILABLE FOR SALE RESERVE FUND

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	(56,350)	40,748	(56,350)	40,748
Other Comprehensive Income for the Year	(134,781)	(97,098)	(134,781)	(97,098)
Balance as at 31st December	(191,131)	(56,350)	(191,131)	(56,350)

18.1 The Life Policyholder Reserve Fund includes the fair value gains and losses recorded under Other Comprehensive Income arising for Life Insurance related to Available For Sales financial assets since then.

19. 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 expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate discount rate as specified by the Insurance Board of Sri Lanka (IBSL). 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

19. INSURANCE CONTRACT LIABILITIES (Contd.)

As at 31st December,		2016	2015
		Rs.'000	Rs.'000
Life Insurance Fund	(Note 19.1)	8,634,394	6,926,109
Claims Outstanding		113,462	80,971
Total Insurance Contract Liabilities - Life Insurance		8,747,856	7,007,080

19.1. Life Insurance Fund

The movement in the Life Insurance Fund is as follows:

As at 31st December,		2016	2015
		Rs.'000	Rs.'000
Balance as at 01st January	(Note 19.2)	6,926,109	5,464,009
Change in Contract Liabilities - Life Fund			
Increase in Life Insurance Fund before Surplus Distribution to Shareholders		2,169,427	1,772,169
Surplus Distributed to Shareholders		(461,142)	(310,069)
Increase in Life Insurance Fund		1,708,285	1,462,100
Balance as at 31st December		8,634,394	6,926,109

The valuation of the Life Insurance business as at 31st December 2016 was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of M/S Actuarial Partners Consulting Sdn Bhd. According to the Appointed Actuary's report, the reserve for the year amounted to Rs. 8,181.4 Million (2015 - Rs. 6,759.3 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. 461 Million (2015 - Rs.310 Million) has been transferred from the Life Insurance Fund to the Shareholders' Fund as for the year 2016. As per the Valuation Report by the Actuary, the Company's Capital Adequacy Ratio (CAR) is 445% well above the minimum requirement of 120%.

19.2 Reconciliation of Life Fund Opening Liability Due to Change In Policy Liability Valuation Method

Balance as at 01st January 2016- Net Premium Valuation Basis (IBSL approved regulatory valuation model till 31/12/2015)	6,926,109
Balance as at 01st January 2016- Gross Premium Valuation Basis (IBSL approved valuation model from 01/01/2016) (a)	4,745,802
Surplus created due to change in valuation method from NPV to GPV as at 01st January 2016 (Note 19.3)	
Release in Liabilities of Fund Based Products	1,849,689
Release in Liabilities of Other Life Products	330,618
Total Release (b)	2,180,307
Total (a+b)	6,926,109

19. INSURANCE CONTRACT LIABILITIES (Contd.)

19.3 The Extraordinary Gazette Notification No. 1945/19 issued by the Insurance Board of Sri Lanka (IBSL) on 15th December 2015, required every registered insurer to apply Solvency Margin (Risk Based Capital) Rules with effect from 01st January 2016. According to the Risk Based Capital rules, all the Insurers are required to value the Life Insurance Policy Liabilities as per the Gross Premium Valuation (GPV) method and Valuation rules and methodologies as stipulated by the Gazette Notification. The change in the valuation method from Net Premium Valuation (NPV) which was applicable under the previous Solvency Margin Rules to GPV method under the new rules resulted in a one off release in Life Insurance Policy Liabilities.

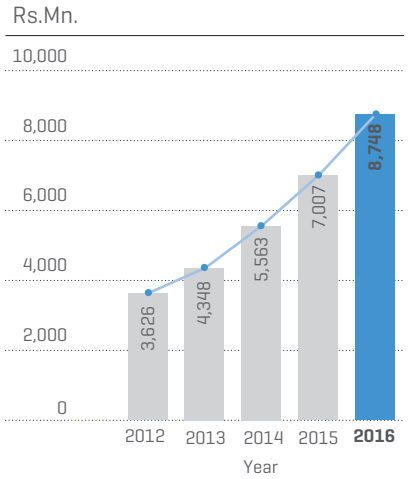
By letter dated 22nd July 2016 the Insurance Board of Sri Lanka has required all insurance companies, not to transfer or distribute the "surplus created due to change in valuation method from NPV to GPV" and to maintain it within the long term insurance fund until specific instructions are issued by the IBSL.

As per the Risk Based Capital Rules stipulated by the IBSL, the change in the valuation method from NPV to GPV resulted a release in Policyholder Liabilities of the Company as of 01st January 2016. This resulted release in liabilities as at 01st January 2016 amounted to Rs. 1,849.7 Million for fund based life products and Rs.330.6 Million for other life product. The Company has kept the release in liabilities under the Long term Insurance fund of Life Policyholders as required by the IBSL through letter dated 22nd July 2016 and as per the subsequent letter issued by IBSL to all Life Insurance Companies on 30th December 2016 to that effect and instructed this one off surplus to be disclosed separately under long term insurance fund/ insurance contract liabilities, in the name "Surplus created due to change in valuation method from NPV to GPV".

19.4 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 M/S Actuarial Partners Consulting Sdn Bhd, Formerly Known as Mercer Zainal Consulting Sdn Bhd as at 31st December 2016 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 2016. No additional provision was required against the LAT as at 31st December 2016.

Life Fund Analysis



Accounting Policies and Notes to the Financial Statements

20. 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 by the insurance company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. These include provision for claims reported, claims incurred but not reported ("IBNR") together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for adverse Deviation ("PRAD") calculated at line of business level.

Premium liabilities

Premium liabilities are the higher of the aggregate of the 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 premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

Liability Adequacy Test (LAT)

As required by SLFRS 4 –Insurance Contracts, the Group 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 is periodically recognised.

Insurance Contract Liabilities - General Insurance

The General Insurance Reserves as shown in the Statement of Financial Position represents the following:

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Reserves for Net Unearned Premium	(Note 20.1)	1,278,861	1,098,217	-	-
Reserves for Title Insurance	(Note 20.2)	19,611	19,153	-	-
Reserves for Gross Outstanding Claims	(Note 20.3)	623,095	428,895	-	-
Total		1,921,567	1,546,265	-	-

20. INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE (Contd.)

20.1 Reserves for Net Unearned Premium

20.1.a Reserves for Unearned Premium

As at 31st December,		Group 2016 Rs.'000	Group 2015 Rs.'000	Company 2016 Rs.'000	Company 2015 Rs.'000
Balance as at 01st January		1,301,243	1,187,152	-	1,187,152
Transferred to HNBGI Limited on segregation		-	-	-	(1,187,152)
Transfer during the Year	(Note 27)	295,514	114,091	-	-
Balance as at 31st December		1,596,757	1,301,243	-	-

20.1.b Reserves for Unearned Reinsurance Premium

Balance as at 01st January		(203,026)	(209,325)	-	(209,325)
Transferred to HNB GI Limited on segregation		-	-	-	209,325
Transfer during the Year	(Note 27)	(114,870)	6,299	-	-
Balance as at 31st December		(317,896)	(203,026)	-	-
Total Reserves for Net Unearned Premium		1,278,861	1,098,217	-	-

20.2 Reserves for Title Insurance

Balance as at 01st January		19,153	16,866	-	16,866
Transferred to HNBGI Limited on segregation		-	-	-	(16,866)
Transfer to Title Insurance Reserve		7,505	9,038	-	-
Recognition of Title Insurance Profit	(Note 20.5)	(7,047)	(6,751)	-	-
	(Note 27)	458	2,287	-	-
Balance as at 31st December		19,611	19,153	-	-

Accounting Policies and Notes to the Financial Statements

20. INSURANCE CONTRACT LIABILITIES - GENERAL (Contd.)

20.3 Reserves for Gross Outstanding Claims

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	359,921	228,229	-	228,229
Transferred to HNBGI Limited on segregation	-	-	-	(228,229)
Claims Incurred during the Year	2,134,641	1,919,503	-	-
Claims Paid during the Year	(1,938,755)	(1,787,811)	-	-
Balance as at 31st December	555,807	359,921	-	-
IBNR / IBNER balance as at 01st January	68,974	56,216	-	56,216
Transferred to HNBGI Limited on segregation	-	-	-	(56,216)
Increase/(Decrease) in IBNR / IBNER	(1,686)	12,758	-	-
IBNR / IBNER balance as at 31st December	67,288	68,974	-	-
Total Reserves for Gross Outstanding Claims	623,095	428,895	-	-

20.4 Reconciliation between Insurance Provision and Technical Reserves

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Insurance Provision		1,921,567	1,546,265	-	-
Reserve for Net Deferred Acquisition Expenses	(Note 12)	(74,951)	(65,935)	-	-
Reinsurance on Outstanding Claims Reserves		(284,009)	(57,707)	-	-
Reinsurance on Claims Reserves IBNR/IBNER		(15,522)	(15,418)	-	-
Technical Reserves		1,547,085	1,407,205	-	-

20.5 Net Written Premium on Title Insurance after deducting acquisition cost has been transferred to the Title Reserves account to pay potential claims arising from the Title Insurance policies. During the year, the Group recognised Rs. 7.04 Million (2015: Rs. 6.7 Million) as profit from Title Insurance.

20.6 Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the Reporting Date. The Reserves are determined based on the information currently available. However, it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent developments.

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims Reserves as at 31st December 2016 has been actuarially computed by Mr. Matthew Maguire, FIAA, for and on behalf of NMG Financial Services Consulting Pte Limited. The valuation is based on internationally accepted actuarial methods and is performed on a quarterly basis.

20.7 Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for General insurance contract liability was carried out by Mr. Matthew Maguire, FIAA, for and on behalf of NMG Financial Services Consulting Pte Limited as at 31st December 2016 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31st December 2016. No additional provision was required against the LAT as at 31st December 2016.

21. EMPLOYEE BENEFITS

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.

Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in profit and loss when incurred.

Employee Provident Fund
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.

Defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified Actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - 'Employee Benefits'. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

The re-measurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognised immediately in Other Comprehensive Income.

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.

Accounting Policies and Notes to the Financial Statements

21. EMPLOYEE BENEFITS (Contd.)

21.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

As at 31st December,		Group 2016 Rs.'000	Group 2015 Rs.'000	Company 2016 Rs.'000	Company 2015 Rs.'000
Employees' Provident Fund					
Employer's contribution (12%)		56,333	45,959	28,725	22,934
Employees' contribution (8%)		37,555	30,639	19,150	15,289
Employees' Trust Fund					
Employer's contribution (3%)		14,083	11,490	7,181	5,733
21.2 Defined benefit plans - Provision for Employee Benefits					
Present value of unfunded obligation	(Note 21.2.1)	90,433	81,001	50,883	44,008
21.2.1 Movement in the present value of the Employee Benefits					
Balance as at 01st January		81,001	71,493	44,008	39,235
Provision recognised during the year	(Note 21.2.1.a)	24,142	22,201	13,984	12,849
Actuarial (gain)/Loss during the plan year	(Note 21.2.1.b)	(2,883)	2,270	(153)	3,216
		102,260	95,964	57,839	55,300
Payments during the year		(11,827)	(14,963)	(8,156)	(11,292)
Adjustment due to transfer of employees from Subsidiary Company		-	-	1,200	-
Balance as at 31st December		90,433	81,001	50,883	44,008
21.2.1.a Provision recognised in profit or Loss					
Current service cost		13,856	14,958	8,291	8,895
Interest on obligation		10,286	7,243	5,693	3,954
Total		24,142	22,201	13,984	12,849
21.2.1.b Provision recognised in Other Comprehensive Income					
Actuarial gain / (Loss) during the plan year	(Note 21.2.2)	2,883	(2,270)	153	(3,216)

As at 31st December 2016, 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 M/S Smiles Global (Pvt) Ltd, and prior year valuation was carried out by Mr. Hugh Terry (Fellow of the Institute of Actuaries, U.K.) of M/S Insight Consulting Group Pte Ltd, as required by Sri Lanka Accounting Standard (LKAS) 19 - Employee Benefits.

21.2.2 According to LKAS 19 - Employee Benefits, the re-measurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised in Other Comprehensive Income.

21. EMPLOYEE BENEFITS (Contd.)

21.3 Principal assumptions used

	Group		Company	
	2016	2015	2016	2015
(a) Discount Rate	12.0%	9.5%	12%	9.5%
(b) Future Salary Increase Rate	9.5%	8.5%	9.5%	8.5%
(c) Early withdrawal through Resignations				
- i) Up to 5 years	18%	18%	18%	18%
- ii) More than 5 years	7.5%	7.5%	7.5%	7.5%
(d) Retirement Age	55 years	55 years	55 years	55 years

The Gratuity Liability is not externally funded.

21.4 Maturity Analysis of the Payments

	Group		Company	
	2016	2015	2016	2015
within next 12 Months	-	5,768	-	3,008
Between 1 to 2 Years	2,242	7,045	1,128	3,604
Between 2 to 5 Years	10,181	30,571	6,295	17,023
Between 5 to 10 Years	50,503	24,353	28,115	13,180
Beyond 10 years	27,507	13,264	15,345	7,193
Total	90,433	81,001	50,883	44,008

21.5 Sensitivity of assumptions employed in Actuarial valuation for the Group

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.

	2016		2015	
As at 31st December,	Rs.'000	Rs.'000	Rs.'000	Rs.'000
	Increase	Decrease	Increase	Decrease
Discount Rate (1% movement)	(3,049)	3,425	(3,200)	3,200
Future Salary Growth Rate (1% movement)	3,666	(3,310)	3,300	(3,300)

Accounting Policies and Notes to the Financial Statements

22. CURRENT TAX LIABILITY

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,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	-	12,012	-	10,422
Current tax for the year	3,300	-	-	-
	3,300	12,012	-	10,422
Tax set off during the year				
Withholding tax	-	(6)	-	-
Notional tax on Government securities	-	(10,726)	-	(10,422)
Income tax Paid	-	(1,280)	-	-
Balance as at 31st December	3,300	-	-	-

23. REINSURANCE CREDITORS

Accounting Policy

Reinsurance payables are recognised when due and measured on initial recognition and subsequently at the fair value.

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Domestic Reinsurer-National Insurance Trust Fund (NITF)	70,135	25,994	-	-
Foreign Reinsurers	217,760	105,911	39,395	37,547
Total	287,895	131,905	39,395	37,547

24. 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.

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Policyholders Advance Payments		99,857	94,866	99,857	94,866
Acquisition Cost Payable		135,020	96,382	75,509	52,144
Advisor Terminal Benefit Scheme	(Note 24.1)	134,304	101,309	121,201	91,616
Government Levies		74,592	28,660	14,219	9,086
Amounts due to Related Parties	(Note 24.2)	21,005	16,279	14,675	10,518
Accrued Expenses		72,141	100,052	58,329	93,295
Co - Insurance Payable		3,327	1,934	-	-
Claims payable		1,048	1,563	-	-
Others		239,452	149,338	102,184	71,058
Total		780,746	590,383	485,974	422,583

24.1 Advisor Terminal Benefit Scheme

Life Insurance		121,201	91,616	121,201	91,616
General Insurance		13,103	9,693	-	-
Total		134,304	101,309	121,201	91,616

24.2 Amounts due to Related Parties

Hatton National Bank PLC		21,005	16,279	14,675	10,518
Total		21,005	16,279	14,675	10,518

Accounting Policies and Notes to the Financial Statements

25. GROSS WRITTEN PREMIUM (GWP)

Accounting Policy

Revenue Recognition

Life Insurance business

Gross Written Premiums on Life Insurance contracts are recognised as revenue when payable by the policyholder (policies within the 30 day grace period are considered as due). Premiums received in advance are not recorded as revenue and recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to recognised as income. 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 General Insurance written premiums comprise the total premiums received /receivable for the whole period of cover provided by contracts entered into during the accounting period. Gross Written Premium is generally recognised upon the inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

For the Year Ended 31st December,	Group							
	2016				2015			
	Basic	SRCC/TC*	Co - Insurance Local**	Total	Basic	SRCC/TC*	Co - Insurance Local**	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
General Insurance								
Fire	326,267	147,231	(11,915)	461,583	263,899	111,329	(3,082)	372,146
Motor	1,892,931	336,338	(219)	2,229,050	1,733,861	314,837	-	2,048,698
Marine	42,010	41	-	42,051	36,700	6	(644)	36,062
Miscellaneous	394,681	17,074	(2,880)	408,875	239,535	12,241	(10,506)	241,270
Adjustment for Inter Company premiums	(20,228)	-	-	(20,228)	(19,920)	-	-	(19,920)
Gross Written Premium - General Insurance	2,635,661	500,684	(15,014)	3,121,331	2,254,075	438,413	(14,232)	2,678,256
Life Insurance								
Individual Policies	-	-	-	3,426,072	-	-	-	2,704,394
Corporate Policies	-	-	-	128,006	-	-	-	84,322
Adjustment for Inter Company premiums	-	-	-	(18,715)	-	-	-	(19,808)
Gross Written Premium - Life Insurance	-	-	-	3,535,363	-	-	-	2,768,908
Total Gross Written Premium	-	-	-	6,656,694	-	-	-	5,447,164

* 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.

25. GROSS WRITTEN PREMIUM (GWP) (Contd.)

For the Year Ended 31st December,	Company							
	2016				2015			
	Basic	SRCC/TC*	Co - Insurance Local**	Total	Basic	SRCC/TC*	Co - Insurance Local**	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Life Insurance								
Individual Policies	-	-	-	3,426,072	-	-	-	2,704,394
Corporate Policies	-	-	-	128,006	-	-	-	84,322
Total Gross Written Premium	-	-	-	3,554,078	-	-	-	2,788,716

* 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.

26. PREMIUM CEDED TO REINSURERS

Accounting Policy

Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Value of the reinsurance premiums are decided based on rates agreed with reinsurers.

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
General Insurance				
Fire	414,062	330,134	-	-
Motor	73,787	57,175	-	-
Marine	37,465	32,471	-	-
Miscellaneous	193,349	71,341	-	-
	718,663	491,121	-	-
Life Insurance	159,050	107,963	159,050	107,963
	159,050	107,963	159,050	107,963
Total Premium Ceded to Reinsurers	877,713	599,084	159,050	107,963

Accounting Policies and Notes to the Financial Statements

27. NET CHANGE IN RESERVES FOR UNEARNED PREMIUM

Accounting Policy

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts (using 1/24th basis except for the Marine policies which are computed on a 60-40 basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000).

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. 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 is periodically recognised.

For the Year Ended 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
General Insurance					
Change in Reserve for Unearned Premium	(Note 20.1.a)	(295,514)	(114,091)	-	-
Change in Reserve for Unearned Reinsurers Premium	(Note 20.1.b)	114,870	(6,299)	-	-
Transfer to Title Insurance Reserve	(Note 20.2)	(458)	(2,287)	-	-
Net Change in Reserves for Unearned Premium		(181,102)	(122,677)	-	-

28. NET EARNED PREMIUM

For the Year Ended 31st December,	Group					
	2016			2015		
	General	Life	Total	General	Life	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	3,121,331	3,535,363	6,656,694	2,678,256	2,768,908	5,447,164
Change in reserve for unearned premium	(295,514)	-	(295,514)	(114,091)	-	(114,091)
Gross Earned Premium (a)	2,825,817	3,535,363	6,361,180	2,564,165	2,768,908	5,333,073
Premium ceded to reinsurance	(718,663)	(159,050)	(877,713)	(491,121)	(107,963)	(599,084)
Change in reserve for unearned reinsurance premium	114,870	-	114,870	(6,299)	-	(6,299)
Gross reinsurance premium (b)	(603,793)	(159,050)	(762,843)	(497,420)	(107,963)	(605,383)
Transfer to Title Insurance Reserve (c)	(458)	-	(458)	(2,287)	-	(2,287)
Total Net Earned Premium (a+b+c)	2,221,566	3,376,313	5,597,879	2,064,458	2,660,945	4,725,403

28. NET EARNED PREMIUM (Contd.)

For the Year Ended 31st December,	Company	
	2016	2015
	Rs.'000	Rs.'000
Gross Written Premium	3,554,078	2,788,716
Premium ceded to reinsurance	(159,050)	(107,963)
Total Net Earned Premium	3,395,028	2,680,753

29. INTEREST AND DIVIDEND INCOME

Accounting Policy

Interest income and expenses are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the effective interest rate, the 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 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 based on the underlying classification of the equity investment.

For the Year Ended 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest Income	(Note 29.1)	1,166,369	843,579	976,943	687,104
Dividend Income	(Note 29.2)	13,716	27,470	11,016	18,467
Total Interest and Dividend Income		1,180,085	871,049	987,959	705,571

Accounting Policies and Notes to the Financial Statements

29. INTEREST AND DIVIDEND INCOME (Contd.)

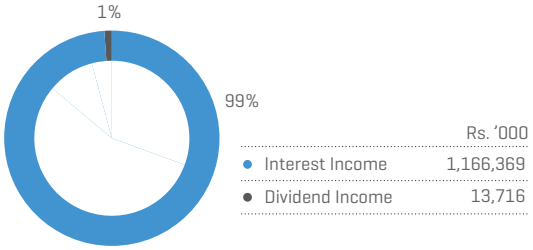
29.1 Interest Income

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest Income from Financial Investments at Held-To-Maturity				
- Treasury Bonds	39,482	61,526	31,192	44,178
Total (a)	39,482	61,526	31,192	44,178
Interest Income from Financial Investments at Loans and Receivables				
- Debentures	327,040	325,887	266,849	260,512
- Repurchase Agreements on Government Securities	105,971	141,251	87,560	111,692
- Fixed Deposits	126,206	120,711	96,469	98,189
- Staff, Advisor and Policy Loans	51,039	45,008	37,981	32,793
Total (b)	610,256	632,857	488,859	503,186
Interest Income from Financial Investments at Available For Sale				
- Treasury Bonds	402,782	136,770	378,587	132,618
- Treasury Bills	96,787	8,383	66,023	4,754
Total (c)	499,569	145,153	444,610	137,372
Interest Income from Financial Investments at Fair Value Through Profit or Loss				
- Treasury Bonds	2,464	756	1,754	566
Total (d)	2,464	756	1,754	566
Interest Income from Cash and Cash Equivalents (e)	14,598	3,287	10,528	1,802
Total Interest Income (a+b+c+d+e)	1,166,369	843,579	976,943	687,104

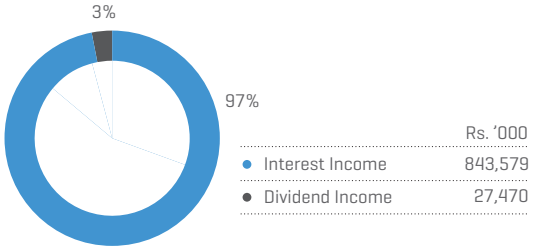
29.2 Dividend Income

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
- Equity Shares	12,048	13,030	9,508	9,729
- Investments in Unit	1,668	14,440	1,508	8,738
Total	13,716	27,470	11,016	18,467

Finance
Income Composition - Group (2016)



Finance
Income Composition - Group (2015)



30. NET REALISED (LOSSES)/GAINS

Accounting Policy

Net Realise Gains/(Losses) comprises gains less losses related to trading assets and liabilities. 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 transaction.

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Investments at Available For Sale				
Realised Gains				
- Treasury Bonds	-	17,730	-	18,123
- Treasury Bills	-	-	-	214
- Equity Shares	-	1,512	-	1,881
Total (a)	-	19,242	-	20,218
Realised Losses				
- Equity Shares	(14,466)	-	(11,614)	-
Total (b)	(14,466)	-	(11,614)	-
Financial Investments at Fair Value Through Profit or Loss				
Realised Gains				
- Unit Trusts	897	-	373	-
- Equity Shares	-	262	-	262
Total (c)	897	262	373	262
Realised Losses				
- Treasury Bonds	(10,041)	(2,020)	(7,340)	(1,615)
- Equity Shares	(8,287)	(210)	(4,500)	-
Total (d)	(18,328)	(2,230)	(11,840)	(1,615)
Financial Investments at Loans and Receivables				
- Debentures	1,698	12,627	646	3,647
- Foreign Exchange - Term Deposits	1,080	124	-	-
Total (e)	2,778	12,751	646	3,647
Total Net Realised (Losses)/Gains (a+b+c+d+e)	(29,119)	30,025	(22,435)	22,512

Accounting Policies and Notes to the Financial Statements

31. NET FAIR VALUE (LOSSES)/GAINS

Accounting Policy

Fair value gains and losses recorded in Profit or Loss. This includes fair value gains/Losses on financial assets at Fair Value Through Profit or Loss and loans and receivables categories and any impairment loss of Available For Sales financial assets.

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Investments at Fair Value Through Profit or Loss				
Unrealised Gains				
- Treasury Bonds	-	12,978	-	9,327
- Unit Trust	-	1,266	-	1,266
- Equity Shares	-	120	-	-
Total (a)	-	14,364	-	10,593
Unrealised Losses				
- Equity Shares	(7,778)	(8,691)	(5,313)	(7,559)
- Unit Trust	(350)	(911)	(288)	(429)
Total (b)	(8,128)	(9,602)	(5,601)	(7,988)
Financial Investments at Available For Sale				
Impairment of Equity Shares (AFS)	(4,373)	-	(3,335)	-
Total (c)	(4,373)	-	(3,335)	-
Loans and Receivables				
Unrealised Gains				
- Foreign Exchange - Term Deposits (d)	6,040	11,821	1,143	1,423
Total Net Fair Value (Losses)/Gains (a+b+c+d)	(6,461)	16,583	(7,793)	4,028

32. FEES AND COMMISSION INCOME

Accounting Policy

Insurance contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or become due.

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit commission from reinsurers	32,624	31,181	28,453	20,184
Fund management fee	24,811	15,856	28,883	19,943
Policy Fee	70,475	68,810	4,634	4,168
Sundry Income	888	447	888	447
Total Fee and Commission Income	128,798	116,294	62,858	44,742

33. OTHER INCOME

Accounting Policy

Income earned on other sources, which are not directly related to the normal operations of the Group/Company are recognised as other income.

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit on Sale of Property, Plant and Equipment	-	46	-	15
Sundry Income	25,024	15,155	11,017	6,258
Total Other Income	25,024	15,201	11,017	6,273

34. NET INSURANCE BENEFITS AND CLAIMS PAID

Accounting Policy

Net Insurance Benefits and Claims Paid

Life Insurance business

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.

General Insurance business

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, a reduction for the value of salvage and other recoveries, and any adjustments to Claims Outstanding from previous years. Claims Outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

The provision in respect of Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) 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 that period.

The methods used to estimate claims and the estimates made are reviewed regularly.

Reinsurance claims

Reinsurance Claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

Accounting Policies and Notes to the Financial Statements

34. NET INSURANCE BENEFITS AND CLAIMS PAID (Contd.)

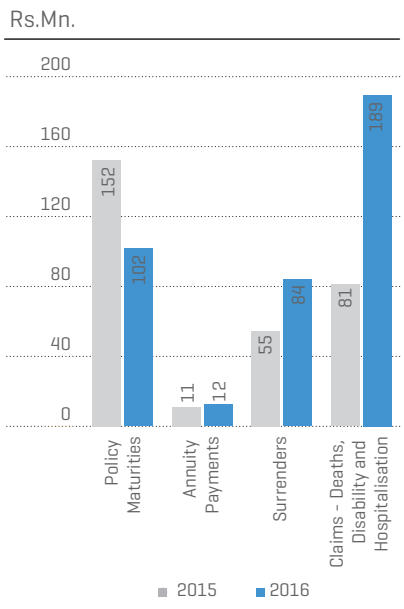
	Group					
For the Year Ended 31st December,	2016			2015		
	Gross Claims Paid	Claims Recovered from Reinsurers	Net Claims Paid	Gross Claims Paid	Claims Recovered from Reinsurers	Net Claims Paid
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
General Insurance						
Fire	262,325	(246,249)	16,076	94,564	(79,453)	15,111
Motor	1,749,159	(90,781)	1,658,378	1,521,680	(2,275)	1,519,405
Marine	4,996	(4,367)	629	9,642	(8,203)	1,439
Miscellaneous	150,885	(16,746)	134,139	185,127	(11,229)	173,898
	2,167,365	(358,143)	1,809,222	1,811,013	(101,160)	1,709,853
Recoveries from sales of Salvage	-	-	(229,659)	-	-	(24,766)
Net General Insurance Claims (a)	-	-	1,579,563	-	-	1,685,087
Life Insurance						
Claims - Deaths, Disability and Hospitalisation	236,637	(47,140)	189,497	117,884	(36,715)	81,169
Surrenders	84,062	-	84,062	54,663	-	54,663
Annuity Payments	12,491	-	12,491	11,083	-	11,083
Policy Maturities	101,779	-	101,779	152,356	-	152,356
	434,969	(47,140)	387,829	335,986	(36,715)	299,271
Adjustments for Inter Company Claims	-	-	(633)	-	-	-
Net Life Insurance Claims (b)			387,196			299,271
Total Net Insurance Benefits and Claims Paid (a+b)	-	-	1,966,759	-	-	1,984,358

	Company					
For the Year Ended 31st December,	2016			2015		
	Gross Claims Paid	Claims Recovered from Reinsurers	Net Claims Paid	Gross Claims Paid	Claims Recovered from Reinsurers	Net Claims Paid
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Life Insurance						
Claims - Deaths, Disability and Hospitalisation	236,637	(47,140)	189,497	117,884	(36,715)	81,169
Surrenders	84,062	-	84,062	54,663	-	54,663
Annuity Payments	12,491	-	12,491	11,083	-	11,083
Policy Maturities	101,779	-	101,779	152,356	-	152,356
Total	434,969	(47,140)	387,829	335,986	(36,715)	299,271
Total Net Insurance Benefits and Claims Paid	-	-	387,829	-	-	299,271

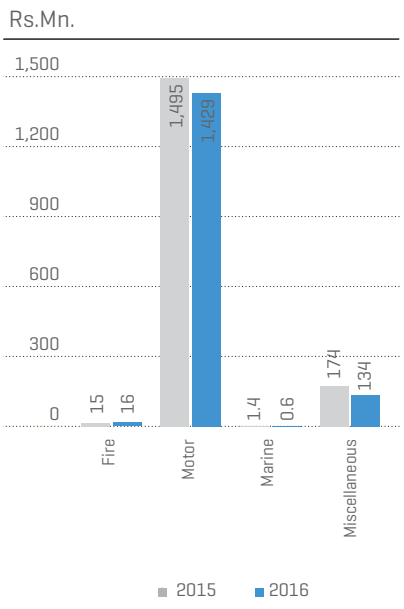
35. NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Change in Insurance Claims Outstanding				
Life Insurance (a)	32,491	(17,668)	32,491	(17,668)
General Insurance				
Fire	230,053	(5,324)	-	-
Motor	(48,510)	153,668	-	-
Marine	4,350	(8,046)	-	-
Miscellaneous	8,307	4,152	-	-
Total General Insurance (b)	194,200	144,450	-	-
Total Gross Change in Insurance Claims Outstanding (c=a+b)	226,691	126,782	32,491	(17,668)
Gross Change in Reinsurance recoverable on Claims Outstanding				
Life Insurance (d)	(18,643)	(1,108)	(18,643)	(1,108)
General Insurance				
Fire	(226,907)	5,914	-	-
Motor	(995)	(7,568)	-	-
Marine	(3,943)	7,494	-	-
Miscellaneous	4,683	1,917	-	-
Total General Insurance (e)	(227,162)	7,757	-	-
Total Gross Change in Reinsurance Recoverable on Claims Outstanding (f=d+e)	(245,805)	6,649	(18,643)	(1,108)
Total Net Change in Insurance Claims Outstanding (c+f)	(19,114)	133,431	13,848	(18,776)

Net Claims Paid - Life Insurance



Net Claims Paid - General Insurance



Accounting Policies and Notes to the Financial Statements

36. OTHER OPERATING AND ADMINISTRATION EXPENSES

For the Year Ended 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Staff Expenses	(Note 36.1)	755,427	593,315	396,851	306,991
Administration and Establishment Expense		471,177	404,793	287,605	238,418
Selling Expenses		262,760	222,299	154,193	112,383
Amortisation of Intangible Assets		20,107	17,226	10,913	9,746
Depreciation of Property Plant and Equipment		44,878	51,116	23,547	28,851
Directors' Emoluments and Post Employment Benefits		11,081	4,156	8,505	3,399
Auditor's Fees and expenses	(Note 36.2)	3,287	2,802	2,220	1,610
Loss on sale of Property, Plant and Equipment		3,763	-	2,592	-
Legal Fees		184	178	119	111
Donations		300	300	300	300
Total Other Operating and Administration Expenses		1,572,964	1,296,185	886,845	701,809

36.1 Staff Expenses

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Staff Salaries	469,438	382,998	239,378	191,115
Defined Contribution Plan Costs - EPF	56,333	45,959	28,725	22,934
Defined Contribution Plan Costs - ETF	14,083	11,490	7,181	5,733
Defined Benefit Plan Costs - Employee Benefits	24,142	22,200	12,250	10,820
Other Staff Costs (Travelling, Over-time, Bonus etc.)	191,431	130,668	109,317	76,389
Total	755,427	593,315	396,851	306,991

36.2 Auditor's Fees and expenses

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Audit Fees and Expenses	2,953	2,149	2,023	1,287
Audit Related Fees	334	653	197	323
Total	3,287	2,802	2,220	1,610

37. UNDERWRITING AND NET ACQUISITION COSTS

Accounting Policy

Expenses for acquisition and maintenance of Life and General Insurance business are accounted on accrual basis. Reinsurance Commission income accrued according to the agreed terms with the reinsurers.

For the Year Ended 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Underwriting and Policy Acquisition Costs		1,106,279	839,982	759,143	550,914
Reinsurance Commission		(174,377)	(126,440)	(11,092)	(6,241)
Increase in Deferred Acquisition Expenses	(Note 37.1)	(9,016)	(13,863)	-	-
Total Underwriting and Net Acquisition Costs		922,886	699,679	748,051	544,673

37.1 (Increase)/Decrease in Deferred Acquisition Expenses

For the Year Ended 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Commission income from Reinsurers	(Note 12)	(20,160)	(11,729)	-	-
Commission expense	(Note 12)	29,176	25,592	-	-
Total Increase in Deferred Acquisition Expenses		9,016	13,863	-	-

Accounting Policies and Notes to the Financial Statements

38. INCOME TAX EXPENSES

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. 10 of 2006 and the amendments thereto.

Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in Equity or Other Comprehensive Income is recognised in equity or other comprehensive income and not in 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.

38. INCOME TAX EXPENSES (Contd.)

The major components of income tax expense for the years ended 31st December are as follows :

For the Year Ended 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
38.1.a Tax recognised in Profit or Loss					
Current Income Tax					
Income Tax on Current Year's Profits		3,300	-	-	-
Notional Tax Unutilised During the Year		56,512	29,383	56,512	29,383
Total Current Income Tax		59,812	29,383	56,512	29,383
Deferred Income Tax					
Origination of Deferred Tax Liability		(987)	-	-	-
Origination of Deferred Tax Assets		(717)	(56,954)	-	-
Deferred Taxation Charge / (Reversal)	(Note 38.6.b)	(1,704)	(56,954)	-	-
Total Tax Expense / (Reversal)		58,108	(27,571)	56,512	29,383
38.1.b Tax recognised in Other Comprehensive Income					
Deferred Income Tax					
Origination of Deferred Tax Assets	(Note 38.6.b)	(1,825)	(1,286)	-	-

38.2 Reconciliation of effective Tax rate

For the Year Ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit for the year	647,413	197,344	600,130	427,645
Income Tax Expenses	3,300	-	-	-
Notional tax Unutilised during the year	56,512	29,383	56,512	29,383
Origination of Deferred Tax Assets	(1,704)	(56,954)	-	-
Profit Before Income Tax	705,521	169,773	656,642	457,028
At the statutory income tax rate of 28% (2015 :28%)	197,546	-	183,860	-
Income Exempt from Tax	(204,691)	-	(183,860)	-
Aggregate allowable expenses	(5,089)	-	-	-
Aggregate disallowed expenses	17,282	-	-	-
Utilisation of Previous tax losses	(1,748)	-	-	-
Notional tax Unutilised during the year	56,512	29,383	56,512	29,383
Origination of Deferred Tax Assets	(1,704)	(56,954)	-	-
Income Tax Expenses / (Reversal)	58,108	(27,571)	56,512	29,383

Accounting Policies and Notes to the Financial Statements

38. INCOME TAX EXPENSES (Contd.)

38.3 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. There is no Income Tax Expense recognised in the Company due to the tax losses produced. However, Company has ceased to accumulate the Notional Tax Credits (NTC) from 2015 onwards. Accordingly NTC originated in 2016 is charged to Profit or Loss amounting to Rs. 56.5 Million (2015-Rs. 29.4 Million). There is no payment due to IRD during the year by HNB Assurance PLC for the year assessment 2016/17.

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
38.4 Tax loss analysis				
Balance as at 01st January	3,738,309	2,645,431	3,407,860	2,645,431
Tax losses transferred to HNB General Insurance Limited	-	-	-	(3,792)
Prior Year adjustments	1,238	-	(7,712)	-
Tax loss Utilised During the year	(6,242)	-	-	-
Tax losses for the year	974,796	1,092,878	974,796	766,221
Balance as at 31st December	4,708,101	3,738,309	4,374,944	3,407,860

38.5 Notional Tax Credit for Withholding Tax on Government Securities

The notional tax credit available for set off against the future tax liability;

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	147,787	153,026	142,299	152,721
Tax credit for the year	64,749	34,870	56,512	29,383
Set off against tax liability	-	(10,726)	-	(10,422)
Provision for Notional Tax Unutilised	(56,512)	(29,383)	(56,512)	(29,383)
Total	156,024	147,787	142,299	142,299

38.6 Deferred Taxation

As at 31st December,		Group		Company	
		2016	2015	2016	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deferred tax assets	(Note 38.6.b)	58,182	55,641	-	-
Deferred tax liabilities	(Note 38.6.a)	(5,260)	(6,247)	-	-
Net deferred tax asset		52,922	49,394	-	-

38. INCOME TAX EXPENSES (Contd.)

As at 31st December,	Group							
	Statement of Financial Position				Profit or Loss		Other Comprehensive Income	
	2016		2015		2016	2015	2016	2015
	Temporary Difference	Deferred Tax Assets/ (Liability)	Temporary Difference	Deferred Tax 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
38.6.a Deferred Tax Liability								
Property, Plant and Equipment	18,784	(5,260)	22,310	(6,247)	(987)	(14,857)	-	-
38.6.b Deferred Tax Assets								
Employee Benefits	39,550	11,074	36,993	10,358	(717)	838	-	-
Brought Forward Tax Losses	157,131	43,997	157,131	43,997	-	(42,935)	-	-
Available For Sale Financial Assets	11,110	3,111	4,592	1,286	-	-	(1,825)	(1,286)
	207,791	58,182	198,716	55,641	(717)	(42,097)	(1,825)	(1,286)
Total	-	52,922	-	49,394	(1,704)	(56,954)	(1,825)	(1,286)

The Company has unutilised tax losses to recognise a Deferred Tax Asset up to the extent of the deferred tax liability arising from taxable temporary differences in the Company. Thus, no Deferred Tax Asset is recognised in the Financial Statements as it is not probable that the future taxable profits will be adequate to utilise the available tax losses fully in the foreseeable future. The unrecognised Deferred Tax Asset as at 31st December 2016 in Life Business amounted to Rs. 1,225 Million (2015-Rs. 954 Million.)

However HNB General Insurance Limited recorded a Deferred Tax Asset amounted to Rs 49.4 Million as a result of tax losses made in 2015 and Fair value losses incurred in Treasury Bills and bond of Available For Sale category. The unrecognised Deferred Tax asset of HNB General Insurance Limited as at 31st December 2016 in General Business amounted to Rs. 49.97 Million (2015-Rs. 49.97 Million.)

Accounting Policies and Notes to the Financial Statements

39. BASIC EARNINGS PER SHARE (EPS)

Accounting Policy

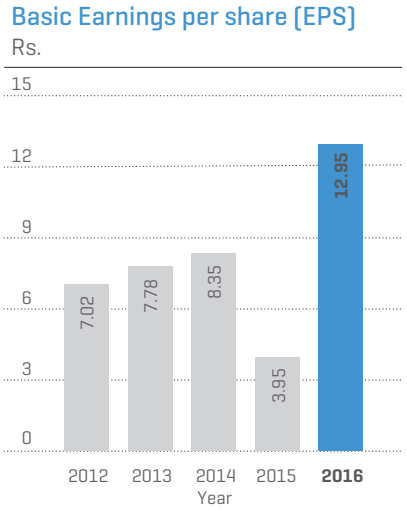
The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group/Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is 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, which comprise share options granted to employees.

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.

	Group		Company	
As at 31st December,	2016	2015	2016	2015
Amounts used as the numerator:				
Net Profit Attributable to Ordinary Shareholders (Rs. '000)	647,413	197,344	600,130	427,645
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.)	12.95	3.95	12.00	8.55

39.1 Dilutive Earnings Per Share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, diluted Earnings Per Share is same as Basic Earnings Per Share shown above.



40. DIVIDEND PER SHARE (DPS)

	2016	2015
Dividend per Share (Rs.)	5.00	2.00

40.1 Dividend declared

Dividends to Shareholders (Rs.'000)	226,102	91,847
Tax deducted at source (Rs.'000)	23,898	8,153
Total	250,000	100,000

40.2 Proposed Dividend for approval at AGM

The Board of Directors has recommended the payment of a first and final dividend of Rs. 5.00 per share for the year ended 31st December 2016 (2015 - Rs. 2.00 per share) which is to be approved at the Annual General Meeting to be held on 29th March 2017. In accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) No.10 - Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31st December 2016.

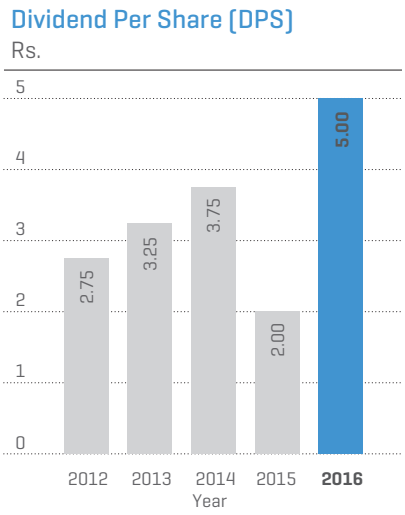
Under the Inland Revenue Amendment Act, No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared from 01st April 2004, however any declaration of dividend after 01st April 2017 will be subject to withholding tax of 14% in accordance with proposed tax amendments

40.3 Compliance with the Section 56 and 57 of the Companies Act, No. 7 of 2007

As required by the Section 56 of the Companies Act, No. 7 of 2007, the Board of Directors of the Company has satisfied the Solvency Test in accordance with the Section 57, prior to recommending the first and final dividend for the year ended 31st December 2016. A statement of Solvency completed and duly signed by the Directors on 09th February 2016 has been audited by M/S Ernst & Young Sri Lanka.

40.4 Dividend paid during the year

As at 31st December,	2016	2015
	Rs.'000	Rs.'000
Final dividend for 2015: Rs. 2.00 per share (2014: Rs. 3.75 per share)	100,000	187,500



Accounting Policies and Notes to the Financial Statements

41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT

Accounting Policy

The Group measures financial instruments such as Available For Sale and Fair Value Through Profit and Loss, at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, 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.

41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

Accounting Policy

Instrument Category	Fair Value Basis	Fair Value Hierarchy
Government Securities		
Treasury Bonds	Valued using the market yield	Level 1
Treasury Bills	Valued using the market yield	Level 1
Investment in Shares		
Investment in Listed Shares	Volume Weighted Average (VWA) prices	Level 1
Investment in Units		
Investment in Listed Units	Published Market Prices (VWA)	Level 1
Investment in Unlisted Redeemable Units	Published Net Assets Values (NAV)	Level 2
Corporate Debt		
Listed	Published Market Prices	Level 2*
Unlisted Fixed Rate	Discounted Cash Flow (DCF) Method Using current Treasury Bond/ Treasury bill rates for similar maturity plus a risk premium. The risk premium is determined based on the upgrade/ downgrade of the credit rating of the instrument	Level 2
Unlisted Floating Rate	Cost plus interest	Level 2
Fixed and Term Deposits		
Deposit more than one year	Discounted Cash Flow (DCF) Method Using Treasury Bond rates for similar maturity plus a risk premium. The risk premium is determined based on the upgrade/ downgrade of the credit rating of the institution	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.

Identification and measurement of impairment

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:

- significant financial difficulty of the borrower or issuer,
- default or delinquency by debtor,
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation,
- adverse changes in the payment status of issuers or debtors in the Group, and
- In the case of equity a significant or prolonged decline in its fair value below its cost

Accounting Policies and Notes to the Financial Statements

41 . FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.1 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:

As at 31st December,		2016					
	Note	Fair Value Through Profit or Loss	Available For Sale	Held-To-Maturity	Loans and Receivables	Total carrying amount	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
41.1.a Financial Assets							
Financial Investments							
Measured at fair value	6.3 & 6.4	156,510	5,869,558	-	-	6,026,068	6,026,068
Measured at amortised cost	6.1 & 6.2	-	-	174,025	5,344,482	5,518,507	5,185,954
Loans to Life Policyholders	8	-	-	-	119,941	119,941	119,941
Reinsurance Receivables	9	-	-	-	494,726	494,726	494,726
Premium Receivables	10	-	-	-	623,294	623,294	623,294
Staff and Other Loans	11	-	-	-	353,472	353,472	353,472
Cash and Cash Equivalents	13	-	-	-	625,527	625,527	625,527
Total Financial Assets		156,510	5,869,558	174,025	7,561,442	13,761,535	13,428,982

		Fair Value Through Profit or Loss	Other Financial Liabilities	Total carrying amount	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
41.1.b Financial Liabilities					
Reinsurance Creditors	23	-	287,895	287,895	287,895
Other Liabilities (Excluding Government Levies and Accruals)	24	-	293,656	293,656	293,656
Total Financial Liabilities		-	581,551	581,551	581,551

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

As at 31st December, 2015

	Note	Fair Value Through Profit or Loss	Available For Sale	Held-To-Maturity	Loans and Receivables	Total carrying amount	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
41.1.c Financial Assets							
Financial Investments							
Measured at fair value	6.3 & 6.4	1,175,721	1,659,296	-	-	2,835,017	2,835,017
Measured at amortised cost	6.1 & 6.2	-	-	472,565	6,444,029	6,916,594	6,817,536
Loans to Life Policyholders	8	-	-	-	91,992	91,992	91,992
Reinsurance Receivables	9	-	-	-	141,354	141,354	141,354
Premium Receivables	10	-	-	-	345,916	345,916	345,916
Staff and Other Loans	11	-	-	-	281,505	281,505	281,505
Cash and Cash Equivalents	13	-	-	-	386,929	386,929	386,929
Total Financial Assets		1,175,721	1,659,296	472,565	7,691,725	10,999,307	10,900,249

	Note	Fair Value Through Profit or Loss	Other Financial Liabilities	Total carrying amount	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
41.1.d Financial Liabilities					
Reinsurance Creditors	23	-	131,905	131,905	131,905
Other Liabilities (Excluding Government Levies and Accruals)	24	-	215,904	215,904	215,904
Total Financial Liabilities		-	347,809	347,809	347,809

41.1.e The Group's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in note 43.

Accounting Policies and Notes to the Financial Statements

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.2 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:

As at 31st December,		2016					
	Note	Fair Value Through Profit or Loss	Available For Sale	Held-To-Maturity	Loans and Receivables	Total carrying amount	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
41.2.a Financial Assets							
Financial Investments							
Measured at fair value	6.3 & 6.4	119,732	5,095,600	-	-	5,215,332	5,215,332
Measured at amortised cost	6.1 & 6.2	-	-	174,025	4,253,239	4,427,264	4,159,914
Loans to Life Policyholders	8	-	-	-	119,941	119,941	119,941
Reinsurance Receivables	9	-	-	-	54,814	54,814	54,814
Premium Receivables	10	-	-	-	6,805	6,805	6,805
Staff and Other Loans	11	-	-	-	214,492	214,492	214,492
Cash and Cash Equivalents	13	-	-	-	476,572	476,572	476,572
Total Financial Assets		119,732	5,095,600	174,025	5,125,863	10,515,220	10,247,870

		Fair Value Through Profit or Loss	Other Financial Liabilities	Total carrying amount	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
41.2.b Financial Liabilities					
Reinsurance Creditors	23	-	39,395	39,395	39,395
Other Liabilities (Excluding Government Levies and Accruals)	24	-	211,385	211,385	211,385
Total Financial Liabilities		-	250,780	250,780	250,780

41 . FINANCIAL ASSETS AND LIABILITIES (Contd.)

As at 31st December,

	Note	2015 Designated at FVTPL	Available For Sale	Held-To-Maturity	Loans and Receivables	Total carrying amount	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
41.2.c Financial Assets							
Financial Investments							
Measured at fair value	6.3 & 6.4	817,956	1,559,525	-	-	2,377,481	2,377,481
Measured at amortised cost	6.1 & 6.2	-	-	320,426	5,151,718	5,472,144	5,405,605
Loans to Life Policyholders	8	-	-	-	91,992	91,992	91,992
Reinsurance Receivables	9	-	-	-	34,269	34,269	34,269
Premium Receivables	10	-	-	-	5,592	5,592	5,592
Staff and Other Loans	11	-	-	-	172,157	172,157	172,157
Cash and Cash Equivalents	13	-	-	-	258,222	258,222	258,222
Total Financial Assets		817,956	1,559,525	320,426	5,713,950	8,411,857	8,345,318

	Note	Fair Value Through Profit or Loss	Other Financial Liabilities	Total carrying amount	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
41.2.d Financial Liabilities					
Reinsurance Creditors	23	-	37,547	37,547	37,547
Other Liabilities (Excluding Government Levies and Accruals)	24	-	154,278	154,278	154,278
Total Financial Liabilities		-	191,825	191,825	191,825

41.2.e The Company's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in note 43.

Accounting Policies and Notes to the Financial Statements

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.3.a Fair value measurement

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.

Fair value measurement hierarchy for Assets - Group

For the Year Ended 31st December,

		2016			
		Fair value measurement using			
	Note	Quoted prices in active markets (Level 1)	Significant observable (Level 2)	Significant unobservable (Level 3)	Total fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets measured at fair value :					
Fair Value Through Profit or Loss (FVTPL)					
- Investment in Units	6.9	10,296	1,036	-	11,332
- Equity Shares	6.8	145,178	-	-	145,178
Total		155,474	1,036	-	156,510
Available For Sale (AFS)					
- Treasury Bonds	6.3	4,424,246	-	-	4,424,246
- Treasury Bills	6.3	1,302,371	-	-	1,302,371
- Equity Shares	6.7	142,941	-	-	142,941
Total		5,869,558	-	-	5,869,558
Assets measured at amortised cost and fair values are disclosed :					
Held-To-Maturity (HTM)					
- Treasury Bonds	6.1	-	177,193	-	177,193
Total		-	177,193	-	177,193
Loans and Receivable (L & R)					
- Term Deposit		-	769,990	-	769,990
- Corporate Debt	6.6	-	2,754,278	-	2,754,278
- Staff and Other Loans	11.1	-	353,472	-	353,472
Total		-	3,877,740	-	3,877,740
Total Financial Assets		6,025,032	4,055,969	-	10,081,001

41 . FINANCIAL ASSETS AND LIABILITIES (Contd.)

Fair value measurement hierarchy for Assets - Group

As at 31st December,

		2015			
		Fair value measurement using			
	Note	Quoted prices in active markets (Level 1)	Significant observable (Level 2)	Significant unobservable (Level 3)	Total fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets measured at fair value :					
Fair Value Through Profit or Loss (FVTPL)					
- Treasury Bonds	6.4	699,014	-	-	699,014
- Investment in Units	6.9	10,708	229,700	-	240,408
- Equity Shares	6.8	236,299	-	-	236,299
Total		946,021	229,700	-	1,175,721
Available For Sale (AFS)					
- Treasury Bonds	6.3	1,410,500	-	-	1,410,500
- Treasury Bills	6.3	48,492	-	-	48,492
- Equity Shares	6.7	200,304	-	-	200,304
Total		1,659,296	-	-	1,659,296
Assets measured at amortised cost and fair values are disclosed :					
Held-To-Maturity (HTM)					
- Treasury Bonds	6.1	-	490,095	-	490,095
Total		-	490,095	-	490,095
Loans and Receivable (L & R)					
- Term Deposit		-	900,408	-	900,408
- Corporate Debt	6.6	-	2,897,115	-	2,897,115
- Staff and Other Loans	11.1	-	281,505	-	281,505
Total		-	4,079,028	-	4,079,028
Total Financial Assets		2,605,317	4,798,823	-	7,404,140

Accounting Policies and Notes to the Financial Statements

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.3.b Fair value measurement - Company

Fair value measurement hierarchy for Assets

As at 31st December,

		2016 Fair value measurement using			
	Note	Quoted prices in active markets (Level 1)	Significant observable (Level 2)	Significant unobservable (Level 3)	Total fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Fair Value Through Profit or Loss (FVTPL)					
- Unit Trusts	6.9	7,200	-	-	7,200
- Equity Shares	6.8	112,532	-	-	112,532
Total		119,732	-	-	119,732
Available For Sale (AFS)					
- Treasury Bonds	6.3	4,135,569	-	-	4,135,569
- Treasury Bills	6.3	839,293	-	-	839,293
- Equity Shares	6.7	120,738	-	-	120,738
Total		5,095,600	-	-	5,095,600
Assets Measured at amortised cost and fair values are disclosed:					
Held-To-Maturity (HTM)					
- Treasury Bonds	6.1	-	177,193	-	177,193
Total		-	177,193	-	177,193
Loans and Receivable (L & R)					
- Term Deposit		-	646,349	-	646,349
- Corporate Debt	6.6	-	2,275,774	-	2,275,774
- Staff and Other Loans	11.1	-	214,492	-	214,492
Total		-	3,136,615	-	3,136,615
Total Financial Assets		5,215,332	3,313,808	-	8,529,140

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

As at 31st December,	Note	2015 Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable (Level 2)	Significant unobservable (Level 3)	Total fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets Measured at fair value :					
Fair Value Through Profit or Loss (FVTPL)					
- Treasury Bonds	6.4	497,717	-	-	497,717
- Investment in Units	6.9	7,488	149,715	-	157,203
- Equity Shares	6.8	163,036	-	-	163,036
Total		668,241	149,715	-	817,956
Available For Sale (AFS)					
- Treasury Bonds	6.3	1,360,150	-	-	1,360,150
- Treasury Bills	6.3	29,095	-	-	29,095
- Equity Shares	6.7	170,280	-	-	170,280
Total		1,559,525	-	-	1,559,525
Assets Measured at amortised cost and fair values are disclosed :					
Held-To-Maturity (HTM)					
- Treasury Bonds	6.1	-	336,302	-	336,302
Total		-	336,302	-	336,302
Loans and Receivable (L & R)					
- Term Deposit		-	781,604	-	781,604
- Corporate Debt	6.6	-	2,327,493	-	2,327,493
- Staff and Other Loans	11.1	-	172,157	-	172,157
Total		-	3,281,254	-	3,281,254
Total Financial Assets		2,227,766	3,767,271	-	5,995,037

Accounting Policies and Notes to the Financial Statements

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.4 The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value are as follows:

41.4.a Financial Investments

Financial investments Held-to-Maturity

The fair values of financial investments held-to-maturity are estimated based on current market yields.

The fair values of listed debentures are calculated based on published market prices. The fair value of unlisted variable rate debentures equals carrying value due to inability to reliably predict future cash flows and unlisted fixed rate corporate debts are based on discounted cash flow method using current market yields of Treasury Bonds or Treasury Bills for similar maturity plus a risk premium determined based on the credit rating of the instrument.

The fair value of the term deposits with maturities greater than 3 months are estimated based on discounted cash flows using current market yields of Treasury Bonds or Treasury Bills with similar maturity plus a risk premium determined based on the credit rating of the institution.

41.4.b 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.

41.4.c 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-price to current market rates frequently:

Assets

- Cash and Cash Equivalents/ Term Deposits less than one year
- Treasury Bills - Repo
- Treasury Bills - Overnight Repo
- Loans to Life Policyholders
- Reinsurance Receivables
- Premium Receivables

Liabilities

- Reinsurance Creditors
- Other Liabilities (Excluding Government Levies and Accruals)

42. RELATED PARTY DISCLOSURES

42.1 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 Company have been classified as Key Management Personnel of the Company. In Addition, Chief Operating Officer - Life and the Chief Financial Officer have also been classified as Key Management Personnel of the Company further their immediate family members are also considered as related parties of the Company.

Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective Director for his/her financial needs. As the Hatton National Bank PLC is the ultimate parent of the Company, and the Board of Directors of the Bank have the authority and responsibility of planning, directing and controlling the activities of the Company, the Directors of the Bank and their immediate family members have also been identified as Key Management Personnel of the Company.

a). Key Management Personnel Compensation

	2016 Rs.'000	2015 Rs.'000
Director Fee	11,081	4,156
Short-term employee benefits	37,174	40,020
Post-employment benefits	10,834	13,982
Outstanding Loan Balance Granted to KMPs	7,192	12,175

In addition to salaries, the Company also provides non-cash benefits to Key Management Personnel and contributes to a defined benefit plan (Gratuity) on behalf of them.

* No loans have been granted to the Directors of the Company.

b). Other Transactions with Key Management Personal

	2016 Rs.'000	2015 Rs.'000
Insurance Premium - General Insurance	1,052	781
Insurance Premium - Life Insurance	599	549
Claims Paid - General Insurance	155	528

c). Mr.Deepthi Lokuarachchi was appointed as Chief Executive Officer of HNB Assurance PLC and HNB General Insurance Limited with effect from 02nd May 2016.

Following Director was appointed to the Board of HNB Assurance PLC during the year.

Director	Effective date of Appointment
Mr. Thimal Perera	08th January 2016

Following Director was appointed to the Board of HNB General Insurance Limited during the year.

Director	Effective date of Appointment
Ms. Marina Tharmaratnam	01st September 2016

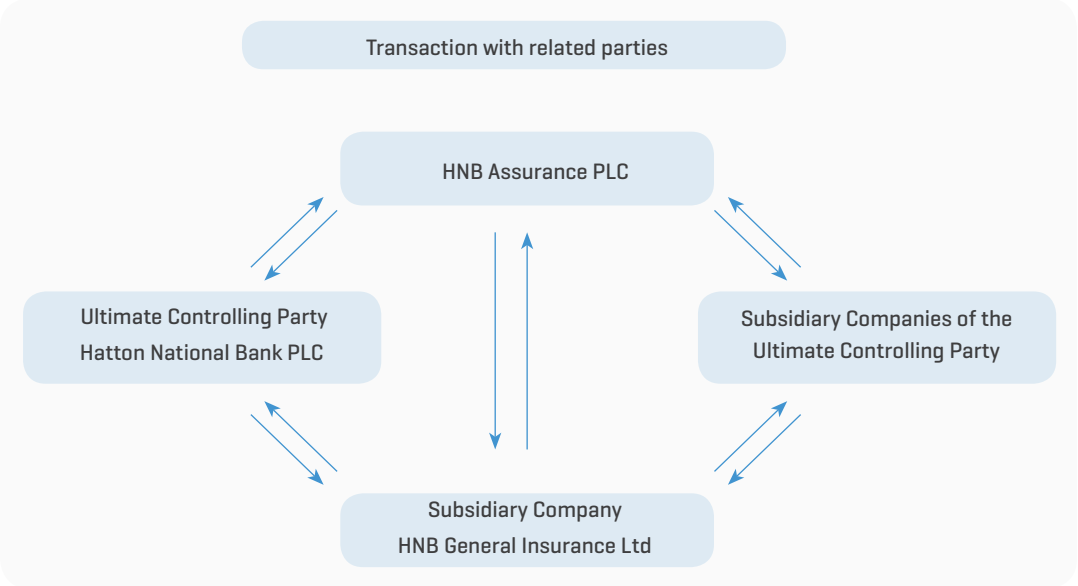
Following Directors have resigned from the Board of HNB Assurance PLC during the year.

Director	Effective date of Resignation
Mr. M.U. de Silva	08th January 2016

Accordingly, these Directors cease to be Key Management Personnel of the Company w.e.f. their respective dates of resignation.

Accounting Policies and Notes to the Financial Statements

42. RELATED PARTY DISCLOSURES (Contd.)



42.2 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 in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures.

Transactions with related parties were made on the basis of the price lists in force with non-related parties, but subject to approved discounts. Outstanding balances with related parties other than balances relating to investment related transactions as at the reporting date are unsecured and interest free. Settlement will take place in cash. Such outstanding balances have been included under respective assets and liabilities together with balances arising from transactions with non-related parties.

Details of related party transactions are reported below.

42.2.a Transaction with the Subsidiary Company - HNB General Insurance Ltd.

For the Year ended 31st December,	2016	2015
	Rs.'000	Rs.'000
Insurance Premium	18,715	19,808
Insurance Expenses	20,227	19,920
Claims Received	8,113	-
Claims Paid	2,000	-
Administrations Expenses Reimbursement	234,934	149,972
Fund Management Fee Received	4,072	4,087
Profit Commission Paid	3,017	5,973

42. RELATED PARTY DISCLOSURES (Contd.)

42.2.b Transaction with/between the Parent and Ultimate Controlling Party-Hatton National Bank PLC

For the Year ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Nature of Transaction				
Insurance Premium	22,270	10,475	-	-
Claims Incurred	8,752	9,361	-	-
Investment Income	35,642	28,970	30,202	23,702
Administration Expenses	185,991	150,889	115,299	80,399
Rent Expenses	31,608	30,113	24,121	21,653
Other Operational Expenses	21,149	23,461	16,818	16,685
Dividends Paid	59,986	112,474	59,986	112,474

As at 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Nature of Transaction				
Investments (Includes Deposits and Debentures)	416,312	300,886	329,123	212,825
Bank Account Balances	182,265	163,937	111,407	105,306

42.2.c Transaction with / between Subsidiary Companies of the Ultimate Controlling Party

For the Year ended 31st December,	Group		Company	
	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
a). Sithma Development (Pvt) Ltd				
Nature of Transaction				
Insurance Premium	1,785	214	-	-
b). HNB Grameen Finance Ltd				
Nature of Transaction				
Insurance Premium	83,112	33,989	82,261	33,256
Claims Incurred	74,608	3,631	74,306	3,558
Administration Expenses	8,807	4,000	8,466	3,918

Accounting Policies and Notes to the Financial Statements

42. RELATED PARTY DISCLOSURES (Contd.)

42.2. 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	
			2016	2015	2016	2015
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Acuity Partners (Pvt) Limited	Mr. A J Alles Mr. Dilshan Rodrigo	Insurance Premium	1,482	296	704	-
Acuity Stockbrokers (Pvt) Ltd	Mr. A J Alles	Insurance Premium	112	160	-	-
		Claims Incurred	288	-	222	
Acuity Securities Ltd	Mr. Dilshan Rodrigo	Insurance Premium	92	81	-	-
		Investment in REPO	606,967	918,569	525,558	755,544
		Investment Income from REPO	50,901	19,724	40,051	15,219
Swisstek Aluminium Limited	Mr. Mahendra Jayasekara	Insurance Premium	-	56	-	-
Swisstek (Ceylon) PLC	Mr. Mahendra Jayasekara	Insurance Premium	396	334	-	-
		Claims Incurred	8	-	-	-
Lanka Walltiles PLC	Dr. Sivakumar Selliah Mr. Mahendra Jayasekara	Insurance Premium	2,247	2,800	-	-
		Claims Incurred	22	14	-	-
Lanka Tiles PLC	Mr. Mahendra Jayasekara Dr. Sivakumar Selliah	Insurance Premium	3,600	2,196	-	-
		Claims Incurred	4,928	12	-	-
M M B L Leisure Holdings (Pvt) Ltd	Mr. K Balasundaram	Insurance Premium	213	224	-	-
Pathfinder (Pvt) Ltd	Mr. K Balasundaram	Insurance Premium	131	123	-	-
		Claims Incurred	56	66	-	-
Salamander Investment (Pvt) Ltd	Mr. K Balasundaram	Insurance Premium	43	45	-	-
Mercantile Merchant Bank Ltd	Mr. K Balasundaram	Insurance Premium	52	454	-	-
		Claims Incurred	22	184	-	-
Lanka Financial Services Bureau	Mr. A J Alles	Insurance Premium	10	9	-	-
BeyondM (Pvt) Ltd	Mr. R S Captain	Insurance Premium	95	-	-	-
AKK Engineers (Pvt) Ltd	Dr. L R Karunarathne	Insurance Premium	69	-	-	-
Andysel (Pvt) Ltd	Dr. Sivakumar Selliah	Insurance Premium	119	-	-	-
CIC Holdings PLC	Mr. R S Captain	Insurance Premium	1,406	-	-	-
Hsenid Software Lanka (Pvt) Ltd	Mr. R S Captain	Insurance Premium	17	-	-	-
Stassen Export (Pvt) Ltd	Ms. D S C Jayawardena	Insurance Premium	510	-	-	-
Lanka Houseboat (Pvt) Ltd	Mr. K Balasundaram	Insurance Premium	400	-	-	-

42. RELATED PARTY DISCLOSURES (Contd.)

42.2. 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 2016 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".

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Group		Company	
			2016	2015	2016	2015
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Government of Sri Lanka		Investment balances as at 31st Dec.	6,580,884	4,745,707	5,717,253	4,023,007
		Investment Income	582,737	313,818	508,605	264,428
Bank of Ceylon	Government related entity	Investment balances as at 31st Dec.	166,122	140,965	155,982	130,829
		Investment Income	15,095	22,024	15,095	20,424
HDFC Bank of Sri Lanka	Government related entity	Investment balances as at 31st Dec.	69,300	68,679	69,300	68,679
		Investment Income	9,325	11,913	9,325	11,131
National Development Bank PLC	Government related entity	Investment balances as at 31st Dec.	184,575	140,605	163,393	120,394
		Investment Income	17,152	11,786	14,604	9,692
		Insurance Premium	1,724	-	-	-
People's Bank	Government related entity	Investment balances as at 31st Dec.	392,678	-	372,667	-
		Investment Income	4,852	1,326	4,057	1,326
Urban Development Authority	Government related entity	Investment Income	-	12,225	-	9,046
Utility Providers						
Ceylon Electricity Board	Government related entity	Utility Payments	17,735	15,321	17,087	15,093
Lanka Electricity Company (Pvt) Ltd	Government related entity	Utility Payments	4,716	3,846	4,524	47
National Water Supply & Drainage Board	Government related entity	Utility Payments	1,059	965	1,002	929
Sri Lanka Telecom Limited	Government related entity	Utility Payments	27,466	19,530	27,305	19,530
		Insurance Premium	-	1,374	-	-
		Claims Incurred	38	-	-	-
Media Providers						
Sri Lanka Rupavahini Corporation	Government related entity	Advertising	313	842	313	842

Accounting Policies and Notes to the Financial Statements

42. RELATED PARTY DISCLOSURES (Contd.)

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Group 2016	Group 2015	Company 2016	Company 2015
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
The Associated Newspapers of Ceylon Ltd	Government related entity	Advertising	708	956	708	763
Other Institutions						
National Insurance Trust Fund	Government related entity	Crop Levy Payment	5,274	2,873	-	-
		Reinsurance Payment	216,267	235,914	-	-
		Reinsurance Commission	73,831	25,580	-	-
Department of Inland revenue	Government related entity	Taxes	390,626	292,688	42,128	49,828
Insurance Board of Sri Lanka	Government related entity	Cess Annual Fee	21,945	19,473	12,286	8,014
Colombo Stock Exchange	Government related entity	Annual Fee	127	142	127	142
Employee Provident Fund	Government related entity	Contribution	56,333	45,959	28,726	22,934
Employee Trust Fund	Government related entity	Contribution	14,083	11,490	7,181	5,733
Department of Road Safety	Government related entity	Luxury Tax/CRSF	36,078	26,792	-	-
Company Registrar	Government related entity	Registration fee	600	600	500	500
Ceylon Shipping Lines Ltd	Government related entity	Insurance Premium	886	714	-	-
Sri Lanka Savings Bank	Government related entity	Claims Incurred	35	1,080	-	-
		Insurance Premium	581	402	449	-
Urban Development Authority	Government related entity	Insurance Premium	64	-	64	-
Sri Lanka Insurance Corporation Ltd	Government related entity	Coinsurance Premium	3,488	11,433	-	-

43. FINANCIAL RISK MANAGEMENT

43.1 Risk and capital management

a) Risk management framework

Group Risk Management Framework (RMF) of HNB Assurance PLC is established to protect the shareholders from any events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Therefore RMF provides the structure for identifying, quantifying, and mitigating risk across the Group. An effective RMF is the key to avoid the financial and reputational damage that arises from inadequate or ineffective controls in the business.

The Board of Directors has delegated their authorities and responsibilities to Executive Management Committee and senior management to establish Group Policy to identify and mitigate possible risks which will affect to the Group adversely. Risk Management Committee, comprising three members of the Board 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 programme.

A process is set for identifying Key Risk Indicators (KRIs) based on the Risk Register prepared by the Management and in additional recommendations made by the Risk Management Committee. These KRIs are prepared regularly and reviewed by the Executive Committee and the Risk Management Committee. Significant KRIs 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 meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies 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 table depicts the accountable and responsible parties for the Group's established risk management process which underlines the principal risk management and control responsibilities.

Processes	Parties responsible
Establishment of risk management system and Company's Risk Policy	Board of Directors
	Dedicated Committees
	Risk Management Committee / Audit Committee
Implementation of Company's Risk Policy and Compliance	Risk Management Function
	Independent outsourced Internal Audit / Risk & Compliance Department
	Business Units
	Underwriting Department / Finance Department / Marketing & Distribution Department
	Claims Department / Investment Department / Human Resource Department
	Actuarial Department / Information System Department / Legal Department

Accounting Policies and Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (Contd.)

Objectives of Risk Management

Main risk management objectives of HNBA Group are to:

- Enhance the value of the Group by establishing a culture of "No Surprises" and avoid losses greater than expected.
- Ensure the efficient capital deployment for enhancing value creation and to maintain an optimal risk-return profile.
- Provide consistent, reliable and timely risk information which supports the decision making process.
- Protect the capital base by monitoring that risks are not taken beyond the Group's risk tolerance.
- To maintain the required level of stability of the Group thereby providing a degree of security to policyholders.
- Ensure the compliance of all the applicable regulatory requirements.

b] Capital Management Framework

The Group's capital management framework forms the basis for actively managing capital while optimising 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 primary source of capital used by the Group is equity Shareholders' Funds. The capital requirements are periodically 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 for its capital structure.

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 Companies above the levels stipulated by the regulator, thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meets the requirements of its shareholders and policyholders.
- To retain financial flexibility by maintaining strong liquidity.
- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and other stakeholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The operations of the both companies (HNB Assurance and HNB General Insurance) in the Group are subject to regulatory requirements. Such regulations are not there only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. minimum capital requirement by Insurance Board of Sri Lanka, Solvency Margin, Approved Assets Requirements, etc.) to minimise the risk of non compliance regulatory requirements.

The Group is in compliance with all these regulatory requirements throughout the financial year. There were no changes in the capital structure in the Company during the year. Please refer Note 14 on Page 264 for the Stated Capital of the Company.

c] Regulatory framework

Insurance Board of Sri Lanka (IBSL) is primarily interested in protecting the rights of policyholders and monitors the Group closely to ensure that it is satisfactorily managing affairs for the benefit of policyholders. The Group operates according to the requirements set by the regulator IBSL.

43. FINANCIAL RISK MANAGEMENT [Contd.]

At the same time, they are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks, natural disasters and etc.

The Group successfully completed the parallel run and implemented the risk based capital (RBC) framework to report the solvency margin as required by IBSL. Accordingly since implementation of RBC, HNB Assurance and HNB General Insurance are in compliance with the solvency and the capital adequacy requirements applied by the regulators IBSL.

The capital positions of the Group's two principal operating companies as of 31st December 2016 and 2015 are as follows.

Total Availability Capital and Risk based Capital Adequacy Ratio of HNBA and HNBGI maintained in excess of the minimum requirements as prescribed by the IBSL throughout the year.

Thus, the operations of the Group are subject to regulatory requirements of the IBSL as well as various other regulators such as Colombo Stock Exchange (CSE), Securities and Exchange Commission of Sri Lanka (SEC), Central Bank of Sri Lanka (CBSL), Department of Inland Revenue (IRD) and etc. The Group is also regulated by the Companies Act, No. 07 of 2007.

Total Available Capital (TAC) and Risk-based Capital Adequacy Ratio (CAR)

	31st December 2016				31st December 2015			
	Total Available Capital (TAC)	Regulatory Minimum Capital	Risk-based Capital Adequacy Ratio (CAR)	Regulatory Minimum CAR	Total Available Capital (TAC)	Regulatory Minimum Capital	Risk-based Capital Adequacy Ratio (CAR)	Regulatory Minimum CAR
	Rs. '000	Rs. '000	%	%	Rs. '000	Rs. '000	%	%
HNBA	5,274,682	500,000	445	120	3,544,004	500,000	282	120
HNBGI	745,532	500,000	168	120	765,645	500,000	177	120

d] Asset and Liability Management (ALM) framework

The Group manages Asset and Liability 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 main risk that the Group faces, due to the nature of its investments and liabilities, is interest rate risk. The Group manages these positions within a clearly defined ALM framework.

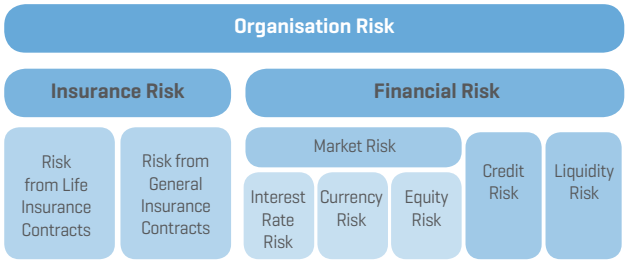
Accounting Policies and Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (Contd.)

43.2 Insurance and financial risk

43.2.1 Introduction and Overview

As a Group providing insurance services both HNB Assurance PLC and HNB General Insurance Ltd, are exposed to insurance and financial risks. The following chart graphically presents all kinds of risks that the Group considers in Risk Management.



43.2.2 Insurance risk

Under insurance contracts the actual claims and benefit payments or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long– term claims. Therefore, the objective of the 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.

The Group purchases reinsurance as part of its risks mitigation programme. 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 certain 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 the excess–of–loss reinsurance vary by product line and territory.

43.2.2.1 Life Insurance contracts

Life Insurance contracts are offered by HNB Assurance PLC. 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 acquire a surrender value upon completion of three years.

The Company offers two single premium annuity products. The first product being "myfreedom" offers a pre-determined annuity amount for a specified time period, whilst the second product; namely "mypension", offers a fixed monthly annuity for the entire lifetime of the policyholder. Both these products offer a life cover along with its annuity payout as part of its product feature. Further during the year, the Company also issued single premium investment policies with a guaranteed maturity benefit.

The main risks exposed in Life Insurance Business 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 detailed claims' handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs.

43. FINANCIAL RISK MANAGEMENT (Contd.)

The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. The Company limits exposure on any single life by way of retention limits agreed with the reinsurers.

Our annuity products are structured such that backing investments are maintained for the agreed amount of business for the year. The following table shows the concentration of the Participating and Non-Participating funds position of the Company. The Company continues to gradually increase the proportion of Non-Participating funds by selling more Non-Participating products such as "My Fund" and "Ranmaga"

Participation Fund vs. Non-Participation Fund

	Participating	Non Participating	Total
	%	%	%
2016	41	59	100
2015	44	56	100

Following are the main underwriting strategies follow to mitigate above main risks associated with Life Insurance.

- Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are adequately priced.
- An in-house Actuarial Department headed by a qualified Actuary is in place to review the Life Insurance business more closely and guide the management to take more informed pricing decisions.
- Registered laboratories are used when obtaining medical reports and regular visits are made by the management to such laboratories to monitor the quality of service.
- Focused training is provided to Insurance Advisors on proper selling in Sinhala, Tamil and English.
- A customer need analysis form is used to identify customers' requirements and sell the most appropriate policy.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured amount.

Following are some of the specific actions undertaken by the Company to mitigate risk arise due to the possibility that the frequency of claims arising from Life Insurance contracts exceeds the expected level.

- An Independent Actuary is engaged to carry out a valuation of the Life Insurance Contract Liabilities biannually.
- An in-house Actuarial Department headed by a qualified Actuary is in place to review reserving in the Life Insurance business more closely and guide the management to take more informed decisions.
- The support of the reinsurers is obtained on reserving such claim liability and the share of reinsurers.
- Claims are reserved immediately at 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 (comprising Chief Executive Officer, Chief Operating Officer – Life Insurance, Chief Technical Officer – Life Insurance and Chief Financial Officer) which is involved in taking decisions on significant/ problematic claims and appeals made in respect of claims.

Key assumptions for valuation of liabilities in Life Insurance

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions used are based on past experience, current internal data, investment returns and benchmarks which reflect current observable market prices and other published information. All these assumptions are subject to the guidelines issued by the IBSL. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

Accounting Policies and Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (Contd.)

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality rate	Mortality rate is determined based on industry standard mortality tables and Company historical experience.
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	Life Insurance liabilities are determined as the sum of the discounted value of the expected benefits directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Risk Free Rate Risk free discount rate was used to discount the cash flows for corresponding durations for guaranteed benefits of Non-Participating and Participating insurance fund policies. These risk free rates from durations 1 to 10 HNBA which is taken from information shared by Insurance Board of Sri Lanka. 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.
Distribution Expense	Allowance has been made for the payment of commission to advisors and managers on business. These rates exclude appropriate allowances for overriding and bonus commissions.
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.

In Life Insurance, the objective in purchasing reinsurance is to retaining risks beyond the Company's net retention capacity with having adequate reinsurance. The Company uses Munich Re and RGA (Largest reinsurance companies in the world) as its reinsurance providers.

Some of the specific reinsurance actions undertaken by the Company to mitigate risks are shown below.

- Restructuring of reinsurance agreements with reinsurance parties regularly.
- A very close and professional relationship is maintained with all reinsurers and reinsurance brokers.
- Frequent review of the outstanding Reinsurance receivables.
- Select reinsurers with good rating.

Changes to the ratings of reinsurance companies are continuously monitored. The impact on gross Life Fund liabilities, possible movements in key assumptions with all other assumptions held constant, are shown below;

Sensitivity of the value of Insurance Liabilities

	Change in assumptions	Impact on Gross Liabilities	
31st December,		2016	2015
		%	%
Mortality	10%	0.35	0.87
	-10%	-0.36	-0.87
Discount rate	+ 50 basis points	-1.88	-1.73
	- 50 basis points	1.96	1.79

43. FINANCIAL RISK MANAGEMENT (Contd.)

43.2.2.2 General Insurance contracts

General Insurance contracts are offered by the fully owned subsidiary of the Company, HNB General Insurance Ltd (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

- climate changes
- natural disasters
- terrorist activities
- behavioural trends of people due to changing life styles
- epidemics and medical science and technological 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 underwriting strategies follow to mitigate above mentioned risks.

- Significant investments are made for training and development of underwriting and claims management staff, including those attached to the distribution network. The "General Insurance Academy", an internal training and development school, has been set up targeting the improvement of technical knowledge on General Insurance across HNBGI.
- Strict controls are maintained on the issue of temporary cover notes and also limiting them to 60 days validity period at the month-end.
- Both the underwriters and the distribution managers are assigned Key Performance Indicators on both turnover and profitability, ensuring alignment of objectives.
- Statistical databases are maintained on loss making clients to ensure such clients are strategically declined.
- Adequate reinsurance arrangements have been placed and HNBGI is consciously reviewing the adequacy of these covers in light of catastrophic / extreme events.

Risk mitigation strategies

UNDERWRITING

- Diversified large portfolio of insurance contracts and geographical areas.
- Careful selection and implementation of underwriting strategies.
- Clearly defined financial authority for underwriting

CLAIMS

- Methodical claims review process for speedy service to customers.
- Detail Investigations on all possible fraudulent claims.
- Clearly defined financial authority for claims

REINSURANCE

- Ensure all insurance policies are reinsured according to the reinsurance arrangements
- Also limit the exposure on catastrophic events using reinsurance arrangements.
- Clearly defined financial authority for reinsurance

Accounting Policies and Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (Contd.)

- There are strict controls to ensure that no insurance cover is issued without a proper reinsurance arrangement backing the cover.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured and risk.
- Motor Insurance pricing is determined based on a risk based pricing grid.

Following are some of the specific actions undertaken by the Company to mitigate risk arise due to the possibility that the actual claims and benefit payments or the timing thereof, may differ from expectations.

- Claim intimation is conducted 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.
- Post audits, are conducted to ensure that set guidelines have been observed.
- 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 Manager – Legal.
- Adequate claim reserves are maintained according to the agreed methodology adopted by the Company.
- Financial authority limits are set based on the claim limit giving the maximum limit to the Claims Panel (comprising Chief Executive Officer, Chief Financial Officer and Chief Technical Officer – General Insurance) which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.

The table below sets out the concentration of General Insurance Contract Liabilities by type of contracts. This includes Claims Outstanding and IBNR / IBNER Reserves.

Refer note 20 to the Financial Statement, which shows the gross claim liability and the reinsurance component.

General Insurance Claim Reserves

	31st December 2016			31st December 2015		
	Gross Claim	Reinsurance	Net	Gross Claim	Reinsurance	Net
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Claims Outstanding Reserve	555,807	(284,009)	271,798	359,921	(57,707)	302,214
IBNR / IBNER Reserve	67,288	(15,522)	51,766	68,974	(15,418)	53,556
Title Insurance Reserve	19,611	-	19,611	19,153	-	19,153
Total	642,706	(299,531)	343,175	448,048	(73,125)	374,923

43. FINANCIAL RISK MANAGEMENT (Contd.)

The following table shows the estimated net claims liability (after considering reinsurance) for each successive accident year at each reporting date.

Claims Development Table

Accident Year	0	1	2	3	4	5	6	7	8
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
2008	76,230	7,956	4,604	2,965	2,895	2,726	1,519	1,650	5,367
2009	78,801	3,636	2,576	1,379	1,021	4,133	2,697	1,385	-
2010	100,283	6,980	4,675	3,219	2,365	1,312	5,964	-	-
2011	170,450	7,258	3,422	2,661	1,494	3,622	-	-	-
2012	163,480	3,250	2,821	3,064	4,039	-	-	-	-
2013	163,203	5,303	3,529	1,695	-	-	-	-	-
2014	188,644	7,055	2,765	-	-	-	-	-	-
2015	324,314	9,962	-	-	-	-	-	-	-
2016	267,060	-	-	-	-	-	-	-	-

In setting claims provisions, HNBGI gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty.

Key assumptions for valuation of liabilities in General Insurance

The principal assumption underlying the liability estimates is that HNBGI's future claims development may follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. An additional qualitative judgment are also used to assess the extent to which liabilities may arise in the future, but excludes one-off occurrences, changes in market factors such as public attitude to claiming, economic conditions, internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and Government legislation affect the estimates.

The following analysis is performed for possible movements in Claims Outstanding with all other assumptions held constant, showing the impact on gross and net liabilities, Profit Before Tax and equity. It should be noted that movements in these assumptions are non-linear.

Sensitivity of Claims Outstanding

	Change in assumptions	Reported Claim Outstanding	Impact on gross liabilities	Impact on net liabilities	Impact on Profit Before Tax	Impact on Equity (after tax)
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
31st December 2016	+/-10%	555,807	+/-55,581	+/-27,180	-/+27,180	-/+19,569
31st December 2015	+/-10%	359,921	+/-35,992	+/-30,221	-/+30,221	-/+21,759

Accounting Policies and Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (Contd.)

Recoveries from reinsurers on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposures through prudent reinsurance arrangements, the obligation to meet claims emanating from policyholders rests with the HNBGI. Default of reinsurers does not negate the obligation and in that respect the HNBGI carries a credit risk up to the extent ceded to each reinsurer.

The HNBGI reinsurance placement is arranged in a manner (particularly in General Insurance as the exposure is very high) that is neither dependent on a single reinsurer nor substantially dependent upon any single reinsurance contract. All reinsurance contracts are annually reviewed 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 Board of Sri Lanka (IBSL).

Some of the specific reinsurance actions by the Group to mitigate Risks are shown below.

- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- A very close and professional relationship is maintained with all reinsurers.
- No cover is issued without a confirmed reinsurance in place.
- Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Standard & Poors, 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 operates under Government of Sri Lanka.
- Periodic review of the credit rating, ensuring all reinsurers maintain the rating throughout the year.

The following table shows the credit ratings of the reinsurance companies with whom the Group has arrangements.

Reinsurance Companies of the Group

Reinsurer	Country of Origin	Rating	Rating Agency
Antares Syndicate AUL 1274 at Lloyds	United Kingdom	A+	Standard & Poor
Cathedral Syndicate CCL 3010 at Lloyds	United Kingdom	A+	Standard & Poor
General Insurance Corporation	India	A-	A M Best
Hannover Re Company	Germany	AA-	A M Best
Labuan Reinsurance (L) Ltd	Malaysia	A-	A M Best
Munich Re Company	Germany	A+	A M Best
National Insurance Trust Fund (NITF)	Sri Lanka	AA-	Fitch Rating
RGA Reinsurance Company	Ireland	AA-	Standard & Poor
Santam Ltd	South Africa	AA+	Fitch Rating
Sompo Japan Reinsurance Company Ltd	Japan	A+	A M Best
Swiss Reinsurance Company Ltd	Switzerland	AA-	Standard & Poor
The Toa Reinsurance Company Limited	Japan	A+	Standard & Poor
Trust International Insurance Company	Bahrain	A-	A M Best
XL Re Ltd	Singapore	A	A M Best

43. FINANCIAL RISK MANAGEMENT (Contd.)

43.2.3 Financial risk

43.2.3.1 Introduction

The Group is exposed to different kind of financial risks as a result of holding financial instruments during the financial period concerned. 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. The following risks are the primary exposed by the Group.

- Credit Risk
- Liquidity Risk
- Market risk

43.2.3.2 Credit Risk

Credit risk is the risk that principal party to a financial instrument will cause a financial loss by failing to discharge an obligation by the counter party. The Group is exposed to credit risk from its operating activities (primarily premium receivables from policyholders) and from its financing activities, including 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	2016				2015			
	Group		Company		Group		Company	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Government Securities	6,580,884	47.8	5,717,252	54.4	4,745,707	43.1	4,023,007	47.8
Corporate Debt Securities	3,066,478	22.3	2,526,087	24.0	3,032,944	27.6	2,426,404	28.8
Term Deposit	1,597,762	11.6	1,158,787	11.0	1,295,949	11.8	909,695	10.8
Cash and Cash Equivalents	625,527	4.5	476,572	4.5	386,929	3.5	258,222	3.1
Premium receivables	623,294	4.5	6,805	0.1	345,916	3.1	5,592	0.1
Reinsurance receivables	494,726	3.6	54,814	0.5	141,354	1.3	34,269	0.4
Staff and Advisor Loans	353,472	2.6	214,492	2.0	281,505	2.6	172,157	2.0
Equity	288,119	2.1	233,270	2.3	436,603	4.0	333,316	4.0
Loans to Life Policyholders	119,941	0.9	119,941	1.1	91,992	0.8	91,992	1.1
Unit Trusts	11,332	0.1	7,200	0.1	240,408	2.2	157,203	1.9
Total credit risk exposure	13,761,535	100	10,515,220	100	10,999,307	100	8,411,857	100

Government Securities

Investments in Government securities consist of Treasury Bonds, Treasury Bills and repo investments and generally referred to risk free investment because of Government securities backed by the full faith and credit of the Government.

Corporate debt securities

The following table shows the credit rating of the Investment in corporate debt securities.

Accounting Policies and Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (Contd.)

Corporate debt securities

As at 31st December,	2016				2015			
	Group		Company		Group		Company	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
AA+	166,122	5.4	155,982	6.2	140,965	4.6	130,829	5.4
AA	43,421	1.4	43,421	1.7	-	-	-	-
AA-	816,231	26.6	703,253	27.8	883,144	29.1	703,555	29.0
A+	478,616	15.6	397,031	15.7	547,424	18.0	445,170	18.3
A	405,990	13.2	358,869	14.2	290,597	9.6	259,731	10.7
A-	530,242	17.3	410,237	16.2	511,130	16.9	406,679	16.8
BBB+	186,472	6.1	132,860	5.3	220,956	7.3	156,650	6.5
BBB	282,802	9.2	221,830	8.8	349,837	11.6	268,480	11.0
BBB-	125,428	4.1	84,367	3.4	88,891	2.9	55,310	2.3
BB+	31,154	1.1	18,237	0.7	-	-	-	-
Total	3,066,478	100	2,526,087	100	3,032,944	100	2,426,404	100

Group has invested more than 79.5% (2015 - 78.2%) of the corporate debt investment in above BBB+ rated or better as per the Fitch rating.

Term Deposit

Investments in term deposits consist of fixed and call deposits in Licensed Commercial Banks, Licensed Specialised Banks and Registered Finance Companies which are disclosed under financial investments and short term deposits under cash and cash equivalents.

Term Deposit

As at 31st December,	2016		2015	
	Group	Company	Group	Company
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Term Deposit under L&R	1,597,762	1,158,787	1,295,949	909,695
Short Term Deposits	396,528	351,173	187,459	146,020
Total	1,994,290	1,509,960	1,483,408	1,055,715

The following table shows the credit rating of the Investment in term deposits.

Term Deposit

As at 31st December,	2016				2015			
	Group		Company		Group		Company	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
AA+	392,678	19.7	372,607	24.7	-	-	-	-
AA	90,976	4.6	-	-	80,305	5.4	-	-
AA-	975,656	48.9	705,569	46.7	958,694	64.7	698,686	66.2
A+	143,941	7.2	143,941	9.5	26,918	1.8	26,918	2.5
A	244,944	12.3	187,113	12.4	272,002	18.3	209,666	19.9
A-	146,095	7.3	100,730	6.7	145,489	9.8	120,445	11.4
Total	1,994,290	100	1,509,960	100	1,483,408	100	1,055,715	100

Group has invested more than 92.7% (2015 – 90.2%) of the Investment in term deposits were rated "A" or better as per the Fitch rating.

43. FINANCIAL RISK MANAGEMENT (Contd.)

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 (Collateral is mainly obtained for securities lending. The management monitors the market value of the collateral, requests for additional collateral when needed and performs an impairment valuation when applicable.)
- The Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. All our investments in Repos are on DVP/RVP basis (Delivery vs. Payments and Received vs. Payments).
- Adhering to the guidelines on selection of Primary dealer with regard to Government security investments.
- Approved financial authority limits set by Investment Committee for all investment related activities.

Investment operation and Monitoring

- Signing Master Repo Agreements ("MRA") with all primary dealers the Group works with in order to ensure zero level of default risk for lending under overnight repo and repo transactions, in the event of their bankruptcy.
- MRA's provide the facility to the investor or investee to recover the money due by selling the collateral securities in the secondary market in the event of a default by either party. Maintaining a custodian arrangement for Government securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd (a joint venture of HNB and DFCC Bank).
- Maintaining a custodian arrangement for listed equity investments with Deutsche Bank AG - Sri Lanka Branch.
- Obtaining specialist advice from appointed legal expert on any issues related to investment activities.

Group regularly reviews the policies and procedures in respect of managing the Credit Risk in investments and no significant changes made during the year.

Staff and Advisor Loans

Company has established 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.

Loans to Life Policyholders

The value of each loan granted to Life Policyholders was limited to the surrender value of insurance policies.

Reinsurance receivables

Reinsurance receivable made up of reinsurance receivable from claim outstanding amounting and settled claims amounting. 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. 339.1 Million (2015: Rs.94.1 Million) have not been considered in this analysis since these have not crystalised. Ratings represent international ratings given by "S&P", "AM BEST" and "Fitch".

Accounting Policies and Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (Contd.)

Reinsurance Receivables Based on Credit Rates (on settled claims)

	Government Owned	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Not rated	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
31st December 2016							
Group	43,566	-	23,203	88,792	46	-	155,607
Company	-	-	15,226	-	-	-	15,226
31st December 2015							
Group	9,857	-	1,237	35,896	294	-	47,284
Company	-	-	-	13,324	-	-	13,324

Premium receivable

If the policyholder or intermediary cannot settle the due premium, the Group and Company expose to credit risk.

The table below provides information regarding the credit risk exposure on reinsurance receivable (on settled claims) and premium receivable of the Group and the Company according to their due period.

Ageing of Other Financial Assets

As at 31st December 2016,	≤ 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 receivable	24,471	16	13,416	9	30,802	20	77,391	50	9,527	5	155,607	100
Premium receivables	434,600	70	188,694	30	-	-	-	-	-	-	623,294	100
Total	459,071	59	202,110	26	30,802	4	77,391	10	9,527	1	778,901	100
Company												
Reinsurance receivable	3,525	23	4,848	32	6,853	45	-	-	-	-	15,226	100
Premium receivables	6,805	100	-	-	-	-	-	-	-	-	6,805	100
Total	10,330	47	4,848	22	6,853	31	-	-	-	-	22,031	100

Ageing of Other Financial Assets

As at 31st December 2015,	≤ 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 receivable	22,010	47	5,521	12	9,513	20	7,309	15	2,931	6	47,284	100
Premium receivables	220,175	64	125,741	36	-	-	-	-	-	-	345,916	100
Total	242,185	62	131,262	33	9,513	2	7,309	2	2,931	1	393,200	100
Company												
Reinsurance receivable	7,434	56	1,422	11	1,378	10	3,090	23	-	-	13,324	100
Premium receivables	5,592	100	-	-	-	-	-	-	-	-	5,592	100
Total	13,026	69	1,422	8	1,378	7	3,090	16	-	-	18,916	100

43. FINANCIAL RISK MANAGEMENT (Contd.)

Specific actions undertaken by the Group to mitigate Credit Risk in premium receivable are shown below.

- Strict implementation of Premium Payment Warranty (PPW), ensuring that all General Insurance policies with payments outstanding for more than 60 days are cancelled.
- Conducting follow-up meetings on debt collection on a monthly basis, with the participation of Finance, Distribution and Underwriting officials.
- 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 claim 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 made during the year.

The Group has no significant concentration of credit risk during the reporting period.

43.2.3.3 Liquidity Risk

The risk group will encounter difficulty in meeting obligations associated with financial liabilities due to non-availability of sufficient level liquid assets referred to as liquidity risk. Group materially addresses this risk with adhering with the ALM Policy.

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk.

- Maintaining sufficient cash balances, overnight investments 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.
- Planning for all large cash outflows in advance and making necessary arrangements to ensure the availability of funds to meet such outflows.
- Availability of a stand-by overdraft facility to be used only in the event of an emergency.

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 it can access to meet liquidity needs. Group has always managed the liquidity risk with effective and efficient daily cash management, and due to this risk was mitigated.

Accounting Policies and Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (Contd.)

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 2016,	Total Rs.'000	Less than One year Rs.'000	One year to Three years Rs.'000	Three to Five Years Rs.'000	More than Five Years Rs.'000
Assets					
Financial Investments	11,544,575	3,521,592	2,888,156	2,682,529	2,452,298
Loans to Life Policyholders	119,941	-	-	-	119,941
Reinsurance Receivables	494,726	494,726	-	-	-
Premium Receivables	623,294	623,294	-	-	-
Staff and Other Loans	353,472	91,278	126,562	94,802	40,830
Cash and Cash Equivalents	625,527	625,527	-	-	-
Total Assets	13,761,535	5,356,417	3,014,718	2,777,331	2,613,069
Liabilities					
Reinsurance Creditors	287,895	287,895	-	-	-
Other Liabilities	293,656	159,352	-	-	134,304
Total Liabilities	581,551	447,247	-	-	134,304

Maturity Profile of Assets & Liabilities - Group

As at 31st December 2015,	Total Rs.'000	Less than One year Rs.'000	One year to Three years Rs.'000	Three to Five Years Rs.'000	More than Five Years Rs.'000
Assets					
Financial Investments	9,751,611	3,532,976	2,297,612	2,268,002	1,653,021
Loans to Life Policyholders	91,992	-	-	-	91,992
Reinsurance Receivables	141,354	141,354	-	-	-
Premium Receivables	345,916	345,916	-	-	-
Staff and Other Loans	281,505	91,690	133,884	49,620	6,311
Cash and Cash Equivalents	386,929	386,929	-	-	-
Total Assets	10,999,307	4,498,865	2,431,496	2,317,622	1,751,324
Liabilities					
Reinsurance Creditors	131,905	131,614	291	-	-
Other Liabilities	215,904	114,595	-	-	101,309
Total Liabilities	347,809	246,209	291	-	101,309

43. FINANCIAL RISK MANAGEMENT (Contd.)

Maturity Profile of Assets & Liabilities - Company

As at 31st December 2016,	Total Rs.'000	Less than One year Rs.'000	One year to Three years Rs.'000	Three to Five Years Rs.'000	More than Five Years Rs.'000
Assets					
Financial Investments	9,642,596	2,446,368	2,432,688	2,396,133	2,367,407
Loans to Life Policyholders	119,941	-	-	-	119,941
Reinsurance Receivables	54,814	54,814	-	-	-
Premium Receivables	6,805	6,805	-	-	-
Staff and Other Loans	214,492	61,903	76,347	54,842	21,400
Cash and Cash Equivalents	476,572	476,572	-	-	-
Total Assets	10,515,220	3,046,462	2,509,035	2,450,975	2,508,748
Liabilities					
Reinsurance Creditors	39,395	39,395	-	-	-
Other Liabilities	211,385	90,184	-	-	121,201
Total Liabilities	250,780	129,579	-	-	121,201

Maturity Profile of Assets & Liabilities - Company

As at 31st December 2015,	Total Rs.'000	Less than One year Rs.'000	One year to Three years Rs.'000	Three to Five Years Rs.'000	More than Five Years Rs.'000
Assets					
Financial Investments	7,849,625	2,709,549	1,865,545	1,838,101	1,436,430
Loans to Life Policyholders	91,992	-	-	-	91,992
Reinsurance Receivables	34,269	34,269	-	-	-
Premium Receivables	5,592	5,592	-	-	-
Staff and Other Loans	172,157	60,885	79,078	28,748	3,446
Cash and Cash Equivalents	258,222	258,222	-	-	-
Total Assets	8,411,857	3,068,517	1,944,623	1,866,849	1,531,868
Liabilities					
Reinsurance Creditors	37,547	37,547	-	-	-
Other Liabilities	154,278	62,662	-	-	91,616
Total Liabilities	191,825	100,209	-	-	91,616

The Group has no significant concentration of Liquidity risk during the reporting period.

Accounting Policies and Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (Contd.)

43.2.3.4 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.

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 that to be managed by the Group because the magnitude of the impact considered being significant.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on Profit Before Tax and equity. The table below summarises the Group's and the Company's sensitivity to Interest Rate Risk.

Sensitivity to interest rate risk

As at 31 December,	2016				2015			
	Group		Company		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
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
100 bps parallel increase market yield	-	(157,400)	-	(149,027)	(17,757)	(73,159)	(10,375)	(64,637)
100 bps parallel decrease market yield	-	167,550	-	158,813	15,146	76,355	10,680	71,105

Following table summarises the exposure to the Interest Rate Risk by the Group and the Company.

Exposure to Interest Rate Risk

31st December 2016,	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets - Group				
Held-To-Maturity	-	174,025	-	174,025
Loans & receivables	-	5,344,482	-	5,344,482
Available For Sale	-	5,726,617	142,941	5,869,558
Fair value through profit & loss	-	-	156,510	156,510
Cash and cash equivalent	-	396,528	228,999	625,527
Total Financial Assets - Group	-	11,641,652	528,450	12,170,102
Total Financial Liabilities - Group	-	-	581,551	581,551
Financial Assets - Company				
Held-To-Maturity	-	174,025	-	174,025
Loans & receivables	-	4,253,239	-	4,253,239
Available For Sale	-	4,974,862	120,738	5,095,600
Fair value through profit & loss	-	-	119,732	119,732
Cash and cash equivalent	-	351,173	125,399	476,572
Total Financial Assets - Company	-	9,753,299	365,869	10,119,168
Total Financial Liabilities - Company	-	-	250,780	250,780

43. FINANCIAL RISK MANAGEMENT (Contd.)

Exposure to Interest Rate Risk

31st December 2015,	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets - Group				
Held-To-Maturity	-	472,565	-	472,565
Loans & receivables	40,045	6,403,984	-	6,444,029
Available For Sale	-	1,458,992	200,304	1,659,296
Fair value through profit & loss	-	699,014	476,707	1,175,721
Cash and cash equivalent	-	187,459	199,470	386,929
Total Financial Assets - Group	40,045	9,222,014	876,481	10,138,540
Total Financial Liabilities - Group	-	-	347,809	347,809
Financial Assets - Company				
Held-To-Maturity	-	320,426	-	320,426
Loans & receivables	30,034	5,121,684	-	5,151,718
Available For Sale	-	1,389,245	170,280	1,559,525
Fair value through profit & loss	-	497,717	320,239	817,956
Cash and cash equivalent	-	146,020	112,202	258,222
Total Financial Assets - Company	30,034	7,475,092	602,721	8,107,847
Total Financial Liabilities - Company	-	-	191,825	191,825

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 at intervals of less than one year. Interest on fixed interest rate instruments is priced at the inception of the financial instrument and is fixed until maturity.

The Group 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 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.

Accounting Policies and Notes to the Financial Statements

43. FINANCIAL RISK MANAGEMENT (Contd.)

Following table shows the equity portfolio diversification the Group and the Company.

Equity Portfolio Diversification

As at 31st December,	2016				2015			
	Group		Company		Group		Company	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Banks, Finance and Insurance	125,674	42.1	100,730	41.9	180,494	40.4	134,644	39.5
Manufacturing	86,089	28.8	69,231	28.8	116,225	26.0	89,262	26.2
Diversified Holdings	36,334	12.2	29,265	12.2	32,404	7.2	23,382	6.8
Chemicals and Pharmaceuticals	24,555	8.2	21,988	9.1	33,459	7.5	27,208	8.0
Land and Property	15,467	5.2	12,056	5.0	17,940	4.0	13,985	4.1
Closed End Funds	10,296	3.5	7,200	3.0	10,708	2.4	7,488	2.2
Hotels and Travels	-	-	-	-	8,953	2.0	7,780	2.3
Power and Energy	-	-	-	-	12,614	2.8	9,423	2.7
Beverages, Food and Tobacco	-	-	-	-	17,191	3.8	12,271	3.6
Investment Trusts	-	-	-	-	11,433	2.6	11,433	3.4
Construction And Engineering	-	-	-	-	5,890	1.3	3,928	1.2
Total	298,415	100	240,470	100	447,311	100	340,804	100

The sensitivity analysis below is performed for reasonably possible movements in All Share Price Index with all other variables held constant, showing the impact on Profit Before Tax.

Percentage change in benchmark index (ASPI)

As at 31st December,	Group				Company			
	Impact on PBT		Impact on OCI		Impact on PBT		Impact on OCI	
	2016	2015	2016	2015	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
10 per cent increase in equity prices	14,518	23,630	14,294	20,030	11,253	16,304	12,074	17,028
10 per cent decrease in equity prices	(14,518)	(23,630)	(14,294)	(20,030)	(11,253)	(16,304)	(12,074)	(17,028)

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 and Euro denominated assets maintained in order to honour liabilities of foreign currency denominated insurance policies, which are sold in the ordinary course of business.

However, no material liabilities were recorded on foreign currency denominated policies as at the reporting date.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on Profit Before Tax and equity due to changes in the fair value of currency sensitive monetary assets.

43. FINANCIAL RISK MANAGEMENT (Contd.)

Sensitivity to foreign Currency Risk

	31st December 2016				31st December 2015			
	Group		Company		Group		Company	
	Amount in Foreign Currency '000	LKR Amount Rs. '000	Amount in Foreign Currency '000	LKR Amount Rs. '000	Amount in Foreign Currency '000	LKR Amount Rs. '000	Amount in Foreign Currency '000	LKR Amount Rs. '000
USD Assets	USD 1,020	153,559	USD 247	37,059	USD 1,208	171,504	USD 159	22,569
	Impact on PBT Rs. '000	Impact on Equity Rs. '000	Impact on PBT Rs. '000	Impact on Equity Rs. '000	Impact on PBT Rs. '000	Impact on Equity Rs. '000	Impact on PBT Rs. '000	Impact on Equity Rs. '000
5% strengthening of rupee	(7,678)	(5,528)	(1,853)	(1,334)	(8,575)	(6,174)	(1,128)	(812)
5% weakening of rupee	7,678	5,528	1,853	1,334	8,575	6,174	1,128	812
+/- % impact on profit	1.09%	0.85%	0.28%	0.22%	5.05%	3.13%	0.25%	0.19%

The Group has no significant concentration of currency risk during the reporting period.

Risk Sensitivity of Financial Assets

This analysis has been performed for reasonably possible movements in key individual variables, while holding all other variables constant. It shows the impact on Profit Before Tax (due to changes in fair value of financial assets whose fair values are recorded in the Statement of Profit or Loss and Other Comprehensive Income) and equity (due to adjustments to Profit Before Tax and changes in fair value of financial assets whose fair values are recorded in the Statement of Changes in Equity).

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

		31st December 2016				31st December 2015			
		Group		Company		Group		Company	
	Change in variables	Impact on Profit Before Tax Rs.'000	Impact on equity Rs.'000	Impact on Profit Before Tax Rs.'000	Impact on equity Rs.'000	Impact on Profit Before Tax Rs.'000	Impact on equity Rs.'000	Impact on Profit Before Tax Rs.'000	Impact on equity Rs.'000
Exchange rate	5% strengthening of rupee	(7,678)	(5,528)	(1,853)	(1,334)	(8,575)	(6,174)	(1,128)	(812)
Yield curve	+100 basis points	-	(157,400)	-	(149,027)	(17,757)	(73,159)	(10,375)	(64,637)
ASPI	10% increase	14,518	24,747	11,253	20,176	23,630	37,044	16,304	28,767
Total		6,840	(138,181)	9,400	(130,185)	(2,702)	(42,289)	4,801	(36,682)
Exchange rate	5% weakening of rupee	7,678	5,528	1,853	1,334	8,575	6,174	1,128	812
Yield curve	-100 basis points	-	167,550	-	158,813	15,146	76,355	10,680	71,105
ASPI	10% decrease	(14,518)	(24,747)	(11,253)	(20,176)	(23,630)	(37,044)	(16,304)	(28,767)
Total		(6,840)	148,331	(9,400)	139,971	91	45,485	(4,496)	43,150

Note 1: Movements in these key variables are non–linear.

Note 2: The carrying values of financial assets in the category of Held-To-Maturity and fixed rate investments in the category of Loans and Receivables are not subjected to changes in response to movements in interest rates.

Accounting Policies and Notes to the Financial Statements

44. EVENTS OCCURRING AFTER THE REPORTING DATE

44.a 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.

Proposed Dividend

The Board of Directors has recommended the payment of a first and final dividend of Rs. 5.00 per share for the year ended 31st December 2016 (2015 - Rs. 2.00 per share) which is to be approved at the Annual General Meeting to be held on 29th March 2017. More information with respect to a dividend declaration is given on Note 40.

45. COMMITMENTS

45.1 At the year end, no capital expenditure approved by the Board and contracted for which no provision has been made in these Financial Statements (2015 - Rs. Nil).

45.2 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2016 Rs.'000	2015 Rs.'000
Future commitments on operating leases		
Less than one year	123,052	68,023
Between one and five years	373,522	142,620
More than five years	4,402	7,166
Total Operating Lease Commitments	500,976	217,809

The Company leases a number of offices under operating leases. The leases typically run for a period of five to seven years, with an option to renew the lease after that date. Lease payments are increased to reflect market rentals at regular intervals.

During the year ended 31 December 2016 an amount of Rs. 2.8 Million was recognised as an expense in profit or loss in respect of operating leases for vehicle hired (2015: Rs.1.8 Million). There were no contingent rent recognised as an expense during the year.

46. CONTINGENCIES

46.1 The Inland Revenue Department has taken the view that reinsurance claims and commission for the year of assessment 2010/11 on General Insurance business is liable for Value Added Tax (VAT). Accordingly the Company has received a VAT Assessment on Reinsurance Claims and Commissions amounted to Rs. 13.3 Million for the year of Assessment 2010/2011. This has been a common assessment to most of the Insurance Companies who are in the General Insurance business, issued by Inland Revenue Department (IRD). However the Companies in the insurance industry are of the strong view that they are not liable to pay VAT on Reinsurance and claims.

The Company has filed due responses in consultation with Tax Consultants and has made an appeal to the Tax Appeals Commission and appeal hearing was held on the 16th June 2016. The Tax Appeal Commission requested HNBA and the IRD to submit a written appeal in order to grant the final decision. The Company submitted the written appeal on the 21st of July 2016 through our tax consultants and are yet to receive a response from the Tax Appeal Commission. The Company has obtained a Bank Guarantee of Rs. 3.3 Million against the appeal made. As such the Company is of the strong view that no additional Tax liabilities will arise due to this Assessment. No further response has been received on this matter as of the date of authorising these Consolidated Financial Statements

VAT on Reinsurance Claims and Commissions has been exempted by the Inland Revenue Department w.e.f. 1st January 2011. This is an indication that realisation of this liability is remote.

46. CONTINGENCIES (Contd.)

46.2 The Company has received an official communication from IRD stating that the Company is liable for Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Service (FS). The IRD is of the view that HNBA liability has arisen based on section 25C of VAT Act No 14 of 2002 with the application of attributable method. Accordingly, it stated that the Company has registered to pay VAT and NBT on FS w.e.f 01st January 2014.

However, Companies who are in Insurance Industry and our Tax Consultants, are of the view that insurance companies are not liable for VAT and NBT on FS, as the Companies are in the insurance business and do not engage in the business of financial service directly. Therefore, the Company has requested the IRD to cancel the registration on VAT and NBT on FS which is the stance of the entire insurance industry. As such we expect no liability to materialise in respect of the same.

46.3 The Company has received a Tax Intimation letter on Life Insurance Taxation for Y/A 2011/2012. However, no Assessment has been issued yet on this intimation. we have filed a response highlighting our view, which was done in consultation with Tax Consultants. However, as per the request of the IRD, we participated in the hearing held at their premises on the 25th July 2016 and we were asked to provide a written submission. We made the written submission through our Tax Consultants on 15th August 2016 to IRD. Based on the hearing held and written submission IRD sent a letter of determination on 20th December 2016 and determine to confirm the assessment. However Company opposed with the said determination hence submitted a letter of intention to appeal in the Tax appeal Commission with the consultation of our Tax consultant. Even if this tax intimation would materialised against the Company, the Tax Loss recorded in note No 38.4 will come down by Rs. 310 Million.

46.4 The Company has received a Notice of Assessment for Life Insurance taxation for the year of assessment 2012/2013. The Company has filed a petition of appeal through our Tax Consultants and the Company is of the strong view that no additional tax liability will arise due to this. Even in the event that this Assessment would materialise against the Company, no additional tax liabilities are required for the Company since the Company has accumulated tax losses. However, the accumulated tax losses of the Life business recorded in note No 38.4 will come down by Rs. 278 Million.

46.5 The Company has received a Notice of Assessment for Life Insurance taxation for the year of assessment 2013/2014. The Company has filed a petition of appeal through our Tax Consultants. In the event that this Assessment would materialise against the Company, there will be a tax liability of Rs. 132 Million after utilising all available tax losses. However, the Company together with our Tax Consultants are of the strong view that the liabilities raised in this assessment would not materialise.

46.6 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.

Accounting Policies and Notes to the Financial Statements

47. 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 Financial Statements of,		Current Year		Amount Reclassified		Prior Year	
	Note	Group	Company	Group	Company	Group	Company
As at 31st December,		2015	2015			2015	2015
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Other Revenue							
Fees and Commission Income	47.1	116,294	44,742	(6,258)	(6,258)	122,552	51,000
Other Income		15,201	6,273	6,258	6,258	8,943	15
Net Benefits, Claims and Expenses							
Other Operating and Administration Expenses	47.2	(1,296,185)	(701,809)	(67,572)	(33,712)	(1,363,757)	(735,521)
Underwriting and Net Acquisition Costs		(699,679)	(544,673)	67,572	33,712	(632,107)	(510,961)

Reason for changes in presentation and reclassification

47.1 Sundry income of the Company previously recorded under fee and commission income. However, this was reclassified under other Income to in line with the current year presentation.

47.2 Incidental expenses related to business was previously recorded under other operating and administration expenses in both Company and Group level, however these travelling expenses directly incurred for acquisition of insurance hence it is more appropriate to classify under Underwriting and Net Acquisition Costs. Hence this was reclassified to in line with the current year presentation.

48. TRANSFER PRICING

Provision on transfer pricing under sections 104 and 104A of the Inland Revenue Act,No.10 of 2006 covers the transactions with associated undertakings. Since compliance reporting will be enforced from the year of assessment 2015/16.

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 the companies (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. The companies have prepared and maintained the relevant documentation and filings to comply with transfer pricing regulation.

49. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer to page 210 of the Statement of Directors' Responsibility for Financial Reporting.

Statement of Financial Position of The Life Insurance Fund - Supplemental

As at 31st December,	Note	Page No.	2016 Rs.'000	2015 Rs.'000
Assets				
Financial Investments	A	336	8,190,577	6,712,139
Loans to Life Policyholders	B	342	119,941	91,992
Reinsurance Receivables	C	342	54,814	34,269
Premium Receivables	10	259	6,805	5,592
Other Assets	D	342	167,471	160,671
Cash and Cash Equivalents	E	342	260,740	220,999
Total Assets			8,800,348	7,225,662
Equity and Liabilities				
Life Policyholders' Available For Sale Reserve Fund	18	265	(191,131)	(56,350)
Total Equity			(191,131)	(56,350)
Liabilities				
Insurance Contract Liabilities - Life Insurance	19	265	8,747,856	7,007,080
Reinsurance Creditors	F	343	39,395	37,547
Other Liabilities	G	343	204,228	237,385
Total Liabilities			8,991,479	7,282,012
Total Equity and Liabilities			8,800,348	7,225,662

The Notes to the Financial Statements as set out on pages 336 to 343 form an integral part of these Financial Statements.

Notes to the Supplemental Financial Statements - Life Insurance Fund

A. Financial Investments

As at 31st December,		2016	2015
		Rs.'000	Rs.'000
Held-To-Maturity (HTM)	(Note A.1)	174,025	320,426
Loans and Receivable (L & R)	(Note A.2)	3,217,599	4,074,573
Available For Sale (AFS)	(Note A.3)	4,679,221	1,548,731
Fair Value Through Profit or Loss (FVTPL)	(Note A.4)	119,732	768,409
Total Financial Investments		8,190,577	6,712,139

The table below shows the carrying values of these Financial Instruments together with their fair values

As at 31st December,	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Held-To-Maturity (HTM)	174,025	177,193	320,426	336,302
Loans and Receivable (L & R)	3,217,599	3,010,959	4,074,573	4,004,924
Available For Sale (AFS)	4,679,221	4,679,221	1,548,731	1,548,731
Fair Value Through Profit or Loss (FVTPL)	119,732	119,732	768,409	768,410
Total Financial Investments	8,190,577	7,987,105	6,712,139	6,658,367

As at 31st December,		2016		2015	
		Carrying value	Fair value	Carrying value	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
A.1 Held-To-Maturity (HTM)					
- Treasury Bonds		174,025	177,193	320,426	336,302
Total		174,025	177,193	320,426	336,302
A.2 Loans and Receivable (L & R)					
- Treasury Bills - Repo		245,250	245,250	601,923	601,923
- Treasury Bills - Overnight Repo		88,295	88,295	694,195	694,195
- Term Deposit	(Note A.5)	888,908	871,440	840,199	856,317
- Corporate Debt	(Note A.6)	1,995,146	1,805,974	1,938,256	1,852,489
Total		3,217,599	3,010,959	4,074,573	4,004,924
A.3 Available For Sale (AFS)					
- Treasury Bonds		3,840,003	3,840,003	1,349,356	1,349,356
- Treasury Bills		718,480	718,480	29,095	29,095
- Equity Shares	(Note A.7)	120,738	120,738	170,280	170,280
Total		4,679,221	4,679,221	1,548,731	1,548,731
A.4 Fair Value Through Profit or Loss (FVTPL)					
- Treasury Bonds		-	-	497,717	497,717
- Investment in Units	(Note A.8)	7,200	7,200	107,657	107,657
- Equity Shares	(Note A.9)	112,532	112,532	163,035	163,036
Total		119,732	119,732	768,409	768,410

Fair Value Through Profit or Loss Investments and Available For Sale Investments have been valued at fair value. Held-To-Maturity and loans and receivable are valued at at amortised cost.

A.5 Term Deposits

As at 31st December,		2016 Carrying value Rs.'000	2016 Fair value Rs.'000	2015 Carrying value Rs.'000	2015 Fair value Rs.'000
Long term and medium term deposits with,					
Licensed Commercial Banks	(Note A.5.1)	629,544	624,492	109,495	112,523
Licensed Specialised Banks		-	-	396,910	413,932
Registered Finance Companies		259,364	246,948	333,794	329,863
Total		888,908	871,440	840,199	856,318

A.5.1 Licensed Commercial Banks

Term Deposits with Related Parties - Hatton National Bank PLC		79,570	79,570	72,455	72,455
Others Banks		549,974	544,922	37,040	40,068
Total		629,544	624,492	109,495	112,523

A.6 Corporate Debt

As at 31st December,		2016 Carrying value Rs.'000	2016 Fair value Rs.'000	2015 Carrying value Rs.'000	2015 Fair value Rs.'000
Debentures - Quoted	(Note A.6.1)	1,995,146	1,805,974	1,892,393	1,807,095
Debentures - Unquoted	(Note A.6.2)	-	-	45,863	45,394
Total Corporate Debt		1,995,146	1,805,974	1,938,256	1,852,489

Notes to the Supplemental Financial Statements - Life Insurance Fund

A.6.1. Debentures - Quoted

As at 31st December,	2016 Carrying value Rs.'000	2016 Fair value Rs.'000	2015 Carrying value Rs.'000	2015 Fair value Rs.'000
Abans PLC	90,108	79,932	88,289	84,391
Access Engineering PLC	96,147	83,992	96,147	89,621
Bank of Ceylon	131,332	130,511	101,337	109,054
Commercial Bank of Ceylon PLC	27,727	24,428	-	-
Central Finance Company PLC	30,078	29,508	35,983	37,402
Commercial Credit and Finance PLC	81,295	71,454	81,286	75,533
Commercial Leasing and Finance PLC	43,900	36,517	41,742	38,722
DFCC Bank PLC	94,374	86,270	59,346	56,317
Hatton National Bank PLC	217,837	197,137	128,129	107,453
Hayleys PLC	-	-	41,437	42,424
HDFC Bank of Sri Lanka	69,300	62,706	68,679	67,277
Hemas Holdings PLC	42,610	39,866	42,597	41,739
Lanka Orix Leasing Company PLC	35,792	30,784	62,285	57,627
LB Finance PLC	71,450	63,443	71,424	68,384
Lion Brewery (Ceylon) PLC	40,584	39,625	57,944	59,123
Mercantile Investment And Finance PLC	3,669	3,453	3,668	3,587
Merchant Bank of Sri Lanka & Finance PLC	86,419	76,719	110,575	103,119
National Development Bank PLC	60,731	52,430	59,496	56,596
Nations Trust Bank PLC	78,133	72,275	35,311	34,680
Nawaloka Hospitals PLC	41,411	40,122	41,411	42,857
Pan Asia Banking Corporation PLC	38,549	34,005	38,548	35,925
People's Leasing & Finance PLC	111,396	104,368	70,750	70,858
Richard Pieris and Company PLC	45,900	42,644	46,217	44,892
Sampath Bank PLC	194,798	166,459	194,450	176,461
Seylan Bank PLC	151,308	141,982	139,824	139,112
Singer (Sri Lanka) PLC	18,403	16,271	40,167	38,130
Siyapatha Finance PLC	58,275	48,775	43,550	36,508
Softlogic Finance PLC	18,237	16,451	18,234	16,970
Softlogic Holdings PLC	-	-	58,184	57,843
Vallibel Finance PLC	15,383	13,847	15,383	14,490
Total Investment in Quoted Debentures	1,995,146	1,805,974	1,892,393	1,807,095

A.6.2 Debentures - Unquoted

As at 31st December,	2016 Carrying value Rs.'000	2016 Fair value Rs.'000	2015 Carrying value Rs.'000	2015 Fair value Rs.'000
Abans PLC	-	-	25,841	25,467
National Development Bank PLC	-	-	20,022	19,927
Total Investment in Unquoted Debentures	-	-	45,863	45,394

A.7. Equity Shares - Available For Sale

As at 31st December,	2016			2015		
	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000
Banks, Finance and Insurance						
Seylan Bank PLC - (Non-Voting)	210,000	10,656	12,390	210,000	10,656	15,330
Sampath Bank PLC	93,831	21,312	24,434	91,356	21,312	22,656
Central Finance Company PLC	177,653	21,805	17,765	85,961	21,805	21,748
Sector Total			54,589			59,734
Diversified Holdings						
Vallibel One PLC	-	-	-	201,877	5,231	4,340
Melstacorp Limited	39,532	2,344	2,344	-	-	-
Sector Total			2,344			4,340
Hotel and Travels						
Aitken Spence Hotel Holdings PLC	-	-	-	80,112	6,805	5,448
Palm Garden Hotels PLC	-	-	-	45,900	2,525	1,749
Sector Total			-			7,197
Investment Trusts						
Renuka Holdings PLC	-	-	-	425,000	15,408	11,433
Sector Total			-			11,433
Manufacturing						
Tokyo Cement Company (Lanka) PLC	285,568	16,266	16,906	285,568	16,266	13,993
Royal Ceramics Lanka PLC	50,000	6,067	5,775	50,000	6,067	5,560
Teejay Lanka PLC	453,681	10,817	19,418	863,681	20,118	30,661
Sector Total			42,099			50,214
Beverage, Food and Tobacco						
Distilleries Company of Sri Lanka PLC	-	-	-	9,883	2,048	2,431
Sector Total			-			2,431
Chemical and Pharmaceuticals						
CIC Holdings PLC - (Non-Voting)	141,915	9,698	9,650	141,915	9,698	11,523
Sector Total			9,650			11,523
Power and Energy						
Lanka IOC PLC	-	-	-	254,000	14,718	9,423
Sector Total			-			9,423
Land and Property						
Overseas Realty (Ceylon) PLC	602,809	15,391	12,056	602,809	15,315	13,985
Sector Total			12,056			13,985
Total Investment in Equity Shares (AFS)			120,738			170,280

Notes to the Supplemental Financial Statements - Life Insurance Fund

A.8. Investment Units

As at 31st December,	2016 No. of Units	2016 Carrying Value/Fair Value Rs.'000	2015 No. of Units	2015 Carrying Value/Fair Value Rs.'000
Quoted				
NAMAL Acuity Value Fund	80,000	7,200	80,000	7,488
Total Investment in Quoted Unit Trusts		7,200		7,488
Unquoted				
Ceybank Savingsplus Money Market Fund	-	-	1,800,000	18,577
First Capital Wealth Fund	-	-	30,405	36,543
Ceylon Income Fund	-	-	531,108	7,255
NAMAL High Yield Fund	-	-	995,025	14,596
Guardian Acuity Money Market Fund	-	-	1,861,814	23,198
Total Investment in Unquoted Unit Trusts		-		100,169
Total Investments in Unit Trusts		7,200		107,657

A.9. Equity Shares - Fair Value Through Profit or Loss

As at 31st December,	2016			2015		
	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000
Banks, Finance and Insurance						
National Development Bank PLC	11,299	1,600	1,763	53,200	5,980	10,326
Sampath Bank PLC	57,646	11,318	15,011	56,126	11,318	13,919
Nations Trust Bank PLC	87,261	6,083	7,059	174,261	11,640	15,039
DFCC Bank PLC	-	-	-	30,000	3,765	5,043
People's Leasing & Finance PLC	476,000	8,568	8,187	596,000	10,728	13,112
Seylan Bank PLC - (Non-Voting)	239,332	9,006	14,121	239,332	9,006	17,471
Sector Total			46,141			74,910
Beverage Food and Tobacco						
Distilleries Company of Sri Lanka PLC	-	-	-	40,000	7,099	9,840
Sector Total			-			9,840
Diversified Holdings						
John Keells Holdings PLC	48,274	7,864	7,000	42,240	7,864	7,523
Richard Pieris and Company PLC	722,851	10,342	5,783	722,851	10,342	6,144
Vallibel One PLC	250,000	4,500	4,650	250,000	4,500	5,375
Melstacorp Limited	160,000	9,484	9,488	-	-	-
Sector Total			26,921			19,042
Manufacturing						
Royal Ceramics Lanka PLC	28,000	4,318	3,234	83,000	12,918	9,230
Dipped Products PLC	-	-	-	25,720	3,264	2,829
ACL Cables PLC	125,200	4,850	7,575	62,600	4,850	7,568
Tokyo Cement Company (Lanka) PLC	275,724	12,278	16,323	325,724	13,711	15,960
Kelani Cables PLC	-		-	27,000	3,058	3,461
Sector Total			27,132			39,048
Hotels and Travels						
Palm Garden Hotels PLC	-	-	-	15,300	2,975	583
Sector Total			-			583
Chemicals and Pharmaceuticals						
CIC Holdings PLC	135,000	10,915	12,338	135,000	10,915	13,541
Haycarb PLC	-		-	13,000	2,245	2,144
Sector Total			12,338			15,685
Construction and Engineering						
Access Engineering PLC	-	-	-	170,000	4,109	3,928
Sector Total			-			3,928
Total Investment in Equity Shares (FVTPL)			112,532			163,036

Notes to the Supplemental Financial Statements - Life Insurance Fund

			2016	2015
			Rs.'000	Rs.'000
B.	**LOANS TO LIFE POLICYHOLDERS**			
	Balance as at 1st January		77,309	61,652
	Loans Granted during the Year		49,642	37,769
	Repayments during the year		(27,377)	(22,112)
			99,574	77,309
	Interest Receivable		20,367	14,683
	Balance as at 31st December		119,941	91,992
C.	**REINSURANCE RECEIVABLES**			
	Reinsurance Receivable on Outstanding Claims		39,588	20,945
	Reinsurance Receivable on Settled Claims	(Note C.1)	15,226	13,324
	Total		54,814	34,269
C.1	The age analysis of the reinsurance receivable on settled claims is as follows:			
	Up to 30 days		3,525	7,434
	31 to 60 days		4,848	1,422
	61 to 90 days		6,853	1,378
	91 to 180 days		-	3,090
	Total		15,226	13,324
D.	**OTHER ASSETS**			
	Advance Payments		-	-
	Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note D.1)	166,285	159,417
	Other Receivables		1,186	1,254
	Total		167,471	160,671
D.1	Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)			
	Withholding Tax Recoverable (WHT)		71,176	64,308
	Notional Tax on Government Securities		95,109	95,109
	Total		166,285	159,417
E.	**CASH AND CASH EQUIVALENTS**			
	Cash in Hand		1,282	1,018
	Cash at Bank with Licensed Commercial Banks		10,708	6,171
	Cash at Bank with Related Parties - Hatton National Bank PLC		97,984	87,892
			109,974	95,081
	Short Term Deposits	(Note E.1)	150,766	125,918
	Total		260,740	220,999

		2016	2015
		Rs.'000	Rs.'000
E.1	**Short Term Deposits**		
	With Licensed Commercial Banks	150,766	100,343
	Others	-	25,575
	Total	150,766	125,918
F.	**REINSURANCE CREDITORS**		
	Foreign Reinsurer	39,395	37,547
G.	**OTHER LIABILITIES**		
	Policyholders Advance Payments	99,854	94,866
	Acquisition Cost Payable	86,369	69,620
	Advisor Terminal Benefit Scheme	-	519
	Government Levies	1,819	1,531
	Accrued Expenses	(2,110)	55,179
	Others	18,296	15,670
	Total	204,228	237,385

Insurance Revenue Account

For the year ended 31st December,	2016	2015
	Rs.'000	Rs.'000
Life Insurance		
Gross Written Premium	3,554,078	2,788,716
Premium Ceded to Reinsurers	(159,050)	(107,963)
Net Written/Earned Premium	3,395,028	2,680,753
Net Benefits Expense	(401,677)	(280,495)
Net Commission	(759,143)	(550,914)
Expenses Attributable to Policyholders	(900,887)	(713,342)
Fees and Commission Income	62,858	44,742
Underwriting Surplus	1,396,179	1,180,744
Change In contract Libilities - Life Fund	(1,708,285)	(1,462,100)
Interest and Dividend Income	987,959	705,571
Net Realised (Losses)/Gains	(22,435)	22,512
Net Fair Value (Losses)/Gains	(7,793)	4,028
Other Income	11,017	6,273
Surplus from Life Insurance Business (a)	656,642	457,028
General Insurance		
Gross Written Premium	3,141,559	2,698,176
Premium Ceded to Reinsurers	(718,663)	(491,121)
Net Written Premium	2,422,896	2,207,055
Net Change in Reserves for Unearned Premium	(181,102)	(122,677)
Net Earned Premium	2,241,794	2,084,378
Net Claims Incurred	(1,546,601)	(1,837,294)
Net Commission	(350,153)	(295,041)
(Increase) / Decrease in Deferred Acquisition Expenses	9,016	13,863
Expenses	(578,987)	(529,247)
Fees and Commission Income	73,029	81,612
Underwriting Deficit	(151,902)	(481,729)
Interest and Dividend Income	192,126	165,478
Net Realised (Losses)/Gains	(6,684)	10,468
Net Fair Value Gain	1,332	12,555
Other Income	14,007	8,928
Operating Profit from General Insurance Business (b)	48,879	(284,300)
Reconciliation of Statement of Income and Insurance Revenue Accounts		
(a.)Surplus from Life Insurance Business	656,642	457,028
(b.)Operating Profit / (Loss) from the Subsidiary	48,879	(284,300)
Profit Before Taxation	705,521	172,728
Income Tax (Expense) / Reversal	(58,108)	27,571
Net Intercompany expenses	-	(2,955)
Profit for the Year	647,413	197,344

Quarterly Analysis 2016 and 2015 - Group

Statement of Profit or Loss

	1st Quarter Jan - Mar		2nd Quarter Apr-Jun		3rd Quarter Jul-Sep		4th Quarter Oct-Dec		Total Jan-Dec	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	1,610,951	1,357,812	1,515,977	1,325,099	1,730,790	1,369,436	1,798,976	1,394,817	6,656,694	5,447,164
Premium Ceded to Reinsurers	(212,572)	(160,219)	(210,110)	(142,472)	(180,700)	(146,815)	(274,331)	(149,578)	(877,713)	(599,084)
Net Written Premium	1,398,379	1,197,593	1,305,867	1,182,627	1,550,090	1,222,621	1,524,645	1,245,239	5,778,981	4,848,080
Net Change in Reserves for Unearned Premium	(61,883)	(138,004)	(7,626)	(30,994)	(71,143)	(15,112)	(40,450)	61,433	(181,102)	(122,677)
Net Earned Premium (a)	1,336,496	1,059,589	1,298,241	1,151,633	1,478,947	1,207,509	1,484,195	1,306,672	5,597,879	4,725,403
Other Revenue										
Interest and Dividend Income	243,070	202,304	283,843	225,150	316,753	219,771	336,419	223,824	1,180,085	871,049
Net Realised (Losses)/Gains	(11,098)	14,158	1,911	9,539	(11,865)	1,655	(8,067)	4,673	(29,119)	30,025
Net Fair Value (Losses)/Gains	(36,555)	(11,620)	18,867	6,703	20,307	13,654	(9,080)	7,846	(6,461)	16,583
Fee and Commission Income/ (Expenses)	54,014	(19,779)	24,424	82,583	26,686	21,722	23,674	31,768	128,798	116,294
Other Income	2,626	700	4,535	1,098	1,031	2,494	16,832	10,909	25,024	15,201
Total Other Revenue (b)	252,057	185,763	333,580	325,073	352,912	259,296	359,778	279,020	1,298,327	1,049,152
Net Income (c=a+b)	1,588,553	1,245,352	1,631,821	1,476,706	1,831,859	1,466,805	1,843,973	1,585,692	6,896,206	5,774,555
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims Paid	(464,214)	(484,892)	(503,296)	(432,902)	(525,010)	(548,262)	(474,239)	(518,302)	(1,966,759)	(1,984,358)
Net Change in Insurance Claims Outstanding	30,937	68,266	10,306	8,201	5,170	(145,552)	(27,299)	(64,346)	19,114	(133,431)
Change in Contract Liabilities - Life Fund	(499,476)	(388,933)	(524,232)	(450,632)	(591,679)	(426,036)	(92,898)	(196,499)	(1,708,285)	(1,462,100)
Other Operating and Administration Expenses	(364,859)	(303,848)	(377,669)	(342,373)	(403,642)	(301,002)	(426,794)	(348,962)	(1,572,964)	(1,296,185)
Underwriting and Net Acquisition Costs	(238,000)	(124,995)	(210,303)	(211,373)	(222,757)	(172,317)	(251,826)	(190,994)	(922,886)	(699,679)
Other Insurance Related Costs	(7,084)	4,874	(8,666)	(315)	(12,709)	(26,176)	(10,446)	(7,412)	(38,905)	(29,029)
Total Benefits, Claims and other Expenses (d)	(1,542,696)	(1,229,528)	(1,613,860)	(1,429,394)	(1,750,627)	(1,619,345)	(1,283,502)	(1,326,515)	(6,190,685)	(5,604,782)
Profit/(Loss) Before Taxation (c+d)	45,857	15,824	17,961	47,312	81,232	(152,540)	560,471	259,177	705,521	169,773
Income Tax (Expenses) / Reversal	(12,326)	(297)	(10,695)	16,682	(16,137)	19,738	(18,950)	(8,552)	(58,108)	27,571
Profit/(Loss) for the Period	33,531	15,527	7,266	63,994	65,095	(132,802)	541,521	250,625	647,413	197,344

Note - To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2015 annual report, and the figures published in first second and third quarters of 2016 have been reclassified where necessary

Quarterly Analysis 2016 and 2015 - Company

Statement of Profit or Loss

	1st Quarter Jan - Mar		2nd Quarter Apr-Jun		3rd Quarter Jul-Sep		4th Quarter Oct-Dec		Total Jan-Dec	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	837,450	626,418	804,848	657,083	959,167	708,246	952,613	796,969	3,554,078	2,788,716
Premium Ceded to Reinsurers	(37,635)	(34,758)	(38,210)	(18,543)	(39,941)	(23,421)	(43,264)	(31,241)	(159,050)	(107,963)
Net Earned Premium (a)	799,815	591,660	766,638	638,540	919,226	684,825	909,349	765,728	3,395,028	2,680,753
Other Revenue										
Interest and Dividend Income	200,901	162,339	236,695	179,720	266,238	180,089	284,125	183,423	987,959	705,571
Net Realised (Losses)/Gains	(7,337)	11,977	2,113	5,349	(9,308)	15	(7,903)	5,171	(22,435)	22,512
Net Fair Value (Losses)/Gains	(26,759)	(9,362)	11,314	5,064	16,395	4,913	(8,743)	3,413	(7,793)	4,028
Fee and Commission Income	33,865	23,945	6,067	3,427	8,285	5,029	14,641	12,341	62,858	44,742
Other Income	333	(359)	1,844	1,912	2,601	(321)	6,239	5,041	11,017	6,273
Total Other Revenue (b)	201,003	188,540	258,033	195,472	284,211	189,725	288,359	209,389	1,031,606	783,126
Net Income (c=a+b)	1,000,818	780,200	1,024,671	834,012	1,203,437	874,550	1,197,708	975,117	4,426,634	3,463,879
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims Paid	(76,235)	(89,370)	(77,196)	(58,212)	(105,944)	(75,013)	(128,454)	(76,676)	(387,829)	(299,271)
Net Change in Insurance Claims Outstanding	9,190	23,593	5,493	2,858	(24,796)	(467)	(3,735)	(7,208)	(13,848)	18,776
Change in Contract Liabilities - Life Fund	(499,476)	(388,934)	(524,232)	(450,632)	(591,679)	(426,035)	(92,898)	(196,499)	(1,708,285)	(1,462,100)
Other Operating and Administration Expenses	(193,870)	(151,290)	(212,629)	(181,098)	(236,608)	(179,353)	(243,738)	(190,068)	(886,845)	(701,809)
Underwriting and Net Acquisition Costs	(193,979)	(142,790)	(164,142)	(112,739)	(181,884)	(135,534)	(208,046)	(153,694)	(748,051)	(544,673)
Other Insurance Related Costs	(5,069)	(2,522)	(5,243)	(5,250)	(7,802)	(6,043)	(7,020)	(3,959)	(25,134)	(17,774)
Total Benefits, Claims and other Expenses (d)	(959,439)	(751,229)	(977,949)	(805,073)	(1,148,713)	(822,445)	(683,891)	(628,104)	(3,769,992)	(3,006,851)
Profit Before Taxation (c+d)	41,379	28,971	46,722	28,939	54,724	52,105	513,817	347,013	656,642	457,028
Income Tax (Expenses) / Reversal	(9,763)	(296)	(13,258)	297	(16,137)	(20,832)	(17,354)	(8,552)	(56,512)	(29,383)
Profit for the Period	31,616	28,675	33,464	29,236	38,587	31,273	496,463	338,461	600,130	427,645

Note - To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2015 annual report, and the figures published in first second and third quarters of 2016 have been reclassified where necessary

Decade at a Glance

Statement of Financial Position - Group

As at 31st December,	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000 Restated	Rs.'000 Restated	Rs.'000	Rs.'000 Reclassified	Rs.'000
Assets										
Property, Plant and Equipment	161,362	136,279	133,942	137,009	118,447	121,568	130,971	117,070	91,717	72,397
Intangible Assets	60,882	45,185	51,622	53,807	61,068	48,876	52,308	30,755	23,058	20,539
Deferred Tax Assets	52,922	49,394	-	2	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	2,717,415	2,037,643	1,480,598
Financial Investments	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	119,941	91,992	71,082	53,656	29,888	20,097	15,000	10,338	4,908	1,674
Reinsurance Receivables	494,726	141,354	162,260	105,390	162,715	130,867	122,403	73,824	69,314	30,917
Premium Receivables	623,294	345,916	364,051	301,182	247,417	231,385	231,929	157,029	120,922	86,721
Other Assets	770,674	625,985	683,149	575,180	482,216	397,385	337,745	471,170	334,640	199,964
Insurance Contract - Deferred Expenses	74,951	65,935	52,072	32,912	19,968	20,059	12,392	-	-	-
Cash and Cash Equivalents	625,527	386,929	173,245	144,087	209,293	190,355	81,444	94,100	117,271	116,071
Total Assets	14,528,854	11,640,580	9,969,318	8,059,663	7,034,878	6,044,854	4,627,553	3,671,701	2,799,473	2,008,881
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	375,000	375,000	375,000	375,000
Retained Earnings	1,721,675	1,174,262	1,196,546	941,820	690,197	444,057	676,118	455,851	301,116	174,143
Available For Sale Reserve	(7,152)	(4,748)	3,590	1,427	6,209	-	-	-	-	-
Other Reserves	1,790	(1,093)	1,177	2,172	-	-	-	-	-	-
Life Policyholders' Reserve Fund - AFS	(191,131)	(56,350)	40,748	(4,182)	(1,191)	(22,526)	31,050	-	-	-
Total Equity	2,697,057	2,283,946	2,413,936	2,113,112	1,867,090	1,593,406	1,082,168	830,851	676,116	549,143
Liabilities										
Insurance Contract Liabilities - Life	8,747,856	7,007,080	5,562,648	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505	880,674
Insurance Contract Liabilities - General	1,921,567	1,546,265	1,279,138	1,011,102	969,443	944,321	743,049	599,364	470,206	340,562
Employee Defined Benefit Liabilities	90,433	81,001	71,493	56,637	42,360	34,129	25,076	18,180	11,318	7,477
Current Tax Liabilities	3,300	-	12,012	35,143	42,950	25,998	28,618	-	-	-
Deferred Tax Liabilities	-	-	8,845	-	-	-	-	-	-	-
Reinsurance Creditors	287,895	131,905	110,778	100,881	83,253	103,256	77,309	87,251	83,039	78,427
Other Liabilities	780,746	590,383	510,468	394,298	403,543	322,413	256,119	282,542	198,289	152,598
Total Liabilities	11,831,797	9,356,634	7,555,382	5,946,551	5,167,788	4,451,448	3,545,385	2,840,850	2,123,357	1,459,738
Total Equity and Liabilities	14,528,854	11,640,580	9,969,318	8,059,663	7,034,878	6,044,854	4,627,553	3,671,701	2,799,473	2,008,881

Statement of Profit or Loss - Group

For the year ended 31st December,	2016	2015*	2014	2013	2012	2011	2010	2009	2008	2007
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	6,656,694	5,447,164	4,665,618	3,877,730	3,211,232	2,984,710	2,428,183	2,115,647	1,838,879	1,472,153
Net Earned Premium	5,597,879	4,725,403	3,845,510	3,269,181	2,697,024	2,349,619	1,844,360	1,567,747	1,375,681	1,166,643
Income from Investments and Other Income	1,298,327	1,049,152	1,167,910	937,417	736,810	466,956	516,880	469,038	344,007	200,800
Net Claims and Benefits	(1,947,645)	(2,117,789)	(1,573,104)	(1,568,208)	(1,154,521)	(865,130)	(648,137)	(511,911)	(408,482)	(316,878)
Change in Contract Liabilities - Life Fund	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)	(479,831)	(372,953)
Underwriting and Net Acquisition Costs	(922,886)	(699,679)	(474,826)	(381,259)	(348,108)	(288,059)	(164,991)	(150,108)	(168,166)	(152,666)
Expenses	(1,611,869)	(1,325,214)	(1,334,634)	(1,107,209)	(981,430)	(833,221)	(746,854)	(650,677)	(493,335)	(381,614)
Profit Before Taxation	705,521	169,773	438,583	425,093	393,866	271,840	269,525	231,081	169,874	143,332
Income Tax (Expenses)/Reversal	(58,108)	27,571	(20,857)	(35,970)	(42,726)	(25,772)	(27,786)	(29,471)	(5,401)	(20,000)
Profit for the Year	647,413	197,344	417,726	389,123	351,140	246,068	241,739	201,610	164,473	123,332
Basic Earnings per Share (Rs.)	12.95	3.95	8.35	7.78	7.02	5.14	5.38	4.49	3.66	2.75
Dividend per Share (Rs.)	5.00	2.00	3.75	3.25	2.75	2.10	1.80	1.50	1.25	1.00

*Note - The presentation and classification in these Financial Statements are amended/reclassified to ensure comparability with the current year information. Detail note has been given in note number 47 in page 334

Decade at a Glance

HNB ASSURANCE PLC/LIFE INSURANCE - COMPANY

Statement of Financial Position

As at 31st December,	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
						Restated	Restated		Reclassified	
Assets										
Property, Plant and Equipment	112,151	94,107	-	-	-	4,276	4,573	6,174	8,151	4,333
Intangible Assets	60,882	45,185	-	-	-	22,203	20,773	14,523	5,742	2,936
Investments	-	-	-	-	-	-	-	1,686,073	1,263,166	852,943
Financial Investments	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	-	-	-	-	-	-	-	-
Loans to Life Policyholders	119,941	91,992	71,082	53,656	29,888	20,097	15,000	10,338	4,908	1,674
Reinsurance Receivables	54,814	34,269	23,446	23,626	40,716	27,848	18,617	16,283	10,025	6,234
Premium Receivables	6,805	5,592	6,943	6,710	9,573	-	-	-	-	-
Other Assets	575,676	493,571	195,023	169,032	137,795	129,223	102,556	219,625	150,279	78,697
Cash & Cash Equivalents	476,572	258,222	88,482	74,705	129,916	62,468	13,005	45,252	39,939	44,890
Total Assets	12,199,437	10,022,563	5,930,809	4,597,945	3,875,310	3,201,602	2,590,377	1,998,268	1,482,210	991,707
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	-	-	-	-	-	-	-	-
Retained Earnings	1,897,936	1,397,806	-	-	-	-	-	-	-	-
Available For Sale Reserve	(1,465)	53	-	-	-	-	-	-	-	-
Other Reserves	(1,886)	(2,039)	(18,780)	928	-	-	-	-	-	-
Life Policyholders' Reserve Fund - AFS	(191,131)	(56,350)	40,748	(4,182)	(1,191)	(22,526)	31,050	-	-	-
Total Equity	2,875,329	2,511,345	21,968	(3,254)	(1,191)	(22,526)	31,050	-	-	-
Liabilities										
Insurance Contract Liabilities - Life	8,747,856	7,007,080	5,562,648	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505	880,674
Employee Defined Benefit Liabilities	50,883	44,008	31,508	6,747	4,943	4,565	3,406	2,597	1,681	922
Reinsurance Creditors	39,395	37,547	30,921	24,849	29,928	28,106	25,341	24,937	32,535	42,052
Other Liabilities	485,974	422,583	283,764	221,113	215,391	170,126	115,366	117,221	87,489	68,059
Total Liabilities	9,324,108	7,511,218	5,908,841	4,601,199	3,876,501	3,224,128	2,559,327	1,998,268	1,482,210	991,707
Total Equity and Liabilities	12,199,437	10,022,563	5,930,809	4,597,945	3,875,310	3,201,602	2,590,377	1,998,268	1,482,210	991,707

Statement of Profit or Loss

For the year ended 31st December,	2016	2015*	2014	2013	2012	2011	2010	2009	2008	2007
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	3,554,078	2,788,716	2,342,867	2,014,547	1,500,028	1,290,367	1,084,480	984,866	914,170	767,576
Net Earned Premium	3,395,028	2,680,753	2,215,404	1,912,749	1,371,952	1,187,671	985,283	891,808	834,218	698,048
Income from Investments and Other Income	1,031,606	783,126	707,444	578,890	428,630	297,566	339,295	311,730	217,223	114,920
Net Benefits Incurred	(401,677)	(280,495)	(412,383)	(679,136)	(261,771)	(62,760)	(59,900)	(63,701)	(44,669)	(25,595)
Change in Contract Liabilities - Life Fund	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)	(479,831)	(372,953)
Underwriting and Net Acquisition Costs	(748,051)	(544,673)	(386,651)	(327,858)	(294,456)	(247,379)	(177,530)	(151,995)	(161,894)	(154,212)
Expenses	(911,979)	(719,583)	(703,519)	(578,327)	(523,220)	(444,773)	(399,415)	(364,834)	(265,047)	(195,208)
Profit Before Taxation	656,642	457,028	228,022	181,489	165,226	172,000	156,000	130,000	100,000	65,000

*Note - The presentation and classification in these Financial Statements are amended/reclassified to ensure comparability with the current year information. Detail note has been given in note number 47 in page 334

HNB GENERAL INSURANCE LTD./GENERAL INSURANCE - SUBSIDIARY

Statement of Financial Position

As at 31st December,	2016 Rs.'000	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000 Restated	2010 Rs.'000 Restated	2009 Rs.'000	2008 Rs.'000 Reclassified	2007 Rs.'000
Assets										
Property, Plant and Equipment	49,211	42,172	133,942	137,009	118,447	117,292	126,398	110,896	83,566	68,064
Intangible Assets	-	-	51,622	53,807	61,068	26,673	31,535	16,102	17,316	17,603
Deferred Tax Assets	52,922	49,394	-	2	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	1,031,342	774,477	627,655
Financial Investments	1,901,979	1,901,986	2,732,062	2,386,222	2,176,444	1,948,775	1,227,508	-	-	-
Reinsurance Receivables	439,912	107,085	138,814	81,764	121,999	103,019	103,786	57,541	59,289	24,683
Premium Receivables	616,489	340,324	357,108	294,472	237,844	231,385	231,929	157,029	120,922	86,721
Other Assets	208,118	141,431	488,126	406,148	344,421	268,162	235,189	251,675	184,361	121,267
Insurance Contract - Deferred Expenses	74,951	65,935	52,072	32,912	19,968	20,059	12,392	-	-	-
Cash and Cash Equivalents	148,955	128,707	84,763	69,382	79,377	127,887	68,439	48,848	77,332	71,181
Total Assets	3,492,537	2,777,034	4,038,509	3,461,718	3,159,568	2,843,252	2,037,176	1,673,433	1,317,263	1,017,174
Equity and Liabilities										
Equity										
Stated Capital	1,150,000	1,150,000	1,171,875	1,171,875	1,171,875	1,171,875	375,000	375,000	375,000	375,000
Retained Earnings	(173,306)	(220,589)	1,196,546	941,820	690,197	444,057	676,118	455,851	301,116	174,143
Available For Sale Reserve	(8,642)	(7,756)	3,590	1,427	6,209	-	-	-	-	-
Other Reserves	3,676	946	19,957	1,244	-	-	-	-	-	-
Total Equity	971,728	922,601	2,391,968	2,116,366	1,868,281	1,615,932	1,051,118	830,851	676,116	549,143
Liabilities										
Insurance Contract Liabilities - General	1,921,567	1,546,265	1,279,138	1,011,102	969,443	944,321	743,049	599,364	470,206	340,562
Employee Defined Benefits Liabilities	39,550	36,993	39,985	49,890	37,417	29,564	21,670	15,583	9,637	6,555
Current Tax Liabilities	3,300	-	12,012	35,143	42,950	25,998	28,618	-	-	-
Deferred Tax Liabilities	-	-	8,845	-	-	-	-	-	-	-
Reinsurance Creditors	248,500	94,358	79,857	76,032	53,325	75,150	51,968	62,314	50,504	36,375
Other Liabilities	307,892	176,817	226,704	173,185	188,152	152,287	140,753	165,321	110,800	84,539
Total Liabilities	2,520,809	1,854,433	1,646,541	1,345,352	1,291,287	1,227,320	986,058	842,582	641,147	468,031
Total Equity and Liabilities	3,492,537	2,777,034	4,038,509	3,461,718	3,159,568	2,843,252	2,037,176	1,673,433	1,317,263	1,017,174

Statement of Profit or Loss

For the year ended 31st December,	2016 Rs.'000	2015* Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000
Gross Written Premium	3,141,559	2,698,176	2,322,751	1,863,183	1,711,204	1,694,343	1,343,703	1,130,781	924,709	704,577
Net Earned Premium	2,241,794	2,084,378	1,630,106	1,356,432	1,325,072	1,161,948	859,077	675,939	541,463	468,595
Income from Investments and Other Income	273,810	279,041	460,466	358,527	308,180	169,390	177,585	157,308	126,784	85,880
Net Claims Incurred	(1,546,601)	(1,837,294)	(1,160,721)	(889,072)	(892,750)	(802,370)	(588,237)	(448,210)	(363,813)	(291,283)
Underwriting and Net Acquisition Costs	(177,852)	(160,979)	(88,175)	(53,401)	(53,652)	(40,680)	12,539	1,887	(6,272)	1,546
Expenses	(742,272)	(649,446)	(631,115)	(528,882)	(458,210)	(388,448)	(347,439)	(285,843)	(228,288)	(186,406)
Profit/(Loss) Before Taxation	48,879	(284,300)	210,561	243,604	228,640	99,840	113,525	101,081	69,874	78,332

*Note - The presentation and classification in these Financial Statements are amended/reclassified to ensure comparability with the current year information. Detail note has been given in note number 47 in page 334

Decade at a Glance

Statement of Cash Flows - Group

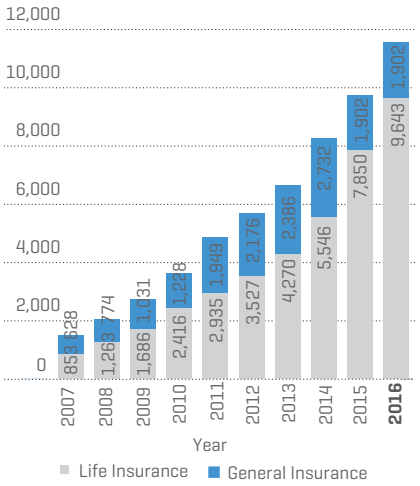
For the year ended 31st December,	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000 Restated	Rs.'000 Restated	Rs.'000	Rs.'000 Reclassified	Rs.'000
Profit Before Tax	705,521	169,773	438,583	425,093	393,866	271,840	269,525	231,081	169,874	143,332
Net Adjustments and net change in Operating Assets and Liabilities	586,676	999,997	348,864	(188,697)	(90,905)	389,970	522,072	531,890	480,958	344,850
Net Cash Generated from Operating Activities	1,292,197	1,169,770	787,447	236,396	302,961	661,810	791,597	762,971	650,832	488,182
Net Cash Used in Investing Activities	(953,599)	(767,836)	(595,289)	(164,102)	(179,023)	(871,645)	(748,093)	(738,236)	(587,568)	(475,267)
Net Cash Used in Financing Activities	(100,000)	(188,250)	(163,000)	(137,500)	(105,000)	318,746	(56,250)	(47,906)	(38,089)	(610)
Net Increase/ (Decrease) in Cash and Cash Equivalents	238,598	213,684	29,158	(65,206)	18,938	108,911	(12,746)	(23,171)	25,175	12,305
Cash and Cash Equivalents at the beginning of the Year	386,929	173,245	144,087	209,293	190,355	81,444	94,100	117,271	92,096	103,766
Cash and Cash Equivalents at the end of the Year	625,527	386,929	173,245	144,087	209,293	190,355	81,354	94,100	117,271	116,071

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Investor Information										
Return on Equity	24.00%	8.64%	17.30%	18.41%	18.79%	15.23%	23.00%	24.27%	24.32%	22.46%
Market Price per Share as at 31st Dec (VWA) (Rs.)	58.80	74.60	83.50	52.50	49.00	56.90	78.00	49.50	18.25	24.50
Market Price per Share as at 31st Dec (VWA) (Rs.) - Adjusted for Bonus Issue	58.80	74.60	83.50	52.50	49.00	56.90	66.31	44.94	21.50	26.19
Price Earning Ratio (Times)	4.54	18.89	10	6.75	6.98	11.07	12.33	10.01	5.87	9.53
Earnings Yield	22.02%	5.29%	10.00%	14.82%	14.33%	9.03%	8.11%	9.99%	17.02%	10.50%
Dividend Yield	8.50%	2.68%	4.49%	6.19%	5.61%	3.69%	2.31%	3.03%	6.85%	4.08%
Market Capitalisation (Rs. Mn.)	2,940	3,730	4,175	2,625	2,450	2,845	2,925	1,856	694	919
Employee Information										
Number of Employees	903	836	829	804	723	662	597	540	457	377
GWP per Employee (Rs. Mn.)	7.37	6.52	5.63	4.82	4.44	4.51	4.07	3.92	4.02	3.90
Net Profit per Employee (Rs. '000)	716.96	236.06	503.90	483.98	485.67	371.70	404.92	373.35	359.90	327.14
General Insurance Operation										
Net Claims Ratio	69%	88%	72%	66%	68%	69%	68%	66%	67%	62%
Expense Ratio	38%	35%	38%	39%	34%	34%	39%	42%	43%	39%
Combined Ratio	107%	123%	110%	105%	102%	103%	107%	108%	110%	101%

Decade at a Glance - Graphical Presentation

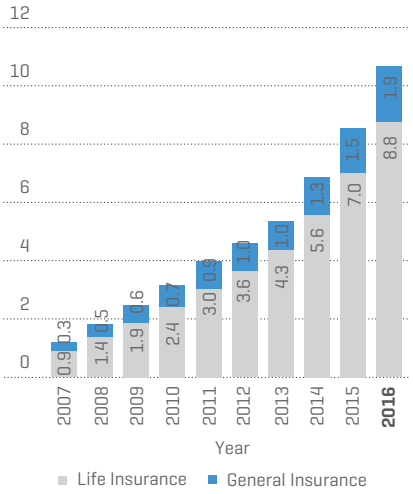
Investments/Financial Investments - Group

Rs.Mn.



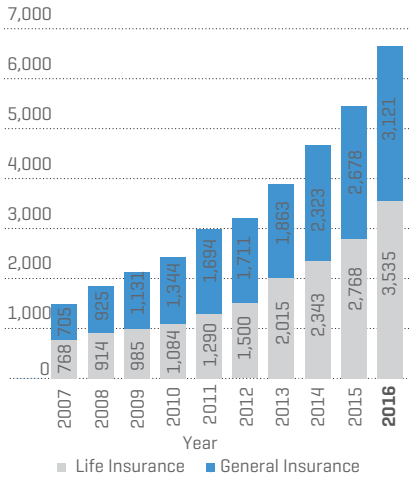
Contract Liabilities - Group

Rs.Bn.



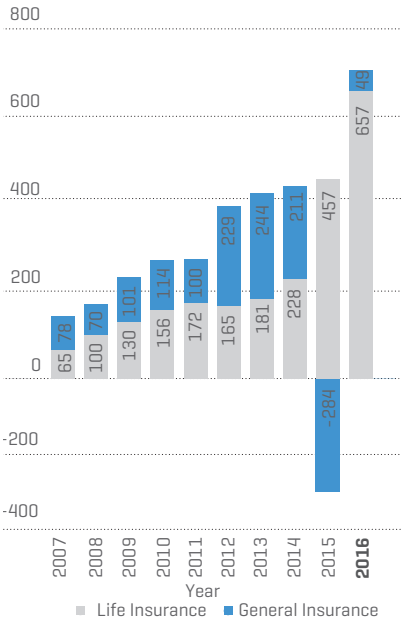
Decade at a Glance Gross Written Premium - Group

Rs.Mn.



Decade at a Glance Profit Before Tax (PBT) - Group

Rs.Mn.



Glossary

Acquisition Expenses
All expenses which vary with and are primarily related to the acquisition of new insurance contracts and the renewal of existing insurance contracts. E.g. commissions

Admissible Assets
Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto.

Claims
The amount payable under a contract of insurance arising from the occurrence of an insured event.

Claims Incurred
The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by Claims Outstanding 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
The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the reporting 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
Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the reporting date which are carried from one accounting period to subsequent accounting periods.

Net Written Premium
The balance of the Gross Written Premium after deduction of any premium paid or payable by the insurer for reinsurance ceded. Commonly identifies as Net Premium.

Policy Loan
A loan from the insurer to a Policyholder on the security of the surrender value of a long term insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

Premium Ceded to Reinsurers
The premium paid by the ceding Company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

Reinsurance
An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (cedent – the primary insurer) against part or all of the liability assumed by the cedent under policy or policies of insurance.

Reinsurance Commission
Commission/discount received or receivable in respect of premiums paid or payable to a reinsurer.

Unearned Premium
It represents the portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the reporting date.

Unearned Premium Reserve
A fund kept by a general insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

Key Insurance Ratios

$$\text{Net Claims Ratio} = \frac{\text{Net claims incurred} \times 100}{\text{Net Earned Premium}}$$

$$\text{Expense Ratio} = \frac{\text{Net Expense incurred} \times 100}{\text{Net Earned Premium}}$$

$$\text{Combined Ratio} = \frac{(\text{Net claims incurred} + \text{Expenses}) \times 100}{\text{Net Earned Premium}}$$

Notice Of Meeting

Notice is hereby given that the Fifteenth (15th) Annual General Meeting of HNB Assurance PLC is convened on Wednesday the Twenty Ninth (29th) day of March 2017, 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 2016, the Auditors' Report thereon.

ii. To declare a dividend of Rs. 5.00 per share for the year 2016, to the shareholders as recommended by the Directors.

iii. To re-elect Mr. S C Ratwatte, 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.

iv. 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.

v. To authorise the Directors to determine payments for the year 2017 for charitable and other purposes.

By Order of the Board
HNB ASSURANCE PLC

Sitari Jayasundara
Board Secretary

Colombo Sri Lanka.
09th February, 2017.

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 Principal Office of the Company at Legal & Company Secretarial Division, Corporate Office , "Iceland Business Center", No: 30, Sri Uttarananda Mawatha, Colombo 3, not less than 48 hours before the time appointed for holding the meeting.

Notes

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 Sarath Carlyle Ratwatte or failing him Jayasekera Arachchige Panduka Mahendra Jayasekera or failing him Kandasamypillai Balasundaram, or failing him Dilshan Peter Nirosh Rodrigo, or failing him Siromi Noelle Wickramasinghe or failing her Sivakumar Selliah or failing him Neelakanni Hettiarachige Thimal Ishan Perera 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 Fifteenth Annual General Meeting of the Company to be convened on Wednesday the 29th day of March 2017 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. 5.00 per share	In favour	
	Against	
To re-elect Mr. S C Ratwatte, as a Director of the Company	In favour	
	Against	
To re-appoint Messers. 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	

Mark your preference with "✓ "

Signed this ..... day ..... 2017.

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 Principal Office of the Company at "Iceland Business Centre", No: 30, Sri Uttarananda Mawatha, Colombo 3, not less than 48 hours before the time appointed for holding the Meeting.

3. The Proxy shall -

   (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.

   (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the Constitution of that Company or corporate body.

   The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer.

   (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.

4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder, signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

Investor Feedback form

To request information or submit a comment / query to the company, please complete the following and return this page to,

Chief Financial Officer,
HNB Assurance PLC,
Iceland Business Center
No.30, Sri Uttarananda Mawatha,
Colombo 03,
Sri Lanka.
Fax : 0112327287
E-mail : indika.perera@hnbassurance.com

Name : .....

Permanent Mailing Address : .....

Contact Numbers - (Tel) : ....
Country Code Area Code Number

- (Fax) : ....
Country Code Area Code Number

E-mail : .....

Name of Company : .....
(If Applicable)

Designation : .....
(If Applicable)

Company Address : .....
(If Applicable)

Comments/Queries : .....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

Corporate Information

NAMES OF THE COMPANIES

HNB Assurance PLC (HNBA)
HNB General Insurance Limited (HNBGI)

	HNBA	HNBGI
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	+9411 4793700	+9411 4676700
Facsimile	+9411 4793728	+9411 4501166
E-mail	info@hnbassurance.com	info@hnbgeneral.com
Web	www.hnbassurance.com	www.hnbgeneral.com

FISCAL YEAR-END

31st December

REGISTERED OFFICE

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

HEAD OFFICE

No.30, Iceland Business Centre, Sri Uttarananda Mawatha,
Colombo 03, Sri Lanka

BOARD OF DIRECTORS

Rose Cooray - *Chairperson-Non-Executive Director (HNBA/HNBGI)*
Sarath Ratwatte - *Independent Non-Executive Director (HNBA)*
Mahendra Jayasekera - *Independent Non-Executive Director (HNBA)*
K Balasundaram - *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)*
Thimal Perera - *Non-Executive Director (HNBA/HNBGI)*
Faizal Salieh - *Independent Non-Executive Director (HNBGI)*
Marina Tharmaratnam - *Independent Non-Executive Director (HNBGI)*

EXECUTIVE COMMITTEE

Deepthi Lokuarachchi - *Chief Executive Officer (HNBA/HNBGI)*
Prasantha Fernando - *Chief Operating Officer (HNBA)*
Ivan Nicholas - *Chief Business Officer (HNBA)*
Chandana Aluthgama - *Chief Business Officer Corporate Lines (HNBGI)*
Jude Benjamin - *Chief Business Officer Personal Lines & Branch Network (HNBGI)*
Indika Perera - *Chief Financial Officer (HNBA/HNBGI)*
Nilesh Amarasinghe - *Chief Investment and Strategy Officer (HNBA/HNBGI)*
Sithumina Jayasundara - *Chief Technical Officer (HNBGI)*
Dinesh Udawatta - *Chief Technical Officer (HNBA)*
Pushpika Senevirathne - *Chief Actuary (HNBA/HNBGI)*

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.
65, Chulia Street, #37 – 07/08 OCBC Centre
049513, Singapore.

Gratuity
Smiles Global (Pvt) Limited
135/1/1, Kirula Road,
Colombo 05, 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 AND HNBGI

National Long Term Rating A (lka)
National Insurer Financial Strength Rating A (lka)

BANKERS

Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Sampath Bank PLC
Bank of Ceylon
National Savings Bank
Deutsche Bank AG
HDFC Bank of Sri Lanka
DFCC Bank PLC
Pan Asia Banking Corporation PLC

Designed & produced by
emagewise
Digital Plates & Printing by Aitken Spence Printing & Packaging (Pvt) Ltd
Photography by Taprobane Street & Wildlight (Pvt) Ltd

No.30, Iceland Business Centre,
Sri Uttarananda Mawatha,
Colombo 03, Sri Lanka.

www.hnbassurance.com