2 are better than one

Integrated Annual Report 2014
HNB Assurance PLC

2 are better than one

It's good to be an organisation that's nimble, innovative and trusted. Soon we will double that offer, delivering the identical brand promise of strength and reliability from different companies as we segregate our Life and General Insurance operations.

The year under review has been an extraordinarily successful one, as the reader will discover in the pages that follow. The year ahead looks even brighter as we evolve yet again, seeing new opportunities for existing synergies that promise enhanced stakeholder value from more sources than one.

HNB Assurance has now segregated our Life and General business operations in line with new industry regulations. We believe that the new business model offers better disclosure and governance which will in turn deliver increased clarity and transparency to our competitive and technically complex industry.

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About this Report

REPORT PROFILE

It is with great pleasure that we present our 3rd Integrated Annual Report to all our Stakeholders.

Through this report we intend to provide a balanced and concise assessment of the economic, social and environmental performance of HNB Assurance PLC and our newly formed, fully owned subsidiary, HNB General Insurance Limited for the year ended 31st December 2014.

This report marks a milestone in HNB Assurance reporting history, as the last annual report published as a composite insurance company. Going forward, the Company will segregate into two entities, one as a Life Insurer and the other as a General Insurer but will stand to prove that two are indeed better than one.

Thus, in addition to presenting a review of our performance, through this report, we hope to convey the future direction of HNB Assurance and its subsidiary HNB General Insurance Limited.

GUIDING FRAMEWORKS, REGULATIONS AND PRINCIPLES

The International Integrated Reporting Council's (IIRC) IR framework, released in December 2013 is the principal framework we have applied in compilation of this report. Further, we have prepared this report 'in accordance' with the Global Reporting Initiative (GRI)'s G4 Sustainability Reporting Guidelines and ensured the report fulfills the criteria of a report under the "Core" option as we believe that it is as important to report on sustainable performance as it is to create a sustainable business.

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

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

EXTERNAL ASSURANCE AND TEST OF COMPLIANCE

Financial statements and related notes published in this report have been audited by Messrs, Ernst & Young whose independent Auditor's Report to the shareholders of HNB Assurance PLC is given on page 271. Further, this report has been submitted to GRI for Content Index Service and the service is confirming that the Content Index is accurately aligned with GRI General Standard Disclosure G4-32 and that the disclosure labels are correctly placed throughout the report.

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

DATA COLLECTION FOR FINANCIAL AND NON-FINANCIAL INDICATORS

Credibility of this report is maintained based on transparency and data validity. We ensure all relevant units of the organisation that fall within the scope are covered when consolidating data.

We mainly use Oracle EBS to prepare financial statements and TCS Bancs as the Core Insurance system. Data with regard to our human resource is maintained in our HRIS system whereas social data and other data presented in this report are sustained by our staff and verified at the most senior levels of the Company.

Data calculation methodologies used in this report are the same as those in our most recent previous report, which was published for the year ended 31st December 2013.

AVAILABLE FORMS

We have taken measures to post this report in the form of a CD-ROM to all shareholders within the stipulated timelines while the report is also made available at www.hnbassurance.com.

In line with our aim of minimising our carbon footprint, we are printing a limited number of copies of this report. However, we are pleased to post a printed copy to any shareholder at their written request.

Further, we are happy to provide Sinhala and Tamil translations, of the Chairperson's message, MD's review and key financial statements, at the request of any shareholder.

Such requests and inquiries regarding information contained in this report can be directed to:

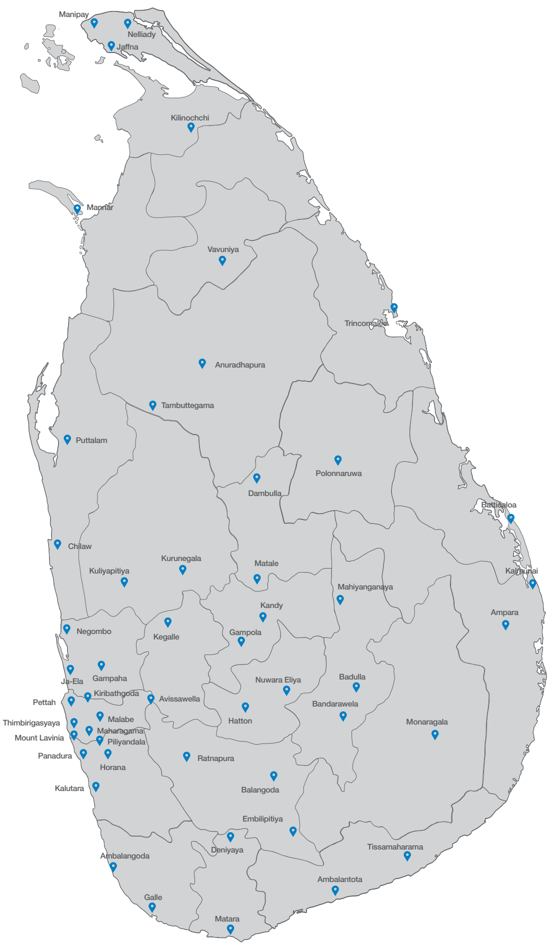
E-mail: vipula@hnbassurance.com
Chief Financial Officer
Address: HNB Assurance PLC,
No.10, Sri Uttarananda Mawatha,
Colombo 3, Sri Lanka.
Website: www.hnbassurance.com

Further, to encourage our shareholders to build a dialogue with us, we have attached a Investor Feedback Form with this report on page 397.

Reference:

GRI-G4 G4 - G8

Branch Network



51 Branches

WE SEGREGATED OUR BRANCH NETWORK INTO GENERAL AND LIFE INSURANCE DURING THE YEAR TO BETTER SERVE OUR VALUED CUSTOMERS. WE ARE EASILY ACCESSIBLE THROUGH OUR BRANCHES COVERING 23 DISTRICTS OF THE ISLAND.

PROVINCE	GWP		NUMBER OF STAFF	NUMBER OF ADVISORS	NUMBER OF ASSESSORS	GWP		NUMBER OF STAFF	NUMBER OF ADVISORS	NUMBER OF BANCASSURANCE UNITS
	Rs. Mn.	CONTRIBUTION %				Rs. Mn.	CONTRIBUTION %			
	General Insurance					Life Insurance				
Central	158	7%	26	15	13	174	7%	35	124	17
Eastern	71	3%	13	25	6	126	5%	28	121	20
North Central	112	5%	13	20	10	77	3%	13	33	7
North Western	112	5%	11	12	13	180	8%	25	117	13
Northern	47	2%	17	22	5	227	10%	30	180	18
Sabaragamuwa	162	7%	19	26	13	122	5%	19	78	12
Southern	219	9%	30	65	12	194	8%	31	97	19
Uva	101	4%	13	17	6	113	5%	19	77	9
Western	672	29%	60	93	42	1,023	44%	114	407	79
Branch Total	1,655	71%	202	295	120	2,235	95%	314	1,234	194
Head Office	668	29%	140		23	108	5%	173	2	
Company	2,323	100%	342	295	143	2,343	100%	487	1,236	194

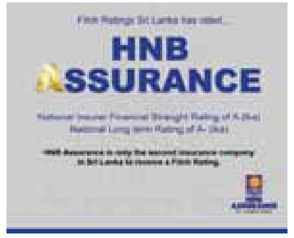
Our Journey

2001

Launching of HNB Assurance - beginning of a remarkable journey

2003

A step ahead…! Initial Public Offering of HNB Assurance shares



2007

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

2009

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

2010

Product 'My Life' awarded for Excellence in Branding at SLIM Brand Excellence Awards

2013

Established a new Customer Service Centre to deliver superior customer service

2014

Initiated the segregation process early to ensure a smooth changeover to enhance the service standards of both companies.

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

Reference: GRI-G4 G4 - 4 G4 - 56

Our Life Insurance Solutions

Protection Plans

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

Total protection for your life.

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

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

A unique insurance plan for the youth

Retirement Plans

A hassle-free and enjoyable retirement fund building plan.

A guaranteed monthly income for a happy retirement.

A monthly guaranteed pension throughout life

Child Insurance Plan

The best way to secure your child's future.

Group Life Plan

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

Mortgage Protection Plan

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

Takaful Solutions

Takaful version of the Mortgage Protection Plan is provided under the Takaful Window

Reference: GRI-G4 G4 - 4 G4 - 56

Our General Insurance Solutions

Motor Solutions

HNB GENERAL motorGuard

Motorguard is a product that is geared to protect you and your precious vehicle from every possible risk element.

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

A comprehensive insurance coverage for your eco friendly vehicles.

A cover designed for motorcyclists with a special insurance cover for Women Riders.

A comprehensive protection for agricultural vehicles.

Non - Motor Solutions

Covers transportation of goods from source to destination.

Covers unforeseen damages in construction/ erection projects.

Protection against fire, riots and weather perils.

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

Reimburses the medical expenses of the employees and their families.

Covers employer's liabilities to employees

A travel insurance policy that covers up to the age of 70 years.

A comprehensive policy that provides the right protection for your home

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

A unique insurance policy for HNB credit card holders.

A comprehensive shop insurance plan.

Takaful Solutions

All General Takaful solutions are provided from a specialised Takaful Window

OUR VISION

Trusted partner to take on tomorrow's challenges with confidence.

OUR MISSION

Creating sustainable value to our stakeholders passionately with innovation and care.

OUR VALUES

- Respect each other and everyone
- Act with utmost honesty and integrity
- Work with unity as one team to achieve success
- Embrace technology to enhance value
- Commit ourselves to be the best
- Enjoy the work we do

HNB GENERAL INSURANCE

2 are better than one

Highlights of the Year

EXCELLENT TRACK RECORD OF CONSISTENTLY DELIVERING VALUE TO OUR STAKEHOLDERS

GROWTH IN VALUE ADDED FOR THE 10TH SUCCESSIVE YEAR IN 2014

THIS EXTRAORDINARY ACHIEVEMENT WAS POSSIBLE DUE TO THE UNTIRING EFFORTS OF THE BOARD, MANAGEMENT AND EMPLOYEES TO MAKE HNBA A SUCCESSFUL COMPANY IN ALL ASPECTS.

418 Mn.

Profit After Tax (Rs.)
Growth 7%

4.7 Bn.

Combined GWP (Rs.)
Growth 20%

9.9 Bn.

Total Assets (Rs.)
Growth 24%

4.2 Bn.

Market Capitalisation (Rs.)
Growth 59%

General Insurance

	2014	2013	Growth
GWP (Rs. Mn.)	2,323	1,863	25%
Number of Policies	118,438	89,824	32%
General Fund (Rs. Mn.)	1,279	1,011	27%
Profit After Tax (Rs. Mn.)	190	208	(9)%
Claims Ratio	72%	66%	
Expense Ratio	38%	39%	
Combined Ratio	110%	105%	

32%

Number of Policies

Rising from strength to strength to meet tomorrow's challenges with confidence

Life Insurance

	2014	2013	Growth
GWP (Rs. Mn.)	2,343	2,015	16%
Number of Policies	109,695	100,841	9%
Life Fund (Rs. Mn.)	5,563	4,348	28%
Profit After Tax (Rs. Mn.)	228	181	26%
Claims Ratio	19%	36%	
Expense Ratio	48%	47%	
Combined Ratio	67%	82%	

28%

Life Fund

Growing in strength through trust and care

Shareholders

	2014	2013	Growth
Basic Earnings Per Share (Rs.)	8.35	7.78	7%
Net Asset Value Per Share (Rs.)	48.28	42.26	14%
Market Price Per Share (Rs.)	83.50	52.50	59%
Market Capitalisation (Rs. Bn.)	4.20	2.60	59%
Dividend Per Share (Rs.)	3.75	3.25	15%

59%

Market Price Per Share

Greater investor confidence through growth and stability

Employees

	2014	2013	Growth
Number of Staff	829.00	80.40	3%
Profit Per Employee (Rs. Mn.)	0.50	0.50	
Training Hours Per Employee (hrs)	17.70	20.40	

3%

Number of Staff

Believing that HNBA is a place where their efforts are appreciated

eLife gives you the utmost convenience in obtaining a Life Insurance policy online in 4 simple steps

Motorguard Eco Insurance is not just economical, but also provides comprehensive insurance coverage for your eco friendly vehicle

Chairperson's Message

A YEAR OF STRATEGIC FOCUS

THE COMPANY SUCCESSFULLY COMPLETED THE PROCESS OF SEGREGATION

THIS WAS IMPLEMENTED BY ESTABLISHING A FULLY-OWNED SUBSIDIARY UNDER THE NAME OF HNB GENERAL INSURANCE LIMITED AND TRANSFERRING GENERAL INSURANCE BUSINESS TO THE NEW ENTITY WITH EFFECT FROM 1ST OF JANUARY 2015. IT IS PLEASING TO NOTE THAT THIS PROCESS HAS BEEN MANAGED VERY SMOOTHLY WITH THE CONSENT OF ALL STAKEHOLDERS.

9.9 Bn.

Total Assets (Rs.)

Company increased its total asset base by Rs. 1.9 Bn.

4.2 Bn.

Market Capitalisation (Rs.)

Company's value increased by 59% during the year.

DR. RANEE JAYAMAHA
Chairperson

On behalf of the Board of Directors, I am pleased to welcome you to the thirteenth Annual General Meeting of the Company and present to you the Annual Report and Accounts for the year ended 31st of December 2014.

THE ECONOMY

The country was able to increase its GDP growth to 7.8% (est) in 2014 from 7.2% in 2013 mainly on the strength of the Industrial Sector's growth which accelerated to 12.5% (up to end of Q3, 2014). The agriculture Sector experienced a slow-down due to unfavourable weather conditions while the Service Sector accounted for a growth rate of about 6.4%. The Central Bank of Sri Lanka (CBSL) maintained a relaxed monetary policy throughout the year resulting in a low interest rate regime with rates declining to historically low levels. Accordingly, all money market rates declined throughout the year. For example, the 12 months Treasury bill rate dropped to 6% at the end of the year from 8.29% at the beginning of the year. However, the expected private sector credit growth did not materialise although it picked up in the last two quarters of 2014. Money market funds thus moved gradually towards the stock and insurance markets but due to lack of dynamism, the benefit accruing to the insurance industry was marginal. The

Chairperson's Message

moderate liquidity levels, coupled with stable exchange rate and the declining global commodity prices, enabled the annual average rate of inflation to be brought down to 3.3% as at the end of December 2014.

THE INSURANCE INDUSTRY

The insurance industry remained dull with both sectors of the market experiencing only a single digit growth. The Life Insurance Sector grew by 9% while the General Insurance Sector grew by only 4%, partly due to the moderate private sector credit growth. However, it was noticed that the medium sized players in both markets demonstrated a higher growth momentum, thereby improving their market shares at the expense of the larger players.

REGULATORY FRAMEWORK

The regulatory deadline for segregating Life and General Insurance Businesses into two separate companies expired at the turn of 2015 and a majority of composite companies including HNB Assurance had completed the process successfully despite numerous challenges confronted by them. However, it is a matter of concern that some of the large players have not yet been able to comply with the regulatory requirement which became mandatory by mid-February 2015. This may result in undermining the wider objective of maintaining a level playing field and avoiding unfair competition among players.

Facilitated by the Insurance Board of Sri Lanka (IBSL), the industry has made good progress towards the implementation of a Risk Based Capital (RBC) framework with effect from the 1st of January 2016. Here too, the industry expects uniform applicability of this regulatory measure across all insurance companies.

SEGREGATION OF LIFE AND GENERAL INSURANCE

The Company successfully completed the process of segregating the Life and General Business segments into two separate legal entities in compliance with the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 by the target date. This was implemented by establishing a fully-owned subsidiary under the name of HNB General Insurance Limited and transferring the General Insurance Business to the new entity with effect from 1st January 2015. It is pleasing to note that this process has been managed very smoothly with the consent of all stakeholders including shareholders, customers, employees, the regulator and the courts. Accordingly, HNB Assurance PLC will restrict its scope to Life Insurance with General Insurance Business being pursued by its newly formed subsidiary.

PERFORMANCE

In this environment, the smaller companies struggled to improve their performance throughout the year. I am pleased to report that HNB Assurance was able to continue an impressive growth momentum created in 2013 by achieving a 20% growth in its turnover in 2014. It is also encouraging to note that both segments contributed significantly, with Life business growing by 16% and General business by 25%. Both Life and General grew well above the average market growth rates of 9% for Life and 4% for General. This resulted in the Company's market share improving significantly to 5.3% and 4% in respect of Life and General respectively.

While achieving a significant growth in business volumes and improving its market presence, HNBA recorded a growth of 7% in its Profit After Tax (PAT) for the year ended 31st December 2014, maintaining its excellent track record of consistently delivering value to its shareholders. This is commendable as it will be the 10th successive year in which the Company has delivered a growth in its Profit After Tax.

DIVIDEND

In view of the satisfactory PAT growth, the Board of Directors is pleased to propose a first and final dividend of Rs. 3.75 per share which is 15% higher than the dividend declared in the previous financial year.

SUSTAINABILITY AND CSR

The Company continued its flagship CSR initiative of providing access to water to needy schools with renewed vigour, extending its reach to 6 more schools during the year under review. Up to now this impactful programme launched in 2008 has brought in relief to 33 schools touching the lives of a vast number of children, teachers and parents in 21 districts. The Company also continued its innovative 'School to Office' (S2O) programme by undertaking to train another batch of 100 school leavers on the basic skills required to succeed in the complex world of work. Many other activities with a focus on social responsibility and sustainability were carried out benefiting diverse groups such as the visually and mentally handicapped, kidney patients, drought and flood victims and other underprivileged sections of the community.

ACCOLADES

The Company continued to be recognised both locally and internationally in diverse fields such as financial reporting, corporate governance, digital marketing and people development. Among numerous awards, HNBA secured the Gold

Reference:

GRI-G4 | G4 - 1

Proving ourselves yet again

Award for the Best Annual Report in the Insurance category and the Silver Award for Corporate Governance Disclosure at the 50th Annual Report Awards Ceremony conducted by CA Sri Lanka. It is also worthy of mention that HNBA secured the 1st Runner Up award in the Insurance Sector at the Best Presented Annual Report Awards and SAARC Anniversary Awards for Corporate Governance Disclosures 2013; an Award for HR practices in Corporate Social Responsibility at Asia Pacific HRM Congress; Silver Award for People Development at SLITAD Awards and an Award for Digital Marketing on the Best Use of Facebook at the 5th CMO Asia Awards for Social Media & Digital Marketing Excellence held in Singapore in July 2014.

The Company also retained its place among the list of Top 100 Companies in Sri Lanka compiled by Lanka Monthly Digest (LMD).

FUTURE OUTLOOK

The year 2015 will see HNB Assurance PLC positioning itself as a provider of Life Insurance services having transferred its General Insurance Business to its subsidiary. It will aim to consolidate its position as the sixth largest Life Insurance provider in the country while accelerating its growth to reach the goal of being among the top five companies in the very near future. Towards this, it will pursue a combination of organic and inorganic growth strategies. It will also diversify its product coverage by giving greater emphasis to segments such as pensioners and micro insurance clients which have significant untapped potential.

The Company will also aim to list its subsidiary, HNB General Insurance Limited in compliance with statutory requirements during the year 2015. It will release a part of its shareholding in this Company in order to facilitate the listing.

ACKNOWLEDGEMENT

Mr. Pratapkumar de Silva resigned from the Board with effect from 21st May 2014 to take up a position on the Board of Directors of the newly formed subsidiary, HNB General Insurance Limited. I wish to thank him for his valuable contribution as a Director since 31st March 2008 and look forward to receiving his continuous support as a Director of the new subsidiary.

APPOINTMENTS

One new appointment was made during the year maintaining the number of directors at 10. I warmly welcome Dr Sivakumar Selliah who joined the Board with effect from 17th June 2014. Considering his wide knowledge and experience in diverse fields including investment management, I am confident that he will make a significant contribution to steer the Company to new heights.

APPRECIATION

I wish to place on record our thanks to the Chairperson, Director General and other officials of the IBSL for their guidance and continued support during 2014. I also appreciate the significant contribution made by the Insurance Ombudsman who works closely with the industry for its betterment. I thank my fellow Directors for their excellent support, guidance and cooperation throughout the year. The Managing Director and officials at management level and all other staff members have worked together diligently to deliver excellent results and build the corporate image of the Company. I wish to recognise and appreciate their commitment and thank them for their dedication.

On behalf of the Board of Directors, I assure you that your Company, together with its newly established subsidiary, will continue to create value to all its stakeholders on a sustainable basis upholding the highest standards of corporate governance and ethical conduct.

Dr. Ranee Jayamaha
Chairperson

09th February, 2015

Managing Director's Review

AN EXTRAORDINARILY SUCCESSFUL YEAR

THE COMPANY WAS ABLE TO ACHIEVE A GROWTH OF 20% IN ITS TURNOVER

IT IS ALSO IMPORTANT TO NOTE THAT THE SIGNIFICANT GROWTH IN VOLUMES WAS NOT ACHIEVED AT THE EXPENSE OF PROFITABILITY. THE COMPANY WAS ABLE TO ACHIEVE A 7% GROWTH IN ITS PROFIT AFTER TAX (PAT) WHICH CROSSED THE RS. 400 MILLION MARK FOR THE FIRST TIME. IT IS COMMENDABLE THAT THE COMPANY HAS DELIVERED A GROWTH IN PROFITS CONTINUOUSLY FOR TEN YEARS SINCE 2004, ESTABLISHING AN ENVIABLE RECORD VERY FEW COMPANIES IN ANY SECTOR CAN MATCH.

4.7 Bn.

Company GWP (Rs.)

Life Insurance and General Insurance Businesses together achieved this extra-ordinary result

418 Mn.

Profit after Tax (Rs.)

The Company was able to record a growth in PAT for the 10th successive year

MANJULA DE SILVA
Managing Director

It gives me great pleasure to present this Integrated Annual Report and Statement of Accounts for the year ended 31st of December 2014. This is our third release of an Integrated Report. Our first two reports produced on this basis have been ranked as the best among insurance companies at the Annual Report Awards conducted by CA Sri Lanka in successive years. Further, our last report produced for the year ended 31st of December 2013, was placed second in Corporate Governance Disclosures among all listed companies at the same competition. We will endeavour through this report to take a further step forward in providing meaningful information of value to all our key stakeholder groups.

INDUSTRY ENVIRONMENT

The Insurance Industry failed to generate any growth momentum in 2014, experiencing a further decline in its rate of growth. This was particularly evident in the General Insurance sector which saw its growth declining to 4% from a growth of 9% achieved in 2013. Even the Life sector experienced a slow-down with its growth rate coming down from 10% in 2013 to 9% in 2014. The

Managing Director's Review

combined growth rate for the insurance market stood at 6%. The low growth in household income may have contributed to the low growth in Life Insurance while the low growth in vehicle imports and the low rate of private sector credit expansion contributed to the low growth in the General Insurance sector. However, it was encouraging to note some of the medium sized companies growing at a much faster rate gaining market share at the expense of the larger players.

OVERVIEW OF PERFORMANCE

The year that passed was momentous for the Company as we successfully completed the important process of segregating the Company into two separate legal entities. We also had to prepare ourselves for the implementation of the new Risk Based Capital (RBC) framework which will come into effect from the 1st of January 2016. I assured you in my last year's review that *"While a considerable amount of management time will have to be diverted to the above tasks, the Management Team with the support of the entire staff and the field force will commit itself to the task of maintaining the accelerated growth trend established in the year that passed"* and I am proud to say that we were able to deliver on that promise even in the midst of dull market conditions.

The Company was able to achieve a growth of 20% in its turnover in 2014, which was only marginally below the growth of 21% generated in 2013. The key feature of the performance in the year under review is that both Life and General sectors contributed significantly to this growth. While the General Insurance sector provided the impetus with a remarkable 25% growth, the Life sector also proved its resilience with a strong 16% growth. The Gross Written Premium (GWP) generated from each line of business exceeded Rs. 2.3 Billion with Life Insurance staying marginally ahead.

With the significantly higher growth rates achieved by the Company in comparison with market growth rates, it was able to expand its market shares in both sectors. The market share in Life grew from 4.9% to 5.3% resulting in the market rank also improving from seventh place to sixth place. Similarly, the market share in General Insurance also grew from 3.3% to 4.0%, while maintaining its ranking at eighth.

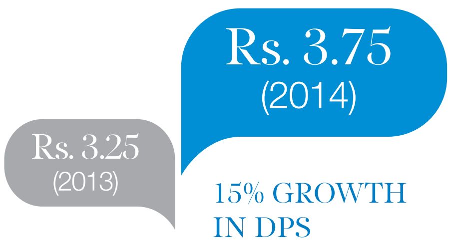
It is also important to note that the significant growth in volumes was not achieved at the expense of profitability. The Company was able to achieve a 7% growth in its Profit after Tax (PAT) which crossed the Rs. 400 Million mark for the first time. It is commendable that the Company has delivered a growth in profits continuously for ten years since 2004, establishing an enviable record very few companies in any sector can match.

As a result of the growth in PAT, the Company's Earnings per Share (EPS) grew to Rs. 8.35 while the Return on Equity (ROE) stood at 17%.

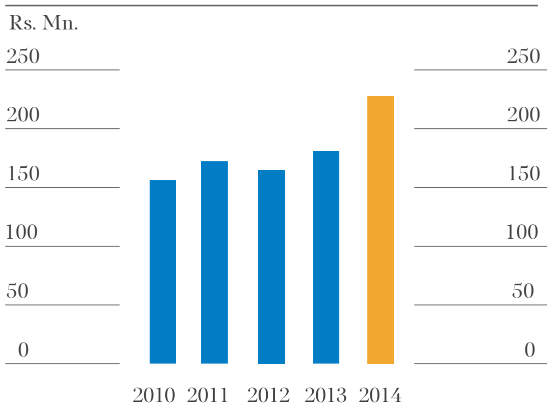
GENERAL INSURANCE SECTOR

All major classes of business contributed to the growth in the General Insurance Business with Marine Insurance generating the highest growth of 45%, although this was from a relatively low base. The growth of Motor Insurance by 30% was the key driver of General Insurance Business growth due to the continued dominance of this class, which accounted for 72% of the total GWP generated in 2014. The next largest was Fire and Engineering, which accounted for 15% of GWP. However its growth was restricted to 8% mainly due to intense price competition.

The sharp acceleration in growth exerted pressure on claims with the Net Claims Ratio increasing to 72% from 66% reversing the reducing trend of the previous two years. However, the Expense Ratio declined from 39% to 38% partly offsetting the impact of high claims. The Combined Ratio climbed to 110% from 105% causing some concern, as it reflects a weak level of underwriting profitability. Several measures already taken such as an



Life Surplus Transfer



upward revision in prices and the non-renewal of some loss-making corporate accounts are expected to improve this position in 2015. If not, the Management team of HNB General Insurance will not hesitate to take further action to bring this back to a more acceptable level.

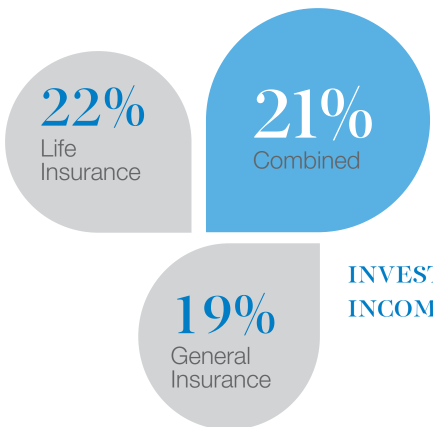
However, with the help of an impressive growth of 21% in Investment Income, the Company was able to generate a Profit Before Tax of Rs. 211 Million from General Insurance making a vital contribution to the Company's overall profit.

LIFE INSURANCE SECTOR

Life Insurance business recorded a healthy 16% growth during the year under review. Although it was lower than the 34% growth rate achieved in 2013, it can be described as a truly commendable performance for two reasons. First, the dependence on short-term Single Premium investment policies to drive Life Business growth, diminished with this category of policies, experiencing a dip of 11%. Secondly, the growth of First Premium from the sale of new Endowment Policies of longer duration increased to 43%, becoming the key driver of growth. This is certainly an encouraging development since the growth of new business from endowment policies was at a low level causing some concern in the last couple of years. As endowment business has the capacity to generate more profits over a longer period of time, this can be considered a healthy shift in the portfolio mix. The sale of Mortgage Reducing Policies (MRP) also witnessed acceleration in growth, increasing its GWP by 32% benefiting from the higher level of activity in the housing loan market.

The valuation of the Long Term Business carried out at the year-end showed that the Long Term Insurance Fund exceeded the required actuarial reserves by Rs. 761 Million. Out of this surplus, Rs. 252 Million was used to provide for the solvency margin while Rs. 172 Million was kept for future bonus and contingencies. The balance was shared between the Life Policyholders and Shareholders with Rs. 109 Million being distributed as bonus to policyholders and Rs. 228 Million being transferred to the shareholders' account as a surplus from the Life Insurance business. In addition to the declaration of bonus at higher rates of upto Rs.65 per Rs.1,000 sum assured in respect of policies with participation in profits, the Company also declared a dividend of 8% to dividend based policies, which was an attractive return under current market conditions, making a provision of Rs. 15.3 Million for the purpose.

While the transfer of surplus to shareholders grew by 26%, the Company was able to increase the Life Fund by 28% to reach Rs. 5.6 Billion even after the transfer of surplus.



INVESTMENT INCOME GROWTH

Managing Director's Review

INVESTMENTS

The Company was able to get a significant contribution from the management of its investments, with Life Investment Income, growing by 22% and General Investment Income increasing by 19%. Another important milestone crossed during the year was that Combined Investment Income crossed the Rs. 1 Billion mark for the first time. It is commendable that these rates of growth in Investment Income have been obtained in the midst of a challenging investment environment which saw a sharp decline in interest rates.

As interest rates kept falling, the Company focused its attention on trading actively in the secondary market for bonds and corporate debentures in order to take advantage of the opportunities presented. This saw the realisation of capital gains to the extent of Rs. 69.7 Million from Government bonds and Rs. 26.2 Million from corporate debentures offsetting the drop in Interest Income.

The Company was also able to benefit from the growth experienced in the equity market, by realising gains of Rs. 12.2 Million and recording unrealised gains of Rs. 98.9 Million from its trading portfolio which is carried at fair value. Due to the relatively stable exchange rate regime, the Company was unable to reap any significant gains from its foreign currency deposits.

The Company was able to comfortably meet the capital requirements arising from the segregation of business lines without having to raise any additional capital. The Company invested Rs. 100 Million initially in HNB General Insurance Limited before submitting its application for a license. Subsequently, on the 1st of January 2015, a further Rs. 900 Million was invested in the new Company raising its capital to Rs. 1 Billion, well above the minimum statutory requirement of Rs. 500 Million.

SEGREGATION

The Company was able to successfully complete the segregation process by creating a new fully-owned subsidiary, HNB General Insurance Limited, which commenced operations on the 1st of January 2015, meeting the deadline set by IBSL. The Company diligently followed the process agreed with the regulator, obtaining approval from both shareholders and policyholders at a very early stage. The application to obtain a new license for the new Company was also submitted by the agreed deadline. After registering this Company with IBSL as a general insurer, we proceeded to obtain the approval of the District Courts in accordance with Section 102 of the Regulation of Insurance Industry Act No. 43 of 2000 to transfer the existing General Insurance business of the Company to this entity. Having obtained court approval, we transferred the business along with the relevant assets and liabilities to HNB General Insurance Limited on the 1st of January 2015.

Along with the legal steps described above, we completed the internal organisational changes on a staggered basis to ensure a smooth transition.

The Distribution Network was split with effect from the 1st of March 2014 and brought under the General Managers for Life and General, scrapping the combined Marketing and Distribution Division which existed before. The Support Services were split from 01st October 2014, while retaining some high level functions as Shared Services within the parent company. The two General Managers have been promoted as Chief Operating Officers with effect from the 1st of January 2015 and they have been given the statutory responsibilities of the Principal Officer and Specified Officer for each of the Companies.

CAPITAL AND SOLVENCY

The Company was able to comfortably meet the capital requirements arising from the segregation of business lines without having to raise any additional capital. The Company invested Rs. 100 Million initially in HNB General Insurance Limited before submitting its application for a license. Subsequently, on the 1st of January 2015, a further Rs. 900 Million was invested in the new Company raising its capital to Rs. 1 Billion, well above the minimum statutory requirement of

Corporate Governance Disclosure - Silver Award

Rs. 500 Million. While this capital is adequate to meet the solvency and Risk Based Capital needs of the General Insurance Business, the Company has retained approximately Rs. 1.4 Billion of capital and reserves to support the Life Insurance Business. This is deemed adequate to meet the solvency and Risk Based Capital needs of the Life Insurance Business which will continue to be carried out by the Company.

Confirming the adequacy of capital, the Company was able to retain its Insurer Financial Strength rating and National Long Term rating at 'A(lka)' with Fitch Ratings Lanka Limited affirming both ratings with a stable outlook in January 2015. It was also pleasing to obtain the same ratings for its newly formed subsidiary, HNB General Insurance Limited, becoming the first pair of companies to obtain ratings after the split.

GOVERNANCE

The Company lived up to its reputation as an institution committed to upholding the highest standards of corporate governance during the year under review. As described above, the manner in which it handled the segregation process with the concurrence of all stakeholders was exemplary. It also received a Silver award for Corporate Governance disclosures at the 50th Annual Report Awards conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

Mr Pratapkumar de Silva resigned from the Board with effect from 21st of May 2014 and joined the Board of the newly incorporated subsidiary having served the Company for six years as a Director.

I wish to acknowledge the support and guidance provided by him during his long period of service and look forward to his support in his new role.

Dr Sivakumar Selliah joined the Board with effect from 17th June 2014 filling the place vacated by Mr Pratapkumar de Silva. I warmly welcome him and expect a sound contribution from him for the betterment of the Company.

With the intent of voluntarily conforming to new regulations before they become mandatory and improving the governance framework of the Company further, a separate Related Party Transactions Review Committee of the Board was established with Mr. Sarath Ratwatte as the Chairman. Mr. Mahendra Jayasekera and myself were appointed as the other members of this Committee which will monitor transactions carried out with related parties by the Company.

The Company lived up to its reputation as an institution committed to upholding the highest standards of corporate governance during the year under review. As described above, the manner in which it handled the segregation process with the concurrence of all stakeholders was exemplary. It also received a Silver award for Corporate Governance disclosures at the 50th Annual Report Awards conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

Managing Director's Review

Company Ratings

The Company was able to retain its Insurer Financial Strength rating and National Long Term rating at 'A(lka)' with Fitch Ratings Lanka Limited affirming both ratings with a stable outlook in January 2015.

Adequacy of Capital

HNB Assurance was able to maintain the required Solvency Margin well above the stipulated amounts.

Life Insurance Solvency Margin - 2.29 times

General Insurance Solvency Margin - 3.07 times

In order to strengthen the Investment Committee, Dr Sivakumar Selliah was appointed to it towards the end of 2014.

APPRECIATION

I wish to express my sincere appreciation to the Chairperson and the Board of Directors for their constant guidance and encouragement. I commend my team of Chief Operating Officers, Heads of Divisions, Managers, members of the staff, field management and insurance advisors, due to whose collective effort we have delivered an excellent result while managing the transition to a new corporate structure. Together with my team I convey my thanks to all our insurance brokers, managers and staff at HNB branches, other intermediaries, reinsurers, reinsurance brokers and other strategic partners for their excellent support and understanding.

STRATEGIC FOCUS AND FUTURE DIRECTION

Having delivered consistent value to all our stakeholders through a composite insurance company over a period of thirteen years, HNB Assurance will commence a new journey from this year towards creating greater stakeholder value through a new group structure comprising separate Life and General Insurance companies. While your Company will focus exclusively on Life Insurance Business, our fully-owned subsidiary will focus on General Insurance business.

As the sixth largest Life Insurance provider in the country, the Company will aim to maintain the growth momentum built over the last couple of years to get into the 'big league' comprising the top five companies which is now appearing to be within its reach. In order to do that the Company will pursue a range of growth strategies which are both organic and inorganic. It will also review its pricing and reserving policies to improve the profitability of the Life Insurance Business. The implementation of the new 'Prophet' actuarial system and the transition to a Gross Premium Valuation (GPV) based valuation methodology in line with the RBC framework will help facilitate this.

A similar growth strategy will be employed by our subsidiary to improve its market position in the General Insurance market. As some companies may find it difficult to compete in the General Insurance market after the split, it is believed that there will be more opportunities for industry consolidation in this market. The Company will be constantly pursuing opportunities for mergers and acquisitions that will

HNB ASSURANCE WILL COMMENCE A NEW JOURNEY FROM 2015 TOWARDS CREATING GREATER STAKEHOLDER VALUE THROUGH A NEW GROUP STRUCTURE COMPRISING SEPARATE LIFE AND GENERAL INSURANCE COMPANIES.

create value for all its stakeholders. In addition, it will seek a listing for HNB General Insurance Limited in conformity with regulations in the near future by releasing a significant block of shares to the Stock Exchange to meet minimum float requirements. At the same time, the Company will also look at facilitating the entry of a strategic investor who may be able to add value to the business by providing access to technical expertise and global best practices.

The Company will provide some of the high end managerial inputs to the new subsidiary through a Shared Services arm which will provide services to both Life and General Business segments. This will include Finance, Information Technology, Marketing, Human Resource, Actuarial, Legal, Administration and Compliance functions. However, some of the functions that are integral to the day-to-day operations of the two lines of business have been already delegated to Support Service Units that have been set up under the respective Chief Operating Officers. Special attention will be given in 2015 to ensure their smooth functioning under the new structure.

I am confident that the Company is now fully geared under its new structure to meet any challenge that may emerge from the environment while exploiting new opportunities that are likely to arise from the new environment being created in the country by the new Government that has taken office.

Manjula de Silva
Managing Director

09th February, 2015

Board of Directors

Dr. Ranee Jayamaha
Chairperson

Manjula de Silva
Managing Director

Jonathan Alles
Director

M U de Silva
Director

Sarath Ratwatte
Director

Mahendra Jayasekera
Director

Siromi Wickramasinghe
Director

Dr. Sivakumar Selliah
Director

K Balasundaram
Director

Dilshan Rodrigo
Director

Shiromi Halloluwa
Company Secretary

Board of Directors

Chairperson
DR. RANEE JAYAMAHA

B.A. (Hons) (University of Ceylon, Peradeniya), M.Sc. (University of Stirling, U.K.), Ph.D (University of Bradford, U.K.), Dunive (University of Stirling, U.K.).

Non – Executive Director and Chairperson since June 2012. She is also the Chairperson of Sithma Development (Pvt) Ltd and HNB General Insurance Limited and Director of Overseas Reality (Ceylon) PLC and Mireka Capital Lanka (Private) Limited. She had been the Deputy Governor in charge of Financial System Stability of the Central Bank of Sri Lanka from 2004 up to her retirement at end of May 2009. Over 40 years of extensive experience in the fields of economics, banking, finance, regulation and administration, having held a number of positions in the Central Bank and outside.

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

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

Managing Director
MANJULA DE SILVA

B.A. (Hons) (Colombo), MBA (London Business School, UK), FCMA (UK), CGMA

Manjula holds a BA Hons degree in Economics from the University of Colombo and a MBA from London Business School, UK. He is also a FCMA (UK) and a Chartered Global Management Accountant (CGMA).

Having joined HNB Assurance PLC as its Chief Executive Officer in July 2004, he has been serving as its Managing Director since March 2006. He was recently appointed as the Managing Director of HNB General Insurance Limited in addition to his current duties. He is a Committee Member and Chairman – Steering Committee on Insurance of the Ceylon Chamber of Commerce. He is currently serving as the Deputy Chairman of CIMA Sri Lanka Division. He is a Past President of the Insurance Association of Sri Lanka (IASL) and the Unit Trust Association of Sri Lanka (UTASL).

Director
JONATHAN ALLES

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

Non-Executive Director. Managing Director / Chief Executive Officer of Hatton National Bank PLC. Member of the Corporate Management of Hatton National Bank PLC since 2010. Counts over 28 years experience in Banking including 15 years of overseas assignments. Mr. Alles is the Chairman of Lanka Financial Services Bureau Ltd., Lanka Ventures PLC and Prime Grameen Micro Finance Ltd. He also serves as a Director of Sithma Development (Pvt) Ltd, Acuity Partners (Pvt) Ltd, Acuity Stockbrokers (Pvt) Ltd, and HNB General Insurance Limited.

Director
M U DE SILVA

FCIB (London)

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

Director
SARATH RATWATTE

FCMA (UK), CGMA

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

Director

MAHENDRA JAYASEKERA

FCA, BSc Special Hons - University of Sri Jayawardenapura

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

Director

SIROMI WICKRAMASINGHE

Attorney-at-Law

Non - Executive Director. Presently is a Director of Agstar PLC. Also functions as the Head of Credit Counselling Centre. A Fellow of the Chartered Management Institute, UK. Counts over 33 years of multi-functional and progressive experience in the Sri Lankan Banking Sector including 12 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 Gtee Ltd.

Director

DR. SIVAKUMAR SELLIAH

(MBBS, M.Phil)

Non – Executive Director. Appointed to the Board of HNB Assurance PLC in June 2014. He has over 23 years of experience in diverse fields which include areas of manufacturing, healthcare, plantations, packaging, logistics, retail and distribution.

He currently holds the position of Deputy Chairman of Asiri Hospitals Holdings PLC, Deputy Chairman of Asiri Surgical Hospital PLC and Deputy Chairman of Central Hospital Private Ltd. Dr. Selliah is also the Chairman of CleanCo Lanka Pvt Ltd and JAT Holding Pvt Ltd and is a Director of Lanka Floor Tiles PLC, ODEL PLC, Softlogic Holdings PLC, Lanka Walltiles PLC, Horana Plantation PLC and Lanka Ceramic PLC. Dr Selliah serves on the Remuneration Committee and Audit Committee of some of the Companies listed above.

Director

K BALASUNDARAM

Non - Executive Director. Director / Chief Executive Officer of Mercantile Merchant Bank and Pathfinder Group of Companies. Also serves on the Boards of MMBL Money Transfer Private Limited (Joint Venture with Aitken Spence), Saffron Aviation Private Limited and Sentinel Reality Private Limited (Joint Venture with John Keells), Yarl Hotels Private Limited (Joint Venture with Jetwings), Intertek Lanka Private Limited (Joint Venture with Intertek UK), Energizer Lanka Private Limited (Joint Venture with Energizer USA). Counts over 48 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 Board.

Director

DILSHAN RODRIGO

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

Non – Executive Director. Chief Operating Officer of Hatton National Bank PLC and Director of Acuity Securities Ltd, Acuity Partners Ltd, Guardian Acuity Asset Management Ltd and Alternate Director for Credit Information Bureau. A senior banker with extensive experience in Retail Banking, Finance, Institutional Banking and Risk Management in leading local and foreign commercial banks operating in Sri Lanka and is a member of the Sri Lanka Institute of Directors. Elected Chairman for a two year period of the Asian Banker's Policy Advocacy Committee, a forum for advancing the cause of banking and finance in the region and promoting regional co-operation. Was a Lecturer and examiner for Strategic Management for the University of Wales affiliated MBA Program in Sri Lanka and a guest lecturer at Postgraduate Institute of Management. Has presented technical papers in various forums locally and overseas on Strategy and Risk Management. A former President of ACCA Sri Lanka Division.

Company Secretary

SHIROMI HALLOLUWA

Attorney-at-Law & Notary Public

Appointed Company Secretary in January 2012. Presently works as the Manager – Legal (Operations) of the Hatton National Bank PLC and Company Secretary of Prime Grameen Micro Finance Ltd, a subsidiary of Hatton National Bank PLC. Counts over 19 years experience in the Legal Profession and 15 years as a member of the Legal Team of Hatton National Bank PLC.

Executive Committee

1. Manjula de Silva
2. Niranjan Manickam
3. Prasantha Fernando
4. Vipula Dharmapala
5. Namal Gunawardhane
6. Chandana L Aluthgama
7. Ivan Nicholas
8. Dilshan Perera
9. Nilesh Amarasinghe

Executive Committee

MANJULA DE SILVA

Managing Director

Profile appears on page 26.

NIRANJAN MANICKAM

Chief Operating Officer, HNB General Insurance

ACII (UK), Chartered Insurer

Niranjan is the Chief Operating Officer of HNB General Insurance. Prior to being promoted as COO, he was the General Manager – General Insurance of HNB Assurance for over 5 years after joining the Company in April 2009. Niranjan counts over 32 years of local and international experience in handling all classes of General Insurance. Prior to joining HNB Assurance, he held the position of General Manager, Operations at Aviva NDB Insurance PLC. He is a past Chairman of the General Insurance Forum (GIF) of the Insurance Association of Sri Lanka (IASL) and is a Lecturer at the Sri Lanka Insurance Institute. He also serves as the Principal Officer and the Specified Officer of HNB General Insurance Limited.

PRASANTHA FERNANDO

Chief Operating Officer – Life Insurance

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

Prasantha joined HNB Assurance in 2012. Currently he is serving as the Chief Operating Officer for Life Insurance. He served as General Manager - Life Insurance for three years prior to being promoted as COO. Prior to joining HNB Assurance, he held the position of Assistant General Manager, Life Operations at Aviva NDB Insurance PLC. He counts over 20 years of experience in the Life Insurance Industry. He is the current 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.

VIPULA DHARMAPALA

Chief Financial Officer

BSc Bus. Admin Sp. (J'pura), ACA

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

NAMAL GUNAWARDHANE.

Chief Information Officer

BCom Hons (Delhi University), BIT (Indira Gandhi National University)

Namal started his career in insurance as the IT Manager at Ceylinco Insurance PLC (General) in 2005 and joined HNB Assurance in 2008 as Head of IT.

He received the IT Leadership award at the Asia Insurance Technology awards last year where the winner is selected among the CIO's of insurance companies in APAC countries.

Previously he held the positions of Group IT Manager of Timex and Fergasam Group of Companies – one of the leading apparel manufacturers in Sri Lanka and Project Manager at Asian Aviation Center. Namal holds a BCom (Hons) degree from Delhi University and a BIT from Indira Ghandi National University in addition to other professional certifications in the field of IT.

CHANDANA L ALUTHGAMA

Chief Business Officer – HNB General Insurance

BCom 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. He counts over 23 years' experience in business development, operations, branch coordination, 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. He has undergone extensive training both locally and overseas including at Generali insurance, Vienna, Austria. Chandana served at Eagle Insurance PLC prior to joining HNBA. He currently serves as the Secretary of the Royal College Union (RCU).

IVAN NICHOLAS

Head of Distribution - Life

Ivan joined HNB Assurance on 15th October 2010 as the Head of Distribution. He counts over 30 years' experience in branch and regional management and distribution within the insurance industry. Prior to joining HNBA he has served at Eagle Insurance PLC where he gained multinational exposure and at Union Assurance PLC as AGM – Corporate Business Development. With the segregation of Life & General business of the Company he is now leading the Distribution function of the Life Insurance business.

DILSHAN PERERA

Head of Marketing

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

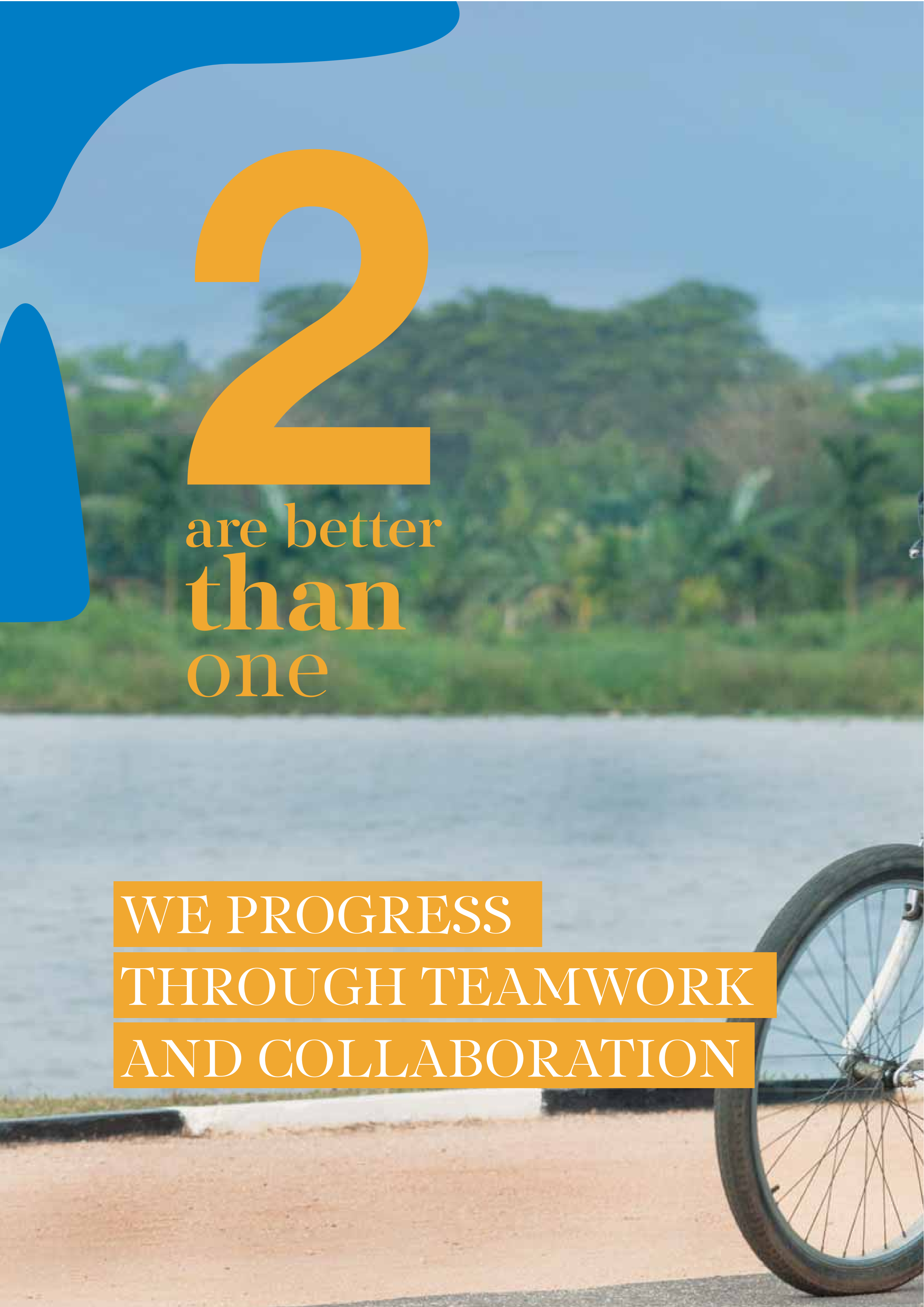
Dilshan joined HNB Assurance in 2012 as the Head of Marketing. He has over 10 years experience in Marketing and Brand Management, Business Development and Customer Relationship Management. Before joining HNB Assurance, Dilshan also worked in three other leading companies namely DFCC Bank, Ceylinco Life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

NILESH AMARASINGHE

Head of Investment

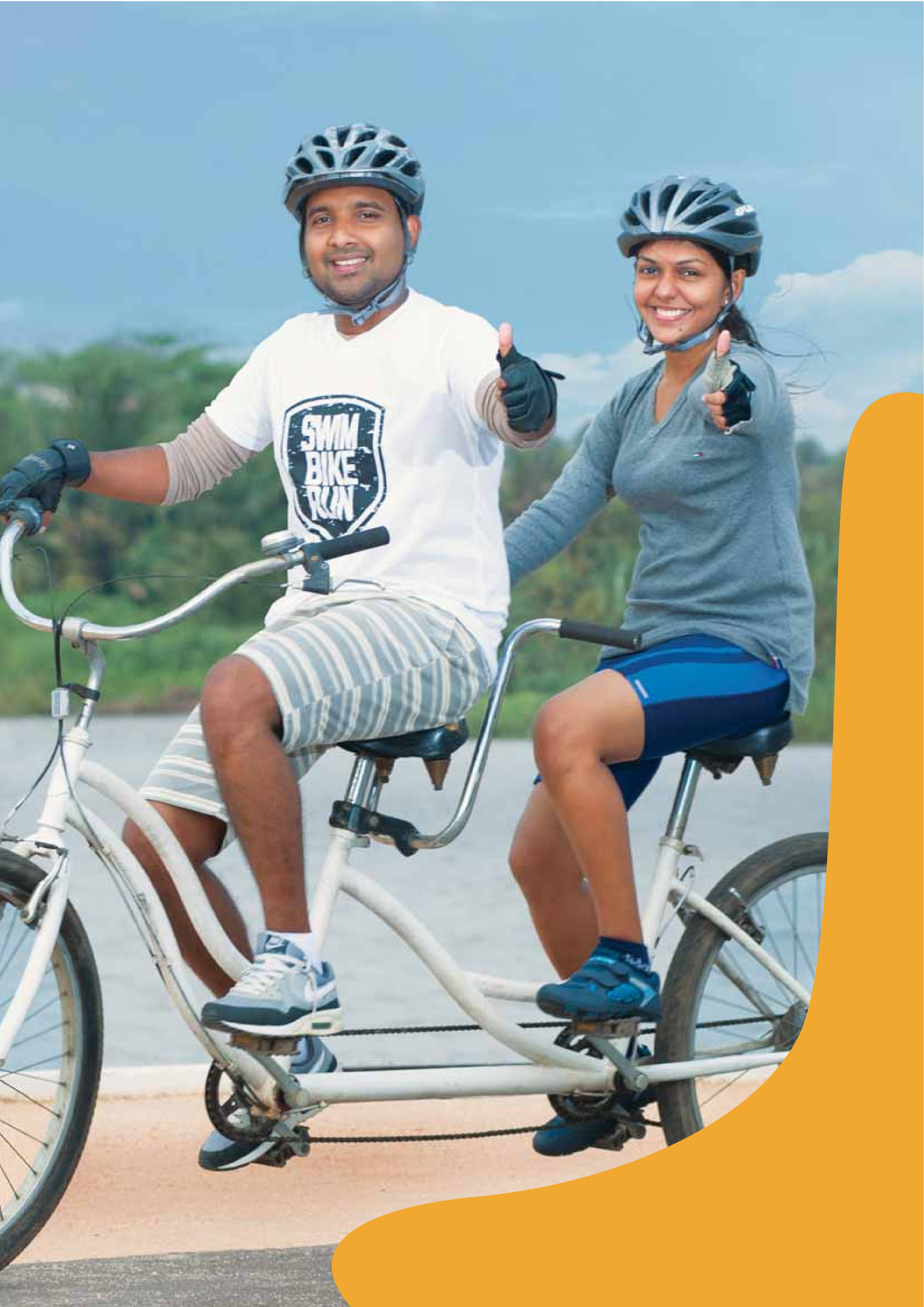
BSc. Econ & Mgt Hons (Lon(LSE)), MBus. (Fin) (UTS.Sydney)

Functioning as the Head of Investment since January 2013, Nilesh has over 9 years of experience in Capital Markets in Sri Lanka specialising in investment management/fund management. Having joined HNBA as a Management Trainee in 2005, Nilesh served HNBA as Assistant Manager – Investments and Manager – Investments, prior to being promoted as the Head of Investment.



2 are better than one

WE PROGRESS THROUGH TEAMWORK AND COLLABORATION


SWIM
BIKE
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Reference:

GRI-G4 | G4 - 3 | G4 - 6 | G4 - 7 | G4 - 8 | G4 - 9 | G4 - 13

Management Discussion and Analysis

WHO WE ARE

HNB Assurance PLC (HNBA) was incorporated in 2001 as a composite insurer and a fully owned subsidiary of Hatton National Bank PLC (HNB), a leading commercial bank in the country.

The Company obtained a listing on the Colombo Stock Exchange, with HNB divesting 40% of their stake to the general public in 2003, but remains as an entity fully capitalised through equity.

Up to 31st December 2014, HNBA offered both Life and General Insurance solutions within the boundaries of Sri Lanka under the licence of the Insurance Board of Sri Lanka.

In 2014, in order to comply with the segregation requirements of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, HNBA incorporated a fully owned subsidiary by the name of HNB General Insurance Limited (HNBGI). In compliance with the same requirements, the General Insurance business of HNBA has now been transferred to HNBGI with effect from 01st of January 2015, after which HNBA will continue as a Life Insurer and the holding company of a General Insurance subsidiary. However, until the transfer date, all activities of HNBGI were limited to generating investment returns on share capital funds.

829
Employees

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

118,438
General Insurance Policyholders

Rs. 9.9 Bn.
Total Assets

Rs. 4.2 Bn.
Market Capitalisation

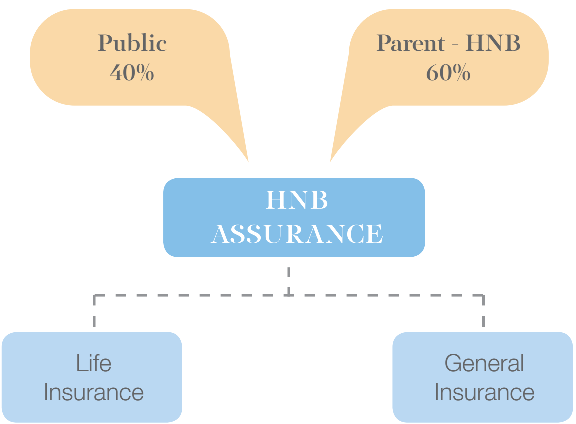
51
Branches

Rs. 4.7 Bn.
Combined GWP

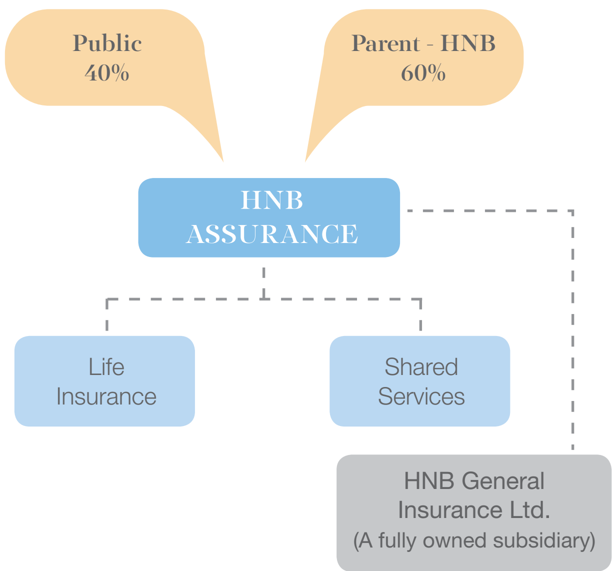
109,695
Life Insurance Policyholders

OUR STRUCTURE

Pre Segregation - As at 1st January 2014



Post Segregation - From 01st January 2015



Reference:

GRI-G4 | G4 - 14 | G4 - 15 | G4 - 16 | G4 - 34

With the formation of our subsidiary, and in preparation for the segregation, our organisation structure changed considerably.

We, at HNBA, intend to keep all our valued stakeholders well informed and thus have illustrated the post segregation structure w.e.f. 01st January 2015 shown on page 34.

It must be noted that no changes have taken place to the ownership structure of HNBA. HNB will continue to have 60% shareholding while the balance will be held by the general public.

Apart from the changes noted, no significant change occurred during the period with regard to the, size, ownership, capital formation or the supply chain of the business as of the reporting date.

OUR APPROACH TO SUSTAINABILITY

It is our belief that we cannot excel in financial performance alone. Generating sound financial returns require resources such as knowledge and skills of our employees, good partnerships with our suppliers and distribution channels, quality products and services which customers seek out and a brand that communities recognise as a responsible and environmental friendly entity, among others.

Although our operations pose no direct negative impact on the environment, our strategies are aimed at increasing value to all our stakeholders while making a positive impact on society with a minimum negative impact on the environment. This holistic approach is what gets defined on each page of this Integrated Annual Report, symbolising that all components of our business are intrinsically interlinked in delivering sustainable value to our stakeholders. A detailed description of our strategy formulation process is given on pages 220 to 224.

Sustainability Structure

At HNBA, the ultimate responsibility of ensuring that due consideration is afforded to economic, social and environmental performance in the formulation of our goals and strategies and in our decision making process, is vested with the Board of Directors. Under the guidance of the Board, this responsibility is delegated to the Executive Committee and the Operational Committees of the Company, who embed such concerns into our business strategy.

In addition to the Board, Board Sub committees, the Risk Management Committee and the Business Continuity Plan Committee (BCP) are responsible for good corporate governance, risk management and business continuity planning respectively as these form an essential component of sustainability of the Company.

Our Endorsements

We endorse the regulations, standards, codes and guidelines stated on page 3 which have also formed the basis of this report. Further, our external commitments extend to the following organisations as well, by virtue of memberships.

- 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)

Global Reporting Initiative™ Organizational Stakeholder 2015

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

Reference:

GRI-G4 | G4 - 17 | G4 - 18 | G4 - 20 | G4 - 21 | G4 - 22

Management Discussion and Analysis

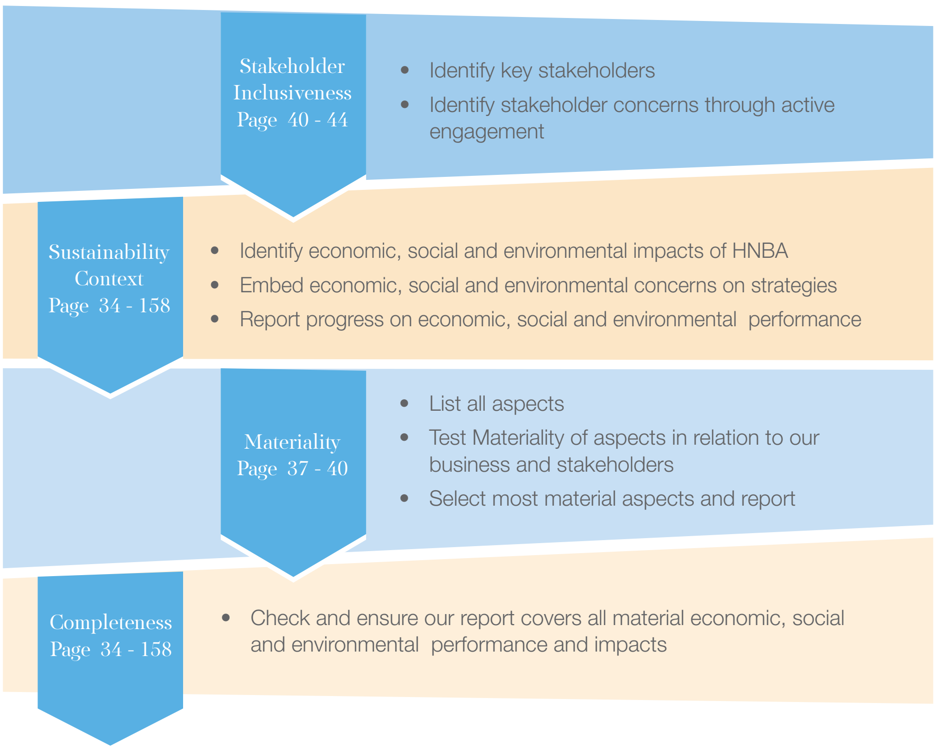
Boundaries for Reporting

This report covers the operations of HNB Assurance PLC and its only subsidiary HNB General Insurance Limited for the year ended 31st of December 2014, and the audited Financial Statements presented on pages 272 to 370 and other non - financial information presented throughout this report, unless otherwise stated, relate only to HNBA and HNBGI. No material restatements have been made to the information provided in previous reports.

Report Content and Aspect Boundaries

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

However, we have not disclosed all our impacts but rather the impacts that are material to us and our stakeholders. In doing so, we have followed the principles laid down by GRI in determining material aspects and the manner in which we have applied the said principles are illustrated below.



Reference:

GRI-G4 G4 - 18

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

Step 1: Identifying Key Topics

Concerns raised by stakeholders	GRI G4 Aspects, Financial Sector Supplement, Integrated Reporting Framework, Other Frameworks

16 aspects not applicable

Step 2: Relevancy Test

Choose topics relevant to HNBA and its business model	Discard topics that are irrelevant

33 aspects relevant

Step 3: Materiality and Prioritisation Test

Economic/ Social/ Environmental impacts internally, from the supply chain, or both	Does the impact pose a risk or an opportunity to the value creation process?	Does it influence the stakeholder decision making

Materiality Matrix

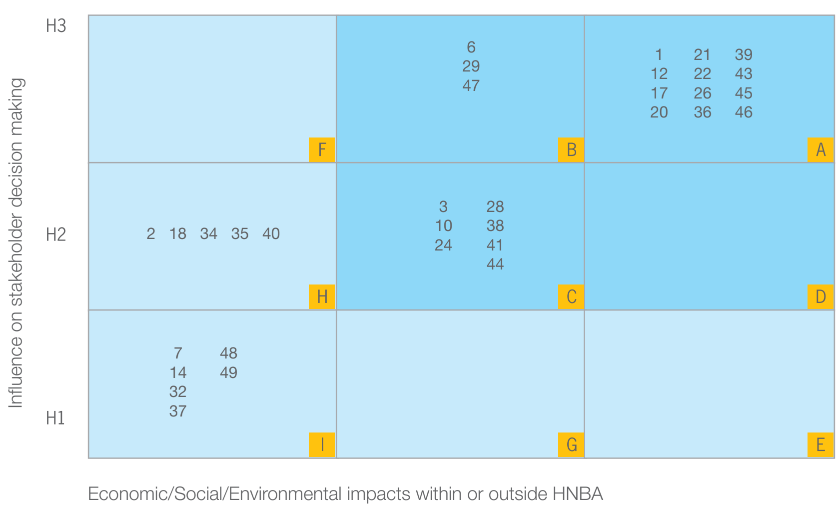
Step 4: Validation Process

Checking for Completeness	Stakeholder Inclusiveness	Preparation of systems and processes to gather information	Translation of identified material aspects into Standard Disclosures and Indicators	Determination of management approaches and measurement systems

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

The aspects labelled in the quadrants A, B, C and D are deemed to be material and will form the content of this report. For aspects where the impact occurs outside the organisation, information will be disclosed only based on their availability which is a limitation of this report.

Materiality Matrix



Management Discussion and Analysis

The list of material aspects and their boundaries, determined based on where the Economic, Social and Environmental impact occurs, within HNBA or outside HNBA or in both instances, is given below along with where the impact occurs. Accordingly no significant change has occurred on scope and aspect boundaries compared to previous reporting periods.

NO.	ASPECT	SIGNIFICANCE IN TERMS OF SUSTAINABILITY CONTEXT	BOUNDARY	MATERIALITY		MATERIAL ASPECT
				TO HNBA	TO STAKEHOLDER	
Economic						
1	Economic Performance	High	HNBA	High	High	Yes
2	Market Presence	Low	HNBA	Low	Moderate	No
3	Indirect Economic Impacts	Moderate	HNBA	Moderate	Moderate	Yes
4	Procurement Practices	Not Applicable	Not Applicable			
Environmental						
5	Material	Not Applicable	Not Applicable			
6	Energy	Moderate	HNBA	Moderate	High	Yes
7	Water	Low	HNBA	Low	Low	No
8	Bio Diversity	Not Applicable	Not Applicable			
9	Emissions	Not Applicable	Not Applicable			
10	Effluents and Waste	Moderate	HNBA	Moderate	Moderate	Yes
11	Products and Services	Not Applicable	Not Applicable			
12	Compliance	High	HNBA	High	High	Yes
13	Transport	Not Applicable	Not Applicable			
14	Overall	Low	HNBA	Low	Low	No
15	Supplier Environmental Assessment	Not Applicable	Not Applicable			
16	Environmental Grievance Mechanisms	Not Applicable	Not Applicable			
Social: Labour Practices and Decent Work						
17	Employment	High	HNBA	High	High	Yes
18	Labour/Management Relations	Low	HNBA	Low	Moderate	No
19	Occupational Health and Safety	Not Applicable	Not Applicable			
20	Training and Education	High	HNBA	High	High	Yes
21	Diversity and Equal Opportunity	High	HNBA	High	High	Yes
22	Equal Remuneration for Women and Men	High	HNBA	High	High	Yes

NO.	ASPECT	SIGNIFICANCE IN TERMS OF SUSTAINABILITY CONTEXT	BOUNDARY	MATERIALITY		MATERIAL ASPECT
				TO HNBA	TO STAKEHOLDER	
23	Supplier Assessment for Labour Practices	Not Applicable	Not Applicable			
24	Labour Practices Grievance Mechanisms	Moderate	HNBA	Moderate	Moderate	Yes
Social: Human Rights						
25	Investment	Not Applicable	Not Applicable			
26	Non-discrimination	High	HNBA	High	High	Yes
27	Freedom of Association and Collective Bargaining	Not Applicable	Not Applicable			
28	Child Labour	Moderate	HNBA/ Garages/ Other Suppliers	Moderate	Moderate	Yes
29	Forced or Compulsory Labour	Moderate	HNBA/ Garages/ Other Suppliers	Moderate	High	Yes
30	Security Practices	Not Applicable	Not Applicable			
31	Indigenous Rights	Not Applicable	Not Applicable			
32	Assessment	Low	HNBA	Low	Low	No
33	Supplier Human Rights Assessment	Not Applicable	Not Applicable			
34	Human Rights Grievance mechanisms	Low	Garages/ Other Suppliers	Low	Moderate	No
Social: Society						
35	Local Communities	Low	HNBA	Low	Moderate	No
36	Anti-corruption	High	HNBA	High	High	Yes
37	Public Policy	Low	HNBA	Low	Low	No
38	Anti-competitive Behaviour	Moderate	HNBA/ Advisors	Moderate	Moderate	Yes
39	Compliance	High	HNBA	High	High	Yes
40	Supplier Assessment for Impacts on Society	Low	Advisors/ Other Suppliers	Low	Moderate	No
41	Grievance Mechanisms for Impacts on Society	Moderate	HNBA/ Advisors	Moderate	Moderate	Yes

NO.	ASPECT	SIGNIFICANCE IN TERMS OF SUSTAINABILITY CONTEXT	BOUNDARY	MATERIALITY		MATERIAL ASPECT
				TO HNBA	TO STAKEHOLDER	
Social: Product Responsibility						
42	Customer Health & Safety	Not Applicable	Not Applicable			
43	Product and Service Labelling	High	HNBA	High	High	Yes
44	Marketing Communications	Moderate	HNBA/ Advisors/ Brokers	Moderate	Moderate	Yes
45	Customer Privacy	High	HNBA/ Advisors/ Brokers	High	High	Yes
46	Compliance	High	HNBA	High	High	Yes
47	Product Portfolio	Moderate	HNBA	Moderate	High	Yes
48	Audit	Low	HNBA	Low	Low	No
49	Active Ownership	Low	HNBA	Low	Low	No

STAKEHOLDER ENGAGEMENT

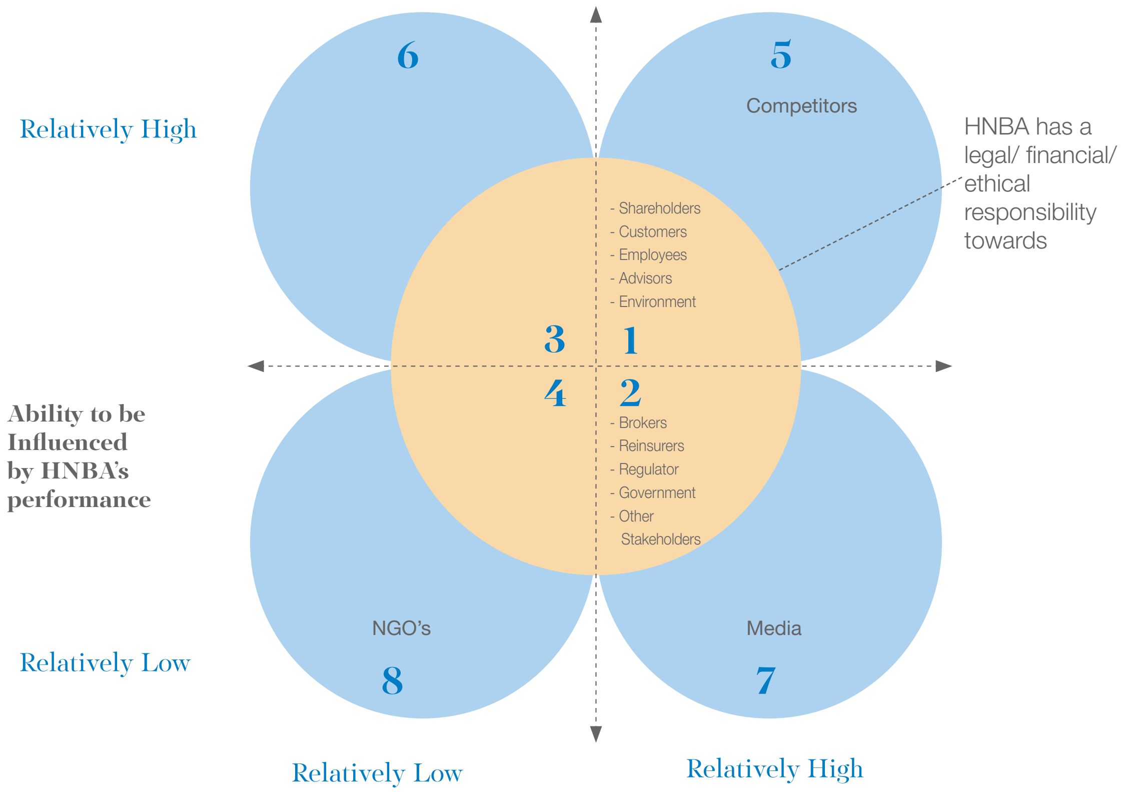
We believe that our existence is for and because of our stakeholders, and thus our success is determined by our ability to identify and address their concerns. We identify stakeholders based on two criteria;

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

The list of stakeholders thus recognised, is reviewed periodically by the Management to identify and include new additions. However, the extent of our engagement with our stakeholders is determined on whether we have a legal, financial or ethical responsibility towards them.

This process, and the stakeholders identified, is illustrated above along with the extent of engagement, which is marked on a scale of 1 to 8, the highest importance being 1 and lowest 8. Accordingly, we maintain formal engagement mechanisms and actively engage with the stakeholders falling into the categories 1 to 3. Concerns raised through this process are absorbed into the strategy formulation process of HNBA.

The mechanisms undertaken by the Company for engaging its stakeholders are listed below. Further, the engagement mechanisms listed were not prepared for the purpose of preparation of this report.



Ability to Influence HNBA's performance

STAKEHOLDER GROUP	PURPOSE OF ENGAGEMENT	ENGAGEMENT ACTIVITY	FREQUENCY	CONCERNS RAISED	OUR RESPONSES
Shareholders	To provide timely and relevant information to existing/potential investors Make decisions via the exercise of voting rights Raise concerns	Interim financial reports Annual report Annual General Meeting Access to Chairperson/ Managing Director/ Board Secretary via email/letter/telephone	Quarterly Annually Annually Any working day	Attractive dividends Maintaining liquidity of shares Clarifications about financial/ operational ratios Information about the Company in other languages	Dividend pay-out increased by 15% in 2014 HASU traded 91.3% of market days Shareholder suggestions taken into account in providing financial/ operational information in Annual Report Sinhala and Tamil language translations of Reviews of Chairperson, Managing Director and key financials are provided with the annual report (Refer page 110-112 for details)

STAKEHOLDER GROUP	PURPOSE OF ENGAGEMENT	ENGAGEMENT ACTIVITY	FREQUENCY	CONCERNS RAISED	OUR RESPONSES
Employees	To create and maintain a motivated workforce	HNBA intranet to provide information	Regularly	Attractive remuneration	Increased salaries on par with industry
		Staff conference	Annually	Training opportunities	A wide array of training opportunities provided
	To be a responsible and sought after employer	Management / Distribution Management Meetings to share information and promote discussion	Quarterly	Work-life equilibrium	Training provided to management level employees on good HR practices
	To get valued input from employees to improve the value creation process	Employee satisfaction survey	Annually	Improved relations between superiors and subordinates	Survey results/ exit interview results shared with the management teams for improvement
		CEO's forums,	Annually		(Refer page 120-136 for details)
		Whistle-blowing policy and process	All employees are educated on policy		
		Exit interviews	At all resignations		
		Open-door culture	Continuously maintained		
		Performance reviews	Bi-annually		

Reference:

GRI-G4 | G4 - 26 | G4 - 27

STAKEHOLDER GROUP	PURPOSE OF ENGAGEMENT	ENGAGEMENT ACTIVITY	FREQUENCY	CONCERNS RAISED	OUR RESPONSES
Customers	To provide information on HNBA products To identify insurance needs To provide a high level of service To provide assistance in the event of a claim To improve customer loyalty	Online help-desk and 24 hour customer hotline Customer Service Centre and 51 branches Customer news letter Propaganda vehicle travelling island-wide creating product awareness Interactive trilingual website Web inquiries 21 SMS services Facebook page Android Applications	365 days x 24 hours On all working days Bi-annually Visited 70 villages during the year Could be accessed anytime On payment receipt, claims settlement etc.	Assistance during accidents Improved service levels Hassle-free claims settlement Innovative products	A state-of the-art Customer Service Centre to assist customers 24/7 Targeted training conducted for all front line staff and Motor assessors Introducing HNB Momo (Refer page 113-119 for details)
Regulator (IBSL)	To ensure strict adherence to rules and regulations To receive clarifications on rules and regulations set by them Obtain approval for new products	Submission of returns as stipulated by the IBSL Submission of other documentation as per regulator's stipulations e.g. new product details, new advertisements, Annual Report, etc. Prompt and appropriate responses to queries raised by the IBSL	As per stipulated dates given by the IBSL	Clarifications about information provided by us	Prompt response to queries Submitting of statutory returns well before target dates (Refer page 53-56 for details)

Management Discussion and Analysis

STAKEHOLDER GROUP	PURPOSE OF ENGAGEMENT	ENGAGEMENT ACTIVITY	FREQUENCY	CONCERNS RAISED	OUR RESPONSES
Business Partners	To maintain win-win relationships with business partners downstream such as Advisors, Assessors, Brokers, Garages and Financial Institutions who directly deal with our customers To gain the financial backing of our reinsurers	Dissemination of information on our achievements and strategies Sales Clinics conducted for Advisors Award ceremony for HNB branches Training offered to advisors and brokers Get-togethers organised for business partners and our own staff Communication via e-mail with reinsurers Regular meetings with reinsurers	Monthly Monthly Annually Based on an agreed training calendar Annually or Bi-annually Continuously Throughout the year	Need for training Prompt payments Rewards	316 training programmes done for Advisors Payments made on a monthly basis for advisors and brokers on an agreed date Top performing advisors are recognised annually Top performing HNB branches are recognised bi-annually (Refer page 137 to 143 for details)
Community	To contribute to the development of the communities which we are a part of To discharge our responsibility as a good corporate citizen To provide information about our activities	Media statements to provide information Consultation of community members through our branch network to identify community needs Maintaining a dialogue with community representative groups such as National Blood Bank, Cultural foundations, etc.	When there is a need to release information On a continuous basis On a continuous basis	Community needs such as water facilities for schools, equipment needs of hospitals/ sports teams and other community groups Support needed to conduct academic/ professional conferences, performing arts, music and theatre, publication of books, etc.	Review such requests and fulfil them if they fall in to our CSR criteria Ensure sustainability of our CSR initiatives by keeping in touch with target communities and fulfilling maintenance needs (Refer page 144-153 for details)

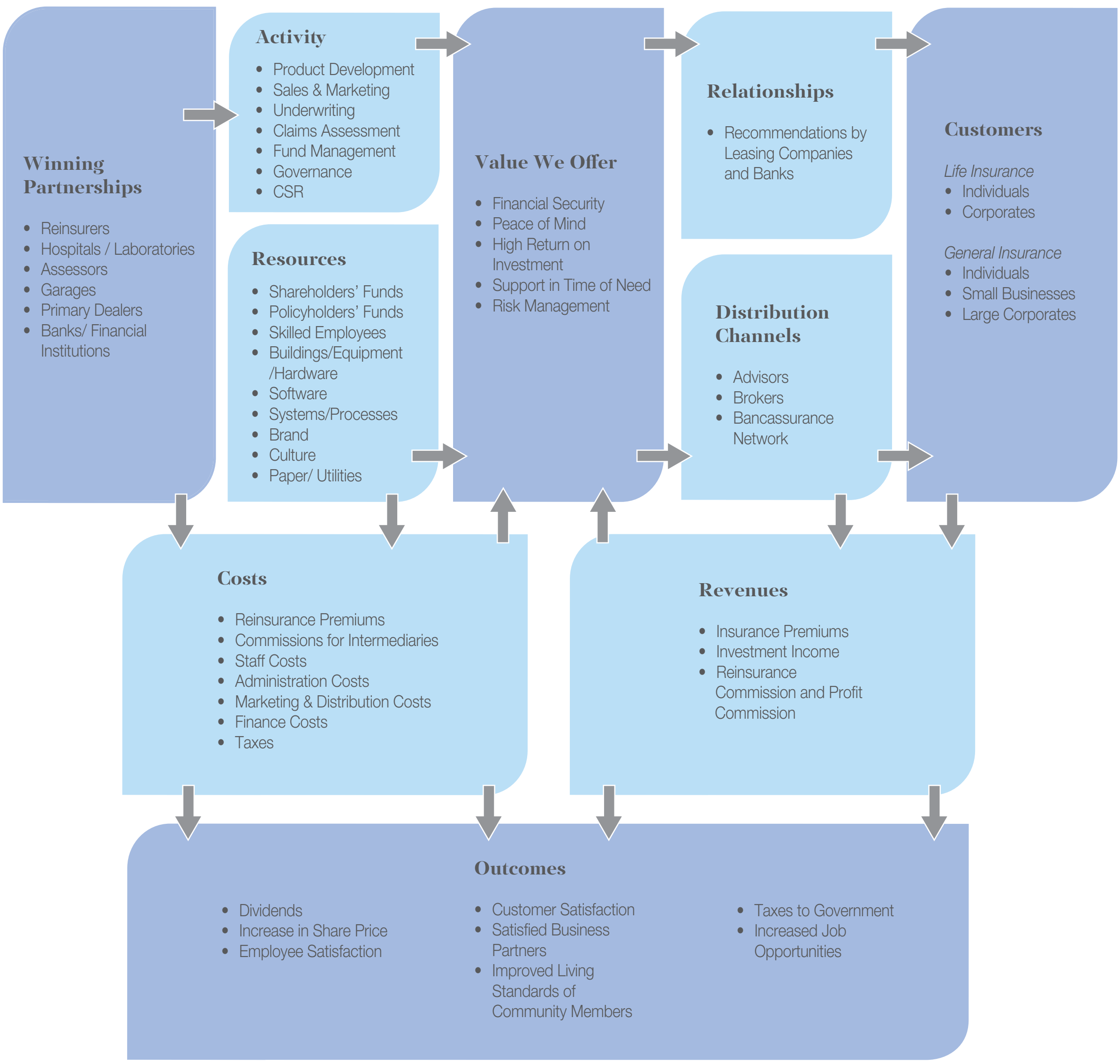
Reference:
GRI-G4 G4 - 12

OUR BUSINESS MODEL

What We Do

We are in the business of ensuring the economic sustainability of our customers. For instance, helping them plan for their future, compensating in the event they incur a loss and helping them rebuild their future are some of what we do in our business. We identify the risks faced by individual as well as corporate customers, offer the right solutions using both conventions and innovations and give back to them when they need us most. In doing so, we create value, not just for ourselves, but also for all our stakeholders.

Our value creation process is simple but effective. We derive value from the capital provided by our stakeholders, combine it with our own internal capital, both financial and intellectual to offer a value back to our stakeholders. Then, we deliver value to our stakeholders in the form of products for customers, dividends and share price growth for our investors, financial and non-financial returns for employees, payments for our distribution channels and business partners and taxes for the Government. Being a responsible corporate, we do not forget to give back to society in the form of community investments whilst striving to minimise our impact on our environs. Illustrated below is our value creation process.



Management Discussion and Analysis

OUR STRATEGIC OBJECTIVES

We are unwavering in our efforts on realising our vision and mission. Thus, in each year, we identify a set of clear strategic objectives as milestones on our journey and strive to achieve them. The process of setting our strategic objectives is through our corporate planning and budgeting process which is clearly detailed in the Performance Governance Section appearing on page 220. Listed below are the strategic objectives set for 2014.

We made clear progress on our strategic objectives during the year under review which is summarised below for the information of our readers and elaborated throughout this report.

Strategic Objective	Pages
Business Growth	76-81 91-94 107
Leverage on Technology to Increase Efficiency	81 94-95 104-105
Meet Regulatory Changes	53-56 81, 96 105-106 108 135 -136
Enhance Customer Service	82 95-96 116-119
Maximise Investment Return	100-103
Create Sustainable Shareholder Value	111-112
Deliver Brand Promise	113-116
Create 'a place where you can shine'	121-135
Maintain win-win Partnerships	138-143
Give Back to Society	145-153
Minimize Negative Impact on Environment	154-158

KEY PERFORMANCE INDICATORS

INDICATOR	STATUS	2014	2013	2012	2011	2010	GROWTH 2014
Financial Performance							
GWP (Rs. Mn.)	↑	4,666	3,878	3,211	2,985	2,428	20%
Investment Income (Rs. Mn.)	↑	1,032	852	662	479	517	21%
Profit After Tax (Rs. Mn.)	↑	418	389	351	246	242	7%
Funds under Management (Rs. Mn.)	↑	8,291	6,660	5,806	4,967	3,661	24%
Market Capitalisation (Rs. Mn.)	↑	4,175	2,625	2,450	2,845	2,925	59%
Solvency Ratio - Life Insurance (Times)	↑	2.29	2.04	2.28	2.89	1.13	
Solvency Ratio - General Insurance (Times)	↓	3.07	3.89	3.48	3.15	2.01	
Market Share	↑	4.5%	4.0%	3.7%	3.7%	3.6%	
Returns to Investors							
Return on Equity	↓	17.3%	18.4%	18.7%	15.2%	23.0%	
Earnings Per Share (Rs.)	↑	8.35	7.78	7.02	5.14	5.38	7%
Dividends Per Share (Rs.)	↑	3.75	3.25	2.75	2.1	1.80	15%
Dividend payment (Rs. Mn.)	↑	187.5	162.5	137.5	105	67.5	15%
Market Price Per Share VWA (Rs.)	↑	83.50	52.50	49 .00	56.90	66.31	59%
P/E Ratio (Times)	↑	10.00	6.75	6.98	11.07	12.33	48%
Life Insurance Operations							
GWP (Rs. Mn.)	↑	2,343	2,015	1,500	1,291	1,084	16%
Life Fund (Rs. Mn.)	↑	5,563	4,348	3,626	3,021	2,415	28%
Number of Policies	↑	109,695	100,481	95,738	90,260	79,321	9%
Lapse Ratio (First year)	↓	49%	52.3%	50.0%	49.4%	55%	
Lapse Ratio (second year)	↓	26.6%	29.7%	26.5%	26.7%	31%	
Premium Persistency Ratio	-	81%	81%	80%	79%	81%	
Claims Ratio (with maturities)	↓	19%	36%	19%	5%	6%	
Claims Ratio (without maturities)	↑	6%	5%	8%	4%	4%	
Expense Ratio	↑	48%	47%	59%	57%	59%	
Combined Ratio (with maturities)	↓	67%	82%	78%	62%	65%	
Combined Ratio (without maturities)	↑	54%	52%	67%	61%	63%	
General Insurance Operations							
GWP (Rs. Mn.)	↑	2,323	1,863	1,711	1,694	1,344	25%
General Fund (Rs. Mn.)	↑	1,279	1,011	969	944	743	27%
Number of Policies	↑	118,438	89,824	85,996	85,651	76,680	32%
Claims Ratio	↑	72%	66%	68%	69%	68%	
Expense Ratio	↓	38%	39%	34%	34%	39%	
Combined Ratio	↑	110%	105%	102%	103%	107%	

Reference:

GRI-G4 | G4 - SO11

Management Discussion and Analysis

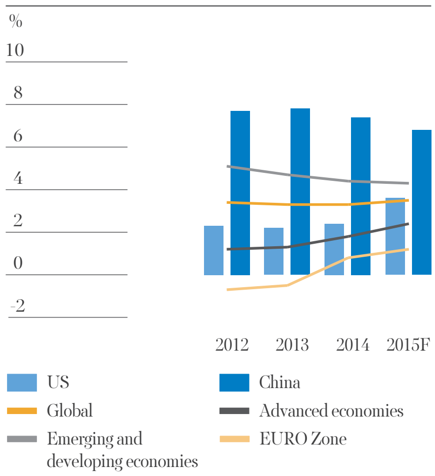
INDICATOR	STATUS	2014	2013	2012	2011	2010	GROWTH 2014
Customer Value							
Claims and benefits - incurred (Rs. Mn)	↑	1,573	1,568	1,154	865	648	
Number of Branches	-	51	51	51	51	51	
Number of new products	↓	4	9	4	3	3	
% of customer complaints settled	↓	54%	78%	80%	89%	78%	
Bonus for Policyholders (Rs. Mn)	↑	109	90	83	70	54	21%
Rate of Dividend for non - participating Policyholders	↓	8%	9%	9%	8%	N/A	
Average GWP per Bancassurance Officer (Rs. Mn)	↑	2.26	1.78	1.32	1.29	0.94	27%
Employee Benefits							
Number of Staff	↑	829	804	723	662	597	3%
GWP Per Employee (Rs.Mn)	↑	5.63	4.82	4.44	4.51	4.07	17%
Profit Per Employee (Rs. Mn)	-	0.5	0.5	0.5	0.4	0.4	4%
Training hours per employee (hrs)	↓	17.7	20.4	25.8	23.4	25.5	(13%)
Employee turnover (with fixed term contract staff)	-	22%	22%	25%	23%	24%	
Employee turnover (without fixed term contract staff)	↓	13%	14%	17%	13%	17%	
Business Partners							
Number of Advisors	↑	1,533	1,507	1,643	1,451	1,401	2%
Commission Paid (Rs. Mn)	↑	600	494	437	389	310	21%
Average GWP per active Advisor (Rs. Mn)	↑	1.34	1.17	0.83	0.79	0.67	15%
Number of Brokers	↑	55	52	49	48	46	6%
Commission Paid to Brokers (Rs. Mn)	↑	90	62	55	55	44	45%
Number of Assessors	↓	143	128	106	91	97	(4%)
Fees paid to Assessors (Rs. Mn)	↑	18	14	15	14	11	29%
Acquisition cost as a % of GWP	-	13%	13%	11%	10%	8%	
Community Emphasis							
Number of Micro Insurance Policies	↑	2,361	1,663	2,078	2,988	2,141	42%
Total Number of School Water Projects completed (cumulative)	↑	33	27	21	16	14	22%
Total Investment in Community (Rs. Mn)	-	3	3	2	2	2	
Environment Involvement							
Electricity Consumption (units)	↓	1,298,176	1,356,317	1,208,361	Not Available	Not Available	(4%)
Paper Recycled (Kg)	↓	12,780	14,330	4,524	11,907	904	(11%)

ECONOMIC REVIEW

Global Economy in a Nutshell

The pace of global economic activities which emerged in the second half of 2013, continued its growth momentum throughout the year 2014, and the world economy gradually had reached the corner of the great recession by the end of 2014 courtesy many advanced economies regaining their growth momentum. Meanwhile the emerging and developing economies continued to contribute more than two-thirds of the global economic growth. The pace however was sluggish comparatively.

Global GDP Growth



Despite the positives, global recovery was burdened by some new challenges, including a number of unexpected shocks, geopolitical conflicts in different parts of the world such as Ukraine and the Islamic State crisis and the most recent eruption of the Ebola pandemic.

As illustrated in the graph above, advanced economies of the world demonstrated varied economic growth rates during 2014. The United States was able to deliver the strongest rebound in economic growth at 2.4%, despite the contraction recorded in the first quarter of the year. In October 2014, The Federal Reserve announced the end of the bond buying programme (also known as Quantitative Easing), marking an important milestone in the re-normalisation of the US economy after the financial crisis.

However, the Euro Zone recovery has suffered several setbacks during 2014. Geopolitical tensions in Ukraine have impacted heavily on economic sentiment in the zone, demonstrating that recovery is still highly vulnerable.

Even though activity levels are expected to be supported by the tumbling oil prices and the eased monetary policy stance adopted by the European Central Bank, these factors might be offset by weaker investment prospects, partly reflecting the impact of weaker growth in emerging market economies on the export sector. As such, recovery is projected to be at 0.8%, somewhat slower for the year 2014.

The Chinese economy showed signs of weakness throughout 2014. Industrial production decelerated sharply, retail sales softened, property prices declined, and overall inflation dropped to a disturbing level. In addition, imports fell considerably, providing further evidence of weak domestic demand. Together, these factors, caused the world's second largest economy to record a growth of 7.4% in 2014, which was its slowest pace of GDP growth since the global financial crisis 2008.

2015: A Year to Look Forward

The International Monetary Fund (IMF), offered the bleakest global-growth outlook in three years, trimming global growth projections to 3.5% while cautioning that the boost from lower crude oil prices would be offset by dimmer economic prospects for China, Russia, the Euro Zone, Japan and oil producing nations.

It is also important to note that in 2015, emerging economies face a risk of capital flight if the Federal Reserve starts raising interest rates, as the world's largest economy shows signs of stabilising.

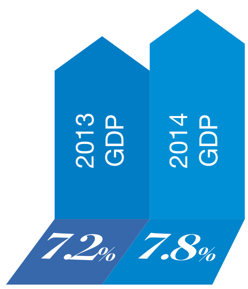
Sri Lankan Economy: Sustained Growth Despite Natural Hazards

The Sri Lankan economy maintained its growth drive in 2014, with the Central Bank estimating the country's economy to have expanded by a healthy 7.8%, despite various setbacks.

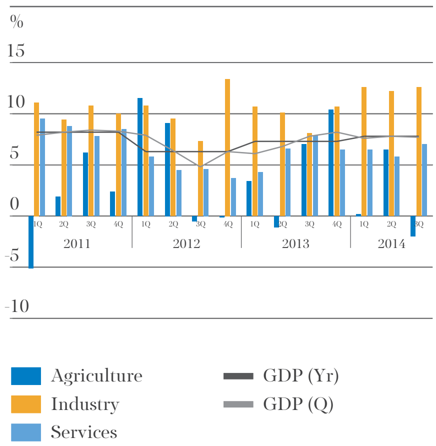
According to confirmed statistics, the Gross Domestic Product (GDP) growth of the country was recorded at 7.7% for the first nine months of the year. National output was driven by the Industry and Services segments, which reported commendable growth rates of 12.5% and 6.4% respectively. The growth of the Agricultural sector was hampered by erratic weather conditions and reported a modest 1.3% growth for the first three quarters of 2014.

Buoyant Fiscal Sector

The fiscal policy adopted by the Government continued to focus on sustainable economic growth while being committed improving key fiscal indicators.



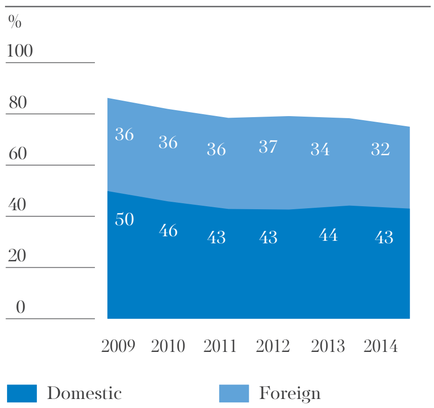
SL - GDP Growth



According to the Central Bank of Sri Lanka (CBSL), at the end of 2014 the overall budget deficit as a percentage of GDP is estimated to be at 5.2%, compared to 5.9% reported at the end of 2013. This positive development was mainly achieved through rationalisation of recurrent expenditure, which improved to 13.4% of GDP at the end of 2014 from 13.9% of GDP in the year earlier.

Strategies adopted to manage the public debt portfolio of the country, helped ease the Debt to GDP ratio for the fifth consecutive year, as the CBSL believes the year 2014 concluded with a Debt to GDP ratio of 75% compared to 78%

Debt to GDP by Source



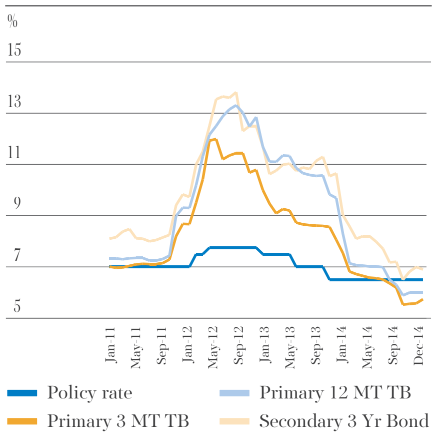
reported in the year 2013. However, when debt raised by other public sector institutions such as state banks is included, this increases to about 89%.

All Time Low Interest Rates

Guided by the policy rates of the CBSL, Sri Lanka experienced a declining trend in market interest rates since the latter part of 2012. The soft monetary policy stance adopted by the CBSL helped the 12-month treasury yield to drop to an all-time record low of 6.00% at end 2014 reflecting a drop of 220 bps for the year.

Despite the impressive GDP growth rates reported and the low interest rate regime, the country's private sector credit growth moved in the opposite direction.

Interest Rates



In the month of July, private sector credit growth dipped to 0.8% which is the lowest recorded in more than six and half years. The dip reported in credit growth was mainly attributed to the lower pawning disbursements while industry indicates that the non-pawning advances of the country have reported a modest growth even during the first half of the year.

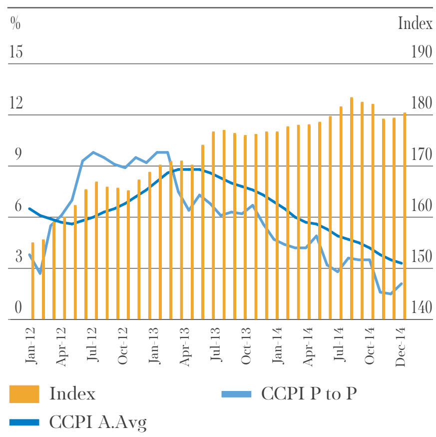
However, in the month of August, credit growth reported an improvement where the monthly disbursement stood at Rs. 47.7 Billion, which is the highest value recorded since May 2012. Following the positive trend, in the months of September, October and November, credit disbursements to the private sector by commercial banks recorded a YoY growth of 4.6%, 5.1% and 6.5% respectively.

Inflation Under Control

The economy successfully maintained its rate of inflation at single digit levels for six consecutive years, and recorded a value of 2.1% at the end of the year 2014. The annual average rate of inflation for the year 2014 was 3.3%

Even though erratic weather conditions disturbed the country's agricultural output, relatively stable exchange rates, moderation in prices of both food and non-food imported items, downward revisions in administered prices of electricity and water tariffs, LP gas and fuel and fiscal policy measures introduced to contain supply side disturbances helped maintain the inflation rate at low levels during 2014.

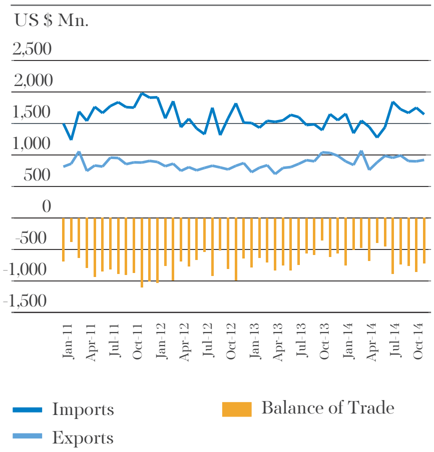
SL - Inflation



External Sector

The external sector remained buoyant during the first 3 quarters of the year underpinned by improved economic conditions in advanced economies, particularly the US, coupled with stable financial conditions.

Balance of Trade



External sector recorded strong growth numbers where earnings from exports grew by 13% to US $ 8.3 Billion, YoY, during the first nine months, while expenditure on imports grew by 5.4% witnessing a YoY contraction of 3.6% in the trade deficit.

However, in the month of October statistics on the external front of the country witnessed a reversing trend. In October, monthly exports reported a negative growth of 13.7% followed by a 10.7% decline in the month of November. Thus, cumulative growth in export income for the year slowed to 7.5% at US $ 10.1 Billion and expenditure on imports, on a cumulative basis, increased moderately by 7.1% YoY to US $ 17.6 Billion during the first eleven months of 2014.

Consequently in the first eleven months of 2014, deficit in the trade account widened by 6.6% to US $ 7.51 Billion compared to the corresponding period in 2013.

Worker's remittances remained an important and stable source of external financing for the Sri Lankan economy growing by 8.7% in the first eleven months of 2014 compared to the corresponding period in 2013. Tourism earnings recorded a growth of 29% during the same period recording an income of US $ 1.9 Billion.

Marking another milestone, the Island's foreign reserves increased to US $ 9.2 Billion in August 2014, amid weak credit growth but since then they had declined. At the end of the month of November, the country's forex reserves fell to US $ 8.3 Billion, equivalent to 5.2 months of imports.

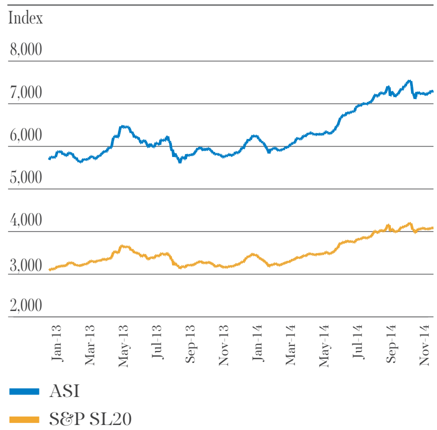
Stabilised Local Currency

Even some volatility was witnessed during the first four months of 2014, the local currency exhibited signs of stabilising from the month of May and reported a marginal depreciation of 0.23% against the USD over the year. On the contrary, LKR appreciated by 11.7% against the EURO and by 7.7% against the AUD during the year.

CSE: "Most Sustainable Growth Exchange in Asia" by Capital Finance International

Despite initial hiccups witnessed, particularly in the first quarter of 2014, the Colombo bourse recorded a stellar performance in 2014. The All Share Index crossed the 7,000 mark in the month of August for the first time since the post-conflict rally and closed at a value of 7,299.0 marking a YoY growth of 23.4%. The S&P SL 20 index crossed the 4,000 mark since inception and

ASPI and S & P SL 20



closed at 4,089.1 registering a growth of 25.3% for the year 2014. This year's boom was mainly assisted by the all-time low interest rate regime that prevailed throughout 2014.

Notably, the Colombo bourse remained an attractive investment avenue to foreign investors and recorded the highest foreign purchases in its history.

The regulator's effort to develop a vibrant secondary corporate debt market bore fruit in 2014 with 401 trades making a turnover of Rs. 7.1 Billion showcasing a new avenue for the investors.

Due to the above mentioned factors the Colombo Stock Exchange (CSE) was recognised as the "Most Sustainable Growth Exchange in Asia for 2014" by Capital Finance International (CFI), a print journal and online resource reporting on business, economics and finance, based in the United Kingdom.

The equity market closed for the year recording a PE of 19.7x and a PBV of 2.2x.

Management Discussion and Analysis

2015: A Year of Opportunity and Challenge

The year 2015 dawned with a political revolution, where the incumbent president, seeking a third, six-year term, was defeated by the common opposition candidate, whose election manifesto promised to dismantle the executive presidential system and amend the constitution to enable greater democracy while promising several populist measures.

The new coalition Government presented their interim budget proposals to the parliament on the 29th of January, it, included numerous concessions to the masses such as tax reductions on 13 identified goods, reduction of LP gas prices, a public sector salary hike, a pension hike, an allowance for expectant mothers, etc. while imposing new taxes on the corporate sector such as a one-off "Super-gain tax".

Due to the concessions provided on a range of consumer items, the revenue expected by the Government for the year 2015 has dropped by Rs. 67 Billion to Rs. 1,622 Billion compared to the former Government's estimate of Rs. 1,689 Billion. While the current spending has risen from Rs. 1,525 Billion to Rs. 1,612 Billion through this interim budget due to the salary hikes of Government employees and pensioners, capital expenditure has been pruned from Rs. 576 Billion to Rs. 399 Billion. The public investment expressed as a percentage of GDP has been reduced to 4.6% from the initial proposal of 6.1%.

The overall budget deficit target for 2015 has been marginally contained at 4.4% compared to the previous target of 4.6%. However, as mentioned above, the containment of the overall budget deficit owes to lower capital expenditure, rather than proposed revenue measures.

The reduction in capital expenditure is expected to be obtained through a reduction in wastage and corruption without reducing the level of activity.

The foreign financing component remains unchanged at 2.2% of GDP while the domestic component too has reduced to 2.2% of GDP from the earlier 2.4%.

An important point to note is that the prospects of obtaining foreign borrowing would be affected by the greater volatility in international capital markets, if the expected interest rate hike in US materialises. In this scenario, the local interest rates would be pressured to move up and the private sector would get crowded out if the Government attempts to borrow domestically. According to the budget speech made by the new Finance Minister, the real Debt to GDP ratio at the end of 2014 is as high as 89%. Therefore, we believe retaining the international credit rating at B- position will be another challenge as the debt burden of the island nation is in an amber light territory; where Debt-to-GDP ratio is significantly higher than the median of 41% for B-rated sovereigns.

The rate of inflation is expected to be at mid-single digit levels in 2015. A significant pick-up in demand and consumption can be expected due to the reduction in prices of essential items.

On the external front, the trade balance might continue to widen unless the country's exports grow at a faster pace. Income from tea exports which accounts for nearly 15% of the export income may get adversely affected during 2015 owing to the plunge in oil prices which is the main source of income for most of the premier importers such as Russia, and the Middle East. Nonetheless, the new Government has revealed that they have plans to lobby with the EU to restore the GSP+ facility to raise export earnings in the context of a weaker EURO. However, import expenditure might increase further due to the higher demand for imports that might originate from the proposed concessions, and the expected credit growth during 2015.

On a positive note, worker's remittances are expected to continue its growth momentum aided by the concessionary duty permits available for high income earning Sri Lankans working overseas, as a measure of encouraging remittances. Further, earnings from tourism too is expected to continue its positive trend. Based on these, the balance of payment of the country is expected to remain in positive territory.

The country's equity market initially responded negatively to the interim budget proposals as the market dropped significantly. The S&P SL 20 index dropped by 4% on the following day as some of the blue-chip companies are liable for the one-off super gain tax at 25% on their net earnings. However, we expect the market to revert back during the year as the corporate earnings are expected to be positive and since the impact of this tax is of a "one-off" nature with a low impact on future earnings. Furthermore, since the market interest rates are not expected to record a significant increase during 2015, the domestic equity market can be expected to remain attractive.

Considering the above mentioned factors, the year 2015 will be a challenging year for the fund managers as they need to optimise returns within a low interest rate environment and a promising yet volatile stock market.

REGULATORY REVIEW

Navigating Through Challenges of the New Regulatory Waters:

Regulation of Insurance Industry Act No. 43 of 2000 and its Amendment Act No. 3 of 2011 coupled with the subordinate regulations issued by Insurance Board of Sri Lanka (IBSL) primarily regulates and supervises the insurance industry in Sri Lanka.

Segregation of Life and General Insurance Businesses as per Regulatory Requirements

Segregation requirement under Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 has been a challenging requirement as the composite insurers were to segregate Life and General Insurance businesses into two separate companies by February 2015. However, the IBSL after consultation with the insurance industry recommended advancing this timeline to 01st of January 2015.

The Company welcomed this challenge with a view extending beyond basic compliance, as an opportunity to strive and create business value. The IBSL also issued guidelines on segregation to be followed by the industry. Going by the said guidelines, the Company has created its own structured regulatory response framework as a lever to design an effective business model while being compliant with the requirement.

As a result, at the dawn of the New Year 2015, a wholly owned subsidiary of the Company, HNB General Insurance Limited started its operations as a fully-fledged General Insurer, becoming one of the first to receive the IBSL registration as a segregated insurer in the country.

In the post segregation environment, the IBSL has allowed having a common MD/CEO and CFO for both companies. Therefore, Mr. Manjula de Silva will function as the MD/CEO of both the companies whereas Mr. Vipula Dharmapala will function as the CFO of both companies. Further, two Chief Operating Officers have been appointed for HNBA and HNBGI who will focus on Life and General Insurance businesses respectively.

Mr. Niranjan Manickam (ACII (UK), Chartered Insurer) has been appointed as the Chief Operating Officer of HNB General Insurance Ltd and Mr. Prasantha Fernando (BSc. Hons (Colombo), ACII (UK), Chartered Insurer) has been appointed as the Chief Operating Officer of HNB Assurance PLC. They are also functioning as the Principal Officer and Specified Officer of these two Companies as required by the Insurance Board of Sri Lanka. Their profiles are given on pages 28 to 31.

As per the guidelines issued by the IBSL, if an insurer wishes to share services or functions with another insurer, it is allowed except for the functions of Underwriting, Claims and Policyholder Complaints Management, Reinsurance and Sales & Distribution. Therefore, the employees involved in these functions are now placed under the Chief Operating Officers of the respective businesses.

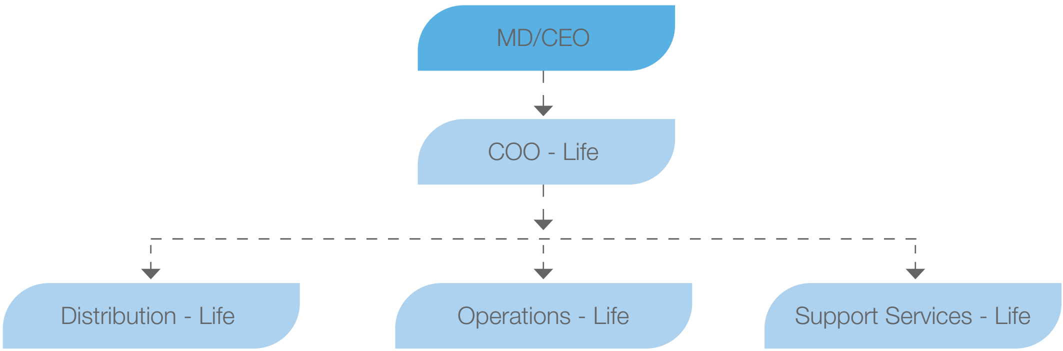
The details of the direct management teams of the HNB Assurance Life Insurance Business and HNB General Insurance Ltd are given on pages 69 and 83.

However, in order to avoid duplication of expenses, key service functions such as Finance, IT, Investment Management, Marketing, HR, Administration, Legal, Actuarial, Risk Management and Compliance will provide their services to both companies on a shared basis. Employees relating to the above functions are employed by the parent Company, HNBA. However, 50% of their expenses will be borne by the subsidiary, HNBGI. The details of the management team under Shared Services are given from on pages 98.

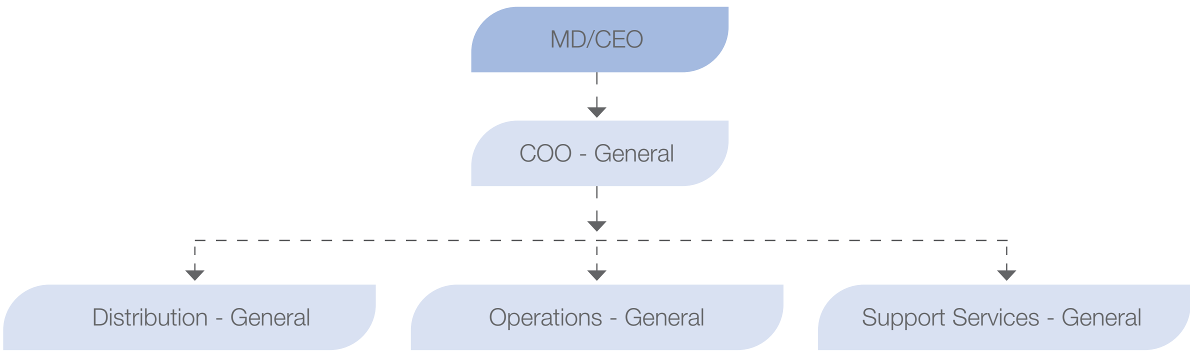
Further, employees who are fully involved in either Life or General Insurance Businesses under Finance, IT, HR and Administration Functions have been placed in Support Services Units which will be under the respective Chief Operating Officer. These employees will have a dual reporting line of one to the Support Services Head (who reports to the COO) and the other to the respective functional Head in the shared service function on specific matters.

Organisation structures of Life Insurance Business in HNBA, HNB General Insurance Ltd and Shared Services under HNBA are shown below.

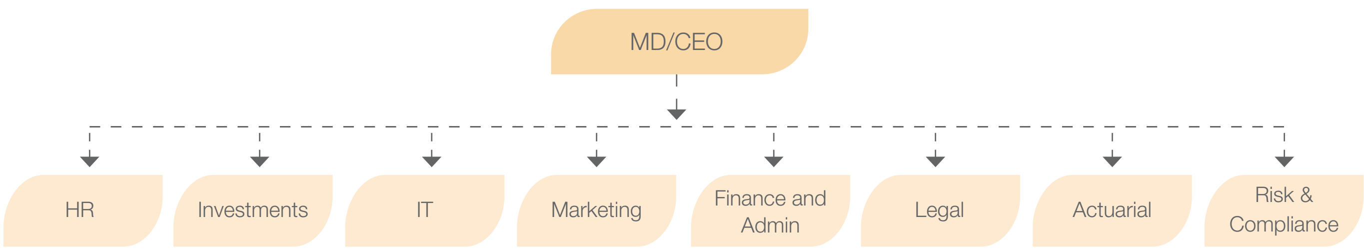
Organisational structure of Life Insurance Business in HNBA



Organisational structure of General Insurance Business in HNB General Insurance Ltd



Organisational structure of Shared Services in HNBA



All employees relating to General Insurance business have been transferred to HNBGI.

Investment in HNBGI and Transfer of Assets

HNBA has invested Rs. 1 Billion in its subsidiary HNBGI after taking into consideration both the regulatory requirements as well as the business requirements of the subsidiary company.

Compliance with the Regulatory Requirements

The Company has obtained all necessary approvals including the approval from shareholders, policyholders, Insurance Board of Sri Lanka (IBSL) and the District Court for the transfer of General Insurance Business to HNBGI. Further, the Company met all deadlines relating to the segregation process imposed by the IBSL.

Further, details on how the Company implemented the segregation process are given from page 193 to 195.

Implementation of Risk Based Capital (RBC)

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

In order to ensure a smooth transition from the current Solvency Regime to RBC, IBSL launched a RBC Road Test from September 2012 to June 2013. Based on the results of the Road Test, IBSL issued the final draft of the RBC Framework in October 2013, with the target to implement RBC from January 2016 onwards. In addition, IBSL initiated a Compulsory Parallel Run of the RBC by all the Companies in the industry in 2014 and 2015.

HNBA participated in the RBC Road Test from its inception till the end, and provided all information requested by the IBSL. We have also provided all information under the Compulsory Parallel Run to the IBSL in a timely manner. In preparation for the adoption of the RBC framework, the Company uses two independent and separate actuarial consultants for Life and General Businesses.

We have made a considerable progress towards RBC implementation over the last three years. Moreover, we strongly believe that the Company can implement RBC requirements without any significant concerns by the due date of 1st January 2016.

Minimum Stated Capital

As per the rules issued by the IBSL, all insurers who were registered before June 30, 2011 were required to increase its paid up share capital to Rs. 500 Million for each class of business by 11th February 2015. Further, the insurers who were registered due to segregation requirements were required to increase their paid up share capital to Rs. 500 Million on or before 7th February 2015.

The Company already has a Stated Capital of Rs. 1,172 Million and has complied with the relevant rules. The Company has also invested Rs. 1,000 Million in HNBGI as the Stated Capital complying with the relevant rule.

Accordingly both HNBA and HNBGI have a capital well above the Minimum Capital Requirements stipulated by the IBSL.

Directions Issued by the IBSL during the Year

Principal Officer and Specified Officer of Insurers

As per the Regulation of Insurance Industry Act, all insurers are required to have a Principal Officer and a Specified Officer. The same person who is employed as a Principal Officer may also function as the Specified Officer of the insurer. The IBSL has also issued a Direction that a Specified Officer or a Principal Officer of an insurer shall not be employed by another insurer in any capacity with effect from 01st January 2015.

HNB Assurance had a common Principal Officer and a Specified Officer for both its Life and General Insurance businesses till 31st December 2014.

With the implementation of segregation of Insurance Businesses into two separate companies, the Company appointed Mr. Prasantha Fernando, Chief Operating Officer of HNBA as the Principal Officer and Specified Officer of HNBA and Mr. Niranjan Manickam, Chief Operating Officer of HNBGI as the Principal Officer and Specified Officer of HNBGI with effect from 01st January 2015.

Agreements with Insurance Agents (Other than individuals)

During the year the IBSL also directed all insurers and insurance brokers to enter into a written agency agreement with clearly defined obligations of both parties when the services of insurance Agents (other than individuals) are obtained. Further, the IBSL has given directions on terms and conditions to be included in such agreements.

This requirement will be complied by HNB General Insurance Limited who will be carrying out the General Insurance business of the group when appointing insurance Agents (other than individuals) from 2015 onwards.

Insurers to be Listed on a Licensed Stock Exchange

As per section 52 (1) Regulation of Insurance Industry (Amendment) Act No. 03 of 2011, insurers who were in operation holding a licence as at the date of the above Act are required to be listed on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka by February 2016.

Therefore, the Company's fully owned subsidiary, HNB General Insurance Limited is required to be listed before the said deadline.

The Company will be taking necessary steps to comply with this requirement before the statutory deadline.

Complying with the CSE Listing Rules and SEC Directives

The CSE Listing Rules were amended during the year by including some of the Directives issued by the SEC towards the end of 2013. Accordingly, new Rules on maintaining a minimum Public Holding percentage, requirements when dealings in shares by Directors and CEOs and Rules pertaining to Related Party Transactions were included and amended during the year.

Rule on Maintaining a Minimum Public Holding %

HNBA has 3,467 public shareholders representing 39.14% of the total listed ordinary voting shares of the Company and thus complied with the Minimum Public Holding percentage under CSE. Further, details of this requirement and the Company's compliance over the past are given on page 178.

HNBA PARTICIPATED IN THE RBC ROAD TEST FROM ITS INCEPTION TILL THE END, AND PROVIDED ALL INFORMATION REQUESTED BY THE IBSL.

Requirements when dealings in Shares by Directors and CEOs

There were no dealings by Directors or CEO during 2014. The Company will comply with relevant requirements when there are any dealings in future.

Further, in order to strengthen the governance on this aspect the Company has adopted a Share Dealing Policy applicable to Directors, CEO and other Key Management Personnel of the Company.

Further, details on the Company Share Dealing Policy can be found on page 190.

Related Party Transactions

Rules pertaining to Related Party Transactions are mandatory with effect from 01st January 2016. However, companies can voluntarily comply with the said rules from 01st January 2014 onwards.

We appointed a Related Party Transactions Review Committee on 27th March 2014 and started voluntarily complying with the said rules. The composition, roles and responsibilities of the Related Party Transactions Review Committee is given in its Report on pages 233 to 234.

Corporate Governance Rules

The Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC were amended from 01st January 2014. The Company's compliance with the said code and Rule No. 7.10 of the Listing Rules of the CSE on Corporate Governance are given in detail from pages 217 to 219.

Foreign Account Tax Compliance Act (FATCA)

As required in the Foreign Account Tax Compliance Act (FATCA) the Company registered with the US Internal Revenue Service (IRS) within the given dead line. As per the FATCA, the Company is required to provide details of US citizen customers to IRS. In order to comply with this requirement, the Company redesigned some of the documents used when issuing new policies to identify US citizens. The Company's FATCA registration details are given below;

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

FINANCIAL REVIEW

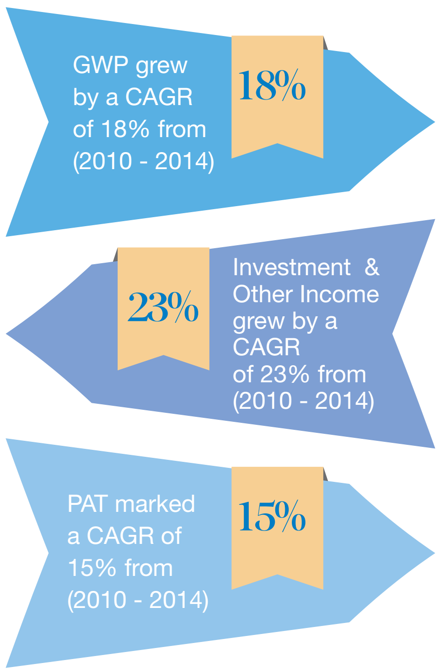
WE ARE CONFIDENT THAT DESPITE THE CHALLENGING ENVIRONMENT, THE COMPANY WILL CONTINUE TO ACHIEVE OVERALL SUCCESS AND DELIVER STRONG RESULTS TO ITS STAKEHOLDERS. EVEN THOUGH THE COMPANY WAS CONFRONTED WITH CHALLENGING SITUATIONS DURING THE INITIAL PHASE OF THE YEAR, WE CONCLUDED OUR OPERATIONS FOR THE YEAR 2014 ON A WINNING NOTE KEEPING UP THE CONTINUOUS GROWTH MOMENTUM.

Throughout our 13 year journey, we have grown in size, geographic reach and in financial strength while adding value to all our stakeholders. In doing so, we adapted ourselves to the often volatile nature of the economic conditions in the country and the changing demands of the insurance industry. Thus, we are confident that despite the challenging environment, the Company will continue to achieve overall success and deliver strong results to its stakeholders. Even though the Company was confronted with challenging situations during the initial phase of the year, we concluded our operations for the year 2014 on a winning note keeping up the continuous growth momentum.

The following section is provided to assist our stakeholders in understanding the results of the operations and the financial conditions of the HNB Assurance Group, consisting of the Life Insurance segment, General Insurance segment and our fully owned subsidiary HNB General Insurance Limited, which was incorporated in the year under review. These results are presented in comparison to the results of the Company, consisting of the Life Insurance segment and the General Insurance segment, for the corresponding period of 2013 while emphasizing the achievements of the Company that outperforms the Industry. HNB Assurance was engaged in providing both Life and General Insurance services during the year under review while the activities of HNB General Insurance Limited was confined to the management of investments made out of its capital until 31st December 2014.

However, with effect from 01st January 2015, the General Insurance Business of HNB Assurance was transferred to HNB General Insurance Limited as described further in page 53.

Financial Statements presented in this report relating to the years from 2011 to 2014 have been prepared in accordance with the existing Sri Lanka Accounting Standards (SLFRS/LKAS) which came into effect in the year 2012, while financial information for the previous years, unless otherwise stated, have been prepared according to the previous Sri Lanka Accounting Standards (SLAS).



Management Discussion and Analysis

Where We Stand

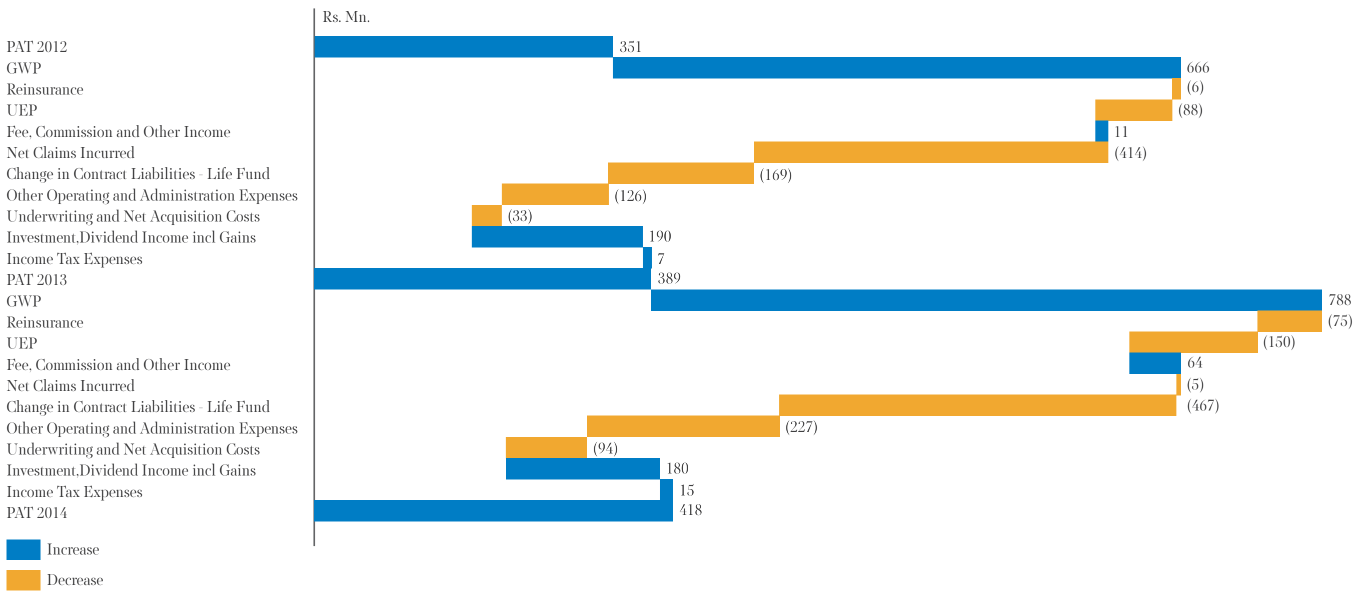
Statement of Comprehensive Income

Snapshot

The Statement of Comprehensive Income depicts a positive improvement in the Company with certain momentous achievements. One significant achievement is the combined business turnover, which crossed the Rs. 4 Billion mark at the end of 2014, achieving all revenue related targets set for the Company. We also recorded an impressive 20% growth in Gross Written Premiums (GWP) compared to the 6% growth recorded by the industry. This outstanding performance in the top line supported us in delivering promising results in profits thus adding sustainable value to our shareholders. The combined profits of the Company grew by 7% and reached Rs. 418 Million.

SINCE 2005, WE HAVE BEEN ABLE TO RECORD A GROWTH IN PROFITABILITY IN THE COMPANY EVERY SINGLE YEAR. THE PROFIT RECORDED IN 2004 WAS JUST RS. 16 MILLION WHICH HAS NOW INCREASED TO RS. 418 MILLION DURING THE 10 YEAR PERIOD. ACCORDINGLY, THE COMPANY HAS RECORDED A COMPOUND ANNUAL GROWTH RATE (CAGR) OF AN IMPRESSIVE 35% OVER THE 10 YEAR PERIOD, WHICH IS NOTEWORTHY TO HIGHLIGHT AS PER ANY PERFORMANCE STANDARD.

Key variables which affected the Profit after Tax



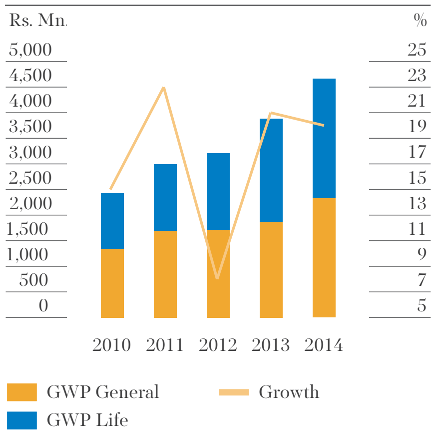
A snapshot of our Income Statements for the last 5 years

	Rs. Mn.					GROWTH 2014	CAGR
	2014	2013	2012	2011	2010		
Gross Written Premium	4,666	3,878	3,211	2,985	2,428	20%	18%
Reinsurance	(601)	(526)	(520)	(493)	(449)	14%	8%
Net Change in Unearned Premium Reserves	(233)	(83)	6	(142)	(134)	181%	15%
Net Earned Premium	3,832	3,269	2,697	2,350	1,844	17%	20%
Other Revenue including Investment Income	1,181	937	737	467	517	26%	23%
Net Benefits and Claims	(1,573)	(1,568)	(1,155)	(865)	(648)	0%	25%
Underwriting and Net Acquisition Costs	(475)	(381)	(348)	(288)	(165)	25%	30%
Other Operating, Administration and Other Expenses	(1,334)	(1,107)	(981)	(833)	(747)	21%	16%
Change in Contract Liabilities - Life Fund	(1,192)	(725)	(556)	(558)	(532)	64%	22%
Profit Before Taxation	439	425	394	272	270	3%	13%
Income Tax Expenses	(21)	(36)	(43)	(26)	(28)	(42%)	(7%)
Profit for the Year	418	389	351	246	242	7%	15%

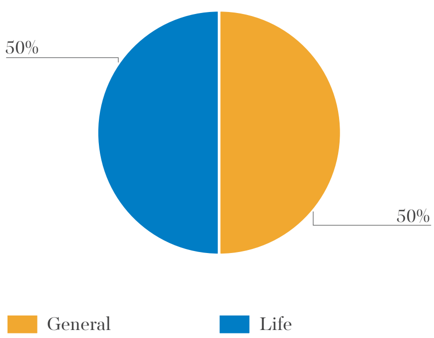
Gross Written Premium

In 2014 we achieved a combined GWP of Rs.4.7 Billion marking a growth of 20% over the preceding year. The Life Insurance segment recorded a growth of 16% achieving a GWP of Rs. 2.3 Billion and the General Insurance segment achieved an impressive growth rate of 25% also with a GWP of Rs. 2.3 Billion.

Gross Written Premium - Company



Gross Written Premium - Company



Both Life Insurance and General Insurance segments contributed in equal proportions to the combined result and this remarkable performance was underpinned by the sustained execution of underwriting and pricing strategies of the Company. A detailed analysis of the strategies followed to accomplish the target in General Insurance is presented on pages 84 to 103 while pages 70 to 82 presents a complete analysis of the strategies used by the Life Insurance segment.

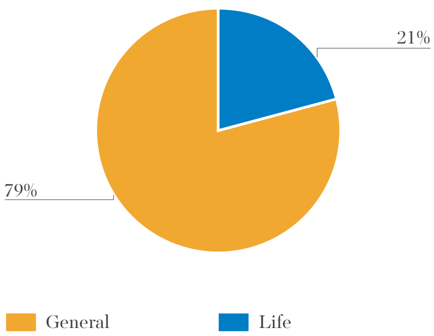
Reinsurance

The premium ceded to reinsurers of the Company grew by 14% during the year increasing the Reinsurance amount to Rs. 601 Million in 2014 from Rs. 526 Million in year 2013. The General Insurance segment contributed 79% of the reinsurance expense of the Company and the remaining 21% was accounted for by the Life Insurance segment.

The growth in reinsurance cost in General Insurance is 12% which is much lower than the GWP growth of 25%. This is mainly due to 79% of General Insurance GWP being generated through Motor and Medical Insurance Classes which carry little or no reinsurance.

The growth in the outward Reinsurance Cost in the Life Insurance segment is 25% which is contributed mainly by the Mortgage Reducing Policy (MRP) category.

Reinsurance - Company



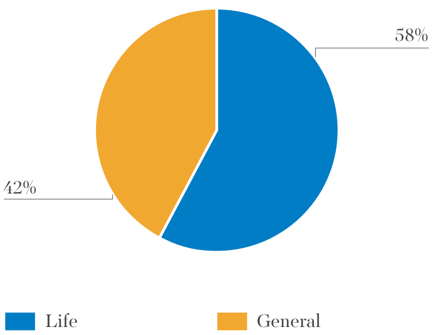
Net Earned Premium

The NEP of the Company recorded a growth of 17% compared to the previous year achieving Rs. 3.8 Billion. The growth rate in NEP demonstrates a drop compared to that of 2013, which was 21% mainly due to the drop in growth recorded in the NEP of Life Insurance business which came down to 16% in 2014 from 39% in 2013. Nevertheless, as far as year 2014 is concerned, NEP growth in Life Insurance was parallel to the growth in GWP.

General Insurance attained a 19% growth in NEP relative to the previous year with an achievement of Rs. 1.6 Billion. Yet again, this is an impressive growth as the segment was able to achieve only a 2% growth in NEP in 2013.

Contribution to the combined NEP was 42% and 58% from General Insurance

Net Earned Premium - Company



and Life Insurance respectively, which shows no major change from the previous year.

Other Revenue

The Group earned Rs. 1,181 Million as other revenue during the period under review over the Rs. 937 Million recorded in 2013 marking a growth of 26%. The main contributor to Other Revenue of the Group was Interest and Dividend Income which contributed 70% to the total other revenue and achieved a growth of 5% over the previous year. However, the significant growth in Other Revenue is from other components such as Realized Gains, Fair Value Gains and the Fee & Commission Income as depicted in the table below.

The Company realised gains worth Rs. 109 Million during the year through the sale of tradable Fixed Income and Equity instruments. Our key strategy was to capitalize on the downward movement of Interest Rates and the excellent performance of the Equity Market to realise these gains.

64% of the realised gain was generated through the sale of Treasury Bonds classified under Available for Sale category, followed by 24% from the sale of Corporate Debt classified under Loans and Receivables. Further, 11% of the realized gains were from the sale of equity investments categorized as Fair Value Through Profit or Loss while the balance was realised through forex gains on Term Deposits classified under Loans and Receivables.

The staggering 658% growth in Net Fair Value Gains predominantly arose from Equity Securities and Unit Trusts classified as Fair Value Through Profit or Loss which was mainly a result of the excellent performance of the

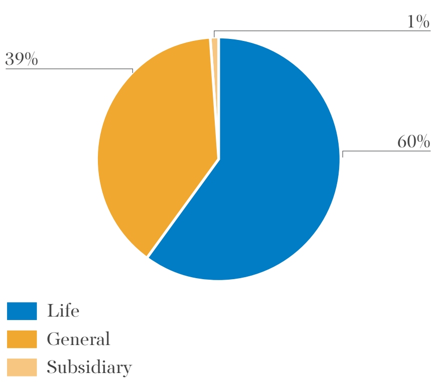
OTHER REVENUE	Rs. Mn.				GROWTH IN 2014
	2014	2013	2012	2011	
Interest and Dividend Income	824	785	655	479	5%
Net Realised Gains	109	53	7	1	104%
Net Fair Value Gains / (Losses)	99	13	0	(71)	658%
Fee and Commission Income	137	73	72	56	88%
Other Income	12	13	3	3	(4%)
Total Other Revenue	1,181	937	737	468	26%

Equity Market and the exceptional performance of our equity portfolios which outperformed market indices by a considerable margin.

Fee and Commission Income which comprise Profit Commission from Reinsurers and Policy Fee Income recorded a substantial growth this year. Growth in GWP and the number of policies supported a 63% growth in Policy Fee Income, which contributed 41% of the total Fee and Commission Income while the profits shared by Reinsurers, especially in General Insurance Business, grew by 140% compared to the previous year contributing 57% to the total. The latter is a true reflection of the quality of underwriting practiced by the Company.

The Subsidiary company of HNB Assurance also contributed to the total Other Revenue on a small scale with the limited Investment Funds the Company had with the Stated Capital which stood at Rs. 100 Million up to 31st December 2014.

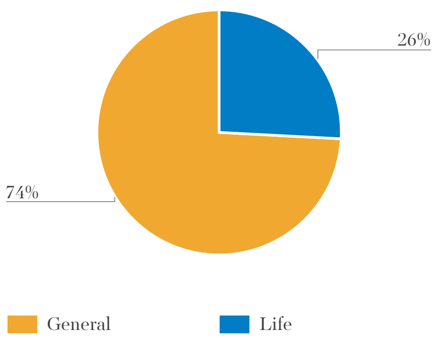
Other Revenue



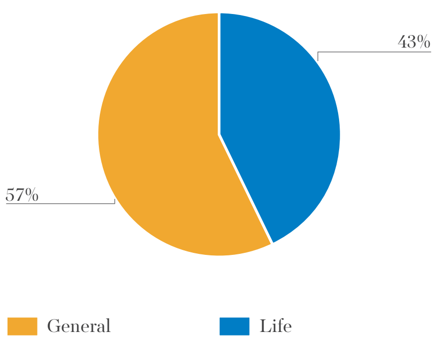
Net Benefits and Claims

During 2014 the Company settled Claims and Benefits worth of Rs. 1,573 Million for its customers as against Rs. 1,568 Million Claims and Benefits for the previous year. Reduction in maturity claims paid for Single Premium and Endowment policies from Rs. 571 Million to Rs. 266 Million in Life Insurance had a positive effect on the Combined Claims expense of the Company which was offset by the 30% increase in General Insurance Claims .

Net Benefits and Claims - 2014



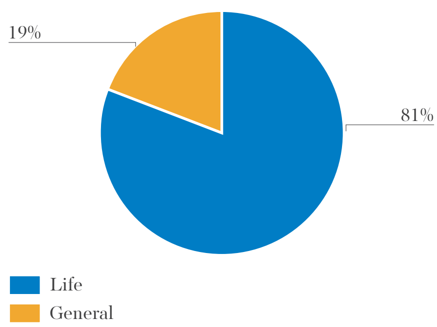
Net Benefits and Claims - 2013



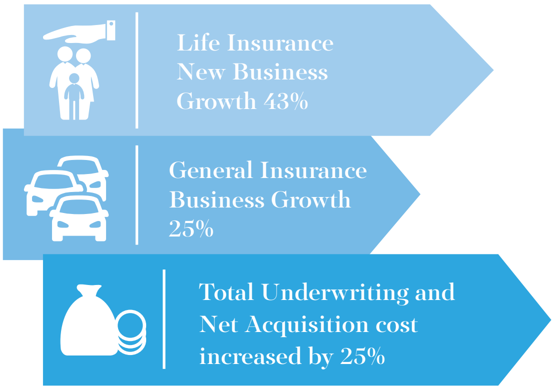
Underwriting and Net Acquisition Costs

The cost of Underwriting and Net Acquisition increased by 25% during the year. The increase in this cost category is in line with the business growth achieved by the Company which is 25% in General Insurance and 16% in Life Insurance. It must be noted that even though the overall business growth in Life Insurance was limited to 16%, the new business growth in the year recorded an impressive 43% which in turn resulted in a higher Acquisition Cost since new business carries higher commission rates.

Underwriting and Net Acquisition Costs



Life Insurance accounted for 81% of the total Underwriting and Net Acquisition Cost, which is a trend we have noted throughout the Industry as Life Insurance Business is highly dependent on business intermediaries resulting in high sales commission structures.

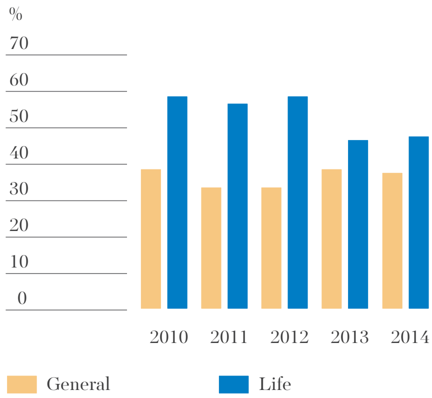


Operating, Administration and Other Expenses

The Group experienced a 21% increase in the Operating, Administration and Other Expenses during the year under review. Of the GWP 29% has been spent on Operating and Administration Expenses and the Company has been able to maintain this rate at a constant level compared to the previous year.

Life Insurance Business invested in brand building activities in 2014, which added Rs. 51 Million to the total expenses. Accordingly, Life Insurance contributed a higher portion of the total Operating, Administration and Other Expenses which stood at 53%.

Expense Ratio - Company



General Insurance business, which contributed 47% of Operating, Administration and Other Expenses was able to maintain its Expense Ratio at 38%, lower than the 39% recorded in the last year.

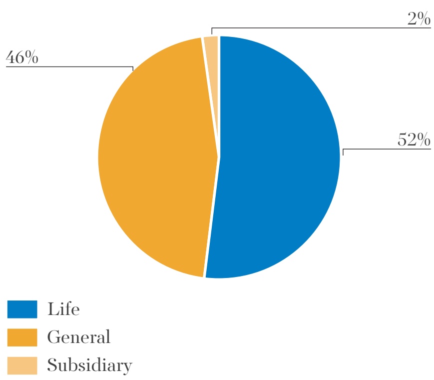
Life Insurance maintained its Expense Ratio at 48%, above the 47% recorded last year.

Profit Before Tax (PBT)

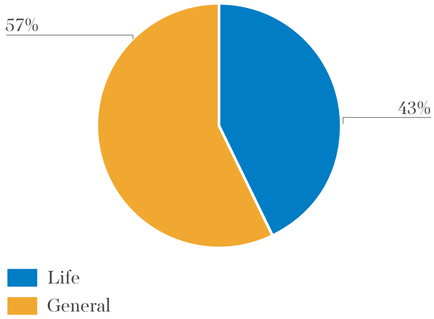
Profit Before Tax (PBT) of the Group increased to Rs. 439 Million from Rs. 425 Million in 2013 recording a growth of 3%. The growth is marginal due to profit from General Business recording a drop compared to the last year. The recorded growth in PBT was made possible by the impressive 26% growth in PBT from Life Business.

Contribution to PBT by the two business lines together with the contribution from the subsidiary is presented in the charts. Accordingly, the contribution to PBT by the Life Business is now higher than the General Business. Increase in claims incurred in Motor and Medical Insurance classes was the main reason for the drop in General Insurance profitability which the management has already taken a number of steps to rectify. As such, we expect that the General Insurance profitability will improve in the year 2015 to be in line with the Life Business since the business volume of the two businesses is approximately the same.

Profit Before Tax - Group



Profit Before Tax - Company - 2013



Income Tax Expense

The Income Tax Expense of the Group was reduced significantly by 42% during the year.

As per the tax rules of the country, Life Insurance and General Insurance Business segments are taxed separately and the corporate tax rate applicable is 28%.

Accordingly, Life Insurance Business recorded a Tax Loss in this financial year too, which has been the case since inception. This is due to Investment Income in Life Insurance being lower than the total expenses of the business, which is used to calculate the Income Tax in Life Business. Therefore, the entire Tax Expense recorded is applicable to the General Insurance Business.

The lower Tax Expense is due to the significant amount of tax exempted income being included in the General Insurance Investment Income, generated from investments in listed Corporate Debt and Equities during the year. According to Income Tax Law, incomes from these instruments are tax free. Therefore, the Company has invested a considerable portion of its funds in Listed Corporate Debt and Equities as a Tax Management Strategy, subject to the limits imposed by the investment policies of the Company.

Profit After Tax (PAT)

It is with great pride that we record that the Company was able to record a growth in PAT for the 10th successive year in 2014. The growth in PAT in 2014 was 7%.

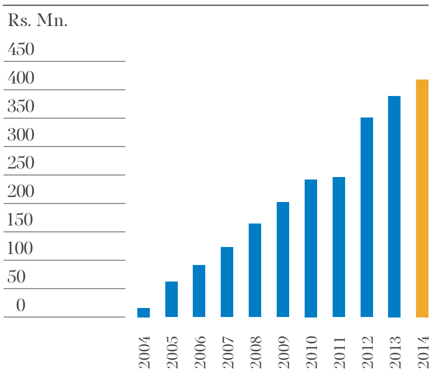
Since 2004, we have been able to record a growth in profitability in the Company every single year. The profit recorded in 2004 was just Rs. 16 Million which has now increased to Rs. 418 Million during the 10 year period. Accordingly, the Company has recorded a Compound Annual Growth Rate (CAGR) of an impressive 35% over the 10 year period, which is noteworthy to highlight as per any performance standard.

It must be noted that these profits were recorded after addressing the interests of all stakeholders of the Company.

Accordingly, we have declared attractive performance bonuses to employees, invested heavily in their training and development, invested in society through various CSR projects, kept adequate provision to meet Life Fund liabilities, declared attractive dividends and bonuses to Life policyholders, invested in branch network expansion and invested in developing the Company's brand, etc., during this period before recording these profits. We have also declared attractive Dividends to our shareholders each year.

This extraordinary achievement was possible due to the untiring efforts of the Board, Management and employees to make HNBA a successful Company in all aspects. This, in our opinion, can be cited as a good example of sustainable business management.

Profit After Tax



HNB ASSURANCE

It must be noted that the PAT of Rs. 418 Mn. was recorded after addressing the interests of all stakeholders of the Company.

Accordingly; we have declared attractive performance bonuses to employees, invested heavily in their training and development,

invested in society through various CSR projects,

kept adequate provision to meet Life Fund liabilities,

declared attractive dividends and bonuses Life policyholders,

invested in branch network expansion and;

invested in developing the Company's brand, etc, during this period before recording these profits.

Further, we have also declared attractive Dividends to our shareholders each year.

Financial Position

As an Insurance Company, financial strength reflects our ability to meet ongoing obligations to our policyholders. Thus, we have a resilient strategy to maintain a strong financial position and ensure the stability of the Company while being within our regulatory guidelines. Meanwhile, we have been very observant to maintain our strong financial ratings as well.

	2014 Rs. Mn.	2013 Rs. Mn.	GROWTH	CONTRIBUTION 2014	CONTRIBUTION 2013
Assets					
Intangible Assets and Property, Plant & Equipment	186	191	(3%)	2%	2%
Financial Investments	8,278	6,656	24%	83%	83%
Loans to Life Policyholders	71	54	32%	1%	1%
Reinsurance Receivables	162	105	54%	2%	1%
Premium Receivables	364	301	21%	4%	4%
Other Assets	908	752	21%	9%	9%
Total Assets	9,969	8,060	24%	100%	100%
Total Equity	2,414	2,113	14%	24%	26%
Liabilities					
Insurance Contract Liabilities - Life	5,563	4,348	28%	56%	54%
Insurance Contract Liabilities - General	1,279	1,011	27%	13%	13%
Reinsurance Creditors	111	101	10%	1%	1%
Employee Benefits	603	486	24%	6%	6%
Total Liabilities	7,555	5,947	27%	76%	74%
Total Equity and Liabilities	9,969	8,060	24%	100%	100%

HNBA is standing close to achieving yet another milestone in the Company's history, that of crossing the Rs. 10 Billion mark in its Total Assets. Within a period of just one year, the Company increased its Total Asset base by Rs.1.9 Billion approximately recording a growth of 24% over the last year.

Total Assets of the Life Insurance Business grew by 29% and reached Rs. 5.9 Billion and the same of General Insurance, including Shareholder's Funds grew by 17% and reached Rs. 4 Billion ensuring the stability of both business segments. Significant growth in both businesses during the year enabled the Company to record this significant increase in Total Assets.

It is also important to note that the contribution to Total Assets by the Life Insurance Business is expanding at a faster rate compared to General. This is

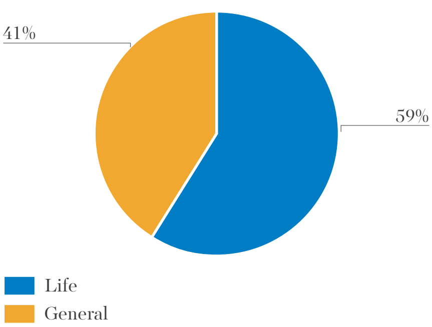
HNBA IS STANDING CLOSE TO ACHIEVING YET ANOTHER MILESTONE IN THE COMPANY'S HISTORY, WHICH IS TO CROSS THE RS. 10 BILLION MARK IN ITS TOTAL ASSETS.

simply due to the peculiar nature of the two business lines with Life Insurance being more of an accumulator of funds whilst General Insurance has to settle claims as they incur on a continuous basis.

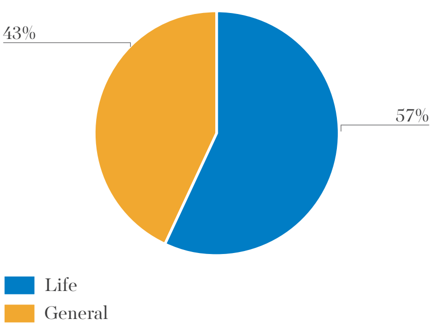
Asset composition of the two business lines will change from the year 2015 in the post segregation environment since the Shareholders' Funds which are currently accounted under the General Insurance Assets would also be segregated in future.

Details of the assets of the two businesses are discussed below.

Total Assets - 2014



Total Assets - 2013



Intangible Assets and Property, Plant & Equipment

Intangible Assets and Property, Plant & Equipment remained at 2% of the Total Assets, but have recorded a 3% drop over last year.

Being an Insurance Company, we are very conscious of the need to minimize investments in these asset categories as our aim is to increase the exposure as much as possible to income earning assets to enhance the income generating ability of the Company. However, we also ensure that adequate investments are made in these assets to improve operational efficacy in the business particularly through technology based asset categories. In addition, we also invest as appropriate in operational assets to maintain an attractive working environment for employees. In each year, through the Corporate Planning and budgeting process, we decide on the investments needed for these assets in line with business plans.

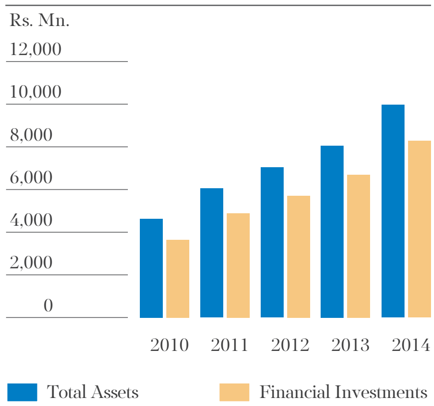
Intangible Assets and Property, Plant and Equipment reported in the Financial Statements are all occupied by HNBA and are measured at cost.

Property, Plant and Equipment are depreciated using straight line method over the asset's estimated useful life while Intangible Assets are amortised over their estimated useful life in accordance with the pattern of expected consumption.

Financial Investments

It is our aim to maintain Financial Investments as high as possible in our Total Assets in order to earn the highest possible returns to the Company. Accordingly, 83% of the Total Assets have been maintained as Financial Investments and have recorded a 24% growth which is exactly in line with the growth in Total Assets of the Company.

Total Assets and Financial Investments 2010-2014



Financial investments of the Company are classified under four categories as per Accounting Standards. Those categories are;

- Held To Maturity (HTM)
- Loans and Receivables (L&R),
- Fair Value Through Profit or Loss (FVTPL) and,
- Available for Sale (AFS)

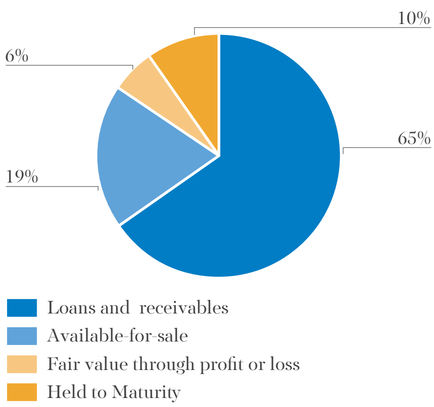
A complete description of these asset categories are given under Accounting Policies on page 283.

The Held to Maturity (HTM) category, which includes only Treasury Bonds, experienced a drop over the last year due to the maturity of a considerable number of Treasury Bonds which were classified under this category during the year and the Company's new policy of categorizing new Treasury Bond purchases under the AFS category.

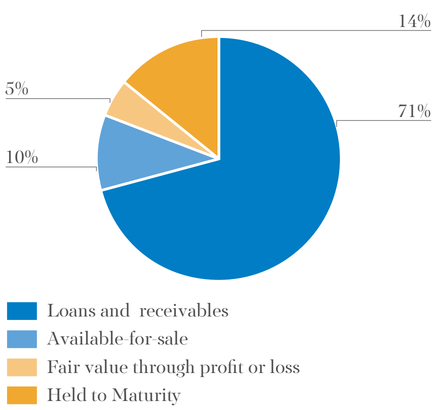
All investments in Corporate Debt, Term Deposits, investments in Repos and Overnight Repos are classified as

Loans & Receivables (L&R) which is the largest Financial Investment category of the Company. Investments in Corporate Debt (mainly Listed Corporate Debt) increased considerably during the year to benefit from the high yields offered by instruments as well as to enjoy the tax benefit on such instruments. Whilst increasing the exposure to Corporate Debt, exposure on Term Deposits was reduced gradually since the yield offered by financial institutions dropped significantly during the year.

Financial Investments - 2014



Financial Investments - 2013



As a part of the Fund Management Strategy, we increased the Available for Sale (AFS) investment category during the year by classifying most of the new Treasury Bonds purchased under this category. The objective behind this is to keep the option open to benefit from fluctuations in interest rates by disposing of them at the appropriate time whilst protecting the Comprehensive Income from their volatility. In addition, the Company started a new AFS portfolio of Equity Investments during the year to increase the exposure to the Equity Market with a long-term view, but again keeping the impact of the short-term volatility of the market outside the Comprehensive Income.

Exposure to Fair Value Through Profit or Loss (FVTPL) category remained stable compared to last year. Only the Investments in Equities and Investments in Unit Trusts are classified under this category.

A detailed discussion on Financial Investments can be found in Investment Review Section on pages 99 to 103.

Loans to Life Policyholders, Premiums Receivable and Reinsurance Receivables

During the year, the Company saw a high outflow in terms of Policy Loans issued to Life Policyholders which recorded a growth of 32% which may be due to some policyholders using this as a form of taking funds out from Life Insurance Policies early to meet their various financial needs. More details on Policy Loans are available on page 315.

Furthermore, the 21% increase in Premium Receivables which mainly comprise Premium Receivables in General Insurance is in line with the 25% growth in General Insurance Business. All Premium Receivables are within 60 days. Ageing analysis of Premium Receivables is given on pages 316 to 317.

Reinsurance Receivables of the Company had a growth of 54% due to the 70% growth in General Insurance related Reinsurance Receivables. However, all Reinsurance Receivables are recoverable and no provisions for bad debts on Reinsurance Receivables have been made in Financial Statements. Aging analysis of Reinsurance Receivables is given on page 316.

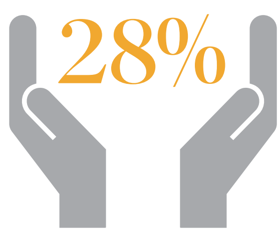
Other Assets

Other Assets comprises mainly Loans and Advances given to Employees and Insurance Advisors, Notional Tax and Withholding Taxes Receivable from Inland Revenue, Cash & Cash Equivalents available for daily operational needs and other operational receivables from various parties.

All these assets are recoverable assets and provisions have been made in Financial Statements for all doubtful receivables, if any. More details on Other Assets can be found on pages 317 to 318.

Insurance Contract Liabilities - Life

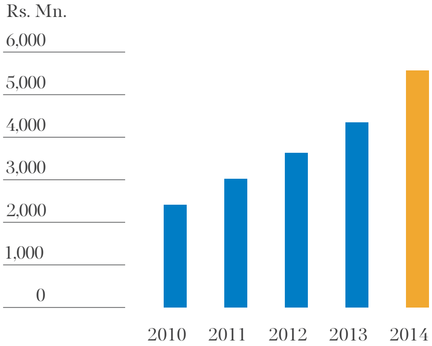
Insurance Contract Liabilities of Life Insurance increased by 28% to reach a value of Rs.5.56 Billion, which was recorded as Rs.4.35 Billion in 2013. Significant business growth and the absence of large outflows from the Funds due to Maturity or other Life Insurance claims have helped to record this significant growth.



Growth in Life Fund

The Company has recorded consistent growth in Life Insurance Liabilities which is an indication of the sound business growth as well as the management of investments, expenses and claims to complement the business growth.

Insurance Contract Liabilities - Life



As recommended by the Consultant Actuary Mr. M. Poopalanathan, we have made adequate provisions for future liabilities to policyholders including bonuses and dividends, solvency margins and other reserves within these Liabilities. The report on the Actuarial Valuation appears on page 270.

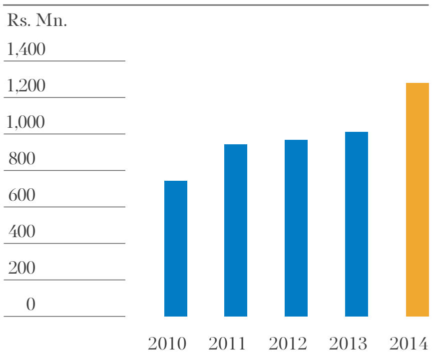
SLFRS 4 – Insurance Contracts requires Life Insurers to perform a Liability Adequacy Test (LAT). Accordingly, the Company performed the LAT as at 31st December 2014 with an Independent Actuary from Pinnacle Consulting Group Ltd, Mr. John C Vieren (FSA, MAA), who has concluded that recorded liabilities are adequate to meet future obligations to policyholders.

More details of the Insurance Contract Liabilities – Life can be seen on page 321.

Insurance Contract Liabilities - General

Insurance Contract Liabilities of the General Insurance business reached a value of Rs.1.28 Billion as opposed to

Insurance Contract Liabilities - Genereal



Rs.1 Billion in the previous year marking a considerable growth of 27%. The growth in liabilities is in line with the 25% growth in GWP in the General Insurance Business. Further, General Insurance Contract Liabilities have grown consistently over the last few years in line with the business growth in the Company in the respective years.

Adequate provisions for Unearned Premium, Claims Outstanding, including provisions for IBNR/IBNER have been made within these liabilities in line with the recommendations made by the General Insurance Consultant Actuary - NMG Consultants.

A Liability Adequacy Test was carried out for General Insurance Business as well, as required in SLFRS 4 – Insurance Contracts to verify the adequacy of reserves maintained to meet future obligations to policyholders. This was conducted as at 31st December 2014 by the Independent Actuary of the Company - NMG Consulting and it had been concluded that the recorded liabilities are adequate to the meet future obligations.

Reinsurance Creditors

Reinsurance Creditors have grown by 10% over last year which includes reinsurance premiums payable under agreed reinsurance arrangements. 72% of these liabilities are under General Insurance whilst the balance is for Life Insurance.

Employee Benefits

Employee Benefits include the Gratuity Liability of the Company. As required by LKAS 19 – Employee Benefits, this liability has been actuarially valued by Mr. Hugh Terry, FIA, an Independent Consultant Actuary from Insight Consulting Group Pte Ltd. More details on Employee Benefit Liabilities can be seen on pages 324 to 325.

Solvency Margins

Meeting the guidelines issued by the Insurance Board of Sri Lanka (IBSL), HNB Assurance PLC was able to maintain the required Solvency Margins well above the stipulated amounts during the year under review for both Life and General Insurance businesses adding value to the financial position of the Company.

Life Insurance Business achieved a Solvency Margin Ratio of 2.29 times (2013-2.04 times) by maintaining Rs. 576 Million as Available Solvency Margin against a Required Margin of Rs.252 Million.

A Solvency Margin Ratio of 3.07 (2013-3.89 times) was achieved by the General Insurance Business. This business segment recorded an Available Solvency Margin of Rs. 1,136 Million opposed to a required Margin of Rs. 370 Million.

Regulatory Minimum Solvency Margin for both Businesses at the moment is 1 time. Accordingly, both the businesses in HNBA are well above the minimum requirements which in turn show the capacity of the two business lines to record a rapid growth in future.

We have also estimated the Capital Adequacy Ratios (CAR) under the proposed Risk Based Capital (RBC) requirements and wish to confirm that both the businesses are well above the Minimum CAR of 120% stipulated by the Insurance Board of Sri Lanka (IBSL) under RBC requirements.

Life Insurance		2014	2013
Line	Item		
1	Value of Admissible Assets (Rs. Mn.)	6,038	4,752
2	Amount of Total Liabilities (Rs. Mn.)	5,462	4,340
3	Available Solvency Margin [Line 01 minus Line 02] (Rs. Mn.)	576	412
4	Required Solvency Margin (Rs. Mn.)	252	202
5	Solvency Ratio [Line 03 divided by Line 04]	2.29	2.04

General Insurance		2014	2013
Line	Item		
1	Value of Admissible Assets (Rs. Mn.)	2,616	2,357
2	Amount of Total Liabilities (Rs. Mn.)	1,480	1,237
3	Available Solvency Margin [Line 01 minus Line 02] (Rs. Mn.)	1,136	1,119
4	Required Solvency Margin (Rs. Mn.)	370	288
5	Solvency Ratio [Line 03 divided by Line 04]	3.07	3.89

Approved Assets

Every insurer operating in the Sri Lankan Insurance industry must comply with the Section 251(1) of the Regulation of Insurance Industry Act No.43 of 2000 and the determinations made by the IBSL in terms of the said act.

The Company complied with all the requirements outlined by the IBSL during the year under review as well.

Statement of Approved Assets	2014	2013
General Insurance Business		
1. Approved Assets maintained in General Insurance Business (Rs. Mn.)	2,093	1,935
2. Technical Reserve (Rs. Mn.)	1,150	925
3. Approved Assets in Excess of the Technical Reserve (Rs. Mn.)	943	1,010
4. Approved Assets as a % of the Technical Reserve	182%	209%
5. Required Ratio	100%	100%
Life Insurance Business		
1. Approved Assets maintained in Life Insurance Business (Rs. Mn.)	5,526	4,350
2. Life Insurance Fund (Rs. Mn)	5,464	4,272
3. Excess in Approved Assets over the Life Insurance Fund (Rs. Mn.)	62	78
4. Approved Assets as a % of Life Insurance Fund	101%	102%
5. Required Ratio	100%	100%

Management Team - Life Insurance

Left to Right -

PRASANTHA FERNANDO
Chief Operating Officer - Life

IVAN NICHOLAS
Head of Distribution

DINESH UDAWATTA
Head of Operations

JUDE WEERAKOON
Zonal Manager - Central

GEETHANI SARAM
Acting Head of IT and Support Services

HIRAN FERNANDOPULLE
Zonal Head - Western

ANANDA KULASOORIYA
Regional Manager

PADMA DAHANAYAKE
Manager - Life Servicing

A L D H LIYANAGE
Acting Zonal Manager - Metro

P H RAMASINGHE
Zonal Manager - Southern

D M S GUNARATNE
Manager – Bancassurance

PRASAD THAMBAWITA
Manager - Life Claims

N SUGUNAN
Zonal Manager - North and East

KAPILA JAYARATHNE
Regional Manager

SUDATH PERERA
National Sales Training and Development Manager

CHANDANA ABEYWARDENA
Regional Manager

LIFE INSURANCE REVIEW

Our Approach

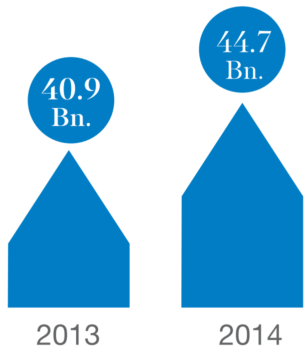
As a Life Insurer, our business is assuring our customers a brighter future, helping them plan for their tomorrow and being the strength that they can trust. In doing so, we offer varied insurance plans; traditional endowment policies differentiated to suit our customers' income patterns and expectations, policies to fulfil savings needs as well as retirement plans and other policies to cater to the diverse protection and investment needs of all segments of our society. Thus, our aim is to exceed the expectations of our valued customers, make our business grow and thereby add value to all our stakeholders.

Industry and Market Conditions

The year 2014, produced mixed results for the Life Insurance Industry. While the drop in interest rates and disposable income, and the increase in the number of products which substitute the need for insurance, led customers away from our industry, the increased focus on the development of separate Life Insurance companies and healthy competition among the companies led to the growth of the industry.

The Life Insurance industry which is the provider of financial security for both rural and urban population of Sri Lanka marked a 9% growth in 2014, recording a GWP of Rs. 44.7 Billion compared to Rs. 40.9 Billion made in 2013. During the year, the industry also witnessed the entry of a new player to the market, increasing the number of Life Insurance companies, including composite insurers, to 15.

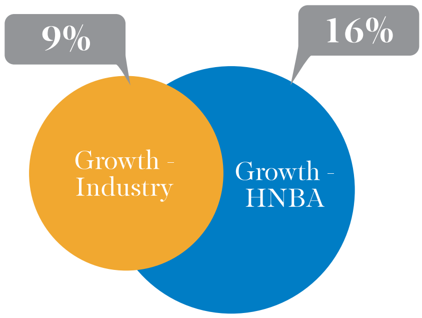
The Sri Lankan Life Insurance Industry is still in its growth phase. Even in recent years, Life Insurance only contributed 0.48% - 0.50% of the country's GDP. Moreover, despite Life Insurers being equipped with diversified product portfolios to cater to the varied insurance needs of our people, it is yet to reach every household in the island. Thus, despite the challenging times, insurers have a splendid opportunity to harness the full potential of the Sri Lankan market.



GWP - Industry

Where We Stand

We note with pride that our efforts to expand our business while adding value to our stakeholders have borne fruit this year as well. The ensuing discussion is a detailed review of our performance in 2014.



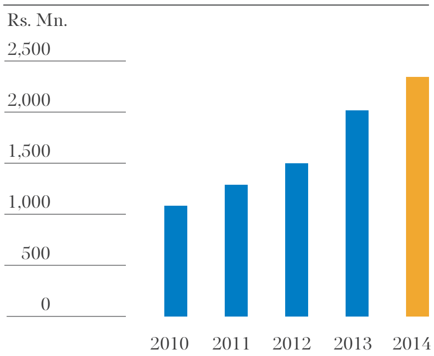
Gross Written Premium (GWP)

As presented in the following table, we generated Rs. 2,343 Million (2013: Rs. 2,015 Million) as GWP in 2014, which marks a remarkable 16% growth compared to the 9% growth in the industry. The industry growth figure provides a good benchmark to assess our performance. This performance also led us to improve our market share from 4.9% to 5.3% and our rank from 7th to 6th place by the end 2014.

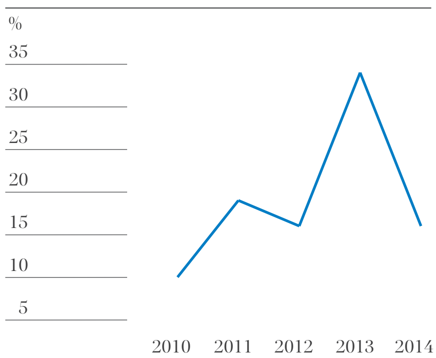
GWP	2014*	2013	2012	2011	2010
Industry (Mn.)	44,650	40,873	37,046	35,128	31,152
HNBA (Mn.)	2,343	2,015	1,500	1,291	1,084
Market Share	5.2%	4.9%	4.0%	3.7%	3.5%
Growth (Industry)	9%	10%	5%	13%	31%
Growth (HNBA)	16%	34%	16%	19%	10%
Rank	6	7	7	7	7

* *Industry numbers for 2014 are provisional and have been sourced from Insurance Association of Sri Lanka.*

Gross Written Premium - Life Insurance



Gross Written Premium - Life Insurance (Growth)



It is also important to note that the New Business sales mix of the Company is in line with the industry mix and has made the second largest contribution to the overall GWP of the Company.

Endowment Renewal Business

HNBA's Renewal Business contribution during the year 2014 showed the same trend as in the year 2013, with this business category being the main contributor to GWP. The total GWP collection from this segment was Rs. 1.3 Billion whilst contributing 54% of the overall GWP. The 17% growth in this category (2013: 21%) is proof that the Company has not deviated from its focus on renewal collection, though there was greater emphasis on developing new business.

Another notable fact is that Endowment business, being the core of Life Insurance Business, contributed 79% (2013: 78%) of our Life GWP, which depicts a very positive attribute in relation to a life insurer.

Class-wise Performance

Life Insurance GWP, consist of premiums generated through Endowment, Single Premium (such as Mortgage Reducing Policies, Investment Policies, Annuity and Pension policies, etc.) and Group Life Business. Endowment Business can be further segregated as New Business and Renewal Business. Tabulated below is a premium type analysis of our GWP against the industry statistics.

Following the trend in 2013, we were able to surpass the growth of the Life Insurance industry in the NBP category and achieve a significant growth of 25% (2013: 6%) compared to the Industry growth of 8% (2013: -2%). FP grew by a remarkable 43% by recording a premium of Rs. 238 Million (2013: Rs. 167 Million) while FYP marked a 16% growth, achieving Rs. 355 Million (2013: Rs. 307 Million). Our growth figure acts as a good indication of the Company's expansion in the market. Our focus on development of business channels and new product development may be cited as the key factors contributing in this regard.

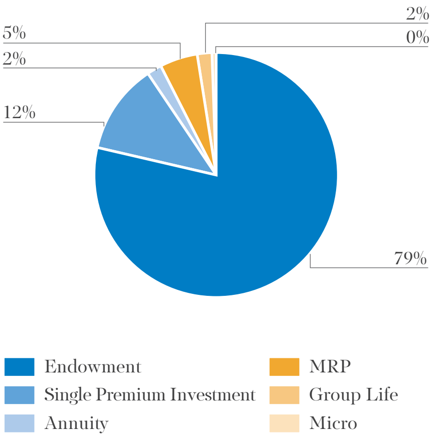
	INDUSTRY					HNBA				
	Rs. Mn.		GROWTH	CONTRIBUTION		Rs. Mn.		GROWTH	CONTRIBUTION	
	2014	2013		2014	2013	2014	2013		2014	2013
New Business Premium	10,244	9,479	8%	23%	23%	594	474	25%	25%	24%
Renewal Premium	28,878	26,738	8%	65%	65%	1,268	1,090	17%	54%	54%
Single Premium	3,877	3,565	9%	9%	9%	445	420	6%	19%	21%
Group Life Premium	1,651	1,091	51%	3%	3%	36	31	15%	2%	1%
	44,650	40,873	9%	100%	100%	2,343	2,015	16%	100%	100%

New Business Premium

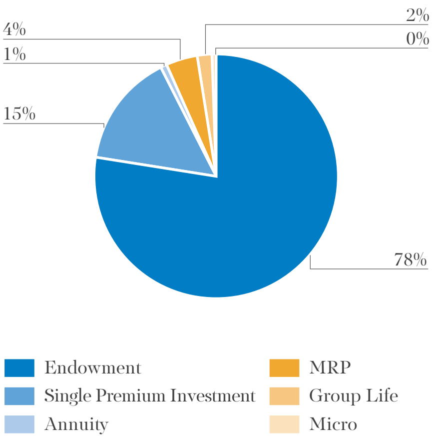
New Business Premium (NBP) includes the premium acquired from new endowment contracts entered into during the year and comprise First Premiums (FP) and First Year Premiums (FYP).

Management Discussion and Analysis

Class-wise GWP - Life Insurance 2014



Class-wise GWP - Life Insurance 2013



Single Premium

Tabulated below is the detailed break-up of our Single Premium Business category.

	Rs. Mn.		GROWTH	CONTRIBUTION TO TOTAL GWP	
	2014	2013		2014	2013
Single Premium Investment	278	311	(11%)	12%	15%
Mortgage Reducing Policies	118	89	32%	5%	4%
Annuity and Pension Policies	45	15	202%	2%	1%
Micro Insurance	4	5	(13%)	0%	0%
Total Single Premium	445	420	6%	19%	21%

The contribution of 19% by our Single Premium Business, continues to be greater than the industry contribution of 9%. The decreasing interest rates offered by banks and finance companies was the key external factor which the Company capitalised on to strengthen this category, introducing three new Single Premium Investment plans during the year, which were well received by the market and generated Rs. 278 Million of GWP.

The low interest rates also had a positive impact on the Mortgage Reducing Policy (MRP) Business, whose GWP share increased to 5% from the 4% attained in 2013. Overall, MRP contributed

Rs. 118 Million marking a 32% growth over the previous year. It is also noteworthy that our Annuity and Pension products were also well received by the market and posted encouraging results.

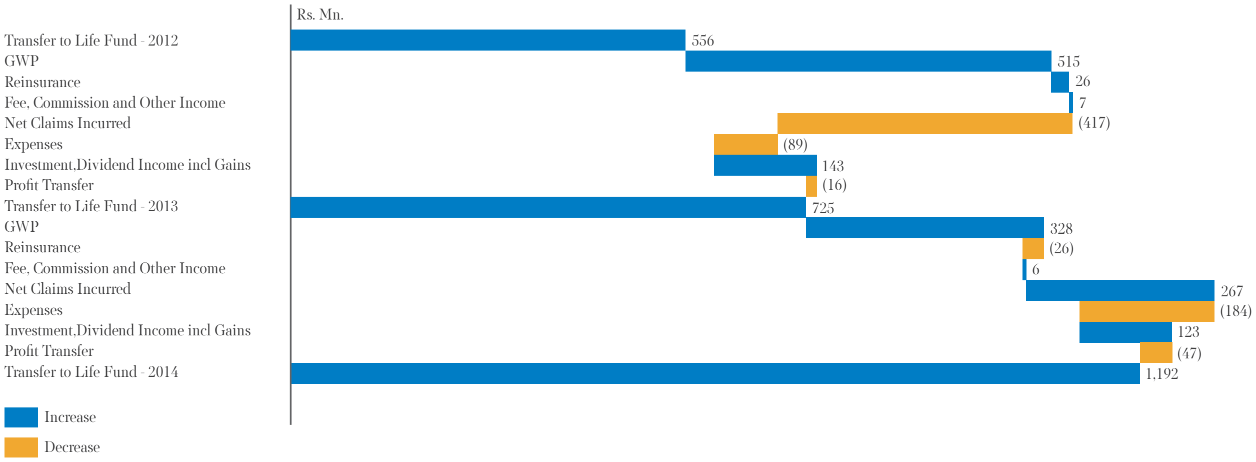
Unlike the growth seen in the other categories of Single Premium Business, Micro Business experienced a 13% dip in 2014. This indicates that it is an area the Company needs to focus on more during the current year and it is believed that the support we receive from our parent company HNB, would act as a competitive advantage in this initiative. In addition, the Company is already in discussion with the new subsidiary of the Bank, Prime Grameen Micro Finance Ltd. to commence a business arrangement to promote micro insurance which will definitely assist the growth in this class in 2015.

Group Life Premium

Although this category produced 4% of the industry premiums, our business mix indicated only 2% on Group Life Business; which generated Rs. 36 Million during the year. Nevertheless, we have already started to focus on developing this business line through our newly formed Direct Marketing Unit in 2015.

Underwriting Results and Profitability

A graphical presentation of the key variables which affected the surplus transfer to the Life Fund in comparison to the previous year is given below;



The following table captures the key financial data of HNBA Life Insurance for 2014 and 2013.

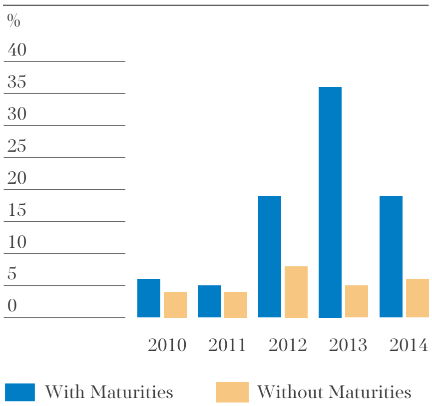
DESCRIPTION	2014 Rs. Mn.	2013 Rs. Mn.	CHANGE	DISCUSSION
GWP	2,343	2,015	16 %	The notable growth was driven by a 19% increase in Endowment premiums, which generated 80% of Life GWP in 2014, and a 32% growth in MRP. Single Premium Investment Policies grew at a negative rate
NEP	2,215	1,913	16%	High GWP growth helped increase NEP growth during 2014.
Net Claims and Benefits	412	679	(39%)	Claims in 2013 included a significant amount of Single Premium Investment Plan maturities, which drove up claim costs, while in 2014, fewer maturities took place which marked a 53% reduction in the maturity claims and reduced the overall claims cost compared to the previous year.
Other Operating and Administration Expenses	1,090	906	20%	Increase in this category is due to growth in expenses on advertising, branding and some additional expenses incurred as a result of business segregation during the year.
Change in Insurance Contract Liabilities	1,192	725	64%	This marks the increase in the Life Fund. The notable growth highlighted in GWP and Investment Income along with Net Benefits and Claims have contributed to this significant growth in the Life Fund.
Fee and Commission Income	28	22	27%	This comprises policy fees and reinsurance profit commission. Growth in business was the key reason towards the increase in these items.

Management Discussion and Analysis

DESCRIPTION	2014 Rs. Mn.	2013 Rs. Mn.	CHANGE	DISCUSSION
Investment Income	680	557	22%	Although the drop in interest rates limited interest income growth to 6%, we were able to capitalise on equity and debt market movements by realising gains of Rs. 71 Million while unrealised gains also increased to Rs. 66 Million in 2014.
Life Surplus Transfer to Shareholders	228	181	26%	Our sound pricing and strategic changes made to the product portfolio during the past few years yielded benefits in terms of a 26% growth in the surplus transfer to shareholders.

Claims Ratio

Claims Ratio - Life Insurance



Claims Ratio with Maturities is Net Claims inclusive of maturity claims taken as a percentage of Net Earned Premium while the Claims Ratio without maturities excludes claims from policy maturities, and is considered the more appropriate indicator to understand trends in Life Claims.

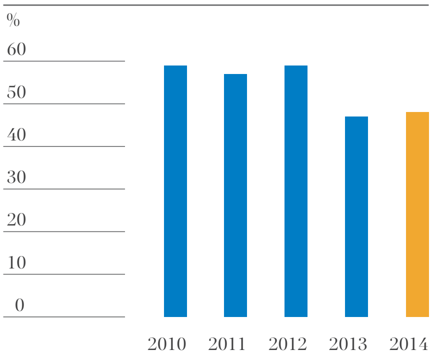
The movement in the Claims Ratio inclusive of maturities peaked in 2013 to reach 36% due to a large portion of maturities of Single Premium Investment Policies occurring during the year. This ratio reduced considerably in 2014, due to a 53% reduction in maturities. The 16% Growth in NEP, on account of high GWP, also helped drive down the ratio.

However, Claims Ratio without Maturities increased by 1% due to a few large death claims on individual policies during the year.

Expense Ratio

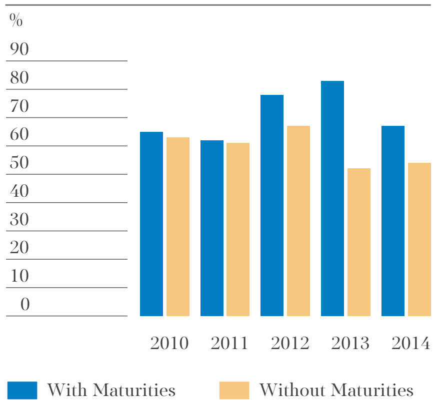
We were able to manage our Expense Ratio at 48%, which is just 1% over the previous year, where the increase was largely due to business acquisition expenses to support business growth and the growth in other expenses. The 16% Growth in NEP, on account of high GWP, also helped drive down the ratio.

Expense Ratio - Life Insurance



Combined Ratio

Combined Ratio - Life Insurance

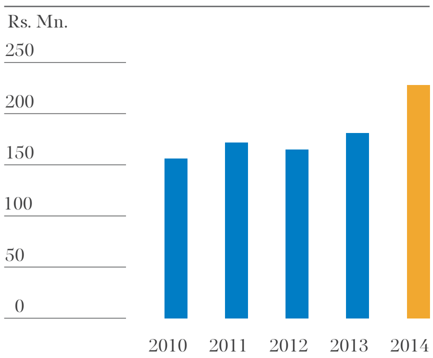


The Combined Ratio with maturities, which depicts the total of both Claims and Expense Ratios, decreased by 16% due to the drop in the Claims Ratio with maturities, while the ratio without maturities increased by 2% compared to 2013 due to both the Net Claims Ratio and the Expense Ratio increasing by 1% each.

Surplus Transfer to Shareholders (Profit Before Tax)

The Life Surplus Transfer to Shareholders, which indicates the Life Insurance profits available for shareholders, marked an impressive 26% growth over the previous year, to record Rs. 228 Million compared to the Rs. 181 Million recognised in 2013. The transfer amount was determined subsequent to the year-end valuation of Life Business by the Consultant Actuary, Mr. M. Poopalanathan, AIA, from Actuarial and Management Consultants (Pvt) Ltd; and after reserving due allowances for all liabilities, including bonuses and dividends for Life Insurance policyholders and surplus amounts for the purposes of solvency margin requirements.

Life Surplus Transfer to Shareholders



Dividends to Policyholders

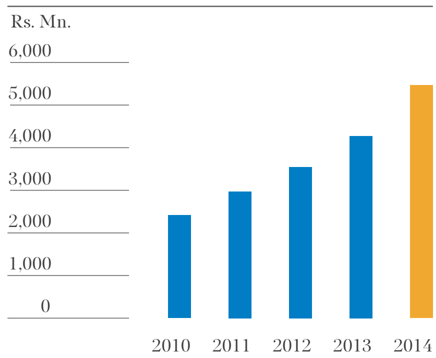
Our ‘My Fund’ and Ranmaga products, contributed Rs. 997 Million to Life GWP. Both these are dividend based products. Considering the Company’s performance, during the year we rewarded policyholders of both these products by declaring a dividend of 8% for 2014 (2013: 9%), which is a very attractive rate in the current interest rate climate. Accordingly, the total amount of dividends declared for the year 2014 is approximately Rs. 73 Million (2013: Rs. 30 Million).

Life Fund

When monitoring the movement of the Life Fund, a steady growth is clearly noticed. While the company’s Life Fund crossed the all-important Rs.4 Billion mark in 2013, during the year 2014 it surpassed the Rs. 5 Billion milestone attaining an amount of Rs. 5.4 Billion.

The growth in the Life Fund in the year 2014 and the steady YoY increase over the years are good indications of the strength and the ability of the Company to fulfil its obligations to the Life Policyholders in future.

Growth of the Life Fund



Bonus to Policyholders

We were also able to deliver our promise to our loyal policyholders by declaring an annual bonus worth Rs.109 Million for the year 2014(2013: Rs. 90 Million) a 21% growth compared to 2013. The bonus entitlement of a policyholder depends on the type of the product and the year of purchase of the policy, and accordingly, the highest bonus rate of Rs.65 per Rs.1,000 sum assured is enjoyed by policyholders who purchased policies from 2002 to 2004.

THE LIFE SURPLUS TRANSFER TO SHAREHOLDERS, WHICH INDICATES THE LIFE INSURANCE PROFITS AVAILABLE FOR SHAREHOLDERS, MARKED AN IMPRESSIVE 26% GROWTH OVER THE PREVIOUS YEAR, TO RECORD RS. 228 MILLION COMPARED TO THE RS. 181 MILLION RECOGNISED IN 2013.

Management Discussion and Analysis

OUR KEY STRENGTHS

HNB Brand - The brand value brought in by our parent company and the continuous efforts made to enhance the HNB Assurance brand has helped us instill trust and confidence

Use of Innovative Technology - We have always taken initiatives to use the latest technology in providing better service to our customers.

Comprehensive Product Portfolio - We offer a broad range of insurance products to facilitate diverse insurance needs to create a 'Brighter Future' for our customers.

Takaful Window - We were the first Insurance Company to introduce "Takaful Insurance" as a window operation to fulfill the requirement of the Islamic community and currently offer "Takaful MRP" as a Family Takaful product. We plan to introduce an Endowment Type Takaful product to the market during the year 2015 to widen our coverage in this market.

Distribution Network - We cover the entire country through our strong Branch Network, Advisor force, Brokers and Bancassurance units placed at HNB branches with the intention to deliver superior service to our customers.

Strong Brand Positioning - Focused marketing campaigns were conducted to position our products while adopting innovative marketing strategies along with direct and indirect brand building activities.

Strong Financial Rating - We have received an 'A (lka)' rating from Fitch Ratings Lanka Ltd for 'National Insurer Financial Strength' and 'National Long Term Rating'. The Rating offers evidence to our existing and future customers regarding the financial stability and liquidity of the Company.

Governance Framework - We have a sound governance framework to protect the interest of all our stakeholders.

Strategic Objectives

Strategic Objective: Business Growth

As the Life Insurance industry continued to grow in light of shifts in economic trends, regulatory changes, changes in customer expectations, we gave prominence to achieving sustainable growth, while providing value additions to all our stakeholders. To achieve this desired growth, we primarily focused on improving the GWP of the Company.

The following are the primary strategies adopted in the year 2014,

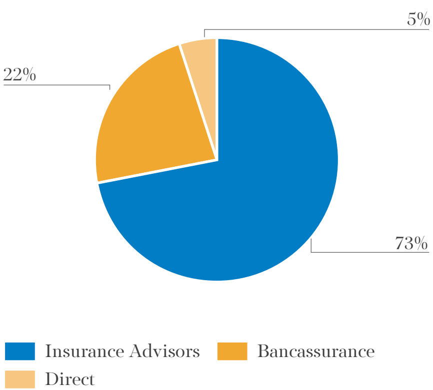
- Expand and improve effectiveness of distribution channels
- New product initiatives
- Respond to evolving customer preferences
- Focus on reducing the lapse ratio
- Strengthening the distribution network and improvement of brand experience

Expand and improve effectiveness of distribution channels

CHANNEL	SUB - STRATEGY	RESULTS 2014
Advisors	• Expand the advisor force and enhance productivity • Conduct focused trainings and competitions	• **GWP Rs. 1,708 Mn.** • Growth 13%
Bancassurance	• Expand the Bancassurance sales force and improve productivity • Focus on strategic locations • Focus to provide better services to customers	• **GWP Rs. 526 Mn.** • Growth 35%
Direct and Alternative Channels	• Marketing campaigns via facebook and other social media • Direct mail campaigns and viral marketing campaigns • Enter new market segments	• **GWP Rs. 108 Mn.** • Growth (1%)

CHANNEL	Rs. Mn.		GROWTH	CONTRIBUTION	
	2014	2013		2014	2013
Insurance Advisors	1,708	1,516	13%	73%	75%
Bancassurance	526	390	35%	22%	19%
Direct and Alternative Channels	108	109	(1%)	5%	5%
Total	2,342	2,015	16%	100%	100%

Channel-Wise GWP - Life Insurance 2014



Channel: Advisors

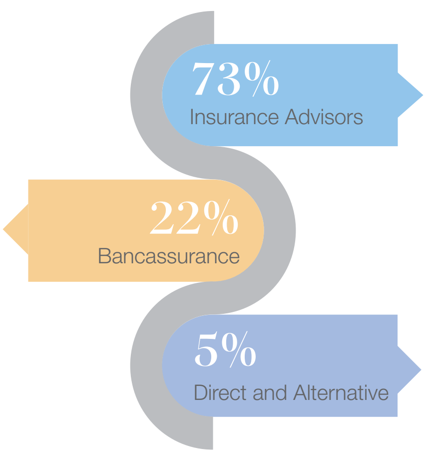
What we did: The Advisor channel has always been a key strength of HNBA where Life Insurance business is concerned. During the year 2014, we focused on infusing new energy to the sales force and conducting training focused on improving their knowledge on new products and sales techniques. Also, the Company strictly monitored the performance of Advisors throughout their tenure to ensure that inefficient Advisors either improve or are removed from our sales force. A monthly review appraise the performance and low performers are given training and ample time to redirect themselves in line with Company strategies, failing which their services are terminated. This is one reason why we see a slight drop in the number of Advisors during the year.

What we achieved: As in the past, Advisors contributed the highest to Life GWP generating a GWP of Rs. 1,708 Million, a growth of 13% over 2013. Their contribution stood at 73%, in 2014, slightly lower than the 75% in 2013 but still by far the highest. GWP per advisor has also increased by 17% due to the different initiatives taken by the company to increase the efficiency of the sales force.

Productivity

GWP collection per advisor is a good indicator of productivity. As seen in the table, it can be noted that productivity has been growing throughout and during the year 2014 as well; it reached Rs. 1.4 Million per advisor. It can also be noted that, productivity of the sales force has almost doubled over a three year period.

Channel-wise Contribution



	2014	2013	2012	2011	2010	GROWTH
Active Insurance Advisors	1,238	1,245	1,455	1,314	2,034	(1%)
Advisors' GWP (Rs. Mn.)	1,708	1,516	1,174	973	1,282	13%
GWP per Advisor (Rs. Mn.)	1.4	1.2	0.8	0.7	0.6	17%

Channel: Bancassurance

What we did: Our Bancassurance network is one of our key competitive advantages as it allows us to widen our outreach through the HNB branches island-wide and enabling us, with the support of our parent HNB, to reach customers who might not be accessible through other channels. Thus we believe that this channel has tremendous growth potential. During the year, we opened 22 new Bancassurance units at selected HNB branches, which increased the number of total Bancassurance units to 194 as of December 2014. In addition, we also conducted focused training programmes to Bancassurance staff on our products and sales processes.

What we achieved: By leveraging on the bank's existing branch network and customer base, the Bancassurance channel was able to grow by an impressive 35% and also improved their contribution up to 22% of the total GWP. Furthermore, growth in First Premiums was 96% while growth in First Year Premiums was 45%.

Channel: Direct and Alternate

What we did: Direct and other Alternate channels are also considered to be an important as we aim for a high growth in revenue whilst reducing over-dependence on any single channel. During the year 2014, we increased the efficiency of Worksite Marketing, Affinity Group Marketing and Direct Marketing, the core contributors to the alternative channels with an aim to enhance revenues from corporate sector employees.

HOW WE EXPLOIT OPPORTUNITIES

Low Interest Rate Phenomena in the Country - We were able to acquire new market segments by compensating people who have experienced losses as a result of the low interest rate conditions while offering products such as 'My Fund' and 'My Pension' with comparatively high returns with other added benefits.

Internet Based Products - We recently introduced an online product (e-life) with the intention to reach this growing market segment. Thus, this avenue reveals a lot more opportunities to the Company in the future.

Growth in Income of Middle Class and Rural Population - This opportunity saw us reach towards more customers in different segments with the use of our strong Distribution Network which leads to increased penetration and profitability.

Regulatory Change - Even though change is resisted by many, we at HNBA viewed it as a great opportunity focus more on Life Insurance. As a result we were able to provide opportunities to our employees to specialize in their chosen field and sharpen their skills while achieving Company objectives and improving customer service.

Strong Presence of Regulatory Compliances - The rise of more sophisticated risk models such as the Risk Based Capital (RBC) requirement and accounting standard requirements have created a favourable environment for the Company in determining capital requirements to ensure a secure future for the Company and to ensure adequate provisioning to mitigate any adverse outcomes in the future.

Exploiting new opportunities enabled by high levels of internet penetration and proliferation of mobile devices and social media marketing was another strategy we gave a lot of prominence to during the year.

What we achieved: Although Direct and Alternate channels recorded a dip in 2014, the actions we have already taken to develop these channels are expected deliver a better performance in 2015.

New product initiatives

What we did:

My Life Revised

HNBA is renowned for providing innovative insurance solutions for youth. The My Life product was a 'one of a kind' product offered to catering to this segment which allowed interim payments for four key life events. In view of offering improved benefits to our policyholders, 'My Life' product was revised to incorporate fixed interim payments at the end of the 4th, 8th and 12th policy years. The early interim payment qualifying events were increased up to 10 while the life cover was also enhanced to offer twice as much as the original sum assured along with the policy's vested bonus. In order to offer a better value to our loyal customers, a special discount was also offered for HNB youth account holders.

My Pension Launched

A demographic study carried-out by the Department of Demography of the University of Colombo revealed that the Sri Lankan mortality rate has been declining steadily over the past years and thus, the current life expectancy is expected to be as high as 70 years for males and 78 years for females. As a result it is estimated that the projected proportion of elderly people could be high as 16.7% by the year 2021. Within an environment of declining interest rates, ensuring a comfortable living for this segment of the population will surely be a challenge.

Launching My Pension

The Company identifying this need took an early initiative to offer pension products to the market and commenced by launching 'My Pension'. This product which was launched in August 2014 brought in a GWP of Rs. 27 Million within 5 months. Given below are the key features of this product.

- Only guaranteed lifetime pension product offered by a Sri Lankan insurer
- Offered for individuals in the age bracket of 55 to 80 years
- Guaranteed monthly pension for the entire lifetime of the policyholder
- Life cover up to 10 years

Expanding on mobile solutions

HOW WE ADDRESS THE CHALLENGES

New Entrants - We have taken initiatives to compete strongly with new entrants by introducing new products to customers after considering their requirements, strengthening the distribution network by improving their level of skills and using new technology to position product brands in the consumers' minds.

Rise of Substitutes - Other financial institutions of Sri Lanka have started to introduce substitute products to Life Insurance. We were nevertheless were able to compete with these product enhancements with added features which benefit the consumers effectively.

Increasing The Bargaining Power of Consumers -The increasing bargaining power of customers was considered very positively by HNBA. We were able to offer new products with important and different features. Furthermore, our Island wide distribution network was able to educate customers regarding these insurance products and their main features which add to their benefits. As a result, the number of policies increased at a noteworthy growth rate of 9%while increasing the GWP.

elife Launched

Launch of eLife marked a special occasion in the product history of HNBA. Customers were given the option of selecting whether they wanted to receive maximum protection during the tenure of insurance cover or else needed a higher return on investment at maturity while enjoying a range of additional benefits during the insured term. An online insurance policy for individuals between 18 and 60 years of age, eLife is unique as it provides customers with the flexibility of deciding their insurance plan in just four simple steps. Another advantage lies in the fact that customers can make their own Life Insurance plan and pay their premiums online without having to set foot in a HNBA branch.

Super Five

The Company introduced 3 new products in the Super Five series investment products in 2014. These products were offered for a fixed term of five years and these policies include a death benefit together with a maturity value. Lower interest rates in the market resulted in a high acceptance for this product among customers.

What we achieved: The new product portfolio contributed 13% of the Life GWP, which indicates tremendous success.

Focus on Reducing Lapse Ratio

What we did: Maintaining a low lapse ratio improves the profitability of a Life Insurance Business. Therefore, during the year 2014 we established a process to monitor and follow up on uncollected premiums. We also carried out a campaign to revive lapsed policies. In addition, our distribution staff took the lead and educate customers who have lapsed their policies regarding the benefits of maintaining the Life Insurance policy.

What we achieved: The improved focus and monitoring of lapses and due collections as well as the revival campaign received a very good response and supported the 16% growth of the Endowment Renewal Business.

Strengthen the Distribution Network and Improve Brand Experience

What we did: Strengthening the Distribution Network was the tactical plan we followed to increase customer access to our products. As our Branch Network is the foundation on which we have established relationships with our customers, we relocated some branches to gain more visibility and provide higher accessibility during the year.

Efforts of our Branch Network are always supported by our Advisor force, Bancassurance Network, Direct and Alternative Channels. During 2014, we took initiatives to increase the efficiency of these channels as well.

In order to improve the brand experience, the Company is implementing a series of techniques and methods on different platforms including Social Media, TV and Radio, printed publications etc. and above the Line (ATL), Below the

Line (BTL) and Through the Line (TTL) advertisements and promotions. More details on these initiatives can be seen on the Customer Review on pages 113 to 119.

What we achieved: Agency force and Bancassurance channels have achieved tremendous growth during the year generating a high GWP for the Company. The effects of enhanced brand experience are also visible through the high GWP growth rate, as we were able to deliver the promise of care to the consumers successfully and position our brand in the consumers' mind.

Strategic Objective: Leverage on Technology to Increase Efficiency

From an operational perspective, we made significant progress towards improving our performance by leveraging on technology in the year 2014.

Enhancements to Core Application and Cost Effective Solutions

What we did: During 2014, we strengthened the core application in the products sphere by automating the revised dividend-based product (Ranmaga) and launching the revised 'My Fund' product. The Company introduced an automatic revival functionality and loyalty bonus calculation. Furthermore, core applications of receipting and payments functionality was integrated with the Oracle EBS suite.

What we achieved: Automation of dividend based products - Ranmaga and My Fund products made operations smoother resulting in time and cost saving for operational staff. Combining of receipting and payments models to Oracle EBS suite also enhanced operational efficiencies while reducing duplication of work.

Moreover, the payment process was further strengthened by integrating the core life payments application in the automated payment system achieving service efficiencies, better monitoring and controls related to life payments. In addition, it helped in reducing the carbon footprint of the Company by reducing paper usage.

Introduction of automatic revival functionality and loyalty bonus calculation enhanced life servicing standards while improving operational efficiencies.

Expanding on Mobile Solutions

What we did: As the segregated distribution channels augmented the demand for multifaceted timely information for decision making, we developed an Android based real time MIS application for GWP Monitoring for our Distribution Network. This application enables timely delivery of information with the added value of complete mobility, liberating the network managers by providing real time information to manage the network for new business pipeline and renewal follow-up at any given moment from any location.

In addition, a mobile based quotation application was introduced to augment the service standards of our Advisor Force and the Field Management. This application can generate quotations during customer meetings allowing a faster conclusion of sales process and higher productivity from the Advisor force.

What we achieved: These apps allowed our distribution teams to make more informed decisions and improved their productivity. Although results of such strategies are more long term, we are happy to say these aided in increasing the growth of the business during the year.

Strategic Objective: Meeting Regulatory Changes

The regulatory requirement for the segregation of Composite Insurance Companies in to Long Term Insurance business and General Insurance business by February 2015, as per the Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011, was the biggest challenge faced by insurers in 2014.

What we did: To be compliant with the regulator requirement for segregation, we planned for a systematic separation of Life and General insurance operations. The Company determined separate structures for the distribution network and all divisions, peripheral applications, email systems, user profile management and authenticating services distinctly for Life and General insurances.

What we achieved: While we were able to successfully segregate systematic operations without disturbing the routine operations, segregation of the Distribution Network enabled greater focus which also had a positive impact on revenue growth.

Expanding on Mobile Solutions

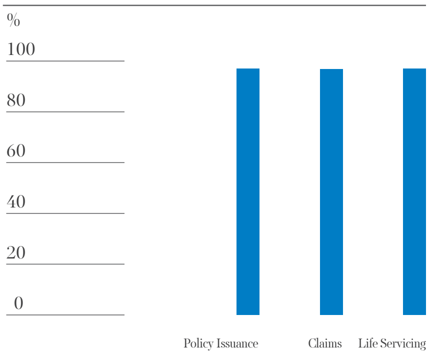
A mobile based quotation application was introduced to augment the service standards of our Advisor Force and the Field Management.

Strategic Objective: Enhancing Customer Service

Improving Customer Service Standards

What we did: As a service provider, customer service is a key differentiator which helps us stand out in the midst of stiff competition in the market. Knowing this, we proactively set service standards in 2013, based on the identification carried out on customer expectations and implemented the standards across the business in 2014. In addition, training and informative sessions were conducted with the objective of increasing the service delivery levels of our staff members.

Achievement of Customer Service Standards



What we achieved: We were able to reach over 90% in most of the service standard measures and thereby we also identified that there are further areas for improvement. We are confident that we can achieve the same level of excellence in other areas as well.

Responding to Evolving Customer Preferences

What we did: It is important for any industry to evolve with its customers. As contemporary customers are better informed, more demanding and have higher expectations, we have identified that traditional products and the traditional methods of communication are inadequate in satisfying the customer.

Thus, we realize that it is important to capitalise on technological advancements to connect with our customers and maintain a strong presence on social media such as Facebook and Twitter in addition to conducting direct email campaigns and viral marketing. We feel that our proactive approaches will help ensure that we do not lose our valued customers. More details on this area can be seen in the Customer Review on pages 113 to 119.

Focus for 2015

- Expanding the Branch Network to facilitate the growth in selected areas
- Review product profitability and incorporate amendments to low profitable products
- Introduce innovative and attractive products to the market
- Improve partnerships with third parties such as Brokers, Banks, and other financial institutions to improve revenue growth
- Further improve the visibility of the Company through new Marketing and Branding techniques

Way Forward

Looking back on the Life Insurance Business, it is our observation that we have grown tremendously during the past 11 years thus turning to a stable Company with a Life Fund in excess of Rs.5 Billion. With the positive changes expected in the Sri Lankan economy, it is the widely held belief that the fortunes of Life Insurance companies will be greater with consumers having a higher disposable income.

HNBA is ready to create success by developing and improving on the steps we have already taken.

We do see that no business is immune from today's rapid shift in technology and therefore we will continue to improve our operational efficiency by incorporating new enhancements in technology to our business.

Takaful business operations are ready to move forward with a wider variety of products in the year 2015, which is expected to add a bigger contribution to the business.

The resources we possess and the strategy we have laid makes us confident that the future of the Life Insurance business will be very impressive and bright while fulfilling the expectations of all our stakeholders.

Management Team - General Insurance

Left to Right -

NIRANJAN MANICKAM
Chief Operating Officer - General

CHANDANA L ALUTHGAMA
Chief Business Officer

SITHUMINA JAYASUNDARA
Head of Operations

DONALD NANDALAL
Manager - Motor Claims

JEHAN HANIFF
Manager – Sales Administration and Training

SAJEEWA CHANDRASENA
Zonal Head - Central

A R BAZLIN SALIH
Zonal Head - Southern

CHITPARAN VIVEKANANDAN
Acting Head of Finance and Support Services

HAZANA CAFFOOR
Manager - Motor Underwriting

SANJEEWANI PITADENIYA
Manager - Customer Relations

DAMAYANTHI NELUMDENIYA
Cluster Manager

B G DHANAWARDENA
Cluster Manager

M K D J R MIRIYAGALLE
Zonal Manager - North Western

T RIZEPAN
Zonal Manager - North and East

HIFLY HUZAIR
Manager - Takaful

DEVAKA JAYASINGHE
Manager - Broker Development

GENERAL INSURANCE REVIEW

Our Approach

We are in the business of serving the insurance needs of our customers. The General Insurance segment covers all insurance needs which do not fall under the purview of our Life Insurance segment, specifically focusing on Motor, Fire, Engineering, Marine, Medical and other Miscellaneous classes of insurance. The key aim of General Insurance is to help our customers take on tomorrow's challenges with confidence, and in doing so expand our top-line without compromising on profits, thereby creating sustainable value to all stakeholders.

The year under review is the last one where HNBA conducted General Insurance Business within the Company. Following the segregation of Life and General Insurance businesses from 01st January 2015, HNB General Insurance Ltd (HNBGI) took over the General Insurance segment. We are convinced that HNBGI will improve on the services rendered thus far and that all our stakeholders will benefit even more.

It must be noted that since the discussion pertains to 2014 results, we have covered the General Insurance segment as a part of HNBA's operations.

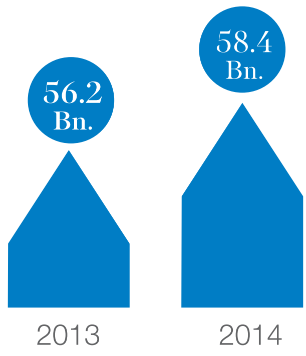
Industry and Market Conditions

The General Insurance industry faced many challenges during 2014. Although interest rates remained low, growth in leasing was limited diminishing the high prospects for Motor Insurance growth while the demand for other classes of insurance also showed much lethargy. In addition, the adverse weather conditions which prevailed in the country towards the latter part of the year, resulting in floods and damage to property, posed a major challenge for us as insurers, increasing our claims expenses sharply.

Compared to the previous year, the overall General Insurance market remained somewhat dull in 2014, with premium income recorded by the industry registering a mere 4% growth, as per the information available through the Insurance Association of Sri Lanka, to reach Rs. 58.4 Billion (2013: Rs. 56.2 Billion) compared to the 9% growth achieved 2013.

The market continued to be price driven throughout the year. As per currently available information, Motor industry recorded a growth of 6% during 2014, compared to the 5% growth recorded in 2013 whilst the Non-Motor classes experienced a marginal growth rate of 2%.

IT IS NOTEWORTHY THAT OUR GWP ACHIEVEMENT IS CONSIDERABLY ABOVE THE INDUSTRY GROWTH RATE OF 4%, WHICH ALSO ENABLED US TO INCREASE OUR MARKET SHARE TO 4%.



GWP - Industry

Nonetheless, as in previous years, General Insurance continued to lead the overall insurance market in Sri Lanka by generating 57% (2013: 58%) of the total insurance premium. In terms of the number of players, one foreign insurer exited the market reducing the number of players to 18 at the end of 2014.

As an industry, General Insurance is still in its growth stage, with insurance penetration, which is the percentage of Gross Written Premium to GDP, being just 0.66% in 2013 (2012: 0.61%) but recording a slight improvement. Further, insurance density, which is the ratio of premium to total population, has also continuously increased over the last five years recording Rs.2,263 per person in 2013.

Where We Stand

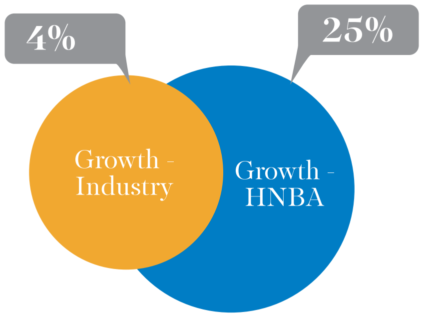
Despite the low growth condition in the industry, the General Insurance segment of HNBA was able to deliver a superlative performance in terms of its topline. The discussion which follows is a detailed review of our performance in 2014.

Gross Written Premium (GWP)

In the midst of severe price competition and a stagnant market, we were able to record an exemplary 25% growth in GWP during the year, by increasing the GWP to Rs. 2,323 Million from Rs. 1,863 Million recorded in 2013.

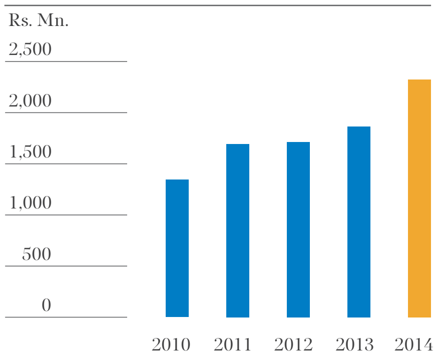
GWP	2014 *	2013	2012	2011	2010
Industry	58,441	56,236	49,694	43,329	35,101
HNBA	2,323	1,863	1,711	1,694	1,344
Market Share	4.0%	3.3%	3.4%	3.9%	3.8%
Growth Industry	4%	13%	15%	23%	5%
Growth HNBA	25%	9%	1%	26%	19%

** Industry numbers for 2014 are provisional and have been sourced from Insurance Association of Sri Lanka.*



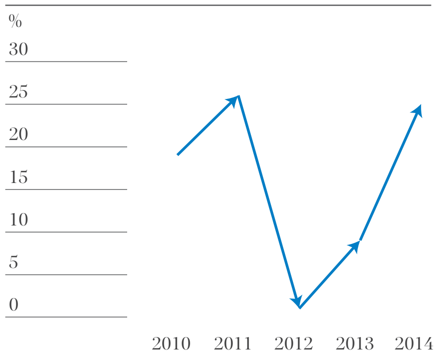
Tabulated above is a comparison of our performance in terms of GWP with the General Insurance industry of Sri Lanka.

Gross Written Premium - General Insurance



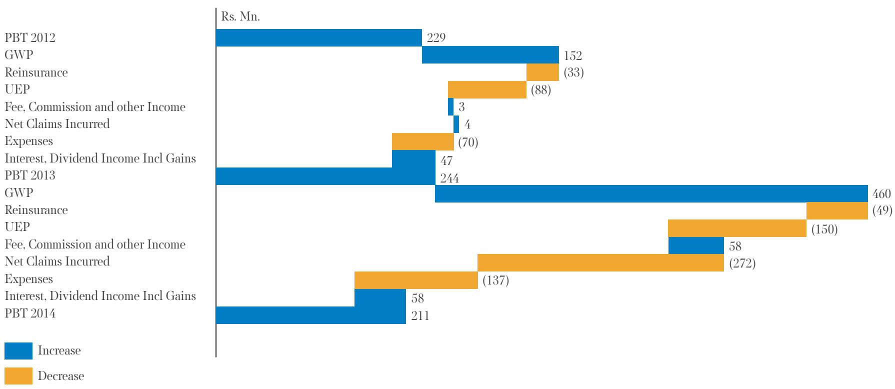
It is noteworthy that our achievement is considerably above the industry growth rate of 4%, which also enabled us to increase our market share to 4%. While 96% of our GWP was from conventional business, 4% was generated through our new Takaful window operation. Our continuous focus on identifying market trends, improving the distribution network to reach a wider network of customers and taking initiatives to retain our valued customers were the underlying factors of our exemplary performance this year. Further, our strategies have enabled us to achieve a compounded annual growth rate of 12% over the 5 year period between 2010 and 2014. Given below is a graphical presentation of our GWP achievement and growth over the last five years.

Gross Written Premium - General Insurance (Growth)



Profitability

A graphical presentation of the key variables which affected the profitability of General Insurance in comparison to the previous year is given below;



DESPITE THE LOW GROWTH CONDITION IN THE INDUSTRY, THE GENERAL INSURANCE SEGMENT OF HNBA WAS ABLE TO DELIVER A SUPERLATIVE PERFORMANCE IN TERMS OF ITS TOPLINE.

The following table presents a summary of key financial data of HNBA for the years of 2014 and 2013.

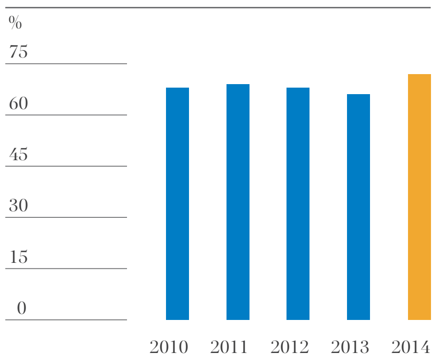
DESCRIPTION	2014 Rs. Mn.	2013 Rs. Mn.	CHANGE	DISCUSSION
GWP	2,323	1,863	25%	The growth was made possible due to focused business development strategies implemented by the Company during the year. New strategic alliances with financial institutions and the newly established Takaful window made significant contributions.
Reinsurance	474	424	12%	Growth is low compared to GWP growth due to 79% of the GWP being earned through Motor and Medical classes of insurance which carry marginal reinsurance costs.
NEP	1,617	1,356	19%	The low growth of NEP compared to GWP is due to the Rs. 233 Million transfer to the Unearned Premium Reserve compared to Rs. 83 Million in 2013.
Net Claims and Benefits	1,161	889	31%	Claims incurred in Motor and Medical Classes led to this high growth in Net Claims Incurred.
Other Operating and Administration Expenses	719	582	23%	Expenses have grown with the increased business growth as well as due to some expenses arising from the segregation of businesses. However, we managed to keep the Expense Ratio to 38%, below the 39% recorded last year.
Fee and Commission Income	121	63	91%	The significant growth is due to higher policy fee income on new business, higher profit commission received from reinsurers and profit from Title Insurance business.
Investment Income	353	296	20%	Although the drop in interest rates inhibited interest income growth, we capitalised on equity and debt market movements by realising gains of Rs. 34 Million while unrealised gains also increased to Rs. 33 Million in 2014.
Profit Before Tax	211	244	(14%)	The sharp rise in claims higher than the increase in NEP has resulted in PBT being lower than in 2013.

Claim Ratio

In General Insurance, management of claims is vital to reap the benefits of the growth recorded in GWP. However, as these are variables which move in one direction, managing a balanced growth in both GWP and Claims is the key to a sustainable General Insurance business.

Our Claim Ratio increased to 72% in 2014, from the 66% recorded in 2013, largely due to the increase in Claims in the Motor and Medical Classes. Whilst adverse weather also had an impact on the increase, we have nevertheless taken appropriate steps to maintain the Claims Ratio within an acceptable level in the year 2015, through price revisions and weeding out unprofitable accounts.

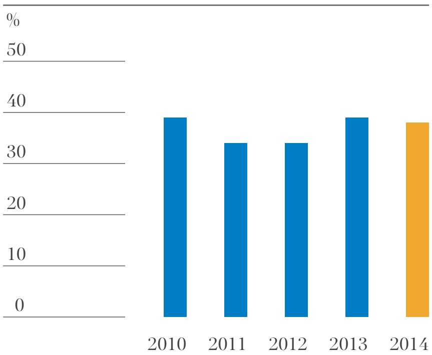
Claim Ratio - General Insurance



Expense Ratio

An important KPI in General Insurance Business is expenses, the management of which also plays a vital role in determining the underwriting profitability of a General Insurer. Even though expenses have grown, we were able to reduce our Expense Ratio to 38% from the 39% recorded in 2013. Higher growth achieved in NEP was also a contributory factor in reducing the Expense Ratio.

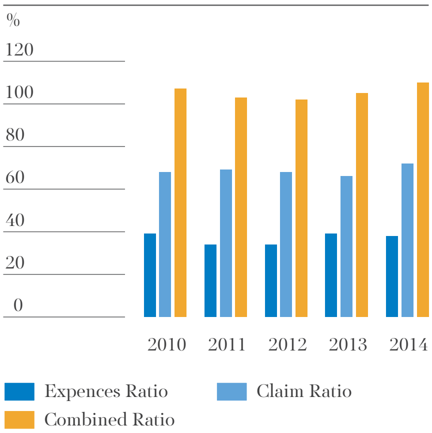
Expense Ratio - General Insurance



Combined Ratio

With a Claim Ratio of 72% and an Expense Ratio of 38%, the Combined Ratio increased to 110% by the end of the financial year. This shows a 5% increase in the Combined Ratio compared to 2013. With this Combined Ratio, the Underwriting Deficit reached a value of Rs.154 Million compared to Rs. 64 Million in 2013 showing a 139% growth.

Combined Ratio - General Insurance

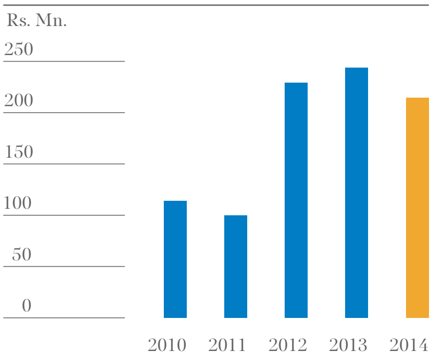


The management team of HNBGI, our newly formed subsidiary which took over the General Insurance business will make every effort to bring this down by reducing both the Claims Ratio and the Expense Ratio. The expected growth trend in NEP and the price revision already effected will facilitate this.

Profit Before Tax (PBT)

Profit Before Tax (PBT) in the business recorded a 14% drop compared to last year mainly driven by the 31% growth in claims incurred during the year. The 19% growth in Net Earned Premium from Rs.1,356 Million last year to Rs. 1,617 Million this year and 20% growth in Investment Income from Rs. 295 Million last year to Rs. 353 Million this year, were not sufficient to offset the growth in claims during the year.

Profit Before Tax - General Insurance

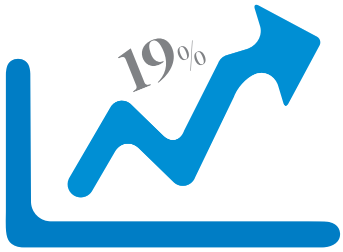


Accordingly, General Insurance Business recorded a PBT of Rs. 211 Million as against Rs. 244 Million recorded last year.

Profit After Tax (PAT)

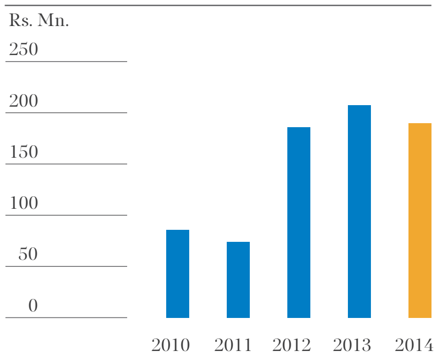
General Insurance recorded a Profit After Tax (PAT) of Rs. 190 Million (2013: Rs. 208 Million), which was a drop in growth compared to last year. However, the PAT drop was limited to 9% as against a 14% drop in PBT due to low Income Tax exposure.

Net Earned Premium



Income Tax Expenditure in the business was kept well below last year's numbers by investing a significant portion of the Funds in Listed Debentures which are tax free based on current regulations. In addition, gains from listed equities also are tax free, a factor which has further helped the Company manage its tax exposure.

Profit After Tax - General Insurance



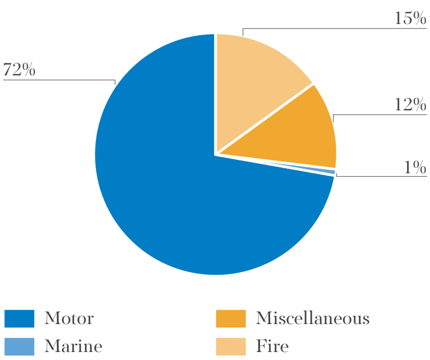
Class-Wise Performance

GWP contribution from the Motor Class to total GWP of the Company is 72%, which is comparatively higher than the industry average of 62%. Consequently, in all other classes, the Company's contribution to GWP is lower than the industry average contribution. The management is monitoring this closely and intends not to be exposed too much to one class of business.

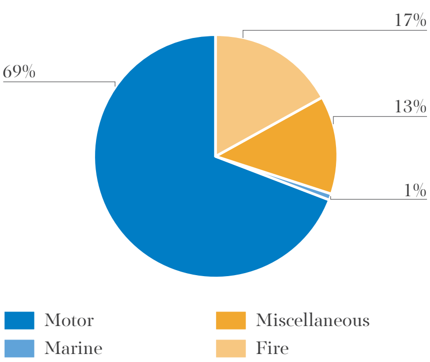
Management Discussion and Analysis

GWP	FIRE	MOTOR	MARINE	MEDICAL	MISCELLANEOUS	TOTAL
Industry (Rs. Mn.)	8,511	36,062	1,801	6,345	5,721	58,440
HNBA (Rs. Mn.)	344	1,668	34	160	117	2,323
Market Share	4%	5%	2%	3%	2%	4%
Growth Industry	2%	6%	2%	9%	(7%)	4%
Growth HNBA	8%	30%	45%	25%	8%	25%
Industry - GWP Mix	15%	62%	3%	11%	10%	100%
HNBA - GWP Mix	15%	72%	1%	7%	5%	100%

Class-wise GWP - General Insurance 2014



Class-wise GWP - General Insurance 2013



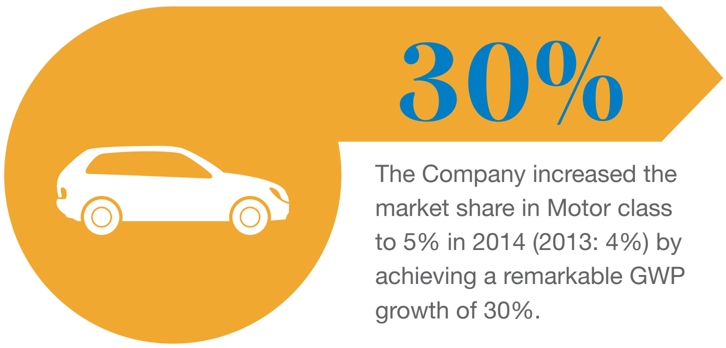
Motor Class

Motor class was our main contributor to GWP with 72% of the premium mix for 2014. The growth in this class was propelled by a few tie-ups with leading Brokers and Financial Institutions as well as from Takaful business.

The Company increased the market share in Motor class to 5% in 2014 (2013: 4%) by achieving a remarkable GWP growth of 30% compared to the modest 7% achieved in 2013 and the industry growth of just 6%.

As Motor Insurance class is the most dominant class of the General Insurance segment, managing the Claims Ratio of this class is very important in maintaining overall profitability at desired levels. However, the growth in business also brought in an increased number of claims and coupled with a few large losses, the Claims Ratio ended at 72% against the 65% of last year.

	2014	2013	2012	2011	2010
GWP (Rs. Mn.)	1,668	1,287	1,204	1,189	916
GWP Growth	30%	7%	1%	30%	24%
Contribution to General GWP	72%	69%	70%	70%	68%
Net Earned Premium (Rs. Mn.)	1,390	1,186	1,174	1,035	770
Net Claims (Rs. Mn.)	978	776	789	696	502
Claims Ratio	70%	65%	67%	67%	65%



Fire Class

	2014	2013	2012	2011	2010
GWP (Rs. Mn.)	344	318	295	303	288
GWP Growth	8%	8%	(3%)	5%	(5%)
Contribution to General GWP	15%	17%	17%	18%	21%
Net Earned Premium (Rs. Mn.)	37	36	34	32	30
Net Claims (Rs. Mn.)	13	7	11	11	11
Claims Ratio	35%	20%	34%	33%	37%

In 2014, HNBA maintained 4% (2013: 3.8%) of the Fire class market share by recording a GWP of Rs. 344 Million, marking a growth of 8% in the face of a 2% growth in the industry. However, the contribution made to the total GWP reduced to 15% (2013:17%) due to the high growth in the Motor class.

Despite the moderate growth and low contribution to the GWP, the Fire class remains profitable maintaining the Claims Ratio at 35% due to prudent underwriting practices, relatively low Claims experience and strong reinsurance arrangements.

Marine Class

	2014	2013	2012	2011	2010
GWP (Rs. Mn.)	34	23	24	25	24
GWP Growth	45%	(2%)	(6%)	4%	5%
Contribution to General GWP	1%	1%	1%	1%	2%
Net Earned Premium (Rs. Mn.)	4	4	4	5	4
Net Claims (Rs. Mn.)	2	1	1	2	1
Claims Ratio	52%	35%	22%	41%	34%

HNBA's market share in Marine class increased to 2% (2013: 1%) with the class recording an all-time high growth of 45% (2013: -2%) during the year. This was achieved with the acquisition of a few corporate accounts by the Marine Insurance business unit.

Although the class is profitable, the present contribution to the overall premium income is still small and remains at 1%. However, with the growth, the Claims Ratio of the class also rose sharply in 2014 reaching 52% as opposed to the 35% in 2013. Nevertheless, due to the good reinsurance arrangements in place, the negative impact on the bottom line was reduced considerably.

FIRE CLASS REMAINS PROFITABLE MAINTAINING THE CLAIMS RATIO AT 35% DUE TO PRUDENT UNDERWRITING PRACTICES, RELATIVELY LOW CLAIMS EXPERIENCE AND STRONG REINSURANCE ARRANGEMENTS.

Miscellaneous Class

The Miscellaneous class includes Medical, Travel, Money in Transit, Title, Workmen's Compensation and a variety of other similar types of insurances which do not fall into other major classes. HNBA's share in the miscellaneous market segment remained at 2% in 2014, by recording a GWP of Rs. 276 Million (2013: Rs. 235 Million). The growth in this class slowed with the recorded growth of 17% compared to the 25% recorded in the previous year.

However, our growth in 2014 was mainly from Medical Insurance which contributes 58% of Miscellaneous GWP. The Miscellaneous class contributed 12% to the overall GWP of the Company showing a slight reduction in the contribution made in the previous year (13%). The Claim Ratio of the class increased to 91% as opposed to the 79% recorded in 2013 due to an increase in the number of Medical Claims and increasing costs of medical treatment.

	2014	2013	2012	2011	2010
GWP (Rs. Mn.)	277	235	188	177	115
GWP Growth	17%	25%	6%	54%	83%
Contribution to General GWP	12%	13%	11%	10%	9%
Net Earned Premium (Rs. Mn.)	186	130	113	90	54
Net Claims (Rs. Mn.)	168	105	91	94	74
Claims Ratio	91%	79%	81%	104%	136%

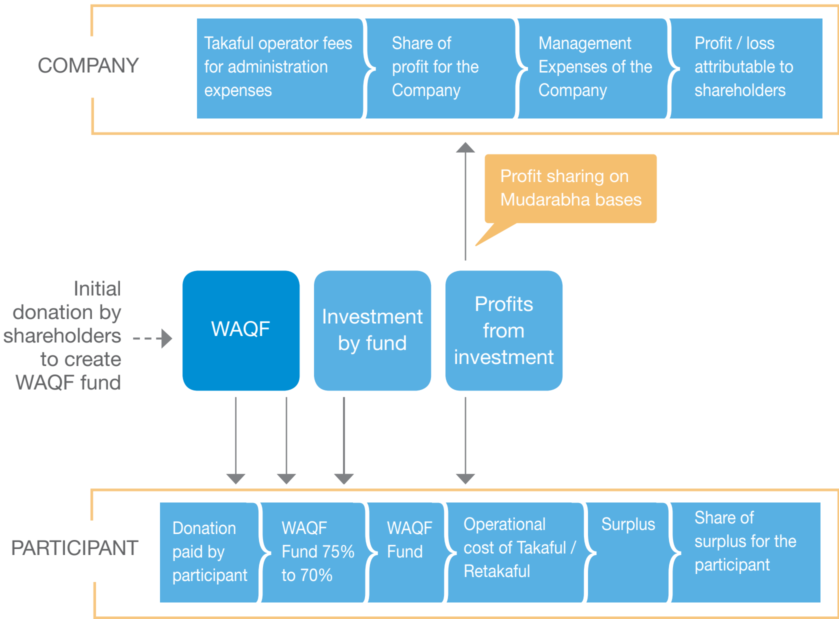
Takaful Insurance

We became the first conventional insurer in the country to launch a Takaful Window in 2013, which enabled us to make a strong foothold in the market, and challenge the monopoly of a single player. Currently, we offer Takaful Insurance products covering all classes and in 2014, we generated a premium income of Rs. 84 Million which is 4% of our General Insurance income. Further, as per latest available figures, our current share of the Takaful market in Sri Lanka is already about 6%.

Tabulated below is the class-wise performance of the Takaful business in 2014.

A major portion of our Takaful business was from Motor Takaful and due to the adverse claims experience the Claims Ratio was high, but as this business is yet at the growth stage, we believe the ratio would drop as volume begins to grow.

Our Takaful Business Model



	FIRE	MOTOR	MARINE	MEDICAL	MISCELL-ANEOUS	TOTAL
Conventional GWP (Rs. Mn.)	344	1,668	34	160	117	2,323
Takaful GWP (Rs. Mn.)	11	70	1	1	1	84
Takaful GWP mix	14%	83%	2%	1%	1%	100%
Contribution to GWP of the Class	3%	4%	3%	0%	1%	4%
Net Earned Premium (Rs. Mn.)	0.4	39.3	-	1.5	0.3	41.5
Net Claims (Rs. Mn.)	0.2	39.7	-	1.6	0.3	41.8
Claims Ratio	66%	101%	0%	106%	82%	101%

OUR KEY STRENGTHS

HNB Brand - The brand value brought in by our parent company has helped us be a brand recognized by many

Use of Innovative Technology - We at HNB Assurance always take initiatives to use innovative technology to ensure the delivery of best services to our valued customers

Comprehensive Product Portfolio - We offer a comprehensive product portfolio to meet all insurance requirements of our customers and help them 'take on tomorrow' with confidence.

Takaful Window - We are the first "Takaful Window" insurance provider in Sri Lanka that meets the insurance requirements of the Islamic community by offering a diversified product portfolio

Distribution Network - We grasp the entire country through our strong Branch Network, Advisor force, Brokers and Bancassurance units placed at HNB branches with the intention to deliver superior service to our customers.

Strong Financial Rating - 'A(lka)' rating obtained by us for 'National Insurer Financial Strength' and 'National Long Term rating ' from Fitch ratings show our strength of capitalisation in terms of regulatory solvency, prudent policy towards investment and modest market share

Reinsurance Panel - Strong relationships maintained with world renowned reinsurers increase our ability to accept more risk and provide greater value to our customers.

Governance Framework - We maintain a strong governance framework, sound controls and risk management mechanisms to protect the interests of all our valued stakeholders

Strategic Objectives

Strategic Objective: Business Growth

As we recorded only single-digit growth rates of 1% and 9% in 2012 and 2013 respectively, we focused on achieving a double-digit growth in 2014. The strategies we adopted to achieve the goal are stated hereunder.

- Accelerate GWP growth through channel development
- Review pricing periodically to maintain the right balance between competitiveness and profitability
- Improve renewal retention
- Capitalise on product portfolio to attract new customers

Accelerate GWP Growth through Channel Development

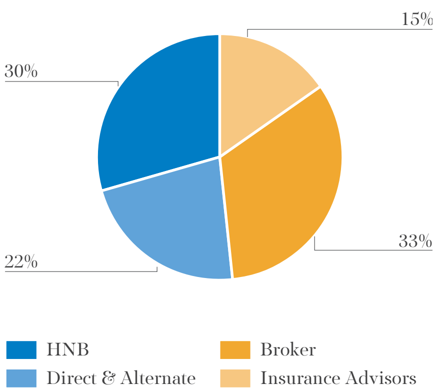
Income generated for General Insurance is sourced through the four main channels; HNB, Brokers, Agents and Direct channels.

CHANNEL	SUB-STRATEGY	RESULTS 2014
Brokers	• Strengthen relationships with existing Brokers • Tie up with new Brokers	• **GWP Rs. 770 Mn.** • Growth 43%
HNB	• Relationship building with HNB staff at corporate and branch level • Close monitoring and follow-up	• **GWP Rs. 682 Mn.** • Growth (1%)
Advisors	• Recruit new Advisors • Increase productivity through trainings and rewards	• **GWP Rs. 355 Mn.** • No. of Advisors 295 • Growth 41%
Direct	• Build relationships with other commercial banks and finance companies • Conduct online and other marketing campaigns to attract direct business	• **GWP Rs. 516 Mn.** • Growth 32%

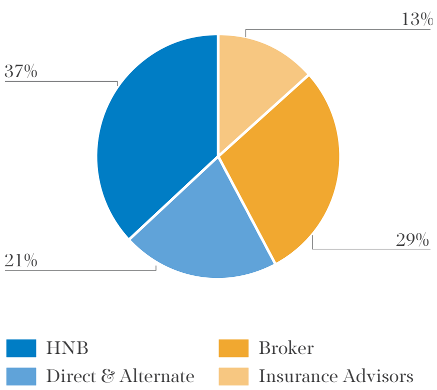
Management Discussion and Analysis

CHANNEL	2014	2013	GROWTH	CONTRIBUTION	
	Rs. Mn.	Rs. Mn.	2014	2014	2013
Brokers	770	537	43%	33%	29%
HNB	683	685	(1%)	30%	37%
Advisors	355	252	41%	15%	13%
Direct	516	388	32%	22%	20%
Total	2,323	1,863	25%	100%	100%

Channel-wise GWP - General Insurance 2014



Channel-wise GWP - General Insurance 2013



Channel: Broker

What we did: Expanding this channel was considered important especially in order to reduce dependency on the HNB channel and create a more broad-based network of incomes. Strengthening the existing business relationships with brokering companies and commencing new broker relationships were strategies followed to increase GWP from this channel.

What we achieved: Growth from Broker business reached an impressive 43% in 2014 compared to 23% in the previous year. Further, for the first time in HNBA history, the broker channel dominated the contribution made to General GWP by business channels in 2014, contributing 33% (2013: 29%) and generating a GWP of Rs. 770 Million (2013: Rs. 537 Million).

Channel: HNB

What we did: Being a subsidiary of HNB, a leading commercial bank in the country, is undoubtedly our best competitive advantage. Continuing our practice of capitalising on this key competitive edge, our sales teams closely liaised with the staff of HNB branches to channel business. Relationship building with the staff and close monitoring of the performance at both corporate and branch level were key strategies used to accelerate growth through this channel.

HOW WE EXPLOIT OPPORTUNITIES

Takaful Insurance Market - We became the first “Takaful Window” insurance provider in Sri Lanka by exploiting the market opportunity and were able to generate a sizeable amount of revenue during the year

Hybrid Vehicle Market Expansion - We were able to increase the revenue generated by the Motor insurance class by exploiting this market opportunity through the introduction of a special package for hybrid vehicle owners.

Development of Rural Population Income - Using our well-established branch network, we were able to reach more customers in the rural areas and help them look to the future confidently.

Increase in Infrastructure Projects and Growth in Tourism Industry - We were able to spur growth in Fire and Miscellaneous classes by capturing new business opportunities from these sectors.

Regulatory Change - While many considered regulatory change to be a threat, we exploited the opportunity to make our General Insurance Business a known brand among our customers.

What we achieved: HNB was the second highest income generator of General Insurance in the year 2014 with a GWP of Rs. 683 Million (2013: Rs. 685 Million). However, GWP generated by the HNB channel decreased by 1% (2013: -7%). Reduction in the leasing portfolio of HNB could be cited as one of the major reasons for the drop.

Channel: Advisors

What we did: Increasing the number of Advisors and taking various initiatives to enhance productivity were our key factors contributing to success in this channel.

What we achieved: Efforts during past few years to improve the agents channel showed remarkable progress during the year 2014 by adding Rs. 355 Million (2013: Rs. 252 Million) towards the General GWP. This marks a growth of 41% against the growth of 11% last year. Increase in the number of Advisors to 295 (2013: 227) and enhancing their productivity through focused training, reward structures and competitions helped produce this achievement.

Channel: Direct Channel

What we did: Entering into strategic relationships with other banks and finance companies to generate leads was a key strategy. Direct marketing in the corporate segment and e-marketing are other strategies used to increase growth from this channel.

HOW WE ADDRESS CHALLENGES

New Entrants - We reviewed the prices of our products, restructured the advisor reward scheme, introduced innovative products and enhanced customer service activities to combat the threats posed by new entrants

Adverse Weather Conditions - We revised our product pricing and entered into reinsurance agreements which include XOL Reinsurance covers to address the negative impact of adverse weather conditions

Risk Based Capital - Although this will come into effect in 2016, we participated voluntarily in the parallel run and created processes necessary to facilitate the change

What we achieved: The Direct business channel contributed 22% to the General GWP generating Rs. 516 Million during the year (2013: Rs. 389 Million). This business channel recorded a growth of 32% in contrast to a growth of 11% in year 2013.

Review Pricing Periodically to Maintain Competitiveness

What we did: With the severe price competition prevailing in the General Insurance industry, prices need to be continuously reviewed and benchmarked with competitors. Pricing of both Motor and Non-Motor products were reviewed during the year and selective revisions were made as appropriate.

What we achieved: Motor GWP grew by 30% and Non-Motor GWP grew by 14% compared to the relevant performances in 2013.

GROWTH FROM BROKER BUSINESS REACHED AN IMPRESSIVE 43% IN 2014 COMPARED TO THE PREVIOUS YEAR. FURTHER, FOR THE FIRST TIME IN HNBA HISTORY, BROKER CHANNEL DOMINATED THE CONTRIBUTION MADE TO GENERAL GWP

Improve Renewal Retention

What we did: Renewals were continuously monitored and there were strict follow up through the respective channels throughout 2014.

What we achieved: Motor renewal retention increased to 71% while Non-Motor increased to 93%.

Capitalise On Product Portfolio to Attract New Customers

Conventional Insurance

What we did: During the year we carried out a few product enhancement initiatives to provide additional benefits

to our customers. Along with this we introduced a motorcycle cover exclusively targeting female riders with free additional coverage for their handbags worth up to Rs.10,000/-.

What we achieved: We were able to access an untapped market segment and attract more customers into our business which enabled increase revenue generation in the Motor Insurance class.

Takaful Insurance

What we did: Offering a wide range of products is a key strategy the Company uses to promote business. In addition to offering conventional products, the Company also entered the Takaful market in 2013 through a window operation alongside conventional insurance and became a very active player during the year.

Currently, we offer the General Takaful market a full range of products under the supervision of our Sharia Council. The Council comprises renowned Islamic scholars.

What we achieved: While the conventional business generated a GWP of Rs. 2,239 Million, Takaful products brought in a further Rs. 84 Million which is 4% of our General GWP. As per latest available figures, we cater to around 6% of the Takaful market in Sri Lanka.

Strategic Objective: Leverage on Technology to Increase Efficiency

Enhancements to the Core Application

What we did: The Company strengthened the Core Application further by bridging identified service and functional gaps. Several new template products were introduced during the year and automation of document generation process for identified fast moving template products continued during the year.

Functionality for accounting, reconciliation and payment of suspended VAT (S VAT) was introduced in the Core Application as an automated process improving the financial controls. Several workflows such as third party legal payments, Non-Motor pre underwriting, and quotation workflows were integrated with the Core Application.

What we achieved: These actions enabled speedier service delivery, improving financial controls and also enhanced monitoring of activities between functional departments.

Decentralisation

What we did: A much awaited workflow system was implemented for Non-Motor and Motor Business Operations to encourage decentralisation while Non-Motor renewal issuance authority was also delegated to 20 branches. The pre underwriting inspection authority for Motor, which was at the Customer Service Centre, was also delegated to branches.

What we achieved: By implementing these process improvements, we were able to reduce assessor cost and provide a faster service to our customers.

Cost Effective Solutions

What we did: Our strategy in General Insurance was to implement highly cost effective solutions in order to generate a higher ROI, while maintaining the Expense Ratios at lowest possible level. Open source solutions and cloud based solutions were utilised shifting from a capital expenditure model to an operational expenditure model. We redesigned most of the available infrastructure solutions and commenced a usage based costing model to minimise costs incurred by the subsidiary company.

What we achieved: The resultant benefits are of long-term nature and are expected to reduce costs in the business in the future.

SMS Based Solutions

What we did: We introduced a SMS quotation process to enhance the service delivery level offered to our customers. Now a customer can obtain a quotation for a motor policy conveniently via a SMS at any time of the day. All that a customer has to do is to register via SMS on number 0720200200, and follow the SMS instructions.

What we achieved: We were successful in delivering a unique customer experience and provide a solid solution for a pressing customer need.

Enhance the Claim Process

What we did: Our claims process has been decentralised to five branches, Anuradhapura, Ratnapura, Galle, Negombo and Kandy to enhance efficiency of delivery with the entire process being handled through workflows enabling tracking of the status of a claim at any given point in time.

In addition to getting the support of 133 external assessors, we recruited seven more in-house assessors increasing the total number of in-house assessors to ten. Further, we increased the number of assessors equipped with camera phones to 89 (2013 – 70) enabling us to expedite and improve the quality of the Claim assessment process.

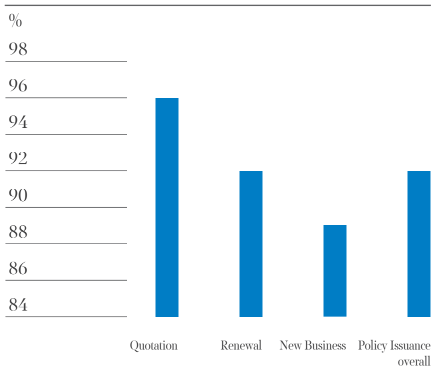
What we achieved: Although the efficiency level is difficult to quantify, these initiatives have helped increase the quality and speed of claims processing.

Strategic Objective: Enhancing Customer Service

Improving Customer Service Standards

What we did: In 2013, we revised our customer service standards covering all divisions of customer service and developed a set of comprehensive service standards in order to serve our valued customers better. Special programmes were conducted to train relevant employees and monitoring mechanisms were built in to the processes including the introduction of workflows. Progress on achieving service standards are monitored and presented to the EXCO on a monthly basis.

Service Standards Achivement 2014 - Non-Motor



What we achieved: In the Non-Motor segment, the policy issuance process was completed within our service standard 92% of the time. The achievement of the detailed service standards are given in the illustration above. As this is just the beginning of continuous monitoring, we are continuously improving our processes even though comparative information of market standards is not available. Furthermore, data for Motor policy issuance is not benchmarked as it is a one day service.

Collaboration with Garages and Spare Part Suppliers

What we did: Maintaining collaborative partnerships with garages and spare part suppliers increases the convenience of our customers since all payments to the garages and suppliers are handled directly by us offering the customer a cashless solution to drive away their repaired vehicle home. We added, 10 new garages to the list of recommended garages increasing the total HNBA recommended Garages to 120 (2013 – 110).

What we achieved: Such collaborations helped to reduce the Claims cost as it minimised the potential of garages inflating their charges. Also these arrangements improved the customer convenience levels as they had minimal personal involvement in the vehicle repairing process.

Offering New Services

What we did: During the year, we introduced another service to our customers in the form of risk assessments of customer premises. Our risk management team carries out inspections of customer premises and submits a detailed report. This service is done free of charge and has become a very useful mechanism to identify non-insurable risk exposures as well. It has also helped our customers to draw measures to mitigate these exposures and strengthen our service adding value to the relationship formed with us.

We leveraged on the internet to develop a Marine policy-issuing platform, which was deployed at the customer end. This system link between customers and us enable them to issue a Marine policy on agreed terms at their offices at any time of the day thus removing the inconvenience of having to contact us for each and every policy. This facility known as 'e -marine' is a very useful tool, which has helped maintain a mutually beneficial relationship with our customers.

What we achieved: The result of these initiatives have helped us create a large range of satisfied customers.

Strategic Objective: Meeting Regulatory Changes

In terms of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, insurers engaged in carrying on both, long term insurance business and General Insurance business were required to segregate their business, into two separate companies by February 2015. This was the biggest challenge faced by insurers in 2014.

Creation of HNB General Insurance Limited

What we did: HNBA incorporated a fully owned subsidiary, HNB General Insurance Limited (HNBGI) in January 2014 and we were among the first to obtain registration from IBSL as a General Insurer for the new company. A clear organisational structure, including a separate distribution network for General Insurance was developed and agreed upon by all stakeholders.

Launch of HNB General Insurance Limited

HNBGI commenced operations with effect from 01st January 2015 in line with the guidelines issued by the Insurance Board of Sri Lanka for the segregation of businesses. Furthermore, policy documentation, brochures and all other relevant material have been changed to reflect the identity of the new company.

What we achieved: Whilst achieving the set goals for the year 2014 we were able to meet the regulatory deadlines and complete the changeover in a smooth manner.

Focus for 2015

- Continue to strengthen relationships with Hatton Nation Bank to increase the contribution made by the HNB network
- Further improve relationships maintained with our existing Broker network and build new relationships with other brokers
- Enhance business growth by improving the productivity of our Agency Channel
- Introduce new products to fill gaps in the existing portfolio and offer more insurance options to our valued customers
- Review the product pricing strategies to be more competitive in the market place while ensuring profitability
- Review the reinsurance structure to enhance the risk acceptance process and increase profitability
- Continue to enhance the relationships with banks and other non-bank institutions to generate more business
- Leveraging on IT services to enhance customer experience while paying greater attention to improving profitability

Way Forward

General insurance Business which was under HNBA has now been fully transferred to HNB General Insurance Ltd (HNBGI).

Looking ahead, HNBGI will focus on growth whilst meeting the challenges of 2015 and continue to consolidate its market position with greater emphasis on profitability.

Takaful business is confidently poised to face the challenges in 2015 and achieve our ambitious goals as we remain focused on creating long-term value to the shareholders and participants equally. With the support of the Company's team comprising professionals and technical experts who have helped the business reach the current position, we are confident that the Company will climb to greater heights in the near future.

HNB General Insurance Ltd boasts of the most dynamic General Insurance team in the country and we expect this asset to play a vital role in areas of innovating new products and services, while making the Company ready to take on the future beyond expectations of all stakeholders.

HNB GENERAL INSURANCE

Management Team - Shared Services

Left to Right -

VIPULA DHARMAPALA
Chief Financial Officer

NAMAL GUNAWARDHANE
Chief Information Officer

DILSHAN PERERA
Head of Marketing

NILESH AMARASINGHE
Head of Investment

THILAN PERERA
Head of Human Resources

SALINDA PERERA
Manager - Administration

KAMINI GUNAWARDENE
Manager - Marketing

SITARI JAYASUNDARA
Manager - Legal

ROHAN HEMANTHA
Manager – Risk and Compliance

PUSHPIKA SENEVIRATNE
Associate Actuary

INVESTMENT REVIEW

Our Approach

As an insurer, we are highly cognizant of the fact that funds generated through the ordinary course of insurance business need to be well managed, in a manner which generating a maximum return for the Company and enhances our financial position. Accordingly, the aim of our investment management function is to maximise risk-adjusted investment returns whilst meeting stipulated guidelines both internal and external.

Market Conditions

The year 2014, witnessed yields on interest earning assets continuing to dip further to reach historic low levels. The average benchmark twelve month Treasury bill rate dipped by approximately 390 basis points during the year and fell to its lowest ever level of 5.89% during the month of September, demonstrating a drastic drop in yields across the board for all interest earning assets. On the flip side, a superlative performance was seen in equity investments consequent to the declining fixed income yields which saw the All Share Price Index (ASPI) gain 23.4% for the year.

Where We Stand

Amid the numerous challenges encountered in the financial markets, HNBA was able to deliver yet another remarkable year in terms of both investment income and overall investment yield. The ensuing discussion is an impartial review of our performance in 2014.

Funds Under Management

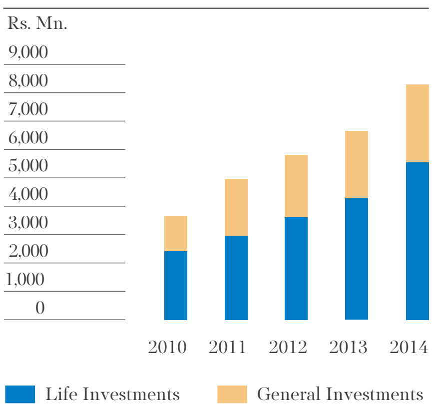
As at the year-end 2014, our total Funds Under Management, which consists of six separate investment portfolios, stood at Rs. 8.3 Billion. Life Fund, General Fund and the Life Shareholders' Fund were maintained for the purposes of conventional insurance business, while the General Takaful Fund and the Family Takaful Fund were maintained for the Takaful Insurance business.

With the regulatory requirement of segregating composite insurance companies into separate Life and General Insurance companies, a subsidiary company was created in which a seed capital investment of Rs. 100 Million was invested. With this investment, we commenced a new fund, "HNB General Insurance Ltd Fund" to manage the Shareholders' funds of our subsidiary company.

In the discussion which follows, the term Life Fund refers to both conventional and Family Takaful Funds while General Fund refers to the conventional General Fund, Life Shareholders' Fund, General Takaful Fund and HNB General Insurance Fund.

We were able to record an impressive 24% increase in our total Funds Under Management, from Rs. 6,660 Million at the end of 2013 to Rs. 8,291 Million as of December 2014. 67% of the total Funds Under Management related to the Life Insurance Fund amounting to Rs. 5,546 Million while Rs. 2,745 Million related to the General Insurance Fund. The annual growth in total funds was mainly supported by a 30% growth in the Life Fund while large fund outflows due to increased claims and expenses led to a moderate growth of 15% in the General Fund. Given above is a graphical presentation of our total Funds Under Management over the last five years.

Funds Under Management

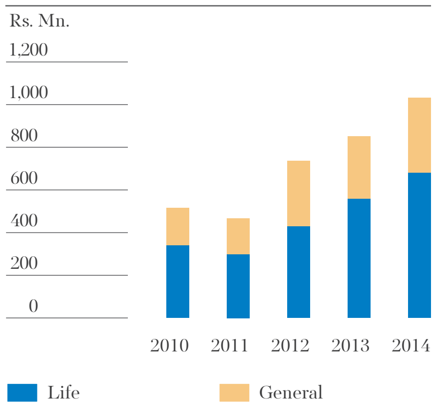


Investment Income

The prudent asset management strategies adopted by us enabled the Company to record a total

Investment Income of Rs 1,032 Million with a notable growth of 21% over the Rs. 852 Million Investment Income reported in the year 2013. This is the first time that the Company was able to generate an Investment Income in excess of one Billion Rupees. The Life Fund (including the Family Takaful Fund) reported an Investment Income of Rs. 680 Million with an annual growth of 22% while General Fund (including HNB General Insurance Limited Fund, Life Shareholders' Fund and General Takaful Fund) reported an investment income of Rs. 352 Million with an annual growth of 20%.

Investment Income



Management Discussion and Analysis

Furthermore, as illustrated in the graph we were able to record consistent growth in investment income from both funds over the last three years.

Strategic Objective: Maximising Investment Return

At HNBA we maximise investment returns through strategies focused on;

- Increasing Funds Under Management
- Increasing the yields by managing asset allocation
- Managing return, risk and liquidity

Increasing Funds Under Management

Growth in Funds Under Management can be achieved through the two sources of fresh funds arising from insurance business and by Investment Income itself.

What we did: Faster Business Growth
HNBA increased the Funds Under Management through fresh funds generated from the insurance business, primarily on Life Funds supported by the growth in business. However, funds arising from the General Insurance business transpired to be an outflow due to claims and expenses. Regardless, we increased both funds significantly through Investment Income.

What we achieved: We increased the Life Insurance Fund by 30% and General Insurance Fund by 15% as noted previously. The graphs below illustrate the contribution of each factor to the fund growth in 2014. We increased our Investment Income of the Life Fund to record a growth of 22% whilst Investment Income from the General Fund increased by 20% during 2014.

OUR KEY STRENGTHS

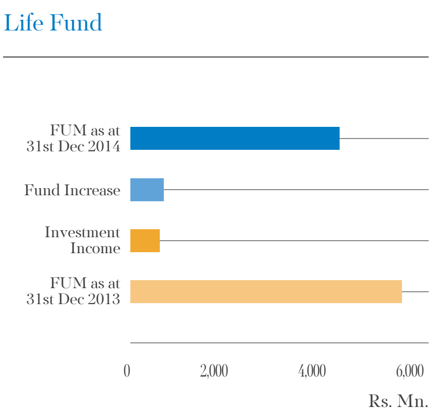
Diversified Investment Portfolio - We maintained a much diversified investment portfolio which, helped minimize volatility in the Investment Income as well as manage the interest and credit risks of the investment portfolios.

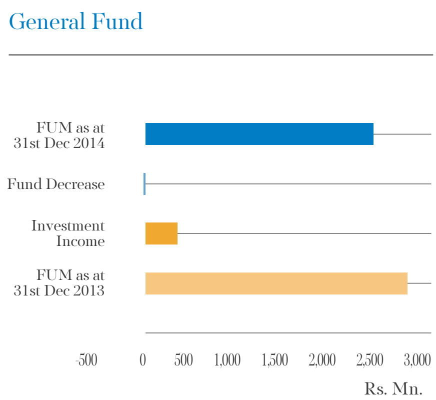
Continuous Growth in Funds Under Management - The Investment Income growth was well supported by continuous fund accumulation through the insurance business.

Versatile and Experienced Fund Management - The fund management function of the Company has an exceptional track record of managing the internal portfolios with yields surpassing those of most competitors.

Cautious approach to Risk Management - We continued to maintain a margin of safety with respect to most of the internal and external risk management guidelines, to make alterations to the portfolio allocation which facilitated the generation of a higher return.

Development of Funds under Management





Increasing the Yields By Managing Asset Allocation

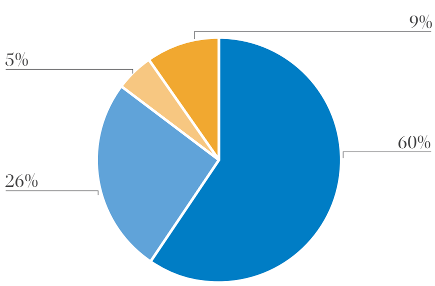
What we did: Increase the Equity Exposure

Given the low yield on interest bearing assets, it was crucial for us to tactically alter our investment portfolios within the stipulated guidelines by the regulator and our investment policy. Considering the positive macroeconomic sentiments for the equity investments to boom, the asset allocation was altered to increase the exposure to listed equity investments. During the year listed equity exposure of the Life Fund increased to 4.5% from 3.1% the previous year. The General Fund listed equity exposure increased to 4.0% from 2.4%.

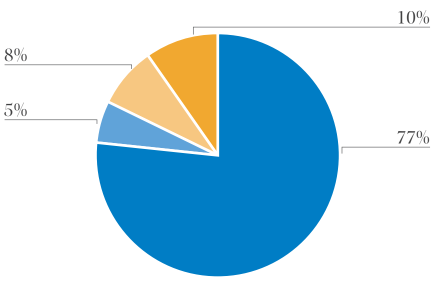
Given below is a graphical presentation of our asset allocation in 2014.

Asset Allocation

Asset Allocation - Life Fund



Asset Allocation - General Fund



What we achieved: The listed equity investment portfolios comprehensively outperformed the benchmark all share price index (ASPI) by recording a 31% over performance in the Life Fund and a 37% over performance in the General Fund. The Life equity portfolio recorded a return of 55% and the General equity portfolio generated a return on 60% as against the growth in the All Share Price Index of 23% during the year under review. The prudent decisions made with regard to equity portfolio management benefited the total Investment Income with Rs. 84 Million unrealized equity gains, Rs. 7.5 Million dividend income and Rs. 12.2 Million realized capital gains for the year 2014.

What we did: Realise Capital Gains

One positive aspect of the declining interest rates during year was that we could realize significant capital gains by exiting a few of the fixed income securities which were bought at higher yields.

HOW WE EXPLOIT THE OPPORTUNITIES

Superlative gains on equity investments - Positive investor sentiments on macro-economic fundamentals paved the path for a superlative return on equity investments. We foresaw the gains on fundamentally strong stocks and increased the exposure to selected counters.

Capital gains on fixed income securities - Having invested a significant portion of our portfolio in government and corporate bonds issued at higher yields, we capitalized on the opportunities of realizing higher capital gains on those which the interest rates declined during the year.

Active corporate bond market - During the year under review too, the tax exemptions continued to benefit the return on listed corporate bond investments. Being active in the secondary market for listed corporate bonds enabled us to realize substantial capital gains.

What we achieved: The Life Fund realised a capital gain of Rs. 62.7 Million by realizing gains from treasury bonds while the General Fund made a capital gain of Rs. 30.1 Million by exiting few treasury bonds and corporate debentures.

What we did: Focus on Compliance
We ensured that all tactical adjustments were made to the investment portfolios within the regulatory guidelines. As at end 2014, the exposure to Government Securities in the Life Fund was maintained at 46.9% (minimum 30% of Long Term Fund as per Solvency Margin Rules) and the exposure in General Fund was maintained at 69.5% of the Technical Reserve (minimum 20% as per Solvency Margin Rules).

What we achieved: Amid difficult market circumstances, we were able to maintain average investment yields at 12.83% (2013: 13.94%) in the Life Fund and 11.77% (2013: 12.93%) in the General Fund although the yields declined due to the dip in the overall interest rate structure in the market.

What we did: Manage the Maturity Mix
While making strategic alterations to the portfolio mix, a close eye was kept on the maturity mix of each fund to operate without any major deviations from the guidelines stipulated by the HNBA investment policy.

What we achieved: As at the end of 2014, the Life Fund consisted of 66% of its assets maturing after one year and the more short term General Fund consisted of 57% of its assets maturing before one year. Illustrated below is our maturity mixes for year 2014 and 2013.

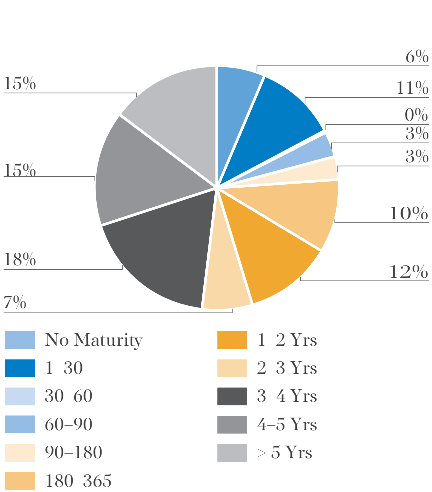
HOW WE ADDRESS THE CHALLENGES

Low return on Interest bearing assets - Since we maintain more than 90% of the portfolio in interest earning assets, the interest income growth continued to slow down with the persistent low interest rates. We were able to set off the negative impact from the low interest rates by increasing the portfolio allocation to non-interest earning assets as well as by realizing capital gains through a thorough analysis of the market movements.

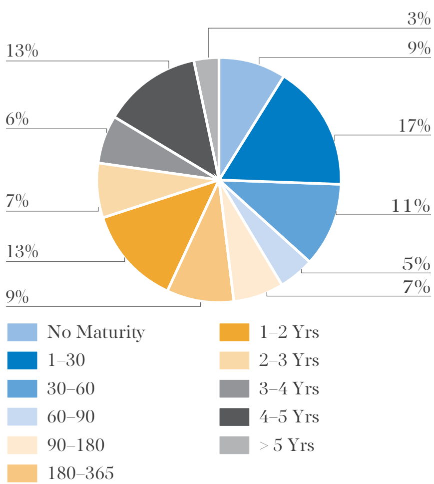
Market uncertainty - Capital markets experienced greater volatility during the latter part of year 2014 due to internal political uncertainty and external economic pressures. Our investment decisions were challenged with greater market uncertainties and we took these challenges positively to seek opportunities for high yielding investments through market volatility.

Maturity Mix

Maturity Mix - Life Fund



Maturity Mix - General Fund



Managing Return, Risk and Liquidity

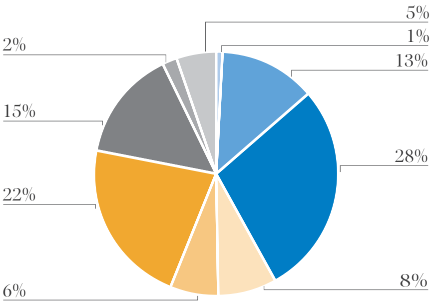
What we did: Robust Risk Management
We consider Investment Risk Management as crucial as the management of investment return. All investments are undertaken only after a fundamental risk-return analysis carried out by our internal research team. External and internal investment

risk guidelines are reviewed monthly as well as at the approval stage of any new investment. Immediate corrective measures are taken if any discrepancies are detected.

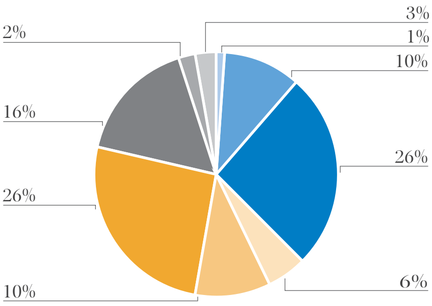
What we achieved: A detailed report of the investment risks faced by the company and measures taken to eliminate or minimise such risks appears in the Risk Management Report on pages 240 to 251 while the ratings of our corporate bond portfolio are given below.

Corporate Bond Rating

Corporate Bond Rating - Life



Corporate Bond Rating - General



THE STABILITY OF THE EXCHANGE RATE, INFLATION AND OTHER MACRO INDICATORS MAINTAINED DURING THE YEAR HAS BOOSTED THE INVESTOR CONFIDENCE AND DEMONSTRATED AN INCREASE IN THE PRIVATE SECTOR BORROWING DURING THE LATTER PART OF THE YEAR.

Focus for 2015

We anticipate an even tougher year ahead with interest rates expected to remain in the lower territory. The newly elected government and the fresh leadership of the Central Bank of Sri Lanka, have articulated clear intentions of maintaining policy rates at current level or else letting them drop further. Therefore, an active and vigilant management of the investment portfolios will be crucial to make use of every possible investment opportunity which yields a greater return, at an acceptable risk.

However, we are optimistic of the steps taken to keep the interest rates lower which will continue to boost the equity market and the credit growth to the private sector. The stability of the exchange rate, inflation and other macro indicators maintained during the year has boosted investor confidence and demonstrated an increase in the private sector borrowing during the latter part of the year. The Colombo Stock Market is expected to perform well for the second consecutive year with the continuation of the current low interest rate regime coupled with the improved macroeconomic fundamentals and a more optimistic economic climate. During the coming year too we will make necessary alterations to the listed equity portfolio to reap maximum risk adjusted returns. As alternative investments we will continue to look for opportunities in property and foreign investment securities.

The financial year 2015 will be the first where investment management will be handling the funds of two separate companies. Many more regulatory and strategic changes are expected to be included in the Fund Management process. Further, with Risk Based Capital (RBC) requirements expected to become effective in 2016, our long term investment strategies will warrant a cautious approach, since extra reserving will be necessary for investments with higher risk.

INFORMATION TECHNOLOGY REVIEW

Our Approach

At HNBA, the role of information technology spans from facilitating the management of operations to shaping the present and the future of our Company. We consider our ability to internalize and converge the existing environment with suitable information technology related innovations as a vital capability. Delivering optimum productivity to our business and providing maximum satisfaction to our customers through such innovations is a source of competitive advantage for us. As such, for us, information technology function is a key creator of intellectual capital, which enhances the effectiveness of all other value creating activities.

Where We Stand

2014 was a year for planning and transformation for composite insurers in the Insurance sector. HNBA IT successfully established processes and mechanisms for implementing the impending regulatory changes for bifurcating of Life and General insurance operations by engaging in envisioning solutions, planning meticulously and executing a closely monitored implementation process. We managed to harness benefits from some of the fundamental shifts in technology management caused by converging disruptive technologies emerging in the external environment. We successfully encapsulated the opportunity for achieving higher ROI through consolidated business processes and unified systems. The multifaceted challenge was addressed by establishing strategies and processes for delivering business value through suitable technological adaptations while adhering to regulatory guidelines.

The discussion which follows is a summary of key strategies adopted during 2014 and their results.

Strategic Objectives

Strategic Objective: Leveraging on Technology for Operational Efficiency

For Life and General Insurance Segments

What we did: Our strategic focus in 2014 was mainly on strengthening infrastructure and augmenting our compliance standards as well as information security while monitoring and streamlining existing controls and processes. Innovative and cost effective infrastructure solutions were selected for implementation to achieve operational efficiencies and cost savings, ensuring business sustainability and uninterrupted service.
Further, strengthening and implementing laid down IT road map items to deliver better operational efficiencies and enhance customer service levels through further consolidation and collaboration received primary focus in project implementation. We strengthened the Core application further to encapsulate new product offerings while enforcing several new functional and compliance requirements. Several mobility solutions were earmarked for implementation in line with HNBA mobile strategy to enhance service levels of intermediaries and supplement better customer service for existing policy holders and prospective customers. The service deliveries which were specific to Life and General Insurance are discussed in further detail on pages 82 and 95 respectively.

What we achieved: Although the direct output of such initiatives are highly qualitative and of a long term nature, the results of efficiency improvements of Life and General Insurance Segments are where possible detailed on pages 82 and 95 respectively.

Cyber Security Drill

What we did: TechCERT Sri Lanka conducted a cyber-drill based on Cyber Attack against a website (Website Defacement) to evaluate the HNBA IT's reaction and mitigation steps in such a scenario. The engagement facilitated to build awareness on emerging cyber threats, examining the capabilities of the internal participants in analysing, preparing and responding to unexpected cyber threats that could occur. Further, evaluating and identifying possible lapses in organisational policies and procedures for handling cyber incidents including the identification of roles, responsibilities and authorities in responding and decision making during a cyber-incident was also a part of the expectations. In addition, evaluating and augmenting the necessary infrastructure and knowledge required by the IT security team in successfully defending against cyber threats was also made.

HNBA IT was able to complete a cyber-drill successfully with TechCERT Sri Lanka

What we achieved: The exercise enabled building and utilising the collaboration and trust between affiliated organisations whilst augmenting the knowledge of IT personnel in handling cyber threats. Further, HNBA IT was able to complete the cyber-drill successfully and receive TechCERT Sri Lanka's conclusion of "During the drill, it was observed that computer security knowledge of the IT staff was considerably good".

Oracle E-Business Suite

What we did: Implementing Oracle EBS to replace the legacy financial application was another key milestone during 2014. Oracle EBS commenced live operations from 01st of January 2014. The primary objectives were; establishing enhanced operational efficiency through better integration, reducing back-office costs and streamlining financial activities with standardised processes for shared services, productivity tools, and integrating performance management.

HNBA implemented a "strategy of zero customization" while deploying Oracle E-Business Suite and mapped all its process workflows to standard Oracle E-Business Suite functionality for General ledger, Accounts Receivable, Accounts Payable and Cash Management. Subsequently Oracle EBS was extended by acquiring and implementing fixed asset management module. Further, the deployment also integrated with the existing Oracle footprint within the Company.

What we achieved: Oracle EBS deployment enabled delivery of timely and accurate data for quick business decisions and automating the processes to increase staff productivity. Further, facilitating conformance to International Financial Reporting Standards (IFRS) and compliance with legislative requirements, and policies with the help of a single, integrated system eliminated the need for duplication of work saving time and cost. Coupled with ability to use electronic documents saving paper, improved our carbon footprint and considerably reduced storage costs. Achieving above objectives, whilst conforming to strict financial controls, would truly grant long-term benefits to the Company.

AIS server hosting in Amazon cloud

What we did: While the financial service industry is debating the appropriateness of cloud computing, HNBA IT has found a niche where the benefits of cloud computing can be harnessed without sacrificing appropriate security levels in our computing environment, by identifying applications that are appropriate candidates for placement in cloud environments.

HNBA initiative to move its AIS application from a collocated hosting service to Amazon Web Services illustrates much of the allure of cloud computing. By leveraging cloud computing, HNBA was able to increase robustness by removing the vulnerability to extended outages due to unforeseen hardware failure.

What we achieved: Operations received enhanced flexibility from migrating the application to AIS, whilst additional system resources could be made available on request. Moreover, if system load diminishes, HNBA can easily release the additional resources, with no further operational or financial commitment. While costs are minimised, flexibility available with AWS infrastructure allowed additional system resources deployment with linear scaling of costs.

Strategic Objective: Meeting Regulatory Changes

Bifurcation of operations

What we did: In complying with the regulatory requirement of segregating composite operations as separate corporate entities, HNBA IT planned a systematic separation of life and general functionalities in peripheral applications, email systems, user profile management and authenticating services. Core application segregation was planned as a phased implementation with financial authority and functional operations level segregation to be implemented in the first phase.

What we achieved: The implementation of the phases will commence in 2015 after which we will be able to fully recognise the resultant outcomes received from independent operations of the two organisations.

Open Source mail for HNB General Insurance Ltd.

What we did: With the segregation of the HNB General Insurance Ltd., IT department had the biggest challenge of implementing and migrating existing users to a new mail service with more than 300+ employees. Main concern was how to consolidate and centralize email for the Company through a solution that reliably delivers state-of-the-art groupware features and benefits, while both keeping the costs low and making it easier to search and integrate the substantial amount of organizational data generated by the solution.

IT tested and implemented Zimbra Collaboration Suite (ZCS), a collaborative software suite to secure authentication and custom auto-provisioning through Microsoft Active Directory, integrating with an existing anti-virus and spam filtering service. Public, 256-bit SSL certificates and the operating systems were hardened for secure communications.

Active Directory integration and provisioning was extended to include, among other features, distribution lists, and cross-domain searches. Data backups were structured so as to integrate with the Company's disaster recovery plans.

What we achieved: The use of the Zimbra suite enabled HNBA to successfully migrate all General email users with minimum operational interruptions while achieving considerable cost savings. The full benefits of the implementation will be reaped to the fullest in the years to come.

Way Forward

In 2015, our main focus will be to complete the core application bifurcation process including the middleware segregation. Business related enhancements such as new product developments and bridging gaps or implementing new functionality to adhere to the business or compliance requirements will continue to be a priority on the Life and General platforms. In Life Insurance, attention would be on developing mechanisms for re-engineering of processes for optimum use of resources and gaining process efficiencies in both front-line and back-office activities.

We consider effective expense management as a key differentiator in Genital Insurance Business. Focus will be shifted to implementing enterprise level open source solutions to gain cost advantages. Furthermore strategic focus will be given to implement a cost effective set of unified peripheral applications by re-engineering existing applications to cater for the changing business needs of the General Insurance business.

We will continue with R&D processes and testing of new or disruptive technologies that could provide a higher return on investment, strength and business value for enhancing our automated solutions. Our attention will be paid in strengthening business processes via introduction of workflows after conducting process studies and industry best practices.

Use of mobile technology in mainstream business processes will be further strengthened and mobility of business in sales and distribution channels will be enhanced utilising new concepts during 2015 catering for further collaboration and unification of processes.

We would continue to maintain our position as the industry leader in the insurance sector on social media usage for business. We would strategically cultivate the strength for growth in business volumes by utilizing social media for lead generation, building customer engagement and augmenting service delivery.

Strengthening IT governance and practices in view of the changes prescribed for coming years will be another key initiative that we intend to undertake from the year 2015 onwards.

ACTUARIAL REVIEW

Our Approach

We believe that an attentive and active Actuarial unit can be considered as the heart of any life insurer in ensuring life of the business is sustained in a healthy manner while allowing the insurer to accelerate its growth and profitability. With this key belief in mind the actuarial unit was established in HNBA several years ago. Since then the actuarial team has taken steps to initiate various tasks that are believed to add value to the Life Business of the Company. The discussion that follows is a review of how it has added value to the Company in 2014.

Strategic Objectives

Strategic Objective: Business Growth

The Actuarial function facilitates the Company to achieve growth by adding value to the business. The strategies used in this regard includes, but is not limited to, developing new products, product pricing, analysis of business performance by way of experience studies and monitoring of company profitability.

What we did:

New Product Development

Actuarial has been involved in the development of life products for several years and we are happy to mention that we were instrumental in developing innovative life products for the Company. During the year 2014, two such unique products 'My Pension' and 'e-life' were developed while one existing product ‘My Life’ was revised. 'My Life' is an endowment product with interim payments coupled with a life cover and a range of carefully selected supplementary benefits suited particularly for the youth segment. My Pension is ‘one of a kind’ product where a lifetime annuity is provided in return for a single payment from the policyholder. This product also offers a limited time period life cover as well. E-life product was structured to offer two product options to the e-savvy consumer; the first option being a simple life product with a life cover, whilst the second option being a bundled product with a life cover along with a maturity benefit.

Analysing of Business Performance

Analysis of business performance is also one of the key items in the Actuarial calendar. This comprises regular analysis of lapses, activity and product mix. This facilitates the Company to drive business as well as take certain key decisions related to sales promotions and staff competitions whilst serving to provide an overall detailed sense of the business composition.

The team is also involved in carrying-out internal Actuarial valuations on a quarterly basis to ensure continuous monitoring of life business takes place. This allows the Company to understand the implications of certain business ventures and take appropriate action on a regular basis.

Expense Study

We are happy to note that we were able to include a detailed study of expenses during year 2014. This study revealed important insights regarding the current management of expenses, product pricing and profitability. Subsequent to the detailed experience studies and performance review of past years and after discussion with the management, the Company carried-out product related decisions such as whether to continue offering the existing products as it is, re-price or discontinue completely. This allows the Company to identify and focus on products that add value while supporting in the process of focused sales as well.

What we achieved: The benefits achieved by our activities enhanced growth of profitable business in many ways. However, due to the long-term nature of the Life Insurance business, the impact of these strategies will effectively add greater value to the company in the long-term.

THE INPUT OF THE ACTUARIAL FUNCTION OVER THE PAST YEARS HELPED IN THE GROWTH OF THE LIFE FUND UP TO RS. 5.4 BILLION WHILE ALLOWING A TRANSFER OF RS. 228 MILLION TO SHAREHOLDERS DURING THE YEAR 2014.

Management Discussion and Analysis

However from the strategies of 2014, the results of new product development was apparent even during the year. The products were well received by the customers and contributed to 13% of the Life GWP in 2014. The input of the Actuarial Function over the past years helped in the growth of the Life fund up to Rs.5.4 Billion while allowing a transfer of Rs.228 Million to shareholders during the year 2014.

Strategic Objective: Meeting Regulatory Changes

What we did: Preparing for Risk Based Capital

Another key item where significant efforts were taken is in relation to the proposed Risk Based Capital (RBC) regime scheduled as mandatory from the year 2016 onwards. HNBA did participate in the Road Test initiated during the period of end 2012 and 2013 subsequently in the parallel-run stage. Since the Road Test phase started in year 2011, significant amount of background work took place to ensure the Company is able to carry-out a smooth transition from the existing "Net Present Value" framework towards a "Risk Based Capital" regime. One of the key steps taken on this behalf is the purchase of the 'Prophet' Actuarial Software during the year 2014.

What we achieved: We have already carried out several detailed studies required for successful implementation of a RBC framework as well as nearing completion of product models to generate mandatory output of results.

Way Forward

With the dawn of year 2015 several challenges lay ahead of us, such as ensuring a solid foundation is laid to move towards a Risk Based Capital framework in the near future, initiate other experience studies related to key life business elements such as mortality and supplementary benefits, looking into avenues of developing life products suited for the market while adding value to the Company on other numerous ways both for the life as well as the general business. Though the upcoming year is possibly an exciting one, we consider it as a great opportunity to inspire ourselves to deliver better to the Company!

Reference:

GRI-G4 | G4 - DMA | G4 - EC1

VALUE ADDED TO STAKEHOLDERS

Our Approach on Economic Performance

Our business model functions to generate sustainable economic returns, not only to our investors but to all stakeholders. Thus, we take measures to effectively leverage on all our resources to generate higher value, and thereby offer higher returns to our stakeholders. Management team headed by the Managing Director is responsible for creating this value under the close supervision of the Board who monitors the creation and distribution of such value.

Where We Stand

In 2014, HNBA added Rs. 2,865 Million as economic value to our stakeholders which marks a remarkable 33.19% increase over the Rs. 2,151 Million value addition of 2013. How this value is distributed among the stakeholders is shown in the table below.

	2014 RS. '000		2013 RS. '000		GROWTH
Net Earned Premium	3,831,975		3,269,181		17%
Investment and Other Income	1,044,485		864,517		21%
Total Income	4,876,460		4,133,698		18%
Net Claims & Benefits	(1,573,104)		(1,568,208)		0%
Cost of External Services	(438,809)		(414,845)		6%
Value Addition	2,864,547		2,150,645		33%
Distribution of Value Added					
To Employees					
Salaries and Other Benefits	575,658	20%	455,640	21%	26%
To Intermediaries					
Commission Cost	598,487	21%	489,492	23%	22%
To Government					
Income Tax	19,269	1%	35,970	2%	(46%)
To Life Policyholders					
Increase in Life Insurance Fund	1,192,234	41%	724,856	34%	64%
To Shareholders					
Dividend Paid	162,500	6%	137,500	6%	18%
To Society					
Donation	300	0%	300	0%	(20%)
CSR Activities	2,569	0%	2,427	0%	6%
For Expansion and Growth					
Retained as Depreciation and Amortisation	58,305	2%	52,837	2%	10%
Retained in Reserve	255,225	9%	251,623	12%	1%
	2,864,547	100%	2,150,645	100%	

Management Discussion and Analysis

INVESTOR REVIEW

Our Approach

Our investors, are the providers of financial capital, we consider them as our ultimate stakeholders. Thus, we consider it as our duty to create and deliver sustainable value through our business model.

Our Policy towards Investors

As a quoted Company governed by numerous regulatory provisions under the Securities and Exchange Commission (SEC) and the Colombo Stock Exchange (CSE), we are bound to deliver maximum value to our investors whilst adhering to the above regulatory procedures. We conduct our business in a manner which adds value to our investors and manage the risks faced by the Company prudently following good corporate governance practices at all times. We are also cognizant of the fact that it is our duty to engage our investors by giving due consideration to their ideas and providing them with timely and accurate information on the affairs of the Company. In addition the manner in which we engage with our shareholders and investors is elaborated on pages 41 and 173 to 177. The details of our Shareholder Communication Policy is elaborated on page 173.

Where We Stand

Share Information

Total number of shares in issue as at 31st Dec 2014	50,000,000
Public shareholding as at 31st Dec 2014	40.01%
CSE Ticker	HASU.N0000
Bloomberg Code	HASU: SL

CSE Performance

The Colombo bourse relished remarkable performance during the year 2014 mainly attributable to more favourable internal and external macroeconomic influences. The healthy earnings reported by the financial, construction and manufacturing sectors, the stable macro-economic sentiments and the plunging yields on fixed income securities continued to boost the investor appetite for equity investments. During the year, the benchmark All Share Price Index (ASPI) advanced by 23.4% while the S&P SL20 price index advanced by 25.3%. As at the year-end 2014 the Colombo Stock Exchange (CSE) market capitalization stood at Rs. 3,104 Bn, with a growth of 26.2% from the previous year. A detailed performance review of the CSE is discussed in our Economic Review on pages 49 to 52.

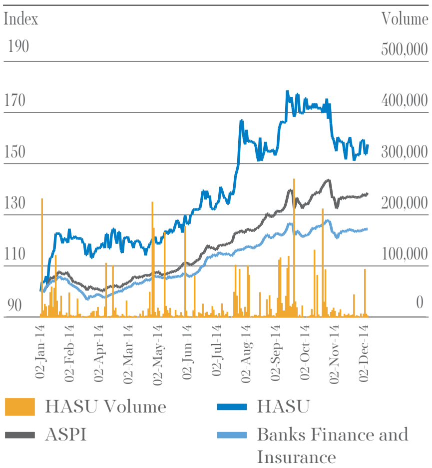
HASU Performance

During the year under review HASU price surged by 59% to reach a year-end price of Rs. 83.50 (2013: Rs. 52.50). HASU price continues to rise during the year by outperforming the benchmark indices of ASPI, S&P SL20 and the Bank, Finance and Insurance price index. HASU reached its highest ever price of Rs. 98.00 on 03rd October 2014, and the stock was traded lowest for the year on the second trading day of the year (03rd January 2014) at a price of Rs. 52.20 per share.

HASU Performance vs Market (over 5 years)

HASU posted a Compound Annual Growth Rate (CAGR) of 11.1% capital appreciation for the five year period from 31st December 2009 to 31st December 2014. It traded on 220 days out of the total 241 market trading days by improving the counter liquidity to 91.3% against the previous year's liquidity of 90.5%. During the year the average daily transaction volume increased to 22,444 shares per day from an average of 20,958 shares per day during the year 2013.

HASU Share Volumes and Relative Performance vs Market



Strategic Objectives

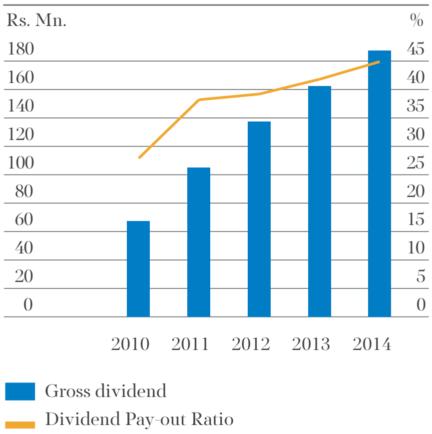
Strategic Objective: Create Sustainable Shareholder Value

What we did: Our entire business is modelled to create sustainable value to our stakeholders and as our primary stakeholder; the key share of the value we create through our business is allocated for our investors. The strategies used by HNBA to create value through its business model are detailed through each page of this Integrated Annual Report. In doing so, we also give equal attention to conformance and performance which are both integral elements of good governance. For the understanding of our readers, a summary of how we create value for our investors is illustrated below.

What we achieved: Dividends

Our dividend policy seeks to ensure that the dividend payout growth corresponds to the profit growth of the Company while ensuring adequate profits are retained for future business growth, to expand the investment portfolios and to maintain a strong solvency position in order to deliver sustainable shareholder value creation. The Board of Directors proposed a first and final dividend of Rs. 3.75 per share for the financial year 2014 (2013: Rs. 3.25). The total gross dividend payout value for the year increased by 15.4% on YoY basis to reach Rs. 188 Million (2013: Rs. 162.5 Million). The dividend payout ratio increased to 45% during year 2014 from 41.8% in the previous year. The dividend yield calculated by way of dividend per share (DPS) as a percentage of the year end share price, declined to 4.5% during the year under review (2013: 6.2%). The drop in the dividend yield was an out come of the sharp rise of the HASU price relative to the moderate DPS growth.

Gross Dividend vs Dividend Payout

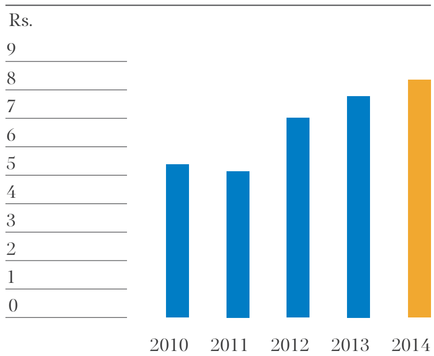


Earnings Per Share

The Earnings Per Share (EPS) which refers to the portion of a Company's profit allocated to each issued ordinary share stood at Rs. 8.35 for the year 2014. The EPS, which is one of the most important measures of the Company's profitability, reported a growth of 7% over the EPS of Rs. 7.78 recorded in year 2013.

The earnings yield, which indicates EPS as a percentage of the closing price of the share, declined to 10% during the year under review (2013 – 14.8%), which is still well above the one year gross risk-free rate of 6.7% for the relevant period.

Earnings Per Share



Dealt within the Management Discussion & Analysis (page 34-158), Financials (page 272-383)

Discussed in Corporate Governance Report (page 168-239)

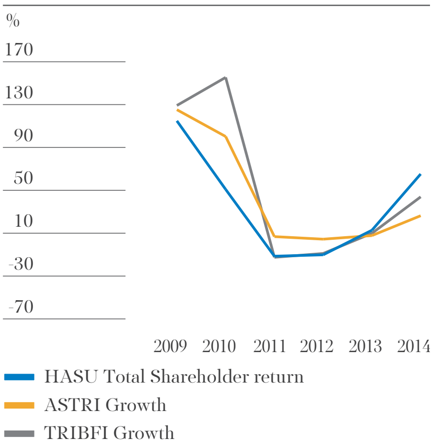
Discussed in Risk Management Report (page 240-251)

Management Discussion and Analysis

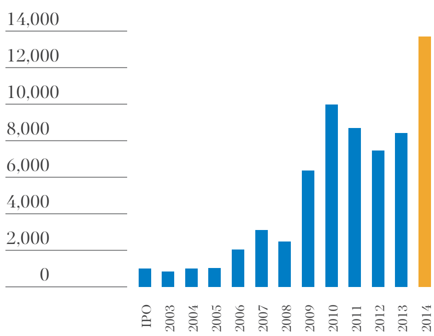
Total Shareholder Return

Year 2014 was the most outstanding year in terms of the total return to the HASU investors. During the year HASU, generated a phenomenal 65.2%. Total Shareholder Return (TSR) mainly through the HASU price appreciation of 59% for the year. The dividend payout of Rs. 3.25 per share for the financial year 2013, which was paid during the year 2014 created a return of 6.2% in terms of the yield. HASU comprehensively outperformed the benchmark total return indices (TRI) of all share TRI (ASTRI), TRI on S&P Sri Lanka 20 Index and Banking, Finance and Insurance Sector TRI (TRIBFI), becoming one of the top performing stocks during 2014.

Total Shareholder Return



Rs.1,000/- Invested at HASU IPO



Market Ratios

	2014	2013	2012	2011	2010
Market price per share (Rs.)	83.50	52.50	49.00	56.90	66.31
Number of shares in issue (Mn.)	50.00	50.00	50.00	50.00	37.50
Market capitalisation (Rs. Mn.)	4,175	2,625	2,450	2,845	2,925
Earnings per Share (Rs.)	8.35	7.78	7.02	5.14	5.38
Book value per Share (Rs.)	48.27	42.26	37.34		
Price to earnings (times)	10.00	6.75	6.98	11.07	12.33
Price to book (times)	1.73	1.24	1.31	1.76	2.78
Earnings Yield	10.00%	14.82%	14.33%	9.03%	8.11%
Dividend yield	4.49%	6.19%	5.61%	3.69	2.31
Dividend payout ratio	44.88%	41.77%	39.17%	38%	28%
TSR	65.24%	12.76%	(10.19%)	12%	60.61%

The HASU share traded at a Price to Earnings Ratio (PER) of 9.99 times as at financial year 2014, compared to the PER of 6.75 times at year end 2013. As at the year-end 2014, the published broad market PER of the CSE was 19.66 times and the Banking, Finance and Insurance Sector PER stood at 13.50 times. The HASU price to book ratio (PBR) increased to 1.73 times in 2014 (2013: 1.24 times) and the CSE published market PBR reported to be 2.20 times as the year end 2014.

Rs. 1,000/- Invested at the HASU IPO

An investor's wealth of Rs. 1,000 which was invested at the HASU IPO in 2003 has accumulated to a total wealth of Rs. 13,708 as at the year-end 2014. The HASU investor is rewarded with a CAGR of 24.4% of his wealth over the investment time horizon of twelve years.

Way Forward

We are determined to deliver better results for our investors by improving our own record of giving remarkable returns to our investors throughout the past twelve years.

From year 2015 onwards the primary change that the HASU investors will encounter is that they will be holding shares of HNB Assurance PLC Group, instead of holding shares of one composite insurance Company. Thereafter, the return for investors will be determined based on the consolidated results of the Group that will consist of HNB Assurance PLC as the parent and HNB General Insurance Limited as a subsidiary. With the regulatory requirement of listing the subsidiary Company in 2016, HNB Assurance PLC group will operate with two listed companies and the parent Company investor return will have to be adjusted for minority interest due to the expected public shareholding in the listed subsidiary Company. Therefore, we are anticipating many regulatory and strategic changes to the group structure and shareholding in the current year.

CUSTOMER REVIEW

Our Approach

Customers lie at the heart of what we do; they are our most valuable asset. Our entire business model is built to serve the needs of our customers. On the pathway of realising our vision of being 'the most admired and trusted partner in meeting insurance needs professionally with a spirit of caring', we continuously strive to build the trust and confidence of customers, which is the key competitive advantage of an insurer.

The strong customer base we have developed over our 13 years of existence is clear evidence of the fact that we have been able to deliver promises and earn their trust with utmost care. Our loyal customer base is our Customer capital which we continue to strengthen by enhancing the value we deliver to them.

Our Customer Strategy

Our customer strategy is implanted in our corporate vision which recognises the value of customers. Operating in an industry which offers a service that adds much value to the lives of our customers, we must ensure at all times that we cater to the changing needs of them. Keeping this in mind we continuously engage in delivering a superior customer experience by keeping the promise of 'meeting insurance needs with professionalism and a spirit of care' as stated in our vision. We at HNBA believe that one of the strong pillars of our success story is the solid and sturdy relationship we have maintained with our customers. Illustrated below is the process we use to create customer capital.

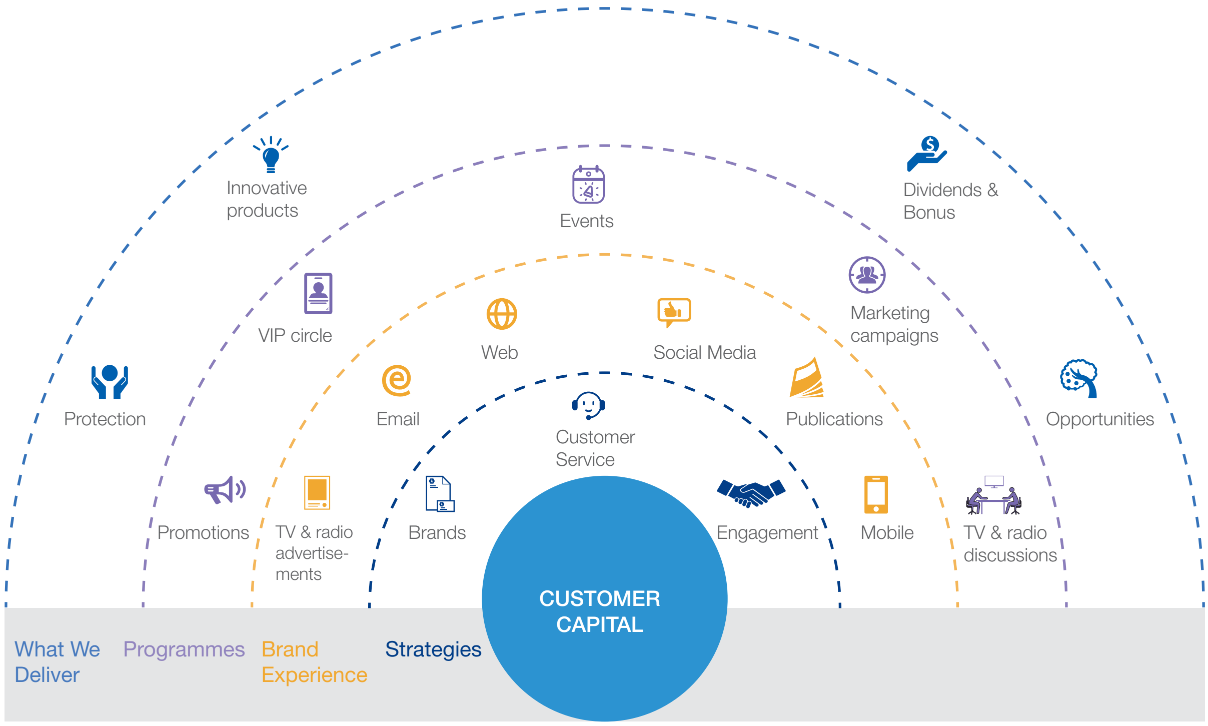
Whilst customer service and Brand promise are discussed within this review, as customer engagement is detailed on page 43, it is not repeated in this review.

The strategies used by us to create customer capital are discussed below.

Strategic Objectives

Strategic Objective: Deliver our Brand Promise

In the industry we function in, the brand speaks for itself. The perception we create through our brand in the minds of our customers defines how well they accept us in the market place. We have always capitalised on our brand value to achieve a competitive advantage in the market and have directed our strategies towards crafting a strong brand value



in the minds of our customers and to enhance the trust kept in us, defeating the misconceptions Sri Lankans have about insurance companies.

Following are our endeavours during the year for the enhancement of our Customer Capital and our attempt to define the relationship between our customer and our brand value.

What we did:

Enhancing Brand Value through Promotional Activities

Liya harasara: Providing Assurance for the Women of Sri Lanka

Recognising the enormity of the contribution of women to our society is an area which the Company prides itself on. In 2013, we introduced Liya harasara, a campaign which salutes the role of womanhood in improving societal standards by providing them with special incentives to acquire Life Insurance policies to mark International Women's day, which falls on the 8th of March.

This year, we implemented the second phase of the Liya harasara Campaign. Under this, females who purchased any Life Insurance policy from HNB Assurance during March 2014 received a FREE Life Insurance cover up to One Million Rupees. Furthermore, if a male customer purchased any Life Insurance policy from us, then this benefit was applied to his spouse as well.

In addition, we formed a partnership with Vision Care where all customers who purchased HNBA life insurance policies during March were entitled for a FREE eye and hearing check-up, as well as a 10% discount on Vision Care products.

'4 Seasons of Protection' covers all stages of life

Finally, we gave concessions for females who purchased Motor Insurance policies with a FREE personal accident cover, worth up to Rs. 500,000/-.

4 Seasons of Protection

Our '4 seasons of protection' campaign revolves around providing Life Insurance products for the Sri Lankan public at various stages of their life.

They feature our latest product offering, 'My Pension' which is a unique product tailored to meet an important need of the ageing population: stable financial support after they retire. At the other end of the spectrum we have 'My Life', an insurance product which suits the youth of this nation. 'My Life' offers flexibility in terms of financial support, a key factor for Generation Y, as they look for products which offer them convenience and flexible financial support suitable for their unique lifestyle. Rounding off our final two seasons are:, 'My Child' which safeguards children's future by providing for their educational needs and 'My Fund', a popular retirement fund building plan for middle-aged customers.

We have taken steps to aggressively promote our '4 seasons of protection' campaign via 27 different Radio and Television networks in English, Sinhala and Tamil as we strive to position insurance as a lifestyle product, which stays with you throughout every stage of your life.

Enhancing Brand Value by Engaging with Customers

HNBA's propaganda unit has been highly active in 2014. They have reached customers in a number of villages in the past year and have worked tirelessly in the efforts to build our brand.

They conducted programs for expecting mothers in areas such as Moratuwa and Maharagama, numerous programs for pre-school children and their parents in areas such as Lunugamwehera, Mahawa, Rambukkana, Hambantota and Beliatta and also nourished the future via career guidance programs for school leavers in Kegalle, Gampaha, Kurunegala as well as numerous other areas across the country. Furthermore, they conducted brand activations in over 70 locations such as Puttalam, Avissawella, Trincomalee, Dambulla, Matara and Balangoda, further increasing our presence throughout Sri Lanka.

Most notably, they have made their presence felt by sponsoring and actively participating at the 'Gamata Kreeda' initiative in Kandy which promoted sports among youth in rural areas. In addition, HNBA was a main sponsor at the Kedella trade exhibitions in Colombo and Negombo, where the general public had the opportunity to win prizes and prospective customers could discuss their insurance needs with qualified HNBA staff members.

Enhancing Brand Value through Digital Marketing

Digital strategies are taking over traditional marketing strategies in today's world. Engaging with customers through multiple channels is the need of the day for an insurance company; hence we at HNBA have harnessed our energies into developing unique, innovative approaches to showcase our message to our target market. Our digital marketing strategy places a heavy focus on Generation Y (males and females born between the 1980's and early 2000's). who are highly tech savvy and knows exactly what they want: personalization, flexibility and convenience. We have responded to this through the strategies listed below;

Social Media

We surpassed a significant milestone recently, as we acquired our 100,000th Facebook fan. The fact that we are the only insurance company in Sri Lanka to reach such a high level of connectivity among our online audience is indeed a significant honour for such a young organization. In fact, HNB Assurance is the first and only insurer which represented Sri Lanka at the Asia Conference on Social Media which was held in Singapore in early 2014.

During the course of the year, HNB Assurance bagged an international award for 'Best use of Facebook' at the 5th CMO Asia Awards held in Singapore.

In addition, we are also very active on Linkedin and Twitter as well. This bodes well for the Company as we are making significant efforts to connect with Generation Y, as they are very active in the digital space. It presents HNB Assurance with an opportunity to maximize our online brand presence, as well as improve brand awareness of the Company among the insurance customers of tomorrow.

Online Products

We are fully equipped to capture the market opportunities arising through the emergence of Digital Marketing. Hence, we took the initiative of introducing 'e-life', a product that provides a customisable Life Insurance solution. This can be created from the comfort of a customer's home and it addresses the needs of the Generation Y. Further details of the product is given on page 80.

Insurance Blogs

This is the latest addition to HNBA's digital strategy. The Company has two blogs, covering Life Insurance (www.hnbassuranceblog.com) and General Insurance (www.hnbgeneralblog.com) matters respectively. The purpose is to make insurance easier to understand for both potential and existing customers. The blog's articles range from practical health tips, the latest safety technology for automobiles and a plain-English guide about insurance to name a few. The blogs have reached over 1,800 views in just 4 months in over 45 countries including Australia, USA and numerous nations across Europe in addition to Sri Lanka.

Over 100,000 likes on Facebook

Viral Videos

This is a novel marketing strategy we used in the year 2014 to generate a buzz among the online community and drawing attention to our brand. We received feedback on our effort from different layers in the community which motivated us to take daring steps that syncs well with the changing patterns in the environment.

SMS Marketing

For our latest product 'My Pension', we were able to generate interest among our target market (males and females between 55 and 80 years of age) about our new product by sending them a SMS about the product.

TV Advertising in unique locations

We recognize that Television is still an effective medium to reach individuals. However, to maximize our Return on Investment (ROI), we invested in advertising our product range on screens fixed in various locations such as the World Trade Center building, leading gyms, coffee houses such as Barista, restaurants, saloons and also hospitals.

What we achieved: In 2014, HNB Assurance was ranked among the top 100 brands in Sri Lanka by the LMD Magazine as per the brand valuations performed by Brand Finance Limited for 2014. We consider this as a prestigious accomplishment and it is an achievement of the Company as we were able to improve our position to 77th from 80th place last year recording a brand Value of Rs. 481 Million. Financial value of the brand has been determined by considering the present position of future earnings of the brand. It is also noteworthy that, as per the valuation, 18% of the enterprise value arises from the brand.

Strategic Objective: Enhancing Customer Service

We believe that customer service includes but is not limited to all measures taken by us to improve customer service levels via setting service standards, providing accurate information on products, increasing accessibility, ensuring the privacy of their information, seeking and catering to their preferences, and maintaining processes for customer grievance management. Further, maintaining a sound process to ensure customer requirements are met by the insurance contracts, providing insurance products to customers with low or seasonal incomes and refraining from anti-competitive behaviour are also ways in which we deliver a high quality service to our valued customers.

Whilst improvements on our customer service standards with regard to Life Insurance are discussed on page 82, initiatives on General Insurance are given on page 95.

Detailed below are our policies on other activities and the measures taken by us during the year or the processes continued from the previous years.

Our Policy on Safe Products and Strict Compliance to Deliver Value

At HNBA, we offer innovative products to deliver only the best to our customers. Our product development process is carried out with the active participation of both technical and operational experts in various functional business areas to deliver the best products.

With the product development policy in place, the Head of the relevant operational division of either Life or General Insurance, CFO, Head of Marketing and Manager Legal are held responsible for the product development process.

What we did: During the year 2014, we successfully introduced a number of new products such as 'My Pension', e-Life and 3 Products under the Single Premium Investment Product Category, etc., to the Life Insurance market. We also introduced the Takaful versions of most of the conventional insurance product categories under General Insurance.

In addition, we revised 2 existing products namely 'My Life' and 'My Child' following a process as good as for new product development. We maintained strict vigilance on compliance with rules and regulations governing the insurance industry in our product development process.

What we achieved: All the products were launched with regulatory clearance and were not subjected to any public debate

Our Policy on Product Labelling and Marketing Communications

Our business model is based on a relationship built on trust and to enhance the trust placed on us, we believe in providing accurate information to our customers. The products we offer involve financial security, return on investment and peace of mind and hence it is vital that we communicate the most accurate information to the customers. This makes product labelling and marketing communication an important aspect of our business model.

The responsibility of providing correct information is held by the respective Chief Operating Officers and the Head of Marketing of the Company. In addition, to safeguard the interest of our customers, our employees are expected to abide by the code of ethics in product development and information dissemination. The responsibility of ensuring accuracy of information provided on promotional material is vested on the Head of Marketing and his team and this is linked to their performance objectives.

What we did: We have taken prudent measures to communicate all information required by our customers to make an informed purchasing decision. Information is communicated to customers through our promotional material such as brochures and by

Reference:

GRI-G4 | G4 - DMA | G4 - SO7 | G4 - PR4

educating our distribution channels who directly engage with the customers. Further, customers can access product information via our website or by contacting customer helplines at any time of the day.

When carrying out our marketing activities, we pay much attention on complying with laws and regulations governing the insurance industry.

What we achieved: As a result of our vigilant process, during the year no complaint was received with regard to non-compliance of regulations relating to product information, marketing communication, or the provision and use of products.

Our Policy on Customer Accessibility

We consider the expansion of customer access points as an important aspect of enhancing the service delivery process of the Company. In line with the objective of enhancing the customer service process, we have simplified our premium payment process by providing our customers with many alternative payment access points. HDFC Bank was added to the premium collection options during the year whilst continuous attention is given on developing other collection options.

What we achieved: Although the benefit to our customers is difficult to quantify, this enabled us to increase accessibility to our customers.

Our Policy on Market Research Activities

We believe identifying changing customer needs and wants on a timely basis allow us to offer customer focused products increasing the value addition created by such products to our customers. Hence, we carry out both internal and external market research activities to identify changing customer needs.

What we did: In 2014, we collaborated with a reputed market research organization in Sri Lanka and carried out a qualitative research to evaluate our corporate image and to measure the customer satisfaction level of the service offered.

What we achieved: The results were highly encouraging, as the research revealed that HNBA has a strong brand position and that we are a transparent organization with highly qualified staff members who provide significant benefits to the market and is a highly efficient organization.

Our Policy on Addressing Anti-Competitive Behaviour

We respect the choices made by customers in the market place by comparing our products with the competitive products available.

What we did: The understanding we have of this respect refrain us from engaging in any Anti-Competitive behaviour.

What we achieved: As a result no legal action was filed against the Company for Anti-Competitive behaviour during the year and we maintained very cordial relations with all our competitors

What we did: Following are the alternative payment access points available to our customers.

	CASH	CHEQUE	0% INTEREST CREDIT CARD PAYMENTS	INTER BANK TRANSFERS	ONLINE PAYMENTS	STANDING ORDERS	DIALOG EZ CASH	MOBITEL MCASH	HNB MO MO
HNB	√	√	√	√	√	√	×	×	√
Commercial Bank	√	√	×	√	√	√	×	×	×
BOC	√	√	×	√	√	√	×	×	×
Sampath Bank	√	√	×	√	√	√	×	×	×
NSB	√	√	×	√	√	√	×	×	×
HDFC	√	√	×	√	√	×	×	×	×
Non-Bank	×	×	×	×	×	×	√	√	×

Management Discussion and Analysis

Our Policy on Customer Grievance Mechanisms

We at HNBA, always take measures to ensure the highest level of customer satisfaction by providing the best service possible. For us, a customer with a grievance indicates the failure of delivering the promise of 'being the most trusted partner in meeting insurance needs'. Hence, we consider grievance handling to be a key element of our business that should be addressed formally through a well-established process.

What we did: The main grievance that could arise from society with regard to our business activities will be via unjustly treated customers, either through an act of the Company or Advisor acting on behalf of the Company. We take all necessary steps possible to prevent such grievances from occurring and on the instance of becoming aware of a grievance we channel them to the specially established Customer Grievance Management Unit (CGMU) and the unit directs grievances related to advisors to the Sales Administration Department and other customer complaints to the relevant operational divisions.

A special mechanism is in place to handle claims related grievances brought in by customers. The CGMU will direct the grievances to Life and General Claims Panels which comprise relevant COOs for Life and General, the CFO and the Managing Director. The panel would carry out an impartial review of the matter and take measures to resolve the grievance of the customer. In addition, disciplinary actions are taken against advisors or employees found guilty of misappropriating funds or misrepresentation of facts.

Our Policy on Protecting the Privacy of Our Customers

We always strive to protect the confidentiality of the information of our customers. We ensure that our employees and business partners who have access to information maintains the confidentiality at all times.

What we did: We have included the confidentiality of customer information in the Code of Ethics for Employees and also carry out training programs to educate our insurance advisors on the importance of maintaining confidentiality of information.

What we achieved: Demonstrating, evidence of the effectiveness of our process, we did not receive any complaint regarding loss of customer information during the year.

Our Policy on Monitoring Social Requirements in Insurance Agreements

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

Reference:

GRI-G4 | G4 - DMA | G4 - FS7

The service we offer is an agreement between us, the insurer and the customer, the insured. Maintaining transparency and compliance on policy details is an important part in determining the level of customer satisfaction. Such transparency must be ensured from both parties; i.e. insurer and the insured. Being the insurer in the agreement, we ensure full compliance with all policy conditions required by laws and regulation governing the insurance industry. We consider it our duty to ensure that all possible measures are taken to ensure that customers also fulfil their obligations.

What we did: We maintain a process to ensure that our customers fulfil their obligations with regard to transparency, and given on page 118 are the details of such process.

Further, necessary training is given to our employees to ensure that they adhere to such procedures and service standards. However, if the customer does not make premium payments on time, the regulation requires us to cancel the policy obtained by the customer.

What we achieved: Although the value added to customer is difficult to quantify, these initiatives have enabled us to reduce the number of claims rejected due to non-disclosure.

Our Policy on Delivering Social Benefit

Being a responsible corporate citizen, we believe it is our duty to provide assistance to less influential customer segments of our society. With this objective in mind we have come forward to offer benefits to customer segments through our product portfolio.

IT IS NOTEWORTHY THAT OUR ACHIEVEMENT IS CONSIDERABLY ABOVE THE INDUSTRY GROWTH RATE OF 4%, WHICH ALSO ENABLED US TO INCREASE OUR MARKET SHARE TO 4%.

What we did: Micro insurance and Ran Aswanu are two products introduced by us to deliver social benefit.

What we achieved:

- Micro Insurance - Life Insurance and Mortgage protection cover offered to HNB's Gami Pubuduwa customers.
  - Number of Policies – 2,366 (2013: 1,663)
  - Total GWP – Rs. 4.4 Mn. (2013: Rs. 5 Mn)
  - Contribution to GWP – 0.2% (2013: 0.3%)
- Ran Aswanu - Non-lapsing policy issued to seasonal income earners with an inbuilt Life cover covering Total Partial Disability and Partial Permanent Disability.
  - Number of Policies – 243 (2013: 62)
  - Total GWP – Rs.11 Mn. (2013: Rs. 8.2 Mn)
  - Contribution to GWP – 0.5% (2013: 0.4%)

The above products are not significant contributors to either the turnover or the profits but , these products are carried in our portfolio aimed primarily to serve the under-privileged segments of our population to improve the degree of their financial inclusion in the country.

Way Forward

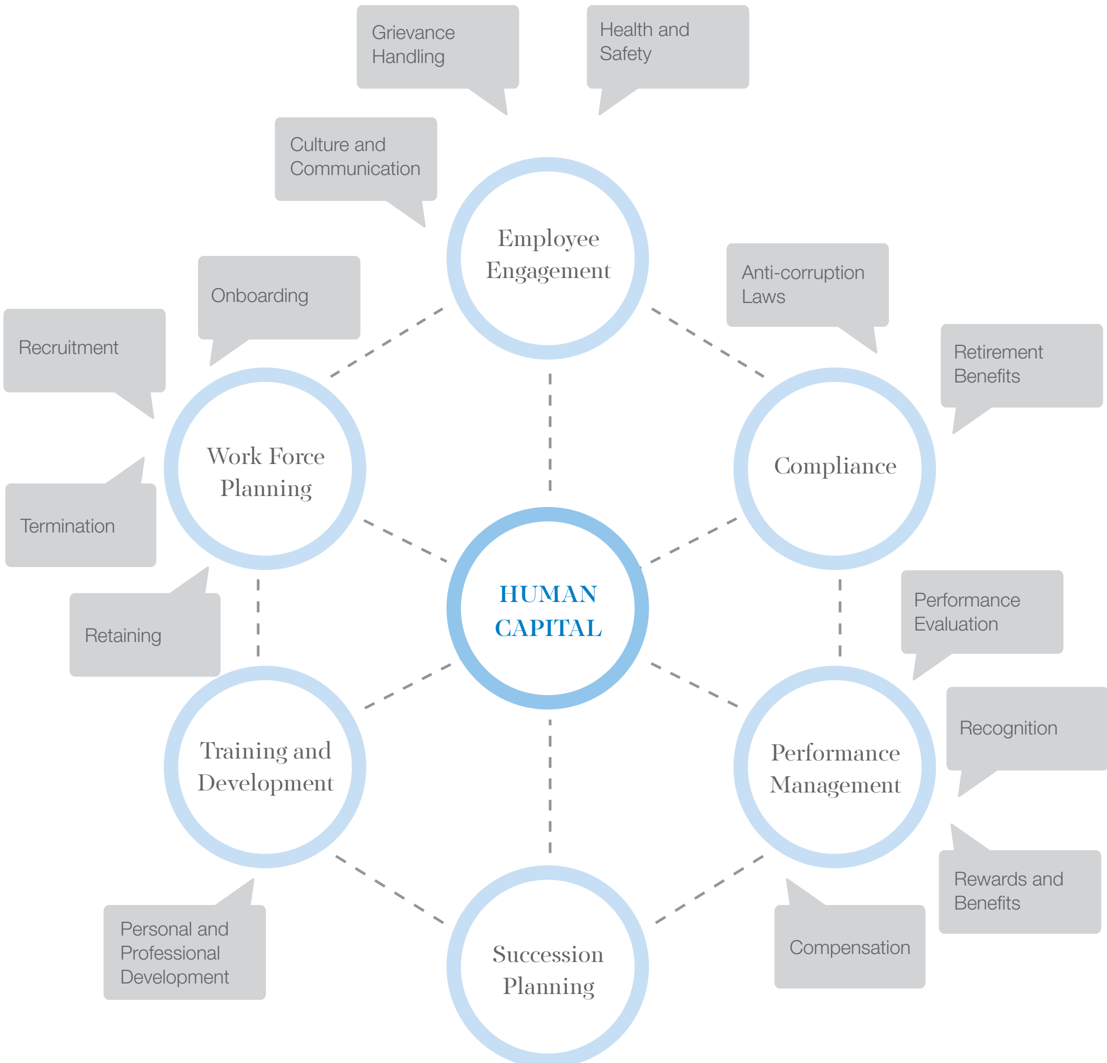
With the splitting of HNBA Life and General Insurance businesses in 2015, the HNBA brand will be positioned as a Life Insurance brand while the brand of our subsidiary, HNB General Insurance Limited will be positioned as a General Insurance brand. Special focus will be placed on instilling the HNB General Insurance Ltd brand in year 2015. In addition, we will continue to promote our individual product brands under their respective company.

EMPLOYEE REVIEW

Our Approach

It is our sincere belief that our human capital is the driver of all other forms of capital and processes in our business model. As a service organisation striving to meet insurance needs of customers in a spirit of caring, 'Human Touch' is a key differentiator that sets our service to stand out from others. We recognise that our employees are indeed indispensable and the way in which we can reach our vision, in this competitive market place, is by the intellectual and professional nourishment of our employees. Moreover, with a workforce exceeding 800, we consider our approach towards our employees are the most important indicator of our social performance. Highly cognizant of these factors, we promise our people that HNBA will strive to create, 'a place where you can shine'.

The ensuing discussion details our progress on creating a place where our employees can shine.



Reference:

GRI-G4 | G4 - 10 | G4 - 11 | G4 - DMA | G4 - DMA | G4 - LA12

Our Policy on Employment, Diversity and Equal Opportunity

Our comprehensive Human Resource Manual sets out the guidelines, policies and procedures relating to all employee related matters including, recruitment and selection, remuneration and benefits, training and development, performance reviews, grievance handling and cessation of employment.

HNBA's overall Human Resource (HR) strategy is in line with the Company's corporate strategy. While the long-term HR strategy is derived from our vision, mission, values and global best human resource practices, the Company's annual corporate plan sets out the objectives for the year and the strategies formulated to achieve them. These strategies relate to all areas of human resources including attraction, retention, development, rewards and recognition, performance reviews, work-life balance, health, safety and welfare, which lead to ensuring a pleasant and productive work environment.

We embed it in ourselves to identify and select individuals who we feel are the next generation of leaders, who will blend with our culture, act within our values and serve the organisation with utmost loyalty and dedication. In doing so, we honour our value of 'fostering diversity as a corporate strength'. We are indeed proud to state that we are an equal opportunity employer and ensure no racial, ethnic, religious, gender or other form of discrimination takes place from the point of selection to the point of termination of an employee. It should be noted that none of our employees are covered under collective bargaining agreements.

Our Human Resources Division, under the leadership of our Head of Human Resources bears the responsibility of strengthening our employee capital. Their primary responsibility includes providing rewarding employment prospects to individuals whilst fostering diversity and equal opportunity and the Company ensures that it is discharged effectively by linking it with the performance of the Human Resources Division. Further, each line manager develops and gets the best out of their subordinates and we consider the said process as one of the main responsibilities when assessing performance of each line manager. Thus, all Department and Branch Managers are made equally responsible for fair treatment and retention of their staff, which in turn translate to a criterion in their own performance review. In order to obtain these attributes consistently, we train, develop and empower them to drive the value creation process of the Company.

Strategic Objective: Create 'A Place where You Can Shine'

Increasing cadre while maintaining gender mix

What we did: During 2014, we increased our cadre by 3% compared to the previous year mainly to facilitate the expansion of our Bancassurance Network and absorption of new talent to support the post segregation structure. As an equal opportunity employer we have maintained a balance between male and female staff members. Whilst no significant variations occurred with regard to our permanent employee cadre during the year under review, as of 1st January 2015, 342 of HNBA staff members have been transferred to our fully owned subsidiary, HNB General Insurance Limited, to be in line with the segregation of composite insurance companies. Hence, as of the said date, they ceased

employment with HNBA. Further details on segregation is given on page 53.

What we achieved: Detailed below are the statistics of diversity and equal opportunity.

- During the year under review, the gender mix between male to female staff stood at 58:42 respectively. Tabulated below is a comparison of our gender mix over the past five years. The Board of Directors reflected a 80:20 mix between males and females.
- When examining the gender composition of different staff categories, it is noted that female representation both in executive and non-executive categories has increased during the year. Particularly, in the non-executive category, the female representation surpassed the male representation.
- During the year, we absorbed a differently-abled employee to our cadre and have taken all measures to provide necessary facilities to her at the workplace.

Reference:

GRI-G4 | G4 - 10 | G4 - LA12

Employees by Gender

GENDER	2014	2013	2012	2011	2010
Male	58%	57%	58%	60%	64%
Female	42%	43%	42%	40%	36%

Employees by Staff Category

STAFF CATEGORY	2014					2013	
	MALE	FEMALE	TOTAL	MALE	FEMALE	MALE	FEMALE
EXCO	09	-	09	100%	-	100%	-
Managers & Assistant Managers	76	17	93	82%	18%	81%	19%
Executives	213	87	300	71%	29%	72%	28%
Non-Executives	184	243	427	43%	57%	50%	50%
Total	482	347	829	58%	42%	57%	43%

- HNBA employed 93% of its total cadre as permanent employees and balance 7% as fixed term contract employees who mainly comprise entry level Bancassurance staff located at HNB branches. All employees working for HNBA are employed on a full-time basis irrespective of their employment category. Bancassurance staff who excel are absorbed into the permanent cadre after a minimum period of one year.
- In addition, the Company employed 30 supervised workers at the end of the year, of whom 33% were females and 67% were males. The Insurance Advisors who play a vital role in our business model, generating a major component of our revenue, are considered as agents of HNBA and do not fall under the category of employees. Nevertheless, considering their importance to our business model, Advisor related details are discussed in the Business Partner section appearing on page 137 to 143.

Employees by Employment Contract and Gender

STAFF CATEGORY	2014					2013				
	MALE	FEMALE	TOTAL	MALE	FEMALE	MALE	FEMALE	TOTAL	MALE	FEMALE
Permanent employees	469	299	768	61%	39%	430	264	694	62%	38%
Fixed Term Contract	13	48	61	21%	79%	32	78	110	29%	71%
Total	482	347	829	58%	42%	462	342	804	57%	43%

Employees by Service Range

SERVICE RANGE	NO. OF EMPLOYEES 2014	2014	NO. OF EMPLOYEES 2013	2013
0 ≥ 2 Years	326	39%	338	42%
2 ≥ 4 Years	153	19%	151	19%
4 ≥ 6 Years	122	15%	114	14%
6 ≥ 8 Years	94	11%	91	11%
Above 8 Years	134	16%	110	14%
Total	829	100%	804	100%

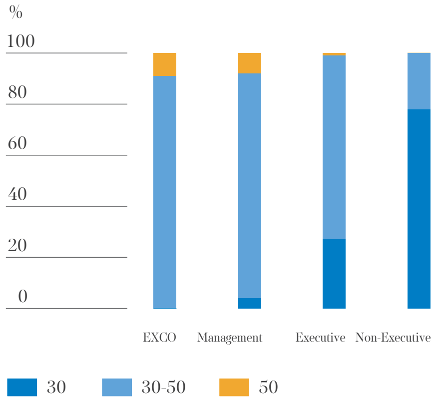
- A loyal workforce is a fact that we are proud of; as seen in the graph below 42% of our employees have served the Company for over 4 years while 27% have served for over 6 years.

Reference:

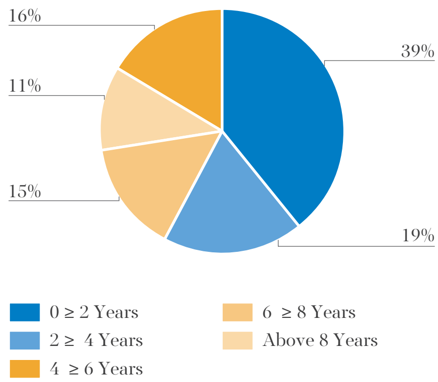
GRI-G4 | G4 - 10 | G4 - LA12

- The vibrancy of our team is reflected by 51% of our employees being below the age of 30 years.
- 41% of our employees were from outside the Western Province (2013:40%). Given below is the gender-wise analysis of our employees in different provinces.

Employee Age by Staff Category - 2014



Employee Service Analysis



Employees by Staff Category, Age Group and Gender

STAFF CATEGORY	2014									2013								
	AGE GROUP									AGE GROUP								
	<30			30-50			>50			<30			30-50			>50		
	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL
EXCO	-	-	-	8	-	8	1	-	1	-	-	-	9	-	9	1	-	1
Managers and Assistant Managers	2	2	4	67	15	82	7	-	7	1	2	3	50	12	62	9	-	9
Executives	54	27	81	158	59	217	1	1	2	23	10	33	81	31	112	2	1	3
Non Executives	134	201	335	50	42	92	-	-	-	181	240	421	105	46	151	-	-	-
Total	190	230	420	283	116	399	9	1	10	205	252	457	245	89	334	12	1	13
Percentage of Total Staff	23%	28%	51%	34%	14%	48%	1%	0%	1%	25%	31%	57%	30%	11%	42%	1%	0%	2%

Employees by Province and Gender

PROVINCE	2014					2013				
	MALE	FEMALE	TOTAL	MALE	FEMALE	MALE	FEMALE	TOTAL	MALE	FEMALE
Western	285	202	487	59%	41%	277	206	483	57%	43%
North Central	14	12	26	54%	46%	11	12	23	48%	52%
Central	34	27	61	56%	44%	34	26	60	57%	43%
Southern	34	27	61	56%	44%	26	23	49	53%	47%
Northern	29	18	47	62%	38%	25	20	45	56%	44%
Eastern	27	14	41	66%	34%	29	15	44	66%	34%
North Western	20	16	36	56%	44%	19	17	36	53%	47%
Uva	17	15	32	53%	47%	17	11	28	61%	39%
Sabaragamuwa	22	16	38	58%	42%	24	12	36	67%	33%
Total	482	347	829	58%	42%	462	342	804	57%	43%

Recruitment of Best Talent

What We Did: As an equal opportunity employer, our recruitments are based on competencies alone and no consideration is granted for race, ethnicity, gender, religion or any other discriminatory factor. Our focus is placed on sourcing people with a passion for excellence, professionalism and integrity and who will uphold our values. We believe that the selection process is the most important Human Resource function as it enables the Company to hire an organizationally fit employee.

Illustrated below is our process for selection of employees.

SOURCE

- Online job media
- Referral Scheme
- Career fairs
- Internship programmes
- University/ professional institute placement schemes
- School to Office Programme (S2O)
- Paper based recruitments

SELECTION

- Shortlisting applicants
- Pre examination on general and essential technical skills
- Interviews by relevant layers of management
- Mandatory background verifications

This year saw 205 new recruits joining our cadre, 25 for new positions whilst the balance was for replacements.

The number and percentage of new recruitments made during 2014 and comparatives of the previous year are analysed below.

Employee New Hires by Gender

GENDER	2014		2013	
	NUMBER OF NEW HIRES	AS A % OF AVERAGE STAFF	NUMBER OF NEW HIRES	AS A % OF AVERAGE STAFF
Male	115	24%	140	32%
Female	90	26%	112	35%
Total	205	25%	252	33%

Employee New Hires by Staff Category

CATEGORY	2014		2013	
	NUMBER OF NEW RECRUITS	AS A % OF AVERAGE STAFF	NUMBER OF NEW RECRUITS	AS A % OF AVERAGE STAFF
EXCO	-	-	-	-
Management	19	23%	3	4%
Executive	41	18%	18	13%
Non – Executive	145	29%	231	43%
Total	205	25%	252	33%

The high number of new recruits into the Management grade is primarily a consequence of the company segregation process.

Reference:

GRI-G4 | G4 - LA1

Employee New Hires by Province

PROVINCE	2014		2013	
	NUMBER OF NEW HIRES	AS A % OF AVERAGE STAFF	NUMBER OF NEW HIRES	AS A % OF AVERAGE STAFF
Sabaragamuwa	14	38%	12	37%
North Central	9	37%	11	48%
Uva	11	37%	12	45%
North Western	13	36%	10	29%
Eastern	14	33%	23	58%
Southern	18	33%	26	55%
Northern	14	30%	14	32%
Western	103	21%	129	28%
Central	9	15%	15	26%
Total	205	25%	252	33%

Welcoming Our New Recruits

A newly recruited employee is initially welcomed to the Company by our Human Resource Division through which we introduce him/her to our policies and procedures, followed by a structured induction programme. This is conducted every other month with the objectives of providing the recruits with a solid ground knowledge about the Company, familiarising them to the new working environment and introducing them to the Management Team including the Managing Director. There is a 6 day familiarization programme which ends with the one day induction programme. Through the familiarization program recruits are able to obtain the technical knowledge required to perform their jobs. All the key units of the Company are part of the familiarization session. They are then afforded on-the-job training at the relevant division or branch to which they are attached, and to further smoothen the onboarding experience, each new recruit is assigned to a buddy who assists in adapting to the new environment. The buddy will play the role of a facilitator to the new recruit and is also the one who will facilitate the smooth transition of the new recruit to fit the culture of the organization.

Retaining Our People

Operating in an industry which is highly competitive where new entrants attract experienced staff, retaining employees is a challenging task. Further, as mostly school leavers are recruited for junior levels, especially for Bancassurance, retention of these categories is also difficult as a majority of them are still uncertain of their direction in life. To address this issue we have taken measures such as recruiting through our highly acclaimed School to Office (S2O) programme and recruitment of interns who are given the opportunity of understanding the Company and its processes prior to joining. Additionally, we also conduct review sessions for new recruits who have worked with us for 3 months and obtain their first hand feedback to further address any difficulties faced by them and to improve our retention process.

What we achieved: We were successful in reducing the turnover ratio of male employees to 20% in 2014, however it is a matter for concern that turnover ratio of female employees increased to 25%. The overall turnover has been maintained at the previous year's level. The trend of the turnover ratios are given in the following tables.

AS WE STRIVE TO MEET INSURANCE NEEDS OF CUSTOMERS IN A SPIRIT OF CARING, 'HUMAN TOUCH' IS A KEY DIFFERENTIATOR THAT SETS OUR SERVICE TO STAND OUT FROM OTHERS.

Employee Turnover by Gender

GENDER	2014	2013	2012	2011	2010
Male	20%	22%	24%	21%	22%
Female	25%	23%	25%	23%	27%
Total	22%	22%	25%	23%	24%

While the turnover of employees including fixed term contract employees is 22%, turnover excluding fixed term contract employees is just 13%.

Employee Contract Type

INDICATOR	2014
Employee turnover (with fixed term contract staff)	22.05%
Employee turnover(without fixed term contract staff)	13.39%

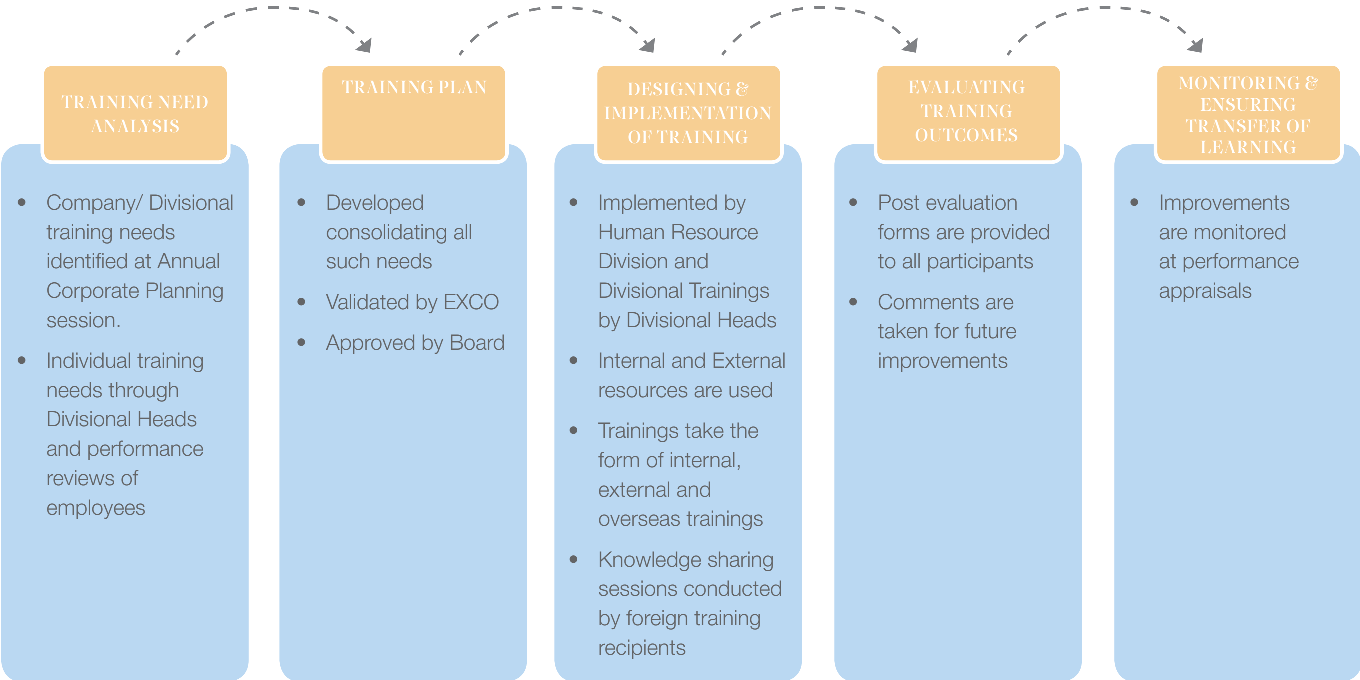
Employee Turnover by Staff Category

STAFF CATEGORY	2014		2013	
	NUMBER OF RESIGNATIONS	TURNOVER RATIO	NUMBER OF RESIGNATIONS	TURNOVER RATIO
EXCO	1	10%	-	0%
Managers and Assistant Managers	8	10%	4	5%
Executives	35	16%	11	8%
Non - Executives	136	27%	156	29%
Total	180	22%	171	22%

As seen from above, a high staff turnover ratio is prevalent in the lower grades.

Employee Turnover by Province

PROVINCE	2014		2013	
	NUMBER OF RESIGNATIONS	TURNOVER RATIO	NUMBER OF RESIGNATIONS	TURNOVER RATIO
Sabaragamuwa	14	38%	5	15%
Eastern	15	35%	12	30%
North Western	11	31%	8	23%
Northern	12	26%	12	27%
North Central	6	24%	7	30%
Western	98	20%	81	18%
Central	11	18%	15	26%
Uva	5	17%	11	42%
Southern	8	15%	20	43%
Total	180	22%	171	22%



Our Policy on Training and Development

We strongly believe that training and developing our people is the primary driver of building human capital. Thus, we focus on continuous investment in the development of our people in technical, functional and managerial competencies and in-house processes. The Company endeavours to train and develop employees of all levels in different functions to enable them to perform their duties better and prepare them for future responsibilities.

The Company maintains a structured Training and Development policy, which is clearly documented in our HR Manual. It descriptively expresses the necessity, and vital role that Training and Development plays in the Company. The purpose of this policy is to achieve the Company's business objectives and enable employees to aspire to achieve their fullest potential. Further, HNBA has a learning culture which fosters development and we encourage our employees to reap maximum benefits from it. This will ensure that the employees deliver their best, whilst enhancing their personal development and thereby contributing to the overall growth of the Company.

Our Head of Human Resources and the Human Resources Division is responsible for the training and development of our employees, and to ensure the effective discharge of this responsibility. This is a criterion used in evaluating their performance. Nevertheless, each line manager also holds the responsibility for nurturing their subordinates whilst, each employee is also encouraged and held responsible for continuous self development which is also taken into consideration at their performance evaluations.

Graphically illustrated above is our Training and Development process

What we did: Highlights of our training calendar are detailed below.

- **HNBA General and Life Insurance Academy**
  The value we offer to our employees includes continuous investment in skills and competency development, which is guided by our corporate objectives. Our core business being Life and General Insurance, we have an in-house academy, namely the "HNBA General and Life Insurance Academy" commonly known as GLIA among the employees. GLIA conducts well-designed insurance academic programmes covering the technical aspects of insurance. The programme is designed and conducted by HNBA Senior Management team who are professionally qualified and has enormous experience in the field. Most of them also conduct lectures at Sri Lanka Insurance Institute, universities and other institutes.

It gives the opportunity to our underwriting staff attached to Head Office and distribution network to develop themselves. The course offered is a three stage programme; Foundation level, Intermediate level and the Final level. The programme is offered free of charge for employees, thus they can gain an internally recognized qualification at zero cost.

- **Partnership with SLIM**
  We have signed a Memorandum of Understanding with the Sri Lanka Institute of Marketing (SLIM), one of Sri Lanka's leading professional marketing bodies, to conduct in-house sales and marketing programmes for employees of HNBA. As the Insurance industry is mainly driven by sales personnel, we identified that it is essential to have regular sales and marketing programmes for the development of our employees. Hence, majority of our sales and marketing staff covering distribution and corporate business units, have the opportunity to attend lectures conducted in-house based on the SLIM curriculum and upon successful completion to receive the SLIM certificate. Together with SLIM, we organize a separate Convocation and Award ceremony where the employees who complete the Diploma Level graduate while certificates/awards are given to employees who complete other courses. HNBA is the first insurer to have a partnership agreement where staff can learn, develop as well as obtain a recognized qualification offered by SLIM. These courses are offered at a concessionary rate to employees.

Recognising the determined achievers

- **Change Management Trainings**
  In relation to the change management process for the bifurcation of business and the Company theme for 2014, the need for a comprehensive change management workshop was identified for all key management and senior management staff. Accordingly, a well experienced and a reputed trainer, Mr. Bill Roy of BRC Consultants, UK conducted a 2 day workshop. In addition, we have also conducted one day workshops for all Executive and Senior Executive level employees to give insights relating to change management, which has very positively resulted in a smooth transition and bifurcation process within the Company.

- **Training using Internal Resources**
  We have full-time internal trainers conducting regular training workshops for our sales Advisors/ Agents and employees attached to the distribution network island-wide. They conduct sales, product and personality development programmes at branch level as per

Training sessions to develop knowledge

  the requirement. These trainers are qualified and have many years of experience in conducting, sales training and personality development programmes. We also use many of our internal talent to conduct trainings on technical and soft skills as we find that these trainings will create more impact and will enable the training to be more personalized as the trainers are our own senior staff of the Company.

- We conducted training sessions, which covered all branches reviewing the technical skills of employees.

- Office Assistants were also provided with a comprehensive training which covered areas of customer service, English and IT skills
- A business communication course was conducted for the management staff of our Company
- Divisional Outward Bound Training for each department and for high performing Bancassurance employees to build cohesive teams

	2014	2013
Training Hours Per Employee	hrs	hrs
Management	36.0	40.7
Executives	13.4	29.8
Non – Executives	16.3	13.5
All Staff	17.8	20.4

NUMBER OF PROGRAMMES	2014	2013
Internal Training	29	44
External Training	130	137
Overseas Training	10	12
Total Programmes	169	193

Initiatives for Personal and Professional Development

As a Company that strives for the continuous improvement of its employees, we not only create clear career paths for each layer of staff but also steer them with benefits that entice their professional development. We strongly believe that managerial skills and technical knowledge is essential for the development of employees. Following are the numerous benefits offered to our employees to assist in their personal and professional development

- Educational loan facilities - Interest free educational loans are granted to all levels of employees as a way of supporting learning and development.
- Nominations for courses by the Company/ reimbursement of course fees - There are certain areas of studies such as insurance and actuarial studies for which the Company bears the registration fee. These benefits are given to all employees irrespective of their duration of service or grade. As a part of encouragement for learning and development, the Company also reimburses course fees and exam fees on successful completion provided that the course is relevant to the job.
- Reimbursement of professional membership fees - The annual subscription for professional bodies/ membership is paid by the Company ensuring continuous professional development of employees.
- Honorarium payments - Honorariums are paid for completion of exams that have been approved by the Company. These are in addition to the reimbursement of course fees in recognition of completion of the respective exam/ level or stage. Honorarium for other courses of study, which are not approved is decided on a case-by-case basis by the EXCO.
- In-house library - The Company in-house library contains a variety of book, CD’s and DVD's relating to many facets such as insurance, marketing, management, leadership, etc and vital study material for different exams which can be used by employees to enhance their knowledge.
- Corporate membership at British Council - The Company has obtained the corporate membership in the British Council Library Service, which includes facilities for borrowing books, videos, etc.
- Paid study leave and exam leave - The Company has a scheme to grant duty leave for exams on working days which is offered to any employee including employees who are on probation. Further, during the year under review we implemented a scheme to grant study leave which will encourage our employees to pursue higher studies and enable them to pass examinations which will ultimately result in professional development of the workforce.
- An e-learning system is available for employees to enhance their knowledge on a variety of areas at their own pace and convenience.
- Recognition of professionally qualified employees through intranet and other internal and external communication channels such as the bi-annual staff magazine “Puwath”, intranet, social media, etc.

Our Policy on Employee Recognition

We believe that providing due recognition to our employees enhance the level of motivation and commitment put forward by them.

What we did: We at HNBA have taken many initiatives to recognize the work of merit of our employees during the year and given below are details of such programmes.

- The Chairman’s Award for Excellence - An annual award ceremony held at the staff conference recognise the year’s most outstanding 7 employees, who performed beyond the call of duty.

- Long Service Awards – The employees who have been with the Company for 10 and 5 years are awarded with a token of appreciation in the presence of their families.
- Business competitions - To drive business and develop a challenging but united environment, we organised many business competitions and employees are rewarded accordingly for their achievements.
- Suggestion Scheme – An employee suggestions scheme is in place to encourage innovative ideas to improve the business organization.

Danced and Shined-Beach Party 2014

Our Policy on Equal Remuneration

As an equal opportunity provider, we make it our goal to eradicate inequality in any form and thus ensure our remuneration policy is free of disparity. At HNBA, remuneration is based on the grade of employees and their performance level. No employee is discriminated based on their ethnicity, religion, gender or any other discriminatory facets.

Our remuneration packages comprise fixed, variable and other monetary and non-monetary benefits.

Salary increments are identified purely based on the performance of the employee, which is decided from the year end appraisal and this is applicable to all levels of employees including the members of EXCO. We consider performance to be the main base to decide the salary increment.

What we did: We conducted a salary survey in 2013, and increased salaries of certain grades with the objective of aligning salaries on par with the industry.

BENEFITS AVAILABLE FOR EMPLOYEES

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

Our Policy on Performance Evaluation

Performance evaluation process of employees is of vital importance to us as it is where the achievements of the Company and the employees are compared against the set KPI's. As the objectives of individual employees are derived from the overall objectives of the Company, the achievement of these objectives lead to the achievement of Company objectives. The achievements are linked to rewards such as increments and promotions, and it gives them a motivation for performance. The main benefit received from this process is the opportunity for all permanent employees to have a comprehensive discussion with their superiors and obtain constructive feedback as well as positive remarks on their performance for future personal development. Additionally we identify training needs of employees as a part of the process.

All recommendations for increments and promotions are reviewed and approved by the EXCO and the Remuneration Committee. However, the Board holds the ultimate responsibility for formulating formal and transparent procedures to implement the remuneration policy and setting remuneration packages. Further details are given in the report of the Remuneration Committee which is given on pages 231-232.

What we did: Our appraisals are conducted by at least 2 layers of management bi annually to evade the biases in grading of employees as the Company strives to maintain equality when permanent employees are appraised. In 2014, 673 of employees' performance were reviewed which is 81% of total employees (2013:74%).

AS THE OBJECTIVES OF INDIVIDUAL EMPLOYEES ARE DERIVED FROM THE OVERALL OBJECTIVES OF THE COMPANY, THE ACHIEVEMENT OF THESE OBJECTIVES LEAD TO THE ACHIEVEMENT OF COMPANY OBJECTIVES.

Probationary employees are excluded from the above mentioned overall performance appraisals. However they too will have to go through the appraisal process which are targeted on absorbing these employees to the permanent cadre.

Our Policy on Retirement Benefits

As a Company which abides by all the laws and regulations applicable to the operation of the business, we follow all the rules applicable to retirement benefit plans of the organization. Due measures are taken to ensure all payments are made accurately and timely to assigned funds with regard to defined contribution plans and to employees with regards to defined benefit plans. The Chief Financial Officer bears the responsibility of ensuring all payments regarding employee benefits are made on time.

Our employees are entitled to the two compulsory defined contribution plans namely; Employee Provident Fund formed by Act No.15 of 1958 (and its subsequent amendments) and Employees' Trust Fund formed by Act No. 46 of 1980 (and its subsequent amendments). According to the provisions of these Acts, the Company contributes 12% of an employee's basic salary to the Employee Provident Fund (EPF) and 3% to the Employee Trust Fund (ETF) on behalf of each of its permanent employees. In addition to the contributions made by the Company, the employees also make a 8% contribution to the EPF on their basic salary. Contributions made by the Company are duly paid to relevant authorities.

In addition to the above discussed retirement benefit plans; all permanent employees are also entitled to another defined benefit plan as per the requirements of the Payment of Gratuity Act No.12 of 1983. According to the provisions of such plan, all employees upon the completion of five years of service are entitled to receive a retirement gratuity amounting to half a month's basic salary for each year served at the Company. The gratuity liability of the Company is valued by the Consultant Actuary Mr.Hugh Terry, Fellow of the Institute of Actuaries, U.K, annually using the Projected Unit Credit (PUC) method.

What we did: Given below are the Company contributions made to each fund.

Management Discussion and Analysis

	2014 Rs. Mn.	2013 Rs. Mn.
Opening Liability	56.6	42.36
Additional Provision made for the year	19.1	18.74
Actuarial gain during the plan year	1.00	(2.17)
Payments during the year	(5.2)	(2.29)
Closing Liability	71.5	56.64

	2014 Rs. Mn.	2013 Rs. Mn.
EPF	41.35	35.17
ETF	10.34	8.80

Our approach on Succession Planning

Sustainability of the Company depends on the next generation of leaders created and we believe succession planning is the best way of creating leaders who would poise HNBA to the next level. Being in line with this strategy, the Company identifies successors for all key management positions and provides them with necessary guidance to fill a position of management in the event it becomes vacant. The Head of Human Resources and the Managing Director is vested with the responsibility of ensuring implementation of the succession plans within the organization.

For the successful operation of the Company, it is also vital to have a strong second and third layer of management. Therefore, individuals have been identified for the Management Development Pool and Executive Development Pool and such individuals are given comprehensive training to develop skills required by them to carry out future responsibilities.

Our approach on Employee Health, Safety and Welfare

We observe that our employees spend a significant proportion of their time at work. Thus, it is our duty to provide a healthy, safe and conducive work environment for them to work in. The Head of Human Resources bears the primary responsibility in this regard, while each Divisional and Branch Manager is also partly responsible. Additionally, a First Aid Committee has been formed, inclusive of representatives from each division, and the members of this Committee have been provided with the necessary training to assist their colleagues in any health related emergency, while first-aid boxes have been placed at each division for the use of employees. Further, we also see to their welfare and well-being.

What we did: In compliance with our comprehensive scheme on health and safety, the Company conducted a health checkup for its staff and continued monthly doctor's clinic for all members of the Head Office and Customer Service Centre.

We also conducted a knowledge sharing session on 'Awareness Presentation on Lightning Protection & Surge Protection' which was opened to staff of the Company to participate based on their interest towards the subject matter. Those who participated found it extremely useful, even from a personal perspective.

Apart from the above initiatives, we also have the below mentioned facilities for our employees;

- A Sick room
- Special sick leave for critical illness/ accidents
- Recreational facilities - Use of St. Josephs College gym, badminton courts and swimming pool
- Death donation scheme

SUSTAINABILITY OF THE COMPANY DEPENDS ON THE NEXT GENERATION OF LEADERS CREATED AND WE BELIEVE SUCCESSION PLANNING IS THE BEST WAY OF CREATING LEADERS WHO WOULD POISE HNBA TO THE NEXT LEVEL.

HNBA also organised a sports day for its entire staff in October which included many events including cricket, volleyball, badminton, track and field, swimming and group relays. This event saw the enthusiastic participation of staff from all over the island. We also celebrated religious events through a Vesak lantern and Bhakthi Gee competition, Christmas Carols and Christmas Decoration competition as well as a kiddies Christmas party for the children of our employees.

The staff welfare aspect of HNBA is fulfilled by the Staff Welfare Society of the Company which conducts different Welfare activities. This year the Welfare Society organized a Bowling tournament which was followed later in the year by a Zumba session, keeping in mind the fitness aspect of the staff. The most successful event was the beach party in which many employees participated. Apart from these events the society also provided school bags to children of employees under the age of 10 years.

Christmas in the Heart of HNBA

Magical eve with the kids of our staff members

Wesak Celebrations at our Head Office Premises

Top-down Communication		Bottom-up Communication
Official E-Mails	MD and the EXCO	Staff Suggestion Scheme
Intranet		Whistle Blowing Policy
SMS		CEO's Forums
Branch Communication Meetings	Management Team	Periodic Employee Surveys
Notices and Banners		Branch Communication Meetings
Management Meetings		Management Meetings
Distribution Management Meetings	Other Employees	Distribution Management Meetings
Staff Conference		Other various department, regional and branch level staff meetings
Other various department, regional and branch level staff meetings		

Our Approach on Culture and Communication

Communication is considered a vital part in the Company proceedings and is used in abundance with the availability of an open door culture that is maintained in the Company. Any employee can raise his or her concerns to any Manager, EXCO member or the Managing Director with maximum ease and least discomfort. Apart from the traditional systems of communication this year the Head of Human Resources with his team visited around 23 branch offices which enabled employees to voice their concerns directly to them. This also acted as a platform of obtaining feedback on the Human Resource activities. Another critical communication point is the Annual Staff Conference which brings together all the staff members of the Company and communicates the performance and achievements of the Company during the past year. It also provides insights into the strategies agreed for implementation in the current year along with the business targets agreed. Staff conference both acts as a tool for transparency and a tool to build strong relationships among staff members.

Our Approach on Labour Practices and Grievance Mechanisms

Handling grievances of employees fairly and speedily is a priority in our organization and accordingly a comprehensive grievance handling procedure has been laid out for employees allowing the opportunity for employees to communicate to the management any dissatisfaction or feeling of injustice which may exist at the workplace and receive a solution. This policy is descriptively presented in our staff handbook which can be accessed by employees through the intranet. This is available in all three languages used in Sri Lanka; Sinhala, Tamil and English for the easy reference and understanding of employees.

This policy is also introduced to employees at their induction programme to be open about their grievances and to make them more aware of this policy. We also send regular emails reminding employees of such policy. Due measures are taken to ensure that employees are not penalized for the grievance posed by them.

The responsibility of fairly resolving grievances lies with all Managers, Heads of Divisions and the Head of Human Resources. A few such grievances of a minor nature that were brought to the notice of the Head of Human Resources have been dealt with according to the policy.

In furtherance of above, the Company also maintains a whistle blowing policy through which employees are given the opportunity to stress their concerns on fraudulent acts conducted by staff. The whistle blower is kept in confidence according to the policy and the concern can be articulated to only a few key senior decision-makers of the Company. The Whistle Blowing Policy is also laid out in the staff handbook for the due reference.

Our Approach on Non-discrimination, Child Labour and Compulsory Labour

As a Company that places an emphasis on protecting human rights, we have taken measures to create a workplace which respects non-discrimination and adheres to compulsory labour laws and requirements.

We believe in fair treatment of employees regardless of their age, gender, religion, ethnicity, position or any other diversity factor and provide equal opportunities to all employees to flourish in their lives. Our management and employees are expected strictly to adhere to the code of ethics in terms of favouritism and all other forms of discrimination.

We only employ individuals over 18 years of age at their own free will and ensure no forced or compulsory labour is entertained at our workplace. All recruitments are handled centrally at the Human Resources Division and work hours and leave utilisation are closely monitored, ensuring the existence of no significant risk in the occurrence of child or forced/ compulsory labour within our premises. However, with regard to our supply chain, risks on child/ forced/ compulsory labour may exist, and this is discussed on page 142.

During the year under review, no cases of discrimination, child labour or forced/ compulsory labour were reported in the operations of HNBA or of any of its suppliers (2013: Nil). Further, no cases of violation of human rights were reported during the year.

HNBA IS THE FIRST INSURER TO HAVE A PARTNERSHIP AGREEMENT WHERE STAFF CAN LEARN, DEVELOP AS WELL AS OBTAIN A RECOGNIZED QUALIFICATION OFFERED BY SLIM.

Our Policy on Resignations, Terminations and Transfers

The Company maintains a clearly laid down policy on the resignation, termination and transfer of employees, which is given in the staff handbook available to employees. The resignation process is subject to the terms and conditions specified in the individual's appointment letter while the age of retirement is 55.

Upon receiving the resignation, employees are invited to an exit interview which is designed to obtain feedback and also acts as a tool for retention. The Company maintains the right for termination of an employee based on the grounds stipulated and communicated through the staff handbook. However, such proceedings will be done in a fair and equitable manner.

Employee transfers are done based on requests made by employees and availability of vacancies relating to the required area of transfer, and in the event the transfer is initiated by the Company, the matter will be discussed with the employee and will only take place with the employee's consent.

Our Approach on Compliance with Laws and Anti Corruption

We adhere strictly to the laws and procedural sanction of the country and no violations were faced by the Company in this regard in 2014 or the previous year. Along with the senior management of the Company, our Human Resource Division and Risk and Compliance Department strongly monitor the regulatory adherence.

No fines or monetary sanctions were levied on the Company for non-compliance with laws and regulations during 2014 (2013: 0).

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

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

Guidance on desired behaviour of employees and the need to abstain from corruption is outlined on our Staff Hand Book and the Code of Ethics. Our Policy on Whistle-Blowing provides guidance to our employees on the procedure to be followed to bring any issues relating to corruption, misuse of powers, improper conduct or unethical behaviour, environmental damage etc., to the notice of the management under the guarantee of confidentiality and of not being subjected to any discrimination. The Company also has other policies in place to specify the desired behaviour to minimise the risk of corruption.

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

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

Strategic Objective: Meeting Regulatory Changes

One of the most critical challenges of the segregation of Life and General Insurance businesses was managing the impact of the change to our employees,especially, as all employees in the General Insurance segment needed to be transferred to the subsidiary with effect from 1st January 2015.

What we did: The initial announcement of the segregation was made by our Managing Director at the Annual Staff Conference held in early 2014 where the plan was shared with all employees of the Company.

The Management Team, along with our HR Team discussed extensively on the employee segregation and decided on the staff of Life, General and Shared Services based on their experience, current positions and the skill levels required for each position of the two Companies and Shared Services Units.

The management held one to one discussions with all employees at Head Office who were identified to be transferred to the new Company, HNB General Insurance Ltd as part of the segregation process and explained to them in detail about the need and the potential they will have in future. Continuous updates about the progress of the change process were given to staff via email and the Company intranet

Management Discussion and Analysis

subsequently. In addition, we had two way communication at Management Meetings, OPCOs and Divisional Meetings where the employees had the opportunity to clarify any doubt they had during those meetings.

We also paid special attention to the Distribution Network as it is the main contact point we have with our Customers. Hence, it is of vital importance that we ensure smooth transition. Accordingly, the Members of the Senior Management had regular meetings with branch staff throughout the year communicating and updating the progress of the segregation process. Frequent branch visits covering all branches enabled a comprehensive dialogue with all branch staff which also facilitated any concerns had by the employees attached to the distribution network. In addition, individual grievances that employees faced were also rectified with HR directly liaising with the employees and discussing their issues. Our HR Team also went on branch visits to communicate the change process and rectify the issues of employees in branches. This was deemed successful as many clarifications were sorted during these visits. All transfers were made with the full consent of the employees and thus, we ensured that our people accepted the change very positively.

HR had frequent meetings with the Senior Management updating the change process relating to staff and discussing matters pertaining to staff.

Further, we took steps to smoothly facilitate the transition of our employees with a training that was conducted to a wide spectrum of staff in the executive and above grades on change management. The top management team underwent a comprehensive 2 day training that was conducted by Mr. Bill Roy of BRC Consulting, UK who is a renowned trainer and guided the team through the process of change. Further, trainings were imparted to other groups of employees as well.

Further, we identified the employees who can take up higher responsibilities to fill the vacant positions that were created due to the segregation of business. Most of them were given Acting appointments to enable them to showcase their performance to be confirmed in the newly assigned position. Communications were also sent out to employees in order to keep them informed of the changes that had taken place in the Company.

All transfers from HNB Assurance PLC to HNB General Insurance Ltd were construed as continuous service. Accordingly, all long-term benefits of employees who were transferred to the subsidiary such as Gratuity, were transferred with no cost or loss to the employees.

What we achieved: We were able to make a smooth transition with a highly motivated workforce who has already delivered an outstanding performance in the year 2014 itself by recording a 25% growth in GWP in General Insurance whilst the market has just grown by 4% and a 16% growth in Life Insurance when the market has expanded by 9% in 2014. Approximately 78% of the positions that were created due to segregation of business were filled with internal staff, thus, enabling the career advancements of our own existing employees in terms of higher position or additional responsibilities.

Way Forward

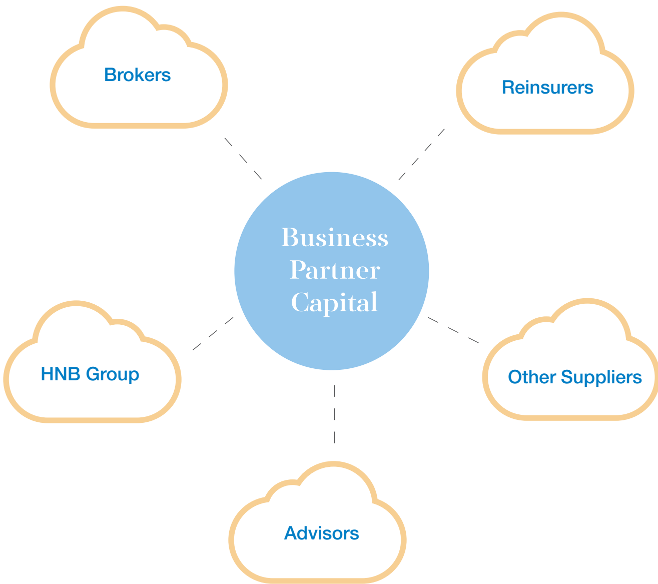
Being an employer of choice of many in the industry, we have always taken measures to make our workplace a pleasant experience to our employees. We will continue to be a preferred employer by upholding our promises related to fair treatment of employees, employee health, safety standards and employee related issues. We will also give attention to provide necessary training and development programmes to enhance the skills and knowledge levels of our valued employees to reach their full potential. All future initiatives taken by us will be directed towards making our Company a place where our employees can shine and achieve greater heights in their lives.

Reference:
GRI-G4 G4 - 13

BUSINESS PARTNER REVIEW

Our Approach

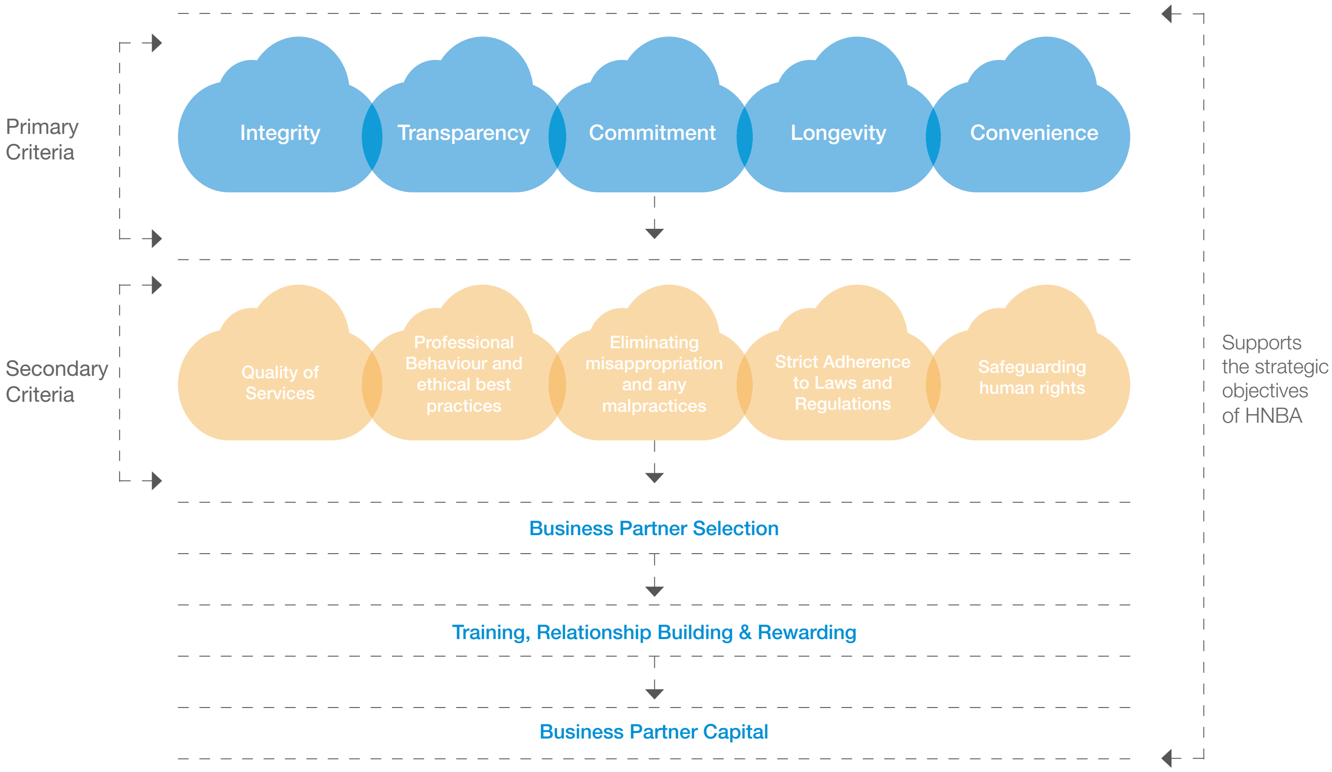
We deliver our promises to customers through our business model, which is a value creation process involving our own business and supply chain, both upstream and downstream. We are highly cognizant of the fact that our ability to create value and meet the expectations of our customers is highly dependent on the services rendered by our business partners. They form an essential source of capital, our business partner capital. As such, we strive to engage them, improve their efficiency and effectiveness, and reward well, thereby creating win-win relationships, which add value to our business partners as well as our Company. We believe that the synergies created through such winning partnerships ultimately results in creating a strong competitive advantage.



Although the functioning of our business model, calls for a wide range of business partners, considering the materiality of their relationship we have identified the following as the most important.

Our Policy towards Business Partners

Illustrated below is our policy towards our business partners which shapes our relations with them and leads to the establishment of win-win relationships.



Management Discussion and Analysis

Strategic Objective: Maintaining win-win partnerships

What we did

The Company has structured the following to strengthen our relationship and build business partner capital.

- Programs to enhance productivity and professionalism
- Sharing business information
- Rewards and recognition
- Training and Development on products, markets and customers
- Opportunity for networking and provision of extensive knowledge on establishing consistent relationships
- Providing innovative technological solutions to improve service delivery

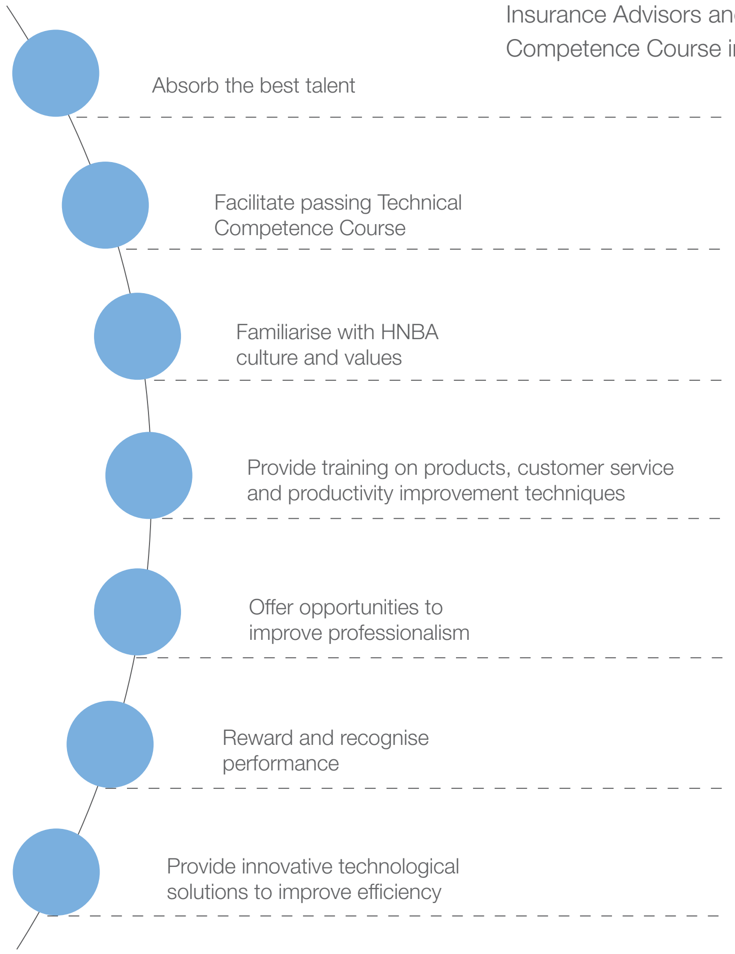
We have detailed below a brief description of the importance of each partner to our business model and the strategies we have used to maintain such partnerships.

Insurance Advisors

Our team of dedicated Insurance Advisors are an indispensable element of our supply chain. They seek out potential customers who come from diverse financial and cultural backgrounds, engage with them to understand their needs, gain their trust and thereby convert them to be our customers. Their importance to our business is amply displayed by the fact that they generated 44% of our combined GWP in 2014, which also exceeded Rs. 2 Billion (2013: Rs. 1.8 Billion). Further, details on their contribution to our GWP are given on page 78 and 92.

Currently, our Insurance Advisor capital comprises 1,533 active Advisors and field managers (2013: 1,507) who are well trained and positioned around the country.

Our policy towards Advisor force is illustrated graphically below.



Absorbing the best talent

We conduct recruitment campaigns across the country via our Regional and Branch Managers. While experienced Advisors are recruited based on their track record, new Advisors are sourced considering their educational qualifications, selling skills and understanding of customers. This control is the key behind recruiting Advisors with greater skills who later contribute immensely to the growth of the business.

Facilitate passing Technical Competency Course

Passing the Technical Competence Course in Life Insurance for Life Insurance Advisors and Technical Competence Course in General Insurance for General Insurance Advisors is a pre requisite to launching their careers. While our initial training programs target the requisites of these exams conducted by the Sri Lanka Insurance Institute (SLII), our expert trainers and Branch Managers provide continuous guidance.

Familiarise with HNBA culture and values

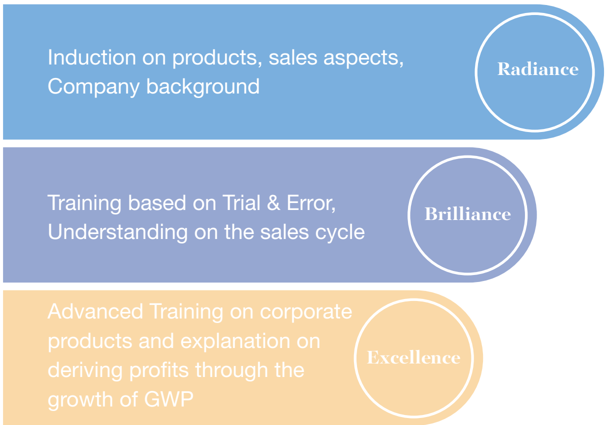
As representatives of HNBA, our Advisors need to uphold our culture, values and ethical norms. Our Branch management ensure that they communicate the importance of each of these elements to the new recruits.

Training and Development

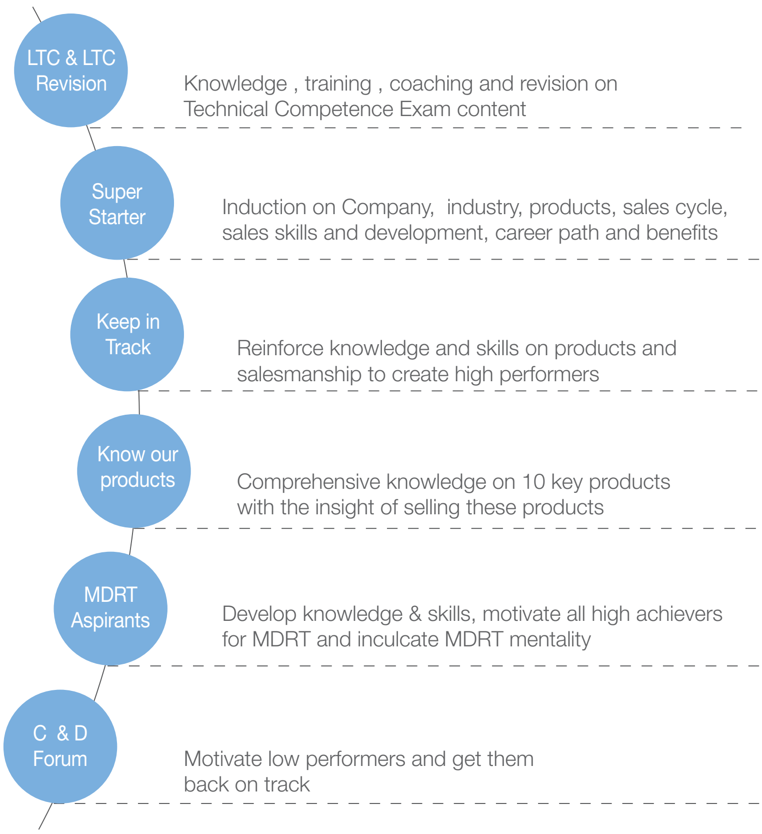
With a view to polishing their skills and expertise, we train our Advisors under different categories. The training is designed and organized to be on par with global training standards allowing the Advisors to use structured sales tools and techniques that enhance their productivity and professionalism in reaching customers. The core responsibility of providing effective training lies with the dedicated Life and General Insurance Training & Development Departments. Programmes are conducted by four trainers specialising in Life and three specialising in General who are located in different geographical zones. Given below are the highlights of our training calendar.

- Regional Trainer Development programmes were conducted, in which 85 Field Managers were trained on the Technical Competency Course in Life Assurance for Agents (IBSL) so that they can train new recruits.
- Training workshops on Recruitment Skills development were conducted in all zones for Field Managers

Training Modules - General Insurance



Training Modules - Life Insurance



	GENERAL	LIFE
Number of Advisors	295	1,236
No. of Training workshops	117	199

Opportunities to improve professionalism

High weightage was given to improve professional skills of the Advisors, as they are the key representatives of the Company. We also provided facilities to encourage them to pursue professional qualifications, such as Preliminary Certificate in Marketing (PCM) and Diploma in Professional Selling (DPS) programmes in partnership with the Sri Lanka Institute of Marketing (SLIM). Equal importance was given to promoting integrity and professional behaviour to eliminate misconduct and misappropriation at the point of transaction. Complaints on any such unacceptable practices are investigated and if any ethical misconduct is established after a proper inquiry the relevant person's service are terminated immediately and information is updated to the website maintained by the Insurance Association of Sri Lanka (IASL).

Rewarding untiring efforts

Having identified the importance of the contribution of our Advisors, we have taken steps to ensure that such contributors are recognised and rewarded. As a result, the following initiatives were carried out during the year.

- Recognising 221 top achievers at the Annual Sales Convention with bronze, silver, gold and super gold awards.

National Level Recognition at NASCO 2014

7 super performers of MDRT visiting Munich-Re, Germany

NASCO Winners

Front Liner Category

- Silver Award - P K M Priyadarshani
- Bronze Award - K H V M Prasad

- Top achieving Advisors (both Life and General) being granted the opportunity of participating in the annual foreign tour for top performing Advisors, along with their families. During 2014, 46 Advisors and their families visited the cities of Bali and Jakarta in Indonesia.
- A team of 7 super performers consisting of MDRT qualifiers were provided with the unique opportunity of visiting Munich Re Germany where they participated in a comprehensive training programme conducted by ERGO, the direct insurance arm of Munich Re. This programme covered all aspects of Global Best Practices of Agency Sales Management prioritizing the following areas:
  - Key attributes of a ‘Super Sales Advisor’
  - New Global Trends in agency sales as experienced by ERGO
  - International best practices and the sales techniques used in the industry
  - Building winning relationships

  The Company organised numerous relationship building activities, which included a six a side cricket tournament as a recruitment campaign at branch level, a Spell Master Competition and an Avurudu Bonanza with a view to generate business.

  HNB Assurance secured four main awards at the National Sales Congress Awards (NASCO) 2014 organised by the Sri Lanka Institute of Marketing (SLIM), three of the winners being from our Advisor force. NASCO 2014 is the premier event dedicated to recognise the efforts and performance of sales professionals. It is also the only national event to distinguish and reward Sri Lanka’s sales personnel attached to numerous organisations.
- Revising commission rates and allowances which is the main form of monetary reward

- The Company also continued to provide the following benefits to the Advisor force;
    - Providing Vehicle and Distress loan facilities at concessionary rates
    - Life and Surgical Insurance Schemes to Advisors with revised additional benefits

Providing innovative technological solutions to improve efficiency.

Selected Advisors were equipped with innovative solutions such as mobile receipting devices and tablets. They were also provided with mobile applications to get quotations via mobile devices to enhance efficiency. Further details of such apps are given on page 81.

Brokers

Insurance Brokers who also play a vital role in our network of business partners, generated Rs. 782 Million to the Company's GWP in 2014. This partner category was also the highest contributor to General GWP in 2014 and contributed 33% of the GWP. To safeguard ethical standards and trust of our customers, we ensure that only Brokers registered with the IBSL are selected for partnerships. Maintaining strong professional relationships with our selected brokers and rewarding them are our key strategies of value creation for parties engaged in the relationship.

During the year, we conducted product training sessions for brokers and held several events to improve the relationship between brokers and staff members.

Strengthening the partnership with our Parent Company HNB

Diploma in Professional Selling Convocation 2014

HNB Group

As a part of the HNB Group, we maintain a good understanding with the staff of HNB, which has enabled us to generate business through leads from HNB branches. Bancassurance, which entails selling of insurance products to bank customers is an increasingly popular distribution mechanism in the banking/insurance industry and is gaining significance as a profitable venture to all stakeholders. Our Bancassurance network within HNB, the largest of its model in the country, enabled us to place our officers at 194 HNB branches, and allowed us to attract the strong customer base of our parent. We also joined hands with HNB in celebrating the 25th anniversary of the world renowned Gami Pubuduwa Micro Insurance program of HNB, highlighting the relationship between the two entities. Further details on the contribution of HNB to our topline are given on page 77 and 92.

The support from HNB Management and staff is indisputable in achieving a healthy performance via bancassurance. In order to recognise and reward the support rendered, we organize mid-year and year-end awards ceremonies. We also sponsor selected events organized by HNB branches to recognize the value created by them.

Management Discussion and Analysis

Other Financial Institutions

In addition to HNB, we maintain close relationships with other Banks and financial institutions as it helps us to reach a wider customer base across the country. We use these institutions for business generation as well as for collection of premiums as authorized collection centres. We have experienced expansion in both business and collection volumes with Other Financial Institutions.

During the year, we signed up Memorandum of Understanding (MOU) with two other Financial Institutions namely, National Savings Bank (NSB) and Housing Development Finance Corporation (HDFC). We are confident that these relationships will mutually benefit both parties.

Reinsurers

Insurers accept risks from the economic agents in return for a premium. However, to accept such risks we require the support of a financially stable reinsurer panel with who we could share such risks. Our relationship with reinsurers is a long-term affiliation which matures over time.

The stability of reinsurers is determined through various aspects including their claims paying ability, technical strength and global reach. Currently we only deal with reinsurers who possess a financial strength rating of A- and above from Standard and Poor or the equivalent rating from AM Best. In order to ensure the highest degree of professionalism, the financial soundness and reputation of reinsurers is considered when entering into long term relationships.

Due to our strong relationship with our Reinsurers', representatives of HNBA were able to participate in several training programmes conducted by Hannover and Munich – Re reinsurance groups focusing on a proper insight on 'Risk Assessment' and 'Health Underwriting'.

The list of our panel of reinsurers and their respective ratings are given on page 359.

Claims Assessors

In enhancing motor claims service levels, the contribution of claims assessors is given the highest priority since they are the first to reach the customers in an unfortunate event of an accident. With a view to providing a superior service, HNBA deals with 123 well qualified external assessors who operate on a freelance basis and 10 in-house assessors. We ensure that our assessors are equipped with the latest technology to enhance their efficiency and effectiveness.

Garages, Laboratories & Hospitals

HNBA being a responsible insurer has continued its systematic relationship with suppliers such as vehicle garages, laboratories, and hospitals which have resulted in long term benefits for our valued customers. We maintain Cashless Repair Agreements with 120 garages for the benefit of our customers. Meanwhile, we maintain relationships with 113 laboratories and hospitals for Life Insurance related services.

From the different suppliers we partner with, garages are considered as our only supplier category to have a significant risk of child labour, which is a criterion considered in the selection process.

THE VALUE DERIVED THROUGH THE RELATIONSHIPS FORMED WITH OUR PARTNERS IS IMMEASURABLE AND AS IT IS A CRITICAL SUCCESS FACTOR THAT UNDERLIES OUR PERFORMANCE

BUSINESS PARTNER	CONTRIBUTION TO GWP Rs. Mn.		GROWTH
	2014	2013	
Advisor	2,047	1,767	16%
Broker	782	549	43%
HNB Group	1,215	1,075	13%

Other Suppliers

In enhancing the value creation process, the contribution from other suppliers, such as investigators, Third-Party Administrators (TPAs), etc are also important as they have a direct contact with our customers.

We ensure that our suppliers abide by the highest standards of business conduct including the quality of service, background and service record, financial stability, sustainable practices, after sales service and value for money.

The Company has outsourced some of its services that are not viable to be carried out internally. As we have outsourced janitorial services and security services, suppliers of such services are also considered as suppliers having a significant risk of forced or compulsory labour. Fair pay, working hours and conformance to labour laws are key criteria considered in our supplier selection process for janitorial and security services, which are also the methods we use to prevent forced or compulsory labour.

What we achieved

We reap immense benefits from the seeds we have sown to build our business partner capital. While the only quantifiable result, their contribution to our top-line, is tabulated above, qualitative value addition to our business are numerous.

For instance, the people these channels direct to us become our loyal customers and create customer capital and the value adding customer service offered by our Advisors, Assessors and Garages build our brand image contributing to our intellectual capital, both of which are difficult to quantify.

With the support of HNB, we have extended our presence to all districts of the island which again has helped us to reach entire country with low additional cost.

During the year under review, we did not have any bad debts with our reinsurers which indicate the effectiveness of our relationship with them and also the soundness of our selection process. These and many other value additions have been made possible due to our strong win-win relationships with business partners.

Way Forward

In order to maximize the value realized while interacting with our business partners, we intend to implement the following in 2015.

- Provide a good combination of commercial, technical and interpersonal skills to all business partners allowing them to build trusting working relations
- Review beneficial schemes to motivate the sourcing of more business
- Provide technological solutions to enhance their services

Since the value derived through the relationships formed with our partners is immeasurable and as it is a critical success factor that underlies our performance, we will continue to strengthen the win-win relationships we have with our business partners in the years to come as well.

Management Discussion and Analysis

COMMUNITY REVIEW

Our Approach

It is our sincere belief that even small steps can create a great impact on the lives of many. As a responsible corporate citizen, we endeavour to create a brighter future for the people of our community, not by giant measures but in small ways that create a bigger impact on a larger number of people in the community. Furthermore, we believe that our duty extends beyond our immediate surroundings, and like our presence throughout the country, our passion is to serve communities in all parts of this isle.

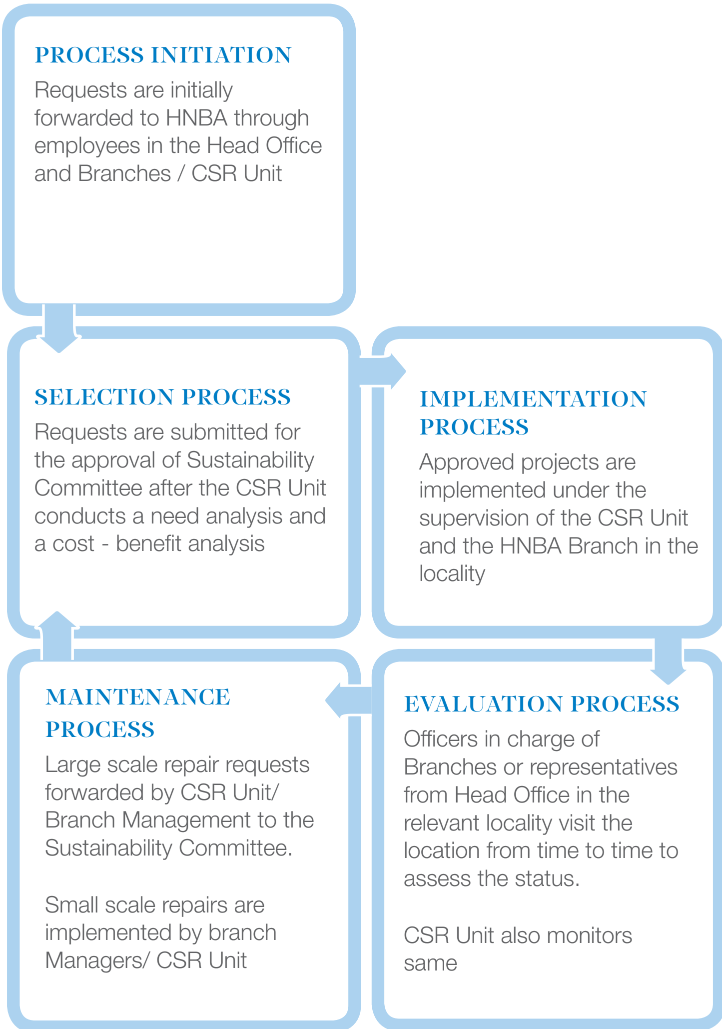
Creating 'a brighter future' as far as we are concerned covers a set of broad categories and includes enhancing health and well- being, caring for the differently-abled, promoting arts and culture, contributing to spiritual upliftment, improving professionalism, facilitating education and betterment of sports. This is our holistic approach, in fulfilling our responsibility towards the community around us and it is what earns us the trust and admiration of society, and motivates us to serve communities even better in future.

Community Investment Policy and Structure

Our policy on community investment is to give back to communities in all parts of the country with the aim of adding value, devoid of any intention of deriving commercial benefits. At HNBA, all community investments are made with the full approval and support of the Sustainability Committee, chaired by our Managing Director, which governs the sustainability strategy and performance of the Company. The Committee only approves projects through which the Company can use its capabilities, public relationships, and expertise to make a genuine contribution to the communities that we live in. Further details of the Committee are given on page 35.

What we did:

In giving back to society, we first identify the needs of our community through our community engagement mechanisms. This includes consultation and constant dialogue with community institutions such as schools, hospitals and civil society organizations via our officers in the Head Office and the Branch Network, and by our CSR Unit attached to the Marketing Division. Through such mechanisms, we encourage community institutions to bring their needs to our attention and as we are eager to maintain a high level of transparency and trustworthiness in our community investments, we follow a formal process in selecting suitable initiatives to support, as elaborated below.



Reference:

GRI-G4 | G4 - DMA | G4 - EC1 | G4 - DMA

Strategic Objective: Give back to Society

What we did:

Our community investments focus on eight key areas. Each year we add a bit more value to society than the year before. What follows is a brief overview of our intentions and activities.

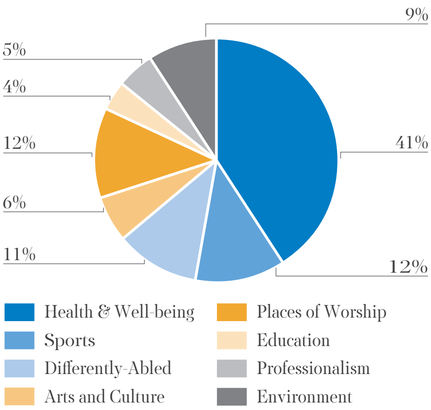
Health and Well-being	Enhancing health and well-being of our community has always been a goal of HNBA. Providing safe drinking water for students is a long-term project we launched in 2008, and continue to date. Helping the sick regain their health remains at the forefront of our initiatives.
Differently-Abled	We understand that the differently-abled face challenges in coping even with their daily lives and have made it one of our community investment priorities to help them. As in the previous years we made financial grants to help the differently-abled improve their lives.
Arts and Culture	As we believe that aesthetics nurture a balanced society, we make an effort to promote arts and culture. Felicitating senior artistes for their contribution towards arts is another practice we continued this year as well.
Places of Worship	Living in a multi-religious country, we honour all four main religions equally. This year too we contributed to places of worship of the four main religions.
Education	Helping children of rural areas and those in difficult conditions to pursue education has been a key goal in our community investments. This year too we provided essential school equipment to needy children.
Sports	Uplifting the standard of sports is a goal which we pursue each year. Providing sports equipment to students of rural schools is one such initiative taken. We also sponsor national teams less likely to gain support from elsewhere.
Professionalism	Enhancing professionalism among youth and enabling them to take on their future is a goal we have pursued for the past two years. This year too, we conducted our unique 'School to Office' (S2O) programme helping young school leavers to transit better to employment.
Environment	While striving to minimize our impact on the environment, we carry-out an environmental conservation project each year. Combining conservation and disease prevention in one project, we invested in a waste disposal pilot project this year, the details of which will be discussed in our Environmental Review appearing on page 154-158.

Reference:
GRI-G4 | G4 - DMA | G4 - EC1 | G4 - EC7 | G4 - DMA

What we achieved:

The ensuing pages describe our endeavours and the resultant benefits to our community.

Invetment In Community 2014



OUR POLICY ON COMMUNITY INVESTMENTS IS TO GIVE BACK TO COMMUNITIES IN ALL PARTS OF THE COUNTRY WITH THE AIM OF ADDING VALUE, DEVOID OF ANY INTENTION OF DERIVING COMMERCIAL BENEFITS.

DIFFERENTLY - ABLED

Support for Mentally-Handicapped children

This year too we supported the Sunera Foundation in its endeavours to improve the lives of children who are mentally challenged.

Scholarships for Visually-handicapped Undergraduates

We believe everyone deserves to be educated and therefore awarded one-year scholarships to 10 visually handicapped students who are a part of Sri Lanka Council of Visually Handicapped Graduates.

Reference:

GRI-G4 | G4 - EC7

HEALTH AND WELL-BEING

Nature's most precious resource, water is critical to the health and prosperity of the communities we serve and vital to ecosystems

Water is the most precious resource of the planet. For the 7th consecutive year, we addressed a key societal need of clean drinking water by establishing water supply systems in schools in remote areas of the country.

We are humbly proud to say that a large number of students and teachers of these schools were greatly benefited from our efforts.

G/Dombagoda Maha Vidyalaya, Ahangama

We implemented a full water system from ground up as there were no infrastructure facilities in this School to supply water. Our project alleviated the thirst of 510 students as well as 30 teachers of Dombagoda Vidyalaya.

V/Sidampuram Sri Nagarajah Vidyalaya,Vavuniya

In response to the formal request received by us stating their urgent need for a water supply system, we built a complete water supply system at V/ Sidamparam Sri Nagarajah Vidyalaya. This project facilitated the lives of 800 students and 40 teachers of the institution.

Thiruvaiyaru Maha Vidyalaya, Kilinochchi

6 miles away from the Kilinochchi Town, students and teachers of Thiruvaiyaru Maha Vidyalaya lack the minimum amount of basic facilities.

Our efforts resolved the safe drinking water issue of 650 students and 55 teachers.

Kidney diseases are widely prevalent in the Anuradhapura District. Therefore, we added water filtration mechanisms to the new water supply systems provided to three schools in this District.

Dutuwewa Maha Vidyalaya, Dutuwewa

We donated a Water Filtration System along with the other fittings to provide clean drinking water to more than 650 students attending Dutuwewa Maha Vidyalaya, and protect these children from Kidney disease.

Himbutugollawa Vidyalaya, Upuldeniya

We donated a water filter and related fittings to Himbutugollawa Vidyalaya. A total of 150 students along with 16 teachers currently enjoy the benefits of our project.

Dakathipathana Vidyalaya, Mahapathana

Students and teachers of Dakinapathana Vidyalaya were in the danger of contracting Kidney diseases due to the lack of clean drinking water. We addressed this issue and now 82 students and 8 teachers directly benefit thanks to our initiative.

HEALTH AND WELL-BEING

Blood Donation Campaign

HNBA organized a blood donation camp for the 9th consecutive year on the 15th of August at our Head Office, partnering with the Blood Bank. The participation of 250 donors enabled us to collect 192 pints of healthy blood.

Relief Programme for Drought Victims

Dry weather conditions in the North Central Province, saw many people facing shortages of dry rations and clean water.

We provided dry rations to drought victims in Kadawathmaduwa, Polonnaruwa. More than 200 families benefited from this initiative.

Renovations in Anuradhapura Hospital

Having identified that the Nephrology Unit in Anuradhapura Teaching Hospital was in need of office equipment, the needful was done in order to meet the due requirements of this Unit. Whilst this was highly appreciated by the Hospital Staff, more importantly it aided in restoring the health of fellow citizens who are affected by kidney diseases.

Pension Day Programme

We provided funds to purchase parcels of dry rations to 40 pensioners, who had no support from their loved ones, at the World Elders' Day celebrations organized by the Bolowalana Senior Citizens' Association.

ARTS AND CULTURE

Sponsoring Pehesara Wessa

Upholding our tradition of supporting the music industry of Sri Lanka, we sponsored the musical event ‘Pehesara Wessa’ organised by Pehesara Sansadaya. A number of leading artistes participated in the event, which was also well received by the public.

Recognition of Artistes from Past

Aesthetics are a major part in finding the balance in our lives. Thus, we understand the value of recognising stars from the past and making sure they are not forgotten. We therefore felicitated 3 renowned artistes namely,

- Mrs. Anula Bulathsinhala,
- Mr. Nissanka Diddeniya
- Ms. Mekala Gamage.

Financial support was given to these artists to obtain medical assistance.

PLACES OF WORSHIP

Like in the previous years, we demonstrated our commitment to all our major religions by making cash donations to four places of worship, each representing a main religious faith of the country.

EDUCATION

Sponsorship for 69th United Nations Day Celebrations

The United Nations Association of Sri Lanka (UNASL) organized the Sri Lanka National Observance of the 69th UN day, targeting more than 1000 youth who are members of the UNA Study Circle Programme. We sponsored the event and helped support the efforts of UNASL towards the betterment of our younger generation.

Sponsorship for Rewarding Winners

HNBA provided the school bags presented to the winners of the All Island Inter School Arts Competition organised by the Ministry of Education. Out of thousands of students who participated, 96 students were chosen to be rewarded for their creativity last November.

Relief for Students Victimised by Floods

Following intimation from the relevant Education Zonal Office we provided school bags and exercise books to 230 students of Kebithigollewa, Parangiyawadiya Vidyalaya, who suffered major losses from flood conditions, that prevailed for a number of days.

Sponsorship to National Blind Cricket Team

This year too we shared our interest in sports with the National Blind Cricket Team. We provided for the Team's practice uniforms and shoes on their tour to South Africa for the Blind Cricket T20 World Cup during the months of November and December.

CONTRIBUTION TO SPORTS

Sponsoring a Young Upcoming Rider

HNBA identified a talented rider, P.S. Shenal participating in the Under 13 event of a Motor Cycle Tournament who was facing many hardships due to the lack of a proper sponsor. We offered him a helping hand in the form of a sponsorship at a recent Tournament, where he won many events with our support.

Sponsoring the Motor Rally

We were a sponsor to the motor rally organized jointly by the Office of the Insurance Ombudsman and Motor Racing Association of Sri Lanka to promote road discipline among motorists. The theme of the event was Time, Safety and Discipline which needs to be well instilled in the minds of today's motorists in order to promote safe driving.

Donation of Sports Equipment

With only 600 students Panwilatanne Maha Vidyalaya rarely receives any donations to get the facilities required to boost the talents of its students.

However, its students are showing a huge potential in sports winning all island championships as well. Therefore, we decided to donate essential equipment to facilitate sports such as athletics, table tennis, volley ball and net ball, etc.

PROFESSIONALISM

School to Office Programme (S2O)

We initiated a unique programme, titled ‘School to Office’, more commonly known as ‘S2O’ in 2013 as a CSR activity conceptualised by our Human Resources Division. This was initiated with the objective of training and developing 100 school leavers and job seekers, across the country especially highlighting the transformation from school life to a professional life.

In the year 2014 too we conducted, an extensive awareness programme, through which we received over 1,500 applications. About 400 applicants representing 20 districts of the country were shortlisted to undergo the written selection assessment subsequent to which 100 enrolled for the programme. Based on the success of the initial S2O programme, we added a few additional modules and topics to the curriculum. Moreover, the participants also underwent a 4-5 week practical on the job training at Head Office and various branches of HNB Assurance. The 10 week included intensive class room training with lectures, case studies, presentations, group discussions, assignments, etc. in addition to the practical training.

The success and impact of this programme was internationally recognised with the 2013 School to Office (S2O) Programme winning the ‘HR Practices in Corporate Social Responsibility’ Award at the Asia Pacific HRM Congress Awards held in Bangalore, India recently.

Sponsorship for CIMA Business Briefs

With a proposal received, from the CIMA Sri Lanka Division, we decided to be the main sponsor to CIMA Business Briefs 2014, which hosts monthly presentations on a ‘topical’ topic of interest.

This series of programmes is conducted to offer and develop knowledge and networking opportunities to CIMA members ranging from CEO’s to junior executives and their corporate colleagues. With well experienced speaker panels and a clear set of objectives, the series was a major success.

Sponsoring the SLIM – Nielsen People's Awards 2014 and International Marketing Congress

This is one of the biggest award ceremonies held to recognise achievements in the corporate sector. HNBA provided a Silver Sponsorship for the event which was greatly appreciated by the SLIM, as the event provides huge opportunities for corporate giants as well as local entrepreneurs to show their true colours to the Nation.

Actuarial Seminar on Insurance Industry

HNBA co-sponsored a Seminar titled 'Shaping up the future of Sri Lanka Insurance Industry' organised by the Actuarial Association of Sri Lanka.

The seminar focused on the two major changes faced by the insurance industry; the split of composite companies into Life and General and the change in valuation strategies.

Sponsorship to 'Excellence in Action 2014'

We contributed to the 'Excellence in Action 2014' organised by the Royal College Class of 72' a seminar to hone up the skills and competencies of the next generation corporate management and entrepreneurs.

Way Forward

As we have done so since our inception, HNBA will continue to invest in the communities across the country, focusing on the eight key areas, not to get any commercial benefit, but simply to give back as a responsible corporate citizen.

Reference:

GRI-G4 | G4 - DMA

ENVIRONMENTAL REVIEW

Our Approach

We are highly cognizant of the fact that we derive our sustenance from the environment and in doing so, our business activities impact our planet's renewable and non-renewable resources and ecosystems. However, as an entity which strongly believes in sustainability, it is our duty to minimise the adverse impacts on our planet whilst making a realistically favourable impact and thereby conserve earth's resources and ecosystems for future generations.

Resources of our planet provide us with environmental capital, which we utilise in the value creation processes of our business. Illustrated below is how we manage our environmental capital.

Our environmental strategy is to minimise the impact on the environment through the Company's operations and inspire employees and society towards constructing a greener environment. What we discuss through this review is our environmental performance and the impact to environmental capital.

Strategic Objective: Minimize Negative Impact on Our Environment

Our Policy on Energy Management

Conserving natural resources are everyone's responsibility; as such, we strongly believe that utilising these resources, especially non-renewable resources should be efficiently managed to ensure utmost sustainability. As an insurer, operating as a service organisation, electricity and fuel are our primary energy sources to facilitate operations. Our employees consume fuel to commute daily to work and for business; our Advisors and Assessors consume fuel for business travel. Further, Electricity is extensively used for operating the business functions of our Head Office and the Branch Network. Therefore, fuel and electricity conservation initiatives are foremost concerns in minimising our impact on the environment.

What We Did:

Enhance Accountability in Energy Consumption

As quoted, "what gets monitored, gets managed"; accordingly electricity consumption is monitored at Head Office and all branches operated by us. Further, Managers of Departments and Branches are entrusted with the responsibility of reducing electricity consumption, thereby conserving energy.

Company has implemented a policy on reimbursing fuel costs of employees up to pre agreed limits for their personal and business travelling. The Policy discourages excessive fuel usage, aiming at conserving fuel. However, data pertaining to fuel consumption by members of our Advisor force is not included in this report as such data cannot be monitored and quantified accurately.

In response to the downward revision in fuel prices, the Company took immediate steps to revise the rates at which fuel reimbursements are being made to ensure that the lower costs do not result in excessive travelling.

Create a Greener Work Place

We have embarked on several initiatives this year with the focus of reducing our energy usage and carbon footprint, the details of which are discussed below.

Reference:

GRI-G4 G4 - EN3

The IT Division has implemented energy saving settings in all personal computers and laptops which reduce the electricity usage by turning off the display and slowing down the processor functionality when the computers are idle. Also, we have implemented state of the art wireless internet facilities in number of branches which would reduce the electricity usage, by limiting the number of internet routers per location. We have implemented a network printer for Life Division, connecting all workstations to a single printer eliminating personal printers and achieving reduced electricity consumption.

As an initiative in reducing fuel consumption for business traveling, we have scheduled late work traveling at pre agreed time for all Divisions enabling optimum number of passenger allocations per vehicle and ensuring a minimum number of vehicles travelling on the same route, thereby improving energy efficiency without compromising on operational convenience. Further, late work is scheduled for an agreed period during each month and travel details are strictly monitored by Administration Department and reviewed by each Divisional Head.

Further, we have continued replacing high energy consuming air conditioning units with more energy efficient units.

The following table summarises the initiatives taken by HNBA towards saving energy at Head Office and branch level.

ENERGY SAVING INITIATIVES	2014	2013	2012
No. of computers with LCD/LED screens purchased	45	60	55
No. of laptop computers purchased	73	11	18
Total No. of SMS based services	21	20	31
Server Virtualisations	18	39	32

What we achieved: The following table presents data on energy consumption by HNBA staff as a result of business operations.

ENERGY CONSUMPTION BY HNBA	% FOR ELECTRICITY	2014	% FOR ELECTRICITY	2013
Fuel used for Company (Litres)		473,573		375,434
Energy from Fuel GJ		17,049		13,068
Electricity Consumed (kWh)		1,298,854		1,356,317
Energy from Electricity GJ		4,676		4,883
Total Energy used GJ		21,725		17,951
Non-Renewable GJ	30%	18,474	30%	14,557
Renewable GJ	70%	3,250	70%	3,394

While fuel consumption has increased by 30% compared to 2013, due to increases in business travel for supporting business growth, we have achieved a 4% reduction in electricity consumption compared to previous year.

Offering Products Designed to Provide Environmental Benefits

What we did: In 2013, we introduced MotorGuard 'Eco Insurance', as an extension to the existing MotorGuard policy delivering specific environmental benefits. This product is especially designed to provide tribute to users of eco-friendly hybrid cars where the Policy provides a competitive and affordable premium coupled with a special discount rate for all hybrid vehicle users. Our aim is to promote the use of eco-friendly vehicles and thereby contribute to saving energy.

What we achieved: Our efforts were successful as MotorGuard 'Eco Insurance' became highly popular among customers. During the year we issued 1000 policies and generated Rs. 189 Million in GWP.

Our Policy on Effluents and Waste Management

As a financial service provider, paper is our main form of waste, while on occasional disposal of computers and related electric equipment generates electronic waste. We strongly believe maximum possible measures need to be taken to reduce paper waste, in order to save trees and the greenery of the country. Going further, it is our policy to adhere to stringent measures in the disposal of electronic waste to avoid polluting the environment.

What we did:

Create a Paperless Workplace

Last year we pledged to prevent the negative impacts caused to the environment through paper usage in our business processes. Thus, we adhere to the 3R concept of Reduce-Reuse-Recycle in paper waste management.

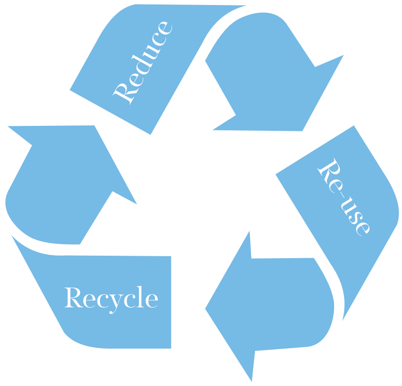
The overall responsibility of applying the 3R concept to paper lies with the Managers of the relevant Branches and the Heads of Divisions. Some of the key initiatives implemented while moving towards a paperless workplace are outlined.

- Investment on systems and workflows minimising need for paper usage
- Usage of electronic communication and move to e-docs
- Other initiatives

Investment on Systems Minimising Need for Paper Usage

Implementing Oracle EBS

One of the most prominent activities conducted by HNBA in this regard is the investment in Oracle EBS, which allows a considerable reduction in the amount of paper and other printing material used by the Finance Division. Furthermore, it has led to 100% reduction in the printing of Journal Vouchers, Receipt Vouchers and Payment Vouchers which usually consumed the largest quantity of paper in the Division. Oracle EBS has also enabled employees to maintain the attachments in the soft form, eliminating need to maintain paper based attachments and printing for record keeping.



CPS System (Cheque Printing System)

In 2014, cheque printing system was initiated for Motor Claims, with the combined objective of increasing accuracy and reducing the use of paper and printing cost. Reflecting on our endeavours towards waste management, more than 50,000 A4 size papers were saved during 2014.

We have also extended the CPS System to Non-Motor Claims as well as Life Claims during the latter part of the year.

Branch Petty Cash System

During the year we continued our initiative of automating manual processes using business applications; for instance, we implemented system to automate the Petty Cash Reimbursement processes. We have already implemented the system in the entire Life Branch Network and the General Insurance implementation is in progress. This has helped the Company to minimise the usage of paper significantly.

SVAT System

Simplified VAT (S VAT) process was another manual process which was automated during the year as another initiative to reduce usage of paper.

Reference:

GRI-G4 | G4 - EN23

Assessor Information System

We continued to expand the use of camera phones; which grant assessors the ability to upload photos of any vehicle accident from their smart phones directly to the claims management system, thus avoiding the paper and chemicals used for photo processing and printing.

Business Travelling Reimbursement System

During the latter part 2014, we took another initiative to automate the reimbursement of Business Travelling process by the branch staff which has been a great relief to them for easy and faster reimbursement of their money spent. Indirect benefit from this initiative is reducing the usage of paper in the Company.

Use of HNB 'Payfast' Facility

Using this facility enables the Company to make payments to suppliers using SLIPs instead of making cheques, which saves printing separate vouchers and cheques for each payment.

Usage of Electronic Communication and Move to e-docs

Several initiatives were undertaken at our Head Office moving towards creating a greener work place. One such measure is improvements made in the claims management system which enables paperless approvals through a work flow facility; where scanned documents uploaded from Branches are processed further at Head Office without printing copies. In the procedure of handling Motor Claims, photographs taken from mobile phones are attached in the system for further inquiries and approvals. Introducing a two page document for assessor reports instead of the previous twelve page report, can be noted as a significant improvement. We were able to reduce the paper usage monthly by an average of 1500 sheets of paper due to this improvement. e-Fax; where the fax is sent and distributed electronically was implemented in Motor Claims, Finance and Corporate Sales Departments with the objective of cutting down paper involvement in faxing procedure.

Other Initiatives

Use of both side of paper, printing documents only when absolutely necessary and collection of waste paper for recycle through Neptune Papers (Pvt) Ltd. are other initiatives under taken to direct HNBA towards a paperless workplace.

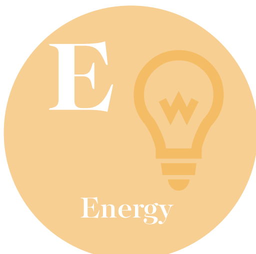
In addition to the above mentioned initiatives, we intend to deliver our Annual Report in a CD-ROM format in the coming year as well, which will in turn lead to a significant reduction in amount of paper used. We have made necessary arrangements to deliver printed copies of the Annual Reports only upon specific request of the shareholders.

What we achieved: Due to the difficulty in quantifying reused paper and savings from conversion to e-documentation, making quantified disclosures in addition to that are already provided is not possible. However, savings from recycled paper, which is obtained from Neptune Papers (Pvt) Ltd., is given below.

The quantity of recycled paper has reduced in comparison to previous year. However, it must be noted that this is due to e-documentation and systems, which has already reduced our paper consumption on an overall basis to a great extent.

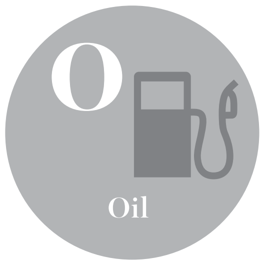
406,148 ltr

We believe it is our responsibility to preserve the "Resource of the Nature" - Water



51,120 KWh

Measurements and controls are applied to minimize the oil consumption



22,429 ltr

It is our focus to reduce energy usage and carbon footprint

217 trees

Several initiatives were undertaken to move towards a greener work place

Management Discussion and Analysis

SAVINGS	2014	2013	2012
Paper Recycled (Kg)	12,780	14,330	4,524
Fully Grown Trees	217	243	77
Water (Litres)	406,148	455,407	143,773
Electricity (KWh)	51,120	57,320	18,096
Oil (Litres)	22,429	25,149	7,940
Land Fill (Cubic Meters)	38	43	14
Reduced Green House Gas Emission by Carbon equivalent of (Kg)	12,780	14,330	4,525

Our Policy on Compliance

We maintain a strict policy of remaining compliant with all applicable laws and regulations relating to the environment. Conformances to such regulations are monitored by our Risk and Compliance Department.

What we achieved: 100% conformity to the environmental policy was received from all layers of Management which was clearly visible through not being subjected to any complaints or fines during 2014 with regard to environmental regulations (2013:0).

Our Policy on Conservation

We believe that whilst minimising our negative impact on the environment, we should actively inculcate positive changes for a greener and cleaner environment. Hence, it is our policy to invest in our environment by embarking on at least one environmental conservation project per year.

What we did: Each year we seek out a conservation project which makes a maximum positive change to our environs. In our endeavour this year, we came across a project which enables us to combine conservation and disease prevention.

With the main objective of familiarising the concept of 3R (Reduce-Reuse-Recycle), a garbage disposing project was initiated in Higgaswatte Kanishta Vidyalaya, Kuriwita as a pilot project. This project was proposed by the Central Environmental Authority (CEA) of Ratnapura District, and was an initiative to launch a 3R culture for Dengue eradication in the District, where the disease is noted to spread during the rainy seasons. The project focused on building the necessary infrastructure for a garbage disposal facility in the school, where garbage was separately collected as bio degradable, non-bio degradable and recyclable items.

This largely helped to reduce the environmental damage created as separately collected polythene, plastic, glass etc., was directed towards recycling centres. With the benefits gained from the waste management project, we gained an opportunity to enlighten the community on the importance of waste management for combatting the deadly disease, Dengue. Further, the success of the pilot project will enable the CEA to start similar initiatives in other schools, magnifying the benefit.

What we achieved: By participating in the project initiative, we were able to instil the importance of proper waste disposal in the prevention of disease, which would minimise the negative impact towards the environment as well as the society. As a responsible corporate citizen, we take pride in working towards the betterment of the environment to make the world a better place.

In addition, true to the concept of ensuring sustainability, during the year under review we re-visited the projects we have implemented over the past two years and monitored the continuity of their operations.

Way Forward

As a responsible corporate, we have built plans to continually improve our environmental performance and thereby make sustainable use of environmental capital. In the coming year, we hope to strengthen and continue with the initiatives taken this year, especially on e-documentation, reduction of paper usage and reducing our carbon footprint via monitoring electricity and fuel usage and promoting our eco-friendly product. Further, we will help conserve our planet by undertaking at least one conservation project. Thus, we will continue to perform our utmost duty for our planet.

AWARDS AND ACCOLADES

Our untiring efforts put forward during the year in creating stakeholder value were acclaimed through the following awards and accolades.

Best Presented Annual Report Awards and SAARC Anniversary Awards for Corporate Governance Disclosures 2013 - 1st Runner up in the Insurance Sector

Corporate Governance Disclosure Award -Silver award at the CA Sri Lanka 50th Annual Report Awards Ceremony – 2014

Silver Award at the SLITAD 'People Development Awards 2014' organised by the Sri Lanka Institute of Training and Development (SLITAD)

Award For Digital Marketing – 'Best use of Facebook' - at the 5th CMO Asia Awards Social Media & Digital Marketing Excellence Awards held in Singapore

Insurance Companies Sector - Gold Award - at the CA Sri Lanka 50th Annual Report Awards Ceremony – 2014

Award for HR Practices in Corporate Social Responsibility at Asia Pacific HRM Congress Awards

Management Discussion and Analysis

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HNB ASSURANCE PLC
FEB 2015
SERVICE

GRI CONTENT INDEX FOR "IN ACCORDANCE" - CORE

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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.	13 - 15	None
ORGANIZATIONAL PROFILE			
G4-3	Report the name of the organization.	34	None
G4-4	Report the primary brands, products, and services.	6 - 7	None
G4-5	Report the location of the organization's headquarters.	3	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.	34	None
G4-7	Report the nature of ownership and legal form.	34	None
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	4, 34	None
G4-9	Report the scale of the organization, including:		
a.	Total number of employees		
b.	Total number of operations		
c.	Net sales (for private sector organizations) or net revenues (for public sector organizations)	34	None
d.	Total capitalization broken down in terms of debt and equity (for private sector organizations)		
e.	Quantity of products or services provided		
G4-10			
a.	Report the total number of employees by employment contract and gender.	122	
b.	Report the total number of permanent employees by employment type and gender.	122	
c.	Report the total workforce by employees and supervised workers and by gender.	122	
d.	Report the total workforce by region and gender.	123	None
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.	123	
f.	Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	121	
G4-11	Report the percentage of total employees covered by collective bargaining agreements.	121	None
G4-12	Describe the organization's supply chain.	45	None
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including:		
a.	Changes in the location of, or changes in, operations, including facility openings, closings, and expansions	34	
b.	Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations)	34	None
c.	Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	137 - 138 141 - 143	

Reference:

GRI-G4 | G4 - 32

GENERAL STANDARD DISCLOSURES			
General Standard Disclosures		Page	External Assurance
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	35	None
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	3, 35	None
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization:	35	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		36	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		36 - 40	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.	38 - 40	None
G4-20	For each material Aspect, report the Aspect Boundary within the organization, as follows:		None
	Report whether the Aspect is material within the organization	38 - 40	
	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	38 - 40	
	Report any specific limitation regarding the Aspect Boundary within the organization	36	
G4-21	For each material Aspect, report the Aspect Boundary outside the organization, as follows:		None
	Report whether the Aspect is material outside of the organization	38 - 40	
	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	38 - 40	
	Report any specific limitation regarding the Aspect Boundary outside the organization	36	
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	36	None
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	38	None

Reference:

GRI-G4 | G4 - 32

GENERAL STANDARD DISCLOSURES			
General Standard Disclosures		Page	External Assurance
STAKEHOLDER ENGAGEMENT			
G4-24	Provide a list of stakeholder groups engaged by the organization.	41	None
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	40	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.	40 - 44	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.	41 -44	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).	3	None
G4-30	Reporting cycle (such as annual, biennial).	3	None
G4-31	Provide the contact point for questions regarding the report or its contents.	3	None
G4-32			None
a.	Report the 'in accordance' option the organization has chosen.	3	
b.	Report the GRI Content Index for the chosen option.	160 - 165	
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.	3	
G4-33			None
a.	Report the organization's policy and current practice with regard to seeking external assurance for the report.	3	
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.	35, 172	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.	6, 7	None

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	**DMA and Indicators**	**Page**	**Omissions**	**External Assurance**
Economic				
Economic Performance	DMA	109, 144 - 146	None	None
	G4-EC1 Direct economic value generated and distributed	109, 144 - 146	None	None
	G4-EC3 Coverage of the organisation's defined benefit plan obligations	131 - 132	None	None
Indirect Economic Impacts	DMA	144 - 146	None	None
	G4-EC7 Development and impact of infrastructure investments and services supported	146 - 147	None	None
Environmental				
Energy	DMA	154	None	None
	G4-EN3 Energy consumption within the organisation	155	None	None
Effluents and Waste	DMA	156	None	None
	G4-EN23 Total weight of waste by type and disposal method	157	None	None
Compliance	DMA	158	None	None
	G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	158	None	None
Social				
Labour Practices and Decent Work				
Employment	DMA	121	None	None
	G4-LA1 Total number and rates of new employee hires and employee turnover by age group, gender and region	124, 125	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	DMA	127	None	None
	G4-LA9 Average hours of training per year per employee by gender, and by employee category	129	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	DMA	121	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	121 - 123	None	None

Management Discussion and Analysis

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	DMA and Indicators	Page	Omissions	External Assurance
Equal Remuneration for Women and Men	DMA	130	None	None
	G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	130	None	None
Labour Practices Grievance Mechanisms	DMA	134	None	None
	G4-LA16 Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	134	None	None
Human Rights				
Non-Discrimination	DMA	134	None	None
	G4-HR3 Total number of incidents of discrimination and corrective actions taken	134	None	None
Child Labour	DMA	134, 142	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, 142	None	None
Forced or Compulsory Labour	DMA	134, 142	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
Society				
Anti-Corruption	DMA	135	None	None
	G4-SO4 Communication and training on anti-corruption policies and procedures	135	None	None
	G4-SO5 Confirmed incidents of corruption and actions taken	135	None	None
Anti-competitive Behaviour	DMA	117	None	None
	G4-SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	117	None	None
Compliance	DMA	135	None	None
	G4-SO8 Monetary value of significant fines and total number of non-monetary sanctions for non compliance with laws and regulations	135	None	None
Grievance Mechanisms for Impacts on Society	DMA	118	None	None
	G4-SO11 Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	48	None	None

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	**DMA and Indicators**	**Page**	**Omissions**	**External Assurance**
Product Responsibility				
Product and Service Labelling	DMA	116	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	117	None	None
Marketing Communications	DMA	116	None	None
	G4-PR6 Sale of banned or disputed products	116	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	116	None	None
Customer Privacy	DMA	118	None	None
	G4-PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	118	None	None
Compliance	DMA	116	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	116	None	None
Product Portfolio	DMA	119, 156, 118	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	119	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	156	None	None

TOGETHER WE CREATE A WORLD OF HARMONY


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Corporate Governance

HNB Assurance's Belief and Commitment towards Corporate Governance

We firmly believe that good corporate governance is not only fundamental in ensuring that the Company is well-managed in the interest of all its stakeholders, but is also essential to attain long-term sustainable growth. As we believe, corporate governance is of utmost importance in driving the Company towards sustainable success. Hence, the Board is committed towards maintaining its high standards of corporate governance in managing the Company in an ethical, efficient and effective manner whilst fostering an entrepreneurial culture.

Compliance with Corporate Governance Codes

HNB Assurance's practices are consistent with the requirements given in the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) as well as Rule Number 7.10 of the Listing Rules issued on Corporate Governance by the Colombo Stock Exchange (CSE). The principles set out in these codes have been adopted by us to shape our corporate governance structure.

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.

Good Corporate Governance is a Journey

We believe that good corporate governance is a journey and not a destination. Therefore, we are committed to reviewing our governance principles and practices continuously, based on internationally and domestically recognised principles and standards of best practice. Actions on refining good governance focus on strengthening the roles and responsibilities of the Board of Directors, improving the control environment, promoting disclosure and transparency and protecting stakeholder rights. At each stage of governance improvements, the Company continues to reflect on what its new needs are and what new opportunities can be derived from its governance model. The improvements in HNB Assurance's corporate governance practices over the last five years are given in the following table.

STATEMENT OF COMPLIANCE

HNB Assurance PLC is fully compliant with the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC. In addition, we have achieved the status of 'fully compliant' with the applicable sections of the Listing Rules issued on Corporate Governance by the CSE.

Our status of compliance with each section of the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC appears on pages 199 to 216. 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 217 to 219.

YEAR	ACTION TAKEN TO IMPROVE CORPORATE GOVERNANCE AT HNB ASSURANCE
2010	• Formed Procurement Committees to handle purchasing activities • For the first time, a self-assessment and a review of the performance of the Audit Committee by the Executive Committee were carried out • Commenced performing a voluntary Interim Audit (though not mandatory) for the six months ended 30th June 2010 to obtain an independent opinion on the Company's financial performance and internal controls
2011	• Introduced a Shareholder Feedback Form in the Annual Report to receive feedback from shareholders • Introduced a 'whistle blowing policy' to all members of the staff • Commenced educating new staff on the code of ethics, anti-money laundering requirements and whistle blowing policy at their induction programme • Established a separate Risk and Compliance function to overlook the risk and compliance activities of the Company
2012	• Started distributing, both Sinhala and Tamil, translations of the Chairman's Message, Managing Director's Review, Balance Sheet, Income Statement, Cash Flow Statement and Statement of Changes in Equity along with the Annual Report • Introduced a Share Dealing Policy and Code applicable to the Board of Directors and certain categories of employees • A self-evaluation of the Board of Directors' performance was carried out for the first time by the Board • Appointed the Board Secretary as the Secretary of the Audit Committee and the Remuneration Committee, thereby making these sub-committees completely independent from the Management • The Company's succession plan was extended to cover all positions at Manager level • Commenced reporting to the Board Integrated Risk Management Committee of the parent company, HNB on the risk management activities carried out in the Company
2013	• Established a Board Risk Management Committee to oversee the risk management activities of the Company • Adopted a Charter for the Board of Directors • Introduced a Code of Conduct and Ethics for the Directors • Adopted an Auditor Rotation Policy • Adopted a Risk Management Policy • Introduced a Risk appetite statement • Adopted a Compliance Policy

Corporate Governance

YEAR	ACTION TAKEN TO IMPROVE CORPORATE GOVERNANCE AT HNB ASSURANCE
2014	• Established a Board Related Party Transactions Review Committee • Introduced a Shareholders' Communication Policy • Adopted charters for the Related Party Transaction Review Committee and the Investment Committee • Rotated the external auditors and internal auditors of the Company for the first time after incorporating the Company in 2001 • The Company started preparing Key Risk Indicators of the Company and these reports were reviewed by the Risk Management Committee, the Board and the Board Integrated Risk Management Committee of the parent company, HNB • Representatives from the senior management team were invited to attend Board meetings • For the first time, a self-assessment and a review of the performance of the Risk Management Committee by the Executive Committee were carried out

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.

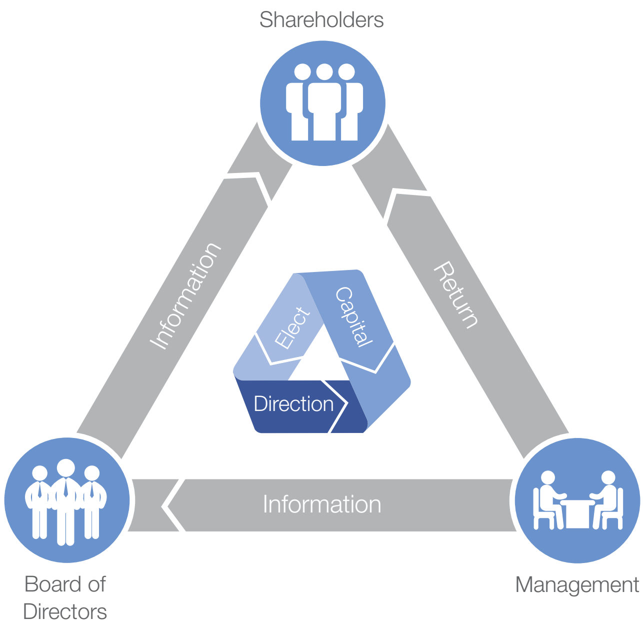
Our efforts in this regard have been recognised on a number of instances, and in 2014 we were awarded the second place in Corporate Governance Disclosures for our Annual Report 2013 at the 50th Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka (ICASL).

CORPORATE GOVERNANCE AT HNB ASSURANCE PLC

Corporate Governance Structure

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

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



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

CORPORATE GOVERNANCE

CONFORMANCE

Methods of Achievement:

- Ensures the existence of a suitable balance of power in the Board of Directors
- Ensures fair remuneration to Executive Directors
- Establishes responsibility for monitoring and managing risks with the Board of Directors
- Ensures the independence of External Auditors
- Addresses other issues. (e.g.) corporate social responsibility, protection of whistle-blowers, etc.

PERFORMANCE

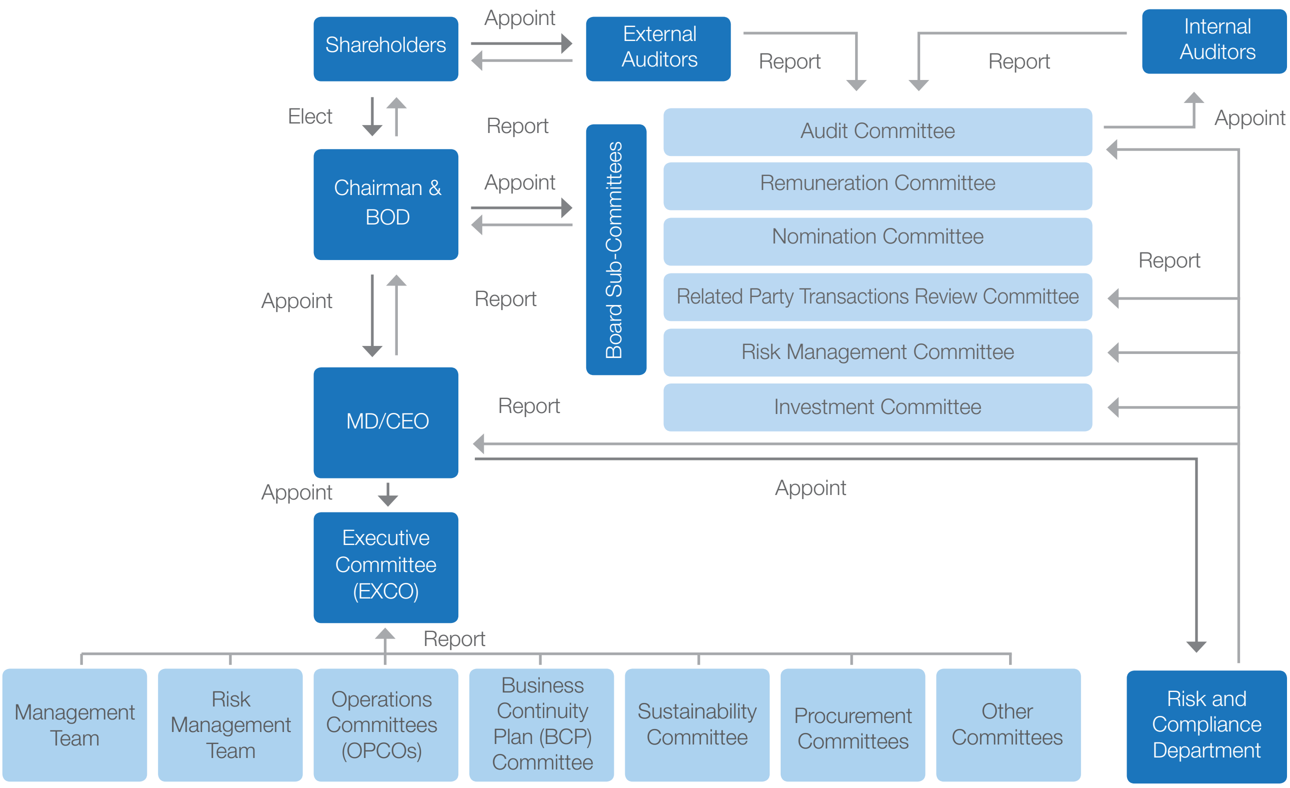
Methods of Achievement:

- Controls the controllers by improving reporting and disclosure to all stakeholders
- Increases the level of confidence in the Company activities within the minds of existing and potential investors and thus promotes growth
- Ensures the governance of the Company in a legal and ethical manner
- Embeds control at the apex of the hierarchy and enables it to cascade to the lower levels

Corporate Governance

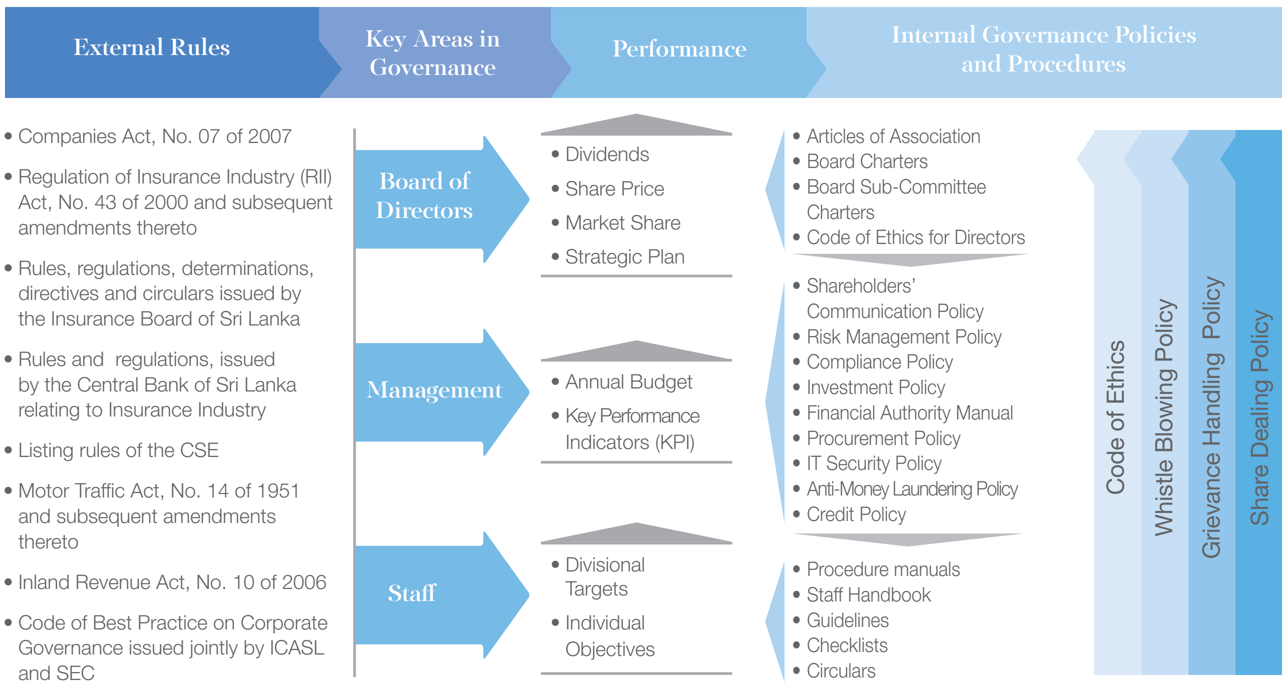
THE GOVERNANCE STRUCTURE OF HNBA

The fundamental relationship among HNBA's shareholders, the Board, management and auditors are depicted in the following diagram.



GOVERNANCE POLICY FRAMEWORK OF HNBA

Policies, charters and procedures of HNBA which also form an integral part of the Company's governance structure is given below.



SHAREHOLDERS

The Board and the senior management acknowledge their responsibility to represent the interests of all shareholders and to maximise shareholder value. Therefore, one of the main objectives of the Board is to represent, formulate and realise the interests and expectations of shareholders, who are the owners of the Company. In fulfilling the expectations of the shareholders, the Company has the following primary objectives;

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

Return to Shareholders

Please refer pages 110 to 112 of this Annual Report under 'Management Discussion and Analysis' for details of our policies and action taken in this regard.

Communication with Shareholders

During the year, the Company 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.

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. Moreover, efforts are also made to include a significant amount of important non-financial information that extends beyond regulatory requirements in the annual report.

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

Equitable Treatment to all Shareholders

The Company has consistently ensured that all shareholders are treated equitably. Accordingly, both Sinhala and Tamil language translations of the Chairperson's Message, the Managing Director's Review, Statement of Financial Position, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity were distributed along with our previous annual reports. The Company will continue the distribution of the above reports in Sinhala and Tamil languages, along with the Annual Report of 2014.

AWARDS WON BY THE 2013 ANNUAL REPORT

50th Annual Report Awards conducted by CA Sri Lanka

- Gold Award – Insurance Companies Sector
- Silver Award – Corporate Governance Disclosures

South Asian Federation of Accountants (SAFA) Best Presented Annual Report Awards

- 1st Runner up – Insurance Sector

AWARDS WON BY THE 2012 ANNUAL REPORT

49th Annual Report Awards conducted by CA Sri Lanka

- Bronze Award – Overall Excellence in Annual Financial Reporting
- Gold Award – Insurance Companies Sector

South Asian Federation of Accountants (SAFA) Best Presented Annual Report Awards

- Winner – Insurance Sector

Corporate Governance

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.

ANNUAL REPORT	DATE OF SUBMISSION TO THE COLOMBO STOCK EXCHANGE (CSE)
Annual Report – 2013	04th of March 2014
Annual Report – 2012	01st of March 2013
Annual Report – 2011	28th of February 2012
Annual Report – 2010	03rd of March 2011
Annual Report – 2009	24th of February 2010
Annual Report – 2008	25th of February 2009

Interim Financial Statements

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

- Circulating printed copies of interim financial statements amongst all shareholders
- Publishing interim financial statements in print media
- Publishing interim financial statements on the Company's website

All efforts are taken to ensure the accuracy of information published and accordingly, a voluntary interim audit was performed for the 6 months period ended 30th of June 2014. This enabled the receipt of an independent opinion from the External Auditors and hence, the interim financial statements published and circulated amongst the shareholders for the period ended on 30th of June 2014, were based on audited numbers.

Also in order to ensure the accuracy of the information disseminate to the public, all press releases and other communication relating to financial results are approved by the Managing Director and/or Chief Financial Officer.

Sustainability Reporting

Information on the Company's sustainability policies and practices are given from pages 34 to 165 in the sustainability section of the 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 impact 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 directors and the management team, information on new products, news and announcements are available on this website, which could be accessed at www.hnbassurance.com.

Meetings with Shareholders - Annual General Meeting (AGM)

The AGM is the most awaited meeting of the Company's shareholders since it provides an opportunity for direct communication between themselves and the Board of Directors. The Company will use the AGM as a tool to effectively communicate with shareholders and allow shareholders 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 12th Annual General Meeting (AGM) of the Company held on 27th of March 2014, at the Auditorium on Level 22 of "HNB Towers", at No: 479, T.B. Jayah Mawatha, Colombo 10.

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

RESOLUTION	PERCENTAGE OF VOTES
Declaration of a dividend of Rs. 3.25 per share	100%
Re-election of Mr. D. P. N. Rodrigo as a Director of the Company	100%
Re-election of Mrs. S. N. Wickramasinghe as a Director of the Company	100%
Ordinary Resolution one - Re-appointment of Mr. M. U. de Silva as a Director of the Company	100%
Ordinary Resolution two - Re-appointment of Mr. J E P A de Silva as a Director of the Company	100%
Special Resolution - Authorising the transfer of the general insurance business to a wholly owned subsidiary to effect the segregation required in terms of Section 53 of the Regulation of Insurance Industry (Amendment) Act No.3 of 2011	100%
Appointing Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants, as the Auditors for the ensuing year and authorising the Directors to fix their remuneration.	100%
Authorising the Directors to determine payments for charitable and other purposes	100%

Matters Discussed at the AGM

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

- A shareholder requested to explain the statutory requirement for the segregation of insurance companies and enquired whether there will be an increase of employees as Chief Operating Officers have to be appointed for each company. He also enquired about the new products introduced during the year.

Response:

According to the guidelines issued by the IBSL, the Company has proposed to appoint two Chief Operating Officers who will be the Principal Officers for Life and General insurance companies whilst the Managing Director/Chief Executive Officer and the Chief Financial Officer will be common to both the companies. Further, Mr. Niranjan Manickam – General Manager – General and Mr. Prasantha Fernando - General Manager – Life will be appointed as the two Chief Operating Officers of each Company. There will not be a major effect on the number of employees as the Company will have to recruit only about 10-12 employees additionally with the expansion of the Branch network for Life and General insurance separately.

Also, the Company has launched a series of Takaful products making the Company the first conventional insurer in Sri Lanka to introduce a Takaful window. Further, the Company has introduced an e-Life product enabling the customers to purchase a Life policy through the Web by following four simple steps.

- A shareholder enquired about the impact of the segregation in a competitive environment considering the competition in the insurance industry and what the prospects are for next five year period.

Response:

The insurance industry has become increasingly competitive and with the segregation, competition among players will increase further. However, both Life and General businesses have great potential for expansion. In respect of Life insurance, penetration is very low, only 12% of the population have taken life insurance covers and there are many areas yet to be tapped. The Company is expecting to reach these untapped areas through the Bancassurance units stationed at HNB Branches. Further, as employees will be more focused on one line of business, specialising in a particular business line, performance is expected to improve further in future. The Company expects a better performance from both lines of business as the Company has posted a 21% combined revenue growth in 2013 which is higher than most of the industry peers.

- A shareholder enquired whether the Company is dealing with other Financial institutions to sell insurance products.

Response:

The Company is not barred from working with other financial institutions, although HNB is a key source of business generation. The Company has entered into an agreement with Central Finance PLC with regard to their new three wheeler promotion of which the entire insurance business will be routed to the Company. In addition, the Company is working with Alliance Finance PLC, Sinhaputra Finance PLC, Lanka Orix Finance PLC, and many other Leasing Companies and Banks.

- A shareholder enquired about the main reasons for the proposed segregation.

Response:

As per the amendment to the Regulation of Insurance Industry Act, all composite insurers are expected to split into a Life company and a General company by February 07th 2015. The IBSL expected all insurance companies to comply with this regulation by 1st January 2015. Restricting intermittent transfers in respect of capital, liquidity and solvency between Life and General insurance when carrying on a combined business by a single company, could be one of the reasons for IBSL's proposal for segregation. In addition, promoting consolidation within the insurance industry and encouraging insurance companies to focus on one line of business are some of the other reasons for the segregation.

- A shareholder enquired the amount spent for charitable and other purposes.

Response:

In 2013, the Company has spent a sum of Rs. 300,000/- on charitable and other purposes. In addition, the Company has spent approximately Rs. 2.5 Million for CSR projects, which includes successful completion of the 25th project to provide access to water to needy schools and the completion of two more projects by the end of the year.

- A shareholder enquired whether the CSR projects are limited to a certain area of the country.

Response:

The Company carries out CSR projects throughout the island, further details of which are given in the Annual Report 2013 (pages 130 to 136).

Feedback and enquiries by Shareholders

Feedback

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 the Form and provide their comments regarding the Company. The feedback so received is attended to by the Board or the management as appropriate. Please refer page 397 for the Investor Feedback Form.

Enquiries

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

Telephone	:	+94 11 2661856
E-mail	:	Shiromi.Halloluwa@hnb.lk
Address	:	*Company Secretary -* HNB Assurance PLC No. 479, T. B. Jayah Mawatha, Colombo 10, Sri Lanka.

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

Responding to Shareholders' enquiries

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

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

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

Submission of Information to the Colombo Stock Exchange/Shareholders

The Company acknowledges the importance of publishing essential information with the CSE as required by the Listing Rules and ensures that all such requirements are met in a timely manner. Further, we ensure that all relevant information is provided to shareholders, even beyond regulatory requirements. The table on page 177 demonstrates the dates on which important information was released to the CSE/ shareholders during the year 2014.

Important CSE/Shareholder Communications during 2014

NATURE OF THE INFORMATION	DATE IN 2014
Dividend announcement to CSE	03rd February
Submission of unaudited interim financial statements for the year ended 31st December 2013 to CSE	05th February
Circulation of unaudited financial statements for the year ended 31st December 2013 to shareholders	06th February
Publication of unaudited financial statements for the year ended 31st December 2013 in the print media (Daily FT)	07th February
Submission of audited financial statements (Annual Report) for the year ended 31st December 2013 to CSE	04th March
Circulation of audited financial statements (Annual Report) for the year ended 31st December 2013 to shareholders	04th March
Annual General Meeting (AGM)	27th March
Announcement of the appointment of Messrs. PricewaterhouseCoopers – Chartered Accountants as external auditors for the financial year 2014 to CSE	27th March
Announcement of the special resolution passed at the AGM on the segregation of long term insurance business and general insurance business of the Company	28th March
Submission of unaudited interim financial statements for the 1st quarter (31st March 2014) to CSE	13th May
Circulation of unaudited interim financial statements for the 1st quarter (31st March 2014) to shareholders	21st May
Publication of unaudited interim financial statements for the 1st quarter (31st March 2014) in the print media (Daily FT)	21st May
Announcement to CSE on the resignation of Mr. Joseph Eardley Pratapkumar Aditya De Silva from the Board	22nd May
Announcement to CSE on the appointment of Dr. Sivakumar Selliah to the Board	17th June
Announcement to CSE on the Shareholding of the newly appointed Director Dr. Sivakumar Selliah	18th June
Submission of unaudited interim financial statements for the 2nd quarter (30th June 2014) to CSE	07th August
Circulation of unaudited interim financial statements for the 2nd quarter (30th June 2014) to shareholders	13th August
Publication of unaudited interim financial statements for the 2nd quarter (30th June 2014) in the print media (Daily FT)	14th August
Announcement to the CSE on the resignation of Messrs. PricewaterhouseCoopers – Chartered Accountants from being external auditors and appointing Messrs. Ernst & Young – Chartered Accountants as external auditors for the year ending 31st December 2014 with effect from 31st October 2014	31st October
Submission of unaudited interim financial statements for the 3rd quarter (30th September 2014) to CSE	04th November
Circulation of unaudited interim financial statements for the 3rd quarter (30th September 2014) to shareholders.	12th November
Publication of unaudited interim financial statements for the 3rd quarter (30th September 2014) in the print media (Daily FT)	07th November
Announcement to the CSE on the date of the 13th Annual General Meeting to be held on 27th March 2015	08th December

Communication with Institutional Shareholders, Analysts and Media Releases

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

Further, the Management is reviewing research reports regarding HNBA prepared by various institutions. Under normal circumstances, the Company will make no comment on analyst's financial projections or opinions. However, where a research report contains inaccurate information, the Managing Director or a designated person by him will inform the analyst of the correct information if that information is already in the public domain and not price sensitive.

Inquiries with regard to Media Releases

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

Telephone	:	+94 11 2436182 / +94 11 4793701
E-mail	:	manjula.desilva@hnbassurance.com
Address	:	Managing Director - HNB Assurance PLC No. 10, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.

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

Telephone	:	+94 11 2421909 / +94 11 4793702
E-mail	:	vipula@hnbassurance.com
Address	:	Chief Financial Officer - HNB Assurance PLC No. 10, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.

Minimum Public Float

The Company's shares are listed on the main board of the Colombo Stock Exchange (CSE). A majority of the shareholders are Sri Lankan residents, while the bulk of the shares are held by institutional shareholders. Details of the top 20 shareholders and other related information are provided on pages 384 to 387.

In December 2013, the Securities and Exchange Commission of Sri Lanka issued a directive to all public quoted companies to adopt the rules on minimum public float as a continuing listing requirement. Accordingly all companies listed on the main board are directed to maintain;

- a minimum of 20% of total listed ordinary voting shares in the hands of a minimum of 750 public shareholders; or
- a market capitalisation of Rs. 5 Billion of its public holding in the hands of a minimum of 500 public shareholders while maintaining a minimum public holding of 10%.

The Company has consistently maintained its minimum public shareholding well within these regulations and the Company's public shareholding over the last five years is given in the following table.

YEAR	PUBLIC SHAREHOLDING	
	%	NO. OF SHARE-HOLDERS
2014	39.14	3,467
2013	39.76	3,662
2012	39.86	3,773
2011	39.77	3,957
2010	39.80	3,836

Details of the shareholders of the Company and aggregate shareholding are set out in the 'Shareholder Information' section on pages 384 to 388 of this Annual Report.

BOARD OF DIRECTORS

The Company's commitment to uphold the highest standards of corporate governance is driven by the Board of Directors which, led by the Chairperson, assumes overall responsibility for the governance of the Company. Each Director identifies himself/herself with a duty to act in good faith and in the best interest of the Company.

There are four major components in the Board governance framework of HNB Assurance PLC.

- Key roles of the Board – the role of the Board and key players in the Board governance activities
- Board functions – the activities that the Board performs in discharging its responsibilities
- Board procedures – the administrative functions and the processes of the Board
- Governance activities – the procedures and processes which lay the foundation for continued improvement in good governance

BOARD GOVERNANCE FRAMEWORK

KEY ROLES OF THE BOARD

- Board Composition
- Role of the Board
- Roles of the Chairperson and the CEO
- Roles of Directors
- Role of the Board Secretary

BOARD FUNCTIONS

- Board Charter
- Board Activities
- Board Responsibilities
- Board Sub-Committees

BOARD PROCEDURES

- Board Meetings
- Board Proceedings
- Independent Judgment of Directors

GOVERNANCE ACTIVITIES

- Self Assessment of the Board
- Directors' Remuneration
- Code of Ethics for Directors
- Code for dealings in HNBA shares

Key Roles of the Board

The fundamental role of the Board is to provide entrepreneurial and coherent leadership within a framework of prudent and efficient controls, which enables risks to be assessed and managed. The Board seeks to achieve this through setting out its strategy, monitoring its strategic objectives and providing oversight of its implementation by the management team.

Board Composition

The Board portrays a balance between Executive and Non-Executive Directors each of whom brings a strong and in-depth mix of knowledge, business skills and experience to the Board's deliberations.

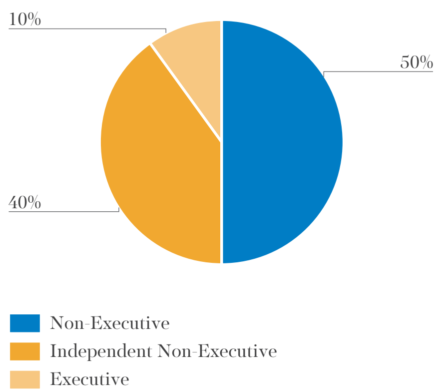
Board Balance

By the end of the year, the Board comprised ten Directors and all, except the Managing Director, are non-executive, thereby promoting critical review and control.

Please refer pages 24 to 27 for profiles of the members of the Board of Directors.

The Board has nine Non-Executive Directors, and this number is in excess of the minimum requirements in the Code of Best Practice on Corporate Governance and the Listing Rules, which require that

Composition of the Board



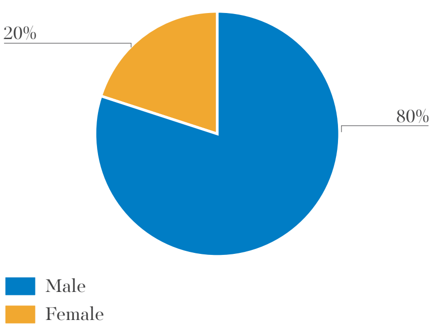
one third of the total number of Directors, should be non-executive.

Of the nine Non-Executive Directors, five Directors are not considered independent, due to their association with Hatton National Bank PLC, the parent company which possesses a substantial interest (59.99%) in the Company. Four Non-Executive directors are being independent in excess of the 1/3rd requirement.

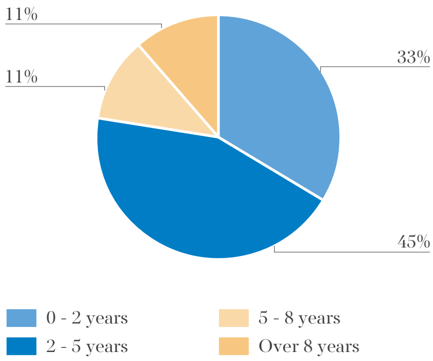
Board Diversity

In line with one of the Company's core values, "foster diversity as a corporate strength", the Board recognises the benefits of diversity in its widest sense – i.e. both at Board level and throughout all levels of the Company. As a general objective, the Board ensures that it is composed of directors with diverse backgrounds and personal traits as well as competencies and expertise that add value to the Company. This diversity enriches the debates and dialogues within the boardroom.

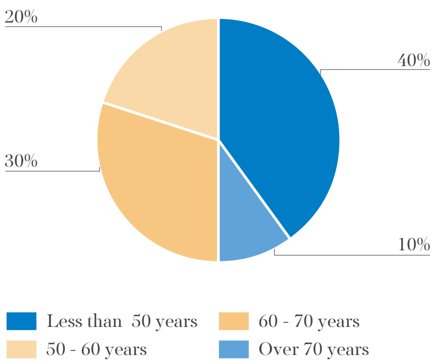
Board Gender Split



Length of Tenure of Non-Executive Directors



Age of the Directors



Appointments and Re-election of Directors

We recognise the importance of having a Board equipped with the skills and experience necessary for the proper discharge of its responsibilities in order to ensure the continued effective oversight of the Company's operations as well as for effective and timely decision making. Hence, we are committed to conducting Board renewals to ensure that fresh perspectives are infused periodically and that it continues to possess the skills and experience required to govern amidst a highly dynamic operating environment.

Appointments

According to Section 92 of the Articles of Association of the Company, the Board possesses the power to appoint any person, at any time, as a Director, either to fill a casual vacancy or as an additional member of the Board, subject to applicable regulations and obtaining approvals from regulatory authorities. Any Director so appointed, shall hold office until the next Annual General Meeting where he/she is then eligible for re-election.

In line with these guidelines and in upholding the best interest of the Company, steps are taken to ensure that all new appointments of independent directors to the Board are made following a formal and transparent procedure through the Nomination Committee. Nominees of the parent company are nominated by its Board.

Accordingly during the year, the name of Dr. Sivakumar Selliah was recommended by the Nomination Committee to be appointed as an independent non-executive director. This recommendation was approved by the Board of Directors unanimously. Accordingly Dr. Sivakumar Selliah is eligible for re-election by the shareholders at the Annual General Meeting (AGM) to be held on the 27th of March 2015.

Re-election

According to Section 86 of the Articles of Association of the Company, directors other than the Chairman, the Managing Director and Nominee Directors have to retire by rotation at least once every three years.

As per Sections 210 and 211 of the Companies Act, No 7 of 2007, a director who has attained the age of seventy years has to retire and his/her re-appointment is required to be approved by a resolution passed at a General Meeting. Accordingly, the re-appointment of Mr. M U de Silva is subject to such approval at the Annual General Meeting to be held on the 27th of March 2015.

Please refer the Notice of Meeting on page 394 for more information in this regard.

Disclosure Relating to the Appointment of New Directors

All appointments of new directors are informed to the shareholders, with sufficient details, via immediate notification to the CSE.

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

Moreover, the annual report also carries details of new appointments of Directors.

Resignation of Directors

During the year Mr. Pratapkumar de Silva, an Independent Non-Executive director who joined the Board in 2008 resigned from the Company. However, he was appointed as a director of HNB General Insurance Limited which is a fully owned subsidiary of the Company. The relevant resignation has been duly informed to the Colombo Stock Exchange.

Assessment of the Board Composition

The composition of the Board is subject to continuous review by the Nomination Committee, especially in line with the changes in the environment and regulations. The Committee then makes recommendations for new appointments where necessary.

Roles of the Chairperson and the Chief Executive Officer (CEO)

The posts of Chairperson and MD/CEO were held separately by Dr. Ranee Jayamaha and Mr. Manjula de Silva, respectively. This segregation ensures a clear distinction between the Chairperson's responsibility to manage the Board and the CEO's responsibility to manage the Company's business, and thereby ensures the balance of power and authority.

Role of the Chairperson

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

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

Role of the Chief Executive Officer

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

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

Corporate Governance

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

Role of Directors

Role of Non-Executive Directors

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

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

Role of Independent Non-Executive Directors

Four Non-Executive Directors of the Company, namely Mr. Sarath Ratwatte, Mr. J A P M Jayasekera, Mr. K Balasundaram, and Dr. S Selliah operate as Independent Non-Executive Directors. In addition to their expertise and fresh perspectives, these directors also bring independent judgment to the Board and take an unbiased stance in situations where conflicts of interest may arise.

Further information on the determination of independence of directors and declarations of independence are given on page 203 under section A.5.3, A.5.4 and A.5.5

Role of the Board Secretary

Ms. Shiromi Halloluwa, an Attorney-at-Law by profession, serves as the Board Secretary. Her role is to support the Chairperson, the Board and the Sub-Committees of the Board by ensuring a proper flow of information and also by ensuring that Board policies and procedures are followed. The Board Secretary is an employee of the parent company, Hatton National Bank PLC and was appointed by the Board.

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

Board Functions

The Board is working towards the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interest of the Company. The Directors are aware of their collective and individual responsibilities to the shareholders for the manner in which the affairs of the Company are managed, controlled and operated.

Board Charter

The functions of the Board are governed by a Board Charter, which sets out the direction and the main responsibilities of the Board.

SUMMARY OF THE BOARD CHARTER

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

Board Activities

Board activities are structured to assist the Board in achieving its goal of supporting and advising the senior management on the delivery of the Company's strategy, within a transparent governance framework.

During the year 2014, a total of 11 Board meetings were held. The routine items tabled at Board meetings included monthly reports from the CFO on financial performance, quarterly reports from General Managers of the Life and General Divisions on business performance and minutes of the Board sub-committee meetings held prior to each Board meeting.

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

- Resignation of Mr. Pratapkumar de Silva from the Board
- Appointment of Dr. S. Selliah as a director of the Company
- Establishing the Related Party Transaction Review Committee to oversee the Related Party transactions of the Company
- Adopting the Shareholders' Communication Policy
- Adopting the Charters for Related Party Transaction Review Committee and Investment Committee
- Reconstituting the Remuneration Committee by appointing Mr. K Balasundaram, Independent Non-Executive Director as the Chairman of the Committee
- Approving the segregation of the Company and the approval to transfer the General Insurance business of the Company to HNB General Insurance Limited
- Reviewing and approving various other documents and information in respect of segregation of Life and General Insurance Businesses of the Company.
- Approving the investment of Rs. 1 Billion in HNB General Insurance Ltd (in two tranches of Rs. 100 Million initially and Rs. 900 Million immediately before transferring the General Insurance Business to meet the regulatory and business capital requirements).
- Expanding the Investment Committee by appointing Ms. Siromi Wickramasinghe and Dr. S Selliah as members of it in January and October 2014 respectively.

Responsibilities of the Board

The Board's responsibilities are given in the following areas of this Annual Report;

- Board's responsibility over the day to day operations of the Company: section A.1.2 from pages 199 to 201
- Board's responsibility over the accountability and the audit of the Company: section A.1.2 from pages 199 to 201
- Board's responsibility for the preparation and presentation of financial statements: page 267

Roles and Responsibilities of the Board Sub-Committees

The Board has delegated certain responsibilities to six Board sub-committees namely, Audit Committee, Remuneration Committee, Nomination Committee, Related Party Transactions Review Committee, Risk Management Committee and Investment Committee, to assist it in carrying out its function of ensuring independent oversight.

All Board sub-committees follow the same principles and procedures as those of the Board and are provided with sufficient resources to perform their duties. The Board sub-committees report to the Board on a regular basis, and keep the Board informed of their recommendations.

The following tables describe the responsibilities of each sub-committee during 2014 and up to the date of this report and provide a summary of the work undertaken on behalf of the Board.

AUDIT COMMITTEE

	COMMENTS
Membership	Three Non-Executive Directors (two of whom are independent)
Chairman	J A P M Jayasekera (FCA) - Independent Non-Executive Director
Other Members	S C Ratwatte - Independent Non-Executive Director A J Alles - Non-Executive Director
Secretary	Board Secretary
Invitees	Managing Director, Chief Financial Officer, Other EXCO Members, Finance Manager, Manager – Risk and Compliance, External & Internal Auditors and Consultant Actuaries
Minimum Meeting Frequency	Quarterly (04 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 Audit Committee Charter which is reviewed annually. Some such key responsibilities 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 • Continuous review of the Company's compliance with financial reporting requirements such as Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act, Regulation of Insurance Industry Act and other regulations of the Insurance Board of Sri Lanka Please refer the Audit Committee Report on pages 225 to 230 for more details.

REMUNERATION COMMITTEE

	COMMENTS
Membership	Three Non-Executive Directors (two of whom are independent)
Chairman	K Balasundaram - Independent Non-Executive Director
Other Members	M U de Silva - Non-Executive Director S C Ratwatte - Independent Non-Executive Director
Secretary	Board Secretary
Invitees	Managing Director and Head of HR
Minimum Meeting Frequency	Once a year (03 meetings were held during the year)
Circulation of Agenda and Papers	One week in advance

	COMMENTS
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Remuneration Committee Charter which is reviewed annually. Some such key responsibilities are: • Reviewing and recommending to the Board on the remuneration package for the MD/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 Remuneration Committee Report on pages 231 to 232 for more details.

NOMINATION COMMITTEE

	COMMENTS
Membership	Four Directors (including the Chairperson and the Managing Director)
Chairman	Dr. Ranee Jayamaha, Chairperson - Non-Executive Director
Other Members	Manjula de Silva – Managing Director M U de Silva - Non-Executive Director A J Alles - Non-Executive Director
Secretary	Board Secretary
Invitees	None
Minimum Meeting Frequency	As and when necessary (02 meeting were held during the year)
Circulation of Agenda and Papers	As and when necessary
Main Functions of the Committee	• Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise • Periodically review the composition of the Board and recommend changes required, if any.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

	COMMENTS
Membership	Three Directors (two of whom are independent and one Executive Director)
Chairman	S C Ratwatte - Independent Non-Executive Director
Other Members	J A P M Jayasekera - Independent Non-Executive Director Manjula de Silva – Managing Director
Secretary	Manager – Risk and Compliance
Invitees	Chief Financial Officer, other EXCO Members and Finance Manager
Minimum Meeting Frequency	Quarterly (the Committee was formed in March 2014 and therefore only three meetings were held during the year)

	COMMENTS
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Related Party Transactions Review Committee Charter. Some such key responsibilities are: • Ensuring that the Company complies with the rules set out in the Code of Best Practices on Related Party Transactions issued by the SEC ('Code'). • 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 and the Board to carry out their statutory, regulatory and other responsibilities with regard to related party transactions Please refer the Related Party Transactions Review Committee Report on pages 233 and 234 for more details.

INVESTMENT COMMITTEE

	COMMENTS
Membership	Four Directors and one external expert
Chairman	S C Ratwatte - Independent Non-Executive Director
Other Members	Siromi Wickremasinghe - Non-Executive Director Dr. S Selliah - Independent Non-Executive Director Manjula de Silva – Managing Director Rajive Dissanayake – Chief Manager Strategic Planning at HNB PLC
Secretary	Chief Financial Officer
Invitees	Head of Investment, Manager - Risk and Compliance and Assistant Managers – Investments
Minimum Meeting Frequency	Quarterly (04 meetings were held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Investment Committee Charter. Some such key responsibilities are: • Developing and setting guidelines and policies to manage the investment portfolios of the Company • Making recommendations on investment strategies by evaluating and reviewing the performance of the investment portfolios • Monitoring compliance with laws, regulations and internal guidelines relating to investments • Monitoring the implementation of the Investment Policy of the Company Please refer the Investment Committee Report on pages 235 and 236 for more details.

RISK MANAGEMENT COMMITTEE

	COMMENTS
Membership	Three Non-Executive Directors
Chairman	Dilshan Rodrigo - Non-Executive Director
Other Members	M U de Silva – Non-Executive Director K Balasundaram – Independent Non-Executive Director
Secretary	Manager – Risk and Compliance
Invitees	Managing Director, Chief Financial Officer and other EXCO Members
Minimum Meeting Frequency	Quarterly (04 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 Risk Management Committee Charter. Some such key responsibilities are: • Reviewing the Company's risk management framework, including significant policies, processes and systems, as well as risk measurement methodologies and approaches to stress testing • Reviewing and approving the Company's Risk Register and receiving reports on the Company's adherence to significant risk limits • Developing a Risk Appetite Statement for the Company and reviewing the same with the management by periodically assessing the performance against the established risk appetite • Receiving reports from, review with, and provide feedback to, the management on the categories of various risks the Company faces • Ascertaining whether the decisions relating to functions with high risks are taken in accordance with established delegated authorities • Reviewing and discussing the progress of the implementation of the Risk Based Capital (RBC) framework in the Company as required by the Insurance Board of Sri Lanka Please refer the Risk Management Committee Report on page 237 for more details.

Corporate Governance

Board Procedures

Board 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. In addition, sub-committee meetings are held, depending on the requirement.

The Board Secretary draws up the agenda in consultation with the Directors prior to each Board meeting, as delegated by the Chairperson. Comprehensive Board papers are sent to all Directors seven days in advance of each Board meeting in order that they have sufficient time to review the affairs to be discussed.

During the meetings and at regular intervals, all Directors are given, in a timely manner, adequate information which is accurate, clear, complete and reliable. This is in order for them to maintain effective control over the strategic, financial, operational, compliance and corporate governance issues of the Company.

The Board Secretary keeps detailed minutes of each meeting, and records all matters considered by the Board, the decisions reached and any concerns raised or dissenting views expressed by each Director. Minutes are sent to all Directors in a timely manner for their comments and record.

Similar processes apply to Board sub-committee meetings as well. The number of Board meetings and sub-committee meetings held during 2014, together with individual attendance, is given on page 260.

Board Proceedings

The Directors are supplied with all relevant and financial information in a timely manner, to assist them in the discharge of their duties. Please refer section A.6 on page 204 for more information on the supply of information.

Members of the senior management also participate at Board meetings, to report on matters relating to their areas of responsibility, and also to brief and present details to the Directors on recommendations submitted for the Board's consideration. Additional information or clarification may be sought by the Board, particularly with respect to complex and technical issues tabled.

All Directors have direct access to the Board Secretary who is responsible for advising the Board on corporate governance and compliance issues.

The Board Charter permits all Directors to seek independent professional advice, at the Company's expense, if considered appropriate and necessary, at any time.

However, no such advice has been taken by any of the Directors during 2014.

Independent Judgment of Directors

While the Board is conscious of its obligation to ensure that Directors avoid conflicts, between their duty towards the Company and towards their other interests, all Directors of the Company are expected to make decisions objectively, avoiding conflicts of interest and in the best interest 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. 7 of 2007. This has been fully complied with and adequately disclosed in this Annual Report.

During the year, the Board established the Related Party Transactions Review Committee to review all related party transactions of the Board Members.

Please refer pages 345 to 349 and 266 for information on related party disclosures and Directors' interests in contracts respectively.

Board Meeting without the Presence of the Executive Director

The Board meets at least once a year without the presence of the MD/CEO. A key area of focus of this meeting is the performance of the MD/CEO and his remuneration package. Any other such meeting would be held as and when the need arises.

Recording of Concerns which are not Unanimously Resolved at Board Meetings

During the year, there were no resolutions that were arrived at without the unanimous consent of the Board. However if such concerns do arise, the Company's policy is to record them accordingly.

Dedication of Adequate Time and Effort by the Directors

Directors ensure that they are able to render sufficient time and attention to the affairs of the Company and a confirmation to that effect is included in their letters of appointment. Number of Board seats held by Directors, other than in HNBA is given in the following table.

NAME OF THE DIRECTOR	NUMBER OF BOARD SEATS HELD OTHER THAN IN HNBA	
	LISTED	NON LISTED
Dr. Ranee Jayamaha	2	3
Manjula de Silva*	-	1
M U de Silva	-	2
Sarath Ratwatte	1	-
Jonathan Alles	2	6
J A P M Jayasekera	5	2
K Balasundaram	-	30
Dilshan Rodrigo	-	3
Siromi Wickramasinghe	1	-
Dr. Sivakumar Selliah	9	6

* The Executive Director does not hold a directorship in any other company other than the Company's fully-owned subsidiary, but is encouraged to participate in professional, public and community organisations and dialogues.

Governance Activities

Evaluation of the Board

During the year, the Board conducted a self–evaluation of its performance, using a checklist which covered a range of areas including, but not limited to, the composition of the Board, skills and experience of the members, adequacy and the role of Board sub-committees, proceedings of meetings and quality of reports and material submitted. Each Director filled the checklist and submitted it 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.

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 and the Risk Management Committee using a checklist, which was prepared so as to cover the responsibilities of the Committees, derived from their Charters.

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

Appraisal of MD/CEO

Setting Annual Targets for the MD/CEO

The Board, in consultation with the MD/CEO, sets reasonable financial and non-financial targets in line with the short, medium and long term objectives of the Company, which are to be achieved by the MD/CEO every year.

These corporate objectives are included in the Corporate Plan for the year, which is in turn, reviewed and approved by the Board. The main focus areas of the Corporate Plan 2014 were;

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

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

Performance Evaluation of the MD/CEO

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

Directors' Remuneration

Please refer to pages 207 and 208 under Section B for information relating to the remuneration procedure and page 261 for the details on Directors' remuneration.

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.

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 code by a Director, with or without the participation of any Director who may be the subject of such report.

Dealing in Shares of the Company

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

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

Key Restrictions as per the Policy

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

- Clearance from the required officers as per the policy shall always be sought before dealing in shares of the Company, even during open periods.
- The 'Open Period' commences after four (4) market days upon announcing the quarterly results of the Company and terminates after the 15th day of the last month of each quarter.
- If clearance is given, dealing must be completed within five market days. A fresh clearance must be sought if dealing is not completed within this period.
- Dealing in Company shares should not be based on short-term considerations. Generally, such shares should not be sold within six months of purchase and purchases should not be made within six months of any sale.
- Dealing in shares of any listed company within the HNB Group at any time, when in possession of unpublished price sensitive information in relation to those shares, should not be done.

The terms of this Policy also applies to all connected/related persons of persons named in this policy.

Training for New and Existing Directors

The Board acknowledges the need for continuous development and expansion of knowledge and skills of new and existing Directors.

Accordingly, new Directors are inducted to the Board by providing them with a comprehensive understanding of their duties and responsibilities. Moreover, adequate knowledge sharing opportunities are provided to both new and existing Directors on a continuous basis at the Company's cost in respect of matters relating to the general aspects of directorship as well as matters specific to the industry and the Company.

The Directors are also constantly updated on the latest trends and issues facing the Company and the insurance industry.

MANAGEMENT AND STAFF

The Board, while monitoring the performance of the Company, relies on the management for the day-to-day operation of the business, and holds the management accountable for the achievement of set objectives. Further, the Board works closely with the management in formulating the Company's direction, strategies as well as action plans to deal with the various opportunities and risks faced by the Company.

Accordingly, both the management and the staff play a major role in the governance structure of the Company. Their primary task is the successful implementation of strategies as determined by the Board in terms of directions agreed upon. In doing so, they apply business principles and ethics which are consistent with those anticipated by the Board, the Company's shareholders and other stakeholders.

Governance Activities Relating to the Management

The Company has adopted various policies, procedures and guidelines in order to strengthen its governance structure.

Additionally, various committees have been appointed to overlook the management function.

Governance Structure of the Management

Managing Director/CEO

As the only Executive Director represented on the Board, the MD/CEO, is responsible to the Board for managing the business of the Company.

Executive Committee

The MD/CEO has appointed an Executive Committee (EXCO) to support him in managing the Company according to the directions set by the Board. Accordingly, the Company's management function is headed by the EXCO chaired by the Managing Director/CEO and consists of 8 other members.

MANAGEMENT GOVERNANCE FRAMEWORK

Corporate Governance

Names and brief profiles of the members of the Executive Committee are given on pages 28 to 31.

Operations Committees

The decisions taken at the EXCO are communicated and implemented through various divisional Operations Committees (OPCOs). OPCOs are headed by the General Managers or the Heads of Division, and comprise members of the senior management teams of the respective divisions.

Other Committees

In order to strengthen the governance structure of the Company, various cross-functional committees, such as the Business Continuity Plan (BCP) Committee, Risk Management Team, Sustainability Committee, Product Development Committees, Procurement Committees, etc. are formed to complete tasks that require the support of several divisions.

Risk and Compliance Department

It is in view of the need to strengthen governance over its internal controls that the Company has established the Risk and Compliance Department. The tasks of the Risk and Compliance Department include:

- Monitoring the effective implementation of internal controls of the Company and the adherence to such controls
- Coordinating with Internal Auditors, External Auditors, management and the Audit Committee and ensuring the Auditors' recommendations are properly implemented
- Conducting special reviews on areas of concern identified by the management or the Audit Committee
- Ensuring that an effective risk management process is in place to identify, measure and manage the risks faced by the Company and following up on actions required to mitigate the identified risks
- Ensuring that the Company's activities are within the limits set in the Risk Appetite Statement
- Ensuring that the Company's risk management and compliance activities are carried out in line with the Risk Management Policy and Compliance Policy
- Monitoring the Company's compliance with all applicable laws and regulations
- Ensuring that the Company has an effective Business Continuity Plan (BCP) and monitoring the implementation of the same

Manager - Risk and Compliance submits reports to the Board sub-committees on the status of compliance relating to the respective areas. He started tabling a summarised Compliance Report at the Board on a monthly basis from August 2014 onwards.

Manager - Risk and Compliance reports directly to the Managing Director and the Chairman of the Audit Committee and has the right to consult the Audit Committee without reference to the management.

Segregation of the Life and General Insurance Businesses of the Company

As per the section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 and subsequent guidelines issued by the Insurance Board of Sri Lanka (IBSL), all insurers were required to segregate their long term insurance business and general insurance business into two separate companies by 1st January 2015.

In order to comply with this requirement, HNBA incorporated a fully owned subsidiary company, namely HNB General Insurance Limited (HNBGI) (PB 5167) and obtained the approval of IBSL for it to carry-out General Insurance business and the approval of the District Court to transfer the existing general insurance business of HNBA to HNBGI.

This segregation of the Company had an impact on all stakeholders of the Company. Therefore, the Company ensured that this segregation was carried out in a transparent manner considering the impact to all its stakeholders. The Company was able to successfully carry out the segregation of the business and transfer the general insurance business to its fully owned subsidiary HNB General Insurance Limited on 1st January 2015.

CASE STUDY

The segregation of the Company made an impact on all stakeholders, which necessitated the Company to ensure that the concerns of all its stakeholders are addressed during the segregation process. The process followed by the Company when carrying out the segregation is given below for the information of all stakeholders.

Biggest concern over the segregation

The biggest concern the Company had with the segregation requirement was the resultant increase in expenses due to duplication of work in some areas. This concern was raised with the Insurance Board of Sri Lanka (IBSL) through the Insurance Association of Sri Lanka (IASL), and consequent to discussions between the two parties, it was agreed to segregate only the areas of underwriting, claims and policyholder complaints management, reinsurance and sales and distribution related functions at the inception. Other functions such as finance, information technology and human resource management were allowed to be shared for a period of 5 years from the date of segregation.

Selecting a suitable model for the segregation

There were several options available to segregate the Company from which the Company had to identify the most suitable model for the segregation. The Company appointed a team comprising the Chief Financial Officer, Manager – Legal and Manager Risk and Compliance to identify the model that would benefit the Company most. Accordingly, the team suggested continuing the Life insurance business under HNB Assurance PLC (HNBA) and creating a fully owned subsidiary under HNBA to carry out the General insurance business due to the following reasons;

- Minimum Tax loss impact
- VAT on shared service invoice could be claimed by the General Company under the existing laws
- Simpler legal process to follow since only the general insurance policies of up to one year have to be transferred
- The name HNB Assurance PLC being more suitable for a Life Insurance Company due to the word 'Assurance' in it

Designing the Group/Company structure after segregation

The above committee, with the support of Head of HR designed the group structure within the applicable legal framework, considering the maximum benefit to both companies. In designing the structure, the committee took special care to focus only on job functions and not on any individual employees.

Communication of the proposed model and the structure to all stakeholders

We believed that all stakeholders have a right to be informed of the changes taking place with the segregation and that proper and timely communication to all stakeholders would help the Company to make a smooth and effective transition. Consequently, the Company ensured that the segregation process was done in a transparent manner and all key stakeholders were well informed about the proposed changes. The efforts made by the Company in communicating to different stakeholders are detailed below.

Communication to employees

The proposed model and the group structure were first presented to the Corporate Planning team of the Company in September 2013. Thereafter, it was presented to the senior managers of the Company at the management meeting and to the branch managers at branch managers' meeting. Further, all employees of the Company were educated on the proposed model and structure by the Managing Director during the Annual Staff Conference held in February 2014. Also, feedback on the proposed model and structure was obtained from all key employees in person during the year end appraisals carried out in January 2014 by the management. All employees identified to be moved into the newly formed subsidiary were individually spoken to by their respective superiors and informed in writing. Their written consent was obtained to cease their employment with HNBA after offering them letters of appointment from the new Company.

Communication to parent company

The proposed model and structure was presented to the senior management of the parent company, HNB and their feedback was obtained.

Communication to the Board of Directors

With the feedback received from the corporate management team of the Company and the senior management of the parent company, the proposed model was presented to the Board of Directors for their review and approval.

Communication to the Regulator

The Company also submitted the proposed model and structure of segregation to the IBSL by the agreed deadline and received their confirmation.

Communication to Shareholders

The Company explained the proposed model and structure in detail in the Annual Report 2013 and the same was approved at the Annual General Meeting held on 27th March 2014 through a special resolution.

Communication to Customers

After obtaining the approval of the Shareholders, the Company sent letters to all general insurance policyholders of the Company explaining the segregation process and requested them to inform the Company if they do not wish to transfer their policies to a new company. Feedback received was handled as appropriate by Manager Legal and officers handling customers.

Communication to intermediaries, reinsurers and other stakeholders

All insurance agents were educated on the change of structure and steps were taken to sign a new agency agreement with them. In addition, the Company communicated the proposed change of structure to insurance brokers, reinsurers and other suppliers and re-entered into agreements where applicable.

Change Management Process

Since there was a significant change management process involved with the segregation, the Company took the following steps to ensure a smooth changeover within the Company.

- Appointed a Steering Committee to continuously monitor the implementation of the proposed change in structure
- Conducted a training programme on Change Management for Divisional Heads and other members of the senior management using a renowned external trainer
- Conducted a series of Divisional/ Regional meetings across the country to explain the proposed changes and obtained the 'buy-in' of staff and key members of the field force
- Conducted team building workshops for new teams being created under the proposed structure
- Conducted one-on-one meetings with key personnel who would move into critical roles within the proposed structure
- Provided adequate briefing and training to personnel moving into new roles
- Established a process for grievance handling relating to the change in structure and maintained access to the top management, for employees to discuss and resolve issues and concerns

Complying with regulatory deadlines

The Company has also complied with all deadlines set out in the guidelines on segregation issued by the IBSL. The Company's compliance with the guidelines set are given in the following table.

REQUIREMENT	DEADLINE	SUBMITTED/ COMPLIED DATE
Submit the proposal on the segregation to IBSL	31st December 2013	31st December 2013
Application for registration as an insurer	31st March 2014	31st March 2014
Actuarial Valuation Reports and Abstracts of both classes of insurance businesses for the year ending 31st December 2013	31st March 2014	31st March 2014
Audited Financial Statements of the composite insurance company as at 31st December 2013	31st March 2014	31st March 2014
Annual Returns of the composite insurance company for the financial year ending 31st December 2013	31st March 2014	31st March 2014
Management Letter issued by the external auditor of the composite insurance company for the financial year ending 31st December 2013	31st March 2014	31st March 2014
Projected Financial statements as at proposed date of segregation	31st March 2014	31st March 2014
Transfer of one line of business to new company	01st January 2015	01st January 2015

Internal Controls at HNBA

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 towards achieving its mission and objectives while minimising the impact of surprises along the way.

The Company's internal control process has been designed to achieve the following objectives:

- Effective and efficient operations
- Effective risk management system
- Reliable financial reporting system
- Compliance with applicable laws and regulations
- Safeguarding of the Company's assets

While the Company acknowledges that internal control is to a large degree everyone's responsibility, the primary responsibility of establishing, maintaining and operating an effective system of internal controls lies with the Board of Directors and the senior management. The Audit Committee 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 238 and 239.

Further information on governance policies, procedures and structures relating to the Management are given on pages 220 to 224 under performance governance.

EXTERNAL AUDITORS

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

Independence of External Auditors

In order to maintain their independence, the External Auditors are not employed for non-audit work unless such work has been pre-approved by the Audit Committee. Moreover, steps are taken to ensure that there are clear efficiencies and value added benefits to the Company from such tasks undertaken by the External Auditors with no adverse effect on the independence of their audit work or the perception of such independence.

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

Corporate Governance

- Year End Audit as at the 31st of December 2014
- Special Purpose Audit as at the 30th of June 2014
- Certification of Solvency Report for the purpose of dividend declaration
- Certification of Insurance Solvency

Details regarding the fees paid to External Auditors appears on page 257.

With a view to maintaining transparency, the External Auditors were given the opportunity to meet the Audit Committee without the presence of the management during the current year as well.

Auditor Rotation Policy

The Company has adopted an Auditor Rotation Policy, whereby the Company's External Auditor is required to be changed every five years. Therefore, the Company's previous Auditor Messrs. KPMG, who has been functioning in this capacity since the inception of the Company, has been changed from the financial year 2014 onwards.

External Auditor Selection Process

The Company called for Requests for Proposals (RFPs) from two leading audit firms in the country other than KPMG who was not considered for re-election in terms of the Auditor Rotation Policy described above. The RFPs were evaluated based on the criteria set by the Audit Committee which included a confirmation from audit firms on their independence to be the Company's external auditor. Accordingly, Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants was recommended to the Board to be appointed as the Company's External Auditors. The Board accepted this recommendation and it was subsequently approved by the shareholders at the AGM held on 27th of March 2014.

However, M/S PricewaterhouseCoopers (PwC) informed the Company that they would resign from the Company due to a perceived conflict of interest on 27th October 2014. Accordingly, the Board of directors accepted their resignation and appointed Messrs. Ernst & Young, Chartered Accountants as the Company's External Auditor for the financial year ending 31st December 2014 w.e.f 31st October 2014 subject to the same being approved by the Membership at the next Annual General Meeting to be held on 27th March 2015.

INTERNAL AUDITORS

Internal auditors of the Company play a vital role in the Governance structure of the Company. They monitor the Company's adherence to the procedures and guidelines which are developed based on the policies adopted by the Company as well as the compliance with laws and regulations.

In order to strengthen the independence of the internal audit function, the Company's internal audit function has been outsourced. During the year, the Company changed its internal auditors to Messrs. KPMG from Messrs. Ernst & Young Advisory Services (Pvt) Ltd who was the Company's internal auditor since the start of the Company in accordance with the auditor rotation policy.

During 2014, the Internal Auditors issued 8 reports to the Senior Management and the Audit Committee covering various operational and financial aspects of the Company, including the operation of the branch network.

Similar to the opportunity granted to External Auditors, the Internal Auditors were also given the opportunity during the year to meet with the Audit Committee without the presence of the Management.

OTHER STAKEHOLDERS

Good governance requires due regard to the impact of business decisions both on shareholders and other key stakeholders. The 'Management Discussion and Analysis' given on pages 34 to 165 explains how we discharge our responsibilities towards all our stakeholders i.e. investors, employees, customers, business partners, the community and the environment within which we operate.

REGULATORS

The Board and the management recognise their responsibility and duty in ensuring that business is conducted in accordance with applicable laws, rules and regulations. Hence, the Company has taken all possible steps to ensure compliance with laws and best practices relating to corporate governance.

The Board of Directors having identified the importance of the compliance requirements have adopted a Compliance policy to give direction on the Compliance activities of the Company.

A compliance checklist, covering all applicable laws and regulations, is signed-off by the management on a monthly basis and is tabled at meetings of the Audit Committee and the Risk Management Committee.

Additionally, the Risk and Compliance Department monitors compliance with all applicable laws, rules and regulations. Compliance reports prepared by Manager - Risk and Compliance are thereby presented to the Audit Committee and the Investment Committee on a regular basis.

Upholding the Company's commitment to abide by the rules set out by the regulator, the Company submitted all returns to the IBSL within the stipulated time limits. Further, all IBSL returns were subject to the review of the Risk and Compliance Department and the Audit Committee prior to their release.

SUMMARY OF THE COMPLIANCE POLICY

Compliance Policy and Principles

- Compliance policy
- Compliance principles

Compliance at HNB Assurance

- Compliance objective
- Duties of the management towards compliance
- Compliance function and responsibility
- Scope of compliance function
- Independence and authority of compliance function
- Reporting of the compliance function

Compliance Officer

Monitoring of Anti-Money Laundering

Training and Education

Submissions and payments for Regulatory Authorities

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

INFORMATION	FREQUENCY OF SUBMISSION	COMPLIANCE STATUS
IBSL		
Annual Fee	Annually	√
CESS Payment	Quarterly	√
CSE		
Listing Fee	Annually	√
Inland Revenue		
Income Tax Payment and Return	Annually	√
PAYE Tax Payment	Monthly	√
PAYE Tax Return	Annually	√
Value Added Tax (VAT) Payment	Every 15 days	√
Value Added Tax (VAT) Return	Quarterly	√
Stamp Duty Payment and Return	Quarterly	√
Nation Building Tax (NBT) Payment	Monthly	√
Nation Building Tax (NBT) Return	Quarterly	√
Central Bank		
EPF Payment and Return	Monthly	√
ETF Payment	Monthly	√
ETF Return	Half Yearly	√
Anti-Money Laundering Information	Monthly	√
Registrar General of Companies		
Annual Accounts	Annually	√
Annual Returns	Annually	√
Change of Directors and Company Secretary (Form 20)	As required	√
National Council for Road Safety		
Contribution to Road Safety Fund Payment	Monthly	√
Commissioner of Motor Traffic		
Luxury and Semi Luxury Tax Payment	Monthly	√
National Insurance Trust Fund		
Crop Insurance Levy Payment	Quarterly	√
SRCC and TC Premium Payment	Monthly	√

Regulatory reports submitted to IBSL during 2014 are given below;

SUBMISSIONS TO IBSL	DEADLINE SET BY IBSL	DATE OF SUBMISSION
Annual Audited Financial Statement for year ended 31st December 2013	30th June 2014	05th March 2014
Annual Statutory Returns for the year ended 31st December 2013	30th June 2014*	31st March 2014
Circular 29 Auditor's Compliance Certificate	30th June 2014*	31st March 2014
Risk Assessment Summary	31st March 2014	31st March 2014
Quarterly Returns and Compliance Certifications		
• 31st March 2014 (1st Quarter)	15th May 2014	12th May 2014
• 30th June 2014 (2nd Quarter)	15th August 2014	15th August 2014
• 30th September 2014 (3rd Quarter)	15th November 2014	13th November 2014
• 31st December 2014 (4th Quarter)	15th February 2015	12th February 2015
Statement of Reinsurance Arrangements		
• Life	15th March 2014	13th March 2014
• General	15th March 2014	14th March 2014
Actuarial Report and Abstract in respect of Long Term insurance business	30th June 2014*	31st March 2014
Management Letter issued by the External Auditors	30th June 2014*	31st March 2014

**As per segregation guidelines issued by the IBSL, these documents were required to be submitted along with the application for the new insurance company on or before 31st March 2014.*

Compliance with Colombo Stock Exchange (CSE) Listing Requirements

During the year, the Company has complied with all Listing Requirements with regard to Dividend payments, submission of interim financial statements, circulation of Annual reports, contents of Annual Report, corporate governance and the announcements to the CSE. Further details on these compliances are given on the following pages of this annual Report.

- Listing Rules on contents of Annual Report applicable for Annual report 2014 are given in detail from pages 284 to 288.
- Compliance with the Corporate Governance rules are given on pages 217 to 219.
- Announcements to the Colombo Stock Exchange during 2014 are given on page 177

Further details on the Company's Compliance with laws and regulations are given on the Regulatory review in pages 53 to 56.

COMPLIANCE WITH CODES OF CORPORATE GOVERNANCE

Code of Best Practice on Corporate Governance Issued Jointly by ICASL and SEC

This Code was issued in 2008 and revised in 2013, with 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.

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

Focuses on the Company

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 from page 199 to 216.

HNBA'S COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED JOINTLY BY THE SEC AND THE ICASL

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
1	THE COMPANY	
A	DIRECTORS	
A.1	THE BOARD	
Principle A.1	Every public company should be headed by an effective Board	**Complied** - The Company is headed by an effective Board. The role of the Board and its members, Board functions, Board procedures and governance activities are discussed in detail from pages 179 to 191.
A.1.1	Frequency of Board meetings (at least once every quarter)	**Complied** - The Board meets monthly, mainly to review the Company's performance and to determine whether its strategies and business practices are in line with the expectations of the Board. In addition, Board sub-committee meetings are held periodically to handle the specific responsibilities assigned to them. The number of Board meetings and Board sub-committee meetings held during 2014, together with individual attendance, is given on page 260.
A.1.2	Responsibilities of the Board; Ensure formulation and implementation of a sound business strategy	**Complied** - The Board assumes the primary responsibility for the overall success of the Company. The Board is involved in formulating the overall strategy and in ensuring that the same is implemented through the MD/CEO. The MD/CEO, together with the management team, develops corporate strategies, annual budgets and action plans to implement corporate strategies on an annual basis. The Board provides the direction of the Company to the management to develop these. The corporate plan and the annual budget are approved by the Board every year, and achievement of the objectives set in the plan is monitored closely by the Board.
	Ensure that the MD/CEO and the management team possess the necessary skills, experience and knowledge for effective implementation of the strategy	**Complied** - The Board actively works to ensure that the MD/CEO and the management team continue to have the right balance of skills, experience and knowledge necessary to discharge their responsibilities in accordance with the highest standards of governance. The Board gets involved in the recruitment of the senior management, paying due attention to knowledge, skills and experience. The profiles of the MD/CEO, the members of the Executive Committee (EXCO) and the members of the management team are provided on pages 24 to 31.
	Adopt an effective CEO and senior management succession strategy	**Complied** - Succession plans are in place for the CEO and for all other key managerial positions, and are monitored continuously by the Remuneration Committee. The key aspect of succession plans is to develop people internally, so that there are adequate internal options available for replacement of key management personnel, as and when required, ensuring smooth transition and business continuity.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
A.1.2 (Contd.)	Ensure that effective systems are in place to secure integrity of information, internal controls, business continuity and risk management	**Complied** - 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 led by the Chief Financial Officer. During the year a BCP drill was conducted and the results of the testing were submitted to the Risk Management Committee and the Board. Effective mechanisms are also in place to identify, assess and manage/mitigate risks faced by the Company. A Risk Management Committee has been formed to strengthen this aspect. Please refer the Risk Management section on pages 240 to 251 and the Risk Management Committee Report on page 237 for further information in this regard.
	Ensure compliance with laws, regulations and ethical standards	**Complied** - The Board has adopted a Compliance Policy to give direction to the management with regard to compliance activities. The Company has also issued a Code of Ethics applicable to all employees and Directors. The Company has appointed a Compliance Officer, reporting to the Managing Director and the Chairman of the Audit Committee for the continuous monitoring of compliance with laws and regulations. Please refer pages 196 to 198 for more details on the Company's actions on compliance activities
	Ensure that all stakeholder interests are considered in corporate decisions	**Complied** - 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 34 to 165.
	Recognise sustainable business development in corporate strategy, decisions and activities	**Complied** - The Board recognises the necessity of sustainable business development in the corporate strategy, decisions and activities. Please refer Management Discussion and Analysis for more information on the Company's activities with regard to sustainable business development.
	Ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations	**Complied** - The Company's accounting policies are fully in line with Sri Lanka Accounting Standards (SLFRS/LKAS) which was adopted from the financial year 2012. Further, the accounting policies are reviewed annually to be in line with the changing business requirements and best practices in the industry. 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 271.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
A.1.2 (Contd.)	Fulfill other Board functions that are vital, given the scale, nature and complexity of the business concerned	**Complied** - The Board takes all its decisions paying due attention to the interests of all stakeholders. The Board also intervenes, where necessary, in any other functions that are vital, given the scale, nature and the complexity of the Company's business. During the year, the Board monitored the progress of carrying out the segregation of the Company as required by the RII (Amendment) Act and gave its concurrence.
A.1.3	The Board collectively, and the 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** - The Board Charter and the Code of Conduct and Ethics for Directors have identified the importance of the Directors' commitment towards complying with all applicable laws and regulations. Please refer pages 182 and 190 for summaries of these documents. The Board Charter has permitted all Directors to seek independent professional advice, at the Company's expense, if considered appropriate and necessary, at any time. However, no such advice has been taken by any of the Directors during the period.
A.1.4	Advice and Services of the Company Secretary	**Complied** - The Company Secretary, who is an Attorney-at-Law by profession, is accessible to any Director for the services of the Company. The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. She also serves as the Secretary to the Audit Committee and the Remuneration Committee.
A.1.5	Independent Judgment of Directors	**Complied** - All Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.
A.1.6	Dedicating adequate time and effort by the Directors	**Complied** - Please refer pages 188 and 189 for details of the Directors' commitments to matters of the Board and the Company.
A.1.7	Training for New and Existing Directors	**Complied** - Please refer page 191 for details of training for new and existing Directors.
A.2	**CHAIRPERSON AND CHIEF EXECUTIVE OFFICER (CEO)**	
Principle A.2	Division of responsibilities at the head of the Company	**Complied** - The functions of the Chairperson and the Managing Director/ CEO are clearly separated, to ensure balance of power and authority. Please refer pages 181 and 182 for details of the separate responsibilities of the Chairperson and the MD/ CEO.
A.2.1	Disclosure required if the positions of the Chairman and the CEO are combined	**Not Applicable** - The positions of the Chairperson and the MD/CEO are separated.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
A.3	**CHAIRPERSON'S ROLE**	
Principle A.3	The Chairperson's role in preserving good Corporate Governance	**Complied** - The Chairperson is responsible for leading the Board and ensuring that it operates under the highest standards of governance. She presided over all 11 board meetings held during the year.
A.3.1	Role of the Chairperson	**Complied** - Please refer page 181 for the details on the role of the Chairperson
A.4	**FINANCIAL ACUMEN**	
Principle A.4	Availability of sufficient financial acumen and knowledge to offer guidance on matters of finance	**Complied** - 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 experience in finance are given below: - Dr. Ranee Jayamaha *B.A. Hons (University of Ceylon, Peradeniya), MSc. (University of Stirling, U.K.), Ph.D (University of Bradford, U.K.), Dunive (University of Stirling, U.K.)* - Chairperson and Non-Executive Director (Former Deputy Governor in charge of Financial System Stability of the Central Bank of Sri Lanka with over 40 years of extensive experience in the fields of Economics, Banking, Finance, Regulation and Administration) - Manjula de Silva *BA Hons (University of Colombo), MBA (London Business School, U.K), FCMA (UK), CGMA* - Managing Director (Chartered Global Management Accountant with over 25 years of experience in Fund Management, Insurance and General Management) - M U De Silva *FCIB (London)* – Non-Executive Director (Banker with over 50 years of experience) - Sarath Ratwatte *FCMA (UK), CGMA* - Independent Non-Executive Director (Chartered Global Management Accountant and experienced Treasurer) - A J Alles *MBA (University of Stirling – Scotland), AIB (SL)* - Non-Executive Director (Banker with over 25 years of experience) - J A P M Jayasekera *FCA, BSc Special Hons - (University of Sri Jayawardenapura)* - Independent Non-Executive Director (Chartered Accountant with over 19 years of experience in Accounting, Capital Markets and General Management) - K Balasundaram - Independent Non-Executive Director (45 years of experience in Finance) - Dilshan Rodrigo *MBA (Cranfield University, UK) FCMA (UK), FCCA (UK), CGMA* – Non-Executive Director (senior banker with extensive experience in Banking sector) - Siromi Wickramasinghe *Attorney-at-Law* – Non-Executive Director (Banker with over 32 years of multifunctional and progressive experience in the Sri Lankan Banking sector) - Dr. Sivakumar Selliah *(MBBS, M.Phil)* - Independent Non - Executive Director (Over 20 years experience as an investor in the CSE and a company Director)

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
A.5	**BOARD BALANCE**	
Principle A.5	The Board should have a balance of Executive and Non-Executive Directors	**Complied** - By the end of the year, the Board comprised ten Directors and all, except the Managing Director, are Non-Executive, thereby promoting critical review and control. Please refer pages 24 to 27 for the profiles of the Directors.
A.5.1	Presence of Non-Executive Directors - two or one third of the total number of Directors, whichever is higher should be Non-Executive	**Complied** - Nine of the ten Board members are Non-Executive, which is in excess of one third of the total number of Directors.
A.5.2	Independent Directors - two or one third of Non-Executive Directors appointed to the Board whichever is higher should be 'independent'	**Complied** - Of the nine Non-Executive Directors of the Company, Mr. Sarath Ratwatte, Mr. J A P M Jayasekera, Mr. K Balasundaram and Dr. S Selliah are Independent Non-Executive Directors. Therefore, the number of Independent Non- Executive Directors is in excess of one third of Non-Executive Directors as required by the Code.
A.5.3	Criteria to evaluate "independence" of Non - Executive Directors	**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.
A.5.4	Annual declaration of Non-Executive Directors	**Complied** - All Non-Executive Directors have submitted the declaration of independence or non-independence as per the Code.
A.5.5	Annual determination of 'Independence' of Non-Executive Directors by the Board	**Complied** - The Board, on page 257 of this Annual Report, has determined the independence or non-independence of each Director. This was declared at the Board Meeting held on 9th February 2015.
A.5.6	Criteria to be an Alternate Director	**Not Applicable** – The Company does not have any Alternate Directors
A.5.7	Appointment and disclosure of "Senior Independent Director"	**Not Applicable** – The roles of the Chairperson and the CEO of the Company are separated and hence a Senior Independent Director has not been appointed.
A.5.8	Availability of the Senior Independent Director for confidential discussions with other Directors	**Not Applicable** – The roles of the Chairperson and the CEO of the Company are separated and hence a Senior Independent Director has not been appointed.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
A.5.9	Meeting without the presence of the Executive Directors at least once each year	**Complied** - The Chairperson meets other Non-Executive Directors at least once a year, without the presence of MD/ CEO. One of the main areas of focus at this meeting is the performance of MD/CEO and his remuneration package. Any other such meeting would be held as and when the need arises.
A.5.10	Recording of concerns which cannot be unanimously resolved in Board Minutes	**Complied** - 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.
A.6	**SUPPLY OF INFORMATION**	
Principle A.6	The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties	**Complied** - Financial and non-financial information are analysed and presented to the Board to make informed and accurate decisions.
A.6.1	Management's responsibility to provide the Board with appropriate and timely information	**Complied** - The management ensures that a set of timely, accurate, relevant and comprehensive information is provided to the Directors before the Board meeting every month, with adequate time for them to review the same and prepare for discussions. All significant financial and non - financial information for the period are included in these analyses. In addition, the Board requests additional information with respect to areas such as the Company's operations, industry and competitors, risk management, laws and regulations and corporate governance, as the need arises. The management provides any such information in a timely manner.
A.6.2	Adequate time for effective Board meetings	**Complied** - All Board papers and papers for sub-committee meetings are circulated one week (seven days) prior to such meetings.
A.7	**APPOINTMENTS TO THE BOARD**	
Principle A.7	There should be a formal and transparent procedure for the appointment of new Directors to the Board	**Complied** - All new appointments to the Board are made following a formal and transparent procedure through the Nomination Committee. Details and the process of new appointments are given on pages 180 and 181.
A.7.1	Presence of a Nomination Committee	**Complied** - The Nomination Committee comprises four Directors including the Chairperson and the MD/CEO. The composition, responsibilities and other information of the Nomination Committee are disclosed on the table given on page 185.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
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.
A.7.3	Disclosure of details of new Directors to shareholders	**Complied** - All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the CSE. During the year Dr. S Selliah was appointed to the Board and this was communicated to the CSE on 17th June 2014. 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 259 for details of the new appointments.
A.8	**RE-ELECTION**	
Principle A.8	All Directors should be required to submit themselves for re-election at regular intervals and at least once every three years.	**Complied** - Please refer page 180 and 181 for details on the Company's procedure for re-election of Directors.
A.8.1	Appointment and re-election of Non-Executive Directors	**Complied** - Please refer pages 180 to 181 for the Company's procedure for appointment and re-election of Directors.
A.8.2	Election of Directors by the shareholders	**Complied** - Please refer pages 180 to 181 for the Company's procedure for re-election and re-appointment of Directors.
A.9	**APPRAISAL OF BOARD PERFORMANCE**	
Principle A.9	The Board should periodically appraise its own performance in order to ensure that Board responsibilities are satisfactorily discharged.	**Complied** - Please refer page 265 for details on the Board evaluation process.
A.9.1	Appraisal of the Board performance	**Complied** - Please refer page 189 for details of the Board evaluation.
A.9.2	Annual self-evaluation of the Board and its Committees	**Complied** - The Board of Directors, the Audit Committee and the Risk Management Committee carried out a self-evaluation each during the year. We intend to extend the same for the Investment Committee in the year 2015.
A.9.3	Disclosure of evaluation procedure	**Complied** - Please refer page 265 for details on the process followed with regard to the evaluation of the Board.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
A.10	**DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS**	
Principle A.10	Shareholders should be kept advised of relevant details in respect of Directors	**Complied** - Appointment and resignation of Directors along with their profiles and shareholding of the Company are informed to shareholders through CSE. Further, details on Directors are given in the Annual Report.
A.10.1	Disclosures on Directors in the Annual Report	**Complied** - Required information with respect to Directors is disclosed in this Annual Report, where relevant. - Names, qualifications and profiles, including expertise in relevant functional areas, of all Board members are provided on pages 24 to 27. - Details of Directors' Interest in Contracts are provided on page 266. - Details of Related Party Transactions are provided on pages 345 to 349. - The statuses of the Directors whether they are Executive, Non-Executive and/or Independent Director are given on page 259 - Names of listed companies and other companies in Sri Lanka in which the Director concerned serves as a Director are given in the Board profiles on pages 26 -27. - The composition of Board sub-committees and attendance at Board meetings and Board sub-committee meetings by each Director are provided on page 260. - The total number of other Board seats in listed and unlisted companies held by each Director is provided on page 189.
A.11	**APPRAISAL OF MD/CEO**	
Principle A.11	The Board should be required, at least annually, to assess the performance of the MD/CEO	**Complied** - Please refer page 181 for details on the evaluation of MD/CEO's performance.
A.11.1	Setting annual targets for MD/CEO	**Complied** - Please refer page 189 for details on setting targets for the MD/CEO.
A.11.2	Evaluation of the performance of the MD/CEO	**Complied** - Please refer page 189 for details on the MD/CEO's evaluation.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
B	**DIRECTORS' REMUNERATION**	
B.1	**REMUNERATION PROCEDURE**	
Principle B.1	Companies should establish a formal and transparent procedure for developing policies on remuneration. No Director should be involved in deciding his/her own remuneration.	**Complied** - The Company has established a Remuneration Committee to establish formal and transparent policies and procedures on executive remuneration. No Director is involved in deciding his/her own remuneration.
B.1.1	Presence of a Remuneration Committee	**Complied** - A Remuneration Committee has been appointed and functions within agreed terms of reference. Please refer pages 231 and 232 for the Remuneration Committee Report. In addition, the table on pages 184 and 185 provide a brief description of the membership and the functions of the Remuneration Committee.
B.1.2	Composition of the Remuneration Committee	**Complied** - Please refer page 231 for details of the composition of the Remuneration Committee.
B.1.3	Disclosure of the members of the Remuneration Committee in the Annual Report	**Complied** - Members, responsibilities and other information in respect of the Remuneration Committee are disclosed on pages 184 and 185.
B.1.4	Determination of remuneration of Non-Executive Directors	**Complied** - Non-Executive Directors who are nominees of the parent company are paid a nominal fee for their attendance at the Board and sub-committee meetings. Other Non-Executive Directors are remunerated in line with market practices, based on attendance at Board and sub-committee meetings.
B.1.5	Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee	**Complied** - The Committee consults the Chairperson and the MD/CEO, where necessary, and has access to professional advice from within and outside the Company.
B.2	**THE LEVEL AND MAKE UP OF REMUNERATION**	
Principle B.2	The levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of the Executive Directors' remuneration should be structured to link with corporate and individual performance.	
B.2.1	Remuneration packages of Executive Directors	**Complied** - The Remuneration Committee and the Board ensures that the MD/CEO, who is the only Executive Director on the Board, is provided with an appropriate remuneration package.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
B.2.2	Comparison of remuneration with other companies	**Complied** - The Remuneration Committee compares the remuneration levels of the Company with such packages of comparable companies in the industry and is sensitive to changes in the remuneration levels. It reviews reports of salary surveys periodically to get an indication of comparable industry standards.
B.2.3	Comparison of remuneration with other companies in the Group	**Complied** - The Remuneration Committee considers remuneration levels of the Group when deciding HNBA's remuneration packages.
B.2.4	Performance-based remuneration of Executive Directors	**Complied** - The performance-related elements of the remuneration package of MD/CEO and other Executive employees are linked to corporate and individual performance.
B.2.5	Executive share options	**Not Applicable** - The Company does not have any share option scheme for the Directors or employees at present.
B.2.6	Designing performance-based remuneration of Executive Directors	**Complied** - Objectives for the MD/CEO, who is the only Executive Director on the Board, are set at the beginning of the year to align his interests with those of the Company. Accordingly, his remuneration including the performance bonus is decided based upon the degree of achievement of such pre-set targets. The Company does not have any long term incentive schemes, including share option schemes. Performance-related remuneration schemes are not applied retrospectively. Non-Executive Directors are not eligible to benefit from performance based remuneration schemes.
B.2.7 & B.2.8	Compensation commitments on early termination	**Complied** - Termination of the Executive Director (MD/CEO) is governed by his contract of service/employment.
B.2.9	Remuneration of Non-Executive Directors	**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.
B.3	**DISCLOSURE OF REMUNERATION**	
Principle B.3	The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.	
B.3.1	Disclosure of Remuneration	**Complied** - The aggregate remuneration paid to the MD/CEO and Non-Executive Directors is disclosed on page 261 of this Report. The Remuneration Committee's Report, which highlights the Remuneration Policy of the Company, is given on pages 231 and 232.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
C	RELATIONS WITH SHAREHOLDERS	
C.1	CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS	
Principle C.1	The Board should use the AGM to communicate with shareholders and should encourage their participation.	**Complied** - Please refer pages 174 to 176 for details of the Annual General Meeting.
C.1.1	Use of proxy votes	**Complied** - The Company has in place a mechanism to count all proxy votes to indicate to the Chairperson the level of proxies lodged on each resolution and the number of votes for and against such resolution.
C.1.2	Separate resolutions for substantially separate issues and adoption of annual report and accounts	**Complied** - 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, are also proposed as a separate resolution.
C.1.3	Availability of Chairmen of Board committees at the AGM	**Complied** - The Chairperson of the Board ensures that the Chairmen of Board sub-committees are present at the AGM to answer any query by shareholders. No queries were raised by shareholders to the Chairmen of the Board sub-committees at the last AGM held on 27th March 2014.
C.1.4	Adequate notice of the AGM	**Complied** - The Annual Report, together with Notice of Meeting and related documents and other resolutions, if any, is circulated to the shareholders at least 15 working days prior to the date of the AGM. The Annual Report of 2013 was submitted to the CSE on 4th March 2014 and was posted to all shareholders on the same date. The AGM was held on 27th March 2014. Please refer page 394 for the Notice of Meeting of the 13th AGM to be held on 27th March 2015.
C.1.5	Summary of procedures governing voting at the General Meeting	**Complied** - The proxy form, which includes a summary of the procedures governing voting at the General Meetings, is circulated to all shareholders.
C.2	COMMUNICATION WITH SHAREHOLDERS	
Principle C.2	The Board should implement effective communication with shareholders	**Complied** - The Board has adopted a Shareholders' Communication Policy to ensure effective communication with all shareholders.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
C.2.1	A channel to reach all shareholders of the Company in order to disseminate timely information.	**Complied** - All financial information released to the shareholders and public are authorised by the Managing Director and/or Chief Financial Officer. All price sensitive information is first communicated to the Colombo Stock Exchange by the Company Secretary and then it is communicated to the public through mass media. Any other information released to the public is approved by the Managing Director and/or Chief Operating Officers and communicated through the Head of Marketing.
C.2.2	Disclose the policy and methodology for communication with shareholders	**Complied** - Details of the Company's policy and methodology for communication with shareholders are given on pages 173 to 177.
C.2.3	Disclose how the Company has implemented the above policy and methodology	**Complied** - Disclosure on how the Company has implemented the communication policy and methodology is given on pages 173 to 177.
C.2.4	Disclose the contact person for such communication	**Complied** - The Company Secretary and the Managing Director will be the main contact persons with regard to any public disclosures. Further, the Chief Financial Officer can also be contacted with regard to any clarifications on financial information published.
C.2.5	A process to make all Directors aware of major issues and concerns of shareholders	**Complied** - If there are any major issues and/or concerns raised by Shareholders, those are brought to the attention of all Directors by the Company Secretary. There were no such issues and/or concerns raised by Shareholders during the year.
C.2.6	The person to contact in relation to shareholders' matters.	**Complied** - The Company Secretary, Ms. Shiromi Halloluwa is the main contact person in relation to Shareholders' matters. Contact details of the Company Secretary are given on page 176.
C.2.7	The process for responding to shareholder matters	**Complied** - The Company's process of responding to shareholder matters is given on page 176.
C.3	**MAJOR AND MATERIAL TRANSACTIONS**	
Principle C.3	All material transactions i.e. which if entered into, would materially alter/vary the net asset value of the Company, should be disclosed.	
C.3.1	Disclosures on proposed major transactions	**Complied** - The Company was segregated on 01st January 2015 into two companies in line with the requirement to segregate Life and General insurance Businesses into two companies under the Regulation of Insurance Industry (Amendment) Act, No 3 of 2011. This was a major transaction of the Company and hence shareholder approval was obtained for this transaction at the 12th Annual General Meeting held on 27th March 2014. Details of the transaction were communicated to the CSE on 02nd January 2015. Results of the general insurance business which was transferred to HNB General Insurance Limited are disclosed on pages 343 and 344.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
D	ACCOUNTABILITY AND AUDIT	
D.1	FINANCIAL REPORTING	
D.1.1	Board 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 267. Further, the interim annual financial statements were published on a timely basis during 2014. All regulatory reports were filed by the due dates and price sensitive information was disclosed to the CSE on a timely basis during the year. Dates of releasing information to the CSE during 2014 are disclosed on page 177.
D.1.2	Declarations by Directors in the Directors' Report.	**Complied** - Contents of the Directors' Report in the Annual Report; - Declaration that the Company has not engaged in any activity, which contravenes laws and regulations is given on page 262 - Declaration that the Directors have declared all material interests in contracts involving the Company is given on page 261 - Declaration that the Company has made all endeavours to ensure the equitable treatment of shareholders is given on pages 261 and 262 - Declaration that the business is a going concern is given on page 256 - Declaration that the Directors have conducted a review of the internal controls, covering financial, operational and compliance controls and risk management is given on page 257
D.1.3	Statements by Directors and Auditors on responsibility for financial reporting	**Complied** - Page 267 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 271.
D.1.4	Management Discussion and Analysis	**Complied** - Contents in the "Management Discussion and Analysis" in the Annual Report. - Industry structure and developments are given from pages 70 and 84 - Opportunities and threats are given in pages 78, 80, 92, and 93 - Risks and concerns are given from page 240 - Internal control systems and their adequacy are given from pages 238 to 239 - Social and environmental protection activities carried out by the Company are given from pages 144 to 153 - Financial performance are given from pages 57 to 68 - Material developments in human resource management/industrial relations are given from pages 120 to 136 - Prospects for the future are given in pages 82, 96,103 and 106

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
D.1.5	Declaration by the Board on the going concern of the Business	**Complied** - The declaration of the Company as a 'Going Concern' is given in the Directors' Report on page 256.
D.1.6	Requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss of Capital	**Complied** - Although the likelihood of such a situation is remote, if it arises, an EGM would be called to inform shareholders.
D.1.7	Disclosure of Related Party Transactions in the Annual Report	**Complied** - Related Party Transactions during the year are given on pages 345 to 349. During the year the Board established the Related Party Transaction Review Committee to review and approve all related party transactions of the Company. The Committee met three times during the year. Details of the work carried out by the Related Party Transactions Review Committee are given in the Related Party Transactions Review Committee report on pages 233 and 234.
D.2	**INTERNAL CONTROL**	
Principle D. 2	The Board should maintain a sound system of internal controls to safeguard shareholders' investments and the Company's assets.	
D.2.1	Directors to conduct an annual review of internal controls	**Complied** - The Board has overall responsibility for the system of internal controls and has delegated some of these responsibilities to the Audit Committee, Risk Management Committee, Related Party transaction Review Committee and the Investment Committee. Summary of the functions of each committee is given on pages 184 to 187. The details of the work carried out by each Board sub-committee are given on their reports, appearing on pages 184 to 187.
D.2.2	The need for an internal audit function	**Complied** - Messrs. Ernst & Young Advisory Services (Pvt) Ltd, who were the Company's internal auditor since the inception of the Company, functioned as the Internal Auditors up to 31st March 2014. As required by the Company's Auditor Rotation Policy, the Internal Auditors were changed during the year and currently Messrs. KPMG function as the Internal Auditors of the Company. All reports by the Internal Auditors are tabled at the Audit Committee meetings. Please refer page 196 for more details on the internal audit function.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
D.2.3	Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls	**Complied** - The Audit Committee is responsible to ensure that the Company has an effective internal control system. The Audit Committee reviews the effectiveness of the internal control system through the Internal Auditors and the Risk and Compliance Department. 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 overall responsibility for risk management of the Company. Minutes of both the Audit Committee and the Risk Management Committee are tabled at Board meetings for the review by the Board.
D.2.4	Statement of internal control	**Complied** – The Boards' statement of internal control is given on page 238 and 239.
D.3	**AUDIT COMMITTEE**	
Principle D.3	The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintain an appropriate relationship with the Company's auditors.	
D.3.1	Composition of the Audit Committee	**Complied** - The Audit Committee comprises three Directors, all of whom are Non-Executive. Two Directors of the Committee are Independent Non-Executive Directors. Please refer the Audit Committee Report on pages 225 to 230 for details on the functions of the Audit Committee.
D.3.2	Duties of the Audit Committee on the review of objectivity of the External Auditor	**Complied** - The Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements. During the Year, the Company appointed Messrs. PricewaterhouseCoopers, Chartered Accountants as the External Auditors of the Company. However, they tendered their resignation on 27th October 2014 due to a perceived conflict of interest. Upon the resignation of Messrs. PricewaterhouseCoopers, the Company decided to appoint Messrs. Ernst & Young as the External Auditor for 2014. The appointment will be tabled at the next Annual General Meeting to be held on 27th March 2015 to obtain due approval of shareholders for the appointment of External Auditors. Messrs. Ernst & Young have given a declaration of its independence to the Audit Committee as per the relevant rules.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
D.3.3	Terms of reference of the Audit Committee	**Complied** - The Audit Committee operates with clearly defined terms of reference which are reviewed annually. The main areas of focus in the Audit Committee Charter are; - Composition - Internal audit - Financial reporting - Risk management and internal control - Related Party Transactions - Meetings - External audit - Compliance and litigations - Reporting responsibilities - Other responsibilities A summary of the functions of the Committee is provided on page 184.
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 184 of the Annual Report. Determination of the independence of the Auditors and the basis of such declaration is given on page 227. Report by the Audit Committee is given on pages 225 to 230.
D.4	**CODE OF BUSINESS CONDUCT & ETHICS**	
Principle D.4	Companies must adopt a Code of Business Conduct and Ethics for Directors and members of the senior management team and must promptly disclose any waivers of the Code by Directors or others.	
D.4.1	Disclosures on presence of Code of Business Conduct and Ethics	**Complied** - The Company has introduced a Code of Business Conduct and Ethics for Directors in 2013. 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. An affirmative declaration in the Annual Report that all Directors and Key Management Personnel have declared compliance with the Code of Conduct is given in page 265.
D.4.2	Affirmation by the Chairperson that there is no violation of the Code of Business Conduct and Ethics	**Complied** - The Annual Report of the Board of Directors on page 265 provides an affirmative statement in this regard.
D.5	**CORPORATE GOVERNANCE DISCLOSURE**	
Principle D.5	Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.	
D.5.1	Disclosure of Compliance with the Corporate Governance Code.	**Complied** - Pages 199 to 216 set out the manner and extent to which the Company has complied with the principles and provisions of the Code of Best Practice on Corporate Governance issued jointly by the SEC and the ICASL (Code).

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
2	SHAREHOLDERS	
E	INSTITUTIONAL INVESTORS	
E.1	SHAREHOLDER VOTING	
Principle E.1	Should ensure institutional shareholders' voting intentions are translated into practice	
E.1.1	Communication with Shareholders	**Complied** - Please refer page 173 to 176 for details on shareholder communication.
E.2	EVALUATION OF GOVERNANCE DISCLOSURES	
Principle E.2	Institutional investors should be encouraged to give due weight to the relevant governance arrangements.	**Complied** - Sufficient attention has been given to the interests of institutional investors. The Company's corporate governance structure is discussed in detail from pages 171 to 191.
F	OTHER INVESTORS	
F.1	INVESTING/ DIVESTING DECISIONS	
Principle F.1	Individual shareholders are encouraged to seek independent advice on investing or divesting decisions.	**Complied** - 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 F.2	The Company must encourage individual shareholders to participate in General Meetings and exercise voting rights.	**Complied** - All shareholders are encouraged to participate at General Meetings and cast their votes.

SECTION NUMBER	PRINCIPLE	COMPANY'S COMMITMENT
G	SUSTAINABILITY REPORTING	
G.1	PRINCIPLES OF SUSTAINABILITY REPORTING	
G.1.1	Principle 1 – Economic sustainability	**Complied** - Please refer pages 49 to 52 for details on economic sustainability.
G.1.2	Principle 2 – The Environment	**Complied** - Please refer pages 154 to 158 for the Company's activities on sustainability with regard to environment.
G.1.3	Principle 3 – Labour Practice	**Complied** - Please refer pages 120 to 136 for the Company's activities on labour practice.
G.1.4	Principle 4 – Society	**Complied** - Please refer pages 144 to 153 for the Company's activities on sustainability with regard to Society.
G.1.5	Principle 5 – Product Responsibility	**Complied** - Please refer pages 6 and 7 for the Company's activities on product responsibility.
G.1.6	Principle 6 – Stakeholder identification, engagement and effective communication	**Complied** - Please refer pages 40 to 44 for the Company's activities on Stakeholder identification, engagement & effective communication.
G.1.7	Principle 7 – Sustainable reporting to be formalised	**Complied** - The Economic, Social and Environmental performances of the Company are reported through the Annual Report which is an Integrated Annual Report encompassing all three aspects of performance. The Company uses the GRI – G4 Sustainability Reporting Guidelines in monitoring and reporting its sustainability performance.

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 the above Rules.

RULE NO.	SUBJECT	REQUIREMENT	COMPLIANCE STATUS	REMARKS
7.10.1	Non-Executive Directors	Two or one-third of the total number of Directors, whichever is higher, shall be Non-Executive Directors.	Compliant	Nine out of ten Directors of HNBA function as Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors appointed to the Board, whichever is higher, shall be independent.	Compliant	Four out of nine Non-Executive Directors are independent.
7.10.2 (b)		Each Non-Executive Director shall submit a declaration of independence or non independence in the prescribed format.	Compliant	Non-Executive Directors have submitted declarations during 2014.
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 259 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 24 to 27.
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Exchange for dissemination to the public.	Compliant	During the year the announcements of the appointment of Dr. Sivakumar Selliah was made to the Exchange on 17th June 2014 carrying a brief resume of him.
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee.	Compliant	Details of the Remuneration Committee is given on pages 231 and 232.

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 Remuneration Committee comprises three Non-Executive Directors out 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 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 Remuneration Committee on page 184 and 185.
7.10.5 (c)		The Annual Report should set out names of the Directors serving in the Remuneration Committee	Compliant	Please refer page 231 for the composition of the Remuneration Committee.
		Statement of Remuneration Policy	Compliant	Please refer the Remuneration Committee Report on pages 231 and 232.
		Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer page 261 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 225 to 230.
7.10.6 (a)		The Audit Committee shall comprise Non-Executive Directors, a majority of whom shall be independent.	Compliant	The Audit Committee comprises three Non-Executive Directors, two of whom are independent.
		One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors.	Compliant	Mr. J A P M Jayasekera (Independent Non-Executive Director) functions as the Chairman of the Committee.
		Chief Executive Officer (CEO) and Chief Financial Officer shall attend Audit Committee meetings.	Compliant	Both the MD/CEO and the Chief Financial Officer attend the meetings by invitation.

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	Two members including the Chairman are members of recognised professional accounting bodies. Please refer page 225 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 184 for a brief description of the functions of the Committee and pages 225 to 230 for the Report of the Audit Committee.
7.10.6 (c)		The Annual Report should set out:-	Compliant	
		- Names of the Directors serving in the Audit Committee		Please refer page 225 for the composition of the Audit Committee.
		- The Committee's determination of the independence of the Auditors and the basis for such determination		Please refer page 227 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.		Please refer pages 225 to 230 for the Report of the Audit Committee.

Performance Governance

PERFORMANCE GOVERNANCE AT HNB ASSURANCE

The Company considers the governance of its performance to be of utmost importance and hence has established multiple mechanisms to ensure that there is close monitoring of its performance objectives with a view to achieving the same.

The primary responsibility with regard to performance governance lies with the Board of Directors, which pays keen attention on the performance of the Company from a variety of perspectives. To further strengthen their degree of supervision, the Board functions through its appointed sub-committees, i.e. Audit Committee, Investment Committee, Remuneration Committee, Risk Management Committee and Related Party Transactions Review Committee.

During the year, General Manager – General, General Manager – Life and Chief Financial Officer started attending board meetings to discuss performance of their respective areas.

Corporate Planning and Budgeting

The focal point of the performance governance of the Company is the formulation of the corporate plan of the Company. The Company engages in a comprehensive process of corporate planning, which takes place annually, targeting the performance of the next three-year period.

The corporate planning session commences with the Board of Directors, together with the corporate planning team, consisting members of the management who lead all key areas of the Company, analysing the external environment and reviewing the performance of the Company by benchmarking it with industry players. An internal analysis is also done where the key strengths and weaknesses of the Company are identified. The Board then briefs the team on its expectations and provides the strategic direction for the planning time frame.

Based on the analysis and the Board directions, the corporate planning team, under the aegis of the Managing Director, agrees on the long term goals and objectives of the Company for the planning period and formulates detailed strategies to achieve the goals and objectives.

Using the objectives specified in the Corporate Plan and the inputs from the branch and field management, the management next prepares the annual budget for the Company. As such, the budgetary process is a two-way approach following a bottom-up and top-down approach.

The Corporate Plan together with budgets is then submitted to the Board of Directors for approval.

Following Board approval, the corporate objectives formed, are allocated as performance objectives of the management team including the Managing Director. These performance objectives are then handed down to the lower management levels thereon and become the key criteria for performance measures which determine remuneration and bonus entitlements of the Managing Director and other members of the management team.

This year being a transitional year, separate corporate plans and budgets were formulated for the year 2015 for the post segregation, Life Insurance Company and General Insurance Company.

Monitoring progress as per the Corporate Plan

Performance governance is ensured by closely monitoring the performance objectives, budgets, relevant policies and procedures of the Company. Each manager is responsible for the achievement of the objectives and component/s of the budget assigned to him and his team, and is required to closely monitor the progress and report on the same to his superiors.

Further, the Risk and Compliance Department follows up with each division on the progress and the Executive Committee also reviews the corporate plan periodically to ensure that the objectives are met. Further, the progress of the corporate plan is also presented periodically to the Board for review.

Key Performance Indicators

The Company has prepared Key Performance Indicators (KPI) to assist the monitoring of performance and the progress on same is reviewed monthly by the Board of Directors. These KPIs are more frequently reviewed by the Executive Committee, The management team and the Operational Committees. The Company's Key Performance Indicators appear on pages 47 and 48.

The following table provides more details regarding the performance governance mechanism of the Company.

AREA OF OPERATION	GOVERNANCE POLICIES AND PROCEDURES	GOVERNANCE STRUCTURES	PERFORMANCE GOVERNANCE MECHANISMS
Development and implementation of Corporate Plan and Budgets	- Vision and Mission - Strategic Plan	- Corporate planning team consisting of EXCO members and key operational managers - Review and approval of the Corporate Plan by the Board of Directors - Risk and Compliance Department	- Review of the Corporate Plan by the Board - Corporate plan review system (dashboard) - Performance review by EXCO on a monthly basis via a special EXCO Meeting - Independent follow up by Risk and Compliance Department - Review of actual results against the budgets by the Board on a monthly basis - 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 - Operations Committee - General - 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
Claims Management	- Procedure Manuals - Guidelines - Claims Reserving Policy - Manual of Financial Authority - Customer Service Standards	- Operations Committee - Life - Operations Committee - General - 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

Performance Governance

AREA OF OPERATION	GOVERNANCE POLICIES AND PROCEDURES	GOVERNANCE STRUCTURES	PERFORMANCE GOVERNANCE MECHANISMS
Sales and Distribution	- Company Budget - Annual Targets - Individual Objectives	- Operations Committee - Life - Operations Committee - General - Management Team - EXCO - Risk and Compliance Department	- Distribution Managers Meetings - Renewal Review Meetings - Performance reviews at OPCOs, EXCO and the Board - Sales convention and various competitions and rewards including foreign tours - Visits to Zonal Offices by the EXCO members to address issues faced by distribution staff
Product Development	- Product Development Policy	- Operations Committee - Life - Operations Committee - General - 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 Areas	- Financial Authority Manual - Procedure Manuals - Guidelines - Procurement Policy and Procedures - Annual Budget	- OPCO – Finance and Administration - Procurement Committees - 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 procurement policy and procedures by the Risk and Compliance Department
Investment Management	- Investment Policy - Financial Authority Manual	- Segregation of Investment Front Office and Back Office to ensure compliance with set policies - Investment Committee - Risk and Compliance Department	- Monthly meetings with CEO and CFO - Providing frequent updates of investment related KPIs and KRIs - Independent monitoring by the Risk and Compliance Department - Quarterly review by Investment Committee

AREA OF OPERATION	GOVERNANCE POLICIES AND PROCEDURES	GOVERNANCE STRUCTURES	PERFORMANCE GOVERNANCE MECHANISMS
Use of Information Technology and IT Governance	- IT Security Policy - Disaster Recovery Plan	- IT OPCO - Segregation of IT operations and IT system development - IT Security Administrator - Risk and Compliance Department	- Regular meetings with other departments to obtain user feedback - IT Help Desk - Employment of separate personnel to ensure IT Security - Independent Review of operations of the IT Division by the Assistant Manager - IT Governance and Compliance
Human Resources	- Remuneration Policy - Code of Ethics - Share Dealing Policy - Staff Hand Book - Whistle Blowing Policy - Grievance Handling Policy - Performance Appraisal Process	- CEO's forums to provide opportunities for the operational staff to raise their concerns directly with the MD without the presence of the management - Whistle Blowing Policy to enable employees to raise concerns with the top management, including the Chairperson of the Board and the Chairman of the Audit Committee - Remuneration Committee - Risk and Compliance Department	- Communication of Company's objectives and plans at the Annual Staff Conference - Performance measurement via mid-year and year-end appraisals - Periodic employee surveys - Salary surveys - Provision of a special e-mail address for employee feedback - Conducting employee exit interviews - Visit by the Head of HR to branches to identify HR related issues - Frequent dissemination of information on HR policies and practices through 'HR Notices' - Review of annual staff increments and promotions by the Remuneration Committee.

Performance Governance

AREA OF OPERATION	GOVERNANCE POLICIES AND PROCEDURES	GOVERNANCE STRUCTURES	PERFORMANCE GOVERNANCE MECHANISMS
Risk Management	- Risk Management Policy - Business Continuity Plan	- Risk Management Team - Business Continuity Plan (BCP) Committee - Risk Management Committee - Audit Committee - Risk and Compliance Department	- Preparation of a Risk Register identifying key risks faced by the Company - Preparation of Key Risk Indicators (KRIs) based on the main risks faced by the Company and its risk appetite - Frequent monitoring of the KRIs and the implementation of risk mitigating actions agreed by the management - KRI reports are reviewed the by the Board and the Risk Management Committee - Conducting BCP drills to identify gaps in the BCP - Preparation of "What Could Go Wrong" questionnaires to identify risks associated with business operations - Obtaining independent opinions from external parties on the prepared "What Could Go Wrong" questionnaires
Legal and Compliance	- Compliance Policy - Document Retention Policy	- OPCO – Corporate Services Division - Audit Committee - Risk and Compliance Department	- Tabling a monthly compliance report to the Board on the Company's compliance with applicable laws and regulations by Manager – Risk and Compliance - Tabling a compliance report at the Audit Committee meeting on a quarterly basis by Manager – Risk and Compliance - Preparation of a monthly compliance checklist on all applicable regulations - Checking all compliance reports by the Risk and Compliance Department and review of such reports by the Audit Committee prior to submission to the regulator - Review of all outstanding litigations annually by the Audit Committee
Corporate Social Responsibility	- Corporate Plan - Annual Budgets	- Sustainability Committee - Executive Committee (EXCO)	- A detailed review of the Company's actions towards Corporate Social Responsibility is given on pages 144 to 165.

Audit Committee Report

COMPOSITION

The Audit Committee of HNB Assurance PLC, appointed by and responsible to the Board of Directors, comprises three Non-Executive Directors, two of whom are independent. The members bring a multitude of varied expertise and knowledge to the Audit Committee, which enables effective conduct of operations.

Members of the Committee during the year were:

NAME	POSITION	DATE OF APPOINTMENT TO THE COMMITTEE	QUALIFICATIONS
Mahendra Jayasekera - Chairman	Independent Non-Executive Director	11th of December 2012	FCA, BSc Special (Hons), (University of Sri Jayawardenapura)
Sarath Ratwatte - Member	Independent Non-Executive Director	30th of January 2009	FCMA (UK), CGMA
Jonathan Alles - Member	Non-Executive Director	11th of December 2012	MBA (University of Stirling–Scotland), AIB (SL)

A brief profile of each member is given on pages 26 and 27 of this Annual Report.

The Board Secretary functions as the Secretary to the Audit Committee.

The Managing Director (CEO) and Chief Financial Officer attend all meetings by invitation. Other Executive Committee Members, Finance Manager, Manager – Risk and Compliance and other members of the management are also invited to attend these meetings where necessary. Additionally, Internal and External Auditors and Consultant Actuaries also attend meetings by invitation when required.

MEETINGS OF THE AUDIT COMMITTEE

The Committee met four (4) times during the financial year under review, and the attendance of each member at these meetings is given on page 260. Agendas of the meetings, along with appropriate briefing material, were prepared and distributed among the members with sufficient notice. Apart from the formal meetings, several other informal discussions and communications also took place during the year, involving the Chairman and other members of the Committee, Internal and External Auditors, members of the Executive Committee and the management.

CHARTER OF THE AUDIT COMMITTEE

The Audit Committee primarily seeks to assist the Board of Directors in performing its duties effectively and efficiently. Accordingly, the key objectives of the Audit Committee can be described in detail as follows:

- To ensure that the financial reporting system is able to present accurate and timely financial information to the Board of Directors, regulators and the shareholders.
- To ensure Financial Statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS), Regulation of Insurance Industry Act, No. 43 of 2000 and other relevant laws and regulations.
- To ensure that an effective risk management process that enable the proper identification and mitigation of risks is in place.
- 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 monitor processes established for the maintenance of compliance with laws and regulations.
- To assess the independence of the External Auditors and to monitor the performance of both Internal and External Auditors.
- To evaluate the Company's ability to continue as a going concern into the foreseeable future.

While acknowledging that all three members of the Committee are collectively responsible with regard to the achievement of these objectives, the members have segregated the key responsibilities of the Committee among themselves in order to improve the focus of the Committee.

Audit Committee Report

Such segregated areas are:

- Financial Reporting and External Audit
- Internal Control, Risk Management and Internal Audit
- Compliance and Other

The Audit Committee is empowered to seek any information it so desires from the management and staff of the Company or from external parties. 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.

The functions of the Audit Committee are also governed by the Charter of the Audit Committee, which is reviewed annually.

ACTIVITIES AND RESPONSIBILITIES

The Committee conducted the following activities during the year.

Financial Reporting

The Committee, in recognition of its responsibility to oversee the Company's process of financial reporting on behalf of the Board of Directors, reviewed the following areas in consultation with the External Auditors and the management where necessary:

- Significant accounting and reporting issues
- Developments in the financial reporting framework (Sri Lanka Accounting Standards – SLFRS/LKAS)
- Consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Financial Reporting Standards (SLFRS/LKAS)
- Disclosure requirements and other applicable accounting and financial reporting requirements such as the Companies Act, No. 07 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

It is the Company's policy to review and approve interim and annual financial statements prior to publishing. Accordingly the Committee reviewed all four (4) interim financial statements and the annual financial statements for the year 2014 before publishing and recommended their adoption to the Board.

In the absence of significant changes in accounting standards, it is noted that there were no material changes to the Company's accounting policies in the year 2014.

Compliance with Laws and Regulation

The Company has a practice of signing-off a comprehensive compliance checklist which covers all the compliance requirements as per the prevailing laws and regulations on a monthly basis. During the year the Committee reviewed twelve (12) such compliance checklists in order to monitor compliance with all rules and regulations applicable to the Company.

Additionally, the Committee also reviewed four (4) compliance reports submitted by the Manager - Risk and Compliance, with a view to ensuring that the Company has complied with all statutory requirements, including those set out by the Regulation of Insurance Industry Act, No. 43 of 2000.

Statutory Reporting to the Insurance Board of Sri Lanka (IBSL)

The Committee reviewed and approved all quarterly and annual returns submitted during the year to the Insurance Board of Sri Lanka (IBSL) under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

Appointment of the External Auditor

In keeping with the Company's new policy of rotating Auditors periodically, the previous Auditors, Messrs. KPMG who provided their services since 2001, were replaced by Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants at the Annual General Meeting held on 27th March 2014.

However, PwC tendered their resignation from being the External Auditors of the Company due to a perceived conflict of interest w.e.f. 27th October 2014. The Board accepted the same at the meeting held on 31st October 2014.

At the same meeting Messrs. Ernst & Young, Chartered Accountants were appointed as the External Auditors of the Company for the Financial year ended 31st December 2014 subject to same being approved by the Shareholders at the Annual General Meeting to be held on 27th March 2015.

EXTERNAL AUDIT

During the year, the Committee continued to review the external audit plan and the methodology, with the objective of understanding the quality control/assurance processes adopted by the External Auditors. Moreover, the Committee conducted meetings with the External Auditors to discuss the audit scope and plan. Discussions were also held between the Committee, the management and the External Auditors regarding the co-ordination of the audit effort and to ensure that the External Auditors receive the required information and assistance from all relevant parties.

Furthermore, the Committee perused the Report of the Auditors and the Management Letters issued in consultation with both the External Auditors and the management, and continuously monitored the actions taken by the management to implement the recommendations made.

The Audit Committee met the External Auditors without the presence of the management on one occasion during the year. Additionally, the External Auditors were given adequate access to the Audit Committee as well as to all relevant information required.

The Audit Committee also reviewed and recommended for approval to the Board the fees payable to the statutory auditors for the interim and final audits for the financial year ending 31st of December 2014.

INDEPENDENCE OF EXTERNAL AUDITORS

The services provided by the External Auditors are segregated as those requiring an independent view, such as audit and assurance services and other advisory services, such as consultancy services. The Audit Committee reviews these audit and non-audit functions of the External Auditors before such services are assigned in order to ensure that the provision of such services does not impair independence and that work is assigned in such a manner as to prevent any conflict of interest.

The Committee has received a declaration, as required under the Companies Act, No. 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 (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) as well as the Guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka (SEC).

Provision of Non-Audit Services

The Committee is responsible for reviewing the nature of non-audit services the External Auditor may undertake to provide, in order to ensure that auditor independence is not impaired.

Accordingly, no advisory services were provided by Messrs. Ernst & Young to the Company since they were appointed as the External Auditors of the Company on 31st October 2014.

Messrs. Ernst & Young, Advisory Services (Pvt) Ltd, an affiliated company to Messrs. Ernst & Young, provided internal audit services to the Company up to 31st March 2014. The Committee has determined that this will not affect the independence of the External Auditor, as it took place prior to Messrs. Ernst & Young being appointed as the External Auditors.

INTERNAL AUDIT

The Company appointed Messrs. KPMG, Chartered Accountants as the Internal Auditors of the Company replacing the previous Internal Auditors Messrs. Ernst & Young Advisory Services (Pvt) Ltd following the same practice we adopted for rotating External Auditors.

The Committee monitors the effectiveness of the internal audit function and is responsible for approving the appointment or removal of the Internal Auditors. The Committee is also responsible for reviewing and approving the internal audit plan, scope and reporting requirements of the Company annually. During the year, the Committee requested the Internal Auditors, Messrs. KPMG, Chartered Accountants, to align their audit approach with the Company's Risk Register and to prioritise the audit work based on the identified risks.

Additionally, during 2014, the Committee reviewed 08 internal audit reports covering the operations of 36 branch locations and several head office functions i.e. underwriting, claims, reinsurance, credit control, finance, investments, etc. Audit findings presented in the reports were then prioritised based on the level of risk, while the progress of the implementation of internal audit recommendations was also monitored regularly by the Committee. The Committee took steps to make the internal audit reports available to the External Auditors as well.

Moreover, the Committee is also tasked with approving the fees for the Internal Auditors on an annual basis.

The Audit Committee met the Internal Auditors without the presence of the management, once during the year.

REPORTS OF EXTERNAL ACTUARIES

The Audit Committee received written reports from the Life and General

Audit Committee Report

Insurance Independent External Actuaries, which included observations and comments with regard to the valuation of Life Insurance Policyholder Liabilities, General Insurance Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER).

The Committee reviewed the assumptions used by the Actuaries in valuing insurance contract liabilities and discussed with the management about the rationality of such assumptions. The Committee also checked whether such valuations are performed as per the regulations and guidelines issued by the Insurance Board of Sri Lanka (IBSL).

During the year, the Committee also supervised the conducting of the Liability Adequacy Tests (LAT), as required by SLFRS 4 – Insurance Contracts, with the support of External Actuaries, and was able to conclude that the recorded insurance contract liabilities for both Life and General Insurance businesses as at 31st of December 2014 were adequate. Please refer pages 321 and 323 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 Committee evaluated the effectiveness of the Company's risk management process, mainly through the Risk Management Committee. (Please refer Risk Committee Report on page 234 which describes the actions taken to improve the risk management activities of the Company).

In addition, the Committee also reviewed, in line with the past practice the various reports furnished by the Management, Internal and External Auditors in respect of the Internal Control and Risk Management environment of the Company.

Finance, General and Life Divisions sign-off monthly procedure checklists covering all the operational controls in the respective Divisions and report the same to the Audit Committee. During the year, the Company implemented a similar procedure for branch operations as well.

Manager - Risk and Compliance also reviews the internal control procedures of the Company and reports any variations to both the Executive Committee and the Audit Committee.

During the year, the Committee reviewed all reports published by the Internal and External Auditors and followed up on the implementation of recommended actions.

The Company's activities on Internal Controls are given in detail on the Directors' Statement on Internal Control on pages 238 and 239.

IT RISK AND CONTROL ASSESSMENT

The Committee pays significant attention to the IT related risks of the Company.

Messrs. Ernst & Young performed a detailed review on the general and application controls of the IT function during the year, as a part of their external audit process, and shared their report with the management and the Audit Committee. The Committee, together with the management and the External Auditors, reviewed the report in detail and followed up regarding the implementation of actions recommended.

The Committee reviewed the comments made by Internal Auditors in respect of general controls related to IT systems and discussed with the management regarding the appropriate actions required to mitigate identified risks.

FRAUD RISK

Numerous control procedures are in place to mitigate the risk of fraud, which include the following:

- The Procurement Policy, which has been adopted by the Board, and which is to be complied in respect of all procurement activities
- Procurement Committees comprise members from functions other than the Department/Division which initiates the procurement activity
- The formal Whistle Blowing Policy, which enables employees to raise concerns on fraudulent activities on the condition of anonymity

Manager - Risk and Compliance, Internal Auditors and External Auditors review all processes of the Company continuously to identify and mitigate the risk of fraud.

The Audit Committee makes a conscious effort to ensure the risk of fraud is minimised and hereby reports that no material fraudulent activities were reported during the year.

RISK MANAGEMENT COMMITTEE

As discussed above, the Company appointed a Risk Management Committee during the year 2013 and assigned the direct responsibility of monitoring the Risk Management activities of the Company. This Risk Management Committee comprises of three (3) Non-Executive Directors and the Committee had four (4) meetings during the year.

Accordingly, some of the responsibilities that were assigned to the Audit Committee previously in respect of risk management, have now been assigned to the Risk Management Committee.

However, as the Audit Committee continues to be responsible for establishing a sound risk management framework, the Risk Management Committee shared the minutes of its meetings and other important information with the Audit Committee, to keep it up to date with the ongoing developments. Similarly, the Audit Committee also kept the Risk Management Committee informed of any areas that required its attention during the year.

A detailed report of the Risk Management Committee, highlighting its role and responsibilities and activities carried out during the year, appears on page 237.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Board of Directors of the Company decided to voluntarily adopt the Code of Best Practices on related party transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC) and established the Related Party Transactions Review Committee during the year. The Committee comprises of three (3) members with a combination of Executive and Independent Non-Executive Directors as stipulated by the code. The Committee met three (3) times during the year.

The purpose of the Related Party Transactions Review Committee is to conduct an appropriate review of all of the Company's related party transactions and to ensure that the Company complies with the rules set out in the Code of Best Practices on Related Party Transactions issued by the SEC. Therefore, some of the Audit Committee's responsibilities on reviewing Related Party Transactions have now been delegated to this Committee.

A detailed report of the Related Party Transactions Review Committee, highlighting its role and responsibilities and activities carried out during the year, appears on page 233 and 234.

WHISTLE BLOWING

The Company, under the guidance of the Audit Committee, has implemented a formal Whistle Blowing Policy and the same has been communicated to all members of the staff. Through this policy, the Company encourages any employee who suspects wrongdoing at work - whether by the management, peers, or any other employee - to raise his/her concerns directly with the following nominated members of the Company.

- Manager - Risk and Compliance
- Head of Human Resources
- Managing Director
- Chairman of the Audit Committee
- Board Chairperson

Concerns raised are investigated as per the policy and the identity of the person raising the concern is kept confidential.

No complaints under the Whistle Blowing Policy were received by any of the above parties during the year.

COMPLIANCE WITH THE LISTING RULES OF THE CSE AND THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

The Company is fully compliant with the Corporate Governance Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE).

Please refer pages 217 to 219 for more information in this regard.

Further, the Company is also fully compliant with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL).

Please refer pages 199 to 216 for more information in this regard.

PERFORMANCE EVALUATION OF THE COMMITTEE

The ultimate objective of the evaluation of the Committee is to improve the effectiveness of its activities and enhance its support to the management and the Board of Directors.

Therefore, based on a checklist approved by the Committee, a self-evaluation of the performance of the Audit Committee was conducted for the fifth consecutive year. In addition, the Executive Committee of the Company also evaluated the performance of the

Audit Committee Report

Audit Committee using a set checklist and the results were shared with the Committee. These checklists cover all the responsibilities of the Committee, which are derived from the Charter of the Audit Committee. The summary of the feedback received through the self-evaluation of the Committee together with the management evaluation were tabled and discussed at the Board meeting.

CHANGES TO THE COMPANY STRUCTURE AND THE NATURE OF THE OPERATION

As per section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 and guidelines issued by the Insurance Board of Sri Lanka thereon, all insurers were required to segregate their long term insurance business and the general insurance business into two separate companies by 1st January 2015. In order to comply with this requirement, HNB Assurance PLC incorporated a fully owned subsidiary company on 30th January 2014, in the name of H N B General Insurance Limited (PB 5167) and has obtained the registration of the regulator, the Insurance Board of Sri Lanka (IBSL) - to carryout General Insurance business with effect from 01st January 2015. The Company also obtained the approval of the District Court to transfer the General Insurance Business of HNB Assurance PLC to HNB General Insurance Limited following the due process stipulated by Insurance Board of Sri Lanka being one of the first companies to do so.

H N B General Insurance Limited did not have any commercial operations during the financial year under review except for managing funds received as Stated Capital. Accordingly, HNB Assurance PLC remained as a composite insurance company till 31st December 2014.

After obtaining all due approval from the regulator and a license to operate H N B General Insurance Limited as a General Insurance Company, HNB Assurance PLC transferred its General Insurance business to H N B General Insurance Limited with effect from 1st January 2015. Accordingly, HNB Assurance PLC became a Life Insurance Company w.e.f. 1st January 2015 and our fully owned subsidiary has taken over the General Insurance Business of the Company.

In addition to running a Life Insurance Business from 1st January 2015 onwards, HNB Assurance PLC acts as the holding company of H N B General Insurance Limited and provides shared services to H N B General Insurance Limited based on an agreement signed by the two companies.

The Company prepared and presented Consolidated Financial Statements for the year ended 31st December 2014 together with the results of the fully owned subsidiary H N B General Insurance Limited.

The Board has decided to consider the Audit Committee of HNB Assurance PLC as the Group Audit Committee w.e.f. 1st January 2015 in line with the Corporate Governance Code issued by the SEC and ICASL.

CONCLUSION

The Committee is satisfied that the Company's internal controls are effectively implemented as designed, and that the Company's assets are adequately safeguarded. The Company's Internal and External Auditors have been effective and independent throughout the year. The Committee is also satisfied that the operational controls and the application of appropriate accounting policies provide reasonable assurance that the financial statements of the Company are true and fair.

Mahendra Jayasekera
Chairman - Audit Committee

Colombo, Sri Lanka.
09th February, 2015

Remuneration Committee Report

The Remuneration Committee operates within the agreed terms of reference and is committed to the principles of accountability and transparency, and ensuring that rewards and remuneration align with the performance of the Company and individual performance.

RESPONSIBILITIES OF THE REMUNERATION COMMITTEE:

- Maintaining a competitive, attractive and reasonable remuneration package for employees at all levels on par with industry standards bearing in mind business performance and long term shareholder returns.
- Making sure that the remuneration packages of employees are linked to individual performance, responsibility, expertise and contribution.
- Formulating formal and transparent procedures in implementing the remuneration policy of the Company.
- Recommending annual increments, and changes in perquisites and incentives.
- Reviewing the management development plan of the Management Team and the Succession Plan.
- Ensuring that no Director is involved in setting his own remuneration package.

COMPOSITION AND CHARTER OF THE REMUNERATION COMMITTEE;

The Remuneration Committee comprises 3 Non-Executive Directors and two of them are independent in conformity with the requirements of Corporate Governance. Members of the Committee, are shown in the following table;

NAME OF THE MEMBER	CATEGORY	DATE OF APPOINTMENT TO THE COMMITTEE
Mr. K Balasundaram - Chairman	Independent Non-Executive Director	11th December 2012
Mr. M U de Silva - Member	Non-Executive Director	29th March 2005
Mr. Sarath Ratwatte - Member	Independent Non-Executive Director	25th February 2009

A brief profile of each member is given on pages 26 to 27 of this Annual Report.

The Board Secretary functions as the Secretary to the Remuneration Committee.

The Managing Director and Head of Human Resources attend all meetings by invitation and assist the Committee by providing information required for its decision making process.

REMUNERATION PRINCIPLES

The remuneration policy of the Company;

- should be reasonable, attractive, competitive and linked to individual performance, and
- should be in line with both industry standards and the Company's performance

REMUNERATION PACKAGE

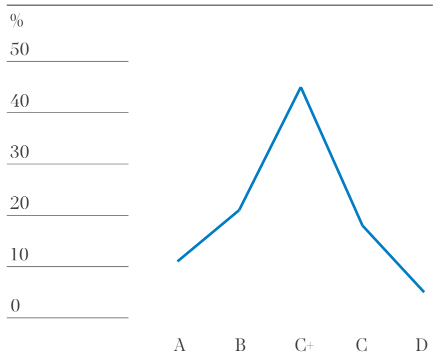
Employees

The remuneration packages of employees consist of a fixed component and a variable component. In addition, some other benefits are also available to employees as noted below.

Fixed Components

Basic salary is the fixed component in the package which is based on the scope and complexity of the role and is reviewed annually. Annual performance appraisals are conducted and increments and promotions are granted purely based on results of such exercises. Distribution of performance grading in the year-end appraisal process is shown in the graph below. Overall competence and performance are key factors that determine an individual's base pay.

Distribution of Appraisal Grades



Variable Components

The main component of our variable pay is the annual bonus to employees at all levels based on individual performance as evaluated at the annual performance appraisals and the performance of the Company. In addition, the Distribution Management Team, other marketing personnel in the distribution network and Bancassurance Officers are entitled to a production bonus scheme based on achievement of business targets under pre-determined criteria.

Remuneration Committee Report

FIXED COMPONENTS	VARIABLE COMPONENTS	OTHER BENEFITS AND FACILITIES
Basic Salary	Annual bonus for all staff	Vehicle Loans (selected categories of staff)
		Educational Loans and Education Assistance Scheme
		Professional Membership Subscription Scheme
	Production Bonus for Distribution Management Team, Other Marketing personnel and Bancassurance Officers	Other Loans (Emergency, Wedding etc)
		Insurance Benefits (Life, Medical, Critical Illness, etc)
		Holiday Bungalow (selected categories of staff) and recreational facilities (Badminton, Swimming, etc)

Other Employee Benefits

Benefits provided to employees include vehicle loans, educational loans, other loans, various insurance benefits including the Staff Health Insurance Cover, Critical Illness Cover and the Personal Accident Cover, regular health check-ups and free doctor consultations through a reputed medical services provider.

RETIREMENT BENEFITS

As per the regulatory requirements, a defined contribution plan is made available for employees where the Company contributes to EPF and ETF. In addition, employees who have completed 5 years of service are entitled for Gratuity. There are no retirement benefits to employees other than the above.

BOARD OF DIRECTORS

No remuneration is paid to Non-Executive Directors other than the fees paid based on their participation at Board and Sub Committee meetings. The Managing Director's remuneration is decided by the Board annually on the recommendation of the Remuneration Committee based on the achievement of Company objectives and individual performance. Total fees and remuneration paid to all Directors is disclosed on page 261 Non-Executive Directors are not entitled to retirement benefits. The Managing Director is entitled to gratuity as all other employees.

KEY MANAGEMENT PERSONNEL (KMPS)

The Committee places special emphasis on the review of performance of KMPs and the determination of their remuneration packages. Their recruitment, management development and succession planning are also areas receiving the Committee's attention.

SHARE OWNERSHIP PLANS FOR DIRECTORS AND KMPS

The Company does not have a share ownership plan for Directors and KMPs.

DIRECTORS' SHAREHOLDING

The shareholdings of Directors are provided on page 261.

PERSONAL LOANS FOR DIRECTORS

No Director is entitled to Company loans.

REMUNERATION COMMITTEE MEETINGS

The Committee met three (3) times during the financial year under review. The attendance of each member is given on page 260 Agendas of the meetings were prepared and distributed sufficiently in advance to members, along with appropriate briefing material. The minutes of the meetings are circulated to the Board.

K Balasundaram
Chairman - Remuneration Committee

Colombo, Sri Lanka
09th February, 2015

Related Party Transactions Review Committee Report

ADOPTION OF THE CODE OF BEST PRACTICES ON RELATED PARTY TRANSACTIONS

The Board of Directors of the Company decided to voluntarily adopt the Code of Best Practices on related party transactions ("the Code") issued by the Securities and Exchange Commission of Sri Lanka (SEC) and established the Related Party Transactions Review Committee at its meeting held on 27th March 2014.

PURPOSE OF THE COMMITTEE

The purposes of the Related Party Transactions Review Committee ("the Committee") of HNB Assurance PLC ("HNBA") is to conduct an appropriate review of all of the Company's related party transactions and to ensure that the Company complies with the rules set out in the Code

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.

COMPOSITION OF THE COMMITTEE

The Committee consists of three (3) members with a combination of independent non-executive and executive directors. The members of the Committee are:

Sarath Ratwatte - Chairman
(Independent Non-Executive Director)

Mahendra Jayasekera - Member
(Independent Non-Executive Director)

Manjula de Silva - Member
(Managing Director)

Brief profiles of the Directors representing the Committee are given on pages 26 and 27 of this Annual Report.

The Manager – Risk and Compliance, functions as the Secretary to the Committee.

The Chief Financial Officer, Other EXCO members and Finance Manager attend the meetings by invitation.

CHARTER OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

The Related Party Transaction Review Committee Charter clearly sets out the purpose, membership, authority and the duties and responsibilities of the Committee. 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 interests 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 without 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.
- Subject to the exceptions given under Rule 27 of the Code, the Committee shall review in advance all proposed related party transactions.
- Perform other activities related to the charter as requested by the Board.

Related Party Transactions Review Committee Report

- Regularly report to the Board on the Committee's activities.
- The Committee will share information with the Audit Committee of the Board of Directors as necessary and appropriate to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities with regard to related party transactions.

MEETINGS

After its formation in March 2014, the Committee held three meetings on a quarterly basis during the year under review. Attendance at meetings is given in table on page 260 of this Annual Report.

REVIEW OF RELATED PARTY TRANSACTIONS

The Committee reviewed all related party transactions of the Company for the year 2014. Except for the transaction given below in respect of the transfer of General Insurance Business to HNB General Insurance Ltd as a result of the requirement to segregate Life and General Business, all related party transactions entered during the year were of a recurrent, trading nature and which is necessary for day-to-day operations of the Company.

In the opinion of the Committee, terms of these transactions were not favourable to the related parties than those generally available to the public. The details of related party transactions entered during the year are given in Note 43 to the financial statements on pages 345 to 349 of this Annual Report.

SEGREGATION OF THE COMPANY AND TRANSFER OF GENERAL INSURANCE BUSINESS TO HNB GENERAL INSURANCE LIMITED

As required by the Regulation of Insurance Industry (Amendment) Act, the Company segregated its Life and General insurance business into two companies with effect from 01st January 2015. Accordingly, the Company invested Rs. 100 Million in its fully owned subsidiary HNB General Insurance Limited (HNBGI) on 28th March 2014. Further, on 01st January 2015 the Company invested Rs. 900 Million in HNBGI to meet business and regulatory capital requirements. The transfer of assets was made based on the values recorded in the Statement of Financial Position as at 01st January 2015.

The Board of Directors of the Company was given authority to carry out the above transaction at the twelfth (12th) Annual General Meeting held on 27th March 2014 through a Special Resolution. The details of this transaction were announced to the Colombo Stock Exchange (CSE) on 02nd January 2015.

The minutes of the Committee meetings were tabled at the Board meetings for the review of the full Board.

POLICIES AND PROCEDURES

The Chief Financial Officer (CFO) is responsible for reporting to the Committee for its review and approval/ disapproval, the information set out under Rule 30 of the Code at the minimum in respect of each related party transaction proposed to be entered into other than the exceptions given in Rule 27 of the Code. In addition on a quarterly basis, the CFO is required to report to the Committee the approved related party transactions actually entered into by the Company.

The Committee reviewed the Related Party Transactions Declaration Form to be filled by the directors and the key management personnel of the Company. The Company used this form to capture the related party transactions at the end of the year and will be using it on a quarterly basis from 2015 onwards.

DECLARATION

A declaration by the Board of Directors in the Annual Report as an affirmative statement of compliance with the rules pertaining to related party transactions is included on page 261 of this Annual Report.

Sarath Ratwatte
Chairman - Related Party Transactions Review Committee

Colombo, Sri Lanka.
09th February 2015

Investment Committee Report

COMPOSITION OF THE INVESTMENT COMMITTEE

The Investment Committee of HNB Assurance PLC, appointed by and responsible to the Board of Directors, consists of the following members, all of whom possess expertise in numerous relevant areas including, but not limited to, investments, risk management, fund management and finance.

NAME	POSITION	CATEGORY	QUALIFICATIONS
Sarath Ratwatte	Chairman	Independent Non-Executive Director	FCMA(UK), CGMA
Manjula de Silva	Member	MD/CEO	BA Hons (Colombo), MBA (London), FCMA (UK), CGMA
Siromi Wickramasinghe	Member	Independent Non-Executive Director	Attorney-at-Law
Dr. Sivakumar Selliah	Member	Independent Non-Executive Director	MBBS, M.Phil
Rajive Dissanayake	Member	Chief Manager – Strategic Planning (HNB)	BBA (Colombo), ACMA (UK), CFA (USA)

The primary purpose of the Investment Committee is to assist the Board in reviewing investment policies, strategies and performance of the investment portfolios of HNB Assurance PLC.

The Chief Financial Officer functions as the Secretary to the Investment Committee.

Head of Investment, Manager – Risk and Compliance and Assistant Managers attached to the Investment Division attend meetings by invitation.

INVESTMENT COMMITTEE MEETINGS

The Committee met on four (4) occasions during the year 2014, with the objective of discussing in detail the performance of the investment portfolios of the Company as well as to dispense advice and guidance on the formulation and implementation of investment strategies.

In order to keep the Board of Directors updated as to the proceedings of the investment function of the Company, minutes of the Investment Committee meetings were tabled at each Board Meeting immediately following a meeting of the Investment Committee. Guidance and advice of the Board of Directors were also bestowed upon the investment function continuously throughout the year.

Moreover, the Committee maintained regular communication with the management, discussing matters as and when they arose in order to identify the optimum course of action that should be embarked upon.

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 further empowered to review and amend policies and programmes falling under its purview and recommend to the Board of their adoption.

The charter defines the following functions as the key responsibilities of the Investment Committee;

- Development and formulation of guidelines for the management of the investment portfolios of the Company
- Reviewing and advising on 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
- Provision of recommendations for Board approval of any changes to the Investment Policy deemed by the Committee to be necessary

Investment Committee Report

- Evaluation and the granting of approval for any investment activities which require specific approval of the Committee as per the Investment Policy
- Evaluation of the performance of the investments already made through a periodic comparison of actual returns with the expected returns
- Regularly reporting to the Board on the Committee's activities
- Reviewing its own performance on an annual basis
- Reviewing and assessing the adequacy of this Charter annually and recommending any proposed changes to the Board for approval
- Performing other activities related to this Charter as requested by the Board

Activities conducted during 2014

- The Committee met after the expiry of each quarter and held four committee meetings in 2014. The management tabled a report at each meeting which depicted 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 on the performance of the Company's investment returns, and the investment strategy was structured upon the agreements reached during such discussions.
- Apart from these scheduled meetings, the Committee also maintained a constant dialogue with the management throughout the year, discussing matters as and when they arose.
- A comprehensive revision of the Investment Policy of the Company was undertaken by the Committee together with the management, and in June 2014 a revised Investment Policy document was recommended by the Investment Committee and approved by the Board of Directors.
- The Committee provided guidance on achieving maximum risk-adjusted investment returns to ensure the achievement of budgeted income while adhering to all internal guidelines and external regulations and extended their assistance on the asset allocation, maturity mix and asset and liability management of the funds.
- A firm scrutiny was maintained throughout the year with regard to compliance of applicable rules and regulations stipulated in the Company's Investment Policy, and the Manager – Risk and Compliance tabled a separate report at each meeting affirming the state of compliance with all such applicable rules and regulations.

CONCLUSION

Considering the investment climate that prevailed throughout the year under review, the Committee is in the opinion that portfolios managed by HNB Assurance PLC have delivered commendable performance in 2014.

Sarath Ratwatte
Chairman - Investment Committee

Colombo, Sri Lanka
09th February, 2015

Risk Management Committee Report

OBJECTIVE

The Risk Management Committee ("the Committee") of HNB Assurance PLC ("the Company" or "HNBA") is a standing committee of the Board of Directors ("Board"). The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to oversight of HNBA's risk management framework, including the significant policies and practices used in managing risks.

AUTHORITY

In order to discharge 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 be provided with any information it requests relating to its responsibilities. The Committee has the authority to engage independent professional advisors on matters within its purview.

COMPOSITION

The Risk Management Committee of HNB Assurance PLC comprises three Non-Executive Directors. The members of the Committee have vast experience in risk management, finance, banking and business management. The members of the Committee are:

- **Mr. Dilshan Rodrigo** - *Chairman (Non-Executive Director)*
- **Mr. M U De Silva** - *Member (Non-Executive Director)*
- **Mr. K Balasundaram** - *Member (Independent Non-Executive Director)*

Brief profiles of the Directors representing the Committee are given on pages 26 to 27 of this Annual Report.

The Manager – Risk and Compliance, functions as the Secretary to the Risk Management Committee.

The Managing Director, Chief Financial Officer, and other Executive Committee members attend meetings by invitation.

CHARTER OF THE RISK MANAGEMENT COMMITTEE

The Risk Management Committee Charter clearly sets out the purpose, membership, authority and the duties and responsibilities of the Committee. The following key responsibilities have been set out in the Charter;

- Review the Company's risk management framework including significant policies, processes and systems used to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing.
- Review and approve the Company's Risk Register and receive reports on the Company's adherence to significant risk limits.
- Develop a risk appetite statement for the Company and review same with the management by periodically assessing performance with the established risk appetite.
- Review and discuss with management, issues raised by Internal/External Auditors that impact the Risk Management framework of the Company.
- Monitor whether the decisions relating to functions with high risks are taken in accordance with established delegated authorities.
- Review and discuss the progress on Risk Based Capital (RBC) implementation of the Company as required by the Insurance Board of Sri Lanka.

MEETINGS

The Committee met four (4) times during the financial year under review, and the attendance of each member at these meetings is given on page 260 of this Annual Report.

ACTIVITIES OF THE COMMITTEE

In order to discharge the above duties and responsibilities, the Committee carried out the following activities during the year.

- 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.
- Reviewed the compliance checklists prepared and confirmed compliance with all applicable laws and regulations.
- Examined the impact to the Company of external factors including developments in new regulations and changes in the reinsurance ratings.
- Evaluated the Company's progress in implementing the Risk Based Capital (RBC) framework which will come into effect from 2016.
- Discussed the progress on splitting the Company into two companies as required by the Regulation of Insurance Industry (Amendment) Act.
- Reviewed the Key Risk Indicators (KRIs) of the Company against internal tolerances developed covering credit, reinsurance, market, operational and strategic risks facing the Company and management actions taken to address internal breaches.
- Examined the study carried out on the reinsurance operations and motor claims settlement process.
- Reviewed the Risk Committee charter and carried out a self-evaluation on the performance of the Committee.

Dilshan Rodrigo
Chairman - Risk Management Committee

Colombo, Sri Lanka.
09th February, 2015

Board's Statement on Internal Control

RESPONSIBILITY

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control and risk management mechanism in place at HNB Assurance PLC, ("the Company"). However, in view of the inherent limitations in any system, such 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 losses or fraud. The system of internal control covers risk management and financial, organisational, operational and compliance controls.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal controls as and when there are changes to 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 Committee and Risk Management Committee which is supported by the Internal Auditors.

The management assists the Board in implementing the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the Company, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The Board is of the view that the system of internal controls in place is sound and adequate to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING

The key processes that have been established to review the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of the Company's daily operations and that the Company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business direction that have been approved.
- The Company's internal auditors up to 31st March 2014 were Messrs. Ernst & Young Advisory Services (Pvt) Ltd. The Company appointed Messrs. KPMG, as the Company's internal auditors to carry out internal audits from April 2014 onwards following the Auditor Rotation policy. The Internal Auditors check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out covering main areas of the operations and branches island-wide, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Internal Auditors report their findings to the Audit Committee and the reports are discussed at the periodic Audit Committee meetings.
- The Audit Committee of the Company reviews internal control issues identified by the internal auditors, the external auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled at the Board meetings for the information of the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Audit Committee Report on pages 225 to 230.
- A Risk Management Committee has been established to assist the Board to oversee the management of the risk management framework of the Company. Management has prepared a Risk Register identifying all key risks faced by the Company including existing controls and proposed new controls to mitigate those identified risks. The risk register has been shared with the Internal Auditors to ensure

compliance with existing controls. Implementation of the proposed new controls is followed up by the Risk and Compliance Department.

- Key Risk Indicators (KRIs) have been identified for all major operations of the Company and a KRI report is prepared on a monthly basis. The KRI report is presented to the Risk Management Committee and the Board on a quarterly basis for review.
- 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 action agreed to by the Management.
- A compliance checklist, covering all applicable laws and regulations, is signed-off by the management on a monthly basis and is tabled at Audit Committee meetings. Compliance reports prepared by the Manager – Risk and Compliance are also presented to the Audit Committee, Risk Management Committee and the Investment Committee on a regular basis. A monthly report to the Board is submitted by the Manager – Risk and Compliance on the Company's compliance with applicable laws and regulations.
- Procedure checklists have been prepared for General Insurance operations, Life Insurance operations and finance related activities covering key control aspects. These checklists were prepared on a monthly basis 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 the Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL), Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto.

By order of the Board,

Mahendra Jayasekera
Chairman - Audit Committee

Manjula de Silva
Managing Director / Chief Executive Officer

Dr. Ranee Jayamaha
Chairperson

Colombo, Sri Lanka
09th February, 2015

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 macroeconomic environment, all industries today face dynamic factors that are beginning to transform the way business is conducted. In this environment the Company also faced with risks which, if not properly managed, would hamper the progress of the Company. Some such key risks faced by the Company are:

- Adverse weather conditions that are experienced in the country and the region
- Increasing road accidents and increased cost of medical treatment resulting in high motor and medical claim costs
- Low interest rates resulting in low Investment Income
- 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
- 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 Company, the Board is responsible for overseeing that the 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 Company.

The Board has also established a Risk Management Committee to oversee the Risk Management activities of the Company.

Risk Management Objectives

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

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

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
  - Risk/Control Self-Assessment
  - Risk Grading
  - Monitoring the Risk Management and Internal Control Programme
  - Risk Management and Internal Control Responsibilities
- Risk Tolerances

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

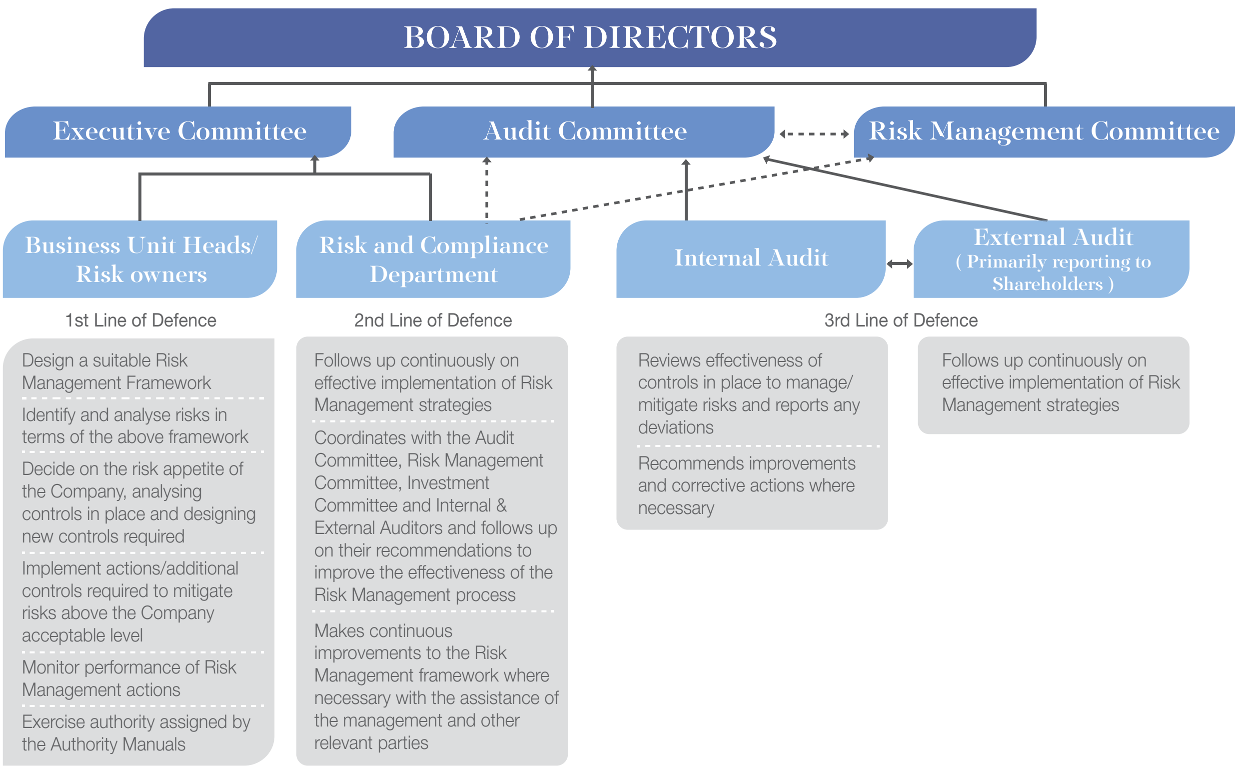
- Adopting and implementing policies and procedures such as the Risk Management Policy, Compliance Policy, Investment Policy, Anti-Money Laundering Policy, Manual of Financial Authority, Code of Ethics, Procurement policy and procedures, etc to give direction to the management to build a strong control 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, Remuneration Committee and Related Party Transaction Review Committee to oversee and critically review the operations of the respective areas.
- Appointing 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 Company.
- Training and educating employees on the importance of internal controls

Risk Management Structure and Responsibilities

The 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 Company and its approval is necessary for the risk management strategy and risk policies pertaining to all activities of the Company.



Risk Management

Further, the Board also ensures that adequate resources, expertise and support are provided for the effective implementation of the risk management strategy, policies and procedures of the Company.

The Audit Committee is responsible for assisting the Board in fulfilling its 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 Company's risk profile as well as its risk management framework, including the significant policies and practices employed to manage both risks in the Company's business and the overall adequacy of the Risk Management function. Activities carried out by the Risk Management Committee are given in the Risk Management Committee Report on page 237.

3 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 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. To aid them in fulfilling their risk management responsibilities, the Management has established an internal Risk Management Team.

The Risk Management Team is responsible for the overall identification, assessment and management of risks throughout the Company. The team is also charged with the responsibility of proposing ways to mitigate or manage risks of the Company. The team is headed by the Managing Director and includes members of the Executive Committee and heads of all key departments, in addition to other selected members of the management.

2nd Line of Defence

The Risk and Compliance Department is primarily responsible for developing the Company's risk management policies and procedures as well as ensuring compliance. This Department is also responsible for ensuring that changes in regulations are disseminated to the appropriate business units. Business unit managers maintain procedures and systems to ensure that regulations and guidelines are followed.

3rd Line of Defence

The Internal Auditor is responsible for ensuring the adequacy of the overall risk management and internal control processes of the 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 Company. In carrying out these core activities, the Company is faced with a wide range of risks which are often interlinked and, if not properly managed, could threaten the ability of the Company to achieve its objectives. The Company therefore adopts a holistic approach to correctly identify, measure, monitor and control these risks.

Risk Identification

As an insurance company, the 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

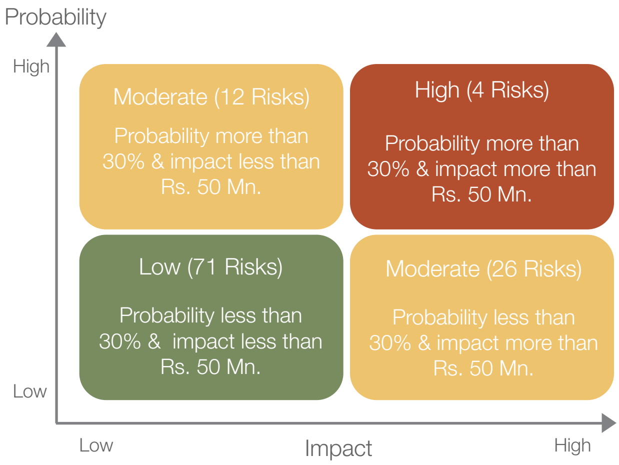
- Insurance Risk
- Investment Risk
- Operational Risk
- Strategic Risk
- Regulatory Risk
- Reputational Risk
- Socio-Economic and Political Risk

Risk Register

The Company has developed a Risk Register identifying the key risks faced by the Company, considering both core and supporting activities of the business. The Risk Register that was initially prepared in the year 2009 was updated this year too by the Risk Management Team. This year 13 risks were identified as new risks.

The Risk Management Team brainstormed on the risks faced by the Company based on both internal and external environment changes.

HNBA Risk Grid



Risk Measurement

All identified risks are analysed in terms of the probability of occurrence and impact. A risk matrix has been developed based on the probability and impact providing a quantitative background to the process based on our prior experience.

This year, the risk measurement process led to a change in the rating of 15 risks identified. Of them, 2 risks were upgraded while 13 risks were downgraded. All identified risks were documented in the risk schedule and plotted on the risk grid and ranked as Low, Medium and High based on the Company's risk grid given below.

Risk Monitoring

Key Risk Indicators

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

- Amount of policies cancelled under Premium Payment Warranty (PPW)
- Approved Facultative cases and policies requiring facultative support
- Class wise Gross Written Premium (GWP), Claims and Reinsurance
- Number of Internal Audit findings
- Compliance with investment maturity mix guideline
- Compliance with Investment Target Portfolio
- Compliance with Investment sector exposure limits
- Stress testing on interest rate risk and market risk
- Time taken to settle claims
- Number of rejected claims
- Time taken to issue policies
- Adverse media publications
- Staff Turnover Ratio
- Premium Persistency Ratio
- Complaints received on misappropriations
- Non-settlements of staff and agent loans

Risk Management

- Number of instances of customer hotline, network and system downtime
- Number of business interruptions
- Number of Information Security violations
- Solvency Ratio and the percentage of investment in Government Securities
- Court action taken against the Company
- Summary of Financial Information
- Recognitions received by the Company

Monitoring by the Risk and Compliance Department

The Risk Register includes the risk management actions taken by the 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 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 Risk Register prepared by the Management. The Risk Management Committee also reviews the KRIs prepared. Further, the Risk Management Committee monitors the action taken by the Company on the changes to applicable regulations, changes to reinsurers' ratings, risks arising from external events, compliance checklists, etc.

The Risk Management Committee also reviewed the operations of General Insurance Reinsurance function and the motor claim settlement process during the year.

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. Accordingly, and as required by the Audit Committee, a review of the General Insurance Reinsurance operation was carried out by the Risk Management Committee.

Monitoring by the Board

The Board reviews the KRIs on a quarterly basis. In addition the minutes of the Risk Management Committee Meetings and the Audit Committee Meetings are also tabled at the Board for review by all Directors. A report on the Company'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' (BIRMC) of Hatton National Bank PLC (HNB)

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

Risk Control

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

A description of the main risks faced by the Company and controls implemented to mitigate/manage such risks are given below;

INSURANCE RISK

Nature of the Risk

Insurance risk can be specifically identified under the following categories in light of the operations of the Company.

- Underwriting Risk
- Reinsurance Risk
- Claims Reserving Risk
- Credit Risk

Underwriting Risk

Nature of the risk

This refers to the risk of accepting insurance business that carries an unacceptably high exposure to the risk of claims and accepting risks at rates that do not contain an adequate risk premium. Underwriting risk could also arise due to a lack of understanding regarding changes in the environment such as the effect of climate change.

How HNB Assurance manages Underwriting Risk

- An adequate level of segregation of duties is ensured.
- Strict adherence to the Manual of Financial Authority is maintained and the same is reviewed and updated regularly.
- Guidelines have been issued to all underwriters to give direction on underwriting.
- Frequent audits and verifications are carried out to ensure that the underwriting activities are carried out as per the guidelines.
- Significant investments are made on training and development of underwriting and claims management staff, including those attached to the branch network.

Specific to General Insurance

- Both the underwriters and the distribution managers are assigned Key Performance Indicators on both turnover and profitability.
- Reinsurance arrangements have been put in place and the Company consciously reviews the adequacy of these covers in light of catastrophic/ extreme events.
- There are strict controls to ensure that no insurance cover is issued without a proper reinsurance arrangement backing the cover except in the case of certain selected classes.

Specific to Life Insurance

- Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are adequately priced.
- An in-house Actuarial Department, headed by a qualified actuary, is in place to review Life Insurance business more closely and guide the management to take more informed pricing decisions.
- Only registered laboratories are used when obtaining medical reports and regular visits are made by the management to such laboratories to monitor the quality of service.
- Focused training is provided on proper selling in Sinhala, Tamil and English to Insurance Advisors.
- A 'Customer Need Analysis' Form is used to identify customer requirements and sell the most appropriate policy.

REINSURANCE RISK

Nature of the risk

Reinsurance risk refers to:

- retaining risks beyond the Company's net retention capacity without having adequate reinsurance; or
- the inability of reinsurers to meet their commitments due to insufficient financial strength.

How HNB Assurance manages Reinsurance Risk

- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- A very close and professional relationship is maintained with all reinsurers and reinsurance brokers.
- No cover is issued without a confirmed reinsurance in place, except in the case of some selected classes 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 359 for the Credit Ratings of the Company's Reinsurer Portfolio.
- Changes to the ratings of reinsurance companies are continuously monitored and any adverse changes are brought to the notice of the EXCO and the Risk Management Committee.

Claim Reserving Risk

Nature of the risk

Claim reserving risk refers to the non-provision of adequate reserves to meet future obligations arising from claims in the General Insurance business and claims including maturities in the Life Insurance business.

How HNB Assurance manages Claim Reserving Risk

Specific to General Insurance

- Claim intimation is conducted through a 24-hour fully fledged Customer helpline.
- Assessments are carried out by an independent expert panel of assessors/loss adjustors working throughout the island on a 24 hour basis. They are supplemented by ten assessors who have been employed by the Company on a full time basis as members of staff.
- Comprehensive estimation of costs and a high quality service to customers are granted through certified garages located island-wide.
- Claims are assessed immediately upon intimation and reserved accordingly.
- Significant outstanding claims are subjected to monthly reviews by the management.
- The service of a qualified Independent Actuary is obtained bi-annually to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- All third party claim intimations are separately reviewed with the support of the Manager – Legal.
- Closed Files Reviews are carried out periodically to identify any control lapses.

Specific to Life Insurance

- An Independent Actuary is engaged to carry out a valuation of the Life Fund twice a year.
- An in-house Actuarial Department headed by a qualified actuary is in place to review reserving in the Life Insurance business more closely and guide the management to make more informed decisions.
- Claims are reserved immediately at the intimation or on the availability of information on the death, injury or illness of an insured.

Credit Risk

Nature of the risk

Credit risk is identified as the risk pertaining to uncertainty on the debtors' ability to meet obligations due to the Company.

How HNB Assurance manages Credit Risk

- 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.
- Information regarding policies cancelled due to non-payment of premiums is submitted to the industry database on a routine basis.
- Claim settlements are processed only after reviewing the position of outstanding receivables.
- All other receivables, including reinsurance receivables are reviewed on a monthly basis and recoveries made on time.
- From 2012, the Company started recording Life Insurance premiums too on credit basis. However, all life policies for which premium are not collected within 30 days, lapse as per the Company policy.

Please refer page 316 for the age analysis of Premium and Reinsurance Receivables of the Company as at 31st December 2014.

Further, the Company has not made any bad debt provisions for receivables from policyholders or reinsurers during the financial year under review.

The impact of the Insurance Risk to the Company's operations is further discussed on pages 352 to 359.

INVESTMENT RISK

Nature of the Risk

Investment risk refers to the various types of risks associated with the significant portfolio of investments managed by the Company.

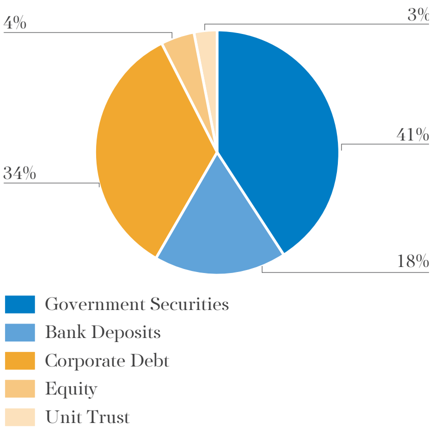
- Concentration Risk
- Interest Rate Risk
- Investment Credit Risk
- Liquidity Risk
- Market Risk

Concentration Risk

Nature of the risk

The risk of over-exposure to a particular company or sector due to lack of diversification in the investment portfolio is referred to as the Concentration Risk.

Asset Allocation of Consolidated Investments



How HNB Assurance manages Concentration Risk

- Target asset allocations are set by the Investment Committee in consultation with the management and are regularly reviewed in accordance with changes in the environment. In particular, the Company's exposure to Equity and Corporate Debt are regularly reviewed and updated.
- The investment portfolio is reviewed by the Managing Director and Chief Financial Officer on a monthly basis with the participation of both front office and back office investment staff.
- A comprehensive checklist is used to verify the compliance of all new placements other than Government Securities with all applicable rules and guidelines.
- The Investment Committee meets on a quarterly basis and reviews the investment portfolios, investment strategy and the future outlook.
- The Company's compliance with set policies and best practices is reviewed by the Internal Auditors and the Risk and Compliance Department.

Credit Risk in investments

Nature of the Risk

This relates to the risk of not being able to recover the capital and/or interest relating to investments. This is mainly applicable to investments in Corporate Debt and Fixed Deposits.

How HNB Assurance manages Credit Risk in Investments

- A list of entities approved by the Investment Committee consisting of companies which, in the opinion of the Committee, carry minimal credit risk is adopted.
- Creditworthiness of potential investment entities is checked mainly through ratings assigned to the issuing institution or the ratings assigned to the issue.
- Any investments in any other entity are carried out only with the explicit approval of the Investment Committee.
- All investments in Corporate Debt instruments, whether rated or not, are done after a detailed evaluation carried out by the Investment Management Team, who will recommend the investment for approval by the Head of Investment, Managing Director or the Investment Committee according to the Limits of Authority pertaining to investments.
- Single party exposure limits are decided based on the credit ratings and regulatory requirements and are monitored closely at different levels.
- Master Repo Agreements are signed with all primary dealers 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.

Credit Ratings of Company's Investment Portfolio are given on pages 364 to 365.

Interest Rate Risk

Nature of the risk

This refers to the risk of the Company being unable to earn adequate returns to meet promised liabilities due to a fall in interest rates or being unable to meet solvency standards as a result of a fall in bond prices due to a rise in interest rates.

How HNB Assurance manages Interest Rate Risk

- Market interest rates, other macro-economic indicators and their impact on the Company's Investment Portfolio are monitored closely by both the Management and the Investment Committee and necessary changes are made to the asset allocation and the maturity mix of investments on a periodic basis.

Liquidity Risk

Nature of the Risk

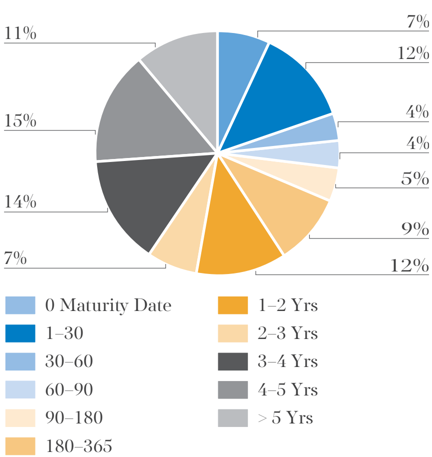
Liquidity risk refers to the inability of the Company to meet contractual obligations such as claim settlements and payments to reinsurers and other creditors due to the insufficient availability of cash and other liquid investments.

Risk Management

How HNB Assurance manages Liquidity Risk

- The maturity mix of the investment portfolio is reviewed and agreed upon by the management and the Investment Committee on a regular basis.

Maturity Mix - Group



- All large cash outflows are planned in advance and necessary arrangements are made to ensure the availability of funds to meet such outflows.
- Single Premium Life Insurance policies sold with a guaranteed return are fully backed by corresponding investments for a higher return and a similar tenure.

The maturity profile of the Financial Assets and Liabilities is given on pages 367 to 368.

Market Risk

Nature of the Risk

Market risk refers to changes in the value of investments due to volatility of stock and bond prices. The Company's fixed income investment portfolios are also exposed to market risk due to volatility in interest rates as a result of the adoption of new Sri Lanka Accounting Standards (SLFRS/LKAS).

How HNB Assurance manages Market Risk in Investments

- 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 as per the classification.
- A target portfolio of equities has been developed based on their performance in the market and growth potential.
- Investments are made only in selected companies which are identified after an in-depth research and evaluation process by the internal investment management team.
- The investment portfolio is reviewed by the Managing Director and Chief Financial Officer on a monthly basis with the participation of both front office and back office investment staff.
- Meetings are arranged with the Investment Committee on a quarterly basis to discuss investment portfolios, investment strategy and future outlook.

The fair values of the Company's asset portfolios are given on pages 337 to 342.

Further details of the investment related risks are discussed on pages 359 to 367 as a part of the Consolidated Financial Statements.

STRATEGIC RISK

Nature of the Risk

Strategic or business risk is the risk associated with the Company's future business plans and strategies, and includes instances such as the failure of future business plans, unexpected threats from rivals or new entrants and the inadequate expansion of service levels and infrastructure in areas such as information technology or networking.

In other words, strategic risk refers to the non-achievement of set objectives and the risk of the Corporate Plan and budgets becoming irrelevant/obsolete due to unexpected changes in the external and internal environments.

How HNB Assurance manages Strategic Risk

- A Corporate plan is prepared every year by the Company's Corporate Planning Team, addressing potential risks and including plans for the next three years and is subsequently approved by the Board, after careful review. Based on the agreed plan, objectives for the year are set for all employees in the 'Junior-Executive' category and above.
- A summary of key financial information is reported to the Board on a monthly basis together with appropriate clarifications, interpretations and actions to be taken if there is a deviation from the set objectives.
- The Board reviews the achievement of the Corporate Plan against the set targets on a periodic basis.
- Performance appraisals of all employees are conducted twice a year, primarily based on the achievement of the targets set.
- A management information system has been introduced to monitor the status of the agreed activities of the corporate plan on a continuous basis.

REGULATORY RISK

Nature of the Risk

Regulatory risk may arise if the Company is unable to comply with regulatory requirements which may change periodically.

How HNB Assurance manages the Regulatory Risk

- A report on the Company's compliance with applicable rules and regulations is submitted to the Board on a monthly basis.
- A compliance checklist, covering all the laws and regulations applicable to the Company, is prepared on a monthly basis, and a sign-off is obtained from all relevant members of the management. This checklist is tabled at Audit Committee Meetings and Risk Management Committee meetings.
- A report is submitted by the Manager – Risk and Compliance to the Audit Committee and the Risk Management Committee on a quarterly basis highlighting the Company's compliance with applicable laws and regulations.
- Financial Reports and statutory returns to IBSL are reviewed and approved by the Audit Committee before submission.
- Internal Auditors have been requested to review and report on any instance of non-compliance with laws and regulations, if any, to both the management and the Audit Committee.
- Working with the industry and submitting necessary information to IBSL with regard to implementation of the Risk Based Capital Framework from 2016 onwards.
- The Company maintained its 100% compliance status with all applicable laws and regulations in the country during the year 2014 too including the requirement to segregate the life and general business into two separate legal entities at the at the end of the year.

Please refer pages 53 to 56 for the Regulatory Review. We have also presented a compliance table summarising compliance with applicable laws and regulations on page 197.

OPERATIONAL RISK

This refers to operational failures due to inadequate or failed internal processes, people and systems or external events, and includes:

- Business Continuity Risk
- Fraud Risk
- Information Security Risk
- Human Resource Risk

BUSINESS CONTINUITY RISK

Nature of the Risk

This is the risk of business operations being disrupted due to an unexpected occurrence.

How HNB Assurance manages Business Continuity Risk

- The continuous updating and effective implementation of the Business Continuity Plan (BCP) is our main strategy to counter this risk. The Company carried out a comprehensive BCP testing during the year covering all the operational areas of the Company. The results of the testing were tabled at the Audit Committee and the Board. No major concerns were identified after these tests which would have an impact on the business continuity.
- IT infrastructure is made available to support the virtual operation of the Company in a situation where the Head Office or a branch is not accessible and this too was tested once during the year.

Fraud Risk

Nature of the Risk

This refers to the risk of fraud being perpetrated in the Company's operations due to inadequate internal controls.

How HNB Assurance manages Fraud Risk

- Strict adherence is maintained to the Manual of Financial Authority (MOFA), which has been approved by the Board of Directors.
- A stringent Procurement Policy covering all procurement related activities of the Company has been introduced and is strictly implemented at all levels.
- A Whistle Blowing Policy is in place allowing employees at all levels to communicate any wrongdoing, misappropriation or misconduct by any employee directly to the top management, Audit Committee and the Board, confidentially.
- Responsibilities for all positions have been properly delegated through a clearly defined organisational structure.
- Duties regarding all significant operations have been clearly segregated to prevent the concentration of authority.
- A strong control environment, subject to periodic monitoring by an

independent Internal Audit team is maintained within the Company.

- External Auditors have been requested to perform a detailed internal control review in their Interim Audit and report any issues to the management and the Audit Committee.
- Monthly reports submitted by the Internal Auditors are reviewed by the Audit Committee, which also monitors the implementation of all agreed follow-up actions.
- A Code of Best Practice and Ethics has been made applicable to employees at all levels without exception.
- Any complaints or indications whatsoever regarding possible fraud or misappropriation by employees or members of the agency force are investigated immediately and appropriate action is taken promptly. There is zero tolerance of fraud within the Company.
- Many initiatives are promoted to minimise dependence on manual controls and documents, especially through the implementation of information systems.

No significant frauds were identified during the year.

Information Security Risk

Nature of the Risk

This refers to losses incurred as a result of the improper use of information systems or as a result of a disaster or a breakdown causing loss of vital data or a lack of access to business critical IT systems.

How HNB Assurance manages Information Security Risk

- Adequate investments have been made on IT infrastructure to improve both access and application controls.
- The IT security policy is strictly applied and is communicated to all employees.
- Firewalls and security initiatives, access controls and back-up controls are in place and are reviewed and improved continuously to face future challenges.
- IT security audits/penetration tests are carried out periodically to ensure the Company's systems are well secured and not exposed to hacking.
- A Disaster Recovery Centre with adequate support of IT infrastructure has been set up.
- An Information Security Administrator has been appointed to monitor the IT security aspect of the Company.
- An IT Governance and Compliance function has been established under the Risk and Compliance department to ensure that the IT Risks are properly managed.

Human Resource Risk

Nature of the risk

The main risk in the area of human resources is the inadequacy of professionally qualified personnel in the industry, which has resulted in relatively high staff turnover ratios.

How HNB Assurance manages Human Resource Risk

- The Company's HR policy is aimed at supporting the continuous education and development of employees at all levels.
- At every opportunity, employees at all levels are provided with in-house, external and other training, to enhance their knowledge and develop their skills.
- Remuneration packages are aimed to be in line with the industry to retain and attract qualified and talented staff.
- Salary surveys are conducted periodically to ensure competitive wages are given to the staff.
- Industry initiatives to address the training and development needs of employees and advisors are well supported by the Company.
- Opportunities are given to the staff to meet the Managing Director and exchange ideas without the presence of their superiors, through CEO's forums.
- An 'open door' culture is promoted to enable any employee to access the highest levels of management in order to report or discuss issues requiring their attention.
- Exit interviews are carried out when a member of the staff resigns, in order to identify the causes for leaving.
- Summarised results of the exit interviews are shared with the members of EXCO to take necessary action if required.
- Employee surveys are carried out on a periodic basis with the help of external facilitators to assess satisfaction levels and to identify areas for improvement.
- A grievance policy has been adopted to raise any grievances directly with the HR Division and the management.

- Investments are made on staff welfare through the Welfare Society and the HR Division. These are supplemented by relevant divisional activities aimed at motivating staff.
- Regular management meetings and distribution management meetings are conducted to convey the key decisions taken at the top management level and to communicate what is happening in the Company to all members of the management team.
- An annual staff conference is held with the participation of the entire staff and it is used as a forum to brief the staff on the Company's performance in the previous accounting year and the plans due to be executed during the year in progress. The staff conference in 2014 was used, in particular, to brief the staff on the proposed segregation process and the new organisation structure being created to facilitate same.

Please refer Human Resources Review from pages 120 to 136 for details of action taken to attract, develop and retain the best talent.

REPUTATIONAL RISK

Nature of the risk

This refers to the impairment of the corporate image and goodwill of the Company due to a particular event or behaviour.

How HNB Assurance manages Reputational Risk

- A sound system of internal control is in place and is regularly monitored by various parties such as the Manager – Risk and Compliance, Internal and External Auditors, etc.
- 100% commitment is maintained to be in full compliance with all laws and regulations applicable to the Company's operations.
- All employees and advisors of the Company are required to show a high level of integrity and professionalism at all times. Serious action is taken against any misconduct or misappropriation irrespective of performance or designation.
- Good relations are maintained by the management with regulators, other players in the industry and all other stakeholders in order to ensure that any potential risk is identified in advance and addressed adequately.
- The Code of Business Conduct and Ethics adopted by the Company is expected to be followed by all employees without exception
- The release of financial statements to the public is subject to approval by the Audit Committee and the Board of Directors.
- All media reports, appearing in both traditional and digital media, about the Company are closely monitored by the Marketing Division and appropriate interventions are made to correct or clarify matters where necessary.

No significant reputational risks were identified or materialised during the year.

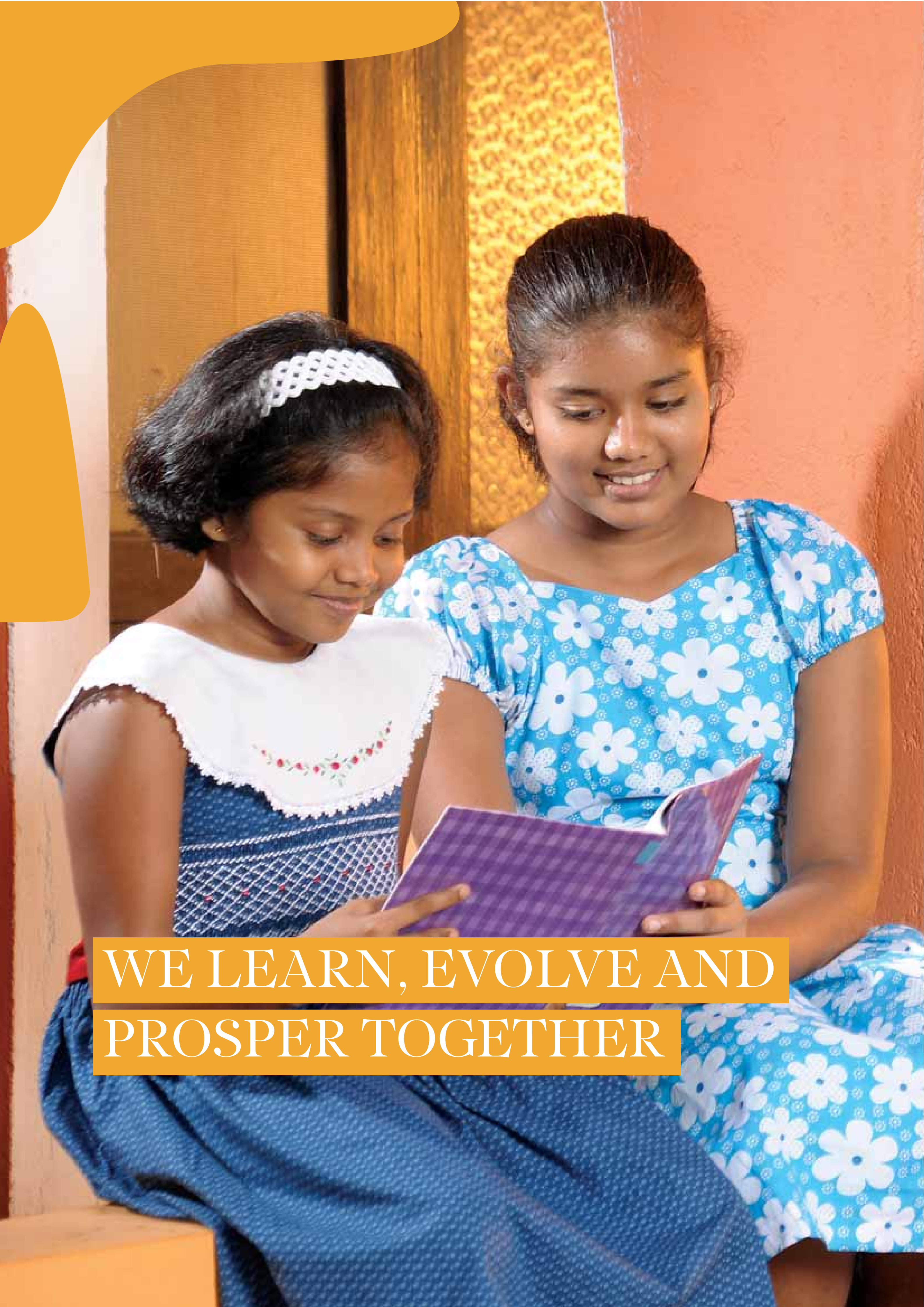
SOCIO-ECONOMIC AND POLITICAL RISKS

Nature of the risks

Socio-economic and political factors have a direct impact on the insurance business as well as on the investment activities of the Company. This was clearly evident at the height of the conflict and during periods of economic downturn.

How HNB Assurance manages Socio-Economic and Political Risks

- Significant attention is paid to socio-economic and political factors at the Corporate Planning Sessions on an annual basis.
- Advise is sought from independent specialists such as economists when necessary to identify trends and to understand their financial implications.
- Senior members of the Management Team including the Managing Director, Chief Financial Officer and Head of Investment regularly attend seminars and presentations dealing with macro-economic trends and developments.
- The Company has engaged the services of an economic research and consultancy firm, Frontier Research (Pvt) Ltd that provides reports on a periodic basis on global and local economic developments.
- Both global and local economic indicators are discussed in detail at quarterly Investment Committee meetings and monthly investment reviews, and necessary action is taken to mitigate/manage potential risks.
- Pricing of insurance policies is reviewed in light of inflation, fluctuations in interest rates, changes in competitive actions, etc.



WE LEARN, EVOLVE AND PROSPER TOGETHER

2 are better than one

Financial Calendar

REQUIREMENT	ACHIEVEMENTS IN 2014	TARGET SET FOR 2015
Interim Financial Statements		
1st Quarter (ended 31st March)	13th May 2014	Before 15th May 2015
2nd Quarter (ended 30th June)	13th August 2014	Before 14th August 2015
3rd Quarter (ended 30th September)	4th November 2014	Before 14th November 2015
4th Quarter (ended 31st December)	12th February 2015	Before 28th February 2015
Annual Report and Financial Statements to shareholders		
2013	04th March 2014	
2014		March 2015
Annual General Meetings		
12th Annual General Meeting	27th March 2014	
13th Annual General Meeting		27th March 2015
Dividend Payments	07th April 2014	08th April 2015

Annual Report of the Board of Directors on the Affairs of the Company

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY AND STATEMENT OF COMPLIANCE OF THE CONTENTS OF THE ANNUAL REPORT AS REQUIRED BY SECTION 168 OF THE COMPANIES ACT NO. 07 OF 2007.

GENERAL

The Board of Directors of HNB Assurance PLC has pleasure in presenting its Annual Report on the State of Affairs of the Company to the members of HNB Assurance PLC for the financial year ended 31st December 2014, together with the audited Financial Statements of the Company, Consolidated Financial Statements of the Group for the year and the Auditors' Report on those Financial Statements.

The Financial Statements were reviewed and approved by the Board of Directors on 09th February 2015.

HNB Assurance PLC is a public quoted company domiciled in Sri Lanka and incorporated on the 23rd of August 2001 under limited liability. The registered office of the Company is situated at No. 479, T B Jayah Mawatha, Colombo 10, while its principal place of business is at No. 10, Sri Uttarananda Mawatha, Colombo 3.

The ordinary shares of the Company are listed on the Colombo Stock Exchange (CSE).

Fitch Ratings Lanka (Fitch) has reaffirmed HNB Assurance PLC's National Insurer Financial Strength Rating and National Long-Term rating at 'A(lka)'. Fitch has also assigned HNB Assurance PLC's fully owned subsidiary, HNB General Insurance Limited, a National Insurer Financial Strength Rating and a National Long - Term rating of 'A(lka)'. All ratings have a Stable Outlook.

VISION, MISSION AND CORPORATE CONDUCT

The Company's vision and mission are available on page 06 of this Annual Report. The Company's business activities have been carried out within the framework of the objectives of the Vision and Mission statement which reflect our commitment to highest ethical standards and integrity as set out in the Code of Business Conduct and Ethics and in conformity with the values of the Company stated on page 06 of this report.

PRINCIPAL ACTIVITIES

General Insurance and Life Insurance businesses remained the principal activities of the Company, and no significant changes occurred in this regard during the financial year under review. We also declare that the Company has not engaged in any activities which contravene laws and regulations of the country.

Within the framework of main business we offered both General Takaful and Family (Life) Takaful products to the market, with the approval of the Insurance Board of Sri Lanka (IBSL). The Takaful operation, structured as a window unit, is considered as a part of the Company's operations for financial and regulatory reporting purposes.

CHANGES TO THE COMPANY STRUCTURE AND THE NATURE OF THE OPERATION

As per section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, all Insurers were required to segregate their Long term Insurance business and the General Insurance business into two separate companies by 01st January 2015. In order to comply with this requirement, HNB Assurance PLC incorporated a fully owned subsidiary company on 30th January 2014, in the name from HNB General Insurance Limited (PQ 5167) and obtained the registration of the regulator, the IBSL - to conduct the General Insurance business with effect from 01st January 2015. We also obtained the approval of the District Court to transfer the General Insurance Business of HNB Assurance PLC to HNB General Insurance Limited following the due process stipulated by the Insurance Board of Sri Lanka being one of the first companies to do so.

HNB General Insurance Limited did not conduct commercial operations during the financial year under review except for managing funds received as Stated Capital. Accordingly, HNB Assurance PLC remained as a composite Insurance Company till 31st December 2014.

After obtaining all due approvals from regulators and a license to operate HNB General Insurance Limited as a General Insurance Company, HNB Assurance PLC transferred its General Insurance business to HNB General Insurance Limited with effect from 01st January 2015. Accordingly, HNB Assurance PLC became a Life Insurance Company w.e.f. 01st January 2015 and its fully owned subsidiary, HNB General Insurance Limited, has taken over the General Insurance Business of the Company.

In addition to running a Life Insurance Business, HNB Assurance PLC from 01st January 2015 onwards acts as the holding company of HNB General Insurance Limited and provides some shared services to HNB General Insurance Limited based on an agreement signed by the two companies.

The Group structure and names of the Directors are available in pages 34 and 24 to 27 respectively.

Annual Report of the Board of Directors on the Affairs of the Company

REVIEW ON OPERATIONS OF THE COMPANY

A review of the financial and operational performance of the Company together with important events that took place during the year 2014 as required by Section 168 (1) (a) of the Companies Act are contained in the Chairperson's Statement (pages 12 to 15), the Managing Director's Review (pages 16 to 23) and the Management Discussion & Analysis (pages 34 to 165). These reports form an integral part of the Annual Report of the Board of Directors.

Since HNB General Insurance Limited was not commercially operational during the year, the review of Operational Performance covers only HNBA's performance except in Investment Performance.

FUTURE DEVELOPMENT

As required under Section 168 (1) (a) of the Companies Act, an overview of envisaged development of the Company is given in the Chairperson's Message (pages 12 to 15), the Managing Director's Review (pages 16 to 23) and the Management Discussion & Analysis (pages 34 to 165).

These reports form an integral part of the Annual Report of the Board of Directors.

FINANCIAL STATEMENTS

The Financial Statements of the Group and the Company have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and comply with the requirements of the Companies Act. They also provide the information required under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, the Listing Rules of the Colombo Stock Exchange (CSE) together with other Rules and Regulations of the Insurance Board of Sri Lanka (IBSL).

The aforementioned Financial Statements for the year ended 31st December 2014 duly signed by the Chief Financial Officer together with two Directors are given on pages 272 to 370 which form an integral part of this Annual Report of the Board of Directors (as per Section 168 (1) (b) of the Companies Act).

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 283 to 301 and comply with Section 168 (1) (d) of the Companies Act.

The Company and the Group applied, for the first time, Sri Lanka Accounting Standard - LKAS 13 – Fair Value, which has introduced some changes to the measurement of fair values and related disclosures. A detailed analysis on this is given in Note No 2.5.6 to the Financial Statements.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation and presentation of these Financial Statements of the Group and the Company in a manner that reflects a true and fair view of its state of affairs. The Directors are of the view that these Financial Statements appearing on pages 283 to 301 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, the Insurance Industry Act, No. 43 of 2000 and amendments thereto, the Listing Rules of the Colombo Stock Exchange and the Corporate Governance Code for listed Companies issued jointly by Securities and Exchange Commission of Sri Lanka (SEC) and Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Statement of Directors' Responsibility for Financial Reporting is given on page 267 and forms an integral part of this report.

GOING CONCERN

The Board has conducted necessary reviews and inquiries to assess the Company's ability to apply the assumption of going concern in the preparation of these Financial Statements. These included, amongst others, a review of the Company's and its subsidiary's budget and Corporate Plan for ensuing years, future prospects and risks, capital expenditure requirements and cash flows. Following such review, the Board is satisfied that the Company and its subsidiary possesses adequate resources to continue their operations into the foreseeable future and hence endorses the continuous adoption of the assumption of going concern.

As discussed above, HNB Assurance PLC transferred its General Insurance Business to HNB General Insurance Limited w.e.f. 1st January 2015. Therefore, HNB Assurance PLC has become a Life Insurance Company and thereby the financial results of the General Insurance Business will not be included under the Company financial statement of HNB Assurance PLC in future. However, the results of both Life and General Insurance Businesses will be included in the Consolidated Financial Statements of HNB Assurance PLC.

EXTERNAL AUDITORS

The Company´s External Auditors, Messrs. PricewaterhouseCoopers (PwC), who were newly appointed in accordance with a resolution passed at the Annual General Meeting held on 27th March 2014, tendered their resignation from being the External Auditors of the Company due to a perceived conflict of interest on 27th October 2014 which was accepted by the Board w.e.f. 31st October 2014.

The Board of Directors in terms of the provisions in Section 154(2) of the Companies Act No. 7 of 2007 appointed Messrs. Ernst & Young Chartered Accountants as the

Company's External Auditors for the financial year ending 31st December 2014, with effect from 31st October 2014 subject to same being approved by the Membership at the next Annual General Meeting of the Company.

This was announced accordingly in terms of the Corporate Disclosure requirement of the Listing Rules of the Colombo Stock Exchange on 31st October 2014.

AUDITORS' REPORT

The Financial Statements for the year ended 31st of December 2014 have been audited by Messrs. Ernst & Young, a firm of Chartered Accountants, and their report on the Financial Statements which forms an integral part of the Report of the Board of Directors, is given on page 271 of this report.

AUDITORS' FEES AND EXPENSES

The External Auditors of the Company were Messrs. PricewaterhouseCoopers (PwC) and Messrs. Ernst &Young Chartered Accountants during the period under review. The fee amount paid/ payable for the services provided to the Company during the year, together with corresponding figures for the previous year, is presented below.

	2014 Rs.'000	2013 Rs.'000
Audit Fee and Expenses	1,872	1,356
Audit - Related Fees and Expenses	838	1,116
Non Audit Fees	-	-

Note: Audit - related fees and expenses consist of fees for the interim audit and fees for reports issued to the Commissioner General of Inland Revenue (CGIR) and Insurance Board of Sri Lanka (IBSL), etc.

INDEPENDENCE OF AUDITORS

Based on the declaration provided by Messrs. Ernst & Young, and to the extent that the Directors are aware, the Auditors do not have any relationship with (other than that of the Auditor) or interest in the Company which, in our judgment, may reasonably be thought to have a bearing on their independence.

RISK AND INTERNAL CONTROL

The Board understands that strong internal controls are integral to the sound management of the Company and therefore is committed to maintain strict financial, operational and risk management controls.

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is sought to be designed to minimise rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board's Statement on Internal Control is given on pages 238 to 239 and forms an integral part of this report.

In order to strengthen the risk management practices of the Company, the Board has set up a Board sub-committee for the subject. The responsibility for the design and implementation of a sound risk management framework is under the purview of the Risk Management Committee and some of the relevant responsibilities that were previously assigned to the Audit Committee have now been transferred to the Risk Management Committee. This Risk Management Committee comprises three (3) Non-Executive Directors of the Board and held 04 meetings during the year.

The Company has an ongoing process for identifying, evaluating and managing risks faced, and during the year the Directors reviewed this process through the Risk Management Committee and the Audit Committee. The Board is satisfied with the effectiveness of the system of internal control for the year under review and up to the date of approval of the Annual Report and Financial Statements.

Reports by the Audit Committee and the Risk Management Committee, highlighting their roles and responsibilities on internal controls are given on pages 225 to 230 and pages 231 to 232 respectively.

CORPORATE GOVERNANCE

The Board of Directors is committed to maintain an effective corporate governance structure and process and to be in compliance with all relevant rules, regulations and best practices on Corporate Governance, extending beyond regulatory requirements.

The Company, being listed on the main board of the Colombo Stock Exchange (CSE), is fully compliant with the rules on Corporate Governance under the Listing Rules. In addition, the Company is in compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

A report on the enterprise governance endeavours of the Company is given on pages 168 to 251.

TURNOVER / GROSS WRITTEN PREMIUM (GWP)

The total turnover of the Company is identified as Gross Written Premium (GWP). The table below shows the GWP for each line of business for the current year, together with the comparative figures for the previous year.

Annual Report of the Board of Directors on the Affairs of the Company

Line of Business	2014 Rs. Million	2013 Rs. Million
General Insurance	2,323	1,863
Life Insurance	2,343	2,015
Total	4,666	3,878

A detailed analysis of the total GWP recorded by the Company is given in Note 28 to the Financial Statements on page 328.

FINANCIAL RESULTS AND APPROPRIATIONS

The Statement of Comprehensive Income of the Group/Company is given on page 273. Transfers to/from reserves of the Company are shown in the Statement of Changes in Equity appearing on pages 274 and 275.

DIVIDENDS

The Board of Directors is satisfied with the Solvency Test in terms of the provisions of the Companies Act, No. 7 of 2007, immediately after the distribution of the first and final dividends proposed and to be paid on the 8th of April 2015.

The Statement of Solvency prepared by the Board was audited by Messrs. Ernst & Young, External Auditors.

The Board of Directors recommends a first and final dividend of Rs. 3.75 (2013 - Rs. 3.25) per share payable on the 8th of April 2015 to holders of issued and paid-up ordinary shares of the Company, as at the close of business on the 27th of March 2015.

The dividend will be paid partly out of dividends received and partly out of taxable profits of the Company. The dividends to be paid out of profits will be subject to withholding tax.

	Group 2014 Rs. '000	Company 2013 Rs. '000
Profit Before Taxation (PBT)	438,583	425,093
Income tax expenses	(20,857)	(35,970)
Profit for the year	417,726	389,123
Unappropriated profit brought forward	941,820	690,197
Share issue related Costs - Subsidiary	(500)	-
Profits available for appropriation	1,359,046	1,079,320
Dividends paid	(162,500)	(137,500)
Unappropriated profit carried forward	1,196,546	941,820

THE BOARD OF DIRECTORS

The Board of Directors of the Company consists of ten (10) (2013 – ten (10) Directors) each of whom possesses wide financial and commercial knowledge and experience.

The following Directors held office during the year and their brief profiles are given on pages 24 to 27 of this report.

Name of the Director	Executive/Non - Executive	Independent/Non - Independent
Dr. Ranee Jayamaha – Chairperson	Non-Executive Director	Non Independent
Manjula de Silva – Managing Director	Executive Director	Non Independent
M U de Silva	Non-Executive Director	Non Independent
Pratapkumar de Silva (resigned w.e.f. 21st May 2014)	Non-Executive Director	Independent
Sarath Ratwatte	Non-Executive Director	Independent
A J Alles	Non-Executive Director	Non Independent
J A P M Jayasekera	Non-Executive Director	Independent
K Balasundaram	Non-Executive Director	Independent
Dilshan Rodrigo	Non-Executive Director	Non Independent
Siromi Wickramasinghe	Non-Executive Director	Non Independent
Dr. Sivakumar Selliah (appointed w.e.f. 17th June 2014)	Non-Executive Director	Independent

APPOINTMENT OF DIRECTORS

Dr. Sivakumar Selliah was appointed to the Board as a Non-Executive/Independent Director with effect from the 17th of June 2014 in terms of Article 92 of the Articles of Association of the Company.

RESIGNATION OF DIRECTORS

Mr. Pratapkumar de Silva (Independent, Non-Executive Director) resigned from the directorship of the Company on the 21st of May 2014.

RETIREMENT AND RE-ELECTION/ RE-APPOINTMENT OF DIRECTORS RECOMMENDED

Dr. Sivakumar Selliah retires at the AGM under Article 92 of the Articles of Association of the Company and offers himself for re-election under the said Article.

Mr. M U de Silva – (Non –Executive Director) is over the age of 70 years. In terms of the provisions of the Companies Act, a Director of a public company who is over 70 years of age and who continues to be a member of the Board has to be re-appointed by the shareholders annually. Accordingly, a separate resolution will be proposed for the re-appointment of Mr. M U de Silva as a Director of the Company, notwithstanding the age limit of 70 years stipulated by Section 210 of the Companies Act, No. 7of 2007.

The re-election/re-appointment of the aforesaid Directors has the unanimous support of the Board.

BOARD SUB-COMMITTEES

The Board, while assuming the overall responsibility and accountability for the management of the Company, has also appointed Board sub-committees to ensure more effective control over certain affairs of the Company, conforming to the Corporate Governance Standards of the Listing Rules of the Colombo Stock Exchange (CSE) and adopting best practices. Accordingly, the following Board sub-committees have been constituted by the Board.

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Related Party Transactions Review Committee
- Investment Committee
- Risk management Committee

The Related Party Transaction Review Committee was appointed during the year to review the related party transactions of the Company in line with the Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission. This Code will be a part of CSE Listing Rules from 01st of January 2016 onwards. However, the Company voluntarily adopted this code from 2014 onwards.

The composition of each Board sub-committee is given on page 260 which is a part of the Annual Report of the Board.

DIRECTORS' MEETINGS

The number of Directors' meetings, which comprise Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings, Investment Committee meetings, Risk Management Committee meetings and Related Party Transaction Review Committee meetings, together with the attendance of each Director at these meetings during the year are tabulated below.

Name of the Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings		Investment Committee Meetings		Risk Management Committee Meetings		Related Party Transaction Review Committee meetings	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Dr. Ranee Jayamaha (Chairperson)	11	11					2	2						
Manjula de Silva (Managing Director)	11	11					2	2	4	4			3	3
M U de Silva	11	10			3	3	2	2			4	4		
Pratapkumar de Silva (resigned w.e.f. 21st May 2014)	5	4												
Sarath Ratwatte	11	10	4	4	3	3			4	4			3	3
A J Alles	11	9	4	3			2	2						
J A P M Jayasekera	11	10	4	4									3	3
K Balasundaram	11	9			3	2					4	4		
D P N Rodrigo	11	11									4	4		
Siromi Wickramasinghe	11	10							4	4				
Dr. Sivakumar Selliah (appointed w.e.f. 17th June 2014)	5	5							1	1				

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

B = Number of meetings attended

DIRECTORS' INTEREST REGISTER

The Company maintains a Directors' Interest Register conforming to the provisions of the Companies Act No. 7 of 2007. All Directors of the Company have disclosed their interests in other companies to the Board and those interests are recorded in the Directors' Interest Register, conforming to the provisions of the Companies Act No. 7 of 2007.

The particulars of those entries are set out on page 266 of the Financial Statements, which forms an integral part of the Annual Report of the Board of Directors.

DIRECTORS' INTEREST IN CONTRACTS

No Director has had direct or indirect interests in any contracts or proposed contracts with the Company other than those disclosed on page 266.

DIRECTORS' INTEREST IN SHARES AS AT THE REPORTING DATE

The following table discloses the Directors' interest in shares of the Company.

Name of the Director	As at 31st Dec 2014	As at 31st Dec 2013
Dr. Ranee Jayamaha – Chairperson	100	100
Manjula de Silva – Managing Director	38,332	38,332
M U de Silva	3,000	3,000
Pratapkumar de Silva (resigned w.e.f. 21st May 2014)	N/A	1,332
Sarath Ratwatte	14,666	14,666
A J Alles	1,000	1,000
J A P M Jayasekera	5,000	5,000
K Balasundaram	10,000	10,000
D P N Rodrigo	180	180
Siromi Wickramasinghe	52,500	52,500
Dr. Sivakumar Selliah (appointed w.e.f. 17th June 2014)	100,000	N/A

There has been no change in their interest in shares between the 31st of December 2014 and the 09th of February 2015, the latter being the date of this Report.

DIRECTORS' REMUNERATION AND OTHER BENEFITS

The details of the Directors' fees and emoluments, including post-employment benefits, for the financial year ended 31st of December 2014 are given below.

	2014 Rs. '000	2013 Rs. '000
Short - term employee benefits	46,071	41,373
Post - employment benefits	12,797	7,199
Total	**58,868**	**48,572**

Directors are not entitled to obtain loans of any kind from the Company.

The Managing Director's remuneration is decided by the Board with the recommendation of the Remuneration Committee, in consideration of the individual and Company performance. Due attention is also paid to industry standards, inflationary factors and future plans when deciding the remuneration package of the Managing Director.

No remuneration is paid to Non- Executive Directors other than the fees paid in line with the attendance of each Director at Board and sub-committee meetings.

RELATED PARTY TRANSACTIONS

The Directors have disclosed the transactions with related parties in terms of Sri Lanka Accounting Standard (LKAS) 24 - Related Party Disclosures, which has been adopted in the preparation of these Financial Statements.

Such transactions disclosed by the Directors are given in Note 43 to the Financial Statements on pages 345 to 349 and form a part of the Annual Report of the Board.

As required by the Code of Best practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC), the Board decided to set up a new Board Sub Committee to review the related party transactions of the Company. Thus, the responsibility for reviewing the related party transactions of the Company is now under the purview of the Related Party Transactions Review Committee and some of the responsibilities that were previously assigned to the Audit Committee in respect of related party transactions have now been transferred to the Related Party Transactions Review Committee.

During the year there were no transactions which exceeded 10 percent of the equity or 5 percent of the total assets which require immediate disclosure to CSE and separate disclosure in the Annual Report. The Company has complied with the requirements of the Code of Best Practices on Related Party Transactions issued by SEC and has complied with all disclosure requirements as per the Code.

The Related Party Transactions Review Committee comprises three (3) directors including two (2) Independent Non-Executive Directors and one (1) Executive Director, in accordance with the code.

SHARE INFORMATION

Information relating to earnings, dividends, net assets, market price per share and information on share trading appears on page 388 of this report.

SHAREHOLDING

The number of registered shareholders of the Company as at the 31st of December 2014 was 3,480 (2013 - 3,673). The distribution and analysis of shareholdings appear on page 387.

EQUITABLE TREATMENT OF ALL SHAREHOLDERS

The Company has at all times ensured that all shareholders are treated equitably. Accordingly, while this annual report

Annual Report of the Board of Directors on the Affairs of the Company

together with the Financial Statements is primarily prepared and presented in the English language, Sinhala and Tamil language translations of the Chairperson's Message, Managing Director's Review, Statement of Financial Position, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity, are available on request.

MAJOR SHAREHOLDERS

Information on the twenty largest shareholders of the Company as at the 31st of December 2014, together with comparative shareholding as at the 31st of December 2013, is given on page 385.

Hatton National Bank PLC holds 59.99% (2013 - 59.99%) shares of HNB Assurance PLC. Dr. Ranee Jayamaha, Chairperson, Mr. Jonathan Alles, Managing Director/ Chief Executive Officer, Mr. Dilshan Rodrigo, Chief Operating Officer and Ms.Siromi Wickramasinghe represent the main shareholder in the Company's Board.

CORPORATE DONATIONS

The Company made charitable donations amounting to Rs. 300,000/- (2013 - Rs. 300,000/-) during the year.

This included providing school bags, books and equipment to the students (around 230) of Parangiyawadiya Vidyalaya in Kebithigollewa, Anuradhapura. This school was damaged severely during the recent flood which resulted in the entire village being submerged for five days. It was not only damaged the school's property but also destroyed books and other stationery items belonging to children. Hence, the Company's donations was greatly helpful to bring the school back to normal.

In addition, we donated sports equipment to Panwilatanne Maha Vidyalaya, Gampola in Kandy District. The school has classes up to Advanced Level and has about 600 students currently. Even though resources are limited, students from this school have achieved the top three places in several categories of the All Island Judo Competition held in 2014. In addition, this school has won the Central Province Championship at the Youth Sports Festival 2014 defeating schools of greater repute in the Province. The donation included a range of equipment such as javelins, discus, table tennis table, volley balls, net balls, etc.

The total cost of the above two donations amounted to Rs. 200,000/-. In line with past practice, the Company also donated a sum of Rs. 100,000/- to eight religious institutions representing the four main religions. These donations were made to support a specific activity in each religious institution chosen.

It must be noted that no donations were made by the Company to political parties or for politically influential activities.

TAXATION

Income taxes are computed based on rates enacted or substantively enacted as at the Reporting Date. The income tax rate applicable to the Company's operations for the year under review is 28% (2013 - 28%).

The income tax expense of the Company is given in Note 38 to the Financial Statements, appearing on pages 333 and 335.

As further explained in Note 38 to the Financial Statements, no deferred tax asset is recognised in Life Insurance since it is not probable that future taxable profits will be adequate to utilise the available tax losses fully in the foreseeable future.

The Company has utilised tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences in the Life business. The unrecognised Deferred Tax asset as at 31st December 2014 in Life Business amounted to Rs. 729 Million. (2013 - Rs. 575.3 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.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and related institutions, the Insurance Board of Sri Lanka (IBSL) and the employees have been made on time.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company has complied with all applicable laws and regulations. A compliance checklist is signed-off on a monthly basis by responsible officers and reported to the Audit Committee and the Risk Management Committee together with a Compliance Report by the Compliance Officer. A report on the Company's compliance with important compliance requirements is tabled at the Board Meeting too on a monthly basis.

The Company has submitted all returns and other required details to the relevant regulators on or before the due dates.

IMPLEMENTATION OF RISK BASED CAPITAL (RBC)

The Insurance Board of Sri Lanka (IBSL) has decided to implement a Risk Based Capital (RBC) module in Sri Lanka to monitor the financial strength of Insurance companies in the country, replacing the existing solvency regime. The deadline given by the IBSL for the implementation of RBC is January 2016.

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

HNB Assurance PLC participated in the RBC Road test from its inception till the end and provided all information required by the IBSL. We also provided required information in a timely manner to Insurance Board of Sri Lanka (IBSL) under the compulsory parallel run which started from the beginning of 2014. Accordingly, the Company is confident that the RBC framework can be implemented smoothly in the Company by the due date which is 1st January 2016.

FINANCIAL INVESTMENTS

Financial investments mainly comprise the Company's investment portfolios, which have been segregated into different categories as required by Sri Lanka Accounting Standards (SLFRS/LKAS).

The amount of financial investments held by the Company as at 31st of December 2014 amounted to Rs. 8,277.9 Million (2013 - Rs. 6,656.4 Million).

A detailed description of the financial investments is enclosed in Note 6 to the Financial Statements on pages 304 to 314.

PROPERTY, PLANT AND EQUIPMENT (PPE)

The capital expenditure on acquisition of Property, Plant and Equipment during the year amounted to Rs.37.7 Million (2013 - Rs. 56.0 Million). The carrying value of Property, Plant and Equipment as at the Reporting Date amounted to Rs. 134 Million (2013 - Rs. 137 Million).

An analysis of the Property, Plant and Equipment of the Company, additions and disposals made, together with the depreciation charge for the year, is set out in Note 4 to the Financial Statements on pages 302 and 303.

Following their initial recognition, Property, Plant and Equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

INTANGIBLE ASSETS

The capital expenditure on acquisition of intangible assets during the year amounted to Rs. 15.8 Million (2013 - Rs. 8.8 Million), which mainly includes the expenditure incurred on the acquisition of computer software. The carrying value of intangible assets as at the Reporting Date amounted to Rs. 51.6 Million (2013 - Rs. 53.8 Million).

Movement of intangible assets from the balance as at the 1st of January 2014 to the balance as at the 31st of December 2014, additions and disposals made, together with the amortisation charge for the year, are set out in Note 5 to the Financial Statements on pages 303 to 304.

Following their initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

CAPITAL COMMITMENTS

The amount of capital expenditure approved and contracted, for which no provision has been made in the Financial Statements as at 31st December 2014. (2013 – Rs.6.5 Million).

LIABILITIES AND PROVISIONS

The Directors have taken all reasonable steps to ensure the adequate provisioning of all known liabilities. Accordingly, adequate provisions have been made for unearned premiums and claims outstanding, including provisions for Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) in General Insurance. The Directors have also consulted an independent Actuary in the process of valuing IBNR and IBNER reserves and his report is given on page 269.

Moreover, the Directors have arranged a Consultant Actuary to value the Life Fund and the relevant report is given on page 270.

The Company 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 External Actuaries and was able to conclude that the recorded liabilities are adequate to meet future obligations arising from the insurance contracts. The Company has decided to perform the LAT on a semi-annual basis.

The gratuity liability was also valued by an independent Actuary as required by the LKAS 19 - Employee Benefits.

As at the date of this report, the Directors are not aware of any circumstances which would render inadequate, provisions made in the Financial Statements.

CONTINGENCIES

After due consultation of the Lawyers of the Company, the Directors are of the opinion that litigation currently pending against the Company would not have a material impact on the reported financial results of the Company. All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

EVENTS OCCURRING AFTER THE REPORTING DATE

- As explained above, the Company transferred its entire General Insurance business together with related assets and liabilities to its fully owned subsidiary Company HNB General Insurance Limited on 1st January 2015 in line with the segregation requirements arising from Regulation of Insurance Industry (Amendment) Act No. 3 of 2011. Further, the Company increased its investment in HNB General Insurance Limited to Rs. 1 Billion (Minimum capital requirement is Rs. 500 Million) considering the business and regulatory requirements of the General Insurance business. A detailed disclosure on assets and liabilities transferred is given on page 45.

- The Board of Directors has recommended the payment of a first and final dividend of Rs. 3.75 per share for the year ended 31st December 2014 (2013 - Rs. 3.25 per share) which is to be approved at the Annual General Meeting to be held on 27th March 2015. More information with respect to a dividend declaration is given on Note 40.

Except for the above mentioned events after the reporting date, there have been no material events occurring after the reporting date, that require adjustments to or disclosure in the Financial Statements.

STATED CAPITAL AND RESERVES

The stated capital of the Company as at the 31st of December 2014 was Rs. 1,171,875,000/- (2013 - Rs. 1,171,875,000/-) comprising 50,000,000 ordinary shares.

There were no changes in the stated capital during the year.

The total retained earnings of the Company as at the 31st of December 2014 amounted to Rs. 1,189 Million (2013 - Rs. 941.8 Million). The movement of reserves is shown in the Statement of Changes in Equity on pages 274 to 275.

MINIMUM CAPITAL REQUIREMENTS TO CONTINUE GENERAL AND LIFE INSURANCE BUSINESSES

Insurance Board of Sri Lanka (IBSL) by its Gazette dated 07th May 2013 has increased the Minimum Capital requirement for all Insurance Companies to Rs. 500 Million. w.e.f. 11th February 2015.

HNB Assurance PLC has an issued and fully paid stated capital of Rs. 1,171.9 Million (2013 - Rs. 1,171.9 Million) and therefore has already fulfilled this statutory requirement.

As noted above, HNB Assurance PLC has invested Rs. 1 Billion in HNB General Insurance Limited w.e.f. 1st January 2015 and thereby both companies are in compliance with this requirement.

In addition, the minimum Total Available Capital (TAC) under the Risk Based Capital Requirements (RBC) is also Rs. 500 Million for each business line. Based on available information and our forecast of RBC requirements, both the Companies are well within this requirement as well.

ENVIRONMENT

The Company's activities can have direct or indirect effects on the environment. It is the policy of the Company to minimise any such adverse effects by recycling resources as much as possible and creating awareness among its staff on current global environmental threats. The Company does its best to comply with the relevant environmental laws and regulations and has not engaged in any activity that is harmful or hazardous to the environment. Activities carried out to protect the environment and promote environment friendly practices by the Company are described in detail on pages 154 to 158.

HUMAN RESOURCES

The employment strategies of the Company are framed to recruit, train, develop and retain the best talent available within the industry. In order to facilitate the process of matching people to jobs, the Company's employment policy is structured to include recruitment from external sources as well as through internal promotions. The Company always respects the merits of the individual and provides career opportunities irrespective of gender, race or religion. The island wide distribution network of the Company helps in providing employment opportunities to youth from all parts of the country.

Recruitment levels are determined by the staff requirements forecast, which is updated every year. The annual staff requirements forecast is prepared by considering the projected growth and expansion of the distribution network, profitability, expense ratio, level of automation of activities, productivity, work volumes, multiple skills, etc.

Medical and Life Insurance benefits are available to all employees of the Company, irrespective of their level or period of service.

The Company encourages sports and recreational activities by supporting the Employees' Welfare Society, which organises such activities, in addition to those organised by the Company's Human Resources Division.

A brief description of the Company's HR Policy and the Remuneration Methodology given in the Remuneration Committee Report on pages 231 to 232.

CODE OF CONDUCT AND ETHICS

The Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without any exception. There were no material violations of the Code during the year except for certain insignificant violations noted at the operational level, for which appropriate action has been taken. The Company has also adopted a Code of Conduct and Ethics for Directors. There were no violations reported of the code during the year. The Directors and the Key Management Personnel had declared compliance with the relevant Code of Conduct and Ethics.

APPRAISAL OF BOARD PERFORMANCE

The Company has in place a robust scheme whereby the Directors perform a self-assessment of the Board's conduct annually by answering a self – assessment questionnaire. The responses to the self-assessment questionnaires were shared with the entire Board and suggestions / ideas for improvement by the members were discussed in detailed and decided to take appropriate actions to implement selected ideas. Board Secretary together with the Management is following up on the progress of implementing such actions.

WHISTLE BLOWING

A Whistle Blowing Policy is operative within the Company and the same has been communicated to all members of the staff. This enables any member of the Company to raise issues with the management and the Board, in order to identify possible risks faced by the Company at an early stage.

No serious concerns were raised through this medium during the year.

REPORTS OF THE BOARD SUB COMMITTEES

The table below provides the report references of the Board Sub Committees.

Committee	Page Number
Audit Committee	225 - 230
Remuneration Committee	231 - 232
Related Party Transaction Review Committee	233 - 234
Investment Committee	235 - 236
Risk Management Committee	237

ANNUAL GENERAL MEETING

The thirteenth Annual General Meeting of the Company will be held at the Auditorium on Level 22 of "HNB Towers" at No. 479, T B Jayah Mawatha, Colombo 10 on, the 27th day of March 2015 at 10.00 in the forenoon. The Notice of the thirteenth Annual General Meeting is on page 394 of the Annual Report.

For and on behalf of the Board

Dr. Ranee Jayamaha
Chairperson

Manjula de Silva
Managing Director

Shiromi Halloluwa
Board Secretary

Colombo, Sri Lanka
09th February 2015

Directors' Interest in Contracts with the Company

Related Party Disclosures as per Sri Lanka Accounting Standard - LKAS 24 on Related Party Disclosures are detailed in Note 43 to the Financial Statements on pages 345 to 349 of this Annual Report. In addition, the Company carries out transactions in the ordinary course of business on an arm's length basis with entities where the Chairperson or a Director of the Company is the Chairperson or Chairman or a Director of such entities, as detailed below:

Company	Name of the Director	Nature of the Transaction	Insurance Segment	2014 Rs. '000	2013 Rs. '000
The HDFC Bank of Sri Lanka	Siromi Wickramasinghe**	Investment in Debentures and Term Deposits	General	103,577	65,970
			Life	120,748	118,946
		Investment Income	General	7,558	7,929
			Life	18,063	9,091
MMBL Leisure Holdings (Pvt) Ltd	K Balasundaram	Insurance Premium	General	207	67
Pathfinder (Pvt) Ltd	K Balasundaram	Insurance Premium	General	105	49
		Claims Incurred	General	38	-
Mercantile Merchant Bank Ltd.	K Balasundaram	Insurance Premium	General	183	-
Odel PLC	Dr. Sivakumar Selliah	Insurance Premium	General	314	5
Horana Plantation PLC	Dr. Sivakumar Selliah	Insurance Premium	General	5,412	-

** Siromi Wickramasinghe was the Chairperson/Director of The HDFC Bank of Sri Lanka as on the Balance Sheet date. However, she had resigned from such position at the time of signing these Financial Statements.

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, prepared in accordance with the provisions of the Companies Act, No. 7 of 2007, is set out in the following statement. The responsibilities of the External Auditors in relation to the Financial Statements/Consolidated Financial Statements are set out in the Report of the Auditors, given on page 271 of the Annual Report.

As per the provisions of the Companies Act, No. 7 of 2007 the Directors are required to prepare Financial Statements for each financial year and place them before a general meeting. The Financial Statements comprise Statement of Financial Position as at 31st December 2014, the Statement of Comprehensive Income, Statement of Changes in Equity and the Cash Flow statement for the year then ended and notes thereto.

The Financial Statements of the Company 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 2014.

   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. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, Regulation of Insurance Industry Act, No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

The Directors have also taken reasonable steps to establish and maintain appropriate systems of internal controls to safeguard the assets of the Company/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 (Pages No 272 – 276).

Further, as required by the Section 56(2) of the Companies Act, No. 7 of 2007, the Board of Directors has confirmed that the Company, based on the information available, would satisfy the solvency test immediately after the distribution of dividends, in accordance with the Section 57 of the Companies Act, No. 7 of 2007, and has obtained a certificate from the Auditors, prior to declaring a final dividend of Rs. 3.75 per share for this year, to be paid on 08th April 2015.

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 Company/Group as at the Reporting Date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board

Shiromi Halloluwa
Board Secretary

Colombo, Sri Lanka
09th February 2015

CEO's and CFO's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL), the requirements of the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto.

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the Financial Statements.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to these Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Company's state of affairs is reasonably presented. To ensure this, the Company has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by Messrs. 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.

Manjula De Silva
Managing Director/Chief Executive Officer

Vipula Dharmapala
Chief Financial Officer

Colombo, Sri Lanka
09th February 2015

Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserve

28 January 2015

To the shareholders of HNB Assurance PLC

HNB Assurance PLC 31 December 2014 Net IBNR and LAT Certification

I hereby certify that the Central Estimate of IBNR provision, excluding an allowance for CHE, of LKR33,167,458, is adequate in relation to the Claim Liability of HNB Assurance PLC as at the 31 December 2014, 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 in respect of the Company's incurred claims obligations as at 31 December 2014, 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 LKR994,693,116 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of HNB Assurance PLC as at 31 December 2014, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles.

I have relied upon information and data provided by the management of the above Company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonability of the data.

Matthew Maguire
Fellow of the Institute of Actuaries of Australia (FIAA)
For and on behalf of NMG Financial Services Consulting
Dated 28 January 2015

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Report of the Life Actuary

Actuarial & Management
Consultants (Pvt) Limited

1st Floor, 434, R.A. De Mel Mawatha, Colombo 03, Sri Lanka. Telephone (94)112575280/ (94)112301079 Fax: (94) 112301079

09 February 2015

To the Shareholders of HNB Assurance PLC.

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER, 2014

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2014. 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 2014, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date;

3) The Long Term Insurance Fund as included in the audited accounts exceed the required actuarial reserves as at 31 December 2014 by Rs.761,204 million, before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders.

4) The solvency margin required under the Regulation of Insurance Industry Act No. 43 of 2000 is Rs.252.009 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2014.

M POOPALANATHAN
ACTUARY

Independent Auditors' Report

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

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eysl@lk.ey.com
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HNB ASSURANCE PLC

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of HNB Assurance PLC, (the "Company"), and the consolidated financial statements of the Company and its subsidiary (the "Group"), which comprise the statement of financial position as at 31 December 2014, and the statement of 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 auditors consider 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 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

OTHER MATTER

The financial statements of the Company for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 3 February 2014.

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 and 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 the financial position as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards,

- 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, the accounting records of the Company have been maintained in the manner required by the rules issued by the IBSL give a true and fair view of the financial position.

Ernst & Young

9 February 2015
Colombo

Statement of Financial Position

As at 31st December,	Note	Page No.	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Assets					
Property, Plant and Equipment	4	302	133,942	133,942	137,009
Intangible Assets	5	303	51,622	51,622	53,807
Deferred Tax Assets	38	333	-	-	2
Financial Investments	6	304	8,277,895	8,171,269	6,656,438
Investment in Subsidiary	7	314	-	100,000	-
Loans to Life Policyholders	8	315	71,082	71,082	53,656
Reinsurance Receivables	9	315	162,260	162,260	105,390
Premium Receivables	10	316	364,051	364,051	301,182
Other Assets	11	317	683,149	682,639	575,180
Insurance Contract - Deferred Expenses	12	319	52,072	52,072	32,912
Cash and Cash Equivalents	13	319	173,245	171,217	144,087
Total Assets			9,969,318	9,960,154	8,059,663
Equity and Liabilities					
Equity Attributable to the Equity Holders of Parent					
Stated Capital	14	319	1,171,875	1,171,875	1,171,875
Retained Earnings	15	320	1,196,546	1,189,039	941,820
Available for Sale Reserves	16	320	3,590	3,523	1,427
Other Reserves	17	320	1,177	1,177	2,172
Life Policyholders' Reserve	18	320	40,748	40,748	(4,182)
Equity Attributable to the Equity Holders of Parent			2,413,936	2,406,362	2,113,112
Non Controlling Interest			-		
Total Equity			2,413,936	2,406,362	2,113,112
Liabilities					
Insurance Contract Liabilities - Life	19	321	5,562,648	5,562,648	4,348,490
Insurance Contract Liabilities - General	20	322	1,279,138	1,279,138	1,011,102
Employee Defined Benefit Liabilities	21	324	71,493	71,493	56,637
Current Tax Liabilities	22	326	12,012	10,422	35,143
Deferred Tax Liabilities	38	333	8,845	8,845	-
Reinsurance Creditors	23	326	110,778	110,778	100,881
Other Liabilities	24	326	510,468	510,468	394,298
Total Liabilities			7,555,382	7,553,792	5,946,551
Total Equity and Liabilities			9,969,318	9,960,154	8,059,663

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.

Vipula Dharmapala
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Consolidated Financial Statements.

Signed and on behalf of the Board;

Dr. Ranee Jayamaha
Chairperson

Manjula de Silva
Managing Director / Chief Executive Officer

Colombo, Sri Lanka
09th February 2015

Statement of Comprehensive Income

For the Year Ended 31st December,	Note	Page No.	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000	Change % Company	Change % Group *
Gross Written Premium	25	327	4,665,618	4,665,618	3,877,730	20	20
Premium Ceded to Reinsurers	26	327	(601,022)	(601,022)	(526,005)	14	14
Net Written Premium			4,064,596	4,064,596	3,351,725	21	21
Net Change in Reserves for Unearned Premium	27	327	(232,621)	(232,621)	(82,544)	182	182
Net Earned Premium	28	328	3,831,975	3,831,975	3,269,181	17	17
Other Revenue							
Interest and Dividend Income	29	328	824,015	816,876	785,177	4	5
Net Realised Gains	30	329	108,823	105,785	53,411	98	104
Net Fair Value Gains	31	330	99,281	99,281	13,099	658	658
Fees and Commission Income	32	330	136,960	136,960	72,900	88	88
Other Income	33	330	12,366	12,366	12,830	(4)	(4)
			1,181,445	1,171,268	937,417	25	26
Net Income			5,013,420	5,003,243	4,206,598	19	19
Net Benefits,Claims and Expenses							
Net Insurance Benefits and Claims Paid	34	331	(1,528,233)	(1,528,233)	(1,558,659)	(2)	(2)
Net Change in Insurance Claims Outstanding	35	331	(44,871)	(44,871)	(9,549)	370	370
Change in Contract Liabilities - Life Fund	19	321	(1,192,273)	(1,192,273)	(724,829)	64	64
Other Operating and Administration Expenses	36	332	(1,303,710)	(1,303,130)	(1,084,148)	20	20
Underwriting and Net Acquisition Costs	37	332	(474,826)	(474,826)	(381,259)	25	25
Other Insurance Related Costs			(30,924)	(30,924)	(23,061)	34	34
Total Benefits, Claims and Other Expenses			(4,574,837)	(4,574,257)	(3,781,505)	21	21
Profit Before Taxation			438,583	428,986	425,093	1	3
Income Tax Expenses	38	333	(20,857)	(19,267)	(35,970)	(46)	(42)
Profit for the Year			417,726	409,719	389,123	5	7
Other Comprehensive Income, Net of Income Tax							
- Net Change in fair value of available-for-sale financial assets			116,815	113,710	38,065	199	207
- Realized Gains transferred to Income Statement	30	329	(69,722)	(66,684)	(45,838)	45	52
- Net Change in fair value of available-for-sale financial assets transfer (to)/from Life Policyholders reserve	18	320	(44,930)	(44,930)	2,991	(1,602)	(1,602)
Actuarial Gains/(Losses) on Defined Benefit Plans	21	324	(995)	(995)	2,172	(146)	(146)
Total Other Comprehensive Income for the year, net of income tax			1,168	1,101	(2,610)	(142)	(145)
Total Comprehensive Income for the year			418,894	410,820	386,513	6	8
Profit Attributable to :							
Equity Holders of the Company			417,726		389,123		7
Non Controlling Interest			-		-		-
Profit for the Year			417,726		389,123		7
Total Comprehensive Income Attributable to :							
Equity Holders of the Company			418,894		386,513		8
Non Controlling Interest			-		-		-
Total Comprehensive Income for the year			418,894		386,513		8
Earnings Per Share							
Basic Earnings Per Share (Rs.)	39	335	8.35	8.19	7.78		7
Dividend Per Share (Rs.)	40	336		3.75	3.25		15

*Change information in Group column represents a change with 2014 Group results against 2013 Company results.

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

Statement of Changes in Equity - Group

For the year ended 31st December 2014	Stated Capital Rs. '000	Retained Earnings Rs. '000	Available for Sale Reserve Rs. '000	Other Reserve Rs. '000	Life Policyholders' Reserve Fund Rs. '000	Total Equity Rs. '000
Balance as at 01st January 2014	1,171,875	941,820	1,427	2,172	(4,182)	2,113,112
Total comprehensive income for the year						
Profit for the Year	-	417,726	-	-	-	417,726
Other Comprehensive Income for the Year, net of tax						-
Net Change in fair value of available - for - sale financial assets	-	-	47,093	-	-	47,093
Net Change in fair value of available - for - sale financial assets - transferred to - Life Fund	-	-	(44,930)	-	-	(44,930)
Actuarial Losses on Defined Benefit Plans	-	-	-	(995)		(995)
Total Other Comprehensive Income	-	-	2,163	(995)	-	1,168
Total Comprehensive Income for the year	-	417,726	2,163	(995)	-	418,894
Net Change in fair value of available-for-sale financial assets - transferred to Life Policyholder Reserve Fund	-	-	-	-	44,930	44,930
Transactions with owners recorded directly in equity						
Distributions to owners of the Company						
Dividend Paid to equity holders - for 2013		(162,500)	-	-	-	(162,500)
Share Issue Transaction Cost - Subsidiary		(500)				(500)
Total Distributions to owners of the Company	-	(163,000)	-	-	-	(163,000)
Balance as at 31st December 2014	1,171,875	1,196,546	3,590	1,177	40,748	2,413,936

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

Statement of Changes in Equity - Company

For the year ended 31st December 2014	Stated Capital Rs. '000	Retained Earnings Rs. '000	Available for Sale Reserve Rs. '000	Other Reserve Rs. '000	Life Policyholders' Reserve Fund Rs. '000	Total Equity Rs. '000
Balance as at 01st January 2013	1,171,875	690,197	6,209	-	(1,191)	1,867,090
Comprehensive Income for the year						
Profit for the Year	-	389,123	-	-	-	389,123
Other Comprehensive Income for the Year, net of tax						
Net Change in fair value of available-for-sale financial assets			(7,773)			(7,773)
Net Change in fair value of available-for-sale financial assets - transferred to - Life Fund			2,991	-	-	2,991
Actuarial Gains on Defined Benefit Plans	-	-	-	2,172	-	2,172
Total Other Comprehensive Income	-	-	(4,782)	2,172	-	(2,610)
Total Comprehensive Income for the year	-	389,123	(4,782)	2,172	-	386,513
Net Change in fair value of available-for-sale financial assets - transferred to Life Policyholder Reserve Fund	-	-	-	-	(2,991)	(2,991)
Transactions with owners recorded directly in equity						
Distributions to owners of the Company						
Dividend Paid to equity holders - for 2012	-	(137,500)	-	-	-	(137,500)
Total Distributions to owners of the Company	-	(137,500)	-	-	-	(137,500)
Balance as at 31st December 2013	1,171,875	941,820	1,427	2,172	(4,182)	2,113,112
Balance as at 01st January 2014	1,171,875	941,820	1,427	2,172	(4,182)	2,113,112
Total comprehensive income for the year						
Profit for the Year	-	409,719	-	-	-	409,719
Other Comprehensive Income for the Year, net of tax				-		
Net Change in fair value of available-for-sale financial assets	-	-	47,026	-	-	47,026
Net Change in fair value of available-for-sale financial assets - transferred to - Life Fund	-	-	(44,930)	-	-	(44,930)
Actuarial Gains/(Losses) on Defined Benefit Plans	-	-	-	(995)	-	(995)
Total Other Comprehensive Income	-	-	2,096	(995)	-	1,101
Total Comprehensive Income for the year	-	409,719	2,096	(995)	-	410,820
Net Change in fair value of available-for-sale financial assets - transferred to Life Policyholder Reserve Fund	-	-	-	-	44,930	44,930
Transactions with owners recorded directly in equity						
Distributions to owners of the Company						
Dividend Paid to equity holders - for 2013		(162,500)	-	-	-	(162,500)
Total Distributions to owners of the Company	-	(162,500)	-	-	-	(162,500)
Balance as at 31st December 2014	1,171,875	1,189,039	3,523	1,177	40,748	2,406,362

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

Cash Flow Statement

For the Year Ended 31st December,	Note	Page	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Cash Flow From Operating Activities					
Profit Before Taxation			438,583	428,986	425,093
Adjustments for:					
Interest Income	29	328	(808,970)	(801,831)	(766,566)
Dividend Income	29	328	(15,045)	(15,045)	(18,611)
Amortisation of Intangible Assets	5	303	17,975	17,975	16,029
Depreciation	4	302	40,330	40,330	36,808
Provision for Employee Benefits	21	324	19,050	19,050	18,739
Net Fair Value Gains	31	330	(99,281)	(99,281)	(13,099)
Net Realised Gains	30	329	(108,823)	(105,785)	(53,411)
(Profit)/Losses on Sale of Property, Plant and Equipment	33	330	174	174	(3,188)
			(516,007)	(515,427)	(358,206)
Change in Operating Assets	A		(299,620)	(299,110)	(164,559)
Change in Operating Liabilities	B		1,608,263	1,608,263	761,451
Cash Flows from Operating Activities			792,636	793,726	238,686
Gratuity Paid	21	324	(5,189)	(5,189)	(2,290)
Net Cash Generated from Operating Activities			787,447	788,537	236,396
Cash Flows from Investing Activities					
Net Acquisition of Investment Securities			(1,148,749)	(1,047,491)	(1,048,380)
Interest Received			591,459	586,583	921,111
Dividend Received			15,228	15,228	18,168
Investment in Subsidiary			-	(100,000)	-
Acquisition of Intangible Assets			(15,790)	(15,790)	(5,092)
Acquisition of Property, Plant and Equipment			(37,747)	(37,747)	(54,238)
Proceeds from the Sale of Property, Plant and Equipment			310	310	4,329
Net Cash Used in Investing Activities			(595,289)	(598,907)	(164,102)
Cash Flows from Financing Activities					
Dividend Paid	40	336	(162,500)	(162,500)	(137,500)
Share Issue Related Costs Paid - Subsidiary			(500)	-	-
Net Cash Used in Financing Activities			(163,000)	(162,500)	(137,500)
Net Increase in Cash and Cash Equivalents	C		29,158	27,130	(65,206)
Cash and Cash Equivalents at the beginning of the Year			144,087	144,087	209,293
Cash and Cash Equivalents at the end of the Year	13	319	173,245	171,217	144,087
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Increase in Deferred Expenses			(19,160)	(19,160)	(12,944)
Increase in Loans to Life Policyholders			(17,426)	(17,426)	(23,768)
Increase in Reinsurance Receivables			(56,870)	(56,870)	57,325
Increase in Premium Receivables			(62,869)	(62,869)	(53,765)
Increase in Other Assets			(143,295)	(142,785)	(131,407)
			(299,620)	(299,110)	(164,559)
B. Change in Operating Liabilities					
Increase/(Decrease) in Other Liabilities			116,172	116,172	(20,087)
Increase in Insurance Contract Liabilities - General Insurance			268,036	268,036	41,659
Increase in Insurance Contract Liabilities - Life Insurance			1,214,158	1,214,158	722,251
Increase in Reinsurance Creditors			9,897	9,897	17,628
			1,608,263	1,608,263	761,451
C. Increase / (Decrease) in Cash and Cash Equivalents					
Net Cash and Cash Equivalents at the end of the Year	13	319	173,245	171,217	144,087
Less: Net Cash and Cash Equivalents at the beginning of the Year			144,087	144,087	209,293
Net Increase/(Decrease) in Cash and Cash Equivalents			29,158	27,130	(65,206)

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

Statement of Financial Position - Segmental Review - 2014

As at 31st December 2014	General Insurance Rs.'000	Life Insurance Rs.'000	Subsidiary /Adjustment Rs.'000	Total Rs.'000
Assets				
Property, Plant and Equipment	133,942	-	-	133,942
Intangible Assets	51,622	-	-	51,622
Financial Investments	2,625,436	5,545,833	106,626	8,277,895
Investment in Subsidiary	100,000		(100,000)	-
Loans to Life Policyholders	-	71,082	-	71,082
Reinsurance Receivables	138,814	23,446	-	162,260
Premium Receivables	357,108	6,943	-	364,051
Other Assets	487,616	195,023	510	683,149
Insurance Contract - Deferred Expenses	52,072	-	-	52,072
Cash and Cash Equivalents	82,735	88,482	2,028	173,245
Total Assets	4,029,345	5,930,809	9,164	9,969,318
Equity and Liabilities				
Equity Attributable to the Equity Holders of Parent				
Stated Capital	1,171,875	-	-	1,171,875
Retained Earnings	1,189,039	-	7,507	1,196,546
Available for Sale Reserves	3,523	-	67	3,590
Other Reserves	19,957	(18,780)	-	1,177
Life Policyholders' Reserve	-	40,748	-	40,748
Equity Attributable to the Equity Holders of Parent	2,384,394	21,968	7,574	2,413,936
Non Controlling Interest	-	-	-	-
Total Equity	2,384,394	21,968	7,574	2,413,936
Liabilities				
Insurance Contract Liabilities - Life	-	5,562,648	-	5,562,648
Insurance Contract Liabilities - General	1,279,138	-	-	1,279,138
Employee Defined Benefit Liabilities	39,985	31,508	-	71,493
Current Tax Liabilities	10,422	-	1,590	12,012
Deferred Tax Liabilities	8,845	-	-	8,845
Reinsurance Creditors	79,857	30,921	-	110,778
Other Liabilities	226,704	283,764	-	510,468
Total Liabilities	1,644,951	5,908,841	1,590	7,555,382
Total Equity and Liabilities	4,029,345	5,930,809	9,164	9,969,318

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

Statement of Financial Position - Segmental Review - 2013

As at 31st December 2013	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Assets			
Property, Plant and Equipment	137,009	-	137,009
Intangible Assets	53,807	-	53,807
Deferred Tax Assets	2	-	2
Financial Investments	2,386,222	4,270,216	6,656,438
Loans to Life Policyholders	-	53,656	53,656
Reinsurance Receivables	81,764	23,626	105,390
Premium Receivables	294,472	6,710	301,182
Other Assets	406,148	169,032	575,180
Insurance Contract - Deferred Expenses	32,912	-	32,912
Cash and Cash Equivalents	69,382	74,705	144,087
Total Assets	3,461,718	4,597,945	8,059,663
Equity and Liabilities			
Equity Attributable to the Equity Holders of Parent			
Stated Capital	1,171,875	-	1,171,875
Retained Earnings	941,820	-	941,820
Available for Sale Reserves	1,427	-	1,427
Other Reserves	1,244	928	2,172
Life Policyholders' Reserve	-	(4,182)	(4,182)
Equity Attributable to the Equity Holders of Parent	2,116,366	(3,254)	2,113,112
Total Equity	2,116,366	(3,254)	2,113,112
Liabilities			
Insurance Contract Liabilities - Life	-	4,348,490	4,348,490
Insurance Contract Liabilities - General	1,011,102	-	1,011,102
Employee Defined Benefit Liabilities	49,890	6,747	56,637
Current Tax Liabilities	35,143	-	35,143
Reinsurance Creditors	76,032	24,849	100,881
Other Liabilities	173,185	221,113	394,298
Total Liabilities	1,345,352	4,601,199	5,946,551
Total Equity and Liabilities	3,461,718	4,597,945	8,059,663

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

Statement of Comprehensive Income - Segmental Review - 2014

For the Year Ended 31st December 2014,	General Insurance Rs.'000	Life Insurance Rs.'000	Subsidiary Rs.'000	Total Rs.'000
Gross Written Premium	2,322,751	2,342,867	-	4,665,618
Premium Ceded to Reinsurers	(473,559)	(127,463)	-	(601,022)
Net Written Premium	1,849,192	2,215,404	-	4,064,596
Net Change in Reserves for Unearned Premium	(232,621)	-	-	(232,621)
Net Earned Premium	1,616,571	2,215,404	-	3,831,975
Other Revenue				
Interest and Dividend Income	274,450	542,426	7,139	824,015
Net Realised Gains	34,494	71,291	3,038	108,823
Net Fair Value Gain	33,468	65,813	-	99,281
Fees and Commission Income	109,046	27,914	-	136,960
Other Income	12,366	-	-	12,366
	463,824	707,444	10,177	1,181,445
Net Income	2,080,395	2,922,848	10,177	5,013,420
Net Benefits,Claims and Expenses				
Net Insurance Benefits and Claims Paid	(1,135,077)	(393,156)	-	(1,528,233)
Net Change in Insurance Claims Outstanding	(25,644)	(19,227)	-	(44,871)
Change in Contract Liabilities - Life Fund	-	(1,192,273)	-	(1,192,273)
Other Operating and Administration Expenses	(611,696)	(691,434)	(580)	(1,303,710)
Underwriting and Net Acquisition Costs	(88,175)	(386,651)	-	(474,826)
Other Insurance Related Costs	(18,839)	(12,085)	-	(30,924)
Total Benefits, Claims and other Expenses	(1,879,431)	(2,694,826)	(580)	(4,574,837)
Profit Before Taxation	200,964	228,022	9,597	438,583
Income Tax Expenses	(19,267)	-	(1,590)	(20,857)
Profit for the Year	181,697	228,022	8,007	417,726

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

Statement of Comprehensive Income - Segmental Review - 2013

For the Year Ended 31st December 2013,	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Gross Written Premium	1,863,183	2,014,547	3,877,730
Premium Ceded to Reinsurers	(424,207)	(101,798)	(526,005)
Net Written Premium	1,438,976	1,912,749	3,351,725
Net Change in Reserves for Unearned Premium	(82,544)	-	(82,544)
Net Earned Premium	1,356,432	1,912,749	3,269,181
Other Revenue			
Interest and Dividend Income	273,379	511,798	785,177
Net Realised Gains	12,563	40,848	53,411
Net Fair Value Gain	9,104	3,995	13,099
Fees and Commission Income	50,651	22,249	72,900
Other Income	12,830	-	12,830
	358,527	578,890	937,417
Net Income	1,714,959	2,491,639	4,206,598
Net Benefits,Claims and Expenses			
Net Insurance Benefits and Claims Paid	(892,026)	(666,633)	(1,558,659)
Net Change in Insurance Claims Outstanding	2,954	(12,503)	(9,549)
Change in Contract Liabilities - Life Fund	-	(724,829)	(724,829)
Other Operating and Administration Expenses	(515,360)	(568,788)	(1,084,148)
Underwriting and Net Acquisition Costs	(53,401)	(327,858)	(381,259)
Other Insurance Related Costs	(13,522)	(9,539)	(23,061)
Total Benefits, Claims and other Expenses	(1,471,355)	(2,310,150)	(3,781,505)
Profit Before Taxation	243,604	181,489	425,093
Income Tax Expenses	(35,970)	-	(35,970)
Profit for the Year	207,634	181,489	389,123

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

Cash Flow Statement - Segmental Review - 2014

For the Year Ended 31st December 2014	Note	General Insurance Rs.'000	Life Insurance Rs.'000	Subsidiary /Adjustment Rs.'000	Total Rs.'000
Cash Flow From Operating Activities					
Profit Before Taxation		200,964	228,022	9,597	438,583
Adjustments for:					
Interest Income		(267,949)	(533,882)	(7,139)	(808,970)
Dividend Income		(6,501)	(8,544)	-	(15,045)
Transfer of Profit		228,022	(228,022)	-	-
Amortisation of Intangible Assets		17,975	-	-	17,975
Depreciation		40,330	-	-	40,330
Provision for Employee Benefits		13,596	5,454	-	19,050
Net Fair Value Gains		(33,468)	(65,813)	-	(99,281)
Net Realised Gains		(34,494)	(71,291)	(3,038)	(108,823)
Loss on Sale of Property, Plant and Equipment		174	-	-	174
		158,649	(674,076)	(580)	(516,007)
Change in Operating Assets	A	(255,598)	(43,512)	(510)	(299,620)
Change in Operating Liabilities	B	325,381	1,282,882	-	1,608,263
Cash Flows from Operating Activities		228,432	565,294	(1,090)	792,636
Gratuity Paid		(4,788)	(401)	-	(5,189)
Net Cash Generated/(used) from Operating Activities		223,644	564,893	(1,090)	787,447
Cash Flows from Investing Activities					
Net Acquisition of Investment Securities		(151,535)	(895,956)	(101,258)	(1,148,749)
Interest Received		250,328	336,255	4,876	591,459
Dividend Received		6,643	8,585	-	15,228
Investment in Subsidiary		(100,000)	-	100,000	-
Acquisition of Intangible Assets		(15,790)	-	-	(15,790)
Acquisition of Property, Plant and Equipment		(37,747)	-	-	(37,747)
Proceeds from the Sale of Property, Plant and Equipment		310	-	-	310
Net Cash Used in Investing Activities		(47,791)	(551,116)	3,618	(595,289)
Cash Flows from Financing Activities					
Dividend Paid		(162,500)	-	-	(162,500)
Share Issue Related Costs Paid		-	-	(500)	(500)
Net Cash Used in Financing Activities		(162,500)	-	(500)	(163,000)
Net Increase in Cash and Cash Equivalents	C	13,353	13,777	2,028	29,158
Cash and Cash Equivalents at the beginning of the Year		69,382	74,705	-	144,087
Cash and Cash Equivalents at the end of the Year	13	82,735	88,482	2,028	173,245

Notes to the Cash Flow Statement

A. Change in Operating Assets					
Increase in Deferred Expenses		(19,160)	-	-	(19,160)
Increase in Loans to Life Policyholders		-	(17,426)	-	(17,426)
(Increase) /Decrease in Reinsurance Receivables		(57,050)	180	-	(56,870)
Increase in Premium Receivables		(62,636)	(233)	-	(62,869)
Increase in Other Assets		(116,752)	(26,033)	(510)	(143,295)
		(255,598)	(43,512)	(510)	(299,620)
B. Change in Operating Liabilities					
Increase in Other Liabilities		53,520	62,652	-	116,172
Increase in Insurance Contract Liabilities - General Insurance		268,036	-	-	268,036
Increase in Insurance Contract Liabilities - Life Insurance		-	1,214,158	-	1,214,158
Increase in Reinsurance Creditors		3,825	6,072	-	9,897
		325,381	1,282,882	-	1,608,263
C. Increase in Cash and Cash Equivalents					
Net Cash and Cash Equivalents at the end of the Year		82,735	88,482	2,028	173,245
Less: Net Cash and Cash Equivalents at the beginning of the Year		69,382	74,705	-	144,087
Net Increase in Cash and Cash Equivalents		13,353	13,777	2,028	29,158

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

Cash Flow Statement - Segmental Review - 2013

For the Year Ended 31st December 2013	Note	General Insurance Restated Rs.'000	Life Insurance Restated Rs.'000	Total Rs.'000
Cash Flow From Operating Activities				
Profit Before Taxation		243,604	181,489	425,093
Adjustments for:				
Interest Income		(265,096)	(501,470)	(766,566)
Dividend Income		(8,283)	(10,328)	(18,611)
Transfer of Profit		181,489	(181,489)	-
Amortisation of Intangible Assets		16,029	-	16,029
Depreciation		36,808	-	36,808
Provision for Employee Benefits		15,670	3,069	18,739
Net Fair Value Gains		(9,104)	(3,995)	(13,099)
Net Realised Gains		(12,563)	(40,848)	(53,411)
Profit on Sale of Property, Plant and Equipment		(3,188)	-	(3,188)
		195,366	(553,572)	(358,206)
Change in Operating Assets	A	(129,950)	(34,609)	(164,559)
Change in Operating Liabilities	B	38,557	722,894	761,451
Cash Flows from Operating Activities		103,973	134,713	238,686
Gratuity Paid		(1,953)	(337)	(2,290)
Net Cash Generated from Operating Activities		102,020	134,376	236,396
Cash Flows from Investing Activities				
Net Acquisition of Investment Securities		(169,822)	(878,558)	(1,048,380)
Interest Received		242,025	679,086	921,111
Dividend Received		8,283	9,885	18,168
Acquisition of Intangible Assets		(5,092)	-	(5,092)
Acquisition of Property, Plant and Equipment		(54,238)	-	(54,238)
Proceeds from the Sale of Property, Plant and Equipment		4,329	-	4,329
Net Cash Generated/(Used) in Investing Activities		25,485	(189,587)	(164,102)
Cash Flows from Financing Activities				
Dividend Paid		(137,500)	-	(137,500)
Net Cash from Financing Activities		(137,500)	-	(137,500)
Net Increase in Cash and Cash Equivalents	C	(9,995)	(55,211)	(65,206)
Cash and Cash Equivalents at the beginning of the Year		79,377	129,916	209,293
Cash and Cash Equivalents at the end of the Year	13	69,382	74,705	144,087

Notes to the Cash Flow Statement

A. Change in Operating Assets	General Insurance	Life Insurance	Total
Increase in Deferred Expenses	(12,944)	-	(12,944)
Increase in Loans to Life Policyholders	-	(23,768)	(23,768)
Decrease in Reinsurance Receivables	40,235	17,090	57,325
(Increase)/Decrease in Premium Receivables	(56,628)	2,863	(53,765)
Increase in Other Assets	(100,613)	(30,794)	(131,407)
	(129,950)	(34,609)	(164,559)

B. Change in Operating Liabilities	General Insurance	Life Insurance	Total
Increase/(Decrease) in Other Liabilities	(25,809)	5,722	(20,087)
Increase in Insurance Contract Liabilities - General Insurance	41,659	-	41,659
Increase in Insurance Contract Liabilities - Life	-	722,251	722,251
Increase/(Decrease) in Reinsurance Creditors	22,707	(5,079)	17,628
	38,557	722,894	761,451

C. Increase / (Decrease) in Cash and Cash Equivalents	General Insurance	Life Insurance	Total
Net Cash and Cash Equivalents at the end of the Year	69,382	74,705	144,087
Less: Net Cash and Cash Equivalents at the beginning of the Year	79,377	129,916	209,293
Net Increase in Cash and Cash Equivalents	(9,995)	(55,211)	(65,206)

The Notes to the Consolidated Financial Statements as set out on pages 283 to 370 form an integral part of these Consolidated Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 Reporting Entity

HNB Assurance PLC ("the Company") is a Listed Company incorporated on 23rd August 2001 with limited liability and domiciled in Sri Lanka. The registered office of the Company is situated at No. 479, T B Jayah Mawatha, Colombo 10 and the principal place of business is situated at No. 10, Sri Uttarananda Mawatha, Colombo 3. The Ordinary Shares of the Company are listed on the Colombo Stock Exchange (CSE).

The Consolidated Financial Statements for the year ended 31st December 2014 include the parent entity and its Subsidiary (together referred to as the "Group" and individually as "Group entities").The Financial Statements of the parent and subsidiary have a common financial year which ends on December 31st.

1.2 Principal Activities and Nature of Operations

The principal activity of the Group is Life and General insurance business. There were no significant changes in the nature of the principal activities of the Group during the financial year under review.

1.3 Parent Entity and Ultimate Parent Entity

The Group parent entity is Hatton National Bank PLC. In the opinion of the Directors, the Group ultimate parent undertaking and controlling party is Hatton National Bank PLC which is incorporated in Sri Lanka.

1.4 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements.

1.5 Number of Employees

The staff strength of the Group as at 31st December 2014 is 829 (2013 – 804)

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year. There have been no significant effects to the accounting policies due to the adoption of the SLFRS 10 -Consolidated Financial Statements, SLFRS 11 - Joint Arrangements and SLFRS 12 - Disclosure of Interests in Other Entities. Changes to the disclosure requirements on the adoption of SLFRS 13 - Fair Value Measurement have been disclosed under note 2.5.6

2.1.2 Statement of compliance

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 information on the financial position of the Group and the Company as at the year-end (Refer page 272);
- a Statement of Comprehensive Income providing information on the financial performance of the Group and the Company for the year under review (Refer page 273);
- a Statement of Changes in Equity depicting all changes in shareholders' equity (Refer pages 274 and 275);
- a Statement of Cash Flows providing 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 page 276); and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 283 to 370).

2.1.3 Date of authorization of issue

The financial statements were authorized for issue by the Board of Directors on 9th February 2015.

2.1.4 Basis of Measurement

The Consolidated Financial Statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

ITEM AND BASIS OF MEASUREMENT	NOTE NO.	PAGE REFERENCE
Financial instruments at fair value through profit or loss are measured at fair value	6.4	305
Available-for-sale financial assets are measured at fair value	6.3	305

As permitted by SLFRS 4 Insurance Contracts, the Group continues to apply the existing accounting policies that were applied prior to the adoption of SLFRS, with certain modifications allowed by the standard effective subsequent to adoption for its insurance contracts with discretionary participating features (DPF).

The Group and the Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery of settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in the respective notes. No adjustments have been made for inflationary factors affecting the Consolidated Financial Statements.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

2.1.5 Supplementary Statements - Statement of Financial Position of the Life Insurance Fund

Fund together with the notes are disclosed in page numbers 371 to 382 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 (CA Sri Lanka).

2.1.6 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.

2.1.7 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or functions are presented separately unless they are immaterial.

2.2 Basis of Consolidation

The Consolidated Financial Statements comprise the financial statements of the Group and its subsidiary as at 31st December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

The Financial Statements of subsidiaries are prepared for the same reporting as the parent Company, using consistent accounting policies. All intra group balances, transactions, income and expenses, profit and losses generating from intra group transactions and dividends are eliminated in full.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into in line with the Group's accounting policies. All intra-group assets, 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.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

We have not included comparative information for Group Financial Statements since there was no Group structure existed in 2013.

2.3 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

2.3.1 Valuation of Insurance contract liabilities – Life Insurance

The liability for Life Insurance contracts with Discretionary Participation 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 (LAT), which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapses, surrender rates and discount rates as further detailed in note 19.a. 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 the life style, which could result in significant changes to the expected future mortality exposure.

Estimates are also made for 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 expense are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders.

Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

2.3.2 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.

2.3.3 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 techniques. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values.

2.3.4 Valuation of employee benefit obligation - Gratuity

The cost of defined benefit plans which is gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates.

Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used by the actuary in the estimates are contained in Note 21.

2.3.5 Deferred tax assets and liabilities

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Group estimates a reasonable provision based on tax laws and interpretations.

2.3.6 Impairment of Deferred Acquisition Cost (DAC)

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 the Statement of Comprehensive Income. No such indication of impairment was experienced during the year.

DAC is derecognised when the related contracts are either settled or disposed of.

2.3.7 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, hence, they are subject to uncertainty.

2.3.8 Provisions for Liabilities and Contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

SIGNIFICANT ACCOUNTING ESTIMATE/JUDGMENT	DISCLOSURE REFERENCE	
	NOTE NO.	PAGE NO.
Insurance contract liabilities – Life Insurance	2.14.1	295
Insurance contract liabilities – General Insurance	2.14.2	296
Liability Adequacy Test (LAT)		
Life Insurance	2.14.1	295
General Insurance	2.14.2	296
Fair Value of Financial Instruments	2.5.6	290
Valuation of employee benefit obligation - Gratuity	2.3.4	285
Deferred tax assets and liabilities	2.24.2	299
Assessment of Impairment	2.3.7	286
Deferred Acquisition Cost	2.3.6	286
Provisions for Liabilities and Contingencies	2.3.8	286

2.4 Summary of Significant Accounting Policies

Insurance contracts

As permitted by SLFRS 4 Insurance Contracts, the Group continues to apply the existing accounting policies for Insurance Contracts that were applied prior to the adoption of SLFRS.

Product classification

SLFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred.

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

All the products sold by the Company are insurance contracts. Therefore, classified as Insurance contracts under the SLFRS 4 – Insurance Contracts. Thus, the Company does not have any investment contracts within its product portfolio as at the Reporting date.

Actuarial Valuation of Life Insurance Fund

The Directors agree to the long term insurance provision for the Company at the year-end on the recommendations of the Independent Consultant Actuary following his annual investigation of the Life Insurance business. The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the Independent Consultant Actuary.

2.5 Financial assets and Financial Liabilities

2.5.1 Non-derivative financial assets

2.5.1.a Initial recognition and measurement

The Group initially recognises loans and receivables and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 and
4. Fair value through profit or loss (FVTPL).

The Group determines the classification of its financial assets at initial recognition.

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the 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 marketplace are recognised on the settlement date, i.e., the date that the Group receives/settles money for the sale/purchase of the financial asset. However, when it comes to investment in quoted equities and corporate debt, the transaction date (i.e. trade date) is used to recognize/derecognise the asset.

The Group's existing types of financial assets and their classifications are shown in the table below.

CATEGORY	FINANCIAL ASSET
Held to Maturity	Treasury Bonds, Treasury Bills
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	Treasury Bonds, Treasury Bills, Listed Equity Shares,
Fair Value Through Profit or Loss	Treasury Bonds, Treasury Bills, Listed Equity Shares, Investment in Units

2.5.1.b *Subsequent Measurement*

Held to maturity financial assets (HTM)

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the intention and ability to hold until maturity. Held-to-maturity financial assets comprise Treasury Bills and Treasury Bonds. After initial measurement, held to maturity financial assets are measured at amortised cost, using the Effective Interest Rate (EIR), less impairment.

The EIR amortisation is included in 'Investment Income' in the Statement of Comprehensive Income.

Gains and losses are recognised in the Statement of Comprehensive Income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and other receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise of investments in unquoted debentures, commercial papers, reverse repos, policy loans and other loans, reinsurance receivables, premium receivables, cash and cash equivalents. The Company classifies quoted Corporate Debt under this category since there is no active market for these instruments even if such instruments are listed.

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the EIR, less allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Investment Income' in the Statement of Comprehensive Income.

Gains and losses are recognised in the Statement of Comprehensive Income when the investments are derecognised or impaired, as well as through the amortisation process.

a. Premium Receivables

Insurance receivables from 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.

Due Life Insurance premiums (only the premiums due in the 30 day grace period) are recognized at each reporting date and will be reversed if the premiums are not settled during the subsequent month, and thus the policies will be lapsed as per the Company policy.

b. Other Receivables and Dues from Related Parties

Other receivables and dues from Related Parties are recognised at cost less allowances for bad and doubtful receivables.

c. Cash and cash equivalents

Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Bank overdrafts, if any, which form an integral part of cash management, are included as a component of cash and cash equivalents for the purposes of the Statement of Cash Flows. In the Statement of Financial Position, bank overdrafts are included under liabilities.

Available-for-sale financial assets (AFS)

Available-for-sale financial investments include equity and debt securities (Government Securities and Corporate Debt). Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in Other Comprehensive Income (OCI) in the available-for-sale reserve.

Interest earned whilst holding available-for-sale investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding available-for-sale investments are recognised in the Statement of Comprehensive Income 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.

If the asset is determined to be impaired, the cumulative loss is recognised in the Statement of Comprehensive Income in the 'Investment Income' and removed from the available-for-sale reserve.

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 the Statement of Comprehensive Income.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

For investments designated 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 a part of a Group's 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.

These investments are initially recorded at fair value. Subsequent to initial recognition, they are re-measured at fair value. Changes in fair value are recorded in 'Fair value gains and losses' in the Statement of Comprehensive Income.

Interest is accrued and presented in '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.

2.5.2 Non-derivative financial liabilities

The Group initially recognises financial liabilities (including liabilities designated at fair value through profit or loss) 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 financial liabilities comprise insurance payables, other liabilities including amount due to related parties and bank overdrafts.

2.5.3 Derecognition

2.5.3.a 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.

2.5.3.b Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.5.4 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 SLASs, or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

2.5.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

2.5.6 Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, 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.

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 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
Close ended Irredeemable Units	Net Assets Value (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
Commercial Paper & promissory note	Cost plus interest	Level 2
Fixed and Term Deposits		
Deposit > 1year	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

2.5.7 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.5.7.a Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as a part of investment income in the Statement of Comprehensive Income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the 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 the Statement of Comprehensive Income.

The Group has not experienced any indication of impairment and thus no impairment losses were recognized during the financial year.

2.5.7.b 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.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the Statement of Comprehensive Income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as a part of '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 the Statement of Comprehensive Income, and the impairment loss is reversed through the Statement of Comprehensive Income.

2.6 Intangible Assets

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 the de-recognition of such Intangible Assets is included in the Statement of Comprehensive Income when the item is derecognised.

2.7 Property, Plant and Equipment

Basis of Recognition

Plant and Equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Plant and Equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be measured reliably.

Measurement

An item of 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 the statement of income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the 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 follow:

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

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

De-recognition

The carrying amount of an item of 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 the Statement of Comprehensive Income when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of Plant and Equipment, the remaining carrying amount of the replaced part is derecognised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is derecognised.

Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in property, plant and equipment, awaiting capitalisation.

2.8 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.

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 the Statement of Comprehensive Income on a straight line basis over the lease term.

2.9 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 revenues earned.

In line with the available regulatory guidelines from the Insurance Board of Sri Lanka (IBSL), the DAC is calculated based on the 1/24th basis.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Comprehensive Income. No such indication of impairment was experienced during the year.

DAC is derecognised when the related contracts are either settled or disposed of.

2.10 Reinsurance

The Company cedes insurance risk in the normal course of business to recognised reinsurers through formal reinsurance arrangements.

Reinsurance assets include the balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance is recorded gross in the Statement of Financial Position unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss, if any is recorded in the Statement of Comprehensive Income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

2.11 Other Assets

Advance Paid for Software

Advance paid for Software is stated at cost. These are expenses directly incurred in the development of computer Software, awaiting capitalisation.

Inventories

Inventories include all consumable items which are stated at lower of cost and net realisable value.

2.12 Impairment of non-financial assets

The carrying amounts of the Group non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss.

2.13 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available for- sale equity instruments, which are recognised in other comprehensive income.

2.14 Insurance contract liabilities

2.14.1 Insurance Provision – Life Insurance

Life Insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method as specified by the Insurance Board of Sri Lanka (IBSL) based on the recommendation of the Independent Consultant Actuary. The liability is determined as the sum of the discounted value of the expected future benefits, less the discounted value of the expected future premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is computed based on IBSL specified guidelines and current assumptions which vary based on the contract type.

Furthermore, adjustments are performed to capture the likely liabilities that may arise due to currently lapsed contracts reviving in the future.

Liability Adequacy Test (LAT)
As required by SLFRS 4 – Insurance Contracts, the Company performed a Liability Adequacy Test (LAT) in respect of Life Insurance contract liabilities with the assistance of an external actuary. In performing the LAT, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used.

2.14.2 Insurance Provision – General Insurance
General Insurance contract liabilities include the outstanding claims provision including IBNR and IBNER, the provision for unearned premium and the provision for premium deficiency.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date.

The valuation of Unearned Premium Reserve are measured in accordance with guidelines of the Regulation of Insurance Industry Act, No. 43 of 2000 (i.e. based on the 1/24th basis).

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims reserve are actuarially computed.

The liability is IBNR and IBNER discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

Liability Adequacy Test (LAT)
As required by SLFRS 4 –Insurance Contracts, the Company performed a Liability Adequacy Test (LAT) in respect of General Insurance contract liabilities with the assistance of the external actuary.

2.14.3 Title Insurance Reserve
Title insurance reserve is maintained by the Company to pay potential claims arising from 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 two years. 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.

If the corresponding loan of the Title Insurance Policy issued is settled before the maturity, full premium of such policies remaining as at the date of settlement of such loan is recognised in profits upon confirmation of the same by the respective Bank.

2.15 Employee benefits

2.15.1 Short-term benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the 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.

2.15.2 Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in profit and loss when incurred.

Employee Provident Fund
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.

2.15.3 Defined benefit Employee 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 recognized immediately in Other Comprehensive Income.

Under the payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

2.16 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.17 Revenue Recognition

2.17.1 Insurance Premiums

Life Insurance business

Gross recurring premiums on Life Insurance contracts are recognised as revenue when payable by the policyholder (policies within the 30 day grace period are considered as due). Premiums received in advance are not recorded as revenue and recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to recognized as income. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

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 as written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on 1/24th basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums which is included under liabilities.

2.17.2 Reinsurance premiums

Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Reinsurance premiums are decided based on rates agreed with reinsurers.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts using 1/24th basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000.

2.17.3 Fees and commission income

Policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or become due.

2.18 Net Realise Gains

Net Realise Gains comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

2.19 Interest Income

Interest income and expenses are recognised in profit or loss using the effective interest rate 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 assets or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial assets 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, fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

2.20 Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment.

2.21 Profit / loss on Sale of Property, Plant and Equipment

Profit / loss on Sale of Property, Plant and Equipment is recognised in the period in which the sale occurs and is classified under other income.

2.22 Benefits, Claims and Expenses

a. Gross benefits and claims

Life Insurance business

Claims by death and maturity are charged against revenue on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

Expenses on Life Insurance relates to the acquisition expenses and expenses for maintenance of Life Insurance business, investment related expenses not treated as a part of the capital cost of investment, etc which are accounted on accrual basis.

General Insurance business

General Insurance claims include all claims occurring during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

The provision in respect of Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) is actuarially valued to ensure a more realistic estimation of the future liability based on the past experience and trends. Actuarial valuations are performed on a semi-annual basis.

Whilst the Directors consider that the provisions for claims are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such amounts are reflected in the Financial Statements for that period.

The methods used to estimate claims and the estimates made are reviewed regularly.

b. Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

c. Deferred Acquisition Expenses

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned.

Reinsurance commission is also treated in the same manner within deferred acquisition costs.

2.23 Other Expenses

Other expenses are recognised on accrual basis. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment has been charged to the Statement of Comprehensive Income.

Share issue expenses are charged against the reserves in the Statement of Changes in Equity.

2.24 Taxes

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

2.24.1 Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years. Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and the amendments thereto.

Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the Statement of Comprehensive Income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

2.24.2 Deferred tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount substantively enacted by the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences. As at the date of the Statement of Financial Position, the Group has deferred tax liabilities arising mainly 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 Statement of Changes 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.

2.24.3 Premium Income (GWP) and other Sundry Sales related taxes

Revenues, expenses and assets are recognised net of the amount of sales taxes and premium taxes except where the premium or sales tax incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority are included as part of receivables or payables in the Statement of Financial Position.

2.24.4 Withholding Tax on Dividends

Withholding tax that arises from the distribution of dividends by the Group is recognised at the same time as the liability to pay the related dividend is recognised.

2.24.5 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act, No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed receivable ESC amount can be carried forward and set off against the income tax payable as per the relevant provisions in the Act.

However with the amendment made by Inland Revenue to the Act, if the Group In relation to any relevant quarter commencing on or after April 01, 2012, where such part of the taxable income as consists of profits from any trade, business, profession or vocation assessed under the provisions of Inland Revenue Act No, 10 of 2006 for the year of assessment 2013/2014, is more than zero, the relevant turnover for such quarter shall be deemed to be zero.

2.25 Segmental Reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group primary format for segment reporting is based on business segments. The business segments are determined based on the Group management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Accordingly, segmental information of the Group reflects General Insurance and Life Insurance. Inter-segment transfers are based on fair market prices.

2.26 Capital Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

2.27 Events Occurring after the Reporting Date

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

All material post Reporting Date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the Financial Statements.

2.28 Proposed Dividends

Dividend proposed by the Board of Directors after the Balance Sheet date is not recognised as a liability and is only disclosed as a Note to the Financial Statements (Note 40 in page No 336). Provision for dividend is recognised only at the time the dividend proposed by the Board of Directors is approved by the shareholders at the Annual General Meeting.

2.29 Earnings Per Share (EPS)

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 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.

2.30 Cash Flow Statement

The Cash Flow Statement has been prepared using the Indirect Method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Interest and dividend received are classified as operating cash flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

3. 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 the future 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.

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 2017.

The Group will adopt these standards when they become effective. Pending the completion of detailed review, the financial impact is not reasonably estimatable as at the date of publication of these Financial Statements.

4. PROPERTY, PLANT AND EQUIPMENT (PPE) - GROUP & COMPANY

	Computer Equipment Rs.'000	Motor Vehicles Rs.'000	Office Equipment Rs.'000	Furniture and Fittings Rs.'000	Fixtures Rs.'000	Total Rs.'000
Cost						
Balance as at 01st January 2013	135,724	17,467	51,582	39,869	52,176	296,818
Additions during the year	16,446	16,071	5,587	4,754	13,187	56,045
Disposals during the year	(2,247)	(12,150)	(2,870)	(706)	(3,797)	(21,770)
Balance as at 31st December 2013	149,923	21,388	54,299	43,917	61,566	331,093
Balance as at 01st January 2014	149,923	21,388	54,299	43,917	61,566	331,093
Additions during the year	13,259	-	5,725	7,688	11,075	37,747
Disposals during the year	(9,073)	-	(3,611)	(1,908)	(9,678)	(24,270)
Balance as at 31st December 2014	**154,109**	**21,388**	**56,413**	**49,697**	**62,963**	**344,570**
Accumulated Depreciation and Impairment Losses						
Balance as at 01st January 2013	80,088	17,114	36,557	18,257	26,355	178,371
Depreciation for the year	16,829	1,998	5,941	3,871	8,169	36,808
Depreciation on Disposals	(2,197)	(12,150)	(2,515)	(521)	(3,712)	(21,095)
Balance as at 31st December 2013	**94,720**	**6,962**	**39,983**	**21,607**	**30,812**	**194,084**
Balance as at 01st January 2014	94,720	6,962	39,983	21,607	30,812	194,084
Depreciation for the year	17,919	4,083	5,603	4,349	8,376	40,330
Depreciation on disposals	(8,865)	-	(3,611)	(1,877)	(9,433)	(23,786)
Balance as at 31st December 2014	**103,774**	**11,045**	**41,975**	**24,079**	**29,755**	**210,628**
Carrying Value as at 31st December 2014	**50,335**	**10,343**	**14,438**	**25,618**	**33,208**	**133,942**
Carrying Value as at 31st December 2013	55,203	14,426	14,316	22,310	30,754	137,009

4.1 Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs.37.7 Million (2013 - Rs. 56 Million). Cash payments amounting to Rs. 37.7 Million (2013 - Rs. 54.2 Million) were made during the year to purchase of PPE.

4.2 Fully depreciated PPE in use

PPE includes fully depreciated assets which are in the use of normal business activities.
The initial cost of fully depreciated PPE which are still in use as at reporting date, is as follows :

As at 31st December	2014 Rs.'000	2013 Rs.'000
Computer Equipment	34,959	42,646
Office Equipment	21,585	24,629
Fixtures	4,763	10,256
Furniture and Fittings	2,567	3,150
	63,874	80,681

4.3 PPE pledged as security for Liabilities

There were no items of Property, Plant and Equipment pledged as securities for liabilities during the year. (2013 - Nil)

4.4 Title restriction on PPE

There are no restrictions that existed on the title of the PPE of the 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 2014. 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. (2013 - Nil)

4.7 Temporarily idle Property, Plant and Equipments

There were no temporarily idle property as at the year ended 31st December 2014. (2013 - Nil)

5. INTANGIBLE ASSETS -GROUP & COMPANY

Computer Software

	2014 Rs.'000	2013 Rs.'000
Cost		
Balance as at 01st January	137,543	128,775
Acquisition /Capitalised during the year	15,790	8,768
Impairment during the year	-	-
Balance as at 31st December	153,333	137,543
Accumulated Amortisation and Impairment Losses		
Balance as at 01st January	83,736	67,707
Amortisation for the year	17,975	16,029
Impairment during the year	-	-
Balance as at 31st December	101,711	83,736
Carrying amount as at 31st December	51,622	53,807

5.1 Acquisition of Intangible Assets during the year

During the financial year, the Company acquired/capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 15.8 Million (2013 - Rs. 8.8 Million). Cash payments (Including Advances paid on Software) amounting to Rs. 15.8 Million (2013 - Rs. 5.1 Million) were made during the year for purchase of Intangible Assets (Computer Software).

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 initial cost of Rs. 47.5 Million (2013 - Rs. 38.6 Million).

5.3 Title restriction on Intangible Assets

There are no restrictions that existed on the title of the Intangible Assets of the Company as at the Reporting date.

5.4 Assessment of impairment of Intangible Assets

The Board of Directors has assessed potential impairment indicators of intangible assets as at 31st December 2014. Based on the assessment, no impairment indicators were identified.

5. INTANGIBLE ASSETS -GROUP & COMPANY (CONT.)

5.5 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of Intangible Assets during the year (2013 - Nil)

6. FINANCIAL INVESTMENTS

As at 31st December,	Note	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Held to Maturity (HTM)	(Note 6.1)	782,667	782,667	931,680
Loans and Receivables (L & R)	(Note 6.2)	5,408,961	5,322,047	4,745,790
Available for Sale (AFS)	(Note 6.3)	1,600,593	1,580,881	644,889
Fair Value Through Profit or Loss (FVTPL)	(Note 6.4)	485,674	485,674	334,079
Total Financial Investments		8,277,895	8,171,269	6,656,438

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 2014		Company 2014		Company 2013	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Held to Maturity (HTM)	782,667	820,736	782,667	820,736	931,680	948,081
Loans and Receivables (L & R)	5,408,961	5,468,100	5,322,047	5,384,352	4,745,790	4,694,916
Available for Sale (AFS)	1,600,593	1,600,593	1,580,881	1,580,881	644,889	644,889
Fair Value Through Profit or Loss (FVTPL)	485,674	485,674	485,674	485,674	334,079	334,079
Total Financial Investments	8,277,895	8,375,103	8,171,269	8,271,643	6,656,438	6,621,965

6.1 Held to Maturity (HTM)

As at 31st December,	Group 2014		Company 2014		Company 2013	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
- Treasury Bonds	782,667	820,736	782,667	820,736	931,680	948,081
	782,667	820,736	782,667	820,736	931,680	948,081

6.2 Loans and Receivables (L & R)

- Repo		984,207	984,207	984,207	984,207	383,332	383,332
- Overnight Repo		147,424	147,424	147,424	147,424	318,116	318,115
- Term Deposit	(Note 6.5)	1,449,391	1,534,275	1,449,391	1,534,275	1,890,296	1,908,957
- Corporate Debt	(Note 6.6)	2,827,939	2,802,194	2,741,025	2,718,446	2,154,046	2,084,512
		5,408,961	5,468,100	5,322,047	5,384,352	4,745,790	4,694,916

6.3 Available for Sale (AFS)

As at 31st December,		Group 2014 Carrying value Rs.'000	Group 2014 Fair value Rs.'000	Company 2014 Carrying value Rs.'000	Company 2014 Fair value Rs.'000	Company 2013 Carrying value Rs.'000	Company 2013 Fair value Rs.'000
- Treasury Bonds		1,345,026	1,345,026	1,345,026	1,345,026	480,353	480,353
- Treasury Bills		142,364	142,364	122,652	122,652	164,536	164,536
- Equity Shares	(Note 6.7)	113,203	113,203	113,203	113,203	-	-
		1,600,593	1,600,593	1,580,881	1,580,881	644,889	644,889

6.4 Fair Value Through Profit or Loss (FVTPL)

- Equity Shares	(Note 6.8)	245,741	245,741	245,741	245,741	195,141	195,141
- Investment in Units	(Note 6.9)	239,933	239,933	239,933	239,933	138,938	138,938
		485,674	485,674	485,674	485,674	334,079	334,079

6.5. Term Deposits - Group & Company

As at 31st December,		2014 Carrying value Rs.'000	2014 Fair value Rs.'000	2013 Carrying value Rs.'000	2013 Fair value Rs.'000
Licensed Commercial Banks	(Note 6.5.1)	221,106	226,924	999,801	1,005,367
Licensed Specialised Banks		683,441	740,993	308,686	317,546
Registered Finance Companies		544,844	566,358	581,809	586,044
Total Investment in Term Deposits		1,449,391	1,534,275	1,890,296	1,908,957

6.5.1 Licensed Commercial Banks

Term Deposits with Related Parties - Hatton National Bank PLC	144,248	144,248	146,604	147,618
Other Banks	76,858	82,676	853,197	857,749
	221,106	226,924	999,801	1,005,367

6.6 Corporate Debt

As at 31st December,		Group 2014 Carrying Value Rs.'000	Group 2014 Fair Value Rs.'000	Company 2014 Carrying Value Rs.'000	Company 2014 Fair Value Rs.'000	Company 2013 Carrying Value Rs.'000	Company 2013 Fair Value Rs.'000
Debentures - Quoted	(Note 6.6.1)	2,584,318	2,554,027	2,497,404	2,470,279	1,835,515	1,756,077
Debentures - Unquoted	(Note 6.6.2)	243,621	248,167	243,621	248,167	258,159	267,129
Commercial Paper	(Note 6.6.3)	-	-	-	-	60,372	61,306
Total Investment in Corporate Debt		2,827,939	2,802,194	2,741,025	2,718,446	2,154,046	2,084,512

6 FINANCIAL INVESTMENTS (CONT.)

6.6 Corporate Debt (Cont.)

6.6.1 Debentures - Quoted

As at 31st December,	Group 2014 Carrying Value Rs.'000	Group 2014 Fair Value Rs.'000	Company 2014 Carrying Value Rs.'000	Company 2014 Fair Value Rs.'000	Company 2013 Carrying Value Rs.'000	Company 2013 Fair Value Rs.'000
Abans PLC	**195,113**	**185,000**	**195,113**	**185,000**	**140,603**	**140,000**
(14.00% 100,000 Debentures redeemable on 20.12.2016)	10,702	10,000	10,702	10,000	10,042	10,000
(14.25% 750,000 Debentures redeemable on 20.12.2017)	80,358	75,000	80,358	75,000	75,321	75,000
(14.50% 550,000 Debentures redeemable on 20.12.2018)	58,998	55,000	58,998	55,000	55,240	55,000
(9.00% 450,000 Debentures redeemable on 26.12.2019)	45,055	45,000	45,055	45,000	-	-
Bank of Ceylon	**179,633**	**175,750**	**179,633**	**175,750**	**163,654**	**160,000**
(11.50% 200,000 Debentures redeemable on 28.06.2015)	21,178	19,000	21,178	19,000	21,178	20,000
6 Months Gross T Bill Rate + 0.75% 150,000 Debentures redeemable on 28.06.2015)	15,620	15,000	15,620	15,000	15,873	15,000
(11.00% 150,000 Debentures redeemable on 07.12.2016)	15,273	13,350	15,273	13,350	15,108	15,000
(16.00% 1,100,000 Debentures redeemable on 29.11.2017)	113,255	114,400	113,255	114,400	111,495	110,000
(8.00% 140,000 Debentures redeemable on 21.09.2019)	14,307	14,000	14,307	14,000	-	-
Central Finance Company PLC	**41,887**	**45,277**	**41,887**	**45,277**	**57,549**	**55,500**
(14.25% 11,400 Debentures redeemable on 17.06.2016)	11,809	12,155	11,809	12,155	11,809	11,400
(14.75% 29,000 Debentures redeemable on 17.06.2018 *2013 - 44,100)	30,078	33,122	30,078	33,122	45,740	44,100
DFCC Bank PLC	**49,813**	**47,770**	**49,813**	**47,770**	**5,698**	**5,000**
(14.00% 5,000 Debentures redeemable on 26.09.2016)	5,698	5,000	5,698	5,000	5,698	5,000
(8.50% 427,700 Debentures redeemable on 18.08.2017)	44,115	42,770	44,115	42,770	-	-
Hatton National Bank PLC	**147,875**	**148,337**	**143,861**	**144,337**	**94,449**	**80,074**
(14.00% 538,417 Debentures redeemable on 12.06.2018)	57,993	53,842	57,993	53,842	57,993	53,842
(7.75% 310,000 Debentures redeemable on 14.12.2019)	31,014	31,000	27,000	27,000	-	-
(11.00% 75,000 Debentures redeemable on 31.03.2021)	18,720	21,262	18,720	21,262	16,865	7,500
(14.25% 276,614 Debentures redeemable on 29.08.2023)	20,075	22,233	20,075	22,233	19,591	18,732
(8.33% 200,000 Debentures redeemable on 14.12.2024)	20,073	20,000	20,073	20,000	-	-
Hayleys PLC	**45,180**	**49,347**	**45,180**	**49,347**	**113,951**	**110,000**
(14.25% 45,000 Debentures redeemable on 09.07.2016) *2013 - 110,000)	45,180	49,347	45,180	49,347	113,951	110,000
HDFC Bank of Sri Lanka	**89,313**	**94,402**	**89,313**	**94,402**	**82,179**	**79,890**
(15.00% 198,900 Debentures redeemable on 23.10.2017)	20,634	20,686	20,634	20,686	20,446	19,890
(15.50% 600,000 Debentures redeemable on 23.10.2018)	68,679	73,716	68,679	73,716	61,733	60,000
Hemas Holdings PLC	**93,573**	**90,790**	**52,872**	**51,460**	**-**	**-**
(11.00% 907,900 Debentures redeemable on 29.04.2019)	93,573	90,790	52,872	51,460	-	-

As at 31st December,	Group		Company			
	2014		2014		2013	
	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Lanka Orix Leasing Company PLC	**135,419**	**130,000**	**130,373**	**125,000**	**79,475**	**75,000**
(11.90% 750,000 Debentures redeemable on 30.06.2016)	79,917	75,000	79,917	75,000	79,475	75,000
(9.00% 550,000 Debentures redeemable on 24.11.2019)	55,502	55,000	50,456	50,000	-	-
LB Finance PLC	**97,830**	**96,401**	**97,830**	**96,401**	**86,219**	**85,100**
(15.00% 851,000 Debentures redeemable on 28.11.2018)	97,830	96,401	97,830	96,401	86,219	85,100
Lion Brewery (Ceylon) PLC	**99,333**	**102,922**	**99,333**	**102,922**	**99,333**	**96,000**
(13.50% 28,800 Debentures redeemable on 17.06.2016)	29,780	31,250	29,780	31,250	29,780	28,800
(13.75% 28,800 Debentures redeemable on 17.06.2017)	29,798	28,800	29,798	28,800	29,798	28,800
(14.00% 38,400 Debentures redeemable on 17.06.2018)	39,755	42,872	39,755	42,872	39,755	38,400
Mercantile Investment & Finance PLC	**11,594**	**11,439**	**8,952**	**8,839**	**-**	**-**
(10.50% 141,100 Debentures redeemable on 05.11.2018)	11,594	11,439	8,952	8,839	-	-
Merchant Bank of Sri Lanka & Finance PLC	**258,940**	**246,256**	**244,628**	**233,256**	**145,800**	**138,470**
(11.80% 675,000 Debentures redeemable on 15.11.2015)	71,515	67,500	71,515	67,500	71,515	67,500
(14.25% 800,000 Debentures redeemable on 16.12.2017 *2013 - 400,000)	95,425	87,553	89,207	82,553	40,219	40,000
(17.50% 197,100 Debentures redeemable on 27.03.2018)	23,150	23,943	23,150	23,943	21,863	19,710
(16.70% 112,600 Debentures redeemable on 27.03.2018)	12,192	11,260	12,192	11,260	12,203	11,260
(8.75% 150,000 Debentures redeemable on 12.11.2019)	15,173	15,000	15,173	15,000	-	-
(9.00% 410,000 Debentures redeemable on 12.11.2019)	41,485	41,000	33,391	33,000	-	-
National Development Bank PLC	**55,687**	**53,156**	**55,687**	**53,156**	**50,021**	**49,800**
(13.00% 125,900 Debentures redeemable on 19.12.2018)	13,411	13,864	13,411	13,864	12,644	12,590
(13.40% 184,600 Debentures redeemable on 19.12.2018)	20,874	20,542	20,874	20,542	18,541	18,460
(13.90% 187,500 Debentures redeemable on 19.12.2023)	21,402	18,750	21,402	18,750	18,836	18,750
Nations Trust Bank PLC	**61,940**	**65,099**	**61,940**	**65,099**	**58,399**	**58,150**
(13.00% 581,500 Debentures redeemable on 19.12.2018)	61,940	65,099	61,940	65,099	58,399	58,150
Nawaloka Hospitals PLC	**56,940**	**55,000**	**56,940**	**55,000**	**56,962**	**55,000**
(14.15% 550,000 Debentures redeemable on 30.09.2018)	56,940	55,000	56,940	55,000	56,962	55,000
Pan Asia Banking Corporation PLC	**67,680**	**66,587**	**58,940**	**57,989**	**-**	**-**
(9.52% 207,340 Debentures redeemable on 30.10.2019)	21,069	20,734	21,069	20,734	-	-
(9.75% 458,517 Debentures redeemable on 30.10.2019)	46,611	45,853	37,871	37,255	-	-
People's Leasing & Finance PLC	**42,848**	**43,624**	**42,848**	**43,624**	**55,578**	**51,722**
(8.75% 16,300 Debentures redeemable on 23.09.2017)	1,668	1,661	1,668	1,661	-	-
(17.00% 300,000 Debentures redeemable on 26.03.2018)	35,086	35,775	35,086	35,775	33,898	30,000
(9.625% 59,400 Debentures redeemable on 23.09.2018)	6,094	6,188	6,094	6,188	-	-
(16.75% 200,000 Debentures redeemable on 26.03.2018)	-	-	-	-	21,680	21,722

6 FINANCIAL INVESTMENTS (CONT.)

6.6 Corporate Debt (Cont.)

6.6.1 Debentures - Quoted (Cont.)

As at 31st December,	Group 2014 Carrying Value Rs.'000	Group 2014 Fair Value Rs.'000	Company 2014 Carrying Value Rs.'000	Company 2014 Fair Value Rs.'000	Company 2013 Carrying Value Rs.'000	Company 2013 Fair Value Rs.'000
Richard Pieris and Company PLC	**58,777**	**56,390**	**50,328**	**48,170**	**-**	**-**
(10.75% 31,100 Debentures redeemable on 16.05.2017)	3,193	3,110	3,193	3,110	-	-
(11.00% 124,000 Debentures redeemable on 16.05.2018)	12,740	12,400	9,689	9,430	-	-
(11.25% 408,800 Debentures redeemable on 16.05.2019)	42,844	40,880	37,446	35,630	-	-
Sampath Bank PLC	**149,439**	**147,633**	**146,428**	**144,633**	**121,611**	**116,841**
(16.50% 283,100 Debentures redeemable on 11.10.2017)	32,972	32,364	32,972	32,364	32,971	28,310
(13.40% 363,400 Debentures redeemable on 04.12.2018 *2013 - 877,700)	41,196	39,981	41,196	39,981	88,640	88,531
(8.25% 750,000 Debentures redeemable on 14.12.2019)	75,271	75,288	72,260	72,288	-	-
Seylan Bank PLC	**182,077**	**185,300**	**182,077**	**185,300**	**135,899**	**120,000**
(15.50% 900,000 Debentures redeemable on 21.02.2018 *2013 - 1,200,000)	101,924	105,300	101,924	105,300	135,899	120,000
(8.60% 300,000 Debentures redeemable on 22.02.2019)	30,057	30,000	30,057	30,000	-	-
(8.75% 500,000 Debentures redeemable on 23.12.2020)	50,096	50,000	50,096	50,000	-	-
Singer (Sri Lanka) PLC	**103,912**	**104,405**	**103,912**	**104,405**	**77,121**	**75,211**
(17.00% 302,170 Debentures redeemable on 30.09.2015)	30,217	30,211	30,217	30,211	30,476	30,211
(14.50% 180,000 Debentures redeemable on 29.05.2015)	18,658	18,401	18,658	18,401	18,658	18,000
(14.50% 270,000 Debentures redeemable on 29.05.2016)	27,987	28,793	27,987	28,793	27,987	27,000
(8.25% 270,000 Debentures redeemable on 23.12.2019)	27,050	27,000	27,050	27,000	-	-
Siyapatha Finance PLC	**100,171**	**100,000**	**100,171**	**100,000**	**-**	**-**
(8.90% 1,000,000 Debentures redeemable on 24.12.2019)	100,171	100,000	100,171	100,000	-	-
Softlogic Finance PLC	**31,148**	**30,390**	**31,148**	**30,390**	**-**	**-**
(10.00% 303,900 Debentures redeemable on 29.08.2019) *2013 - 920,000	31,148	30,390	31,148	30,390	-	-
Softlogic Holdings PLC	**112,795**	**118,269**	**112,796**	**118,269**	**95,613**	**92,000**
(15.75% 1,070,000 Debentures redeemable on 09.09.2016)	112,795	118,269	112,796	118,269	95,613	92,000
Urban Development Authority	**115,401**	**104,483**	**115,401**	**104,483**	**115,401**	**112,319**
(11.00% 1,124,200 Debentures redeemable on 05.10.2015)	115,401	104,483	115,401	104,483	115,401	112,319
Total Investment in Quoted Debentures	2,584,318	2,554,027	2,497,404	2,470,279	1,835,515	1,756,077

6.6.2 Debentures - Unquoted - Group & Company

As at 31st December	2014 Carrying Value Rs.'000	2014 Fair Value Rs.'000	2013 Carrying Value Rs.'000	2013 Fair Value Rs.'000
Abans PLC	**25,825**	**26,670**	**25,927**	**26,491**
(13.50% 25,000 Debentures redeemable on 01.03.2016)	25,825	26,670	25,927	26,491
National Development Bank PLC	**40,000**	**39,808**	**40,100**	**40,669**
(3 Months Gross T.Bill +1% 40,000 Debentures redeemable on 30.06.2016)	40,000	39,808	40,100	40,669
People's Leasing & Finance PLC	**75,587**	**76,567**	**79,424**	**80,757**
(11.70% 750,000 Debentures redeemable on 30.06.2015)	75,587	76,567	79,424	80,757
Singer (Sri Lanka) PLC	**50,269**	**51,410**	**50,268**	**53,027**
(15.50% 490,000 Debentures redeemable on 09.05.2015)	50,269	51,410	50,268	53,027
Siyapatha Finance PLC	**51,940**	**53,713**	**62,440**	**66,185**
(16.65% 350,000 Debentures redeemable on 31.07.2015)	37,922	39,168	37,922	40,372
(12.25% 14,000 Debentures redeemable on 31.12.2015 *2013 - 27,500)	14,018	14,545	24,518	25,813
Total Investment in Unquoted Debentures	243,621	248,167	258,159	267,129

6.6.3 Commercial Paper - Group & Company

As at 31st December	2014 Carrying Value Rs.'000	2014 Fair Value Rs.'000	2013 Carrying Value Rs.'000	2013 Fair Value Rs.'000
People's Leasing & Finance PLC	-	-	16,655	16,885
Merchant Bank of Sri Lanka & Finance PLC	-	-	43,717	44,421
Total Investment in Commercial Paper	-	-	60,372	61,306

6 FINANCIAL INVESTMENTS (CONT.)

6.7 Equity Shares - Group & Company

Available for Sale (AFS)

As at 31st December,	2014 No. of Shares	2014 Carrying Value/ Fair Value Rs.'000	2013 No. of Shares	2013 Carrying Value/ Fair Value Rs.'000
Banks, Finance and Insurance				
Seylan Bank PLC - (Non Voting)	297,000	17,078	-	-
Sampath Bank PLC	67,000	15,832	-	-
Sector Total		32,910		-
Diversified Holdings				
Vallibel One PLC	301,877	7,215	-	-
Sector Total		7,215		-
Manufacturing				
Tokyo Cement Company (Lanka) PLC	404,843	26,274	-	-
Royal Ceramics Lanka PLC	83,000	9,704	-	-
Sector Total		35,978		-
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	9,883	2,075	-	-
Sector Total		2,075		-
Power and Energy				
Lanka IOC PLC	345,000	20,700	-	-
Sector Total		20,700		-
Land and Property				
Overseas Reality (Ceylon) PLC	544,669	14,325	-	-
Sector Total		14,325		-
Total Investment in Equity shares - AFS		113,203		-

6.8 Equity Shares - Group & Company

Fair Value Through Profit or Loss (FVTPL)

As at 31st December,	2014		2013	
	No. of Shares	Carrying Value/ Fair Value Rs.'000	No. of Shares	Carrying Value/ Fair Value Rs.'000
Banks, Finance and Insurance				
National Development Bank PLC	78,200	19,550	78,200	12,551
Sampath Bank PLC	78,422	18,531	78,422	13,480
Nations Trust Bank PLC	253,261	24,566	275,000	17,105
DFCC Bank PLC	30,000	6,570	30,000	3,870
Peoples Leasing & Finance PLC	912,800	22,364	932,800	12,500
Seylan Bank PLC - (Non Voting)	390,283	22,440	410,283	12,719
Commercial Bank of Ceylon PLC	-	-	34,627	4,169
Sector Total		114,021		76,394
Diversified Holdings				
John Keells Holdings PLC	47,494	11,874	91,794	20,865
John Keells Holdings PLC - Warrants 2015	-	-	4,078	326
John Keells Holdings PLC - Warrants 2016	-	-	4,078	385
Richard Pieris and Company PLC	962,851	8,184	1,375,000	8,663
Hemas Holdings PLC	71,700	5,327	321,000	10,913
Vallibel One PLC	375,000	8,963	375,000	6,188
Sector Total		34,348		47,340
Manufacturing				
Royal Ceramics Lanka PLC	128,000	14,963	183,000	15,482
Dipped Products PLC	19,500	2,789	19,500	1,755
ACL Cables PLC	50,000	3,820	50,000	3,245
Tokyo Cement Company (Lanka) PLC	461,359	29,942	443,202	12,631
Kelani Cables PLC	44,300	3,960	44,300	3,278
Chevron Lubricants Lanka PLC	-	-	12,599	3,374
Sector Total		55,474		39,765

6 FINANCIAL INVESTMENTS (CONT.)

6.8 Equity Shares - Group & Company (Cont.)

Fair Value Through Profit or Loss (FVTPL)

As at 31st December,	2014 No. of Shares	2014 Carrying Value/ Fair Value Rs.'000	2013 No. of Shares	2013 Carrying Value/ Fair Value Rs.'000
Hotels and Travels				
Palm Garden Hotels PLC	23,000	1,840	23,000	1,440
Dolphin Hotels PLC	-	-	59,900	2,690
John Keells Hotels PLC	-	-	92,700	1,158
The Lighthouse Hotel PLC	-	-	21,400	942
Sector Total		1,840		6,230
Chemicals and Pharmaceuticals				
CIC Holdings PLC	185,000	15,725	95,000	4,551
Haycarb PLC	20,500	3,547	20,500	3,890
Sector Total		19,272		8,441
Power and Energy				
Laugfs Gas PLC	-	-	135,000	3,834
Sector Total		-		3,834
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	60,000	12,600	60,000	11,580
Sector Total		12,600		11,580
Investment Trusts				
Renuka Holdings PLC	-	-	50,877	1,557
Sector Total		-		1,557
Construction and Engineering				
Access Engineering PLC	255,000	8,186	-	-
Sector Total		8,186		-
Total Investment in Equity Shares - FVTPL		245,741		195,141

6.9 Investments in Units - Group & Company

6.9.1 Fair Value Through Profit or Loss (FVTPL)

As at 31st December,	2014 No. of Units	2014 Carrying Value/ Fair Value Rs.'000	2013 No. of Units	2013 Carrying Value/ Fair Value Rs.'000
Quoted				
NAMAL Acuity Value Fund	114,400	10,307	114,400	7,608
Total Investment in Quoted Units		10,307		7,608

As at 31st December,	2014		2013	
	No. of Units	Carrying Value Rs.'000	No. of Units	Carrying Value Rs.'000
Unquoted				
Ceybank Savingsplus Money Market Fund	1,800,000	18,797	1,800,000	19,164
Ceylon Income Fund	2,686,703	37,721	2,686,703	35,481
First Capital Wealth Fund	56,111	70,790	3,851	4,420
NAMAL High Yield Fund	2,686,567	36,940	2,686,567	34,389
Eagle Income Fund	969,932	10,211	969,932	10,436
Comtrust Money Market Fund	383,877	4,375	383,877	4,123
Guardian Acuity Fixed Income Fund	4,155,034	49,777	1,998,002	23,317
Comtrust ADL Mudarbah Fund	96,781	1,015	-	-
Total Investment in Unquoted Units Carried at FVTPL		229,626		131,330
Total Investments in Units		239,933		138,938

6.10 Movement in the Carrying Values of Financial Investments - Group

	Held to Maturity Rs.'000	Loans and Receivable Rs.'000	Available for Sale Rs.'000	Fair Value Through Profit or Loss Rs.'000	Total Rs.'000
As at 1st January 2013	1,567,968	2,747,869	973,680	414,349	5,703,866
Purchases	-	74,560,466	692,313	8,936	75,261,715
Maturities	(759,469)	(73,011,129)	(440,074)	(52,625)	(74,263,297)
Disposals		-	(737,761)	(51,833)	(789,594)
Fair value gains / foreign currency translations recorded in the Income Statement		4,982	-	7,232	12,214
Amortisation adjustment / Accrued Interest	123,181	443,602	118,666	1,381	686,830
Realised gains recorded in the Income Statement			45,838	6,639	52,477
Fair value gains recorded in Other Comprehensive Income Statement		-	(7,773)	-	(7,773)
As at 31st December 2013	931,680	4,745,790	644,889	334,079	6,656,438
As at 1st January 2014	931,680	4,745,790	644,889	334,079	6,656,438
Purchases	-	106,516,051	1,919,298	99,065	108,534,414
Maturities	(223,999)	(106,245,147)	(429,269)	-	(106,898,415)
Disposals	-	(181,530)	(764,012)	(58,667)	(1,004,209)
Fair value gains / foreign currency translations recorded in the Income Statement	-	253	-	98,991	99,244
Amortisation adjustment / Accrued Interest	74,986	547,316	112,872	-	735,174
Realised gains recorded in the Income Statement	-	26,228	69,722	12,206	108,156
Fair value gains recorded in Other Comprehensive Income Statement	-	-	47,093	-	47,093
As at 31st December 2014	**782,667**	**5,408,961**	**1,600,593**	**485,674**	**8,277,895**

6 FINANCIAL INVESTMENTS (CONT.)

6.11 Movement in the Carrying Values of Financial Investments - Company

	Held to Maturity Rs.'000	Loans and Receivable Rs.'000	Available for Sale Rs.'000	Fair Value Through Profit or Loss Rs.'000	Total Rs.'000
As at 1st January 2013	1,567,968	2,747,869	973,680	414,349	5,703,866
Purchases	-	74,560,466	692,313	8,936	75,261,715
Maturities	(759,469)	(73,011,129)	(440,074)	(52,625)	(74,263,297)
Disposals		-	(737,761)	(51,833)	(789,594)
Fair value gains / foreign currency translations recorded in the Income Statement		4,982	-	7,232	12,214
Amortisation adjustment / Accrued Interest	123,181	443,602	118,666	1,381	686,830
Realised gains recorded in the Income Statement			45,838	6,639	52,477
Fair value gains recorded in Other Comprehensive Income Statement		-	(7,773)	-	(7,773)
As at 31st December 2013	931,680	4,745,790	644,889	334,079	6,656,438
As at 1st January 2014	931,680	4,745,790	644,889	334,079	6,656,438
Purchases	-	104,533,682	1,872,886	99,065	106,505,633
Maturities	(223,999)	(104,344,809)	(427,869)	-	(104,996,677)
Disposals	-	(181,530)	(733,777)	(58,667)	(973,974)
Fair value gains / foreign currency translations recorded in the Income Statement	-	253	-	98,991	99,244
Amortisation adjustment / Accrued Interest	74,986	542,433	111,042	-	728,461
Realised gains recorded in the Income Statement	-	26,228	66,684	12,206	105,118
Fair value gains recorded in Other Comprehensive Income Statement	-	-	47,026	-	47,026
As at 31st December 2014	**782,667**	**5,322,047**	**1,580,881**	**485,674**	**8,171,269**

7. INVESTMENT IN SUBSIDIARY - COMPANY

As at 31st December, Unquoted	Principal Activity	2014 Cost Rs.'000	2014 Directors' Valuation Rs.'000	2013 Cost Rs.'000	2013 Directors' Valuation Rs.'000
HNB General Insurance Ltd.	General Insurance Business	100,000	107,574	-	-
Balance as at 31st December		100,000	107,574	-	-

7.1 The Directors' valuation of investment in subsidiary has been carried out on Net Asset basis as at the reporting date.

7.2 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. 1st 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.

HNB Assurance PLC invested Rs. 100 Million in line with the regulatory requirements in the said subsidiary company on 20th March 2014. The subsidiary company, HNB General Insurance Ltd., did not have any commercial operations as at the reporting date except for the investments made using the Stated Capital.

7.3 HNB Assurance PLC invested further Rs. 900 Million in HNB General Insurance Ltd on 1st January 2015 in order to meet the regulatory and business capital requirements.

Having obtained the relevant approvals and licence to operate as a General Insurance Company, HNB General Insurance Ltd took over the General Insurance Business of HNB Assurance PLC w.e.f. 1st January 2015 onwards. HNB General Insurance Ltd has fulfilled all the regulatory and other requirements to operate as a General Insurance Company.

8. LOANS TO LIFE POLICYHOLDERS - GROUP & COMPANY

As at 31st December,	2014 Rs.'000	2013 Rs.'000
Balance as at 1st January	47,208	26,158
Loans granted during the Year	33,325	30,175
Repayments during the year	(18,881)	(9,125)
Balance as at 31st December	61,652	47,208
Interest Receivable	9,430	6,448
Total Loans to Life Policyholders	71,082	53,656

8.1 The surrender value of the policies for which policy loans have been granted as at 31st December 2014 amounted to Rs. 124.3 Million (2013: Rs. 88.2 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 subjected 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 2014 was 1,814 (2013 - 1,460)

8.3 Impairment Losses on Loans to Life Policyholders

The Board of Directors has assessed potential impairment loss of loans to Life Policyholders as at 31st December 2014. 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.

9. REINSURANCE RECEIVABLES - GROUP & COMPANY

As at 31st December,		2014 Rs.'000	2013 Rs.'000
Reinsurance Receivable on Outstanding Claims	(Note 9.1)	96,580	70,655
Reinsurance Receivable on Settled Claims	(Note 9.2)	65,680	34,735
Total Reinsurance Receivables		162,260	105,390

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. REINSURANCE RECEIVABLES - GROUP & COMPANY (CONT.)

9.2 The age analysis of the reinsurance receivable on settled claims is as follows:

	2014 Rs.'000	2013 Rs.'000
Up to 30 days	34,608	2,917
31 to 60 days	10,076	20,979
61 to 90 days	11,611	4,012
91 to 180 days	8,242	6,766
181 to 365 days	1,143	61
	65,680	34,735

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 2014. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Reinsurance Receivables. Please refer note no. 44 (Pages No. 350 to 369) for Reinsurance rating analysis.

10. PREMIUM RECEIVABLES - GROUP & COMPANY

As at 31st December,		2014 Rs.'000	2013 Rs.'000
Premium Receivable from;			
General Insurance			
Policyholders		179,192	157,771
Related Parties	(Note 10.1)	7,157	11,563
Agents, Brokers and Intermediaries		170,759	125,138
		357,108	294,472
Life Insurance			
Policyholders	(Note 10.2)	13,641	14,204
Provision for Premium Default		(6,698)	(7,494)
		6,943	6,710
Total Premium Receivables		364,051	301,182

10.1 Premium Receivable from Related Parties

	2014	2013
General Insurance		
Hatton National Bank PLC	6,687	11,342
Others	470	221
	7,157	11,563

10.2 The Company has opted to record the Life Insurance premium on an accrual basis in terms of SLFRS No. 4, Insurance Contracts from the year ended 31st December 2012. The Life Insurance premiums for policies within the 30 day grace period are considered as due premium, subject to a provision for premium default. Premium Default ratio is computed by analysing the default history. Commission cost and reinsurance premium relating to that accrued income are also been recorded in the same manner.

10.3 Impairment Losses on Premium Receivables

The Board of Directors has assessed potential impairment loss of premium receivable as at 31st December 2014. Since the Company 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, it is felt 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,	2014 Rs.'000	2013 Rs.'000
Up to 30 days	231,232	209,190
31 to 60 days	132,819	91,755
61 to 90 days	-	237
	364,051	301,182

11. OTHER ASSETS

As at 31st December,		Group 2014 Rs.'000	Company 2014 Rs.'000	2013 Rs.'000
Staff and Agent Loans	(Note 11.1)	283,242	283,242	239,445
Advance Payments		79,154	79,154	73,536
Advance paid for Acquisition of Software		30,330	30,330	16,089
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note 11.2)	254,662	254,352	232,590
Co - Insurance Receivables		5,811	5,811	5,575
Inventories		2,563	2,563	1,009
Other receivables		27,387	27,187	6,936
		683,149	682,639	575,180

11.1. Staff and Agent Loans - Group & Company

As at 31st December,		2014 Rs.'000	2013 Rs.'000
Staff Loans	(Note 11.1.b.)	242,330	208,292
Agent Loans	(Note 11.1.c.)	40,912	31,153
		283,242	239,445

11.1.a. The Carrying value of the staff and agent loans has been computed based on the market interest rates which prevailed at the time of granting the loan, and the fair value of the same has been computed based on the interest rates that prevailed at the reporting date.

11. OTHER ASSETS (CONT.)

11.1. Staff and Agent Loans - Group & Company (Cont.)

11.1.b. Staff Loans - Group & Company

As at 31st December,	2014 Rs.'000	2013 Rs.'000
Balance as at 1st January	199,914	161,350
Loans granted during the year	131,066	132,639
	330,980	293,989
Repayments during the year	(100,461)	(94,075)
Balance as at 31st December	230,519	199,914
Allowance for Impairment Losses	(2,622)	(1,513)
Fair Value Adjustment on Staff Loan	14,433	9,891
Fair value of the loans as at 31st December	242,330	208,292

11.1.c. Agent Loans - Group & Company

	2014 Rs.'000	2013 Rs.'000
Balance as at 1st January	32,031	26,920
Loans granted during the year	40,067	26,267
	72,098	53,187
Repayments during the year	(30,391)	(21,156)
Balance as at 31st December	41,707	32,031
Allowance for Impairment Losses	(487)	(487)
Fair Value Adjustment on Advisor Loan	(308)	(391)
Fair value of the loans as at 31st December	40,912	31,153

11.1.d. Impairment Losses on Staff and Agent Loans

The Board of Directors has assessed potential impairment loss of Staff and Agent loans as at 31st December 2014. 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 Agent loans, other than the amounts provided.

Loans to staff and agents portfolio is 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.

11.1.e. Loans of any type are not granted to Directors of the Company.

11.2 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

		Group	Company	
As at 31st December,		2014 Rs.'000	2014 Rs.'000	2013 Rs.'000
Withholding Tax Recoverable (WHT)		101,418	101,413	70,247
Value Added Tax Recoverable		218	218	932
Notional Tax on Government Securities	(Note 11.2.a.)	153,026	152,721	161,411
		254,662	254,352	232,590

11.2.a Notional Tax on Government Securities

	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Balance as at 1st January	161,411	161,411	172,953
Notional tax additions during the year	26,758	26,453	32,192
Notional tax utilised during the year	(35,143)	(35,143)	(43,734)
Balance as at 31st December	153,026	152,721	161,411

12 INSURANCE CONTRACT - DEFERRED EXPENSES - GROUP & COMPANY

As at 31st December,		2014 Rs.'000	2013 Rs.'000
Reserve for Net Deferred Acquisition Expenses			
Reserve for Deferred Acquisition Expenses			
Balance as at 1st January		70,022	70,871
Increase/(Decrease) in Deferred Acquisition Expenses	(Note No. 37.1)	27,251	(849)
Balance as at 31st December		97,273	70,022
Reserve for Deferred Reinsurance Commission			
Balance as at 1st January		(37,110)	(50,903)
Increase/(Decrease) in Deferred Acquisition Expenses	(Note No. 37.1)	(8,091)	13,793
Balance as at 31st December		(45,201)	(37,110)
Total Reserve for Net Deferred Acquisition Expenses		52,072	32,912

13. CASH AND CASH EQUIVALENTS

		Group	Company	
As at 31st December,		2014 Rs.'000	2014 Rs.'000	2013 Rs.'000
Cash in Hand		1,631	1,631	1,007
Cash at Bank with Related Parties - Hatton National Bank PLC		143,542	141,514	118,520
Cash at Bank with Licensed Commercial Banks		14,624	14,624	21,156
		159,797	157,769	140,683
Short Term Deposits	(Note 13.1)	13,448	13,448	3,404
Total Cash and Cash Equivalents		173,245	171,217	144,087

13.1 Short Term Deposits

With Related Parties - Hatton National Bank PLC	13,448	13,448	210
Others	-	-	3,194
	13,448	13,448	3,404

14 STATED CAPITAL - COMPANY

As at 31st December,	2014		2013	
	Number of Shares	Rs.'000	Number of Shares	Rs.'000
Balance as at 1st January	50,000,000	1,171,875	50,000,000	1,171,875
Balance as at 31st December	50,000,000	1,171,875	50,000,000	1,171,875

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 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Balance as at 1st January	941,820	941,820	690,197
Profit for the Year	417,726	409,719	389,123
Share Issue Transaction Cost - Subsidiary	(500)	-	-
Dividend Paid for previous year	(162,500)	(162,500)	(137,500)
Balance as at 31st December	1,196,546	1,189,039	941,820

16 AVAILABLE FOR SALE RESERVES

	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Balance as at 1st January	1,427	1,427	6,209
Other Comprehensive Income for the year	47,093	47,026	(7,773)
Transferred to Life Policyholders Reserve Fund	(44,930)	(44,930)	2,991
Balance as at 31st December	3,590	3,523	1,427

16.1 Available for Sale Reserves consist of the impact arising from the changes in market values of Financial Assets classified under Available for Sale (AFS).

17 OTHER RESERVES - GROUP & COMPANY

	2014 Rs.'000	2014 Rs.'000	2013 Rs.'000
Balance as at 1st January	2,172	2,172	-
Actuarial Gains/(Losses) - Gratuity	(995)	(995)	2,172
Balance as at 31st December	1,177	1,177	2,172

17.1 Other Reserves consist of the Actuarial Gains/(Losses) arising from valuation of Gratuity Liability as required by LKAS 19 - Employee Benefits (Effective w.e.f. 1st January 2013)

18 LIFE POLICYHOLDERS' RESERVE - GROUP & COMPANY

	2014 Rs.'000	2014 Rs.'000	2013 Rs.'000
Balance as at 1st January	(4,182)	(4,182)	(1,191)
Other Comprehensive Income for the Year	44,930	44,930	(2,991)
Balance as at 31st December	40,748	40,748	(4,182)

18.1 The Life Policyholder Reserve Fund includes the initial impact of the implementation of SLFRS/LKAS's w.e.f. 1st January 2012 and the fair value gains and losses recorded under Other Comprehensive Income in respect of Life Insurance related to Available for Sale financial assets since then.

19. INSURANCE CONTRACT LIABILITIES - LIFE - GROUP & COMPANY

As at 31st December,		2014 Rs.'000	2013 Rs.'000
Life Insurance Fund	(Note 19.1)	5,464,009	4,271,736
Claims Outstanding		98,639	76,754
		5,562,648	4,348,490

19.1 Life Insurance Fund

The movement in the Life Insurance Fund is as follows:

	2014 Rs.'000	2013 Rs.'000
Balance as at 1st January	4,271,736	3,546,907
Change in Contract Liabilities - Life Fund		
Increase in Life Insurance Fund Before Surplus Distribution to Shareholders	1,420,294	906,318
Surplus Distributed to Shareholders	(228,021)	(181,489)
Increase in Life Insurance Fund	1,192,273	724,829
Balance as at 31st December	5,464,009	4,271,736

Long duration contract liabilities included in the Life Insurance Fund, result primarily from traditional participating and non-participating Life Insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products. The actuarial reserves have been established based upon the following.

- interest rates which vary by product and as required by regulations issued by the Insurance Board of Sri Lanka.

- mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the Insurance Board of Sri Lanka

- surrender rates based upon actual experience.

The valuation of the Life Insurance business as at 31st December 2014 was made by Mr. M Poopalanathan, (AIA), of M/S Actuarial and Management Consultants (Pvt.) Ltd. In accordance with the Consultant Actuary's report, the reserve for the year amounted to Rs. 4,930.8 Million (2013 - Rs. 3,942.8 Million). In the opinion of the Consultant Actuary, the reserve is adequate to cover the liabilities pertaining to the Life Insurance business.

In the opinion of the Actuary, the Life Insurance Fund as included in the Audited Financial Statements exceeds the required actuarial reserves as at 31st December 2014 by Rs.761.2 Million (2013 - Rs. 510.4 Million) before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders. As recommended by the consultant Actuary a sum of Rs. 228 Million (2013 - Rs.181.5 Million) has been transferred from the Life Insurance Fund to the Shareholders Fund as for the year 2014.

Further, the Actuary has estimated that the solvency margin required including the solvency margin for the new reversionary bonus allotted as at 31st December 2014 under the Regulation of Insurance Industry Act, No. 43 of 2000 as Rs. 252 Million (2013 - Rs. 201.7 Million)

19.2 Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Life Insurance contract Liability was carried out by Mr. John C.Vieren, FSA, MAA, of M/S The Pinnacle Consulting Group Limited as at 31st December 2014 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 2014. No additional provision was required against the LAT as at 31st December 2014.

20. INSURANCE CONTRACT LIABILITIES - GENERAL - GROUP & COMPANY

The General Insurance Reserves as shown in the Statement of Financial Position represents the following:

	As at 31st December,		2014 Rs.'000	2013 Rs.'000
	Reserves for Net Unearned Premium	(Note No. 20.1)	977,827	753,237
	Reserves for Title Insurance	(Note No. 20.2)	16,866	22,370
	Reserves for Gross Outstanding Claims	(Note No. 20.3)	284,445	235,495
	Total		1,279,138	1,011,102
20.1	Reserves for Net Unearned Premium			
20.1.a.	Reserves for Unearned Premium			
	Balance as at 1st January		936,283	845,279
	Transfer during the Year	(Note No. 27)	250,869	91,004
	Balance as at 31st December		1,187,152	936,283
20.1.b.	Reserves for Unearned Reinsurance Premium			
	Balance as at 1st January		(183,046)	(169,635)
	Transfer during the Year	(Note No. 27)	(26,279)	(13,411)
	Balance as at 31st December		(209,325)	(183,046)
	Total Reserves for Net Unearned Premium		977,827	753,237
20.2	Reserves for Title Insurance			
20.2.a.	Reserves for Title Insurance			
	Balance as at 1st January		22,370	20,446
	Transfer to Title Insurance Reserve	(Note No. 27)	8,031	4,951
	Recognition of Title Insurance Profit		(13,535)	(3,027)
	Balance as at 31st December		16,866	22,370
20.2.b.	Reserves for Unexpired Risk Reserve		-	-
	Total Reserves for Title Insurance		16,866	22,370
20.3	Reserves for Gross Outstanding Claims			
	Balance as at 1st January		182,148	240,350
	Claims Incurred during the Year		1,281,145	943,036
	Claims Paid during the Year		(1,235,064)	(1,001,238)
	Balance as at 31st December		228,229	182,148
	IBNR / IBNER balance as at 1st January		53,347	32,923
	Increase in IBNR / IBNER		2 ,869	20,424
	IBNR / IBNER balance as at 31st December		56,216	53,347
	Total Reserves for Gross Outstanding Claims		284,445	235,495

20.4 Reconciliation between Insurance Provision and Technical Reserves

As at 31st December,		2014 Rs.'000	2013 Rs.'000
Insurance Provision		1,279,138	1,011,102
Reserve for Net Deferred Acquisition Expenses	(Note No.12)	(52,072)	(32,912)
Reinsurance on Claims Reserves		(53,695)	(27,499)
Reinsurance on Claims Reserves IBNR/IBNER		(23,049)	(25,979)
Technical Reserves		1,150,322	924,712

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 Title insurance policies. During the year, the Company recognised Rs. 13.5 Million (2013: Rs. 3 Million) as profit from Title Insurance. (Please refer Note 2.1.4.3 for the Accounting Policy on 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 can not 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 2014 has been actuarially computed by Mr. Matthew Maguire, FIAA, for and on behalf of NMG Financial Services Consulting Pte Limited. The valuation is based on internationally accepted actuarial methods and is performed on a semi annual basis.

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 2014 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on a semi annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31st December 2014. No additional provision was required against the LAT as at 31st December 2014.

21. EMPLOYEE DEFINED BENEFIT LIABILITIES - GROUP & COMPANY

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,	2014 Rs.'000	2013 Rs.'000
Employees' Provident Fund		
Employer's contribution (12%)	41,348	35,196
Employees' contribution (8%)	27,565	23,464
Employees' Trust Fund (3%)	10,337	8,799

21.2 Defined benefit plans - Provision for Employee Benefits

		2014 Rs.'000	2013 Rs.'000
Present value of unfunded obligation	(Note 21.2.1)	71,493	56,637
		71,493	56,637
21.2.1 Movement in the present value of the Employee Benefits			
Balance as at 1st January		56,637	42,360
Provision recognised during the year	(Note 21.2.1.a)	19,050	18,739
Actuarial (gains)/losses during the plan year	(Note 21.2.1.b)	995	(2,172)
		76,682	58,927
Payments during the year		(5,189)	(2,290)
Balance as at 31st December		71,493	56,637
21.2.1.a Provision recognised in the Statement of Comprehensive Income			
Current service cost		13,604	13,789
Interest on obligation		5,446	4,950
		19,050	18,739
21.2.1.b Provision recognised in the Statement of Other Comprehensive Income			
Actuarial (gains)/losses during the plan year	(Note 21.2.2.)	995	(2,172)
		995	(2,172)

As at 31st December 2014, the Gratuity liability was actuarially valued under the Projected Unit Credit (PUC) method by Mr. Hugh Terry (Fellow of the Institute of Actuaries, U.K.), Consultant Actuary as required by Sri Lanka Accounting Standard (LKAS) 19 - Employee Benefits.

21.2.2. Upto the year ended 31st December 2012, the Company recognised all actuarial gains or losses arising from defined benefit plans immediately against profit or loss in the statement of Comprehensive Income including all expenses related to defined plans in employee benefit expense. With the adoption of revised LKAS 19 - Employee Benefits which became effective from 1st January 2013, the re-measurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised in Other Comprehensive Income.

21.3 Principal assumptions used

	2014	2013
(a) Discount Rate	8.5%	10%
(b) Future Salary Increase Rate	7.5%	9%
(c) Staff Turnover Rate Early withdrawal through Resignations		
- i) Less than 5 years	18%	18%
- ii) More than 5 years	7.5%	7.5%
(d) Retirement Age	55 years	55 years

The Gratuity Liability is not externally funded.

21.5 Maturity Analysis of the Payments

	2014 Rs.'000	2013 Rs.'000
Within next 12 Months	5,075	3,870
Between 2 to 3 Years	13,981	12,386
Between 4 to 5 Years	18,756	14,779
More than 5 Years	33,681	25,602
	71,493	56,637

21.6 Sensitivity of assumptions employed in Actuarial valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held consistent in the employment benefit liability measurement.

2014			
Increase/(Decrease) in discount rate	Increase/(Decrease) in Salary Increment	Effect on Employee defined benefit liability Rs'000	Employee defined benefit liability Rs'000
1%	-	(5,200)	66,300
(1%)	-	5,200	76,700
-	1%	5,300	76,800
-	(1%)	(5,300)	66,200

22. CURRENT TAX LIABILITIES

As at 31st December,	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Balance as at 1st January	35,143	35,143	42,950
Current tax for the year	12,012	10,422	35,143
(Over)/under provision pertaining to previous year	-	-	829
	47,155	45,565	78,922
Tax set off during the year			
Economic service charge	-	-	(45)
Notional tax on Government securities	(35,143)	(35,143)	(43,734)
Balance as at 31st December	12,012	10,422	35,143

23. REINSURANCE CREDITORS - GROUP & COMPANY

As at 31st December,	2014 Rs.'000	2013 Rs.'000
Domestic Reinsurer - National Insurance Trust Fund (NITF)	36,493	50,232
Foreign Reinsurers	74,285	50,649
	110,778	100,881

24. OTHER LIABILITIES - GROUP & COMPANY

		2014	2013
Policyholders Advance Payments		72,932	62,207
Acquisition Cost Payable		81,740	67,339
Advisor Terminal Benefit Scheme	(Note 24.1)	87,943	96,256
Government Levies		28,519	28,285
Amounts due to Related Parties	(Note 24.2)	14,385	6,758
Accrued Expenses		53,588	19,266
Co - Insurance Payable		3,901	1,639
Claims payable		137	173
Others		167,323	112,375
Total Other Liabilities		510,468	394,298

24.1 Advisor Terminal Benefit Scheme

	2014	2013
Life Insurance	81,458	91,485
General Insurance	6,485	4,771
	87,943	96,256

24.1.a Advisor Terminal Benefit balances were not Actuarially valued nor externally funded.

24.2 Amounts due to Related Parties

	2014	2013
Hatton National Bank PLC	14,385	6,758
	14,385	6,758

25. GROSS WRITTEN PREMIUM (GWP) - GROUP & COMPANY

For the Year Ended 31st December,	2014				2013			
	Basic	SRCC/TC*	Co-Insurance**	Total	Basic	SRCC/TC*	Co-Insurance**	Total
General Insurance	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Fire	251,760	97,485	(5,175)	344,070	240,447	82,531	(5,260)	317,718
Motor	1,406,664	261,757	-	1,668,421	1,099,330	187,336	-	1,286,666
Marine	34,052	12	(258)	33,806	24,060	189	(938)	23,311
Miscellaneous	269,904	12,588	(6,038)	276,454	226,224	13,986	(4,722)	235,488
Gross Written Premium - General Insurance	1,962,380	371,842	(11,471)	2,322,751	1,590,061	284,042	(10,920)	1,863,183

For the Year Ended 31st December,	2014 Rs.'000	2013 Rs.'000
Life Insurance		
Individual Policies	2,307,315	1,983,698
Corporate Policies	35,552	30,849
Gross Written Premium - Life Insurance	2,342,867	2,014,547
Total Gross Written Premium	4,665,618	3,877,730

* SRCC – Strike Riot and Civil Commotion Cover and TC – Terrorism Cover; both ceded to the SRCC and TC Fund.

** Co-Insurance is an arrangement to share risks with a 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 - GROUP & COMPANY

For the Year Ended 31st December,	2014 Rs.'000	2013 Rs.'000
General Insurance		
Fire	305,114	281,395
Motor	52,567	40,379
Marine	29,506	20,160
Miscellaneous	86,372	82,273
	473,559	424,207
Life Insurance	127,463	101,798
Total Premium ceded to Reinsurers	601,022	526,005

27. NET CHANGE IN RESERVES FOR UNEARNED PREMIUM - GROUP & COMPANY

General Insurance			
Change in Reserve for Unearned Premium	(Note 20.1.a.)	(250,869)	(91,004)
Change in Reserve for Unearned Reinsurers Premium	(Note 20.1.b.)	26,279	13,411
Transfer to Title Insurance Reserve	(Note 20.2.a.)	(8,031)	(4,951)
Total Net Change in Reserves for Unearned Premium		(232,621)	(82,544)

28. NET EARNED PREMIUM - GROUP & COMPANY

For the Year Ended 31st December,	2014 General Rs.'000	2014 Life Rs.'000	2014 Total Rs.'000	2013 General Rs.'000	2013 Life Rs.'000	2013 Total Rs.'000
Gross Written Premium	2,322,751	2,342,867	4,665,618	1,863,183	2,014,547	3,877,730
Change in reserve for unearned premium	(250,869)	-	(250,869)	(91,004)	-	(91,004)
Gross Earned Premium	2,071,882	2,342,867	4,414,749	1,772,179	2,014,547	3,786,726
Premium ceded to Reinsurance	(473,559)	(127,463)	(601,022)	(424,207)	(101,798)	(526,005)
Change in reserve for Reinsurance Premium	26,279	-	26,279	13,411	-	13,411
Gross Reinsurance Premium	(447,280)	(127,463)	(574,743)	(410,796)	(101,798)	(512,594)
Transfer to Title Insurance Reserve	(8,031)	-	(8,031)	(4,951)	-	(4,951)
Total Net Earned Premium	1,616,571	2,215,404	3,831,975	1,356,432	1,912,749	3,269,181

29. INTEREST AND DIVIDEND INCOME

For the Year Ended 31st December,		Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Interest Income	(Note 29.1)	808,970	801,831	766,566
Dividend Income	(Note 29.2)	15,045	15,045	18,611
Total Interest and Dividend Income		824,015	816,876	785,177

29.1 Interest Income

For the Year Ended 31st December,	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Interest Income from Financial Investments - Held to Maturity			
- Treasury Bonds	83,317	83,317	136,759
- Treasury Bills	-	-	109
	83,317	83,317	136,868
Interest Income from Financial Investments - Loans and Receivables			
- Debentures	298,066	294,148	177,917
- Repurchase Agreements on Government Securities	58,854	57,836	51,652
- Commercial Paper	3,058	3,058	16,066
- Promissory Notes	-	-	856
- Fixed Deposits	193,440	193,440	202,313
- Staff, Agents and Policy Loans	44,079	44,079	34,573
	597,497	592,561	483,377

29.1 Interest Income

For the Year Ended 31st December,	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Interest Income from Financial Investments - Available for Sale			
- Treasury Bonds	109,020	108,060	111,400
- Treasury Bills	16,393	15,320	20,450
	125,413	123,380	131,850
Interest Income from Financial Investments - Fair Value Through Profit or Loss			
- Treasury Bonds	-	-	1,534
	-	-	1,534
Interest Income from Cash and Cash Equivalents	2,743	2,573	12,937
Total Interest Income	808,970	801,831	766,566

29.2 Dividend Income

	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
- Equity Shares	7,503	7,503	8,499
- Investments in Units	7,542	7,542	10,112
Total Dividend Income	15,045	15,045	18,611

30 NET REALISED GAINS

	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Financial Investments - Available for Sale			
Realised Gains			
- Treasury Bonds	69,722	66,684	45,838
	69,722	66,684	45,838
Financial Investments - Fair Value Through Profit or Loss			
Realised Gains			
- Investment in Units	-	-	970
- Equity Shares	12,206	12,206	5,670
	12,206	12,206	6,640
Financial Investments - Loans and Receivables			
- Debentures	26,228	26,228	-
- Foreign Exchange - Term Deposits	667	667	933
	26,895	26,895	933
Total Net Realised Gains	108,823	105,785	53,411

31. NET FAIR VALUE GAINS - GROUP & COMPANY

For the Year Ended 31st December,	2014 Rs.'000	2013 Rs.'000
Financial Investments - Fair Value Through Profit or Loss		
Unrealised Gains		
- Investments in Units	14,995	6,149
- Equity Securities	83,996	1,292
	98,991	7,441
Unrealised Losses		
- Treasury bonds	-	(46)
- Equity Securities	-	(164)
	-	(210)
Financial Investments - Loans and Receivables		
Unrealised Gains		
- Foreign Exchange - Term Deposits	290	5,868
Total Net Fair Value Gains	99,281	13,099

32. FEES AND COMMISSION INCOME - GROUP & COMPANY

Profit commission from Reinsurers	77,429	32,306
Policy Fee	56,224	34,537
Sundry Income	3,307	6,057
Total Fee and Commission Income	136,960	72,900

33. OTHER INCOME - GROUP & COMPANY

Profit / (Loss) on Sale of Property, Plant and Equipment	(174)	3,188
Others	12,540	9,642
Total Other Income	12,366	12,830

34 NET INSURANCE BENEFITS AND CLAIMS PAID - GROUP & COMPANY

For the Year Ended 31st December,	2014			2013		
	Gross Claims Paid Rs.'000	Claims Recovered from Reinsurers Rs.'000	Net Claims Paid Rs.'000	Gross Claims Paid Rs.'000	Claims Recovered from Reinsurers Rs.'000	Net Claims Paid Rs.'000
General Insurance						
Fire	58,538	(47,181)	11,357	84,897	(73,030)	11,867
Motor	971,888	(13,342)	958,546	791,181	(8,938)	782,243
Marine	10,582	(9,329)	1,253	5,676	(4,366)	1,310
Miscellaneous	196,383	(29,997)	166,386	127,522	(22,705)	104,817
Total	1,237,391	(99,849)	1,137,542	1,009,276	(109,039)	900,237
Less : Recoveries from Sale of Salvage			(2,465)			(8,211)
Net General Insurance Claims			1,135,077			892,026
Life Insurance						
Claims - Death, Disability and Hospitalisation	93,261	(24,635)	68,626	102,627	(48,293)	54,334
Surrenders	54,492	-	54,492	38,757	-	38,757
Annuity Payments	4,177	-	4,177	2,406	-	2,406
Policy Maturities	265,861	-	265,861	571,136	-	571,136
Total	417,791	(24,635)	393,156	714,926	(48,293)	666,633
Net Life Insurance Benefits and Claims			393,156			666,633
Total Net Insurance Benefits and Claims Paid			1,528,233			1,558,659

35. NET CHANGE IN INSURANCE CLAIMS OUTSTANDING - GROUP & COMPANY

For the Year Ended 31st December,	2014 Rs.'000	2013 Rs.'000
Gross Change in Insurance Claims Outstanding		
Life Insurance	21,885	(2,578)
General Insurance		
Fire	11,359	(47,912)
Motor	23,253	459
Marine	7,738	1,707
Miscellaneous	8,140	(9,892)
	50,490	(55,638)
Total Gross Change in Insurance Claims Outstanding	72,375	(58,216)
Gross Change in Reinsurance recoverable on Claims Outstanding		
Life Insurance	(2,658)	15,081
General Insurance		
Fire	(9,737)	43,100
Motor	(1,662)	1,795
Marine	(6,998)	(1,765)
Miscellaneous	(6,449)	9,554
	(24,846)	52,684
Total Gross Change in Reinsurance recoverable on Claims Outstanding	(27,504)	67,765
Total Net Change in Insurance Claims Outstanding	44,871	9,549

36. OTHER OPERATING AND ADMINISTRATION EXPENSES

For the Year Ended 31st December,		Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Directors' Emoluments and Post Employment Benefits		2,899	2,899	2,540
Staff Expenses	(Note 36.1)	572,759	572,759	453,100
Administration and Establishment Expense		459,701	459,171	399,789
Selling Expenses		206,543	206,543	173,054
Amortization of Intangible Assets		17,975	17,975	16,029
Depreciation of Property Plant and Equipment		40,330	40,330	36,808
Auditor's Fees and Expenses	(Note 36.2)	2,710	2,660	2,472
Legal Fees		493	493	56
Donations		300	300	300
Total Other Operating and Administration Expenses		1,303,710	1,303,130	1,084,148

36.1 Staff Expenses - Group & Company

For the Year Ended 31st December,	2014 Rs.'000	2013 Rs.'000
Staff Salaries	344,565	293,298
Defined Contribution Plan Costs - EPF	41,348	35,196
Defined Contribution Plan Costs - ETF	10,337	8,799
Defined Benefit Plan Costs - Employee Benefits	19,050	18,739
Other Staff Costs (Travelling, Over-time, Bonus etc.)	157,459	97,068
	572,759	453,100

36.2 Auditor's Fees and Expenses

For the Year Ended 31st December,	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Audit Fees and Expenses	1,872	1,822	1,356
Audit Related Fees	838	838	1,116
	2,710	2,660	2,472

37. UNDERWRITING AND NET ACQUISITION COSTS - GROUP & COMPANY

		2014	2013
Underwriting and Policy Acquisition Costs		616,954	503,724
Reinsurance Commission		(122,968)	(109,521)
Increase in Deferred Acquisition Expenses	(Note 37.1)	(19,160)	(12,944)
Total Underwriting and Net Acquisition Costs		474,826	381,259

37.1 (Increase)/Decrease in Deferred Acquisition Expenses

		2014	2013
Commission income from Reinsurers	(Note 12)	(8,091)	13,793
Commission expenses	(Note 12)	27,251	(849)
		19,160	12,944

38. INCOME TAX EXPENSES

For the Year Ended 31st December,		Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
The major components of income tax expense for the years ended 31st December are as follows :				
Current Income Tax				
Income Tax on Current Year's Profits		12,012	10,422	35,143
Under Provision of Current Taxes in respect of Prior Years		-	-	829
		12,012	10,422	35,972
Deferred Income Tax				
Origination of Deferred Tax Liability		8,845	8,845	(141)
Origination of Deferred Tax Assets		-	-	139
Net Deferred Taxation Charge / (Reversal)	(Note 38.6)	8,845	8,845	(2)
Total Income Tax Expenses		20,857	19,267	35,970

38.1 Reconciliation of effective Tax rate

For the Year Ended 31st December,	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Profit for the year	417,726	409,719	389,123
Income Tax Expenses	12,012	10,422	35,972
Deferred Taxation Charge / (Reversal)	8,845	8,845	(2)
Profit Before Income Tax	438,583	428,986	425,093
at the statutory income tax rate of 28% (2013 :28%)	122,803	120,116	119,026
Income exempt from Tax	(103,060)	(101,963)	(65,127)
Aggregate allowable expenses	(14,794)	(14,793)	(15,470)
Aggregate disallowed expenses	12,675	12,674	15,637
Recognition of previously unrecognised tax losses	(5,612)	(5,612)	(18,923)
Under/(Over) Provision of Current Taxes in respect of Prior Years	-	-	829
Net Deferred Taxation Charge / (Reversal)	8,845	8,845	(2)
Total Income Tax Expenses	20,857	19,267	35,970

38.2 The Company is liable to pay income tax at the rate of 28% of its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto. Current year's Income Tax wholly consists of income tax charge on General Insurance business as Life Insurance does not have an Income Tax Expense so far.

There is no payment due to the Department of Inland Revenue as the tax liability is fully absorbed by payments made in lieu of credit available on the Withholding Tax on Corporate Debt and Notional Tax credits generated from investments in Government Securities.

The tax loss carried forward as at 31st December 2014 is Rs. 3.8 Million (2013: Rs. 23.8 Million) is made as follows:

38. INCOME TAX EXPENSES (CONT.)

38.3 Tax loss analysis (General Insurance)

As at 31st December,	Group 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Balance as at 1st January	23,835	23,835	91,418
Tax losses utilised during the year	(20,043)	(20,043)	(67,583)
Balance as at 31st December	3,792	3,792	23,835

38.3.a As at the year end, total carried forward tax loss from Life business is Rs. 2,641 Million (2013: Rs. 2,047 Million). As per the amendment made to Section 32 of the Inland Revenue Act, any tax losses incurred in the business of Life Insurance on or after 1st April 2007 shall be deducted only to the extent of the statutory income generated in the business of Life Insurance.

38.3.b The Company has received a tax Intimation letter on Life Insurance taxation. However, no assessment has been issued yet on this intimation. The Company is of the strong view that no additional tax liability is arising due to this intimation letter and also we have filed a response highlighting our view, which was done in consultation with Tax Consultants. Even if this tax intimation would materialized against the Company, no additional tax liabilities are required for the Company. However, the tax loss recorded above will come down by Rs. 310 Million.

38.4 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 2014 Rs.'000	Company 2014 Rs.'000	Company 2013 Rs.'000
Balance as at 1 January	161,411	161,411	172,953
Tax credit for the year	26,758	26,453	32,192
Set off against tax liability	(35,143)	(35,143)	(43,734)
	153,026	152,721	161,411

38.5 Deferred Taxation

As at 31st December,		2014 Rs.'000	2013 Rs.'000
Deferred tax assets	(Note 38.5.b)	12,258	20,643
Deferred tax liabilities	(Note 38.5.a)	(21,103)	(20,641)
Net deferred tax asset / liability		(8,845)	2

38.5.a Deferred Tax Liability - Group & Company

	Statement of Financial Position				Statement of Comprehensive Income	
	2014		2013		2014	2013
	Temporary Difference Rs.'000	Tax Effect Rs.'000	Temporary Difference Rs.'000	Tax Effect Rs.'000	Rs.'000	Rs.'000
Property, Plant and Equipment	75,370	21,103	73,717	20,641	462	141

38.5.b Deferred Tax Assets

Employee Benefits	(39,986)	(11,196)	(49,890)	(13,969)	2,773	3,492
Brought Forward Tax Losses	(3,792)	(1,062)	(23,835)	(6,674)	5,612	(3,631)
	(43,778)	(12,258)	(73,725)	(20,643)	8,385	(139)

The Company has utilised tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences in the Life Business. Thus, no deferred tax asset is recognised in the Financial Statements as it is not probable that the future taxable profits will be adequate to utilise the available tax losses fully in the foreseeable future. The unrecognised Deferred Tax asset as at 31st December 2014 in Life Business amounted to Rs.729 Million (2013 - Rs. 575 Million).

39 BASIC EARNINGS PER SHARE (EPS) - GROUP

	Group 2014	Company 2014	Company 2013
Amount used as the numerator:			
Net Profit Attributable to Ordinary Shareholders (Rs. '000)	417,726	409,719	389,123
Number of Ordinary Shares used as the denominator:			
Weighted shares as at 31st December ('000)	50,000	50,000	50,000
Basic Earnings Per Share (Rs.)	8.35	8.19	7.78

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) - COMPANY

		2014	2013
	Dividend per Share (Rs.)	3.75	3.25
40.1	Dividend declared		
	Dividends to Shareholders (Rs.'000)	170,447	148,274
	Tax deducted at source (Rs.'000)	17,053	14,226
		187,500	162,500

40.2 Proposed Dividend for approval at AGM (not recognised as a liability as at 31st December)

The Board of Directors has recommended the payment of a first and final dividend of Rs. 3.75 per share for the year ended 31st December 2014 (2013 - Rs. 3.25/- per share) which is to be approved at the Annual General Meeting to be held on 27th March 2015. 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 2014.

Under the Inland Revenue Amendment Act, No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared from 1st April 2004.

40.3 Compliance with Section 56 and 57 of the Companies act No. 7 of 2007

As required by 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 Section 57, prior to recommending the first and final dividend for the year ended 31st December 2014. A Statement of Solvency completed and duly signed by the Directors on 09th February 2014 has been audited by M/S Ernst & Young Sri Lanka.

40.4 Dividend paid during the year

	2014 Rs.'000	2013 Rs.'000
Final dividend for 2013: Rs. 3.25 per share (2012: Rs. 2.75 per share)	162,500	137,500

41 FINANCIAL ASSETS AND LIABILITIES

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:

41.1.a Financial Assets

As at 31st December 2014,	Note	Fair Value Through Profit or Loss Rs. '000	Available for Sale Rs. '000	Held to Maturity Rs. '000	Loans and Receivables Rs. '000	Total carrying amount Rs. '000	Fair value Rs. '000
Financial Investments							
Measured at fair value	6.3 & 6.4	485,674	1,600,593	-	-	2,086,267	2,086,267
Measured at amortised cost	6.1 & 6.2	-	-	782,667	5,408,961	6,191,628	6,288,834
Loans to Life Policyholders	8	-	-	-	71,082	71,082	71,082
Reinsurance Receivables	9	-	-	-	162,260	162,260	162,260
Premium Receivables	10	-	-	-	364,051	364,051	364,051
Staff and Other Loans	11.1.	-	-	-	283,242	283,242	214,594
Cash and Cash Equivalents	13	-	-	-	173,245	173,245	173,245
Total Financial Assets		485,674	1,600,593	782,667	6,462,841	9,331,775	9,360,333

41.1.b Financial Liabilities

	Note	Fair Value Through Profit or Loss Rs. '000	Loans and Receivables Rs. '000	Total carrying amount Rs. '000	Fair value Rs. '000
Reinsurance Creditors	23	-	110,778	110,778	110,778
Other Liabilities					
(Excluding Government Levies and Accruals)	24	-	260,901	260,901	260,901
Total Financial Liabilities		-	371,679	371,679	371,679

41.1.c The Group's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in note 44

41 FINANCIAL ASSETS AND LIABILITIES (CONT.)

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,	Note	2014 FVTPL	2014 AFS	2014 Held to Maturity	2014 Loans and Receivables	2014 Total carrying amount	2014 Fair value	2013 FVTPL	2013 AFS	2013 Held to Maturity	2013 Loans and Receivables	2013 Total carrying amount	2013 Fair value
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	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	485,674	1,580,881	-	-	2,066,555	2,066,555	334,079	644,889	-	-	978,968	978,968
	Measured at amortised cost	6.1 & 6.2	-	-	782,667	5,322,047	6,104,714	6,205,088	-	-	931,680	4,745,790	5,677,470	5,642,997
	Loans to Life Policyholders	8	-	-	-	71,082	71,082	71,082	-	-	-	53,656	53,656	53,656
	Reinsurance Receivables	9	-	-	-	162,260	162,260	162,260	-	-	-	105,390	105,390	105,390
	Premium Receivables	10	-	-	-	364,051	364,051	364,051	-	-	-	301,182	301,182	301,182
	Staff and Other Loans	11.1.	-	-	-	283,242	283,242	214,594	-	-	-	239,445	239,445	181,337
	Cash and Cash Equivalents	13	-	-	-	171,217	171,217	171,217	-	-	-	144,087	144,087	144,087
	Total Financial Assets		485,674	1,580,881	782,667	6,373,899	9,223,121	9,254,847	334,079	644,889	931,680	5,589,550	7,500,198	7,407,617

		Note	2014 FVTPL	2014 Loans and Receivables	2014 Total carrying amount	2014 Fair value Rs.	2013 FVTPL	2013 Loans and Receivables	2013 Total carrying amount	2013 Fair value Rs.
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
41.2.b	Financial Liabilities									
	Reinsurance Creditors	23	-	110,778	110,778	110,778	-	100,881	100,881	100,881
	Other Liabilities (Excluding Government Levies and Accruals)	24	-	260,901	260,901	260,901	-	233,078	233,078	233,078
	Total Financial Liabilities		-	371,679	371,679	371,679	-	333,959	333,959	333,959

41.2.c The Company's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in note 44

41.3.a Fair value measurement - Group

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 as at 31st December 2014 - Group

		Fair value measurement using			
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Valued as at 31st December 2014					
Assets Measured at fair value :					
Fair Value Through Profit or Loss (FVTPL)					
- Investment in Units	6.9	10,307	229,626	-	239,933
- Equity Shares	6.8	245,741	-	-	245,741
Total	6.4	256,048	229,626	-	485,674
Available for Sale (AFS)					
- Treasury Bonds	6.3	1,345,026	-	-	1,345,026
- Treasury Bills	6.3	142,364	-	-	142,364
- Equity Shares	6.7	113,203	-	-	113,203
Total	6.3	1,600,593	-	-	1,600,593
Assets Measured at amortised cost and fair values are disclosed* :					
Held to Maturity (HTM)					
- Treasury Bonds	6.1		820,736	-	820,736
		-	820,736	-	820,736
Loans and Receivable (L & R)					
- Term Deposit		-	889,525	-	889,525
- Corporate Debt	6.6	-	2,802,194	-	2,802,194
- Staff and Other Loans	41.a	-	214,594	-	214,594
Total		-	3,906,313	-	3,906,313
Total Financial Assets		1,856,641	4,956,675	-	6,813,316

*Fair values are determined based on the assumptions given in the Note no. 41.4

41 FINANCIAL ASSETS AND LIABILITIES (CONT.)

41.3.b Fair value measurement - Company

Fair value measurement hierarchy for Assets as at 31st December 2014 - Company

	Note	Fair value measurement using Quoted prices in active markets (Level 1) Rs.'000	Significant observable inputs (Level 2) Rs.'000	Significant unobservable inputs (Level 3) Rs.'000	Total fair value Rs.'000
Valued as at 31st December 2014					
Assets Measured at fair value :					
Fair Value Through Profit or Loss (FVTPL)					
- Investment in Units	6.9	10,307	229,626	-	239,933
- Equity Shares	6.8	245,741	-	-	245,741
Total	6.4	256,048	229,626	-	485,674
Available for Sale (AFS)					
- Treasury Bonds	6.3	1,345,026	-	-	1,345,026
- Treasury Bills	6.3	122,652	-	-	122,652
- Equity Shares	6.7	113,203	-	-	113,203
Total	6.3	1,580,881	-	-	1,580,881
Assets Measured at amortised cost and fair values are disclosed* :					
Held to Maturity (HTM)					
- Treasury Bonds	6.1		820,736	-	820,736
			820,736	-	820,736
Loans and Receivable (L & R)					
- Term Deposit		-	889,525	-	889,525
- Corporate Debt	6.6	-	2,718,446	-	2,718,446
- Staff and Other Loans	41.a	-	214,594	-	214,594
Total		-	3,822,565	-	3,822,565
Total Financial Assets		1,836,929	4,872,927	-	6,709,856

*Fair values are determined based on the assumptions given in the Note no.41.4

41.3.c Fair value measurement

Fair value measurement hierarchy for Assets as at 31st December 2013 - Company

	Note	Fair value measurement using Quoted prices in active markets (Level 1) Rs.'000	Significant observable inputs (Level 2) Rs.'000	Significant unobservable inputs (Level 3) Rs.'000	Total fair value Rs.'000
Valued as at 31st December 2013					
Assets Measured at fair value :					
Fair Value Through Profit or Loss (FVTPL)					
- Investment in Units	6.9	7,608	131,330	-	138,938
- Equity Shares	6.8	195,141	-	-	195,141
Total	6.4	202,749	131,330	-	334,079
Available for Sale (AFS)					
- Treasury Bonds	6.3	480,353	-	-	480,353
- Treasury Bills	6.3	164,536	-	-	164,536
Total	6.3	644,889	-	-	644,889
Assets Measured at amortised cost and fair values are disclosed*:					
Held to Maturity (HTM)					
- Treasury Bonds	6.1	-	948,081	-	948,081
		-	948,081	-	948,081
Loans and Receivable (L & R)					
- Term Deposit		-	1,908,957	-	1,908,957
- Corporate Debt	6.6	-	2,084,512	-	2,084,512
- Staff and Other Loans	41.a	-	181,337	-	181,337
Total		-	4,174,806	-	4,174,806
Total Financial Assets		847,638	5,254,217	-	6,101,855

*Fair values are determined based on the assumptions given in the Note no. 41.4

41 FINANCIAL ASSETS AND LIABILITIES (CONT.)

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 unlisted fixed rate corporate debt 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.

- For term deposits with maturities greater than 3 months the fair values are estimated based on discounted cash flows using current market yields of treasury bonds or treasury bills with similar maturity plus a risk premium determined based on the credit rating of the institution.

41.4.b. Staff and Agent Loans -

The fair value of the staff and agent loans has been computed based on the interest rates that prevailed at reporting date.

41.4.e 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 - prise to current market rates frequently.

Assets
- Cash and Cash Equivalents/Term Deposits less than one year
- Repo
- Overnight Repo
- Loans to Life Policyholders
- Reinsurance Receivables
- Premium Receivables

Liabilities
- Reinsurance Creditors
- Other Liabilities (Excluding Government Levies and Accruals)

42 THE SEGREGATION OF THE LIFE AND GENERAL INSURANCE BUSINESSES UNDER SECTION 53 OF THE REGULATION OF INSURANCE INDUSTRY (AMENDMENT) ACT NO.3 OF 2011

42.1 In terms of Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, all composite insurance companies are required to split their Life and General Insurance businesses into two separate legal entities. In consultation with the insurance industry, IBSL has brought forward the timeline for compliance to 1st of January 2015 and has set out a timetable with key milestones leading to the completion of the process by that date.

HNB Assurance PLC, following the due process stipulated by the Insurance Board of Sri Lanka (IBSL) and having obtained approvals from all relevant parties including District Courts, transferred its General Insurance Business to its newly formed subsidiary HNB General Insurance Ltd with effect from 1st of January 2015. Accordingly, HNB Assurance PLC has become a Life Insurance Company as well as the holding Company of HNB General Insurance Ltd which is now a licensed General Insurance Company. Therefore, HNB Assurance PLC is providing both Life and General Insurance solutions under a group structure now which was under a single company as a composite insurer till 31st of December 2014. Accordingly, from a Group point of view, there is no discontinuation of operations since the Group would continue both Life and General business.

Segregation of insurance businesses under the above requirement would not meet the definition of assets held for sale because the carrying amount of the transferred assets will not be recovered principally through a sales transaction, rather than through continuing use. Although the entity receives value for the assets in the form of an investment in a subsidiary, that investment will only be realised through continuing use, if a sale is not planned by the Company.

Therefore in substance, this segregation is only a change in the mode of operation or restructuring the insurance business. Under such restructuring, it should be noted that the entity has not lost the control of the assets, and therefore the assets cannot be considered to have been disposed of. Therefore, segregation of insurance business is considered as out of scope for the application of SLFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”.

Accordingly, the segregation of insurance businesses has not been disclosed as a Discontinuing Operations in the Financial Statements. However, some information has been disclosed below for the benefit of users.

42.2 Condensed Statement of Comprehensive Income of the segregated operations included in separate financial statements

For the financial year ended 31 December,	2014 Rs’000	2013 Rs’000
Gross Written Premium	2,322,751	1,863,183
Premium Ceded to Reinsurers	(473,559)	(424,207)
Net Written Premium	1,849,192	1,438,976
Net Change in Reserves for Unearned Premium	(232,621)	(82,544)
Net Earned Premium	1,616,571	1,356,432
Investment and Other Income	463,824	358,527
Total Revenue	2,080,394	1,714,959
Net Benefits, Claims and Expenses		
Net Insurance Benefits and Claims Paid	(1,135,077)	(892,026)
Net Change in Insurance Claims Outstanding	(25,644)	2,954
Underwriting and Net Acquisition Costs	(88,175)	(53,401)
Other Insurance Related Costs	(18,839)	(13,522)
Operating and administrative expenses	(611,696)	(515,360)
Total Net Benefits, Claims and Expenses	(1,879,431)	(1,471,355)
Profit before tax	200,964	243,604
Income tax expense	(19,267)	(35,970)
Net profit from ordinary activities	181,697	207,634

42 THE SEGREGATION OF THE LIFE AND GENERAL INSURANCE BUSINESSES (CONT.)

42.3 The Company did not record any gain or loss on segregation of insurance businesses and hence no significant tax consequences expected.

42.4 Condensed Cash Flow Statement of the segregated operations included in separate financial statements

For the financial year ended 31 December,	2014 Rs'000	2013 Rs'000
Cash flows from operating activities	223,644	102,020
Cash flows from investing activities	(47,791)	25,485
Cash flows from financing activities	(162,500)	(137,500)
Increase in cash and cash equivalents	13,353	(9,995)
Cash and cash equivalents and bank overdraft at the beginning of the year	69,382	79,377
Cash and cash equivalents and bank overdraft at the end of the year	82,735	69,382

42.5 Income from Continuing Operations and Operations Transferred to the Subsidiary

	Continuing Operations		Transferred Operations	
For the financial year ended 31 December,	2014 Rs'000	2013 Rs'000	2014 Rs'000	2013 Rs'000
Profit After Tax (PAT) from ordinary activities	228,022	181,489	181,697	207,634
Net income attributable to:				
- Owners of the parent	228,022	181,489	181,697	207,634
- Non-controlling interest	-	-	-	-
	228,022	181,489	181,697	207,634

42.6 Information presented above includes the results of the General Insurance Operation of the Company together with the Investment Income of total Shareholders' Funds which is in line with the segmental information presented on pages 279 (2013 – 280) and 277 (2013 – 278). However, the Company has decided to invest only Rs. 1 Billion in HNB General Insurance Ltd as Stated Capital which is lower than the capital recorded under the General Insurance Business till 31st December 2014.

42.7 HNB Assurance PLC selected the option of incorporation of a fully owned subsidiary for General Insurance after considering a number of reasons.

- In our opinion, it was comparatively easier to transfer a General Insurance Business when compared to transferring a Life Insurance Business due to its long term nature
- This model has a minimum impact on taxation at the group level
- The name HNB Assurance is more appropriate for a Life Insurance company as it uses the word "Assurance"

43. RELATED PARTY DISCLOSURES

43.1 Transactions with Key Management Personnel of the Company or its parent

According to Sri Lanka Accounting Standard (LKAS) 24 Related Party Disclosure, Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors (including Executive and Non-Executive Directors) of the Company and their immediate family members have been classified as Key Management Personnel of the Company. In addition, two Chief Operating Officers (for Life and General Insurance) and the Chief Financial Officer together with their immediate family members have also been classified as Key Management Personnel of the Company.

Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective KMP 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	2014 Rs.'000	2013 Rs.'000
Short-term employee benefits	46,071	41,373
Post employment benefits	12,797	7,199
Loans Outstanding Balance Granted to KMPs	6,008	6,600

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 Personnel	2014 Rs.'000	2013 Rs.'000
Insurance Premium - General	755	1,252
Insurance Premium - Life	20,276	6,359
Claims Paid - General	798	698
Claims and Maturity Claims Paid - Life	7,440	-

c). Mr. J E P A de Silva, a Director of HNB Assurance PLC resigned from the Board w.e.f. 21st May 2014. However, he continues to be a Key Management Person of HNB General Insurance Ltd since he has been appointed as a Director of the company w.e.f. 2nd June 2014.

Dr. Sivakumar Selliah was appointed to the Board with effect from 17th June 2014. Accordingly, he has been considered as Key Management Person of the Company w.e.f. 17th June 2014.

43.2 Transactions with related parties

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures.

Transactions with related parties were made on the basis of the price lists in force with non-related parties, but subject to approved discounts. Outstanding balances with related parties other than balances relating to investment related transactions as at the reporting date are unsecured and interest free. Settlement will take place in cash. Such outstanding balances have been included under respective assets and liabilities together with balances arising from transactions with non-related parties.

Details of related party transactions are reported below.

43. RELATED PARTY DISCLOSURES (CONT.)

43.2. a Transaction with the parent and Ultimate Controlling Party

Hatton National Bank PLC	2014 Rs.'000	2013 Rs.'000
Nature of Transaction		
Insurance Premium		
General	11,428	19,100
Administration Expenses		
General	91,784	91,440
Life	64,174	44,164
	155,958	135,604
Claims Incurred		
General	9,839	7,587
Investment Income		
General	6,039	5,891
Life	20,421	15,078
	26,460	20,969
Rent Expenses	26,284	23,849
Other Operational Expenses	23,100	23,920
Investments Balance as at 31st December (Includes Deposits and Debentures)		
General	113,137	97,762
Life	173,429	108,953
	286,566	206,715
Bank Account Balances as at 31st December		
General	86,975	58,339
Life	72,505	89,199
	159,480	147,538
Dividends Paid	97,477	82,481

43.2. b Transaction with / between Subsidiary Companies of the Parent Company

For the year ended 31st December	2014	2013
a). Sithma Development (Pvt) Limited		
Nature of Transaction		
Insurance Premium		
General	1,206	975
b). Splendor Media (Pvt) Ltd.		
Insurance Premium		
General	328	314
Claims Incurred		
General	156	5
Media Placements Commission Fee expenses	4,738	799

43.2. c Transactions with other Related entities

Other related entities are those which are controlled or significantly influenced, directly or indirectly by Key Management Personnel of the Company. Significant influence is presumed to be established if a Key Management Person of the Company has more than 20% shareholding in an entity, unless otherwise reported by the Key Management Personnel . Further significant influence is also established if in the view of the respective Key Management Person, he/she has the ability to influence the operating and financial policies of an entity even in the absence of a 20% shareholding.

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2014 Rs.'000	2013 Rs.'000
Acuity Stockbrokers (Pvt) Ltd	A J Alles	Insurance Premium	General	144	311
		Claims Incurred	General	-	465
		Brokerage Fee	General	83	159
			Life	202	252
Acuity Securities Ltd	D Rodrigo	Insurance Premium	General	63	104
		Claims Incurred	General	-	46
		Investment in REPO	General	101,233	70,345
			Life	196,915	77,025
		Investment Income from REPO	General	6,360	6,919
			Life	8,831	9,394
Acuity Partners (Pvt) Limited	A J Alles	Insurance Premium	General	304	354
		Claims Incurred	General	-	234
Swisstek Aluminium Limited	J A P M Jayasekara	Insurance Premium	General	55	788
Lanka Walltiles PLC	Dr. Sivakumar Selliah J A P M Jayasekara	Insurance Premium	General	2,573	9
Lanka Tiles PLC	J A P M Jayasekara	Insurance Premium	General	246	4,788
		Claims Incurred	General	20	-
Lanka Ceramics PLC	Dr. Sivakumar Selliah J A P M Jayasekara	Insurance Premium	General	429	371
		Claims Incurred	General	218	-
Lanka Financial Services Bureau	A J Alles	Insurance Premium	General	13	10
Guardian Acuity Asset Management Ltd.	J A P M Jayasekara D P N Rodrigo	Investment in Units	General	27,473	11,658
			Life	22,305	11,658
Ceylon Investment Group (Pvt) Ltd.	M A R C Cooray	Insurance Premium	General	54	62
		Claims Incurred	General	34	-
Mobitel Pvt Ltd	W W Gamage	Utility Payments	General	509	-
Lanka Dairies (Pvt) Ltd.	D S C Jayawardena	Insurance Premium	General	8	44

43.2. d Transaction with /between shareholders of the parent company with significant influence.

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 parent Company Hatton National Bank PLC as at 31st December 2014 and thus has significant influence over its operation and thereby holds an indirect control over the Company. Accordingly, the 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".

43. RELATED PARTY DISCLOSURES (CONT)

43.2 Transaction with related parties (Cont)

43.2. d Transaction with /between shareholders of the parent company with significant influence.

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2014 Rs.'000	2013 Rs.'000
Financial Investments					
Government of Sri Lanka	Government related entity	Investment balances as at 31st Dec.	General	386,156	433,348
			Life	1,883,902	1,143,221
		Investment Income	General	33,369	65,089
			Life	154,489	178,138
Bank of Ceylon	Government related entity	Investment balances as at 31st Dec.	General	36,117	109,232
			Life	143,517	231,292
		Investment Income	General	5,646	9,490
			Life	23,383	33,327
HDFC Bank	Government related entity	Investment balances as at 31st Dec.	General	103,577	28,729
			Life	120,748	150,317
		Investment Income	General	7,558	5,686
			Life	18,063	11,577
National Development Bank	Government related entity	Investment balances as at 31st Dec.	General	37,998	37,183
			Life	73,685	245,584
		Investment Income	General	4,115	3,315
			Life	17,434	21,183
People's Bank	Government related entity	Investment balances as at 31st Dec.	General	-	80,000
			Life	28,451	209,731
		Investment Income	General	1,512	10,489
			Life	9,426	36,549
Urban Development Authority	Government related entity	Investment balances as at 31st Dec.	General	26,392	26,392
			Life	89,010	89,010
		Investment Income	General	2,828	2,828
			Life	9,538	9,538

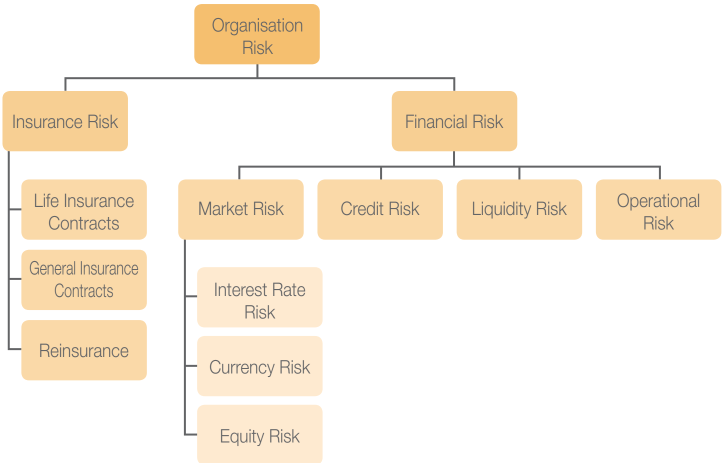
43.2. d Transaction with /between shareholders of the parent company with significant influence.

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2014 Rs.'000	2013 Rs.'000
Other Government Entities					
National Insurance Trust Fund	Government Related Entities	Crop Levy Payment	General	2,918	3,891
		Reinsurance Payment	General	266,246	195,270
		Claims Payment	General	35,279	29,158
		Reinsurance Commission	General	52,293	42,441
Department of Inland Revenue	Government Related Entities	Taxes	General	266,040	213,554
Insurance Board of Sri Lanka	Government Related Entities	CESS & Annual Fee	General/Life	15,182	11,914
Colombo Stock Exchange	Government Related Entities	Annual Fee	General/Life	93	100
Employee Provident Fund	Government Related Entities	Contributions	General/Life	68,913	58,660
Employee Trust Fund	Government Related Entities	Contributions	General/Life	10,337	8,799
Department of Road Safety	Government Related Entities	Luxury Tax/CRSF	General	30,288	30,119
Registrar of Companies	Government Related Entities	Registration Fee	General/Life	609	-
Ceylon Shipping Lines Ltd	Government related entity	Insurance Premium	General	660	1,344
		Claims Incurred	General	1,009	-
Sri Lanka Savings Bank	Government related entity	Insurance Premium	General	46	8
Urban Development Authority	Government related entity	Insurance Premium	General	74	-
Sri Lanka Insurance Corporation Ltd (SLIC)	Government related entity	Co-insurance Premium	General	9,623	3,431
		Co-insurance Claims	General	-	4
Utility Providers					
Ceylon Electricity Board	Government related entity	Utility Payments	General/Life	16,916	14,535
Lanka Electricity Company (Pvt) Ltd	Government related entity	Utility Payments	General/Life	3,921	3,486
National Water Supply & Drainage Board	Government related entity	Utility Payments	General/Life	822	582
Sri Lanka Telecom PLC	Government related entity	Utility Payments	General/Life	19,615	18,601
		Insurance Premium	General	324	-
Media Providers					
Sri Lanka Rupavahini Corporation	Government related entity	Advertising	General/Life	143	739
The Associated Newspapers of Ceylon Ltd	Government related entity	Advertising	General/Life	737	551

44. FINANCIAL RISK MANAGEMENT

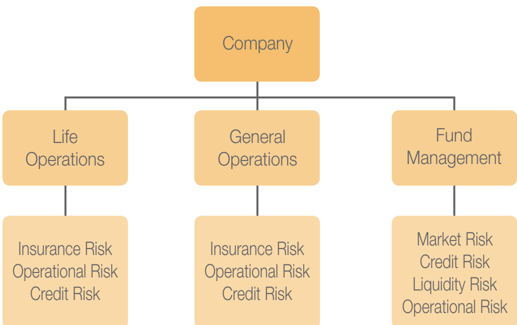
44.1 Introduction and Overview

As an insurer, the Company is exposed to multiple risks and the following chart graphically presents all kinds of risks that the Company considers in Risk Management. Further this note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing such risks, and the manner in which the Company manages its capital.



44.1.1. Company's Business Units and the Principal Risks

The chart below provides a link between the Company's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Company as a whole and is measured based on allocation of the regulatory capital within the Company.



44.1.2. Risk management framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that could hinder the sustainable achievement of financial objectives, including the failure to exploit opportunities. The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework and thus, their approval is necessary for the risk management strategy and risk policies pertaining to all activities of the Company.

The Board of Directors of the Company has appointed the Board Risk Management Committee, a standing committee of the Board comprising three (3) members of the Board to oversee the risk management activities of the Company. The Committee reports to the Board of Directors regarding the Company's risk profile, as well as its risk management framework, including the significant policies and practices employed to manage risks in the Company's business, as well as the overall adequacy of the Risk Management function. While the Committee has the responsibilities and powers, the management is responsible for designing, implementing and maintaining an effective risk program.

The Company has a Risk Management Team, comprising members of the senior management from business operations and control functions, which oversee the risk management activities of the Company. The activities cover areas such as the evaluation of business processes, design and implementation of the risk strategy and risk policies, review and updating of the risk profile, delegation of authority, monitoring of risk mitigation activities, etc. The Team is headed by the Managing Director and meets on a semi-annual basis.

The Team has developed a comprehensive Risk Assessment Report identifying all the risks affecting the Company. Each risk identified is categorized based on their impact and probability of occurrence and ranked as High, Medium and Low risks. The Audit Committee also reviews the Company's Risk Assessment Report and monitors the actions taken to mitigate the risks identified. The Company's risk assessment is a robust process, which includes processes to incorporate any new, emerging risks and removal of irrelevant risks from the evaluation.

During last year, the Company introduced a new process for identifying Key Risk Indicators (KRI) based on the Risk Assessment prepared by the Risk Assessment team and additional recommendations made by the Board Risk Management Committee. These KRI are prepared monthly and reviewed quarterly by the Executive committee and the Board Risk Committee.

a) Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approaches to manage the risks that affect its capital position:

- To maintain the required level of solvency of the Company, thereby providing a degree of security to policyholders
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meets the requirements of its shareholders and policyholders
- To retain financial flexibility by maintaining strong liquidity
- To align the profile of assets and liabilities taking account of risks inherent in the business
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and other stakeholders
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The operations of the Company are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. Solvency Margin, Approved Assets Requirements, etc.) to minimise the risk of default and insolvency on the part of the Company to meet unforeseen liabilities as they arise.

The Company is in compliance with all these regulatory requirements throughout the financial year.

b) Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a co-ordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds. The capital requirements are routinely forecasted on a periodic basis by the management and the Board. The solvency margins are calculated on a monthly basis and shared with the Board.

There were no changes in the capital structure in the Company during the year. Please refer Note 14 on Page 319 for the Stated Capital of the Company.

c) Regulatory framework

The insurance regulator of the country, the Insurance Board of Sri Lanka (IBSL) is primarily interested in protecting the rights of policyholders and monitors the Company closely to ensure that it is satisfactorily managing affairs for the benefit of policyholders. At the same time, they are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks, natural disasters, etc.

Thus, the operations of the Company are subject to regulatory requirements of the IBSL as well as various other regulators such as Securities and Exchange Commission of Sri Lanka (SEC), Colombo Stock Exchange (CSE), Central Bank of Sri Lanka (CBSL), Department of Inland Revenue etc. The Company is also regulated by the Companies Act No. 07 of 2007.

Company is also working with the below mentioned upcoming major regulatory requirement by IBSL.

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

44. FINANCIAL RISK MANAGEMENT (CONT.)

44.1 Introduction and Overview (Cont.)

It is believed that the Company has made considerable progress towards RBC implementation over last few years. IBSL commenced the compulsory parallel run from the year 2014 which the Company provided all relevant information timely. Moreover, it is strongly believed that the Company can implement RBC requirements without any significant concerns, by the due date.

d) Asset and Liability Management (ALM) framework

Financial risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk. The Company manages these positions within a clearly defined Asset and Liability Management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts.

44.2 Insurance Risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and the subsequent development of long–term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting guidelines, as well as the use of reinsurance arrangements.

The Company considers insurance risk to be a combination of the following components:

- Product design Risk;
- Underwriting Risk;
- Claims Risk

These risks are discussed in detail in respect of Life and General business lines separately.

44.2.1 Life Insurance contracts

a) Product Design Risk;

Life Insurance contracts offered by the Company include term assurance, endowment plans, annuity plans and group plans. Endowment and term assurance are conventional regular or single premium products where lump sum benefits are payable on death, maturity or in some cases, permanent total disability. Endowment products acquire a surrender value upon completion of three years.

The Company offers two single premium annuity products. The first product being “My Freedom” offers a pre-determined annuity amount for a specified time period, whilst the second product; namely “My Pension”, 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 Company had also issued single premium investment policies with a guaranteed maturity benefit.

The main risks that the Company is exposed to, under product design risk are as follows:

Mortality Risk	Risk of loss arising due to policyholders’ death experience being different from expected
Morbidity Risk	Risk of loss arising due to policyholders’ health experience being different from expected
Investment return Risk	Risk of loss arising from actual returns being different from expected
Expense Risk	Risk of loss arising from the expense experience being different from expected
Policyholder decision Risk	Risk of loss arising due to policyholders’ experiences (lapses and surrenders) being different from expected

These risks do not vary significantly in relation to the location and type of risk insured by the Company.

The following table shows the concentration of Life Insurance based on the nature of the contract.

Segregation of Policy Liability based on Product Category	Gross		
31st December 2014 Rs. '000	Insurance Liabilities with DPF*	Insurance Liabilities without DPF*	Total Gross Insurance Liabilities with DPF
Endowment	3,370,428	1,048,739	4,419,167
Term Assurance	-	405,505	405,505
Guaranteed Annuity	-	85,834	85,834
Group Products	-	9,288	9,288
Rider Benefits	-	68,519	68,519
	3,370,428	1,617,885	4,988,313
Less : Reinsurance	-	-	(108,400)
Total			4,879,913

	Gross		
31st December 2013 Rs. '000	Insurance Liabilities with DPF*	Insurance Liabilities without DPF*	Total Gross Insurance Liabilities with DPF
Endowment	2,632,247	842,134	3,474,381
Term Assurance	-	372,840	372,840
Guaranteed Annuity	-	32,163	32,163
Group Products	-	9,953	9,953
Rider Benefits	-	109,675	109,675
	2,632,247	1,366,765	3,999,012
Less : Reinsurance	-	-	(105,900)
Total			3,893,112

**DPF – Discretionary Participating Feature*

Participation Fund vs Non-Participation Fund

The following table shows the concentration of the Participating and Non-Participating funds position of the Company. Company continue to gradually increase the proportion of Non-Participating funds by selling more Non-Participating products such as "My Fund","My Pension" and "Ranmaga".

Participation Fund vs Non-Participation Fund	PAR Rs. '000	NON PAR Rs. '000	TOTAL Rs. '000
2014	2,821,599	2,642,410	5,464,009
Percentage	52%	48%	
2013	2,389,612	1,882,124	4,271,736
Percentage	56%	44%	

44. FINANCIAL RISK MANAGEMENT (CONT.)

44.2 Insurance Risk (Cont.)

b) Underwriting Risk

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of the type of risk and the level of insured benefits. This is largely achieved through prudent underwriting, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose different terms at revivals and it has the right to reject the payment of fraudulent claims.

The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. The Company limits exposure on any single life by way of retention limits agreed with the reinsurers.

Both our annuity products are structured such that backing investments are maintained for the agreed amount of business for the year.

Some of the specific actions by the Company to mitigate the underwriting risks are shown below.

Life Underwriting Risk Management

- Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are adequately priced.

- An in-house Actuarial Department headed by a qualified Actuary is in place to review the Life Insurance business more closely and guide the management to take more informed pricing decisions.

- Only registered laboratories are used when obtaining medical reports and regular visits are made by the management to such laboratories to monitor the quality of service.

- Focused training is provided to Insurance Advisors on proper selling in Sinhala, Tamil and English.

- A Customer Need Analysis Form is used to identify customers' requirements and sell the most appropriate policy.

- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured amount.

c) Claims Risk

Risk arises due to the possibility that the frequency of claims arising from Life Insurance contracts exceeds the expected level when pricing the products.

Some of the specific actions by the Company to mitigate the Claims Risks are shown below.

Life Claims Risk Management

- An Independent Actuary is engaged to carry out a valuation of the Life Insurance contract liabilities bi-annually.

- An in-house Actuarial Department headed by a qualified Actuary is in place to review reserving in the Life Insurance business more closely and guide the management to take more informed decisions.

- The support of the reinsurers is obtained on reserving such claim liability and the share of reinsurers.

- Claims are reserved immediately at 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 Managing Director, Chief Operating 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.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

- **Mortality and morbidity rates**
  Assumptions are based on standard mortality tables which are used by the industry.

- **Longevity**
  With the introduction of "My Pension", valuation of liabilities in Life Insurance becomes more challenging since longevity also affects in determining such liabilities. However, this business portfolio acts as a natural hedge for the mortality risk oriented business. Standard annuity tables were adopted in pricing and setting-up reserves for this product.

- **Lapse and surrender rates**
  Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders after acquiring a surrender value.

  An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increments are broadly neutral in effect.

- **Discount rate**
  Life insurance liabilities are determined as the sum of the discounted value of the expected benefits directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows.

  The discount rate used for the computation is as per IBSL stipulated guidelines. For participating regular premium plans, the maximum discount rate allowable is determined by considering 55% of the average of last three years' yield. For participating single premium plans, non-participating regular premium plans, paid-up plans and reversionary bonus, the discount rate used is 1.5% greater than the discount rate used for the participating regular premiums plans. For non-participating single premium plans, the maximum discount rate is limited to a rate of 3% greater than the maximum rate applicable for participating regular premium plans.

  A decrease in the discount rate will increase the value of the insurance liability and therefore reduces surplus available in the Life Business for Policyholders and Shareholders.

  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 31st December 2014	Change in assumptions	Impact on gross liabilities %
Mortality		
	+10%	1.28%
	-10%	-1.29%
Discount rate		
	+ 25 basis points	-1.07%
	- 25 basis points	1.09%

44.2.2 General Insurance contracts

a) **Product Design Risk;**

The Company principally issues the following types of General Insurance contracts.

- Motor
- Fire and Engineering
- Marine
- Medical
- Miscellaneous
- Workmen's Compensation

The significant risks arising under the General Insurance portfolio emanates from changes in the climate leading to natural disasters, behavioural trends of people due to changing life styles and the steady escalation of costs in respect of spare parts in the auto industry. A long tail claim which takes time to finally settle is also exposed to risk of inflation.

The above risk exposure is mitigated by the diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

44. FINANCIAL RISK MANAGEMENT (CONT.)

44.2 Insurance Risk (Cont.)

Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as using reinsurance arrangements in order to limit exposure to catastrophic events (e.g., Tsunami, hurricanes, earthquakes, flood damage, etc.).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes. The Company uses its own risk management framework to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these assessments could fail or that claims arising from an un-assessed event is greater than those arising from an assessed event.

b) Underwriting Risk

Some of the specific actions by the Company to mitigate General Insurance Underwriting Risks are shown below.

- 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 the Company.
- Strict controls are maintained on the issue of temporary cover notes and also limiting them to 60 days validity period.
- Both the underwriters and the distribution managers are assigned Key Performance Indicators (KPIs) on both turnover and profitability, ensuring alignment of objectives.
- Statistical databases are maintained on loss making clients to ensure such clients are strategically declined.
- Pre - underwriting inspections are made to ensure the risk profile of all new business before accepting.
- Post-underwriting audits, such as close file review (CFR) are conducted to ensure that set guidelines have been observed.
- Adequate reinsurance arrangements have been placed and the Company is consciously reviewing the adequacy of these covers in light of catastrophic /extreme events.
- There are strict controls to ensure that no insurance cover is issued without a proper reinsurance arrangement backing the cover.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured and risk.

c) Claims Risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, may differ from expectations. Some of the specific actions by the Company to mitigate General Insurance Claims Risks are shown below.

- 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 adjustor's working throughout the island on a 24 hour basis.
- Comprehensive estimation of costs and a high quality service to customers are granted through certified garages located island-wide.
- Claims are assessed immediately upon intimation and reserved accordingly.
- Significant outstanding claims are subjected to monthly reviews by the management.
- The service of a qualified Independent Actuary is obtained bi-annually to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.

- All third party claim intimations are separately reviewed with the support of the Manager – Legal.

- Financial authority limits are set based on the claim limit giving the maximum limit to the Claims Panel (comprising Managing Director, Chief Operating Officer – General Insurance and Chief Financial Officer) which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.

The table below sets out the concentration of General Insurance contract liabilities by type of contracts. This includes Unearned Premium, Insurance Contracts - Deferred Acquisition, Claims outstanding and IBNR / IBNER Reserves.

Refer note 20 to the financial statement, which shows the gross claim liability and the reinsurance component.

Following table summarises the outstanding Claims position as at 31st December,

General Insurance Claim Reserves	31st December 2014			31st December 2013		
	Gross Claim Rs. '000	Reinsurance Rs. '000	Net Rs. '000	Gross Claim Rs. '000	Reinsurance Rs. '000	Net Rs. '000
Claims Outstanding	228,229	(53,695)	174,534	182,148	(27,499)	154,649
IBNR / IBNER Reserve	56,216	(23,049)	33,167	53,347	(25,979)	27,368
Title Insurance Reserve	16,866	-	16,866	22,370	-	22,370
Total	301,311	(76,744)	224,567	257,865	(53,478)	204,387

The following table shows the estimated net claims liability (after considering reinsurance) for each successive accident year at each reporting date.

Claims Development Table AY	0 Rs.'000	1 Rs.'000	2 Rs.'000	3 Rs.'000	4 Rs.'000	5 Rs.'000	6 Rs.'000
2008	76,230	7,956	4,604	2,965	2,895	2,726	1,519
2009	78,801	3,636	2,576	1,379	1,021	4,133	
2010	100,283	6,980	4,675	3,219	2,365		
2011	170,450	7,258	3,422	2,661			
2012	163,480	3,250	2,821				
2013	163,203	5,303					
2014	188,644						

In setting claims provisions, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty.

Key assumptions for valuation of liabilities in General Insurance

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience.

This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, such as one–off occurrences, changes in market factors such as public attitude to claiming, economic conditions as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and Government legislation affect the estimates.

44. FINANCIAL RISK MANAGEMENT (CONT.)

44.2 Insurance Risk (Cont.)

The General Insurance claim liabilities are sensitive to the key assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for possible movements in claims outstanding with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. It should be noted that movements in these assumptions are non–linear.

Sensitivity of Claims Outstanding	Change in assumptions %	Reported Claim Outstanding Rs.000	Impact on gross liabilities Rs.000	Impact on net liabilities Rs.000	Impact on Profit Before Tax Rs.000	Impact on Equity (after tax) Rs.000
31st December 2014	10%	228,229	22,823	17,453	(17,453)	(12,566)
31st December 2013	10%	182,148	18,215	15,465	(15,465)	(11,135)

44.2.3 Reinsurance Risk

The Company purchases reinsurance as a part of its risk mitigation programme. Reinsurance ceded is placed on both proportional and non–proportional basis. A proportional reinsurance arrangement includes both Quota Share and Facultative Treaty programmes which is taken out to reduce the overall exposure of the Company to certain classes of businesses. Non–proportional reinsurance programmes, which are primarily excess–of–loss reinsurance arrangements, are designed to mitigate the Company's net exposure to large single and catastrophic losses. Retention limits on the excess–of–loss reinsurance programmes vary by product line.
Premium ceded to the reinsurers is in accordance with the terms on the programmes already agreed based on the risks written by the Company. Recoveries from reinsurers on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposures through prudent reinsurance arrangements, the obligation to meet claims emanating from policyholders rests with the Company. Default of reinsurers does not negate this obligation and in that respect the Company carries a credit risk up to the extent ceded to each reinsurer.

The Company's placement of reinsurance is arranged in a manner (particularly in General Insurance as the exposure is very high) that is neither dependent on a single reinsurer nor substantially dependent upon any single reinsurance contract. In Life Insurance, the Company uses Munich Re (which is one of the largest reinsurance companies in the world) as its reinsurance provider. All 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 actions by the Company to mitigate Reinsurance Risks are shown below.

- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- A very close and professional relationship is maintained with all reinsurers.
- No cover is issued without a confirmed reinsurance in place.
- Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Standard & Poors or AM Best are used.

The following table shows the credit ratings of the reinsurance companies with whom the Company has arrangements.

Reinsurer	Rating	Rating Agency
Antares Syndicate AUL 1274 at Lloyds	A+	Standard & Poor
Arab Insurance Group	B++	AM Best
Cathedral Syndicate CCL 3010 at Lloyds	A+	Standard & Poor
General Insurance Corporation of India	A-	AM Best
Labuan Reinsurance (L) Ltd	A-	AM Best
Malaysian Reinsurance Berhad	A-	AM Best
Munich Reinsurance Company	A+	AM Best
National Insurance Trust Fund	Fully owned by Government of Sri Lanka	
Pembroke Syndicate PEM 4000 at Lloyds	A+	Standard & Poor
Santam Ltd	BBB+	Standard & Poor
Sompo Japan Nipponkoa Reinsurance Company Limited	A+	AM Best
Toa Reinsurance Company Limited	A+	Standard & Poor
Trust International Insurance & Reinsurance Co.	A-	AM Best

44.3 Financial Risk

The Financial Risk refers to multiple types of risk associated with financing. The company considers financial risk to be a combination of following risks.

- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk

44.3.1 Market Risk

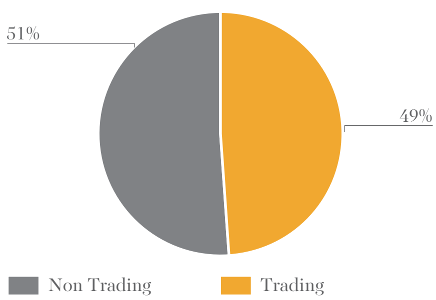
Market Risk refers to the risk of possible adverse movements in the values of assets due to changes in market factors, including interest rates, foreign exchange rates and equity prices. The current uncertainties in the local and international markets and investment climate have increased degree of the impact of Market Risk to the Company.

Market risk is an aggregation of,

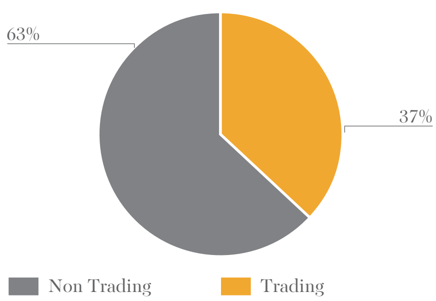
a) Interest Rate Risk
b) Currency Risk
c) Equity Price Risk

The diagram below shows the Company's concentration on Market Risk in its Financial Investments

Trading Vs Non-Trading - 2014



Trading Vs Non-Trading - 2013



44. FINANCIAL RISK MANAGEMENT (CONT.)

44.3 Financial Risk (Cont.)

a) Interest Rate Risk

The risk of fluctuation of fair values or future cash flows of a financial instrument due to a change in market interest rates is referred to as Interest Rate Risk.

Floating rate instruments typically expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk.

In order to mitigate the Interest Rate Risk faced by the Company, the management follows the guidelines set out in the Investment Policy. Amongst other such guidelines, the Policy also requires the management of the maturities of interest bearing financial assets. Compliance with the Policy is monitored and the exposure and instances of non-compliance are reported to the Investment Committee. The Policy is reviewed regularly for pertinence and for changes in the risk environment.

Interest on floating rate instruments is re–priced at intervals of less than one year. Interest on fixed interest rate instruments is priced at the inception of the financial instrument and is fixed until maturity.

The table below summarises the sensitivity to Interest Rate Risk.

Sensitivity to Interest Rate Risk 31st December 2014	Impact on PBT Rs. '000	Impact on Equity Rs. '000
Group & Company		
100 bps parallel increase in all yield curves	550	(57,201)
100 bps parallel decrease in all yield curves	(550)	62,561

The following table summarises the exposure to the Interest Rate Risk by the Group & Company.

Exposure to Interest Rate Risk 31st December 2014	Variable interest rate Rs.'000	Fixed interest rate Rs.'000	Non-interest bearing Rs.'000	Total Rs.'000
Financial assets - Group				
Held to maturity	-	782,667	-	782,667
Loans & receivables	55,620	5,353,341	-	5,408,961
Available for sale	-	1,487,391	113,202	1,600,593
Fair value through profit & loss	-	-	485,674	485,674
Cash and cash equivalent	-	13,448	159,797	173,245
Total financial assets - Group	55,620	7,636,847	758,673	8,451,140
Total financial liabilities - Group	-	-	371,679	371,679
Financial assets - Company				
Held to maturity	-	782,667	-	782,667
Loans & receivables	55,620	5,266,427	-	5,322,047
Available for sale	-	1,467,679	113,202	1,580,881
Fair value through profit & loss	-	-	485,674	485,674
Cash and cash equivalent	-	13,448	157,769	171,217
Total financial assets - Company	55,620	7,530,221	756,645	8,342,486
Total financial liabilities - Company	-	-	371,679	371,679

Exposure to Interest Rate Risk 31st December 2013	Variable interest rate Rs.'000	Fixed interest rate Rs.'000	Non-interest bearing Rs.'000	Total Rs.'000
Financial assets - Company				
Held to maturity	-	931,680	-	931,680
Loans & receivables	55,973	4,689,817	-	4,745,790
Available for sale		644,889	-	644,889
Fair value through profit & loss	-	-	334,079	334,079
Cash and cash equivalent	-	3,404	140,683	144,087
Total financial assets - Company	55,973	6,269,790	474,762	6,800,525
Total financial liabilities - Company			333,959	333,959

b) **Currency Risk**

The risk of fluctuation in fair values or future cash flows of a financial instrument due to a change in exchange rates, is referred to as Currency Risk.

The Company's principal transactions are carried out in Sri Lankan Rupees and hence, its exposure to foreign exchange risk arises primarily with respect to the US Dollar and Euro denominated assets maintained in order to honour liabilities of foreign currency denominated insurance policies, which are sold in the ordinary course of business.

However, no material liabilities were recorded on foreign currency denominated policies as at the reporting date.

The table below summarises the Company's total exposure and sensitivity to Currency Risk.

Sensitivity to Foreign Currency Risk	31st December 2014		31st December 2013	
	Amount in Foreign Currency '000	LKR amount Rs. '000	Amount in Foreign Currency '000	LKR amount Rs. '000
Group & Company				
USD Assets	USD 804.00	104,751	USD 966.00	125,035
EURO Assets	EURO 0.26	41	EURO 73.94	13,121
Total foreign currency denominated assets		104,792		138,156
	Impact on PBT Rs. '000	Impact on Equity Rs. '000	Impact on PBT Rs. '000	Impact on Equity Rs. '000
5% strengthening of rupee	5,240	3,773	6,908	4,974
5% weakening of rupee	(5,240)	(3,773)	(6,908)	(4,974)
+/- % impact on Profit	1.19%	0.90%	1.63%	1.28%

44. FINANCIAL RISK MANAGEMENT (CONT.)

44.3 Financial Risk (Cont.)

c) **Equity Price Risk**

The risk of fluctuation in fair values or future cash flows of a financial instrument due to a change in market prices, other than those occurring due to Interest Rate Risk or Currency Risk, is referred to as Equity Price Risk. Accordingly, the equity price risk affects the Company's investments in equity instruments.

In order to manage the Equity Price Risk, the Company's Investment Policy guides the management to set/monitor objectives and constraints on investments, diversification plans as well as limits on equity exposure.

Equity Portfolio Diversification	31st December 2014		31st December 2013	
	Rs. '000	%	Rs. '000	%
Group & Company				
Diversified Holdings	41,562	11.26	47,340	23.35
Banks, Finance and Insurance	146,932	39.79	76,394	37.68
Manufacturing	91,451	24.77	39,765	19.61
Hotels and Travels	1,840	0.50	6,230	3.07
Chemicals and Pharmaceuticals	19,272	5.22	8,441	4.16
Power and Energy	20,700	5.61	3,834	1.89
Beverage, Food and Tobacco	14,675	3.97	11,580	5.71
Investment Trusts	-	-	1,557	0.77
Construction and Engineering	8,186	2.22	-	-
Land and Property	14,325	3.88	-	-
Closed Ended Funds	10,307	2.78	7,608	3.76
Total	369,250	100	202,749	100

The sensitivity analysis appearing below has been performed to demonstrate the impact of possible movements in All Share Price Index (ASPI) on profit before tax.

Percentage change in benchmark index (ASPI)	Impact on PBT (Rs. '000)		Impact on OCI (Rs. '000)	
	31st December 2014	31st December 2013	31st December 2014	31st December 2013
10 per cent increase in equity prices	35,894	20,275	11,320	-
10 per cent decrease in equity prices	(35,894)	(20,275)	(11,320)	-

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 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 to the key impacting variables are set out in the table below;

Sensitivity on Overall Finance Assets	Change in variables	31st December 2014 Impact on profit before tax Rs. '000	31st December 2014 Impact on equity* Rs. '000	31st December 2013 impact on profit before tax Rs. '000	31st December 2013 Impact on equity* Rs. '000
Group & Company					
Exchange rate	+5%	5,240	3,773	6,908	4,974
Yield curve	+100 basis points	550	(57,201)	550	(9,608)
ASPI	10%	35,894	25,844	20,275	14,598
Total		41,684	(27,584)	27,733	9,964
Exchange rate	- 5%	(5,240)	(3,773)	(6,908)	(4,974)
Yield curve	-100 basis points	(550)	62,561	(550)	9,934
ASPI	-10%	(35,894)	(25,844)	(20,275)	(14,598)
Total		(41,684)	32,944	(27,733)	(9,638)

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.

44.3.2 Credit Risk

Credit Risk refers to the risk of loss of principal or financial reward stemming from a counterparty's failure to honour a financial obligation.

The Company's Credit Risk could mainly arise from financial assets such as its investment portfolios, premium receivables from policyholders, receivables from reinsurers.

44. FINANCIAL RISK MANAGEMENT (CONT.)

44.3 Financial Risk (Cont.)

44.3.2.a An analysis of concentrations of credit risk from Investments, Reinsurance and premium receivables is shown below.

Concentration of Credit Risk from Investments		2014				2013	
		Group		Company			
		Rs. '000	%	Rs. '000	%	Rs. '000	%
Financial Investments							
Government Securities		3,401,689	37	3,381,977	38	2,278,017	32
Debenture	Listed	2,584,318	29	2,497,404	28	1,835,515	25
	Rated	243,621	3	243,621	3	258,159	4
Commercial Paper		-	-	-	-	60,372	1
Investment in Units		239,932	3	239,932	3	138,938	2
Equity Shares		358,943	4	358,943	4	195,141	3
Term Deposits		1,449,392	16	1,449,391	16	1,890,296	26
Cash and Cash Equivalents		173,245	2	171,217	2	144,087	2
Total Financial Investments		8,451,140	94	8,342,485	94	6,800,525	95
Reinsurance Receivables		162,379	2	162,379	2	105,390	1
Premium Receivables		364,051	4	364,051	4	301,182	4
Total		8,977,570	100	8,868,915	100	7,207,097	100

44.3.2.b The table below provides information regarding the Credit Risk exposure on investments of the Company as at 31st December by classifying investments according to the respective credit ratings. The Ratings represent local ratings given by Fitch Ratings Lanka Limited, Lanka Rating Agency Limited and ICRA Lanka Limited. AAA is considered the highest possible rating, while assets that fall outside the range of AAA to BBB- are classified as speculative grade. No credit exposure limits were exceeded by the Company during the year.

Government securities have been classified as a separate category as they are considered risk free investments. Further, investments in Shares and Units are not considered, since credit rating is not applicable.

Financial Investments Based on Credit Rates 31st December 2014	Government Guaranteed Rs.'000	AAA Rs.'000	AA+ to AA- Rs.'000	A+ to A- Rs.'000	BBB+ to BBB- Rs.'000	Not rated Rs.'000	Total Rs.'000
Group							
Held-to-Maturity financial assets	782,667	-	-	-	-	-	782,667
Loans and Receivables	1,247,032	-	2,142,072	1,464,171	555,686	-	5,408,961
Available-for-Sale financial assets	1,487,391	-	-	-	-	-	1,487,391
Short term Investments	-	-	13,448		-	-	13,448
Total Group	3,517,090	-	2,155,520	1,464,171	555,686	-	7,692,467
	46%	-	28%	19%	7%	-	100%
Company							
Held-to-Maturity financial assets	782,667	-	-	-	-	-	782,667
Loans and Receivables	1,247,032	-	2,112,287	1,418,423	544,305	-	5,322,047
Available-for-Sale financial assets	1,467,679	-	-	-	-	-	1,467,679
Short term Investments	-	-	13,448	-	-	-	13,448
Total Company	3,497,378	-	2,125,735	1,418,423	544,305	-	7,585,841
	46%	0%	28%	19%	7%	0%	100%

Financial Investments Based on Credit Rates 31st December 2013	Government Guaranteed Rs.'000	AAA Rs.'000	AA+ to AA- Rs.'000	A+ to A- Rs.'000	BBB+ to BBB- Rs.'000	Not rated Rs.'000	Total Rs.'000
Company							
Held-to-Maturity financial assets	931,680	-	-	-	-	-	931,680
Loans and Receivables	816,849	-	2,453,690	1,243,142	232,109	-	4,745,790
Available-for-Sale financial assets	644,889	-	-	-	-	-	644,889
Short term Investments	-	-	204	3,200	-	-	3,404
Total	2,393,418	-	2,453,894	1,246,342	232,109	-	6,325,763
	38%		39%	20%	3%	-	100%

44.3.2.c The following table provides information regarding the Credit Risk exposure on Reinsurance Receivables of the Group as at 31st December. Reinsurance Receivables on claims outstanding, IBNR/IBNER claims amounting to Rs.96.5 Million (2013: Rs.70.6 Million) have not been considered in this analysis. Ratings represent international ratings given by "S&P" and "AM BEST"

Reinsurance Receivables Based on Credit Rates	Government Owned Rs.'000	AAA Rs.'000	AA+ to AA- Rs.'000	A+to A- Rs.'000	BBB+ to BBB- Rs.'000	Not rated Rs.'000	Total Rs.'000
31st December 2014	19,369	-	-	38,992	7,319	-	65,680
31st December 2013	12,290	-	242	22,204	-		34,736

44.3.2.d The table below provides information regarding the credit risk exposure on other Financial Assets of the Group as at 31st December by classifying assets according to their due period.

Ageing of Other Financial Assets 31st December 2014	< 30 days Rs.'000	31 to 60 days Rs.'000	61 to 90 days Rs.'000	91 to 180 days Rs.'000	180< days Rs.'000	Total Rs.'000
Reinsurance receivables						
- General	33,464	8,488	10,734	8,242	1,143	62,071
- Life	1,144	1,588	877	-	-	3,609
Premium receivables						
- General	224,289	132,819	-	-	-	357,108
- Life	6,949	-	-	-	-	6,949
Total	265,846	142,895	11,611	8,242	1,143	429,737
% Distribution	62%	33%	3%	2%	-	100%

31st December 2013	< 30 days Rs.'000	31 to 60 days Rs.'000	61 to 90 days Rs.'000	91 to 180 days Rs.'000	180< days Rs.'000	Total Rs.'000
Reinsurance receivables						
- General	1,613	16,750	3,098	6,766	61	28,288
- Life	1,305	4,228	914	-	-	6,447
Premium receivables						
- General	202,479	91,755	237	-	-	294,471
- Life	6,710	-	-	-	-	6,710
Total	212,107	112,733	4,249	6,766	61	335,916
% Distribution	63%	34%	1%	2%	0%	100%

44. FINANCIAL RISK MANAGEMENT (CONT.)

44.3 Financial Risk (Cont.)

Some of the specific actions undertaken by the Company to mitigate Credit Risk in investments are shown below.

- Adoption of a list of counterparties approved by the Investment Committee, consisting of companies which, in the opinion of the Committee, carry minimal Credit Risk
- Checking the creditworthiness of potential investees, mainly through ratings assigned to the issuing institution or the ratings assigned to the issue
- Obtaining explicit approval of the Investment Committee for any investments in an entity not included in the list
- Deciding on single party exposure limits based on the credit ratings and regulatory requirements and monitoring them closely at different levels
- Conducting a detailed analysis of individual counterparties for each equity and corporate debt investment 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.)
- Signing Master Repo Agreements with all primary dealers the Company works with in order to ensure zero level of default risk for lending under overnight repo and repo transactions, in the event of their bankruptcy
- Maintaining a custodian arrangement for government securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd (a joint venture of HNB and DFCC Bank).
- Maintaining a custodian arrangement for listed equity investments with Deutsche Bank AG - Sri Lanka Branch

Company regularly reviews the policies and procedures in respect of managing the Credit Risk in investments and no significant changes made during the year.

Some actions specific to Credit Risk in premiums receivables under General Insurance 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
- Submission of information regarding policies cancelled due to non-payment of premiums to the industry database on a routine basis
- Using the latest technology (e.g. : SMS) to inform customers on premiums due to the Company
- Processing claim settlements only after reviewing the position of outstanding receivables

Company regularly reviews the policies and procedures in respect of managing the premiums receivables under General Insurance and no significant changes made during the year.

44.3.3 Liquidity Risk

The risk of the Company being unable to meet obligations due to non-availability of adequate liquid assets is referred to as Liquidity Risk.

The following controls are in place to mitigate Liquidity Risk in the Company;

- Maintaining sufficient cash balances, overnight investments and other short tenure investments to accommodate expected obligations and commitments of the Company
- Determining the maturity profiles of insurance contract liabilities and reinsurance assets based on the estimated timing of net cash outflows from recognised insurance liabilities
- Reviewing the maturity mix of the investment portfolio by the management and the Investment Committee on a regular basis

- Planning for all large cash outflows in advance and making necessary arrangements to ensure the availability of funds to meet such outflows
- Availability of a stand-by overdraft facility to be used only in the event of an emergency

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining contractual obligations, including interest payable and receivable.

Maturity Profile of Financial Assets & Liabilities **Group** 31st December 2014	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	8,277,895	2,777,780	1,550,015	2,446,124	1,503,976
Loans to Life Policyholders	71,082	-	-	-	71,082
Reinsurance Receivables	162,260	162,260	-	-	-
Premium Receivables	364,051	364,051	-	-	-
Staff and Other Loans	283,242	71,510	141,515	61,322	8,895
Cash and Cash Equivalents	173,245	173,245	-	-	-
Total Assets	9,331,775	3,548,846	1,691,530	2,507,446	1,583,953
Liabilities					
Reinsurance Creditors	110,778	110,778	-	-	-
Other Liabilities	260,901	172,958	-	-	87,943
Total Liabilities	371,679	283,736	-	-	87,943

Maturity Profile of Financial Assets & Liabilities **Company** 31st December 2014	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	8,171,269	2,758,069	1,543,797	2,365,427	1,503,976
Loans to Life Policyholders	71,082	-	-	-	71,082
Reinsurance Receivables	162,260	162,260	-	-	-
Premium Receivables	364,051	364,051	-	-	-
Staff and Other Loans	283,242	71,510	141,515	61,322	8,895
Cash and Cash Equivalents	171,217	171,217	-	-	-
Total Assets	9,223,121	3,527,107	1,685,312	2,426,749	1,583,953
Liabilities					
Reinsurance Creditors	110,778	110,778	-	-	-
Other Liabilities	260,901	172,958	-	-	87,943
Total Liabilities	371,679	283,736	-	-	87,943

44. FINANCIAL RISK MANAGEMENT (CONT.)

44.3 Financial Risk (Cont.)

Maturity Profile of Financial Assets & Liabilities Company 31st December 2013	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	6,656,438	2,992,190	1,749,702	1,525,679	388,867
Loans to Life Policyholders	53,656	-	-	-	53,656
Reinsurance Receivables	105,390	105,390	-	-	-
Premium Receivables	301,182	301,182	-	-	-
Staff and Other Loans	239,445	68,190	121,374	44,395	5,486
Cash and Cash Equivalents	144,087	107,306	-	-	36,781
Total Assets	7,500,198	3,574,258	1,871,076	1,570,074	484,790
Liabilities					
Reinsurance Creditors	100,881	100,881	-	-	-
Other Liabilities	233,078	136,822	-	-	96,256
Total Liabilities	**333,959**	**237,703**	**-**	**-**	96,256

44.3.4 Operational Risks

This is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than Credit, Market and Liquidity Risks, such as those arising from legal and regulatory requirements and the absence of generally accepted standards of corporate behaviour.

Operational failures could result in dire consequences such as producing misleading financial information, loss of return, financial penalties from regulators or damage to the reputation of the Company. Operational Risks arise from all operations of the Company.

While it is acknowledged that the Company cannot eliminate all Operational Risks, it is in a position to manage such risks by initiating a rigorous control framework and by monitoring and responding to potential risks.

Company's Risk Management team assesses all foreseeable risks involved in its operation and they develop and implement action plans to control those identified operational risks. These action plans recommended by the team is to manage the operational risks in the following areas:

- requirements for having appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- compliance with the Manual of Financial Authority, Procurement Policy and such other policies and procedures that govern operational activities;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;

- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

Compliance with recommended action plans are supported by periodic reviews undertaken by the Internal and External Auditors as well as the Manager - Risk and Compliance. The results of internal reviews are discussed on a quarterly basis with the Risk Management Committee, with summaries submitted to the Audit Committee and to the Board.

Moreover, business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning process.

45. EVENTS OCCURRING AFTER THE REPORTING DATE

45.a. Transfer of General Insurance Business to HNB General Insurance Ltd

The Company transferred its General Insurance Business to the new fully owned subsidiary company HNB General Insurance Ltd w.e.f. 1st January 2015 in line with the segregation guidelines issued by the Insurance Board of Sri Lanka (IBSL).

Accordingly, HNB Assurance PLC has become a Life Insurance Company w.e.f. 1st January 2015 and HNB General Insurance Ltd, is a licensed General Insurance Company. More details on the segregation of the Insurance business will be included in note 42 on page 343.

45.b. Proposed Dividend

The Board of Directors has recommended the payment of a first and final dividend of Rs. 3.75 per share for the year ended 31st December 2014 (2013 - Rs. 3.25/- per share) which is to be approved at the Annual General Meeting to be held on 27th March 2015. More information with respect to a dividend declaration is given on Note 40.

Except for the above 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.

46. COMMITMENTS

46.1 At the year end, no capital expenditure approved by the Board and contracted for which no provision has been made in these Financial Statements (2013 - Rs. 6.5 Mn.).

46.2 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

b). Future commitments on operating leases	2014 Rs.'000	2013 Rs.'000
Less than one year	18,246	20,869
Between one and five years	28,067	42,832
More than five years	-	979
Total Operating Lease Commitments	46,313	64,680

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 2014 an amount of Rs. 2.2 Million was recognised as an expense in profit or loss in respect of operating leases (2013: Rs. 3.3 Million). There were no contingent rent recognised as an expense during the year.

47. CONTINGENCIES

47.1 The Company has received a VAT Assessment on Reinsurance Claims and Commissions 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 by Inland Revenue Department.

The Company has filed due responses in consultation with Tax Consultants and is of the strong view that no additional Tax liabilities are arising due to this Assessment. We have not received any response to our reply as of the date of authorising these Consolidated Financial Statements.

Also, VAT on Reinsurance Claims and Commissions have been exempted by the Inland Revenue Department w.e.f. 1st January 2011. This is an indication that realisation of this liability is remote.

47.2 In the opinion of the Directors, and in consultation with the Company Lawyers, litigation currently pending against the Company would not have a material impact on the reported financial results of the Company.

All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

48. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer to page 267 of the Statement of Directors' Responsibility for Financial Reporting.

Statement of Financial Position of Life Insurance - Supplemental

As at 31st December,	Note	Page No.	2014 Rs.'000	2013 Rs.'000
Assets				
Property, Plant and Equipment			-	-
Intangible Assets			-	-
Financial Investments	A	372	5,545,833	4,270,216
Loans to Life Policyholders	B	381	71,082	53,656
Reinsurance Receivables	C	381	23,446	23,626
Premium Receivables	10	316	6,943	6,710
Other Assets	D	381	195,023	169,032
Cash and Cash Equivalents	E	381	88,482	74,705
Total Assets			5,930,809	4,597,945
Equity and Liabilities				
Equity				
Other Reserves			(18,780)	928
Life Policyholders' Reserve	18	320	40,748	(4,182)
			21,968	(3,254)
Liabilities				
Insurance Contract Liabilities - Life	19	321	5,562,648	4,348,490
Employee Defined Benefit Liabilities	F	382	31,508	6,747
Reinsurance Creditors	G	382	30,921	24,849
Other Liabilities	H	382	283,764	221,113
Total Liabilities			5,908,841	4,601,199
Total Equity and Liabilities			5,930,809	4,597,945

The Notes to the Financial Statements as set out on pages 372 to 382 form an integral part of these Financial Statements.

Notes to the Financial Statements - Life Insurance - Supplemental

A. FINANCIAL INVESTMENTS

As at 31st December,	Note	2014 Rs.'000	2013 Rs.'000
Held to Maturity (HTM)	(Note A.1)	530,353	630,291
Loans and Receivable (L & R)	(Note A.2)	3,303,654	2,930,948
Available for Sale (AFS)	(Note A.3)	1,434,080	512,929
Fair Value Through Profit or Loss (FVTPL)	(Note A.4)	277,746	196,048
Total Financial Investments		5,545,833	4,270,216

The table below shows the carrying values of these Financial Instruments together with their fair values

As at 31st December,	2014		2013	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Held to Maturity (HTM)	530,353	562,742	630,291	647,386
Loans and Receivable (L & R)	3,303,654	3,309,220	2,930,948	2,899,506
Available for Sale (AFS)	1,434,080	1,434,080	512,929	512,929
Fair Value Through Profit or Loss (FVTPL)	277,746	277,746	196,048	196,048
Total Financial Investments	5,545,833	5,583,788	4,270,216	4,255,869

A.1 Held to Maturity (HTM)

As at 31st December,		2014		2013	
		Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
- Treasury Bonds		530,353	562,742	630,291	647,386
		530,353	562,742	630,291	647,386
A.2 Loans and Receivable (L & R)					
- Repo		535,267	535,267	217,995	217,995
- Overnight Repo		66,191	66,191	177,214	177,214
- Term Deposit	(Note A.5)	931,953	946,537	1,261,530	1,278,392
- Corporate Debt	(Note A.6)	1,770,243	1,761,225	1,274,209	1,225,905
		3,303,654	3,309,220	2,930,948	2,899,506
A.3 Available for Sale (AFS)					
- Treasury Bonds		1,279,890	1,279,890	454,805	454,805
- Treasury Bills		73,659	73,659	58,124	58,124
- Equity Shares	(Note A.7)	80,531	80,531	-	-
		1,434,080	1,434,080	512,929	512,929
A.4 Fair Value Through Profit or Loss (FVTPL)					
- Investment in Units	(Note A.8)	107,806	107,806	60,316	60,316
- Equity Shares	(Note A.9)	169,940	169,940	135,732	135,732
		277,746	277,746	196,048	196,048

Fair Value Through Profit or Loss Investments and Available for Sale Investments have been valued at fair value. Held To Maturity and loans and receivable are valued at amortised cost.

A.5. Term Deposits

As at 31st December,		2014 Carrying value Rs.'000	2013 Carrying value Rs.'000
Long term and medium term deposits with,			
Licensed Commercial Banks	(Note A.5.1.)	126,367	695,653
Licensed Specialised Banks		406,838	194,067
Registered Finance Companies		398,748	371,810
		931,953	1,261,530

A.5.1. Licensed Commercial Banks	2014	2013
Term Deposits with Related Parties - Hatton National Bank PLC	65,506	58,887
Other Banks	60,861	636,766
	126,367	695,653

A.6. Corporate Debt

As at 31st December,		2014		2013	
		Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Debentures - Quoted	(Note A.6.1)	1,641,796	1,630,129	1,088,035	1,033,960
Debentures - Unquoted	(Note A.6.2)	128,447	131,096	137,282	142,307
Commercial Paper	(Note A.6.3)	-	-	48,892	49,638
		1,770,243	1,761,225	1,274,209	1,225,905

A. FINANCIAL INVESTMENTS (CONT.)

A.6.1. Debentures - Quoted

As at 31st December,	2014 Carrying Value Rs.'000	2014 Fair Value Rs.'000	2013 Carrying Value Rs.'000	2013 Fair Value Rs.'000
Abans PLC	**88,289**	**85,000**	**45,194**	**45,000**
(14.25% 250,000 Debentures redeemable on 20.12.2017)	26,786	25,000	25,107	25,000
(14.50% 200,000 Debentures redeemable on 20.12.2018)	21,454	20,000	20,087	20,000
(09.00% 400,000 Debentures redeemable on 26.12.2019)	40,049	40,000	-	-
Bank of Ceylon	**123,985**	**121,300**	**117,405**	**115,000**
(11.50% 200,000 Debentures redeemable on 28.06.2015)	21,178	19,000	21,178	20,000
(11.00% 100,000 Debentures redeemable on 07.12.2016)	10,182	8,900	10,072	10,000
(16.00% 850,000 Debentures redeemable on 29.11.2017)	87,515	88,400	86,155	85,000
(08.00% 50,000 Debentures redeemable on 21.09.2019)	5,110	5,000	-	-
Central Finance Company PLC	**35,983**	**39,200**	**35,983**	**34,700**
(14.25% 5,700 Debentures redeemable on 17.06.2016)	5,905	6,078	5,905	5,700
(14.75% 29,000 Debentures redeemable on 17.06.2018)	30,078	33,122	30,078	29,000
DFCC Bank PLC	**32,454**	**30,940**	**5,698**	**5,000**
(14.00% 5,000 Debentures redeemable on 26.09.2016)	5,698	5,000	5,698	5,000
(08.50% 259,400 Debentures redeemable on 18.08.2017)	26,756	25,940	-	-
Hatton National Bank PLC	**124,049**	**125,429**	**81,699**	**68,166**
(14.00% 443,403 Debentures redeemable on 12.06.2018)	47,759	44,340	47,759	44,340
(07.75% 200,000 Debentures redeemable on 14.12.2019)	20,000	20,000	-	-
(11.00% 75,000 Debentures redeemable on 31.03.2021)	18,720	21,262	16,865	7,500
(14.25% 241,086 Debentures redeemable on 29.08.2023)	17,497	19,827	17,075	16,326
(08.33% 200,000 Debentures redeemable on 14.12.2024)	20,073	20,000	-	-
Hayleys PLC	**40,000**	**43,864**	**41,437**	**40,000**
(14.25% 40,000 Debentures redeemable on 09.07.2016)	40,000	43,864	41,437	40,000
HDFC Bank of Sri Lanka	**68,679**	**73,716**	**61,733**	**60,000**
(15.00% 198,900 Debentures redeemable on 23.10.2017)	-	-	61,733	60,000
(15.50% 600,000 Debentures redeemable on 23.10.2018)	68,679	73,716	-	-
Hemas Holdings PLC	**42,597**	**41,460**	**-**	**-**
(11.00% 414,600 Debentures redeemable on 29.04.2019)	42,597	41,460	-	-
Lanka Orix Leasing Company PLC	**61,958**	**60,000**	**26,492**	**25,000**
(11.90% 250,000 Debentures redeemable on 30.06.2016)	26,639	25,000	26,492	25,000
(09.00% 350,000 Debentures redeemable on 24.11.2019)	35,319	35,000	-	-
LB Finance PLC	**71,424**	**70,381**	**62,947**	**62,130**
(15.00% 621,300 Debentures redeemable on 28.11.2018)	71,424	70,381	62,947	62,130

As at 31st December,	2014		2013	
	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Lion Brewery (Ceylon) PLC	**57,944**	**60,039**	**57,944**	**56,000**
(13.50% 16,800 Debentures redeemable on 17.06.2016)	17,372	18,230	17,372	16,800
(13.75% 16,800 Debentures redeemable on 17.06.2017)	17,382	16,800	17,382	16,800
(14.00% 22,400 Debentures redeemable on 17.06.2018)	23,190	25,009	23,190	22,400
Mercantile Investment and Finance PLC	**3,668**	**3,622**	**-**	**-**
(10.50% 36,100 Debentures redeemable on 05.11.2018)	3,668	3,622	-	-
Merchant Bank of Sri Lanka and Finance PLC	**133,536**	**126,970**	**68,437**	**65,020**
(11.80% 225,000 Debentures redeemable on 15.11.2015)	23,838	22,500	23,838	22,500
(14.25% 450,000 Debentures redeemable on 16.12.2017 *2013 - 200,000)	53,930	49,532	20,109	20,000
(17.50% 112,600 Debentures redeemable on 27.03.2018)	13,225	13,678	12,287	11,260
(16.70% 112,600 Debentures redeemable on 27.03.2018)	12,192	11,260	12,203	11,260
(8.75% 150,000 Debentures redeemable on 12.11.2019)	15,173	15,000	-	-
(9.00% 150,000 Debentures redeemable on 12.11.2019)	15,178	15,000	-	-
National Development Bank PLC	**38,958**	**36,456**	**34,895**	**34,740**
(13.00% 75,700 Debentures redeemable on 19.12.2018)	8,063	8,336	7,602	7,570
(13.40% 84,200 Debentures redeemable on 19.12.2018)	9,493	9,370	8,457	8,420
(13.90% 187,500 Debentures redeemable on 19.12.2023)	21,402	18,750	18,836	18,750
Nations Trust Bank PLC	**35,311**	**37,111**	**33,292**	**33,150**
(13.00% 331,500 Debentures redeemable on 19.12.2018)	35,311	37,111	33,292	33,150
Nawaloka Hospitals PLC	**41,411**	**40,000**	**41,427**	**40,000**
(14.15% 400,000 Debentures redeemable on 30.09.2018)	41,411	40,000	41,427	40,000
Pan Asia Banking Corporation PLC	**38,548**	**37,928**	**-**	**-**
(9.523% 207,340 Debentures redeemable on 30.10.2019)	21,069	20,734	-	-
(9.75% 171,944 Debentures redeemable on 30.10.2019)	17,479	17,194	-	-
People's Leasing & Finance PLC	**40,037**	**40,770**	**33,898**	**30,000**
(8.75% 16,300 Debentures redeemable on 23.09.2017)	1,668	1,661		
(17.00% 300,000 Debentures redeemable on 26.03.2018)	35,086	35,775	33,898	30,000
(9.625% 32,000 Debentures redeemable on 23.09.2018)	3,283	3,334		
Richard Pieris and Company PLC	**46,340**	**44,290**	**-**	**-**
(10.75% 31,100 Debentures redeemable on 16.05.2017)	3,193	3,110	-	-
(11.00% 94,300 Debentures redeemable on 16.05.2018)	9,689	9,430	-	-
(11.25% 317,500 Debentures redeemable on 16.05.2019)	33,458	31,750	-	-

A. FINANCIAL INVESTMENTS (CONT.)

A.6. Corporate Debt (Cont.)

A.6.1. Debentures - Quoted (Cont.)

As at 31st December,	2014 Carrying Value Rs.'000	2014 Fair Value Rs.'000	2013 Carrying Value Rs.'000	2013 Fair Value Rs.'000
Sampath Bank PLC	**102,025**	**100,445**	**57,384**	**54,540**
(16.50% 177,600 Debentures redeemable on 11.10.2017)	20,684	20,304	20,684	17,760
(13.40% 363,400 Debentures redeemable on 04.12.2018)	41,196	39,981	36,700	36,780
(8.25% 400,000 Debentures redeemable on 14.12.2019)	40,145	40,160	-	-
Seylan Bank PLC	**136,338**	**139,450**	**96,262**	**85,000**
(15.50% 850,000 Debentures redeemable on 21.02.2018)	96,262	99,450	96,262	85,000
(8.60% 100,000 Debentures redeemable on 22.02.2019)	10,018	10,000	-	-
(8.75% 300,000 Debentures redeemable on 23.12.2020)	30,058	30,000	-	-
Singer (Sri Lanka) PLC	**72,196**	**72,588**	**55,327**	**53,882**
(17.00% 188,856 Debentures redeemable on 30.09.2015)	18,885	18,882	19,047	18,882
(14.50% 140,000 Debentures redeemable on 29.05.2015)	14,512	14,312	14,512	14,000
(14.50% 210,000 Debentures redeemable on 29.05.2016)	21,768	22,394	21,768	21,000
(8.25% 170,000 Debentures redeemable on 23.12.2019)	17,031	17,000	-	-
Siyapatha Finance PLC	**40,068**	**40,000**	**-**	**-**
(8.90% 400,000 Debentures redeemable on 24.12.2019)	40,068	40,000		
Softlogic Finance PLC	**18,234**	**17,790**	**-**	**-**
(10.00% 177,900 Debentures redeemable on 29.08.2019)	18,234	17,790		
Softlogic Holdings PLC	**58,754**	**60,792**	**41,571**	**40,000**
(15.75% 550,000 Debentures redeemable on 09.09.2016)	58,754	60,792	41,571	40,000
Urban Development Authority	**89,010**	**80,588**	**89,010**	**86,632**
(11.00% 867,100 Debentures redeemable on 05.10.2015)	89,010	80,588	89,010	86,632
Total Investment in Quoted Debentures	1,641,796	1,630,129	1,088,035	1,033,960

A.6.2. Debentures - Unquoted

As at 31st December,	2014 Carrying Value Rs.'000	2014 Fair Value Rs.'000	2013 Carrying Value Rs.'000	2013 Fair Value Rs.'000
Abans PLC	**25,825**	**26,670**	**25,926**	**26,491**
(13.50% 25,000 Debentures redeemable on 01.03.2016)	25,825	26,670	25,926	26,491
National Development Bank PLC	**20,000**	**19,903**	**20,050**	**20,334**
(3 Months Gross T.Bill +1% 20,000 Debentures redeemable on 30.06.2016)	20,000	19,903	20,050	20,334
People's Leasing & Finance PLC	**25,292**	**25,522**	**26,475**	**26,919**
(11.70% 250,000 Debentures redeemable on 30.06.2015)	25,292	25,522	26,475	26,919
Singer (Sri Lanka) PLC	**25,648**	**26,230**	**25,648**	**27,055**
(15.50% 250,000 Debentures redeemable on 09.05.2015)	25,648	26,230	25,648	27,055
Siyapatha Finance PLC	**31,682**	**32,771**	**39,183**	**41,508**
(16.65% 200,000 Debentures redeemable on 31.07.2015)	21,670	22,382	21,670	23,070
(12.25% 10,000 Debentures redeemable on 31.12.2015 *2013 - 17,500)	10,012	10,389	17,513	18,438
Total Investment in Unquoted Debentures	128,447	131,096	137,282	142,307

A.6.3. Commercial Paper

People's Leasing & Finance PLC	-	-	16,654	16,885
Merchant Bank of Sri Lanka and Finance PLC	-	-	32,238	32,753
Total Investment in Commercial Paper	-	-	48,892	49,638
Total Investments in Corporate Debt	1,770,243	1,761,225	1,274,209	1,225,905

A. FINANCIAL INVESTMENTS (CONT.)

A.7. Equity Shares - Available for Sale

As at 31st December,	2014 No. of Shares	2014 Carrying Value/Fair Value Rs.'000	2013 No. of Shares	2013 Carrying Value/Fair Value Rs.'000
Banks, Finance and Insurance				
Seylan Bank PLC - (Non Voting)	210,000	12,075	-	-
Sampath Bank PLC	50,000	11,815	-	-
Sector Total		23,890		-
Diversified Holdings				
Vallibel One PLC	201,877	4,825	-	-
Sector Total		4,825		-
Manufacturing				
Tokyo Cement Company (Lanka) PLC	281,843	18,292	-	-
Royal Ceramic Lanka PLC	50,000	5,845	-	-
Sector Total		24,137	-	-
Power and Energy				
Lanka IOC PLC	259,000	15,540	-	-
Sector Total		15,540	-	-
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	9,883	2,075	-	-
Sector Total		2,075	-	-
Land and Property				
Overseas Reality (Ceylon) PLC	382,669	10,064	-	-
Sector Total		10,064	-	-
Total Investment in Equity Shares - AFS		80,531	-	-

A.8. Investment in Units

As at 31st December,	2014 No. of Units	2014 Carrying Value/Fair Value Rs.'000	2013 No. of Units	2013 Carrying Value/Fair Value Rs.'000
Quoted				
NAMAL Acuity Value Fund	80,000	7,208	80,000	5,320
Total Investment in Quoted Units		7,208		5,320

As at 31st December,	2014		2013	
	No. of Units	Carrying Value/Fair Value Rs.'000	No. of Units	Carrying Value/Fair Value Rs.'000
Unquoted				
Ceybank Savingsplus Money Market Fund	1,800,000	18,797	1,800,000	19,164
First Capital Wealth Fund	30,405	38,358	3,851	4,420
Ceylon Income Fund	531,108	7,457	531,108	7,011
NAMAL High Yield Fund	995,025	13,681	995,025	12,743
Guardian Acuity Fixed Income Fund	1,861,814	22,305	999,001	11,658
Total Investment in Unquoted Units		100,598		54,996
Total Investments in Units		107,806		60,316

A.9. Equity Shares - Fair Value Through Profit or Loss

As at 31st December,	2014		2013	
	No. of Shares	Carrying Value/Fair Value Rs.'000	No. of Shares	Carrying Value/Fair Value Rs.'000
Banks, Finance and Insurance				
National Development Bank PLC	53,200	13,300	53,200	8,539
Sampath Bank PLC	54,692	12,924	54,692	9,402
Nations Trust Bank PLC	174,261	16,903	190,000	11,818
DFCC Bank PLC	30,000	6,570	30,000	3,870
Peoples Leasing & Finance PLC	596,000	14,602	596,000	7,986
Seylan Bank PLC - (Non Voting)	239,332	13,762	239,332	7,419
Commercial Bank of Ceylon PLC	-	-	27,863	3,355
Sector Total		78,061		52,389
Diversified Holdings				
John Keells Holdings PLC	36,960	9,240	70,760	16,083
Richard Pieris and Company PLC	722,851	6,144	980,000	6,174
Hemas Holdings PLC	55,950	4,157	221,000	7,514
Vallibel One PLC	250,000	5,975	250,000	4,125
John Keells Holdings PLC-Warrants 2015	-	-	3,144	252
John Keells Holdings PLC-Warrants 2016	-	-	3,144	297
Sector Total		25,516		34,445

A. FINANCIAL INVESTMENTS (CONT.)

A.9. Equity Shares - Fair Value Through Profit or Loss (Contd.)

As at 31st December,	2014		2013	
	No. of Shares	Carrying Value/Fair Value Rs.'000	No. of Shares	Carrying Value/Fair Value Rs.'000
Manufacturing				
Royal Ceramics Lanka PLC	83,000	9,703	118,000	9,982
Dipped Products PLC	11,000	1,573	11,000	990
ACL Cables PLC	30,000	2,292	30,000	1,947
Tokyo Cement Company (Lanka) PLC	332,454	21,576	314,297	8,957
Kelani Cables PLC	27,000	2,414	27,000	1,998
Chevron Lubricants Lanka PLC	-	-	10,099	2,705
Sector Total		37,558		26,579
Hotels and Travels				
Palm Garden Hotels PLC	15,300	1,224	15,300	958
Dolphin Hotels PLC	-	-	47,600	2,137
John Keells Hotels PLC	-	-	77,700	971
The Lighthouse Hotel PLC	-	-	501,600	502
Sector Total		1,224		4,568
Chemicals and Pharmaceuticals				
CIC Holdings PLC	135,000	11,475	75,000	3,593
Haycarb PLC	13,000	2,249	13,000	2,467
Sector Total		13,724		6,060
Power and Energy				
Laugfs Gas PLC	-	-	85,000	2,414
Sector Total		-		2,414
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	40,000	8,400	40,000	7,720
Sector Total		8,400		7,720
Investment Trusts				
Renuka Holdings PLC	-	-	50,877	1,557
Sector Total		-		1,557
Construction and Engineering				
Access Engineering PLC	170,000	5,457	-	-
Sector Total		5,457		-
Total Investment in Equity Shares - FVTPL		169,940		135,732

B. LOANS TO LIFE POLICYHOLDERS

As at 31st December,	2014 Rs.'000	2013 Rs.'000
Balance as at 1st January	47,208	26,158
Loans Granted during the Year	33,325	30,175
Repayments during the year	(18,881)	(9,125)
	61,652	47,208
Interest Receivable	9,430	6,448
Balance as at 31st December	71,082	53,656

C. REINSURANCE RECEIVABLES

Reinsurance Receivable on Outstanding Claims		19,837	17,179
Reinsurance Receivable on Settled Claims	C.1	3,609	6,447
		23,446	23,626

C.1 The age analysis of the reinsurance receivable on settled claims is as follows:

Up to 30 days	1,144	1,305
31 to 60 days	1,588	4,228
61 to 90 days	877	914
	3,609	6,447

D. OTHER ASSETS

Advance Payments		22,401	13,014
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note D.1)	171,296	155,277
Other receivables		1,326	741
		195,023	169,032

D.1 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

Withholding Tax Recoverable (WHT)	71,844	49,939
Notional Tax on Government Securities	99,452	105,338
	171,296	155,277

E. CASH AND CASH EQUIVALENTS

Cash in Hand		805	65
Cash at Bank with Licensed Commercial Banks		81,960	72,589
Cash at Bank with Related Parties - Hatton National Bank PLC		5,717	1,549
		88,482	74,203
Short Term Deposits	(Note E.1)	-	502
		88,482	74,705

E.1 Short Term Deposits

With Related Parties - Hatton National Bank PLC	-	102
Others	-	400
	-	502

F. EMPLOYEE DEFINED BENEFIT LIABILITIES

As at 31st December,	2014 Rs.'000	2013 Rs.'000
Defined benefit plans - Provision for Employee Benefits		
Balance as at 1st January	6,747	4,943
Provision recognised during the year	5,454	3,069
Actuarial gain during the plan year	19,708	(928)
	31,909	7,084
Payments during the year	(401)	(337)
Balance as at 31st December	31,508	6,747

F.1 As at 31st December 2014, the Gratuity liability was actuarially valued under the Projected Unit Credit (PUC) method by Mr. Hugh Terry (Fellow of the Institute of Actuaries, U.K.), Consultant Actuary as required by Sri Lanka Accounting Standard (LKAS) 19 - Employee Benefits.

F.2 With the adoption of revised LKAS 19 - Employee Benefits which become effective w.e.f. 1st January 2013,the remeasurements of the net defined benefit liability,which comprise actuarial gains and losses are recognised immediately in Other Comprehensive Income

Principal assumptions used	2014	2013
(a) Discount Rate	8.5%	10%
(b) Future Salary Increase Rate	7.5%	9%
(c) Early withdrawal through Resignations		
- i) Less than 5 years	18%	18%
- ii) More than 5 years	7.5%	7.5%
(d) Retirement Age	55 years	55 years
The Gratuity Liability is not externally funded.		

G. REINSURANCE CREDITORS

As at 31st December,	2014 Rs.'000	2013 Rs.'000
Foreign Reinsurers	30,921	24,849

H. OTHER LIABILITIES

Policyholders Advance Payments	72,932	62,207
Acquisition Cost Payable	47,873	37,574
Advisor Terminal Benefit Scheme	81,458	91,485
Government Levies	2,042	1,910
Accrued Expenses	41,675	10,082
Others	37,784	17,855
	283,764	221,113

Insurance Revenue Account

For the Year Ended 31st December,	2014 Rs.'000	2013 Rs.'000
General Insurance		
Gross Written Premium	2,322,751	1,863,183
Premium Ceded to Reinsurers	(473,559)	(424,207)
Net Written Premium	1,849,192	1,438,976
Net Change in Reserves for Unearned Premium	(232,621)	(82,544)
Net Earned Premium	1,616,571	1,356,432
Net Claims Incurred	(1,160,721)	(889,072)
Net Commission	(223,123)	(170,718)
(Increase) / Decrease in Deferred Acquisition Expenses	19,160	12,944
Expenses	(514,747)	(424,509)
Fees and Commission Income	109,046	50,651
Underwriting Deficit	(153,814)	(64,272)
Interest and Dividend Income	274,450	273,379
Net Realised Gains	34,494	12,563
Net Fair Value Gain	33,468	9,104
Other Income	12,366	12,830
Operating Profit from General Insurance Business	200,964	243,604
Life Insurance		
Gross Written Premium	2,342,867	2,014,547
Premium Ceded to Reinsurers	(127,463)	(101,798)
Net Written Premium	2,215,404	1,912,749
Net Benefits Expense	(412,383)	(679,136)
Net Commission	(393,831)	(333,006)
Expenses Attributable to Policyholders	(696,339)	(573,180)
Fees and Commission Income	27,914	22,249
Underwriting Surplus	740,765	349,676
Change in Contract Liabilities - Life Fund	(1,192,273)	(724,829)
Interest and Dividend Income	542,426	511,798
Net Realised Gains	71,291	40,848
Net Fair Value Gain	65,813	3,995
Surplus from Life Insurance Business	228,022	181,489
Reconciliation of Statement of Income and Insurance Revenue Accounts		
Operating Profit from General Insurance Business	200,964	243,604
Operating Profit from the Subsidiary	9,597	-
Surplus from Life Insurance Business	228,022	181,489
Profit Before Taxation	438,583	425,093
Income Tax Expenses	(20,858)	(35,970)
Profit for the Year	417,725	389,123

Share Information

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

1. STOCK EXCHANGE LISTING

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

2. SUBMISSION OF FINANCIAL STATEMENTS TO THE CSE

As required by the Listing Rules, the audited Financial Statements for the year ended 31st December 2013 were submitted to the CSE on 04th March 2014. The Interim Financial Statements of the 4th Quarter, for the year/quarter ended 31st December 2014, was submitted to the CSE on 11th February. The audited Financial Statements for the year ended 31st December 2014 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 259.

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

The principal activities of the Company during the year are given in the Annual Report of the Board of Directors and Note 1.2 in Accounting Policies on page 283.

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

The 20 largest shareholders as at 31st December 2014 together with their Shareholding as at 31st December 2013 are given in the following table.

Name of the Shareholder	2014		2013	
	Shareholding	% on Total No. of Shares	Shareholding	% on Total No. of Shares
Hatton National Bank PLC A/C No.1	29,993,000	59.99	29,993,000	59.99
The Ceylon Guardian Investment Trust PLC A/C No.2	2,000,000	4.00	2,000,000	4.00
Mercantile Merchant Bank Ltd	913,265	1.83	913,265	1.83
Janashakthi General Insurance Limited	824,425	1.65	-	-
Bank of Ceylon A/C Ceybank Century Growth Fund	605,090	1.21	659,055	1.32
Mr. Mohamed Faizer Hashim	530,534	1.06	525,386	1.05
Salamander Investments (Pvt.) Ltd	475,000	0.95	475,000	0.95
Arunodhaya Industries (Pvt.) Ltd	400,000	0.80	400,000	0.80
Arunodhaya Investments (Pvt.) Ltd	400,000	0.80	400,000	0.80
Arunodhaya (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
Waldock Mackenzie Ltd/Mr. S.N.P.Palihena & Mrs. A.S.Palihena	300,000	0.60	-	-
Phoenix Ventures Ltd	260,000	0.52	325,289	0.65
Corporate Holdings (Pvt.) Ltd	242,700	0.49	242,700	0.49
Mrs. Kailasapillai Abiramipillai	200,000	0.40	200,000	0.40
Mr. Kailasapillai Viswanathar	200,000	0.40	200,000	0.40
Miss. Subramaniam Sivamalar	200,000	0.40	200,000	0.40
Mr. Aravinthan Kailasapillai	200,000	0.40	200,000	0.40
Andysel (Pvt.) Ltd	200,000	0.40	200,000	0.40
Mrs. Selliah Arunthathi	200,000	0.40	200,000	0.40
	38,880,280	77.77		

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

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

	2014		2013	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Number of Shares	19,570,222	39.14	19,880,890	39.76

	2014		2013	
	Shareholders	% on Total No. of Shareholders	Shareholders	% on Total No. of Shareholders
Number of Shareholders	3,467	99.63	3,662	99.70

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

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

Name of the Director	No. of Shares as at 31st December 2014	No. of Shares as at 31st December 2013
Dr. Ranee Jayamaha - Chairperson	100	100
Manjula de Silva - Managing Director / Chief Executive Officer	38,332	38,332
M U de Silva	3,000	3,000
J E P A de Silva (Resigned w.e.f. 21st May 2014)	Not Applicable	1,332
Sarath Ratwatte	14,666	14,666
Jonathan Alles	1,000	1,000
J A P M Jayasekara	5,000	5,000
K Balasundaram	10,000	10,000
D P N Rodrigo	180	180
Siromi N Wickramasinghe	52,500	52,500
Dr S Selliah (Appointed w.e.f. 17th June 2014)	100,000	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 page 240.

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/-
No of Shares	-	50,000,000
Class of Shares	-	Ordinary Shares
Voting Rights	-	One vote per Ordinary share

12. SHAREHOLDINGS

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

There were 3,480 registered shareholders as at 31st December 2014 (2013-3,673). The distribution and composition of shareholders as per the above rule are given as follows,

Shareholding	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	% on Total No. of shares	No. of Shareholders	No. of shares	% on Total No. of shares	No. of Shareholders	No. of shares	% on Total No. of shares
1 – 1,000 Shares	2041	652,563	1.31	6	2,149	0.00	2,047	654,712	1.31
1,001 – 10,000 Shares	1243	4,386,657	8.78	14	56,146	0.11	1,257	4,442,803	8.89
10,001 –100,000 Shares	134	3,516,516	7.03	8	310,790	0.62	142	3,827,306	7.65
100,001 –1,000,000 Shares	31	8,916,453	17.83	1	165,726	0.33	32	9,082,179	18.16
Over 1,000,000 Shares	2	31,993,000	63.99	0	0	0.00	2	31,993,000	63.99
Total	3,451	49,465,189	98.94	29	534,811	1.06	3,480	50,000,000	100.00

b) Analysis of Shareholders

i. Resident/Non-Resident

	31st December 2014			31st December 2013		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	3,451	49,465,189	98.94	3,643	49,173,556	98.34
Non-Resident	29	534,811	1.06	30	826,444	1.66
Total	3,480	50,000,000	100.00	3,673	50,000,000	100.00

ii. Individual /Institutional

	31st December 2014			31st December 2013		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,376	10,678,035	21.36	3,576	11,216,098	22.43
Institutional	104	39,321,965	78.64	97	38,783,902	77.57
Total	3,480	50,000,000	100.00	3,673	50,000,000	100.00

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

The details relating to the performance of the share are given below.

	2014	2013	2012	2011	2010
Number of Transactions	3,111	1,778	1,465	2,831	4,812
Number of Shares Traded	4,937,695	4,589,817	1,347,828	2,903,300	13,201,900
Value of Shares Traded (Rs.)	373,672,883	242,310,103	61,959,216	215,698,120	784,213,895
CSE Turnover (Rs.Bn.)	340.92	200.47	213.83	546.26	570.30
Market Capitalisation (Rs. Mn.)					
HNB Assurance PLC	4,175	2,625	2,450	2,845	2,925
CSE	3,104,863	2,459,897	2,167,581	2,213,873	2,210,452
Dividend per share (Rs.)	3.75	3.25	2.75	2.10	1.80
Dividend payment (Rs. Mn.)	187.5	162.5	137.5	105.0	67.5
Dividend payout (%)	44.89	41.76	39.17	40.86	27.92
Basic Earnings per share (Rs.)	8.35	7.78	7.02	5.14*	5.38
Net Asset Value per share (Rs.)	48.28	42.26	37.34	31.87*	28.86*
Market Price per share(Rs.)					
Highest	98.00	57.00	56.90	90.00	90.00
Lowest	52.20	47.00	36.30	42.50	45.00
Year end (VWA)	83.50	52.50	49.00	56.90	78.00
P/E Ratio (Times)	10.00	6.75	6.98	11.07*	12.33

*Restated

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

The Company uses the cost method as the accounting policy for maintaining records of Property, Plant and Equipment and the market value of such assets is considered not materially different to the book value. Details relating to the changes in the Company's fixed assets are given on Note 4 to the Financial Statements in page 302.

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

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

16. EMPLOYEE SHARE OPTION SCHEME (RULE NUMBER 7.6 (XIV))

There is no Employee Share Ownership Scheme in the Company.

17. DISCLOSURES PERTAINING TO THE CORPORATE GOVERNANCE (RULE NUMBER 7.6 (XV))

Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 (c), and 7.10.6 (c) of Section 7 of the rules are given in the Corporate Governance Report on pages 217 to 218.

18. RELATED PARTY TRANSACTIONS (RULE NUMBER 7.6 (XVI))

There were no individual transactions exceeding the limit of 10% of the Equity or 5% of the total assets during the year with any related party of the Company. However, all related party transactions at aggregate level have been disclosed under Note 43 to the Financial Statements

Quarterly Analysis 2014 and 2013

Quarterly Analysis 2014 Statement of Comprehensive Income	1st Quarter Jan-Mar 14 Rs.'000	2nd Quarter Apr-Jun 14 Rs.'000	3rd Quarter Jul-Sep 14 Rs.'000	4th Quarter Oct-Dec 14 Rs.'000	Total Jan-Dec 14 Rs.'000
Gross Written Premium	1,145,247	1,109,544`	1,196,657	1,214,170	4,665,618
Premium Ceded to Reinsurers	(134,759)	(155,016)	(146,074)	(165,173)	(601,022)
Net Written Premium	1,010,488	954,528	1,050,583	1,048,997	4,064,596
Net Change in Reserves for Unearned Premium	(104,865)	(32,660)	(59,099)	(35,997)	(232,621)
Net Earned Premium	905,623	921,868	991,484	1,013,000	3,831,975
Other Revenue					
Interest and Dividend Income	198,627	207,788	211,650	205,950	824,015
Net Realised Gains	154	6,687	15,392	86,590	108,823
Net Fair Value Gains	13,285	19,370	58,139	8,487	99,281
Fee and Commission Income	56,296	15,169	26,798	38,697	136,960
Other Income	2,109	2,187	3,024	5,046	12,366
	270,471	251,201	315,003	344,770	1,181,445
Net Income	1,176,094	1,173,069	1,306,487	1,357,770	5,013,420
Net Benefits, Claims and Expenses					
Net Insurance Benefits and Claims Paid	(359,267)	(320,391)	(419,074)	(429,501)	(1,528,233)
Net Change in Insurance Claims Outstanding	(1,086)	(28,169)	(1,244)	(14,372)	(44,871)
Change in Contract Liabilities - Life Fund	(316,738)	(370,988)	(373,052)	(131,495)	(1,192,273)
Other Operating and Administration Expenses	(299,938)	(281,298)	(326,492)	(395,982)	(1,303,710)
Underwriting and Net Acquisition Costs	(128,685)	(100,438)	(119,894)	(125,809)	(474,826)
Other Insurance Related Costs	(7,653)	(7,651)	(8,760)	(6,860)	(30,924)
Total Benefits, Claims and other Expenses	(1,113,367)	(1,108,935)	(1,248,516)	(1,104,019)	(4,574,837)
Profit Before Taxation	62,727	64,134	57,971	253,751	438,583
Income Tax Expenses	(8,857)	(9,988)	(7,744)	5,732	(20,857)
Profit for the Period	53,870	54,146	50,227	259,483	417,726

Quarterly Analysis 2013 Statement of Comprehensive Income	1st Quarter Jan-Mar 13 Rs.'000	2nd Quarter Apr-Jun 13 Rs.'000	3rd Quarter Jul-Sep 13 Rs.'000	4th Quarter Oct-Dec 13 Rs.'000	Total Jan-Dec 13 Rs.'000
Gross Written Premium	923,348	895,274	1,057,403	1,001,705	3,877,730
Premium Ceded to Reinsurers	(133,107)	(138,556)	(129,802)	(124,540)	(526,005)
Net Written Premium	790,241	756,718	927,601	877,165	3,351,725
Net Change in Reserves for Unearned Premium	(66,588)	27,657	(10,685)	(32,928)	(82,544)
Net Earned Premium	723,653	784,375	916,916	844,237	3,269,181
Other Revenue					
Interest and Dividend Income	189,435	198,006	199,679	198,057	785,177
Net Realised Gains / (Losses)	(202)	2,101	8,039	43,473	52,411
Net Fair Value Gains /(Losses)	6,059	18,039	(20,911)	9,912	13,099
Fee and Commission Income	14,342	33,848	10,465	14,245	72,900
Other Income	1,083	2,085	3,587	6,075	12,830
	210,717	254,079	200,859	271,762	936,417
Net Income	934,370	1,038,454	1,117,775	1,115,999	4,205,598
Net Benefits, Claims and Expenses					
Net Insurance Benefits and Claims Paid	(270,342)	(357,179)	(585,448)	(345,690)	(1,558,659)
Net Change in Insurance Claims Outstanding	13,837	(26,621)	9,945	(6,710)	(9,549)
Change in Contract Liabilities - Life Fund	(265,307)	(223,828)	(129,961)	(105,733)	(724,829)
Other Operating and Administration Expenses	(227,327)	(264,799)	(243,385)	(348,637)	(1,084,148)
Underwriting and Net Acquisition Costs	(119,163)	(95,191)	(106,434)	(60,471)	(381,259)
Other Insurance Related Costs	(4,018)	(5,583)	(5,984)	(7,476)	(23,061)
Total Benefits, Claims and other Expenses	(872,320)	(973,201)	(1,061,267)	(874,717)	(3,781,505)
Profit Before Taxation	62,050	65,253	56,508	241,282	425,093
Income Tax Expenses	(11,964)	(10,544)	(6,325)	(7,137)	(35,970)
Profit for the Period	50,086	54,709	50,183	234,145	389,123

Decade at a Glance

Income Statement for the year ended 31st December	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000
General Insurance										
Gross Written Premium	2,322,751	1,863,183	1,711,204	1,694,343	1,343,703	1,130,781	924,709	704,577	618,502	469,929
Net Earned Premium	1,616,571	1,356,432	1,325,072	1,161,948	859,077	675,939	541,463	468,595	362,540	270,059
Income from Investments and Other Income	474,001	358,527	308,180	169,390	177,585	157,308	126,784	85,880	56,164	38,506
Net Claims Incurred	(1,160,721)	(889,072)	(892,750)	(802,370)	(588,237)	(448,210)	(363,813)	(291,283)	(219,336)	(144,548)
Underwriting and Net Acquisition Costs	(88,175)	(53,401)	(53,652)	(40,680)	12,539	1,887	(6,272)	1,546	(6,058)	(4,947)
Expenses	(631,115)	(528,882)	(458,210)	(388,448)	(347,439)	(285,843)	(228,288)	(186,406)	(130,609)	(107,061)
Profit Before Taxation	210,561	243,604	228,640	99,840	113,525	101,081	69,874	78,332	62,701	52,009
Life insurance										
Gross Written Premium	2,342,867	2,014,547	1,500,028	1,290,367	1,084,480	984,866	914,170	767,576	503,321	354,181
Net Earned Premium	2,215,404	1,912,749	1,371,952	1,187,671	985,283	891,808	834,218	698,048	451,920	318,684
Income from Investments and Other Income	707,444	578,890	428,630	297,566	339,295	311,730	217,223	114,920	53,497	26,483
Net Benefits Incurred	(412,383)	(679,136)	(261,771)	(62,760)	(59,900)	(63,701)	(44,669)	(25,595)	(14,924)	(12,183)
Underwriting and Net Acquisition Costs	(386,651)	(327,858)	(294,456)	(247,379)	(177,530)	(151,995)	(161,894)	(154,212)	(115,132)	(88,675)
Expenses	(703,519)	(578,327)	(523,220)	(444,773)	(399,415)	(364,834)	(265,047)	(195,208)	(138,458)	(103,259)
Change in Contract Liabilities - Life Fund	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)
Profit Before Taxation	228,022	181,489	165,226	172,000	156,000	130,000	100,000	65,000	30,000	10,000
Company										
Gross Written Premium	4,665,618	3,877,730	3,211,232	2,984,710	2,428,183	2,115,647	1,838,879	1,472,153	1,121,823	824,110
Net Earned Premium	3,831,975	3,269,181	2,697,024	2,349,619	1,844,360	1,567,747	1,375,681	1,166,643	814,460	588,743
Income from Investments and Other Income	1,181,445	937,417	736,810	466,956	516,880	469,038	344,007	200,800	109,661	64,989
Net Claims and Benefits (Net)	(1,573,104)	(1,568,208)	(1,154,521)	(865,130)	(648,137)	(511,911)	(408,482)	(316,878)	(234,260)	(156,731)
Underwriting and Net Acquisition Costs	(474,826)	(381,259)	(348,108)	(288,059)	(164,991)	(150,108)	(168,166)	(152,666)	(121,190)	(93,622)
Expenses	(1,334,634)	(1,107,209)	(981,430)	(833,221)	(746,854)	(650,677)	(493,335)	(381,614)	(269,067)	(210,320)
Change in Contract Liabilities - Life Fund	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)
Profit Before Tax	438,583	425,093	393,866	271,840	269,525	231,081	169,874	143,332	92,701	62,009
Income Tax Expenses	(20,857)	(35,970)	(42,726)	(25,772)	(27,786)	(29 ,471)	(5,401)	(20,000)	(1,377)	(1,720)
Profit for the Year	417,726	389,123	351,140	246,068	241,739	201,610	164,473	123,332	91,324	60,289
Basic Earnings per Share (Rs.)	8.35	7.78	7.02	5.14	5.38	4.49	3.66	2.75	2.03	1.34
Dividend per Share (Rs.)	3.75	3.25	2.75	2.10	1.80	1.50	1.25	1.00	1.00	0.50

Statement of Financial Position as at 31st December	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000 Restated	2010 Rs.'000 Restated	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000
General Insurance										
Assets										
Property, Plant and Equipment	133,942	137,009	118,447	117,292	126,398	110,896	83,566	68,064	54,096	44,881
Intangible Assets	51,622	53,807	61,068	26,673	31,535	16,102	17,316	17,603	17,982	21,175
Deferred Tax Assets	-	2	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	1,031,342	774,477	627,655	530,914	442,077
Financial Investments	2,732,062	2,386,222	2,176,444	1,948,775	1,227,508	-	-	-	-	-
Reinsurance Receivables	138,814	81,764	121,999	103,019	103,786	57,541	59,289	24,683	7,620	14,268
Premium Receivables	357,108	294,472	237,844	231,385	231,929	157,029	120,922	86,721	95,572	67,538
Other Assets	488,126	406,148	344,421	268,162	235,189	251,675	184,361	121,267	105,320	98,798
Insurance Contract - Deferred Expenses	52,072	32,912	19,968	20,059	12,392	-	-	-	-	-
Cash and Cash Equivalents	84,763	69,382	79,377	127,887	68,439	48,848	77,332	71,181	66,785	42,838
Total Assets	4,038,509	3,461,718	3,159,568	2,843,252	2,037,176	1,673,433	1,317,263	1,017,174	878,289	731,575
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	375,000	375,000	375,000	375,000	250,000	250,000
Revenue Reserves	1,196,546	941,820	690,197	444,057	676,118	455,851	301,116	174,143	200,811	121,987
Available for Sale Reserves	3,590	1,427	6,209	-	-	-	-	-	-	-
Other Reserves	19,957	1,244	-	-	-	-	-	-	-	-
Total Equity	2,391,968	2,116,366	1,868,281	1,615,932	1,051,118	830,851	676,116	549,143	450,811	371,987

Statement of Financial Position as at 31st December	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000 Restated	2010 Rs.'000 Restated	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000
Liabilities										
Insurance Contract Liabilities - General	1,279,138	1,011,102	969,443	944,321	743,049	599,364	470,206	340,562	319,538	267,020
Employee Defined Benefits Liabilities	39,985	49,890	37,417	29,564	21,670	15,583	9,637	6,555	3,525	2,637
Current Tax Liabilities	12,012	35,143	42,950	25,998	28,618	-	-	-	-	-
Deferred Tax Liabilities	8,845									
Reinsurance Creditors	79,857	76,032	53,325	75,150	51,968	62,314	50,504	36,375	52,661	24,961
Other Liabilities	226,704	173,185	188,152	152,287	140,753	165,321	110,800	84,539	51,754	64,970
Total Liabilities	1,646,541	1,345,352	1,291,287	1,227,320	986,058	842,582	641,147	468,031	427,478	359,588
Total Equity and Liabilities	4,038,509	3,461,718	3,159,568	2,843,252	2,037,176	1,673,433	1,317,263	1,017,174	878,289	731,575

Ten Year Summary

Life Insurance

Assets										
Property, Plant and Equipment	-	-	-	4,276	4,573	6,174	8,151	4,333	3,086	2,994
Intangible Assets	-	-	-	22,203	20,773	14,523	5,742	2,936	1,872	204
Investments	-	-	-	-	-	1,686,073	1,263,166	852,943	513,475	335,222
Financial Investments	5,545,833	4,270,216	3,527,422	2,935,487	2,415,853	-	-	-	-	-
Loans to Life Policyholders	71,082	53,656	29,888	20,097	15,000	10,338	4,908	1,674	1,286	993
Reinsurance Receivables	23,446	23,626	40,716	27,848	18,617	16,283	10,025	6,234	8,647	2,271
Premium Receivables	6,943	6,710	9,573	-	-	-	-	-	-	-
Other Assets	195,023	169,032	137,795	129,223	102,556	219,625	150,279	78,697	31,848	20,047
Cash & Cash Equivalents	88,482	74,705	129,916	62,468	13,005	45,252	39,939	44,890	36,981	13,102
Total Assets	5,930,809	4,597,945	3,875,310	3,201,602	2,590,377	1,998,268	1,482,210	991,707	597,195	374,833
Equity and Liabilities										
Equity										
Stated Capital	-	-	-	-	-	-	-	-	-	-
Revenue Reserves	-	-	-	-	-	-	-	-	-	-
Available for Sale Reserves	-	-	-	-	-	-	-	-	-	-
Other Reserves	(18,780)	928	-	-	-	-	-	-	-	-
Life Policyholders' Reserve Fund	40,748	(4,182)	(1,191)	(22,526)	31,050	-	-	-	-	-
Total Equity	21,968	(3,254)	(1,191)	(22,526)	31,050	-	-	-	-	-
Liabilities										
Insurance Contract Liabilities - Life	5,562,648	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505	880,674	507,721	300,818
Employee Defined Benefits Liabilities	31,508	6,747	4,943	4,565	3,406	2,597	1,681	922	455	464
Reinsurance Creditors	30,921	24,849	29,928	28,106	25,341	24,937	32,535	42,052	35,867	9,542
Other Liabilities	283,764	221,113	215,391	170,126	115,366	117,221	87,489	68,059	53,152	64,009
Total Liabilities	5,908,841	4,601,199	3,876,501	3,224,128	2,559,327	1,998,268	1,482,210	991,707	597,195	374,833
Total Equity and Liabilities	5,930,809	4,597,945	3,875,310	3,201,602	2,590,377	1,998,268	1,482,210	991,707	597,195	374,833

Decade at a Glance

Statement of Financial Position as at 31st December	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000 Restated	2010 Rs.'000 Restated	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000
Company										
Assets										
Property, Plant and Equipment	133,942	137,009	118,447	121,568	130,971	117,070	91,717	72,397	57,182	47,875
Intangible Assets	51,622	53,807	61,068	48,876	52,308	30,755	23,058	20,539	20,402	21,379
Deferred Tax Assets	-	2	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	2,717,415	2,037,643	1,480,598	1,044,389	777,299
Financial Investments	8,277,895	6,656,438	5,703,866	4,884,262	3,643,361	-	-	-	-	-
Loans to Life Policyholders	71,082	53,656	29,888	20,097	15,000	10,338	4,908	1,674	1,286	993
Reinsurance Receivables	162,260	105,390	162,715	130,867	122,403	73,824	69,314	30,917	16,267	16,539
Premium Receivables	364,051	301,182	247,417	231,385	231,929	157,029	120,922	86,721	95,572	67,538
Other Assets	683,149	575,180	482,216	397,385	337,745	471,170	334,640	199,964	136,620	118,845
Insurance Contract - Deferred Expenses	52,072	32,912	19,968	20,059	12,392	-	-	-	-	-
Cash and Cash Equivalents	173,245	144,087	209,293	190,355	81,444	94,100	117,271	116,071	103,766	55,940
Total Assets	9,969,318	8,059,663	7,034,878	6,044,854	4,627,553	3,671,701	2,799,473	2,008,881	1,475,484	1,106,408
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	375,000	375,000	375,000	375,000	250,000	250,000
Revenue Reserves	1,196,546	941,820	690,197	444,057	676,118	455,851	301,116	174,143	200,811	121,987
Available for Sale Reserves	3,590	1,427	6,209	-	-	-	-	-	-	-
Other Reserves	1,177	2,172	-	-	-	-	-	-	-	-
Life Policyholders' Reserve Fund	40,748	(4,182)	(1,191)	(22,526)	31,050	-	-	-	-	-
Total Equity	2,413,936	2,113,112	1,867,090	1,593,406	1,082,168	830,851	676,116	549,143	450,811	371,987
Liabilities										
Insurance Contract Liabilities - Life	5,562,648	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505	880,674	507,721	300,818
Insurance Contract Liabilities - General	1,279,138	1,011,102	969,443	944,321	743,049	599,364	470,206	340,562	319,538	267,020
Employee Defined Benefits Liabilities	71,493	56,637	42,360	34,129	25,076	18,180	11,318	7,477	3,980	3,101
Current Tax Liabilities	12,012	35,143	42,950	25,998	28,618	-	-	-	-	-
Deferred Tax Liabilities	8,845	-	-	-	-	-	-	--	-	-
Reinsurance Creditors	110,778	100,881	83,253	103,256	77,309	87,251	83,039	78,427	88,528	34,503
Other Liabilities	510,468	394,298	403,543	322,413	256,119	282,542	198,289	152,598	104,906	128,979
Total Liabilities	7,555,382	5,946,551	5,167,788	4,451,448	3,545,385	2,840,850	2,123,357	1,459,738	1,024,673	734,421
Total Equity and Liabilities	9,969,318	8,059,663	7,034,878	6,044,854	4,627,553	3,671,701	2,799,473	2,008,881	1,475,484	1,106,408

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Investor Information										
Return on Equity	17.30%	18.41%	18.79%	15.23%	23.00%	24.27%	24.32%	22.46%	20.26%	16.21%
Market Price per Share as at 31st Dec (VWA) (Rs.)	83.50	52.50	49.00	56.90	78.00	49.50	18.25	24.50	25.00	12.75
Market Price per Share as at 31st Dec (VWA) (Rs.) - Adjusted for Bonus Issue	83.50	52.50	49.00	56.90	66.31	44.94	21.50	26.19	26.56	14.19
Price Earning Ratio (Times)	10	6.75	6.98	11.07	12.33	10.01	5.87	9.53	13.06	10.56
Earnings Yield	10.00%	14.82%	14.33%	9.03%	8.11%	9.99%	17.02%	10.50%	7.64%	9.44%
Dividend Yield	4.49%	6.19%	5.61%	3.69%	2.31%	3.03%	6.85%	4.08%	4.00%	3.92%
Market Capitalisation (Rs. Mn)	4,175	2,625	2,450	2,845	2,925	1,856	694	919	625	319
Employee Information										
Number of Employees	829	804	723	662	597	540	457	377	308	262
GWP per Employee (Rs. Mn)	5.63	4.82	4.44	4.51	4.07	3.92	4.02	3.90	3.64	3.15
Net Profit per Employee (Rs. '000)	503.90	483.98	485.67	371.70	404.92	373.35	359.90	327.14	296.51	230.11
General Insurance Operation										
Net Claims Ratio	72%	66%	68%	69%	68%	66%	67%	62%	60%	54%
Expense Ratio	38%	39%	34%	34%	39%	42%	43%	39%	38%	41%
Combined Ratio	110%	105%	102%	103%	107%	108%	110%	101%	98%	95%

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. commission

ADMISSIBLE ASSETS

Assets that may be included in determining an Insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto.

CLAIMS

The amount payable under a contract of insurance arising from the occurrence of an insured event.

CLAIMS INCURRED

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by claims outstanding provisions at the beginning and end of the accounting period.

CLAIMS INCURRED BUT NOT REPORTED (IBNR)

At the end of the period of account a reserve in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but not yet been reported to the Insurer.

CLAIMS INCURRED BUT NOT ENOUGH REPORTED (IBNER)

A reserve made in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but no comprehensive information is available to make adequate provisions as at the Balance Sheet date.

CLAIMS OUTSTANDING RESERVE – GENERAL INSURANCE BUSINESS

The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the Balance Sheet date, including Incurred But Not Reported (IBNR), Claims Incurred But Not Enough Reported (IBNER) claims and claims handling expenses, less amounts already paid in respect of those claims.

DEFERRED ACQUISITION COST – GENERAL INSURANCE BUSINESS

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the Balance Sheet date which are carried from one accounting period to subsequent accounting periods.

NET EARNED PREMIUM – GENERAL INSURANCE BUSINESS

Gross Written Premium adjusted for reinsurance premium and for the increase or decrease in unearned premium.

NET WRITTEN PREMIUM

The balance of the Gross Written Premium after deduction of any premium paid or payable by the Insurer for reinsurance ceded. Commonly identifies as Net Premium.

POLICY LOAN

A loan from the Insurer to a Policy holder on the security of the surrender value of a long term insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

PREMIUM CEDED TO REINSURERS

The premium paid by the ceding company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

REINSURANCE

An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (cedent – the primary insurer) against part or all of the liability assumed by the cedent under policy or policies of insurance.

REINSURANCE COMMISSION

Commission/discount received or receivable in respect of premiums paid or payable to a Reinsurer.

UNEARNED PREMIUM

It represents the portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the Balance Sheet date.

UNEARNED PREMIUM RESERVE

A fund kept by a 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 Thirteenth (13th) Annual General Meeting of HNB Assurance PLC is convened on Friday the Twenty Seventh (27th) day of March 2015, 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 2014, the Auditors' Report thereon.

ii. To declare a dividend of Rs. 3.75 per share for the year 2014, to the shareholders as recommended by the Directors.

iii. To re-elect Dr. Sivakumar Selliah, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 92 of the Articles of Association of the Company.

iv. To re-appoint Mr. M U de Silva who retires at the Annual General Meeting, having attained the age of 73 years, as a Director of the Company and to adopt the following resolution :-

   Ordinary Resolution One - "That Mr. Madapathage Upali de Silva who has attained the age of 70 years on 20th October 2011, be and is hereby re-appointed as a Director of the Company in terms of Section 211 of the Companies Act, No: 7 of 2007 and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, shall not apply to the said Director".

v. To ratify the appointment of Messrs. Ernst & Young (EY) Chartered Accountants, who were appointed as the Auditors w.e.f 31st October 2014 to fill the casual vacancy, for the financial year 2014, and to re-appoint Messrs. Ernst & Young (EY) Chartered Accountants, as the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.

vi. To authorise the Directors to determine payments for the year 2015 for charitable and other purposes.

By Order of the Board

HNB Assurance PLC

Shiromi Halloluwa

Board Secretary

Colombo, Sri Lanka.

09th February, 2015.

Notes:

1. A member entitled to attend or attend and vote at the meeting is entitled to appoint a proxy to attend or attend and vote as the case may be, in his stead.

2. A proxy need not be a member of the Company. The Form of Proxy is enclosed.

3. The completed Form of Proxy should be deposited with the Board Secretary at the Registered Office of the Company at "HNB Towers", Level 18, No: 479, T.B. Jayah Mawatha, Colombo 10, not less than 48 hours before the time appointed for holding the meeting.

Form of Proxy

I/We .... of ....
....
being *a member/members of the HNB Assurance PLC, hereby appoint ....of ....
....
or failing him/her Ranee Jayamaha or failing her Manjula Hiranya de Silva or failing him Madapathage Upali de Silva or failing him Sarath Carlyle Ratwatte or failing him Antonio Jonathan Alles or failing him Jayasekera Arachchige Panduka Mahendra Jayasekera or failing him Kandasamypillai Balasundaram, or failing him Dilshan Peter Nirosh Rodrigo, or failing him Siromi Noelle Wickramasinghe or failing her Sivakumar Selliah 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 Thirteenth Annual General Meeting of the Company to be convened on Friday the 27th day of March 2015 at 10.00 in the forenoon at the Auditorium on Level 22 of "HNB Towers" at No: 479, T. B. Jayah Mawatha, Colombo 10 and at any adjournment thereof and at every poll which may be taken in consequence thereof :

To declare a dividend of Rs. 3.75 per share	In favour	
	Against	
To re-elect Dr. Sivakumar Selliah, as a Director of the Company	In favour	
	Against	
To re- appoint Mr. M U de Silva, as a Director of the Company	In favour	
	Against	
To ratify the appointment of Messrs. Ernst & Young (EY) Chartered Accountants, who were appointed as the Auditors w.e.f. 31st October 2014 to fill the casual vacancy, for the financial year 2014, and to re-appoint Messrs Ernst & Young, Chartered Accountants, 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 .... 2015.

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 Registered Office of the Company at "HNB Towers", Level 18, No: 479, T. B. Jayah Mawatha, Colombo 10, not less than 48 hours before the time appointed for holding the Meeting.

3. The Proxy shall -

   (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.

   (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the Constitution of that Company or corporate body.

   The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer.

   (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.

4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder, signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

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,
No.10, Sri Uttarananda Mawatha,
Colombo 03,
Sri Lanka.
Fax : 0112327287
E-mail : vipula@hnbassurance.com

Name : ....

Permanent Mailing Address : ....

Contact Numbers - (Tel)	:	....	....	....
		Country Code	Area Code	Number
- (Fax)	:	....	....	....
		Country Code	Area Code	Number

E-mail : ....

Name of Company
(If Applicable) : ....

Designation
(If Applicable) : ....

Company Address
(If Applicable) : ....

Comments/Queries : ....

....
....
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Notes

Notes

Corporate Information

NAME OF THE COMPANY
HNB Assurance PLC

LEGAL FORM
A Public limited liability Company incorporated on 23rd August 2001 under the Companies Act, No.17 of 1982 in Sri Lanka. The Company was re-registered under the Companies Act, No.07 of 2007.

HNB Assurance PLC has become a Life Insurance Company licensed by the Insurance Board of Sri Lanka (IBSL) with effect from 1st January 2015.

COMPANY REGISTRATION NO.
PQ 108

STOCK EXCHANGE LISTING
The Ordinary Shares of the Company are listed on the Main Board of the Colombo Stock Exchange. Stock Exchange code for the Company share is "HASU".

TAX PAYER IDENTIFICATION (TIN) NO.
134009373

VAT REGISTRATION NO.
134009373-7000

FISCAL YEAR-END
31st December

PRINCIPAL ACTIVITIES
With effect from 1st January 2015, principal activities of the Company are carrying on Life Insurance Business and providing services to its fully owned subsidiary HNB General Insurance Limited which is carrying on General Insurance Business.

REGISTERED OFFICE
No.479, T B Jayah Mawatha, Colombo 10, Sri Lanka

HEAD OFFICE
No.10, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka
Telephone - +9411 4793700
Facsimile - +9411 4793728
E-mail - info@hnbassurance.com
Web - www.hnbassurance.com

BOARD OF DIRECTORS

Dr. Ranee Jayamaha	*Chairperson*
Manjula de Silva	*Managing Director*
Jonathan Alles	*Non-Executive Director*
M U de Silva	*Non-Executive Director*
Sarath Ratwatte	*Independent Non-Executive Director*
Mahendra Jayasekera	*Independent Non-Executive Director*
K Balasundaram	*Independent Non-Executive Director*
Dilshan Rodrigo	*Non-Executive Director*
Siromi Wickramasinghe	*Non-Executive Director*
Dr. Sivakumar Selliah	*Independent Non-Executive Director*

BOARD SECRETARY
Shiromi Halloluwa
Attorney-at-Law & Notary Public

GROUP EXECUTIVE COMMITTEE

Manjula de Silva	*Managing Director*
Niranjan Manickam	*Chief Operating Officer - HNB General Insurance Ltd.*
Prasantha Fernando	*Chief Operating Officer - Life Insurance*
Vipula Dharmapala	*Chief Financial Officer*
Namal Gunawardhane	*Chief Information Officer*
Chandana L Aluthgama	*Chief Business Officer - - HNB General Insurance Ltd.*
Ivan Nicholas	*Head of Distribution - Life Insurance*
Dilshan Perera	*Head of Marketing*
Nilesh Amarasinghe	*Head of Investment*

CONSULTANT ACTUARIES
Life Insurance
Actuarial and Management Consultants (Pvt) Ltd.,
1st Floor, 434, R A de Mel Mawatha, Colombo 03.
Sri Lanka

General Insurance
NMG Financial Services Consulting Pte Ltd.
65, Chulia Street, #37 – 07/08 OCBC Centre
049513, Singapore.

Gratuity
Hugh Terry (Fellow of the Institute of Actuaries, U.K.)
Insight Consulting Group (Pte) Ltd.,
Level 31, 6 Battery Road,
Singapore 049909.

AUDITORS
Ernst & Young
Chartered Accountants
No. 201, De Saram Place,
Colombo 10, Sri Lanka

CREDIT RATING (FITCH)
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
Housing Development Finance Corporation Bank

Designed & produced by
emagewise
Digital Plates & Printing by Aitken Spence Printing & Packaging (Pvt) Ltd
Photography by Taprobane Street & Wildlight (Pvt) Ltd

www.hnbassurance.com