the power to Dream

HNB ASSURANCE
For a brighter future
Annual Report 2012

the power to Dream

All of us have our own hopes, our ambitions, our plans, our dreams. Yet not all of us can achieve these dreams alone.

At HNB Assurance, we offer people the chance to think big, the opportunity to grow, the power to dream.

Triple bottom line highlights

	2012	2011*	Growth (%)
Financial Highlights			
Gross Written Premium (GWP)			
Life Insurance (Rs.Mn.)	1,500	1,291	16%
Non - LIfe Insurance (Rs.Mn.)	1,711	1,694	1%
Combined (Rs.Mn.)	3,211	2,985	8%
Net Earned Premium	2,697	2,350	15%
Profit After Tax (Rs.Mn.)	351	246	43%
Earnings Per Share (Rs.)	7.02	5.14	37%
Dividend Per Share (Rs.)	2.75	2.10	31%
Dividend Payout (Rs.Mn.)	137.5	105	31%
Solvency Margin Life Insurance	2.28	2.89	
Solvency Margin Non-Life Insurance	3.48	3.15	
Life Insurance Operations			
Number of Policies	95,738	90,260	
Net Claim Ratio (with Maturities)	19%	5%	
Net Claim Ratio (without Maturities)	8%	4%	
Expense Ratio	59%	57%	
Combined Ratio (with Maturities)	78%	62%	
Combined Ratio (without Maturities)	67%	61%	
Non - Life Insurance Operations			
Number of Policies	85,996	85,651	
Net Claim Ratio	68%	69%	
Expense Ratio	34%	34%	
Combined Ratio	102%	103%	
Customers			
Number of Branches	51	51	
Bonus for policyholders (Rs.Mn.)	83	70	19%
Employees			
Profit Per Employee (Rs.Mn.)	0.5	0.4	31%
Training hours Per Employee	25.8	23.4	10%
Community			
Total Investment in Community (Rs.Mn.)	2	2	

* 2011 financial information has been restated

Two thousand and twelve

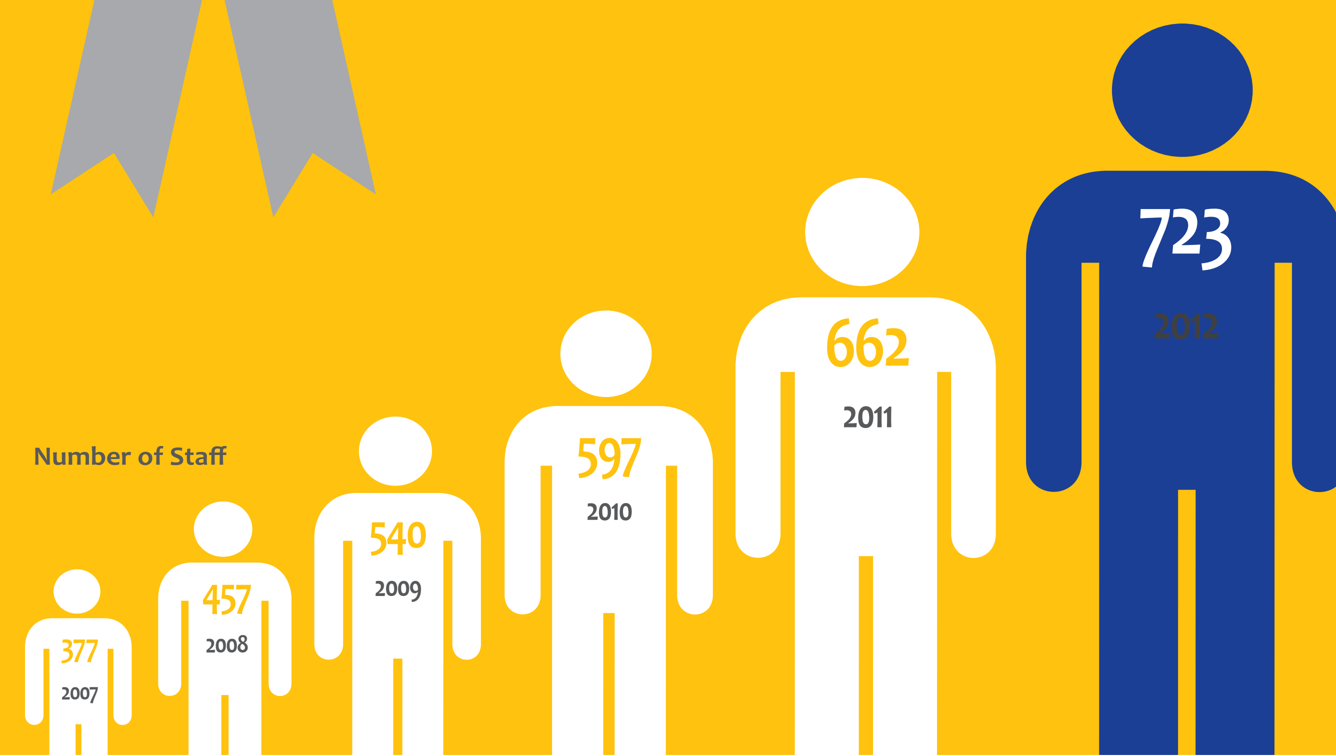
Profit After Tax (Rs.)	Combined GWP (Rs.)	Total Assets (Rs.)
351 Mn.	3.2 Bn.	7 Bn.
Growth 43%	Growth 8%	Growth 16%

Despite massive competition, HNBA marks impressive growth in PAT of 43% in 2012.

The unwavering faith bestowed on us by our customers is the true driving force behind our success.

"Our passionate efforts are to deliver the best to all our stakeholders..."

Number of Staff



Highlights
for the financial year ended 31st December 2012

New Products

Four

my health
my home
my card protection
motorguard Xtra

Credit Rating

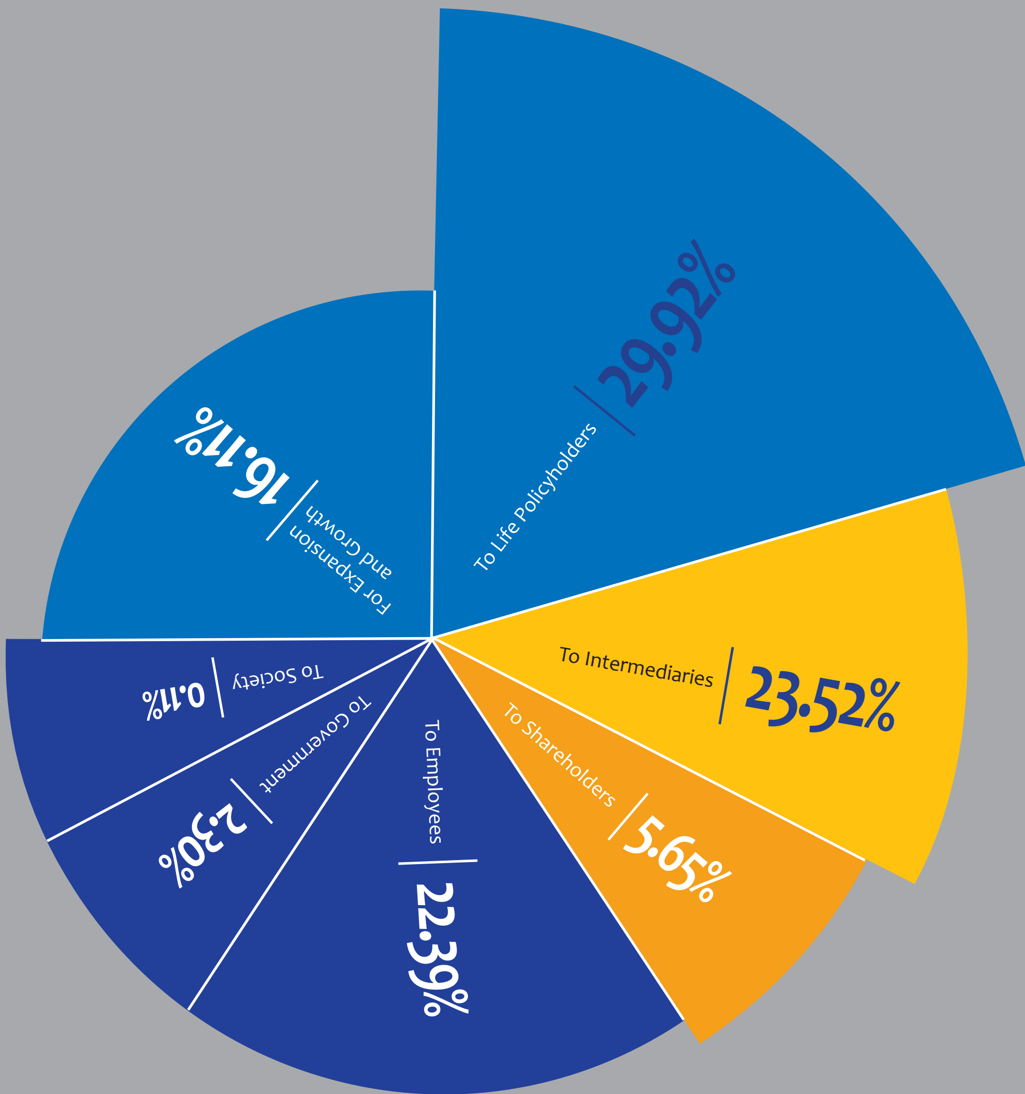
A (lka)

"National Insurer Financial Strength Rating"
"National Long - Term Rating"

Water Projects

Five

Since 2008, we have contributed towards 21 projects to enhance the community's accessibility to water – one prime ingredient of Life quality.



"The Company has continuously contributed towards various segments in many aspects"

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

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Financial Information

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About this Report

As a responsible corporate citizen, we are committed to continuous improvement in all our endeavours, and our reporting initiatives have been at the forefront of such progressive efforts. Our unwavering focus on unearthing ways of improving the information we provide to our stakeholders has brought us a long way, from purely financial disclosures to exhaustive annual reports including governance and sustainability reports.

This year, we take a giant leap forward; what you are reading is our first integrated report, which incorporates comprehensive information on our economic, social and environmental performance- our unique value creation story.

This integrated report is an enhancement of our previous annual reports – for as we mature in our business, we have come to realise that all our business parameters, whether economic, social or environment, are inherently interlinked, by virtue of which efforts to demarcate clear boundaries between them are rendered futile. Thus, through this report we enable our stakeholders to obtain a comprehensive and holistic understanding of the integral components of our business model, through an integrated perspective.

Our most recent previous report, being the Annual Report for the financial year 2011 which was compiled under the Global Reporting Initiative (G3) guidelines, turned a golden page in our annals. Many awards and accolades were brought our way through this report, including;

Awards received at the Annual Report Awards 2012, presented by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

- Overall Excellence in Annual Financial Reporting - Bronze Award (Joint Winners)
- Corporate Governance Disclosure - Bronze Award
- Insurance Companies Sector - Silver Award

Recognition at the Sustainability Reporting Awards 2012, presented by ACCA, Sri Lanka

- Medium Scale Category - Winner

Each year, continuously, we have been raising the bar with regard to the quality of our reports. We humbly acknowledge that these awards were granted to us due to our unwavering commitment to present relevant, reliable and balanced reports. We assure you that the same, if not more, commitment underlies each page that you turn in the current report, and this commitment will continue to the future as well.

We are highly conscious of our carbon footprint, and hence, printed copies of this report will be posted only to those of our shareholders who have requested for same in writing. For all others we are posting this report in the form of a CD-ROM, while this report could also be accessed online at our website www.hnbassurance.com. Should a shareholder request, however, we will be pleased to provide them with a printed copy. Sinhala and Tamil translations of the Chairperson's message, MD's review and Financial Statements are attached to this annual report.

Any queries regarding this report may be submitted through the following modes:

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

Scope and Boundary

Since we comply with an annual reporting cycle, this report covers the operations of HNB Assurance PLC for the year ended 31st December 2012, information on which, will be presented along with comparative information from previous years, where applicable.

No significant changes have taken place regarding the size, structure or ownership of the Company since the previous year. Accordingly, the scope of our activities remains limited to the geographical boundaries of Sri Lanka, while we do not possess any subsidiaries.

All our core activities take place in-house, and therefore have been considered for the purposes of this report, while certain non-core activities such as security, janitorial, payroll, office equipment maintenance, internal audit and tax consultancy services, which have been outsourced, are excluded from the scope of this report.

All financial information has been extracted from the audited financial statements pertaining to the year, appearing on pages 213 to 308, while all non-financial information disclosed has been extracted from the records maintained internally, which are continuously reviewed in an effort to keep them up-to-date. Previous years' data has been re-stated where applicable, to enable greater comparability.

The scope, boundary and measurement techniques of this report, other than our audited financial statements, related notes and disclosures, have undergone no significant changes during the reporting period.

Guiding Frameworks

The information contained in this report, where applicable, complies with the Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, the Companies Act No. 7 of 2007, the Listing Rules of the Colombo Stock Exchange, the Regulation of Insurance Industry Act No 43 of 2000 and rules and regulations issued by the Insurance Board of Sri Lanka. The Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka forms the base for areas on governance. As guidance, we have also used the prototype framework released by the International Integrated Reporting Council (IIRC) and the guidelines issued by Global Reporting Initiative (G3).

Assurance and Test of Compliance

The financial statements and notes to the financial statements included in this report have been audited by KPMG, whose assurance appears on page 212. This report was submitted to GRI for a compliance test and was confirmed to fulfil the requirements under Application Level B. No other form of assurance has been obtained for this report.

About this Report

About Us

We, HNB Assurance PLC (HNBA), are a public quoted company incorporated in 2001 and subsequently listed on the Colombo Stock Exchange in 2003. 59.99% of our ownership vests with our parent, Hatton National Bank PLC (HNB), a leading commercial bank in the country.

We are a rising star in the insurance industry of Sri Lanka, operating as a composite insurer under the license of the Insurance Board of Sri Lanka. Our principal activity is providing Life and Non - Life Insurance solutions to our customers and hence, we function as the insurance service-providing arm of the HNB group.

Our passion to provide sustainable financial results enabled us to yield a superlative performance in the current year as well. Accordingly, turnover (Gross Written Premium) from the Life Insurance business was recorded at Rs. 1,500 Million (2011: Rs 1,291 Million restated), while turnover (Gross Written Premium) from Non - Life Insurance reached Rs. 1,711 Million (2011: Rs. 1,694 Million restated). The overall combined turnover (Gross Written Premium) of the Company thereby increased to Rs. 3, 211 Million, growing by 8% over the Rs. 2,985 Million (restated) turnover recorded in the previous year. Simultaneously, Profit After Tax of the Company reached Rs. 351 Million, at a 43% rise from the previous year's figure of Rs. 246 Million (restated).

By the year end, 723 employees were part of the HNBA team, while 51 of our branches were located island-wide, in addition to the delivery of bancassurance services through 148 officers located in HNB branches. The Company provides a well-diversified product portfolio for its customers and four products were newly introduced during 2012. The total assets of the Company were valued at Rs. 7,035 Million by 31st December 2012, while our market capitalisation as at the said date stood at Rs. 2,450 Million.

In all our endeavours, we strive to achieve our vision and mission while upholding the values that govern us, as presented on page 2. An introduction to our key products appears on page 84 and 85.

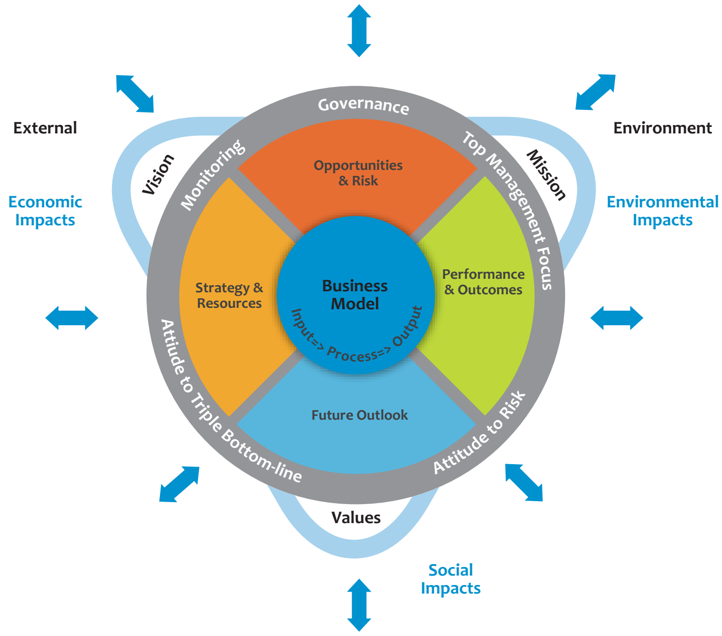
Organisational Structure

HNB ASSURANCE
For a brighter future

- Life Insurance
- Non - Life Insurance
- Marketing, Distribution and Corporate Business Development
- Support Services - HR, IT, Finance, Investment etc.

Our Approach to Integrated Reporting

Our Business: in a Nutshell



Our business, as guided by our vision and mission, is to exceed the expectations of our customers through innovative insurance solutions while endeavouring to add value to all our stakeholders. In doing so, our top management discharges its duties with the highest standard of stewardship in terms of governance and an unwavering focus on our impact on the triple bottom-line criterion. Significant attention is also placed on safeguarding our business through robust risk management policies and practices.

We recognise that the strategies formulated and implemented in the value creation process of our business model generate social, economic and environmental impacts on all our stakeholders. On the flip side of the coin, our business is incessantly subject to external social, economic and environmental forces, which in turn result in risks and opportunities that must be managed or exploited, simply 'to stay in business'.

Guided by this knowledge, we constantly monitor the impacts of all such aspects, both on our current performance and the future outlook, through carefully agreed key performance indicators and key risk indicators, and refine our strategies as and when required to ensure optimum value creation to all our stakeholders.

In a nutshell, this is what our business is all about and this is what we attempt to elaborate via this integrated report you are leafing through.

Contents of the Report:

1. Our Contribution to the Economy, Society and Environment: Triple Bottom-Line Highlights
2. Thoughts from Our Leadership: Chairperson's Message and Managing Director's Review
3. Forces that Drive Us: Our Leadership and Senior Management
4. Journey through the Year: Management Discussion and Analysis
5. A Note on Value Creation and Enhancement: Approaching Sustainability
6. Facing Challenges through Good Governance: Corporate Governance and Risk Management Reports
7. Creating Financial Value: Audited Financial Statements
8. All Other Facts: Supplementary Information

Chairperson's Message

On behalf of the Board of Directors, I am pleased to welcome you to the eleventh Annual General Meeting of the Company and present to you the Annual Report and Accounts for the year ended 31st of December 2012.

The Economy

The economy is expected to record a GDP growth of around 6.5% in 2012 which is a commendable achievement viewed against the backdrop of a turbulent world economy as well as numerous external and domestic challenges that prevailed in the early part of the year. To mitigate the impact of these challenges, the Government and the Central Bank of Sri Lanka introduced a stabilization package during the first quarter of the year, covering both monetary as well as fiscal policy initiatives. The main measures included two successive increases in policy interest rates within two months accompanied by a ceiling on bank credit expansion and an increase in vehicle import duties. The upward movement in interest rates arrested potential inflationary pressures and restored stability by containing the inflation rate at single digit levels (annual average of 7.6%) during the year, while the fiscal measures helped reduce the outflow of foreign exchange on vehicle imports. Having achieved the desired results through the stabilization package, some of the measures were relaxed towards the year-end thereby creating a more conducive environment for rapid economic growth in 2013.

During 2012, there were 21 insurance companies registered with the Insurance Board of Sri Lanka in operation. The insurance sector as a whole, accounted for about 3% of the total assets of the financial sector. However, the industry continued to be dominated by a few large insurers, with two companies accounting for over 60% of the assets of the entire insurance sector. The growth in the insurance market was adversely affected by the low growth in vehicle imports caused by the sharp increase in vehicle import duties coupled with high leasing rates. The drop in demand for unit-linked life insurance products as a result of the weak performance of the equity market and the low growth in housing loans due to high interest rates also had a negative impact. Nevertheless, the Non - Life Insurance market grew by 15% and the Life Insurance market by 5% in 2012 with signs of a potentially better performance emerging in 2013 with the gradual improvement in macro-economic conditions.

Insurance penetration, which measures the level of insurance activity, is low in relation to the size of the Sri Lankan economy when compared with other Asian countries. Insurance penetration measured in terms of the total premium as a percentage of GDP and the insurance density which relates the total premium to the population accounted for relatively insignificant levels of 1.2% and Rs. 3,762.14 respectively. The total Gross Written Premium (GWP) of insurance companies increased in 2012 recording a double digit growth of which GWP for Non - Life Insurance accounted for 58%. HNB Assurance (HNBA) with its bancassurance as well as agency networks was able to capture a significant part of Life and Non - Life Insurance business indicating potential to expand capacity in the short to medium term.

Regulatory Framework

The year 2012 saw the implementation of the Sri Lanka Financial Reporting Standards (SLFRS) which are in line with International Financial Reporting Standards (IFRS). The process of implementation of these standards in the Insurance Industry has been smooth due to the collaborative efforts of industry players, auditors and the regulator, which is highly commendable. A similar process is now underway with regard to the implementation of a new Risk Based Capital (RBC) regime and it is hoped that this too can be achieved in a smooth manner within the agreed time frame.

The Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 requires composite insurance companies to segregate into two separate entities by 2015. In this regard, the industry is awaiting clear guidance on matters relating to taxes arising from asset transfers and the transfer of tax losses. Depending on the outcome, the individual companies would select the most appropriate corporate structure for their companies and segregate the business into Life and Non - Life Insurance. The industry is also keen to see the finalization of rules relating to the appointment of institutional agents in order to derive benefits of this important provision contained in the Amendment Act enacted in early 2011. HNBA is already a listed entity on the Colombo Stock Exchange and this provides a sound base for it to grow at a rapid pace in the next two to three years.

Performance

I am pleased to report that HNBA was able to achieve a remarkable growth of 43% in its Profit After Tax. This was mainly attributable to the significant improvement brought about in Underwriting Results from the Non - Life Insurance business and the steady growth in Investment Income which had a positive impact on both Non - Life and Life Insurance results. The Company successfully pursued an aggressive growth strategy in Life Insurance recording a 16% growth in Life business while adopting a more conservative bottom line driven approach to Non - Life business which resulted in a lower growth of 1%. The combined growth in

“Having carefully built a strong foundation revolving around its robust financial strength, excellent operating ratios and a strong network of relationships, HNB Assurance is now ready to pursue a strategy of rapid growth and expansion to strengthen its presence in the insurance market.”

Chairperson's
Message

turnover stood at 8% with the total turnover reaching Rs. 3.2 Bn during 2012. Overall, HNBA has moved steadily in a prudent manner towards securing quality business during the year.

Dividend

In view of the excellent growth recorded in Profit After Tax, the Board of Directors is pleased to propose a first and final dividend of Rs. 2.75 per share which is 31% more than the dividend declared in respect of the previous financial year.

Social Responsibility

As in previous years, HNBA carried out a number of initiatives to demonstrate its commitment to create sustainable value for the community of which it is an integral part. The key areas of focus of these activities were supporting environmental conservation, provision of water supply to needy schools, promoting entrepreneurship and supporting arts and recreation especially among underprivileged sections of the community. These activities which touched the lives of a cross-section of people are described in detail in the Managing Director's Review and the Management Discussion and Analysis.

Recognition and Accolades

One of the outstanding achievements of the Company in the year 2012 was winning a joint bronze award for Overall Excellence in Annual Financial Reporting at the Annual Report Awards 2012 held by the Institute of Chartered Accountants of Sri Lanka. This is the first time that HNBA was placed among the top four companies in the overall category. In addition, it also won a bronze in the Corporate Governance Disclosures category and silver in the Insurance sector. The Company was also placed first in the Medium Scale category at the ACCA Sri Lanka Sustainability Reporting Awards 2012. Another noteworthy recognition was winning a Global Award for Brand Excellence in the Service Industry at the World Brand Congress held in Mumbai. The Company also made it into the list of top 100 Companies in Sri Lanka compiled by the LMD for the very first time.

"HNBA will build on the strong foundation already in place to move towards securing a significant market share in the insurance market in Sri Lanka by exploiting opportunities for organic and inorganic growth in the near future. "

Future Outlook

Having carefully built a strong foundation revolving around its robust financial strength, excellent operating ratios and a strong network of relationships, HNBA is now ready to pursue a strategy of rapid growth and expansion to strengthen its presence in the insurance market. It will seek to exploit new opportunities unfolding as a result of macroeconomic and regulatory developments to create sustainable growth in rewards for all its stakeholders.

Acknowledgement

Three members of the Board of Directors resigned due to personal reasons and retirements from their substantive posts during the year. All of them, namely Mr. Nihal Kekulawala, Mr. Jayanth Perera and Mr. Manik de Silva Wijeyeratne have contributed immensely to the development of HNBA during their respective terms of office. I acknowledge their valuable contribution and wish them success in their future endeavours.

Appointment

Three new appointments were made to fill the vacancies created by the resignations referred to above. I warmly welcome Mr. Jonathan Alles, Mr. Mahendra Jayasekera and Mr. Kandasamypillai Balasundaram who joined the Board this year. With the years of knowledge and experience possessed by them in a variety of fields, I am confident that they will make a significant contribution to steer the Company to new heights.

Appreciation

I take this opportunity to express my appreciation to the Chairperson, Director General and other officials of the Insurance Board of Sri Lanka for their guidance and continued support during 2012. I also wish to acknowledge the important contribution made by the Insurance Ombudsman. I appreciate very much the valuable contribution made by Mr. Rajendra Theagarajah, Managing Director/ CEO of Hatton National Bank PLC who held the post of acting Chairman of HNBA from 1st April 2011 till 29th June 2012. I thank my fellow Directors for their excellent support and cooperation given to me during the year. I wish to convey my sincere appreciation to the management and staff who have worked diligently to deliver commendable results during the year under review.

On behalf of the Board of Directors, I assure you that HNBA will build on the strong foundation already in place to move towards securing a significant market share in the insurance market in Sri Lanka by exploiting opportunities for organic and inorganic growth in the near future.

Ranee Jayamaha
Chairperson

06th February, 2013

Managing Director's Review

"This excellent result was primarily attributable to the exceptional improvement in the profits generated from Non - Life Insurance business which grew from Rs. 74.1 Million (Restated) to Rs. 185.9 Million ."

It gives me great pleasure to present this Integrated Annual Report and Statement of Accounts for the year ended 31st December 2012. This is our maiden effort to compile an integrated report which aims to encapsulate the progress we have made in the year under review in respect of all three elements of the triple bottom line – people, planet and profit – in one single, seamless report. Hence, throughout this report, we will focus on all key stakeholder groups for whose benefit the Company dedicates itself, as they are the very purpose of our existence.

Industry Environment

The year 2012 witnessed a reversal of some of the external developments that took place in 2011 which were favourable to the growth of insurance business. As part of an economic stabilization package, the Government was compelled to increase import duties of vehicles and this, coupled with high leasing rates, brought about a sharp reduction in the import of vehicles. As expected, this caused a slow-down in the growth of motor vehicle insurance, bringing a period of rapid growth to an end. The increase in lending rates and the imposition of a credit ceiling, which were also parts of the stabilization measures introduced in early 2012, negatively impacted the growth of mortgage-linked insurance business. The sales of unit-linked insurance products were similarly affected by the continued poor performance of the equity market. As a consequence of the above factors, growth in the insurance market declined considerably to an estimated level of 11% as against 21% achieved in 2011.

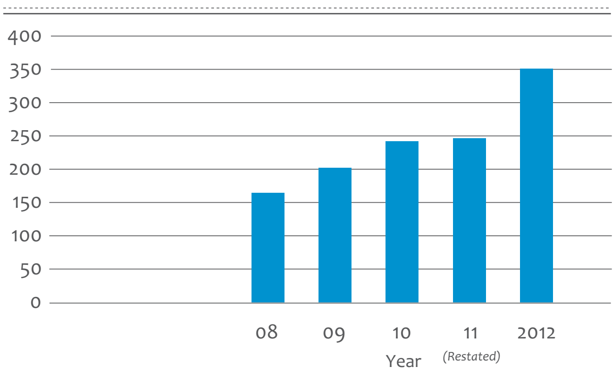
A natural outcome of these adverse developments curtailing the growth of new business was a heightened level of competition among the growing number of industry players. In the Non - Life Insurance market, price was the primary weapon used to acquire business from each other with pricing levels in certain classes of business falling below the threshold of economic viability. With some players opting to aggressively pursue volume growth at the expense of profitability, insurers seeking to create value for all their stakeholders were at times compelled to walk away from the tussle for business. Fortunately, the life insurance market, barring the segment of mortgage linked policies, was spared from such unhealthy price competition due to actuarially determined pricing structures and the low level of insurance penetration.

Overview of Performance

Operating in the midst of the market environment described above, the Company was only able to achieve a growth rate of 8% in its turnover, as measured by the Gross Written Premium (GWP), which recorded Rs. 3.2 Billion for the year. Life Insurance GWP grew by a healthy 16% to cross the Rs. 1.5 Billion mark for the first time while Non - Life Insurance GWP was only able to register a marginal growth of 1% reaching Rs. 1.7 Billion. However, by adopting a prudent approach to pricing in cognizance of its obligations towards all its stakeholders, the Company was able to post remarkable growth rates in profits. Its Profit Before Tax (PBT) for the year ended 31st December 2012 stood at Rs. 394 Million with a growth of 45% over the previous year while Profit After Tax (PAT) grew by 43% to reach Rs. 351 Million.

This excellent result was primarily attributable to the exceptional improvement in the profits generated from Non - Life Insurance business which grew from Rs. 74.1 Million (Restated) to Rs. 185.9 Million, recording a spectacular growth of 151%. The surplus declared from the Life Insurance Fund declined marginally from Rs. 172 Million to Rs. 165.2 Million, but its effect was negated by the excellent performance delivered by the Non - Life Insurance business. This was the first time since 2006 that Non - Life Insurance accounted for the larger share of profit, exceeding the contribution made by Life Insurance.

Profit After Tax (Rs. Mn.)



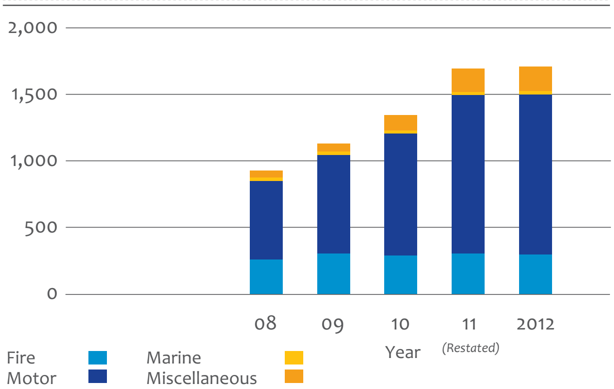
Due to this pleasing growth in profitability, the Earnings per Share (EPS) of the Company increased to Rs. 7.02 while the Return on Equity (ROE) also climbed to 19%, which we believe should meet the expectations of our shareholders, who supported us strongly when we turned to them for additional capital in 2011.

"By adopting a prudent approach to pricing in cognizance of its obligations towards all its stakeholders, the Company was able to post remarkable growth rates in profits."

Non - Life Insurance Sector

As stated above, the Non - Life Insurance sector achieved a significant improvement in its profitability at the expense of volume growth. Its turnover growth was a mere 1% with only motor and miscellaneous classes recording modest growth rates of 1% and 7% respectively. Fire and Marine classes experienced a decline in GWP by 3% and 6% respectively. Motor remained the biggest contributor to GWP, accounting for 70% of the total GWP from Non - Life Insurance. The Company's decision to defend its pricing structure and maintain premium rates at an economically viable level in the midst of increasing price competition was the main reason for this lower growth in turnover.

Class-wise GWP - Non-Life Insurance
(Rs. Mn.)

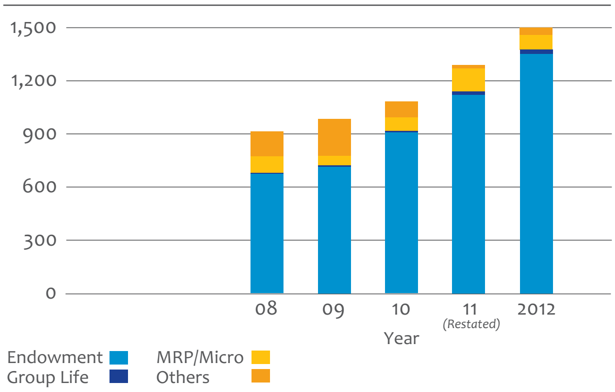


Our steadfast application of the above strategy helped to bring down the Net Claims Ratio from 69% in 2011 to 68% in 2012. Coupled with the Expense Ratio being maintained at the same level of 34%, the Combined Ratio improved to 102% from 103% recorded last year. It is noteworthy to mention this was the 4th successive year in which the Combined Ratio has been reduced, having started the downward adjustment process in 2008 when it peaked at 110%. The improvement in the Combined Ratio is reflected in the Underwriting Result improving from a deficit of Rs. 39 Million (Restated) to Rs. 23 Million, bringing us closer to the ultimate goal of achieving an Underwriting Profit from Non - Life Insurance. Boosted further by an impressive 83% growth in Investment Income, the Company was able to record a Profit Before Tax (PBT) of Rs. 228.6 Million and a Profit After Tax (PAT) of Rs. 185.9 Million from the Non - Life Insurance business which is a very creditable achievement considering current market conditions.

Life Insurance Sector

In a market devoid of price competition, the Company was able to achieve a 16% growth in Life Insurance GWP. This was made possible by the 21% growth recorded by

Class-wise GWP - Life Insurance
(Rs. Mn.)



Endowment policies which was sufficient to offset the decline in Mortgage Reducing Policies (MRP) by 37%. The latter was attributable to the low growth experienced in the disbursement of housing loans as explained earlier. Other product categories that registered a high rate of growth were single premium investment policies and group life business. Standing out among the new products introduced recently by the Company, 'my fund' – a non participating endowment product positioned as a tool to build up a retirement fund - generated a GWP of Rs. 317.9 Million accounting for a 24% share of the Endowment business.

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. 462.2 Million. Out of this surplus, Rs. 166.6 Million was used to provide for solvency margin while Rs. 47.2 Million was provided for future bonus and contingencies. The balance was shared between the Life policyholders and shareholders with Rs. 83 Million being distributed as bonus to policyholders and Rs. 165.2 Million being transferred to the shareholders' account as a surplus from the Life Insurance business. In addition to the declaration of bonus in respect of policies with participation in profits, the Company also declared dividends for the first time to 'my fund' policyholders at rates of 8% for 2011 and 9% for 2012, making a provision of Rs. 8 Million for the purpose.

The decline in the Life surplus from Rs. 172 Million in 2011 to Rs. 165.2 Million in 2012 is due to the increase in reserving requirements of some participating products in the Life portfolio which are being re-launched in the current year as non-participating products to address this issue in future. Nevertheless, the Company was able to increase the Life Fund by 19% to reach Rs. 3.6 Billion even after the transfer of surplus to shareholders.

"To further this value creation, several new initiatives were launched in 2012. The highlights among them are the introduction of four new products from the Non - Life Insurance sector ('my home', 'my health', 'motorguard Xtra' and 'my card protection')..."

Investments

Investment income made a significant contribution to the profitability of both Life and Non - Life sectors in the year ended 31st December 2012 contributing Rs. 413.6 Million to Life and Rs. 248.2 Million to Non - Life. The growth achieved in Investment Income was very impressive at 52% in Life and 83% in Non - Life. This is attributable to a number of factors such as currency gains on foreign exchange deposits, significant rise in interest rates and the prudent investment strategy employed by the Company's fund management team. The provisions required to be made in respect of unrealized losses on equity portfolios also declined from Rs. 51.9 Million in Life and Rs. 18.52 Million in Non - Life to Rs. 15.6 Million and Rs. 7.4 Million respectively.

Capital and Solvency

Consequent to the increase in share capital in 2011 through a capitalization of reserves followed by a Rights issue, the Company notionally allocated Rs. 500 Million of its stated capital to support the solvency of Life Insurance business with the balance Rs. 671.875 Million being used for Non - Life Insurance solvency. With the increased availability of capital, solvency ratios of both Non - Life and Life sectors recorded healthy levels of 3.48 and 2.28 respectively at the end of 2012, after the transfer of the Life Insurance surplus.

Customers

We have been constantly creating value for our customers, while interacting with them every single day, especially when they are faced with challenging situations such as road accidents and medical emergencies. To further this value creation, several new initiatives were launched in 2012. The highlights among them are the introduction of four new products from the Non - Life Insurance sector ('my home', 'my health', 'motorguard Xtra' and 'my card protection'), the launch of a number of mobile technology based service features, the declaration of dividends to 'my fund' policyholders, the increase of collection points at which premiums can be conveniently paid and the issue of a very informative newsletter detailing many of the other initiatives described above.

Our People

The Company is brought to life by a team of over 2,300 professionals comprising 723 members of staff and 1,643 members of the field force. In keeping with the theme established for 2012, 'Sustainable growth through continuous learning', numerous new initiatives were launched to enhance the knowledge and skills of both groups of people who represent the human face of the Company. Highlights among these initiatives offered to the staff were the 'License to Lead' programme targeting the future leadership of the Company, the 'Capability Building and Leadership' Programme conducted by an experienced trainer from overseas for the senior management team and the series of focused workshops conducted to train and motivate the network of bancassurance officers branded as the 'HNBA Dream Team'. In order to enhance the professional development of the field force, the Company continued to offer the Preliminary Certificate in Marketing (PCM) and the Diploma in Professional Selling (DPS) programmes in partnership with the Sri Lanka Institute of Marketing (SLIM). During the year, 63 completed the PCM while 17 completed the DPS adding to the number who completed these programmes in 2011.

In addition to providing professional development opportunities, the Company took adequate steps to reward its people through performance linked increments and bonus payments to the staff and a range of incentive payments and prizes, including overseas tours for the top performers in the field force.

Community and Environment

As corporate citizens, we are increasingly expected to create sustainable value for the betterment of our planet focusing on the environment in which we operate and the community to which we belong. Being conscious of the above, we have demonstrated an unwavering commitment to conduct a significant number of initiatives each year towards this end, allocating sufficient time and resources to achieve the desired outcomes. We have received a number of accolades recognizing our efforts, the most recent being the ACCA Sri Lanka Sustainability Reporting Award 2012 in the Medium Scale category, having previously won the Small Scale category in 2009.

Our main Corporate Social Responsibility (CSR) platform, as in previous years since 2008, was the provision of access to water to needy schools that lack even this basic need. Adding to the 16 schools already covered during the last 4 years, we provided pipe-borne water to 5 more schools during the year increasing the total coverage to 21 schools, a feat our entire team is truly proud of. In addition, as a

"The challenge will be to deliver this growth expectation without disturbing the excellent trend that has been developed in improving the profitability of this line of business over the last 4 years."

demonstration of our caring for nature, we came forward to support the 'Greening Schools' programme launched by the Central Environment Authority (CEA) to promote environmental conservation at school level. With our assistance, the CEA will be establishing greenhouses in 5 different schools under this programme.

Understanding the value of creating access to arts and recreation to all sections of our community, the Company supported the 'Pehesara' Arts Festival held in Thawalama, a remote town in the Galle District to felicitate outstanding artists of national repute, and sponsored the Sri Lanka Team of Deaf Cricketers who participated in the Asia Cup held in Pakistan and emerged Runners-up displaying a wonderful spirit of competitiveness and national pride.

Among the other CSR activities, two programmes that offer great promise to deliver sustainable value are the assistance given to the students of Yasodharadevi Balika Vidyalaya to start a Company under the Young Entrepreneurs Sri Lanka (YESL) programme and the support given to the Department of Economics of the University of Colombo to establish a website to promote its first Economic Research Conference held at the Sri Lanka Foundation Institute (SLFI) in December 2012.

Other Stakeholders

As a stakeholder focused Company, HNB Assurance PLC has consistently strived to ensure that significant value is created and distributed among all categories of stakeholders. The rewards given in 2012 to the shareholders, customers, employees and the community have already been discussed.

The Company also arranged a number of interactive training and fellowship oriented activities for the benefit of its varied business partners such as brokers and bankers. Last, but not least, Insurance Board of Sri Lanka (IBSL), the regulator, was provided all the statutory returns on a timely basis and their routine inquiries have been promptly responded to.

New Financial Reporting Standards

The new Sri Lanka Financial Reporting Standards (SLFRS) developed in line with International Financial Reporting Standards (IFRS) came into effect on 1st January 2012. The Financial Statements presented with this Report have been produced entirely in conformity with the above new standards. Accordingly, the figures relating to the year ended 31st December 2011 have been restated to enable easier comparison. As a consequence, figures stated in respect of 2011 in the Statement of Accounts as well as quoted elsewhere in this Report including in this Review may differ from the corresponding figures reported in last year's Annual Report. If any reconciliation of these numbers is required, please turn to page 272 which will show the impact of these changes.

Governance

The Company given its strong commitment to maintaining the highest standards of Corporate Governance ensured the continued smooth operation of the Board of Directors and its Sub Committees during the year under review notwithstanding some changes that took place in the composition of the Board. Dr. Ranee Jayamaha, Chairperson of Hatton National Bank PLC, our parent company, was appointed to the Board with effect from 29th June 2012 and was simultaneously appointed as the Chairperson of the Company. I extend a warm welcome to her with the firm expectation that she will give astute leadership to the Board and the Company to steer it towards new heights. I also wish to acknowledge the guidance provided by Mr. Rajendra Theagarajah, MD/CEO of Hatton National Bank PLC during his tenure as the Acting Chairman of the Company from 1st April 2011 to 29th June 2012.

Three directors, namely Mr. Jayanth Perera, Mr. Nihal Kekulawala and Mr. Manik de S. Wijeyeratne, stepped down from the Board during the year paving the way for Mr. Mahendra Jayasekera, Mr. Kandasamypillai Balasundaram and Mr. Jonathan Alles to take their places. I thank Messrs Perera, Kekulawala and Wijeyeratne for their unstinted support and commitment and warmly welcome Messrs Jayasekera, Balasundaram and Alles, who I have no doubt will make a significant contribution in taking the Company forward.

Appreciation

I wish to thank the Chairperson and the Board of Directors for their constant guidance and encouragement. I greatly appreciate the commitment to excellence displayed by my team of General Managers, Heads of Division, Managers, members of staff, field management and insurance

One of the outstanding achievements of the Company in the year 2012 was winning a joint bronze award for Overall Excellence in Annual Financial Reporting at the Annual Report Awards 2012 held by the Institute of Chartered Accountants of Sri Lanka.

advisors, due to whose collective effort we have delivered a strong result yet again. Along with my team, I convey my thanks to all our insurance brokers, managers and staff at HNB branches, other intermediaries, reinsurers, reinsurance brokers and other strategic partners for their excellent support and understanding.

Strategic Focus and Future Direction

The Corporate Plan formulated for the 2013-15 period with the active participation of the Senior Management team and valuable inputs from the Board of Directors envisages acceleration in the rate of growth in turnover while maintaining profitability at an acceptable level. Focused attention will be given to the task of stimulating a faster rate of growth in Non - Life Insurance business. The challenge will be to deliver this growth expectation without disturbing the excellent trend that has been developed in improving the profitability of this line of business over the last 4 years. Despite achieving a satisfactory level of growth in Life Insurance in 2012, the Company will aim to further accelerate the growth in that line of business too while achieving an optimum product mix that does not exert undue pressure on actuarial reserving.

In order to achieve the desired levels of growth from both Life and Non - Life business, the Company aims to introduce new distribution channels and improve the productivity of the existing key channels. It will also seek to introduce a few innovative products to penetrate new market segments while focusing on strengthening its customer service delivery and brand image. The Company will also review its pricing policy periodically to ensure a good balance is maintained between top and bottom line growth.

HNB Assurance PLC has come a long way in its eleven years of existence to become a Company which is greatly admired for its professionalism, financial stability and commitment to Corporate Governance and Sustainability. The Company will now seek to build on these strengths to widen its reach and accelerate its growth so that it can make a greater impact on our nation's drive towards economic prosperity by helping to uplift the living standards of a much larger group of people. I remain confident that we can march steadfastly towards this goal while continuing to meet the rising expectations of all our stakeholders in a consistent and equitable manner.

Manjula de Silva
Managing Director

6th February, 2013

Board of Directors

Left to Right

K Balasundaram - *Director*
Pratapkumar de Silva - *Director*
R Theagarajah - *Director*
Dr. Ranee Jayamaha - *Chairperson*
Manjula de Silva - *Managing Director*
M U de Silva - *Director*
Sarath Ratwatte - *Director*
Ms Shiromi Halloluwa - *Company Secretary*
Mahendra Jayasekera - *Director*
Jonathan Alles - *Director*

Board of Directors

1. Chairperson

Dr. Ranee Jayamaha

B.A. (Hons) (University of Ceylon, Peradeniya), MSc. (University of Stirling, U.K.), Ph.D (University of Bradford, U.K.), Duniv (University of Stirling, U.K.)

Appointed Director and Chairperson on 29th June 2012. She had been the Deputy Governor in charge of Financial System Stability of the Central Bank of Sri Lanka from 2004 up to her retirement at end of May 2009. She has over 37 year 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. She is currently an Advisor to His Excellency the President of Sri Lanka.

On release from the Central Bank, she has served as Secretary – Presidential Commission on Finance and 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 and 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. Dr. Jayamaha has 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. She has been providing advisory services to a number of financial institutions and Central Banks in the Region.

2. Managing Director

Manjula de Silva

BA Hons (Colombo), MBA (London), FCMA (UK), CGMA (USA)

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

3. Director

R Theagarajah

FCMA (UK), CGMA (USA), FCA (Sri Lanka), MBA (Cranfield), FIB (Hon) Sri Lanka

Non-Executive Director. Managing Director/Chief Executive Officer of Hatton National Bank PLC. Member of the Corporate Management of Hatton National Bank PLC since 1997. Counts over 28 years experience in Banking including overseas assignments. Chairman of Acuity Partners (Private) Ltd and Acuity Securities Ltd. Director of Sithma Development (Pvt) Ltd, Acuity Stock Brokers (Pvt) Ltd, Lanka Financial Services Bureau Ltd, Lanka Clear (Private) Limited and Carson Cumberbatch PLC. Past Chairman of Sri Lanka Banks' Association (Guarantee) Ltd and Financial Ombudsman Sri Lanka (Guarantee) Ltd, Immediate Past Chairman of the Asian Bankers Association. Member of the Sri Lanka Accounting and Auditing Standards Monitoring Board, Committee of the Ceylon Chamber of Commerce and Chartered Institute of Management Accountants Governing Board Sri Lanka. Council Member of the Institute of Directors of Sri Lanka. Director of the Colombo Stock Exchange.

4. 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 Charted 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.

5. Director

Pratapkumar de Silva

FICM (Sri Lanka), FICM (England)

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

6. Director

Sarath Ratwatte

FCMA (UK), CGMA (USA)

Non-Executive Director. Over 30 years of private sector experience in the fields of accounting, financial and treasury management, project financing and development, investments and risk management. Has held senior positions in several multinational organisations and conglomerates in Sri Lanka and overseas. Has worked at the Aitken Spence Group of companies for a period of 18 years in many capacities including that of Group Treasurer/Director - Corporate Finance, Director - Ace Power Embilipitiya (Pvt) Ltd and Director - Aitken Spence (Garments) Ltd.

7. Director

Jonathan Alles

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

Non-Executive Director. Appointed on 3rd December 2012. Deputy Chief Executive Officer of Hatton National Bank PLC. Member of the Corporate Management of Hatton National Bank PLC since 2010. Counts over 25 years experience in Banking including 15 years of overseas assignments. Director of Sithma Development (Pvt) Ltd, Acuity Partners (Pvt) Ltd, Acuity Stockbrokers (Pvt) Ltd and Lanka Ventures PLC. Trustee of the Hatton National Bank Retirement Fund.

8. Director

Mahendra Jayasekera

FCA, BSc Special Hons (University of Sri Jayawardenapura)

Non-Executive Director. Appointed on 3rd December 2012. Presently holds the position of Managing Director Lanka Floortiles PLC, Lanka Walltiles PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium Ltd and is a Director of Lanka Ceramic PLC. He is the Chairman of Centec Limited, a public private partnership between the Sri Lanka Ceramics Council and the Industrial Technology Institute. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka.

9. Director

K Balasundaram

Non-Executive Director. Appointed on 3rd December 2012. Chief Executive Officer of Mercantile Merchant Bank Ltd. In addition to being a Director of Mercantile Merchant Bank Pathfinder Group of Companies he serves on the Boards of Mountain Hawk Express (Private) Limited (Joint Venture with Hayleys) MMBL Money Transfer (Private) Limited (Joint Venture with Aitken Spence) Saffron Airlines (Private) Limited (Joint Venture with John Keells). Counts over 45 years of experience in Finance having worked in manufacturing and services industries including statutory boards, Board of Investment companies and public quoted companies.

10. Company Secretary

Ms Shiromi Halloluwa

Attorney-at-Law & Notary Public

Appointed Company Secretary in January 2012. Presently works as the Assistant Manager – Legal (Operations) of the Hatton National Bank PLC. Counts over 17 years experience in the legal profession and 13 years as a member of the legal team of HNB PLC.

Executive Committee

1. **Manjula de Silva**
   BA Hons (Colombo), MBA (London), FCMA (UK), CGMA (USA)
   Managing Director

   Profile appears on page 20.

2. **Lalith Fernando**
   MSLIM, EDBA (Colombo), CII (Award) UK, MCPM, AMSLITAD, Certified Professional Marketer (Asia), Practising Marketer (SL)
   General Manager - Marketing and Distribution

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

3. **Niranjan Manickam**
   ACII (UK), Chartered Insurer
   General Manager - General

   Serving as the General Manager, General Insurance at HNB Assurance for nearly 4 years since joining the Company in April 2009, Niranjan counts over 26 years of local and international experience in handling all classes of Non - Life Insurance. Prior to joining us, he held the position of General Manager, Operations at Aviva NDB Insurance PLC. He is the current 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.

4. **Prasantha Fernando**
   BSc. Hons (Colombo) ACII (UK) Chartered Insurer
   General Manager - Life

   Prasantha joined HNB Assurance in 2012, and serves as the General Manager, Life Insurance. Prior to joining us, he held the position of Assistant General Manager, Life Operations at Aviva NDB Insurance PLC. He counts over 19 years of experience in the Life Insurance Industry and was a lecturer at the Sri Lanka Insurance Institute.

Left to Right >
Namal Gunawardhane - *Head of IT,* **Vipula Dharmapala** - *Head of Finance,* **Niranjan Manickam** - *General Manager - General,* **Manjula de Silva** - *Managing Director,* **Lalith Fernando** - *General Manager - Marketing and Distribution,* **Prasantha Fernando** - *General Manager - Life,* **Chandana L Aluthgama** - *Head of Corporate Business Development,* **Ivan Nicholas** - *Head of Distribution*

5. **Namal Gunawardhane**
BCom Hons (Delhi), BIT (IGNOU)
Head of IT

Joined as the Head of IT in June 2008, Namal has over 9 years' experience in his area of speciality - IT. He has served as the IT manager at Ceylinco Insurance PLC (General), Group IT Manager at Timex and Fergasam Group of Companies and as Project Manager IT at Asian Aviation Centre prior to joining HNBA.

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

Chandana joined the HNBA in 2004 as Business Development Manager and was promoted as the Head of Corporate Business Development in January 2009. He counts over 21 years' experience in business development, operations, branch coordination, corporate marketing, bancassurance, and channel management. He is also a visiting Lecturer at Postgraduate Unit of the University of Colombo - Management and Finance Faculty. Chandana served at Aviva NDB Insurance PLC prior to joining HNBA.

7. **Vipula Dharmapala**
BSc Bus. Admin Sp. (J'pura), ACA
Head of Finance

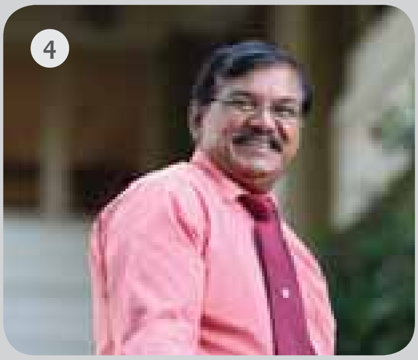
Vipula joined HNB Assurance as the Finance Manager in July 2008 and was subsequently promoted as the Head of Finance w.e.f. 1st January 2009. He has over 9 years of finance and audit experience at the Company and at Ernst & Young. He is the current Chairman of the Finance Technical Sub Committee (FTSC) of the Insurance Association of Sri Lanka (IASL).

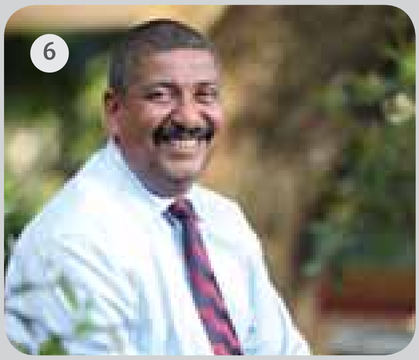
8. **Ivan Nicholas**
Head of Distribution

Ivan joined HNB Assurance on 15th October 2010 as the Head of Distribution. He counts over 29 years' experience in branch and regional management and distribution within the insurance industry.

Prior to joining us he has served at Aviva NDB Insurance PLC where he gained multinational exposure. He also served at Union Assurance PLC as AGM – Corporate Business Development.

Management
Team





1. **Dilshan Perera**
   B.B.Mgt. Marketing Hons. (Kelaniya), Chartered Marketer, Dip.M (UK), MCIM (UK), MSLIM, MIM (SL)
   Head of Marketing

2. **Nilesh Amarasinghe**
   BSc. Hons (Lon), M Bus. Fin. (Syd)
   Head of Investment

3. **Donald Nandalal**
   BSc Eng. Hons (Peradeniya), Pg. Dip. Bus. & Fin. Ad (SL), AMIE (SL)
   Manager - Motor Claims

4. **Jude Weerakoon**
   AMInstCM (UK), ASSM (UK)
   Zonal Manager - Central

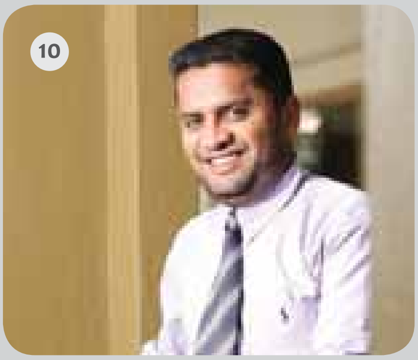
5. **Geethani Saram**
   MBCS, MBA (Australia), Cert. PM
   Manager - IT Projects

6. **Asanka Unamboowe**
   LUTCF (USA), MCPM
   Zonal Manager - Metropolitan

7. **Jehan Haniff**
   Practicing Marketer (SL), Certified Professional Marketer (Asia), Dip. In Training (UK), CII Award (UK), Mgt. Diploma - CHS (SL), MCPM (SL), MSLIM, AITD (SL)
   Manager - Sales Training & Development

8. **Hiran Fernandopulle**
   BCom Special (Colombo)
   Zonal Manager - North Western

9. **Manikavasakar Puviraj**
   BSc Hons. (Jaffna), Dip in HR (Moratuwa), CPM (Asia)
   Zonal Manager - North & East



10. **Sajeewa Chandrasena**
Zonal Manager – Uva / Sabaragamuwa

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

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

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

14. **Dinesh Udawatta**
BSc Hons. (Colombo), FIII (India), MBA (Colombo)
Manager - Life Underwriting

15. **Sawan Rodrigo**
CPM (Asia), MInstSMM (ISMM)
Manager- Branch Operations

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

17. **Salinda Perera**
MIM (SL), Dip. In BM (IMSL)
Manager - Administration

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

Management
Team

19. Sanjeewani Pitadeniya
DICCM (UK), DIP (SLII), MCPM, MMICS (UK)
Manager - Customer Relations

20. Sitari Jayasundara
Attorney-at-Law & Notary Public
Pg. Dip. Finance, Banking & Insurance laws.
Manager - Legal

21. Padma Dahanayake
B.Sc. Hons. (SJP), FIII (India), ACII (UK)
Chartered Insurer
Manager – Life Servicing

22. Damayanthi Nelumdeniya
BCom. Sp. (Kelaniya)
Regional Manager - Anuradhapura

23. B G Dhanawardena
BA Economics Sp. (Colombo)
Regional Manager – Maharagama

24. A L D H Liyanage
BCom. Sp. (Peradeniya)
Regional Manager - Colombo North

25. Harindra Ramasinghe
B.Sc. Business Management (Sabaragamuwa)
Regional Manager - Panadura

26. Rohan Hemantha
Manager – Internal Control and Compliance

27. M K D J R Miriyagalle
Dip. LIM (USA), LUTCF (USA),Dip Sales Mgt. (SL), AMSLIM.
Certified Professional Marketer (Asia)
Regional Manager – Gampaha

28. **D M S Gunaratne**
AMIM (SL), AIPM (SL), MITD (SL), MSLIM
Certified Professional Marketer (Asia)
Manager – Bancassurance

29. **Thilan Perera**
MBA (USA), NDHRM (SL), Post Grad. TM (UK), MHRP, AMIPM
Manager - Human Resources

30. **Ranjith Jayathilake**
Regional Manager - Galle

31. **T Rizepan**
Regional Manager - Trincomalee

32. **Thusitha Nandasiri**
ACII (London), Dip. M (SL), ANZIIF (Snr. Assoc.),
MSLIM, CPM (Asia Pacific), Chartered Insurer
Manager - Non Motor

“Amma says she bought a life policy from HNBA – I don’t really know what that means, but I know amma always does what’s best for us”

Sayumi (4)

the power to Dream

Journey through the Year:
Management Discussion and Analysis

The 'Big Picture': Our Business Model

We are in the business of providing insurance solutions to our customers, and by conducting this core business in a responsible manner, we have the ability to create immense value to all our stakeholders. Illustrated through the following diagram is our process of value generation, through the combined efforts of different forms of capital.

Inputs

Type of Capital	Discussion (Page)
Shareholders' funds	52 - 62, 66 - 68
Premiums from customers	69 - 73, 74 - 80
People	94 - 106
Wining partnerships – HNB, Reinsurers, Agents, etc.	107 - 112
Software, Procedures, Brand	81 - 83, 86 - 92
Buildings, Equipment and Hardware	227, 81 - 83
Social and Natural resources – water, electricity, other utilities, influence from society	113 - 119

Value Adding

Activity	Discussion (Page)
Prudent underwriting	69 - 73, 74 - 80
Innovative product design	69 -73, 74 - 80
Distribution and marketing	86 - 93
Customer service	86 - 93
Claims assessment/ speedy settlement	86 - 93
Process efficiency	69 -73, 74 - 83
Partnership management	107 - 112
Fund management	62 - 65
Governance	135 - 175
Risk management	186 - 195
Community relations	113 - 116

Outputs

Product	Discussion (Page)
Life Insurance products	84
Non - Life Insurance products	85
Customer service	86 - 92

Outcomes

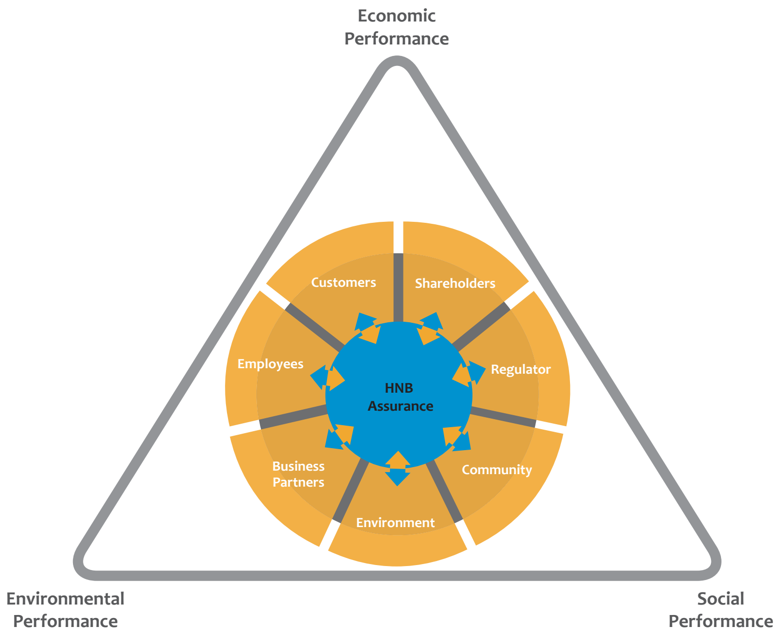
- Dividends
- Increase in share price
- Customer satisfaction
- Taxes to Government
- Satisfied employees
- Increased job opportunities
- Satisfied business partners

The report you are leafing through, is essentially our tool of communicating the approach we take with regard to each component of this process, and its impact on our stakeholders.

Our Stakeholders

Our constant efforts to excel in our performance and generate value are strongly dependent on the sound relationships established with our stakeholders. For us, stakeholders are parties who are significantly affected by our operations or whose actions would significantly affect our ability to create value. Thus, we recognise that these parties have diverse expectations from our operations.

In light of these factors, and guided by the nature of their expectations, we have identified and grouped those stakeholders with similar interests, so that we as a Company can be better responsive to their expectations. The key stakeholder groups on whom we place our attention are depicted in the diagram below, and it is important to note that consequent to continuous review of our stakeholder identification process, we have recognised a new stakeholder this year, i.e. the regulator.



Engaging with Our Stakeholders

Since our very existence is for and because of them, addressing the concerns of our stakeholders becomes a key ingredient of the sustainability of our business. We are therefore responsive to their right to raise concerns, and acknowledge our obligation to hear and respond to them.

For this purpose, HNBA has both formal and informal mechanisms laid out as per regulations, best practices, and our policies, in order to ensure the existence of a strong and effective two-way communication between us and our key stakeholders. Such engagement routes with our key stakeholders have direct links with the decision-making bodies of the Company and our practices ensure that valid concerns get absorbed to the strategy formulation process of HNBA.

Since our very existence is for and because of them, addressing the concerns of our stakeholders becomes a key ingredient of the sustainability of our business.

Mutual Dialogue with Our Stakeholders

Engage	Empower
Customers	
We use 31 different SMS based services to maintain a constant dialogue with our customers.	Our interactive website is an effective means of providing information to our customers and it also gives a platform for our customers to send their inquiries through.
Our online help-desk and 24 hour customer hotline assure quick support for our customers at any time.	Customer feedback sessions give an opportunity for our customers to voice their opinions, issues, suggestions and ideas.
Customer newsletter contains updates about the Company, information about new products & services, payment methods etc.	Claims panels, comprising the top management, review customer complaints and appeals on claims.
Our propaganda vehicle travels around the country building awareness about the Company and products.	Customers can forward their complaints through any medium, which will be given due attention immediately.
Shareholders	
Interim financial reports and annual financial reports are distributed to all investors and are made available to the general public on our website and on the CSE website. The annual report is drafted containing information requested by our shareholders.	The Annual General Meeting is the opportunity given to all our investors to engage in an open dialogue with the Company by raising concerns and exercising their voting rights to agree or disagree on the Company's decisions.
	Investors can send us their feedback using the Investor Feedback Form in the annual report.
Employees	
The Company's intranet regularly provides information and updates to our employees.	A whistle-blowing facility for reporting unethical conduct, fraud etc. is available for employees. This allows individuals to make anonymous reports and guarantees confidentiality.
The annual staff conference is conducted to increase the awareness of employees and it also provides an opportunity for our employees to blend with their peers.	Employees can raise their suggestions and concerns at exit interviews, and these views will be used for the betterment of all employees.
	Suggestion schemes allow employees to forward their suggestions regarding any operational matter, and due consideration will be afforded for such suggestions by the management.
	Management meetings, Distribution Management meetings and Divisional Operational Committee meetings allow the management to increase awareness of employees by giving them a platform to raise their concerns and make decisions in consensus.

Journey through the Year:
Management Discussion and Analysis

Engage	Empower
Business Partners	
All business partners are given training to improve their knowledge and awareness regarding our products and procedures.	Sales clinics are conducted for our business partners, enabling them to clarify concerns regarding their performance.
We regularly disseminate information regarding our achievements and business strategies to our business partners.	
Competitions of different nature are conducted for our insurance advisors, focusing mainly on evaluating their knowledge on products.	
Recreational activities are conducted for all our business partners to help them to bond with the HNBA team.	
Regulator	
As required by our regulator, we submit information as per guidelines and strictly on due dates.	Through active participation in committees formed by the Insurance Association of Sri Lanka, we lobby towards positive changes in the industry.
We strictly adhere to all rules and regulations laid down by our regulator.	
Community and Environment	
Our annual report and public media statements provide information about our strategy towards the community and the environment.	We encourage the community to bring their concerns to our attention and ensure they will be given due consideration.
We identify the needs of the community and provide required sponsorships in many forms.	We consult people to help us understand and address any concerns they may have about our methods of engagement with the community.

Addressing Stakeholder Concerns

Customers
- Enhance service levels (Refer Customer Review)
- Quick assistance during accidents (Refer Customer Review)
- Ease of obtaining claims (Refer Customer Review)
- Recognition of the brand (Refer Customer Review)
- Innovative products (Refer Customer Review, Life & Non - Life Reviews)

Employees
- Training needs (Refer Employee Review)
- Attractive remuneration (Refer Employee Review)
- Work-leisure balance (Refer Employee Review)

Shareholders
- Maintaining share liquidity (Refer Investor Review)
- Attractive dividends (Refer Investor Review)
- Receiving information about the company in other languages (Refer Introduction)

Business Partners
- Prompt payment (Refer Business Partner Review)
- Sustainable business practices (Refer Business Partner Review)
- Training and development opportunities (Refer Business Partner Review)
- Attractive rewards (Refer Business Partner Review)

Regulator
- Ensure policyholder protection (Refer Regulatory Review)
- Sustainability of companies in the industry (Refer Regulatory Review)

Community and Environment
- Providing employment opportunities (Refer Employee Review)
- Improving quality of life in the community (Refer Community Review)
- Preserving the environment and creating awareness on environmental preservation (Refer Environmental Review)

Adding Greater Value

We understand that our financial performance has a direct impact on our capacity to emerge as a responsible corporate citizen, in the pursuit of sustainability for all stakeholders. We are hence dedicated towards building and maintaining a robust, enduring business for the benefit of all. Our commitment also extends towards keeping accurate and reliable records that fairly reflect all business transactions, being in line with the new/revised Sri Lanka Accounting Standards (SLFRS/LKAS), to ensure the proper management of our affairs while meeting legal, financial and reporting obligations.

Our untiring efforts to improve our performance and to create value for our stakeholders yielded bountiful results in the year 2012. An extensive analysis of our financial results is presented in this report on pages 213 to 308.

Despite being a high performer in the financial arena, we understand that financial results per se are insufficient for a sustainable living. The following Statement of Value Added therefore provides with a thorough understanding of the real value we generated, to the diverse classes of stakeholders who look upon our activities with interest and who are also affected by the activities we engage in.

The total value we generated during the year 2012 amounted to Rs. 1,858 Million (2011: Rs. 1,608 Million restated) which reflects an improvement of 16% from 2011.

Value addition towards our shareholders, in the form of dividends, contributed towards 5.65% of total value generated (2011: 4.20%), increasing significantly from the previous year. Value added to life policyholders, amounting to 29.92% of total value added, stood at Rs. 556 Million (2011: Rs. 558 Million restated), and accounted for the largest portion in the overall value added. Employees were allocated a 22.39% share of the total value added (2011: 21.23%), while the value generated for our intermediaries was 23.52% (2011: 24.19%) of the total. Additionally, value added to the government in the form of income tax accounted for 2.3% of the total (2011: 1.60%), while the same for the society in the form of donations and CSR activities stood at 0.11% (2011: 0.14%).

Value Added Statement

	2012 Rs. '000	%	2011 Rs. '000 (Restated)	%	Growth %
Net Earned Premium	**2,697,024**		2,349,619		14.79
Investment and Other Income	**665,136**		411,027		61.82
	3,362,160		2,760,646		21.79
Net Claims & Benefits	**(1,154,521)**		(865,130)		33.45
Cost of External Services	**(349,344)**		(287,711)		21.42
Value Addition	**1,858,295**		1,607,805		15.58
Distribution of Value Added					
To Employees					
Salaries and Other Benefits	**416,154**	**22.39**	341,394	21.23	21.90
To Intermediaries					
Commission Cost	**437,130**	**23.52**	389,005	24.19	12.37
To Government					
Income Tax	**42,726**	**2.30**	25,772	1.60	65.78
To Life Policyholders					
Increase in Life Insurance Fund	**555,909**	**29.92**	558,325	34.73	(0.43)
To Shareholders					
Dividend Paid	**105,000**	**5.65**	67,500	4.20	55.56
To Society					
Donation	**300**	**0.02**	300	0.02	-
CSR Activities	**1,611**	**0.09**	1,758	0.12	(8.36)
For Expansion and Growth					
Retained as Depreciation and Amortisation	**53,325**	**2.86**	45,183	2.80	18.02
Retained in Reserve	**246,140**	**13.25**	178,568	11.11	37.84
	1,858,295	**100.00**	1,607,805	100.00	15.58

What Matters Most

At HNBA, we maintain constant vigilance on the economic, social and environmental forces affecting our ability to create value, while also rigorously monitoring and rectifying the triple bottom-line impacts of our performance. This twofold process underlies our ability to identify the materiality of events impacting our performance or the expectations of stakeholders, while also enabling us to grant due attention to such events.

For us, this constant vigilance and monitoring is not just a routine function; it is a way of life, strongly inbuilt to our policies and prominently upheld in everything we do.

We maintain constant vigilance on the economic, social and environmental forces affecting our ability to create value, while also rigorously monitoring and rectifying the triple bottom-line impacts of our performance.

What Matters	Why	Discussed in
Managing external pressure on our business	Economic, social and environmental forces create risks and opportunities which significantly affect our business and which we must manage or exploit	Economic Review/ Industry Review
Absorbing regulatory changes	Laws and regulations of the country and the guidelines set by our regulator determines how our business is conducted	Regulatory Review
Delivering sustainable returns to our shareholders	We believe in generating sustainable profits while maintaining a sturdy financial position to provide long-term consistent returns for our shareholders as well as all other stakeholders	Financial Review/ Investor Review
Maintaining excellence in operations	Only a clear focus on our business operations will enable us to deliver consistent value to our customers while delivering sustainable financials	Life Review, Non - Life Review
Implementing innovations and efficiencies in technology	Technology is key for the efficient delivery of services to our customers and is also a means of achieving competitive advantage	IT Review
Upholding strong focus on customer centricity	Customers are at the forefront of everything we do, for the sustainability of our business model depends on their loyalty and positive feedback	Customer Review
Emerging as a rewarding employer	It is through our employees that our processes become active, and hence their progress effectively converts in to our progress	Employee Review
Preserving win-win partnerships	Our business is not an isolated framework; it is based on a web of business relationships where all parties are in search of winning solutions	Business partner Review
Behaving as a responsible corporate citizen	We possess a duty to be attentive to the needs of the community and the environment around us, because essentially this is where the key to our sustainability lies	Community Review/ Environment Review

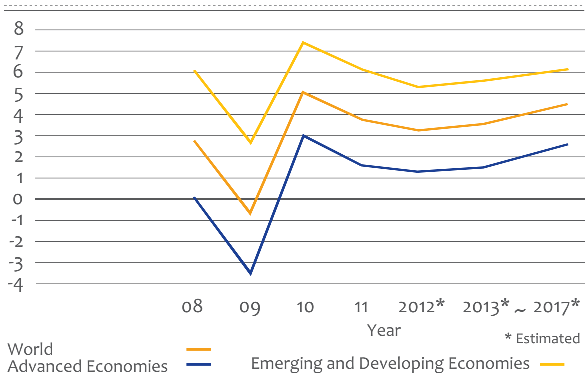
Analysing the External Environment

We at HNBA are cognizant that we are not an isolated entity operating in the world of business. Rather, all our actions bear an impact on the wider environment, while the behaviour of the external environment in turn also influences our performance. Thus, clear understanding of the economic, regulatory and business forces that function around us is of paramount importance for the sustainability of our business and the optimisation of our value generation process.

A Peek at the Economy: Economic Review

Global Economic Disarray Continues

World Economic Growth - Advanced and Emerging Economies (%)



It is the general consensus among economists across the world that the global economy is yet to fully recover from the worst recession it faced since the great depression. Despite four years having elapsed after the worst of the crisis was felt across the world, signs of strengthening the international economic system have not yet materialised. Frequent topics in international economic dialogues are still along the lines of stimulation, fiscal consolidation and achieving sustained growth. Thus, it appears that the world is still travelling along the path to recovery - a long and arduous path with many an obstacle.

Agony Severe for Advanced Economies

The agony of recovery has been particularly severe for advanced economies, and two topics in hot pursuit during the course of 2012 in the international economic arena revolved around the two key players of the global economy i.e. the debt crisis of the Eurozone and the fiscal cliff of the United States (US).

Amidst such developments, growth prospects for advanced economies are anything but lucrative. For 2011, advanced economies expanded by 1.6%, but the forecast for 2012 is at a poorer level of 1.3%. Although economists expect advanced economies to strengthen gradually, it is only at a very sluggish pace, as reflected by the IMF's forecast which presumes the growth in advanced economies to reach 2.6% only by 2017. However, such forecasts rely heavily on assumptions such as that prudent policy measures will be taken within the Eurozone and that the budget deficit and debt levels will be adequately controlled in the United States. Should these assumptions fail to hold, the case may become bleaker for developed economies.

Emerging Economies Fail to Boost Domestic Demand

While developed economies continued with their struggles, the trickling effects of such struggles were witnessed in developing economies, which are yet very much reliant on external demand and international trade. Most emerging economies passed another year without correcting their homegrown weaknesses and without implementing measures to reduce their excessive reliance on trade with developed economies, which in turn brought unwelcome consequences their way.

In a context where developed economies have been struggling to resolve their own predicaments, it appears imperative that emerging economies weaken their dependence on external trade and rather rely more on stimulating internal demand. Although this fact has been discussed at various forums across the world ever since the recession occurred, sufficient attention has not been placed on this aspect, leading to the decline in growth of emerging economies from 7.4% in 2010 to 6.3% in 2011. For 2012, the growth is estimated to be worse, at 5.1%.

Accordingly, the world economic outlook for 2013 does not appear bright; economists expect no significant improvement in international economic conditions from their current levels. As per the IMF, the year is likely to be a slow period of uneven growth, with only a slight improvement in activities, instead of being a period of significant rejuvenation to pre-crisis levels.

Prickly Economic Journey for Sri Lanka

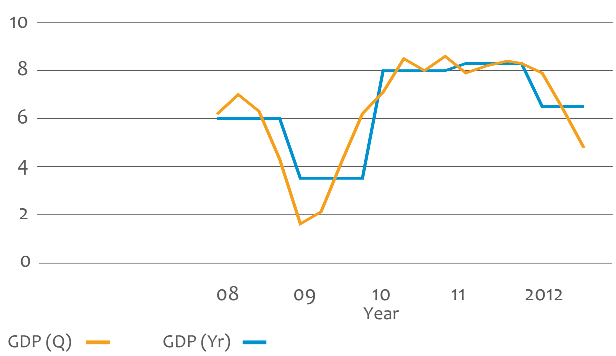
The economic journey of the Pearl of the Indian Ocean in 2012 was far from charming - it was a year marked by many unfavourable economic conditions, both man-made and inflicted upon by natural forces. The result was declined growth in the economy which, the policymakers argue, was a manipulated outcome caused by the necessity to prevent the economy from overheating.

Economy Decelerates Following a Smooth Run

Following the achievement of over 8% growth for two consecutive years, the Sri Lankan economy decelerated slightly in 2012. Growth in Gross Domestic Product (GDP) during the first three quarters of the year was recorded at 7.9%, 6.4% and 4.8%, respectively, and it is the estimate of the Central Bank of Sri Lanka (CBSL) that expansion for the year will lie at around 6.5%.

Over the first three quarters of the year, the growth in the Agriculture, Industry and Service sectors were recorded at 6.50%, 9.20% and 4.90%, respectively. It is alarmingly noted that the Service sector, broadly believed to be the engine of growth in Sri Lanka, which expanded by 8.60% over 2011 had considerably reduced its pace of growth in the first 9 months of 2012. This weakening was primarily attributable to the 15.70% decline in the 'Wholesale and Retail Trade' sub-sector.

SL - GDP Growth
(%)



Despite being lower than the growth recorded in the preceding years and the ambitious target set by policymakers at the beginning of the year, the overall growth is still commendable when considering the context within which the achievement was made. The slow recovery of the global economy as well as a few domestic challenges such as a threatening balance of payments crisis, droughts during the Yala season and severe floods during the latter part of the year were a part and parcel of 2012, which served to slow down the rate of expansion of the economy.

The CBSL has declared that the stringent policy measures aimed at stabilisation implemented during the year yielded anticipated results and hence a more relaxed economic environment, conducive to expansion, may prevail in 2013, with an aim to achieve a targeted growth rate of 7.5%.

Estimated Economic Growth

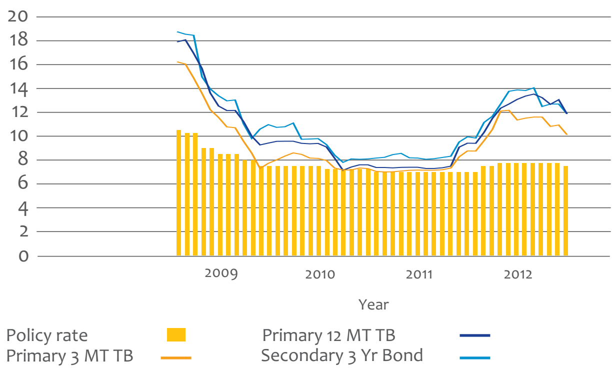
6.5%

For the year 2012

Monetary Policy Actively Used to Curb Liquidity

A distinct feature of the domestic economy during 2012 was the active use of monetary policy by the CBSL. During the early part of the year the monetary stance was mainly contractionary, although measures were slightly eased later during the year.

Interest Rates
(%)

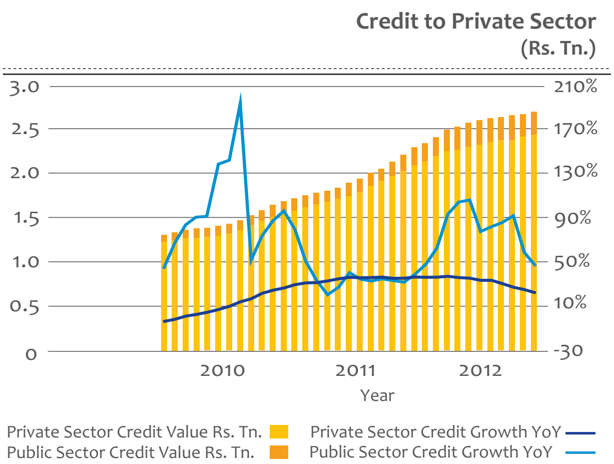


Due to the tight monetary policy conditions and increased investor preference for short term securities, the overall average interest rate of Treasury Bills and Treasury Bonds increased during the first five months of 2012; the yield on a three month Treasury Bill, which stood at 8.68% at the beginning of the year, increased to 12.19% in May 2012. Similar hikes were witnessed in Government security yields across all maturities and simultaneously, interest rates on bank deposits and corporate debt instruments also shot upwards.

This trend however reversed during the latter part of the year and the policy rate, which had been previously raised on two occasions by an aggregate of 75 basis points during the first four months of the year, were reduced in December by 25 basis points to 7.50%. Yields on Government securities also declined, with the three month Treasury Bill yielding 10% and the one year Treasury Bill yielding 11.69% by the year end.

For 2013, the picture does not look too bleak. With the slashing of policy rates in December 2012, it appears that the CBSL is in the process of implementing policies to stimulate the economy, and hence it is our anticipation that a stable and low interest rate regime conducive to development activities will prevail in the coming year.

Compulsory Controls Established to Curtail Credit Growth



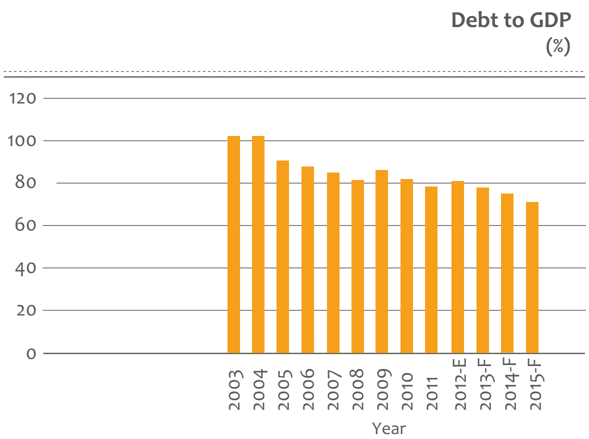
Another significant measure adopted during the course of 2012 to prevent the rise of liquidity in the economy was the implementation of a credit ceiling for Licensed Commercial Banks (LCBs), requiring them to limit their credit growth to 18% of the loan book outstanding as at December 31st 2011, with an additional 5% expansion made possible if funds are to be sourced externally. This policy was particularly in response to the high growth in private sector credit witnessed in 2011, which was a matter of great concern to the policymakers.

Following the implementation of such stringent measures, private sector credit growth, which stood at 35.16% in March 2012, declined to 20.70% by November 2012. Simultaneously with the decline in private sector credit however, there occurred a considerable hike in public sector credit, which rose by 45.6% in November 2012, the bulk of which was due to credit extended to Ceylon Electricity Board (CEB) and Ceylon Petroleum Corporation (CPC).

Our expectation of credit growth for 2013 is largely based on the decision of the government to allow the credit ceiling to expire on 31st December 2012. We believe that this will act as a strong incentive for the economy, with economic agents tending to borrow more, assisted further by the relatively lower interest rates. Hence, we forecast a year of high liquidity in the economy, and consequently a high level of stimulation in economic activity. A risk to our expectation may however materialise if inflation moves beyond the targeted levels, forcing the policymakers to resort to a tighter monetary policy stance again to curb inflation.

Fiscal Deficit Target Achieved

The Government had targeted to maintain the fiscal deficit at 6.2% of GDP and it is estimated that this target has been met in 2012. Although the target looked unattainable during mid-2012, it is understood that it was finally achieved mainly through cutting down on recurrent expenditure without overly compromising on public investment.

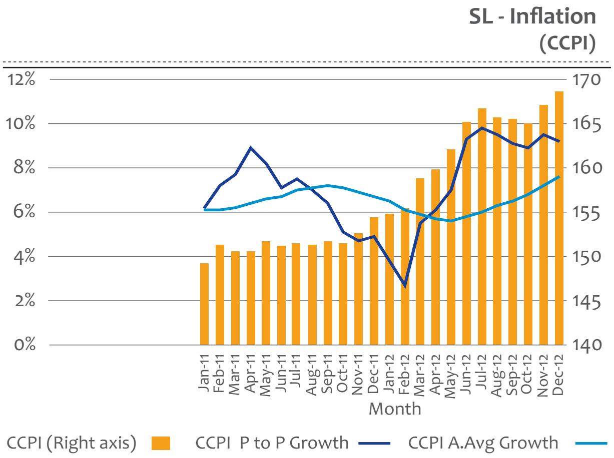


It is interesting to note that the Government has yet again obliged itself to an ambitious target of reducing the budget deficit to 5.8% of GDP in 2013 and to 4.7% of GDP by 2015. We, however, remain skeptic on the achievement of these targets, and such skepticism is mainly derived from the fact that engaging in expansionary fiscal policy is necessary in order to stimulate the economy towards reaching the projected GDP growth of 7.5% in 2013, which is further estimated to rise to 8.3% by 2015. It is our belief that rapid economic expansion and significant reductions in budget deficit may not go hand in hand.

Although the budget deficit target for 2012 was achieved, the debt-to-GDP ratio target for 2012 was unaccomplished, as the ratio rose from 78.5% in 2011 to 81% in 2012, well in excess of the 2012 target of 75%. In terms of the debt-to-GDP ratio, CBSL has committed itself to a target of 78% for 2013, the realisation of which will only be possible if adequate and prudent debt management policies are enforced.

Journey through the Year:
Management Discussion and Analysis

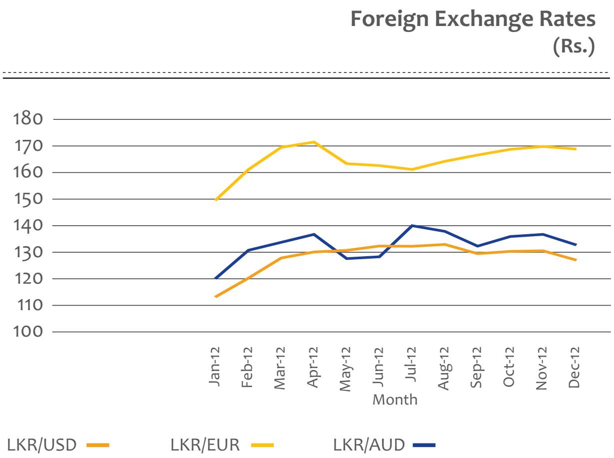
Single-Digit Inflation Maintained



Inflation remained at single digit levels through the year despite serious threats posed by the adverse weather conditions that persisted during harvesting seasons. In spite of remaining at single-digit levels, the general trend in inflation was pointed upwards, with the peak in point-to-point inflation being reached at 9.80% in July 2012.

By the year end, the annual average inflation was recorded at 7.6% while point-to-point inflation stood at 9.2%, which was significantly higher than the point-to-point inflation rate of 4.90% recorded at the end of 2011. Some of the key reasons for inflation to increase in 2012 were supply disruptions, increased tariffs on imported items and the impact of the currency depreciation which raised the prices of imports. Statistically, the low base of 2011 also worked to increase the point-to-point inflation rate in 2012.

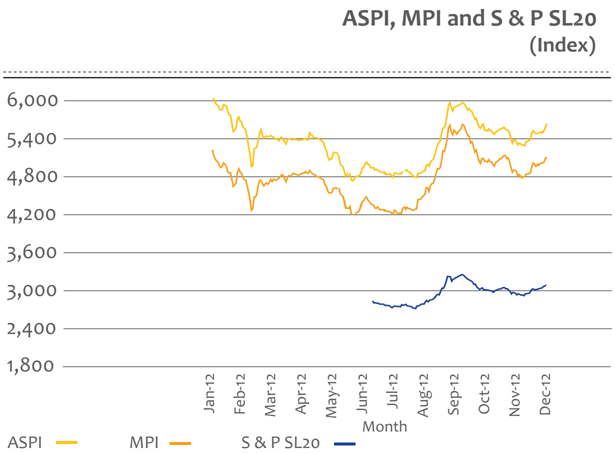
An Uncontrolled LKR Subject to Frequent Volatilities



Following the exit of the CBSL from the foreign exchange market during early 2012, the LKR became solely dependent on market determinants and reached a low of, on average, LKR132.87/USD in July 2012. However, there was a slight strengthening in the LKR towards the latter part of the year, and accordingly, the year ended at LKR 127.16/USD. It is estimated that the depreciation of the LKR as against the USD for 2012 was 10.4%, which was significantly greater than what was experienced in the last decade.

Trade Deficit Contracted and Balance of Payments in Surplus

Two of the key economic matters that received constant scrutiny during the entirety of 2012 were the trade deficit and the balance of payments. At the beginning of the year, the country was on the verge of stumbling upon a balance of payments crisis with imports rising uncontrollably and exports not keeping pace. However, stabilisation measures implemented during the year saw the trade deficit decline by 4% during 2012, enabling the aversion of a balance of payments crisis.



During 2012, the cumulative expenditure on imports declined by 6%. Simultaneously however, the demand for exports also declined, by 7%, the main reason for which was weak global demand.

Aided by the contraction in the trade deficit and the large inflows witnessed to the current account in the form of tourism, worker's remittances and service trade, the current account deficit is estimated to have reduced substantially in 2012 to 5.5% of GDP, from 7.8% in 2011. This, along with the inflows to the capital market and foreign investments attracted towards government securities, is in turn projected to lead to a balance of payments surplus of approximately USD 100 Million, as opposed to the deficit of USD 1,061 Million recorded in 2011.

Continued Lethargy at the Colombo Stock Exchange (CSE)

The lackluster performance witnessed at the Colombo Stock Exchange (CSE) in 2011 continued through 2012, but the market saw a slight revival towards the end of the year. The All Share Price Index (ASPI), which entered the year at 6,074.42, ended the year at 5,643.00, declining by 7.1%. The Milanka Price Index (MPI) however, was more resilient, declining only by 2.10%, as opposed to the decline of 26% in the previous year. Meanwhile, the newly introduced S&P SL20 index closed the year at 3,085, after having been initiated at 2,845 in June 2012. The market Price-Earnings Ratio and Price-to-Book Value Ratio were recorded at 15.93 times and 2.08 times, respectively, by 31st December 2012.

Although domestic investors were satisfied with taking the back seat with regard to investments in the CSE, the net foreign inflows to the CSE are estimated to have topped Rs. 39 Billion in 2012, indicating that foreign investors viewed the local stock exchange with a greater degree of optimism. Along with the various stimulants granted for capital market development through the Budget 2013, such as a three year half tax holiday for new companies listed at CSE in 2013 with more than 20% public holding, and the expected expansion in the local economy along with lower interest rates, we expect the performance of CSE to pick up again in 2013.

Expectations for 2013: What will the Year Hold?

2013 will prove to be a crucial year for Sri Lanka, as it moves closer towards a USD 100 Billion economy and USD 4,000 per capita income. Given that the focus in 2012 was on stabilisation measures in order to prevent overheating, 2013 will entail a slight relaxation of economic policies. Necessary strategies required to achieve sustainable growth in per capita GDP, such as maintaining low unemployment and poverty levels as well as exhaustive infrastructure development will have to be made effective during the year.

Overall, the attainment of our ambitious economic targets will depend heavily on the implementation of a sound policy framework in a consistent manner and the provision of timely responses to economic shocks, both internal and external.

Tourism will be a key industry to watch out for, as it bears high potential due to the international recognition of Sri Lanka as one of the most desirable destinations to visit in 2013, and aided by the leading players in the hospitality industry entering the domestic sphere. Simultaneously, sufficient attention will have to be placed on prudent management of public debt and on keeping the twin deficits under control. The behavioural pattern of the global economy will also bear a considerable impact on the local economy.

Overall, the attainment of our ambitious economic targets will depend heavily on the implementation of a sound policy framework in a consistent manner and the provision of timely responses to economic shocks, both internal and external.

Journey through the Year:
Management Discussion and Analysis

Regulations Providing Guidance - Regulatory Review

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

The legislation introduced to segregate Life and Non - Life insurance businesses in 2015 was the most significant change brought in from these amendments. In addition, the following amendments can also be noted as important for the industry.

- All insurance companies to be listed in the Colombo Stock Exchange (CSE) by 2016. All new entrants must be listed within three years of operation.
- IBSL vested with the power to decide the minimum stated capital of insurance companies.
- National Insurance Trust Fund (NITF) brought under the scope of the Regulation of Insurance Industry Act and the purview of IBSL.
- Institutions to be allowed to act as Agents of insurance companies.
- IBSL prior approval to be obtained when new directors are appointed.
- Loss Adjusters to be registered with the IBSL.

The Company, together with the industry peers and the IBSL, is working towards the target of segregating Life and Non - Life Companies as required by the Act. Different models that can be used to segregate companies, tax implications, cost escalations, etc., are the areas of concern for which we are trying to develop appropriate strategies as a Company as well as an industry.

The minimum Stated Capital requirement for new insurance companies was changed under the above amendments and accordingly all new insurance companies are required to have a minimum stated capital of Rs. 500 Million for each line of business. i.e. for Rs.500 Million each for Life Insurance and Non - Life Insurance businesses. The Minimum Stated Capital of existing insurance companies is also proposed to be increased to Rs. 500 Million for each line of business. However, the IBSL has not yet stipulated a timeline for this.

In view of these developments, the Company increased its stated capital up to Rs. 1,172 Million, through a Capitalisation of Reserves and a Rights Issue during the year 2011 ensuring an early compliance with the proposed rule.

Further, the IBSL has commenced work on introducing a Risk Based Capital (RBC) supervision regime in place of the existing compliance based system following the global trend. Risk-based supervision will supplement sound regulation with a focus on the volatile nature of the insurance business, which affects solvency and the ability to meet contingencies.

During the year, the IBSL started a "Road Test" towards implementation of RBC and requested industry companies to provide relevant information to the IBSL from the 3rd quarter 2012 onwards. Most of the companies in the industry including HNBA decided to participate in the "Road Test" and thus have provided the data required. Meanwhile, the Company is working with two different actuarial consultants for Life and Non - Life separately to assist the Company in the RBC implementation process.

As noted last year, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) implemented a set of new Sri Lanka Accounting Standards prefixed SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). The Company has successfully implemented these new accounting standards and the 2012 financial statements have been prepared and presented accordingly. Please refer page 212 for the Auditor's opinion on the Company's financial statements.

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

Business Forces around Us: Industry Review

The Sri Lankan Insurance industry is dynamic, with the competition amongst twenty one (21) players being intense. Twelve companies including HNB Assurance PLC are composite insurers, providing both Life and Non-Life Insurance solutions while six engage only in Non-Life Insurance business and the remaining three cater only to Life Insurance customers.

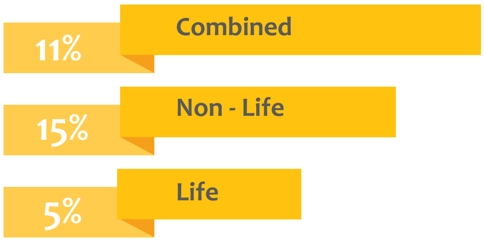
According to the provisional information available during 2012, premium income from the insurance sector is expected to exceed Rs.89 Billion and a growth of 11% is expected over the Rs.80 Billion recorded in 2011.

The contribution from Non-Life Insurance is estimated to have increased to 58% of the total GWP from 56% in 2011 while the contribution from Life Insurance is estimated to have declined further to 42% from 44% in 2011. Non-Life Insurance GWP is expected to grow by 15% whilst Life Insurance GWP is expected to grow only by 5%. Thereby, we expect that the industry growth will be significantly lower than last year, recording an 11% growth compared to the 21% achieved in 2011.

Accordingly, the growth in both lines of businesses has slowed down compared to last year. The Motor Insurance growth rate has come down as a result of high import taxes on vehicles and high leasing rates, which is one main reason for the lower growth in the Non-Life Insurance business. Life Insurance growth has also come down significantly, mainly due to the poor performance of unit-linked products as a result of the weak performance of the stock market and the low growth in housing loans that affected the sale of mortgage linked Life policies.

Whilst the industry growth rate is expected to be around 11%, the growth in HNBA is recorded at 8%. The Life Insurance business in HNBA has out - performed the industry by recording a 16% growth compared to the 5% growth recorded by the industry. However, Non-Life business has recorded only a marginal growth of 1% in HNBA whilst the industry has grown by 15% approximately. The main reason for this lower growth is the Company's decision to defend its pricing structure in the midst of increasing price competition. Through this strategy, the Company was able to improve its underwriting profitability by reducing the Operating Deficit in Non-Life Insurance business from Rs. 38.6 Million (restated) to Rs.22.9 Million.

Expected Industry Growth



Year	2008	2009	2010	2011	2012 Estimated
Insurance Industry					
Life (Rs. Mn)	23,613	23,767	31,152	35,128	**37,046**
Non-Life (Rs. Mn)	34,553	33,485	35,101	45,349	**51,989**
Total (Rs. Mn)	58,166	57,252	66,253	80,477	**89,035**
Industry Growth	12%	(2%)	16%	21%	**11%**
Life: Non-Life	41:59	42:58	45:55	44:56	**42:58**
HNB Assurance				Restated	
Life (Rs. Mn)	914	985	1,084	1,291	**1,500**
Non-Life (Rs. Mn)	925	1,131	1,344	1,694	**1,712**
Total (Rs. Mn)	1,839	2,116	2,428	2,985	**3,212**
Company Growth	25%	15%	15%	23%	**8%**
Life: Non-Life	50:50	47:53	45: 55	43:57	**47:53**

Sri Lankan Insurance Industry and HNBA

Due to the higher growth in Life Insurance, its contribution to total Company GWP has increased from 43% in 2011 to 47% in 2012. In fact, the Company wishes to maintain a balanced mix of Life and Non-Life businesses around these levels and also to record a faster growth in Life Insurance in future. When it comes to the industry, contribution from Non-Life business has been higher than Life Insurance over the last few years.

The local insurance industry is highly concentrated and could be segregated into two segments in terms of market share. Five large players control 77% of the market, each holding in excess of 8% of the market, and the balance 23% is shared by sixteen smaller players including new entrants.

Our overall market share is expected to remain around 3.7% whilst market share in Life Insurance has grown to 4% from around 3.7% last year. However, market share in Non-Life Insurance is expected to go down to 3.3% from 3.8% recorded last year due to the low growth in Non-Life GWP compared to the industry.

Our Response to Key Risks and Opportunities

Factor	Expected Environmental Condition	Opportunities	Responses	Risks	Responses
Political	Stable political environment	Expansion in business and more opportunities for new business	Engage in business expansion	No significant risks expected	N/A
Economic	Low interest rate environment	Growth in lending activities	Promote products such as MRP, Motor and Title Insurance which are driven by the growth in housing loans, leasing, etc.	Low investment income	Explore new investment opportunities
	Higher or stable economic growth	Customers having increased purchasing power	Invest in the Company's brand and aggressively promote Company's products	New competitors entering the market	Innovative claims/ expense management strategies
	Focused development in rural areas	Rural customers having more capacity to spend on insurance	Expand the distribution network to rural areas to service the customers and regions		Frequently review the Company's performance, Improving the level of productivity to keep costs under control
	High inflation rates			Increase in Claims and Expense Ratios, decrease in purchasing power	Innovative claims/ expense management strategies, Explore new markets
Social	Rise in inequality in income distribution	Increase in middle income segment creating more business opportunities	New product development	High unemployment/ under-employment rate in the country which leads to poverty	Provide new employment opportunities by expanding the business
				Low awareness on insurance among the rural community	Insurance awareness programmes by the Company itself and as an industry
				Lack of facilities to satisfy basic human needs in the rural areas	Provide basic facilities such as drinking water for identified segments in the society
Technological	Expanding new technologies rapidly to all segments in the society e.g. mobile technology	Innovative and cost effective business opportunities such as online sales channels	Explore online sales	Increase in technology driven frauds, cyber threats and misappropriations	Improve the control environment by an Integrated System and more Management Information

Factor	Expected Environmental Condition	Opportunities	Responses	Risks	Responses
		Ability to use new technology for service improvements and cost management	Use new technology for operational efficiencies and customer servicing		Strict underwriting policies on high risk areas to manage claims
Environmental	Growing need for "green" focus in business	Low cost by reducing waste and paper	Lead towards a paperless environment	Global warming and other adverse environmental changes	Appropriate underwriting policies and reinsurance arrangements
				Increased natural perils due to global warming and other adverse environmental changes	
Regulatory	Changes in regulatory environment	Competitive edge by ensuring full compliance	Ensure 100% compliance all the time	High complexity and cost of managing compliance	Invest in required resources such as human, technological and other
	Requirement to split Company into Life and Non - Life in 2015	Opportunities for mergers and acquisitions after splitting	Search for business expansion opportunities through mergers and acquisitions	High cost of businesses due to duplication of resources after splitting	Enhance the operational efficiencies to reduce costs
	Risk Based Capital (RBC) implementation in 2016	Competitive edge by ensuring full compliance	Build processes in place to ensure full compliance	Possibility of additional capital being required	Search for business expansion opportunities through mergers and acquisitions
	New Financial Reporting requirements	Ensure transparency and competitive edge by smooth changeover	Implemented smooth changeover and ensuring 100% compliance		

Strategic Focus – Prioritising What Matters

The Company has identified the need to set the strategic direction of the Company in line with the risks and opportunities posed by the external environment. While the long term direction of the Company has already been voiced in the Company's vision, the senior management, led by the Managing Director, is vested with the responsibility of designing the short and medium term strategic direction of the Company, which is then submitted to the Board for approval.

This task is carried out through a participative process involving more than 25 members of the management team at the annual corporate planning sessions that takes in to consideration a three year time horizon. Accordingly, the corporate planning session held in 2012 considered the direction of the Company for the years 2013 to 2015.

At the corporate planning sessions, due consideration is afforded by the management to the developments in both the external environment and the internal environment – for this purpose, a SWOT analysis is used, which enables the examination of the strengths and weaknesses within the Company against the opportunities and threats presented by the outer world. Following extensive dialogue regarding such areas, a concise set of goals is arrived at, which will act as the guiding parameters for the Company's performance – these goals will empower the Company to optimise strengths, mitigate weaknesses while exploiting opportunities and avoiding threats.

Following this exercise, the Company sets strategies and action plans relevant for the achievement of such goals. These plans then become the core of the Corporate Plan and are further segregated as targets/objectives of the senior, middle and operational management teams of each division, where accountability for the achievement of such targets/objectives is created.

We continuously endeavour to ensure that the goals and KPIs thus set are ambitious, yet realistic, which will in turn drive the employees towards delivering their maximum, while not demotivating them by virtue of being entirely unattainable.

The focus placed during 2012 on the strategic areas of importance to the Company, performance with respect to such areas and strategic goals for 2013 appear on the table below.

Goals for 2012	Performance in 2012	Status	Goals for 2013
Managing external pressure on our business			
- Continuous monitoring of social, economic and environmental variables	- A drop was experienced in the GWP achievement, particularly in Non - Life Insurance, due to changes in the market place and intense price competition.	★	- Improve the GWP achievement whilst maintaining profitability
- Assessing and monitoring of risks through a robust risk management process	- However, underwriting profitability improved during the year.	★	- Enhance investment returns without taking undue risks
	- Further, investment income performed exceptionally well during the year, recording a growth of 62% over the previous year.	★	
Absorbing regulatory changes			
- Ensuring the smooth implementation of new accounting standards	- The new accounting standards (SLFRS/LKAS) were successfully implemented.	★	- Complete a significant portion of the RBC implementation work and implement relevant processes
	- The implementation of RBC framework was initiated.	★	- Formulate a plan to deal with the requirement of splitting the Company in to Life and Non - Life Insurance business segments, which is to be completed in 2015 as per the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011
- Monitoring regulatory developments and taking necessary actions to comply with such changes	- 100% compliance was maintained with all existing regulatory requirements.	★	- Ensure 100% compliance with all applicable laws and regulations

Strategic Focus – Prioritising What Matters (Contd.)

Goals for 2012	Performance in 2012	Status	Goals for 2013
Delivering sustainable returns to our shareholders			
- Conducting process studies to address cost management issues	- Total expenses were managed well below the budgeted levels during the year.	★	- Generate a considerable increase in profits of the Company
- Exploring new investment options to improve investment returns and shareholder value	- Alternate investment options were explored, but were deferred due to better returns yielded from options within the current portfolio	★	- Improve the business growth of the Company
- Further improving the Expense Ratio	- The Expense Ratio was maintained at 34% in Non - Life Insurance while the same in Life Insurance increased to 59%from 55% last year (mainly due to the lower GWP achievement)	★	- Enable shareholders to reap higher dividends
- Generating greater returns for shareholders	- Directors have recommended a Rs.2.75 (2011- Rs.2.10) Dividend Per Share, indicating growth of 31% over the previous year	★	
Maintaining excellence in operations - Non - Life Insurance			
- Reviewing the Motor and Non- Motor product portfolios and introducing innovative products	- Both Motor and Non-motor products were reviewed, and changes to features/ introduction of new products were made. e.g. Motorguard Xtra, myhome, myhealth, mycard protection	★	- Accelerate growth in GWP by mainly focusing on the retail segment and the introduction of new products whilst maintaining profitability
			- Review pricing structures periodically
- Focusing more on profitable Non-Motor Products	- The Non-Motor Claims Ratio improved from 84% to 69%	★	- Explore new business avenues and introduce new channels
- Improving and maintaining healthy Loss Ratios	- The overall Claims Ratio improved from 69% to 68%	★	- Improve renewal retention
- Increasing market share in Non - Life Insurance	- Market share declined from 3.8% to 3.3% due to the conservative pricing policy adopted.	★	
Maintaining excellence in operations - Life Insurance			
- Recording higher growth in Life Insurance	- Life Insurance GWP grew by 16% compared to the 1% growth in Non - Life Insurance	★	- Accelerate growth in the GWP mainly from non-participatory products
- Continuing to develop products of a non-participatory nature	- Priority was given to the re-design of existing products.	★	- Examine the current product portfolio and redesign selected products/ develop new products
- Redesigning selected existing products	- “Ranmaga” product was redesigned and re-launched as a non-participatory product	★	- Explore new business avenues
- Improving competitiveness of the MRP product	- MRP product prices were reduced after a due review	★	- Maintain premium persistency over the 80% level

Strategic Focus – Prioritising What Matters (Contd.)

Goals for 2012	Performance in 2012	Status	Goals for 2013
- Reducing lapsation through advisor and customer awareness	- The first year Lapse Ratio increased marginally from 49.4% to 50.0% and the second year Lapse Ratio from 26.7% to 26.5%. Premium persistency was maintained at 80%.	★	
- Increasing market share in Life Insurance	- Market share increased from 3.7% to 4%.	★	
Implementing innovations and efficiencies in technology			
- Developing the overall framework for generation and sharing of Management Information	- The development of the framework for Management Information was completed, with 169 MIS reports developed for information needs	★	- Complete the Finance Module and the Non - Life Insurance BI implementation
- Completing the implementation of the Finance Module	- All business related functions of the Finance Module are completed whilst the General Ledger integration is underway	★	- Consolidate supporting applications drawing on the strengths of the core application
- Implementing a BI solution for Non - Life Insurance	- The BI solution for Non - Life Insurance was developed and is currently being tested by users	★	- Implement an Investment Management System
			- Explore opportunities to enhance customer service through mobile technology
			- Reduce the carbon footprint by embracing Green IT
Upholding strong focus on customer centricity - Distribution network			
- Developing alternate channels to promote high margin products	- A unit for the identification and development of alternative channels is currently in operation	★	- Focus on developing direct business channels
- Monitoring and reviewing existing business channels and branches	- Colombo South and Colombo West branches were amalgamated to rationalise operations	★	- Take measures to significantly improve the productivity of advisors
- Expanding the bancassurance channel beyond Life Insurance	- The expansion of the bancassurance channel beyond Life Insurance products was deferred due to proposed splitting of Life and Non - Life business	★	- Continue to target migrant workers in overseas markets
- Targeting migrant workers in overseas markets	- A successful programme was conducted targeting migrant workers (policies sold – 211)	★	- Expand the bancassurance channel to cover 40 more HNB branches
- Expanding the bancassurance network to cover 30 more HNB branches	- 22 bancassurance units were set-up during the year.	★	

Strategic Focus – Prioritising What Matters (Contd.)

Goals for 2012	Performance in 2012	Status	Goals for 2013
Upholding strong focus on customer centricity - Brand awareness			
- Creating brand awareness through focused advertising	- Extensive awareness programmes were carried out through field promotions and advertising via print and electronic media	★	Strengthen the corporate brand and selected product brands
- Developing a mass media campaign for selected products	- A successful mass media campaign was rolled out for 'my' series products	★	Maintain a prominent presence on the web and in social media to better serve customer expectations
- Establishing a strong presence on the internet and social media	- The Facebook fan page was revamped and several competitions were launched. The number of fans increased by 378% from 628 at end 2011 to 3,100 at end 2012.	★	
- Further the use of social media as a customer service point		★	
Upholding strong focus on customer centricity - Customer service			
- Introducing innovative customer service points and new premium collection methods	- Links were formed with 5 banks for premium collection, covering the entire island, and Dialog eZ cash facility is now available for our customers to make premium payments	★	- Develop customer service standards for all divisions
- Introducing more innovative products	- 4 attractive new products were introduced to serve customer needs better (Motorguard Xtra, myhome, myhealth, mycard protection)	★	- Review and actively monitor customer service standards
- Enhancing customer service through the Customer Relations Centre (CRC)	- The CRC was equipped with facilities to accept premiums throughout all 365 days of the year	★	- Re-design the claims process focusing on customers
- Introducing more SMS based services for customers	- 31 SMS based services are in place	★	- Enhance customer service by improving service standards
- Introducing fast claim settlement facilities	- A process of sending claim payments to customer's bank accounts via an online facility was initiated	★	- Further expand the claims decentralisation process
- Enhancing the features of existing products while introducing new products	- 2 products were re-launched with enhanced features and 4 new products were launched	★	- Introduce a stronger and effective communication plan to keep our customers up-to-date
- Placing high attention on strengthening our corporate image	- Our efforts were recognised with a Global Award for Brand Excellence at the World Brand Congress held in Mumbai, India	★	- Continue to focus on strengthening our corporate image and improving brand awareness

Strategic Focus – Prioritising What Matters (Contd.)

Goals for 2012	Performance in 2012	Status	Goals for 2013
Emerging as a rewarding employer			
- Implementing programmes to achieve the goal of "Sustainable Development through Continuous Learning" which is the theme for the year	- A series of trainings were arranged in line with theme, including 46 internal trainings	★	- Take measures to improve retention of employees, thereby reducing employee turnover
- Decentralising sales trainings by locating trainers in the regions	- Trainers were positioned at all 5 regions	★	- Identify and implement emerging trends in people management and best practices in HR
- Introducing online goal setting and regular assessment through HRIS	- The online goal setting system was launched and its active monitoring is due to commence in 2013	★	- Carry out focused training and development activities according to a comprehensive plan for learning and development
- Creating a shift towards a 'development culture'	- Awareness was created through trainings and e-mails, to create a shift towards a development culture	★	- Enhance employee engagement
- Promoting the use of e-learning facilities in the Company	- The e-learning module was updated during the year	★	
- Placing greater emphasis on the academic and professional development of staff	- Numerous training and development programmes were initiated for the benefit of employees.	★	
- Identifying and developing a second line of employees for key managerial positions	- The succession plan was strengthened and training was provided to earmarked employees, while also granting focused trainings to the members of the Management Development Pool	★	
Preserving win-win partnerships			
- Decentralising training activities by locating trainers in zones/ regions	- Trainers were positioned at all 5 regions	★	- Place strong focus on improving advisor productivity
- Increasing the activity ratio of advisors to at least 1.5 (activity ratio = total no. of policies by advisors/ no. of advisors)	- Activity ratio increased to 1.5	★	- Build partnerships with new reinsurers
			- Conduct more training and recreational activities to improve awareness and relationships with brokers and other business intermediaries

Strategic Focus – Prioritising What Matters (Contd.)

Goals for 2012	Performance in 2012	Status	Goals for 2013
Behaving as a responsible corporate citizen - Society			
- Expanding the community's access to water	- 5 schools benefited from our water supply projects in 2012	★	- Expand the support provided to the community, not limiting it to water supply projects
- Continuing to support high quality arts and culture	- 3 cultural programmes received our sponsorship during the year	★	- Organise and sponsor community events for the furtherance of sports, arts and culture, education and social networking
Behaving as a responsible corporate citizen- Environment			
- Developing the use of e-documents and online training	- Paper usage for internal communications has been reduced enormously, mainly being replaced with emails. SMS reports were also developed for GWP, PPW and renewal lists, reducing paper usage	★	- Expand the use of e-documents and recycled paper to reduce the environmental impact of our activities
- Conducting more external environmental preservation projects	- More sponsorships were provided for environmental preservation programmes.	★	

★ Achieved

★ Needs improvement

Journey through the Year:
Management Discussion and Analysis

Key Performance Indicators

While perceiving the necessity of establishing KPIs to stimulate the performance of employees and guide the Company in the desired strategic direction, we are also of the opinion that KPIs should be revised on a timely basis, to ensure that the factors that guide the Company remain relevant without being subjected to the risk of obsolescence.

Being a responsible corporate entity that had consistently disclosed the true picture with regard to the attainment of its KPIs over time, the need to revise our KPIs was observed during 2012. This need primarily stemmed from our passion to present an integrated annual report to our valued stakeholders- the comprehensive and unique story of how we create value. Hence, after careful scrutiny, initiatives were implemented to revise our KPIs, with the objective of linking the performance of the entire business model to the value created for all stakeholder groups, instead of considering our activities to stakeholders in an isolated manner.

The table below presents the KPIs thus devised, the level of achievement during 2012, and the comparative values for 2011.

★ Improvement ★ Need to improve ★ No material change

Indicator	Status	2012	2011*	2010	% Growth 2012
Financial Performance					
GWP (Rs. Mn)	★	**3,211**	2,985	2,428	8%
Investment Income (Rs. Mn)	★	**655**	479	517	37%
Profit After Tax (Rs. Mn)	★	**351**	246	242	43%
Funds under management (Rs. Mn)	★	**5,805**	4,967	3,661	17%
Market Capitalisation (Rs. Mn)	★	**2,450**	2,845	2,925	(14%)
Solvency Ratio - Life Insurance (Times)	★	**2.28**	2.89	1.13	
Solvency Ratio - Non Life Insurance (Times)	★	**3.48**	3.15	2.01	
Market Share	★	**3.7%**	3.7%	3.6%	
Returns to Investors					
Return on Equity	★	**18.79%**	15.23%	23.00%	
Earnings Per Share (Rs.)	★	**7.02**	5.14	5.38	37%
Dividends Per Share (Rs.)	★	**2.75**	2.1	1.80	31%
Dividend pay-out (Rs. Mn)	★	**137.5**	105	67.5	31%
Market Price Per Share VWA (Rs.)	★	**49**	56.9	66.31	(14%)
P/E Ratio (Times)	★	**6.98**	11.07	12.33	
Life Insurance Operations					
GWP (Rs. Mn)	★	**1,500**	1,291	1,084	16%
Life Fund (Rs. Mn)	★	**3,626**	3,021	2,415	20%
Number of Policies	★	**95,738**	90,260	79,321	6%
Lapse Ratio (first year)	★	**50.0%**	49.4%	55%	
Lapse Ratio (second year)	★	**26.5%**	26.7%	31%	
Premium Persistency Ratio	★	**80%**	79%	81%	
Claims Ratio (with maturities)	★	**19%**	5%	6%	
Claims Ratio (without maturities)	★	**8%**	4%	4%	
Expense Ratio	★	**59%**	57%	59%	
Combined Ratio (with maturities)	★	**78%**	62%	65%	
Combined Ratio (without maturities)	★	**67%**	61%	63%	

Indicator	Status	2012	2011*	2010	% Growth 2012
Non - Life Insurance Operations					
GWP (Rs. Mn)	★	**1,711**	1,694	1,344	1%
Non - Life Fund (Rs. Mn)	★	**969**	944	743	3%
Number of Policies	★	**85,996**	85,651	76,680	
Claims Ratio	★	**68%**	69%	68%	
Expense Ratio	★	**34%**	34%	39%	
Combined Ratio	★	**102%**	103%	107%	
Customer Value					
Claims and benefits - incurred (Rs. Mn)	★	**1,154**	865	648	33%
Number of Branches	★	**51**	51	51	
Number of new products	★	**4**	3	3	
% of customer complains settled	★	**80%**	89%	78%	
Bonus for policy holders (Rs. Mn)	★	**83**	70	54	19%
Rate of Dividend for non - participating policyholders	★	**9%**	8%	N/A	
Average GWP per branch (Rs. Mn)	★	**53**	49	39	8%
Average GWP per Bancassurance officer (Rs. Mn)	★	**1.32**	1.29	0.94	2%
Employee Benefits					
Number of staff	★	**723**	662	597	9%
Profit per employee (Rs. Mn)	★	**0.5**	0.4	0.4	31%
Training hours per employee (hrs)	★	**25.8**	23.4	25.5	
Employee turnover (with fixed term contract staff)	★	**25%**	23%	24%	
Employee turnover(without fixed term contract staff)	★	**17%**	13%	17%	
For Our Business Partners					
Number of Advisors	★	**1,643**	1,451	1,401	13%
Commission Paid (Rs. Mn)	★	**274**	235	190	17%
Average GWP per active Advisor (Rs. Mn)	★	**0.83**	0.79	0.67	5%
Number of Brokers	★	**49**	48	46	2%
Commission Paid to Brokers (Rs. Mn)	★	**55**	55	44	0%
Number of Assessors	★	**106**	91	97	16%
Fees paid to Assessors (Rs. Mn)	★	**15**	14	11	7%
Acquisition cost as a % of GWP	★	**11%**	10%	8%	
Community Emphasis					
Number of Micro Insurance Policies	★	**2,078**	2,988	2,141	(30%)
Total Number of school water projects completed (cumulative)	★	**21**	16	14	40%
Total Investment in Community (Rs. Mn)	★	**2**	2	2	
Environment Involvement					
Electricity consumption at Head Office (units)	★	**561,779**	574,003	535,154	(2%)
Energy saved through LCD replacements (Kwh)	★	**426**	623	Not disclosed	(32%)
Paper recycled (Kg)	★	**4,524**	11,907	904	(62%)

* 2011 financial information has been restated

Journey through the Year:
Management Discussion and Analysis

The Numbers Talk: Financial Review

Resolute amidst Challenges

We began our second decade of operations in an intensely challenging environment, with strong price competition amongst peers and numerous other adverse developments. These included the increased import duties on vehicles which impeded the growth in the Motor Insurance industry and adverse weather conditions that led to increased claims and expenses. Also the Life Insurance business experienced its own challenges with the escalating cost of living and rising interest rates, amongst other factors. Amidst these developments however, HNBA continued its endeavour of delivering sustainable results for its stakeholders, in terms of high profitability, unwavering stability and satisfactory solvency levels. In this section of the report, we present an impartial and comparable view of our financial performance.

In reading our financials, one key development to note is the change in accounting policies to be in line with the new Sri Lanka Accounting Standards. These new accounting standards as prefixed SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), were promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) with the aim of adding Sri Lanka to the global financial reporting framework, as defined by the International Financial Reporting Standards issued under the patronage of the International Accounting Standards Board (IASB).

Thus, all financial information for the year 2012 are in accordance with new accounting standards whilst comparative information presented for the year 2011 have been restated to be in line. The Statement of Financial Position as at 1st January 2011 has also been presented, as required by these accounting standards, and hence the assets and liabilities as at that date have also been restated. Financial information in respect of other periods (i.e. income and expenses from 2010 and backwards and assets and liabilities from 2009 and backwards) is the same as the previously presented numbers, which are in line with accounting standards then applicable.

Explanatory notes on the changeover and a reconciliation of key financials between SLFRS/LKAS and SLAS are presented on pages 270 to 276.

Combined GWP

Rs. 3.2 Bn

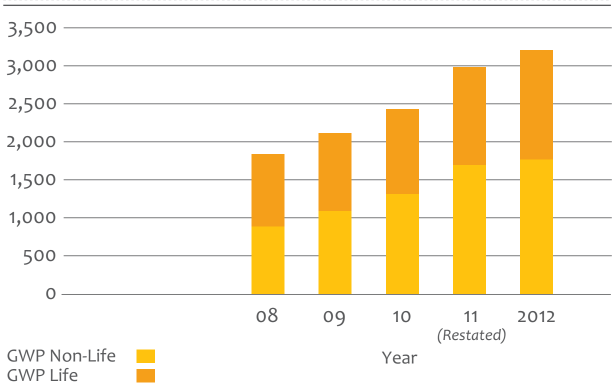
In 2012

Gross Written Premium (GWP)

Year	2008	2009	2010	2011 Restated	2012
Non-Life (Rs. Mn)	925	1,131	1,344	1,694	**1,711**
Life (Rs. Mn)	914	985	1,084	1,291	**1,500**
Company (Rs. Mn)	1,839	2,116	2,428	2,985	**3,211**
Growth Rate	25%	15%	15%	23%	**8%**

Our combined GWP increased to Rs. 3.2 Billion in 2012, recording a modest growth of 8% over the Rs. 2.98 Billion (restated) recorded in 2011. The main reason for the drop in the rate of growth is the nature of the Non-Life Insurance business, which grew only marginally by 1% – resulting from our resolute commitment to defend our pricing strategy, despite cut-throat competition, with the aim of improving the profitability of our business. Nevertheless, the commendable growth in our Life Insurance business, amounting to 16%, helped offset the modest growth in the Non-Life Insurance segment and led to a satisfactory overall growth level.

Gross Written Premium - Company (Rs. Mn.)



Following these developments, the year saw the Life/ Non-Life premium mix reaching a new equilibrium, with Non-Life Insurance contributing 53% of the combined GWP and Life Insurance contributing 47%.

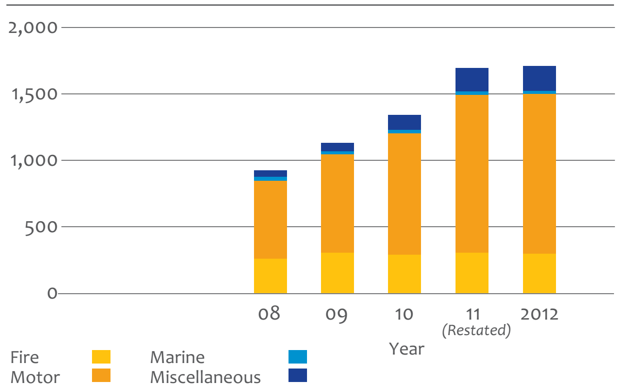
Non-Life Insurance

Our Non-Life Insurance business generated a GWP of Rs. 1,711 Million to the Company in 2012, at a marginal increase of 1% when compared to the Rs. 1,694 Million worth premium income of 2011. Intense price competition, slow growth in motor vehicle imports due to increased import duties and slow-down in the leasing market due to high interest rates all acted as contributory factors towards the stagnant nature of the Non-Life Insurance business.

Following such developments, growth in Motor and Miscellaneous classes, which collectively contributed to 81% of the Non-Life GWP, was limited to 1% and 7%, respectively, during the year. Despite being low, growth in these two classes was sufficient to offset the GWP decline in the Fire and Marine classes, enabling the achievement of the marginal growth in the Non - Life Insurance GWP mentioned above. Further details on our Non-Life Insurance business can be found in the Non-Life Insurance Review appearing on pages 74 to 80.

Class	2012 GWP (Rs. Mn)	%	2011 GWP Restated (Rs. Mn)	%	Growth
Motor	**1,204**	**70%**	1,189	70%	1%
Fire	**294**	**17%**	303	18%	(3%)
Marine	**24**	**2%**	25	2%	(4%)
Miscellaneous	**189**	**11%**	177	10%	7%
Total	**1,711**	**100%**	1,694	100%	1%

Class-wise GWP Non-Life Insurance
(Rs. Mn.)



It is further observed that the Company's decision to remove the partner's share of Co-Insurance GWP, which refers to an arrangement where two or more local insurers share a risk among themselves, from its overall GWP, resulted in reversing Rs.9.3 Million (2011 – Rs. 17.8 Million) from the Company's GWP of the current year.

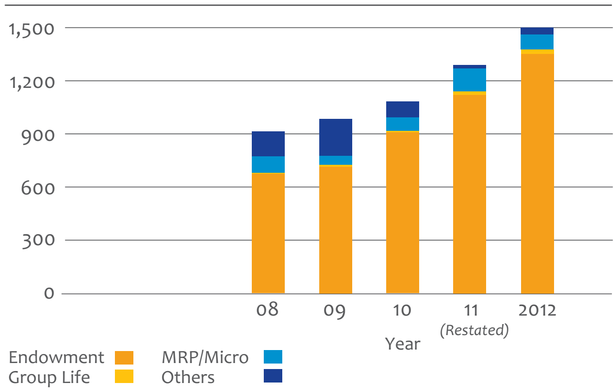
Life Insurance

Life Insurance GWP of the Company crossed the Rs. 1.5 Billion mark in 2012, with a commendable growth of 16% over the Rs. 1.3 Billion value recorded in 2011. It was this impressive growth which in turn enabled the Company to achieve an 8% growth in combined GWP in 2012.

In the Life Insurance business, endowment premiums played the predominant role, accounting for 90% of the Life Insurance GWP, in effect bridging the gap created by lower MRP premiums. Meanwhile, it is observed that group life premiums and investment policy premiums also played a supportive role in this achievement.

Premium Type	2012 GWP (Rs. Mn)	%	2011 GWP Restated (Rs. Mn)	%	Growth
Endowment	**1,351**	**90%**	1,121	87%	21%
MRP	**78**	**5%**	124	10%	(37%)
Micro	**6**	**0%**	7	0%	(14%)
Investments/ Annuity	**40**	**3%**	22	2%	82%
Group Life	**25**	**2%**	17	1%	47%
Total	**1,500**	**100%**	1,291	100%	16%

Class-wise GWP - Life Insurance
(Rs. Mn.)



Further details on Life Insurance GWP are found under the Life Insurance Review appearing on pages 69 to 73.

Reinsurance

During the year, Rs. 520 Million was ceded to reinsurers, at a 5% increase over the Rs. 493 Million ceded in 2011. Reinsurance premiums on account of Life Insurance, which accounted for 25% of the total, also witnessed a 25% growth during the year, which in turn led to this overall increase. No significant change was apparent in the Non-Life reinsurance outgo, consequent to our high concentration on Motor and Miscellaneous classes where the reinsurance premiums are minute.

Net Earned Premium (NEP)

Despite the moderate growth in GWP, NEP, which refers to the net amount available for settling claims, benefits and expenses, grew considerably by 15% to reach Rs. 2,697 Million, over the Rs. 2,350 Million achieved in 2011. The NEP accounted for 84% of the Company's GWP for the year

2012, as against the 79% recorded in 2011. Life Insurance accounted for 51% of the NEP in 2012, while the remainder was on account of Non-Life Insurance.

Other Revenue

Other Revenue consists mainly of Investment Income, Fee and Commission Income and Realised/Unrealised Gains from Investments.

As required by the new accounting standards, Other Revenue is now shown after the Net Earned Premium. Under the earlier accounting standards, this figure was presented after Benefits, Losses and Expenses. It is also observed that more information, when compared to previous years, has been presented in the Income Statement in respect of Other Revenue.

Investment Income, the largest contributor to Other Revenue, has reverted to its usual growth momentum, achieving a 37% growth as against the 8% drop in 2011. Consequently, the Investment Income for the year was recorded at Rs.655 Million (2011: Rs. 479 Million – restated).

Fair value losses, which are mainly due to investments in the equity market, have also declined significantly, from Rs. 71 Million (restated) in 2011 to Rs. 0.1 Million in the year 2012. Further, following the relatively better performance of the equity market, the loss on equity investments for the Company has deteriorated to Rs. 23 Million from Rs.61 Million (restated) in the previous year, and we envisage a further strengthening of the equity market in the coming year, which is in turn expected to yield greater value to the Company. The depreciation of the LKR against the USD and the EURO also enabled the recognition of a significant Unrealised Gain of Rs. 14 Million on our foreign currency deposits.

Fees and Commission Income, which consists of profit commissions received from reinsurers and various administrative fees charged by the Company from policyholders, recorded a 28% growth over the previous year, emerging as the second largest contributor to Other Revenue.

Accordingly, during the year, Other Revenue, amounting to Rs. 737 Million in 2012 compared to Rs.467 Million (restated) in 2011, grew by 58%.

Net Claims and Benefits

In 2012, 36% of our GWP was paid or reserved to be paid back to our customers as claims and benefits (2011: 29%). The total claims and benefits incurred during the year stood at Rs. 1,155 Million, a 33% increase from the Rs. 865 Million (restated) recorded in 2011.

Claims and benefits in the Non-Life Insurance business accounted for 77% of the total, an increase of 11% over the previous year. Reflecting our high concentration in the Motor class, 88% of Non-Life Insurance claims incurred were for our Motor Insurance customers (2011 – 87%).

The remaining 23% of the Company's total claims and benefits came from Life Insurance business (2011: 07%), and these consisted largely of maturity claims of single premium investment policies sold in the past. Overall, Life Insurance claims and maturities have grown by 317% over the previous year, primarily due to the increase in maturities.

Other Operating, Investment Related and Administration Expenses

This category, which includes operational expenses of the Company, consist of salaries, administration expenses, depreciation, amortisation, investment-related expenses and all other expenses not included under benefits, net acquisition costs or insurance-related costs. In 2012, 30% of our GWP was incurred on these expenses, up from the 27% of GWP recorded in 2011. The growth in such expenses amounted to 18%, to Rs. 967 Million in 2012 from Rs. 816 Million (restated) in 2011.

Underwriting and Net Acquisition Costs

Underwriting and Net Acquisition Costs include the costs of acquiring businesses such as commissions paid to intermediaries and other similar costs, net of reinsurance commission and underwriting related expenses. The total cost under this category for the year was Rs. 348 Million, growing by 21% over Rs. 288 Million (restated) in 2011.

Profit Before Tax (PBT)

For the year 2012, HNBA was able to deliver a PBT of Rs. 394 Million, at an impressive growth of 45% over the previous years' PBT of Rs. 272 Million (restated). This is identified as a remarkable achievement, especially when considered in light of the modest improvement in GWP.

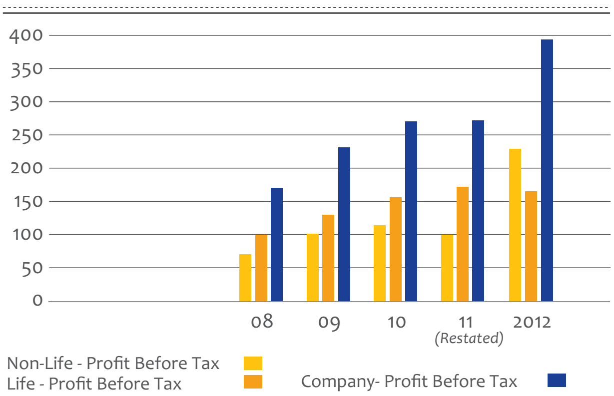
Non-Life Insurance business added Rs.229 Million to the PBT during the year, recording a phenomenal growth of 129% over the 2011 PBT of Rs.100 Million (restated). Accordingly it is observed that the Non-Life Insurance business has contributed 58% of the Company's PBT in 2012, as opposed to the 37% share in 2011. We consider this to be a praiseworthy achievement, made possible through improved underwriting profitability and higher Investment Income.

"The Company crossed the Rs.350 Million milestone in PAT during the year, recording a growth of 43% over the Rs. 246 Million (restated) recorded in 2011. This impressive growth in profitability affirms the Company's commitment to deliver attractive returns."

Vipula Dharmapala
Head of Finance

This positive performance in turn enabled the Non-Life Insurance business to dramatically reduce its operating deficit by 41% to reach Rs. 23 Million, from Rs. 39 Million (restated) recorded in 2011. Further, the Claims Ratio decreased by 1% to 68% (2011: 69%) whilst the Expense Ratio was managed at 34% (2011: 34%), enabling the Company to curb the Combined Ratio to 102% (2011:103%).

Profit Before Tax
(Rs. Mn.)



Prospects of profitability in Life Insurance however were not too encouraging, with the liability of the Life Fund increasing due to the high concentration of participatory products in our portfolio. Nevertheless, the Life Insurance business added Rs.165 Million to the Company's profits in 2012 (2011: Rs. 172 Million), as was assessed through the year-end valuation of the Life Fund by the Consultant Actuary, after reserving due allowances for all liabilities, including bonuses and dividends for Life Insurance policyholders.

Income Tax Expense

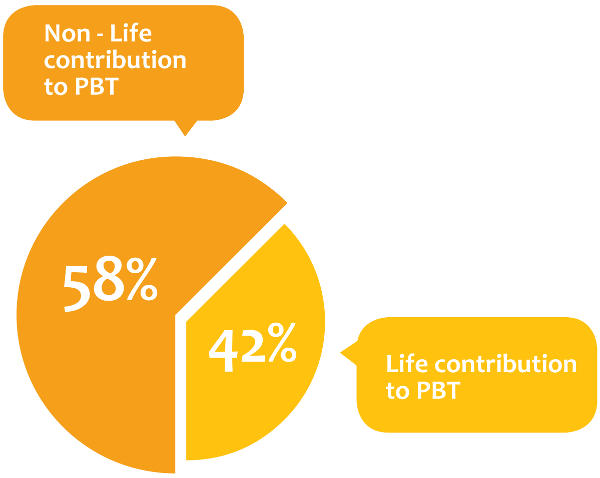
The income tax rate applicable to the Company remained at 28% in 2012 (2011: 28%), while the tax expense for 2012 of Rs. 43 Million showed an increase of 66% over the Rs.26 Million incurred in 2011.

Since Life Insurance and Non-Life Insurance profits are taxed separately as per income tax regulations, the total tax exposure of the Company is attributed to the Non-Life Insurance business; the Life Insurance business is still operating at tax losses according to the applicable tax rules. Accordingly, the increase in income tax is mainly due to the higher profitability in the Non-Life Insurance business, as discussed above.

The effective tax rate (calculated considering the total PBT) of the Company has increased to 11% in 2012, from 9% recorded in the year 2011. This is due to the increase in tax expenses as well as the lower surplus from the Life Insurance business, as indicated above.

Profit After Tax (PAT)

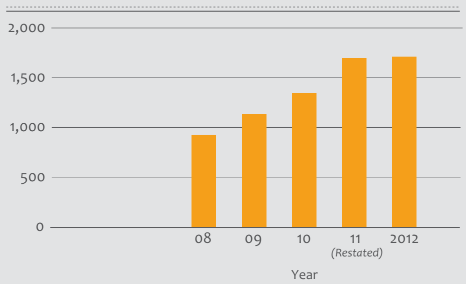
The Company crossed the Rs.350 Million milestone in PAT during the year, recording a growth of 43% over the Rs. 246 Million (restated) recorded in 2011. This impressive growth in profitability affirms the Company's commitment to deliver attractive returns to its shareholders and is an indicator of the Company's ability to provide better results in the future. The returns to our shareholders by way of dividends and the worth of a HASU share are detailed in our Investor Review on pages 66 to 68.



Journey through the Year:
Management Discussion and Analysis

Financial highlights of the Company, through the perspective of Key Performance Indicators (KPIs), are summarised below.

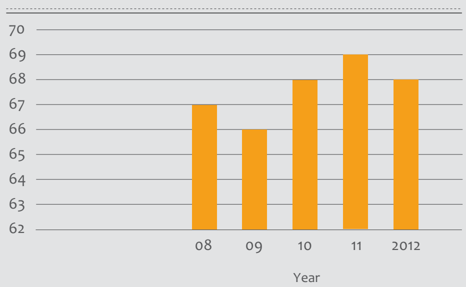
Performance Highlights – Non-Life Insurance

<table>
<tr><th>Key Performance Indicator</th><th>Performance/ Commentary</th><th>Goal for 2013-15</th></tr>
<tr><td>Gross Written Premium (Rs. Mn.)

</td><td>Recorded Rs. 1,711 Million GWP (2011: Rs. 1,694 Million)

Maintained growth of 1% despite adverse market forces

Significantly reduced the underwriting deficit in line with Company's expectations</td><td>Focus on growth in GWP

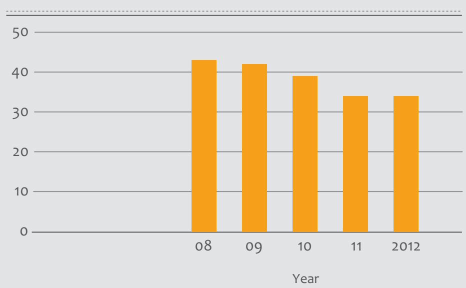
Constantly review pricing structures

Achieve Rs. 3 Billion mark by 2015</td></tr>
<tr><td>Claims Ratio (%)

</td><td>A challenging task, as insurers have very little control over claims

Strengthened underwriting procedures and thereby successfully reduced the ratio to 68% from 69% in 2011

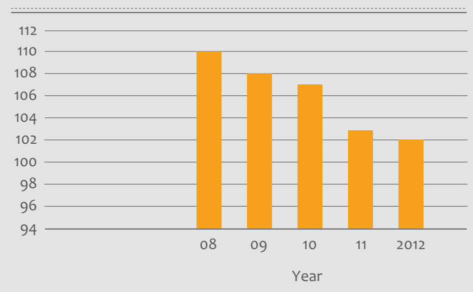
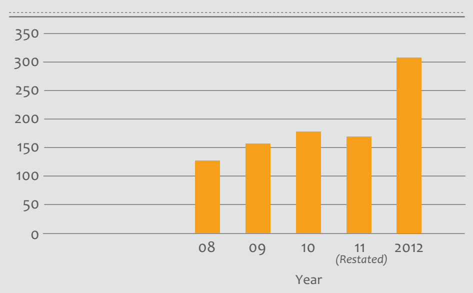
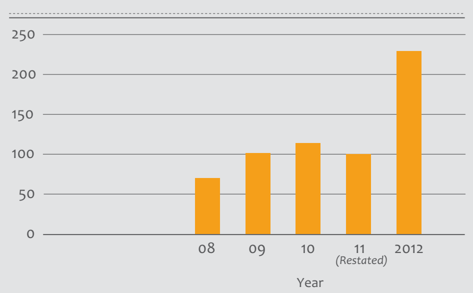
Continued to weed out unprofitable clients by revisiting profitability prior to renewal

Increased Medical Insurance pricing while defending motor pricing amidst strong price competition</td><td>Review pricing structures without compromising on profitability

Manage the Claims Ratio to enable the Company to achieve an underwriting profit from 2015 onwards</td></tr>
<tr><td>Expense Ratio (%)

</td><td>Comprises the more controllable element of the Combined Ratio

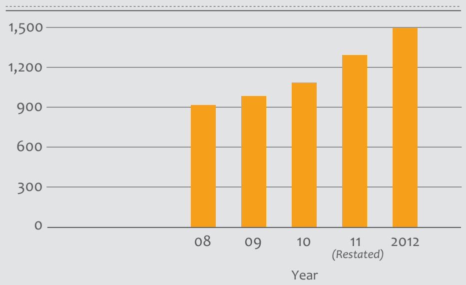
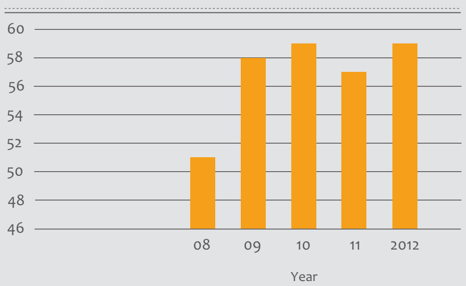
Continuously reduced the ratio since 2008 and maintained it at 34% in 2011 and 2012 despite inflationary pressure</td><td>Reduce the Expense Ratio through the increase in business volumes and effective cost management strategies</td></tr>
</table>

Performance Highlights – Non-Life Insurance

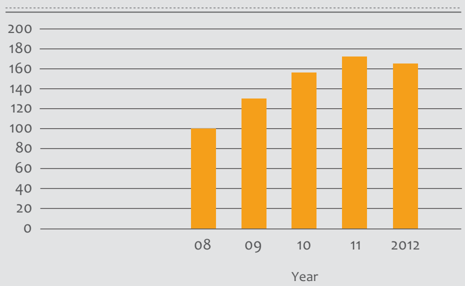
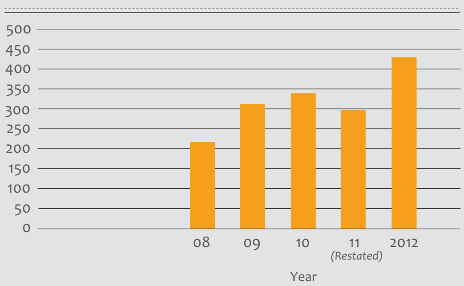
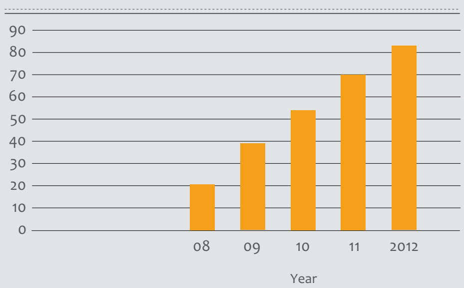
Key Performance Indicator	Performance/ Commentary	Goal for 2013-15
Combined Ratio (%) 	Challenging to maintain below 100%, while most industry peers are operating at higher levels Successfully implemented strategies which continuously reduced the ratio from 110% in 2008 to 102% by 2012	Reduce the Combined Ratio further to achieve an underwriting profit from 2015 onwards
Investment Income and other Income (Rs. Mn.) 	The challenge is to deliver high returns by balancing external forces such as interest rates, exchange rates and equity market performance Achieved 82% growth despite the mediocre performance in the CSE	Diversify the portfolio and explore alternate investment opportunities to maximise returns without taking undue risks
Profit Before Tax (Rs. Mn.) 	Achieved an exceptional 129% growth in profits over restated 2011 figures. The growth over the last years' reported profits was 78%.	Maintain a continuous growth in profitability in excess of 20%

Journey through the Year:
Management Discussion and Analysis

Performance Highlights – Life Insurance

Key Performance Indicator	Performance/ Commentary	Goal for 2013-15
Gross Written Premium (Rs. Mn.) 	Maintained a consistent growth rate over the last few years Crossed Rs. 1,500 Million mark in 2012 GWP growth rate was 16% (in excess of the estimated industry growth of 5%)	Accelerate the growth rate through focused strategies
Premium Persistency Ratio - Endowment Policies (%) 	Improved the Premium Persistency Ratio to 80% and maintained this level throughout the year	Maintain the ratio in excess of 80%
Expense Ratio (%) 	The ratio increased to 59% in 2012 from 57% in 2011, due to the lower than expected GWP growth rate However, overall expenses have been managed well below budgeted levels	Reduce the Expense Ratio through increased business volumes and effective cost management strategies

Performance Highlights – Life Insurance

Key Performance Indicator	Performance/ Commentary	Goal for 2013-15
Surplus Transfer to Shareholders (Rs. Mn.) 	Transferred Rs. 165 Million in 2012 as against the Rs. 172 Million transferred in 2011 Drop in surplus is due to liability reserving requirements of some products	Improve the surplus transfer Redesign the product portfolio and focus more on non-participating products
Investment Income and Other Income (Rs. Mn.) 	Challenge is to deliver high returns by balancing external forces such as interest rates, exchange rates and equity market performance Recorded 44% growth despite the mediocre performance in the CSE	Diversify the portfolio and explore alternate investment opportunities to maximise returns without taking undue risks
Annual Bonus to Policyholders (Rs. Mn.) 	Consistent growth was maintained throughout the history of the Company Declared Rs. 83 Million as annual bonus to policyholders, at 19% growth over 2011 Declared dividend rates of 8% and 9% for 2010 and 2011, respectively, for the policyholders of our dividend based product (myfund) who received their first dividends.	Maximise the returns for policyholders

Sturdy Financial Position

An insurer's strength is reflected in the amount of assets, liabilities and the resultant equity, which are all presented in its Statement of Financial Position. During the year 2012, our financial position strengthened considerably, crossing the Rs. 7 Billion mark in total assets (2011: Rs. 6 Billion restated), helping our total asset base to grow by 16%. The total assets belonging to the Life Insurance business reached Rs. 3,875 Million (2011: Rs. 3,202 Million restated) whilst Non-Life Insurance accounted for the balance assets worth Rs. 3,159 Million (2011: Rs. 2,843 Million restated).

Of the total asset base, 81% consists of investments (2011 – 81%), which earn an investment return for the Company, the finer details of which are discussed under our Investment Review on pages 66 to 68. We have allocated less than 3% of our total assets to Property, Plant and Equipment used for business operations and Intangible Assets. The residual component of the asset base consists of Premium Receivables, Reinsurance Receivables, Cash and Cash Equivalents and Other Assets.

Non-Life Insurance Fund

The Non-Life Insurance Fund comprises reserves relating to the Non-Life Insurance business and mainly includes the Net Unearned Premium Reserves, Reserves for Claims Outstanding, Incurred But Not Reported (IBNR) Claims Reserves and Incurred But Not Enough Reported (IBNER) Claims Reserves.

Reflecting the low growth in business volumes, the growth of the Non-Life Fund was limited to 3% in 2012 over the previous year. The fund balance as at the year-end stood at Rs. 969 Million, compared to the Rs. 944 Million recorded in 2011.

We have taken all reasonable steps to ensure that adequate provisioning for Claims Outstanding including provisions for IBNR and IBNER reserves are maintained. To assist the Company on IBNR and IBNER reserve calculations, we have appointed an Independent Actuary (M/s K.A. Pandit, Consultants and Actuaries).

Additionally, we have performed a Liability Adequacy Test (LAT) for Non-Life Insurance Reserves as required by SLFRS 4 – Insurance Contracts, to ascertain whether the recorded reserves are adequate in meeting future liabilities. The LAT was also performed by the Independent Actuary of the Company (M/s K.A. Pandit, Consultants and Actuaries) and it has been concluded that the recorded reserves in respect of the Non-Life Insurance business of the Company as at 31st December 2012 are adequate to meet the future liabilities of the business.

Please refer page 210 for the report of the Independent Actuary on IBNR/IBNER reserves and LAT.

Life Insurance Fund

The Life Insurance Fund refers to the reserves made to meet the future claims and maturities of Life Insurance policyholders. This fund amplified by 20% and stood at Rs. 3,626 Million, including outstanding claims reserves, as at the year end, as opposed to the end of 2011 value of Rs. 3,021 Million.

We have appointed an independent Consultant Actuary (Mr. M. Poopalanathan from Actuarial and Management Consultants (Pvt) Ltd.) to conduct the valuation of the Life Fund, and his report appears on page 211. Adequate provisions, including those for bonuses and dividends to policyholders, solvency margins and other required reserves, have been made from the Life Fund as recommended by the Consultant Actuary.

Similar to the Non-Life Insurance Reserves, a Liability Adequacy Test (LAT) was performed for the Life Insurance Reserves as required by SLFRS 4 – Insurance Contracts, to identify whether the recorded reserves are adequate to meet future liabilities. The LAT for Life Insurance was performed by Mr. John C Vieren (FSA, MAA), an independent consultant actuary, from the Pinnacle Consulting Group Ltd and it has been concluded that the recorded reserves in respect of the Life Insurance business of the Company as at 31st December 2012 are adequate to meet the future liabilities of the business.

Movement in Life and Non-Life Funds

	2008 Rs. Mn	2009 Rs. Mn	2010 Rs. Mn Restated	2011 Rs. Mn Restated	2012 Rs. Mn
Life Fund	1,361	1,854	2,415	3,021	**3,626**
Growth	54%	36%	30%	25%	**20%**
Non-Life Fund	470	599	743	944	**969**
Growth	38%	27%	24%	27%	**3%**

Rs. 3.6 Bn
Life Fund

Rs. 1 Bn
Non - Life Fund

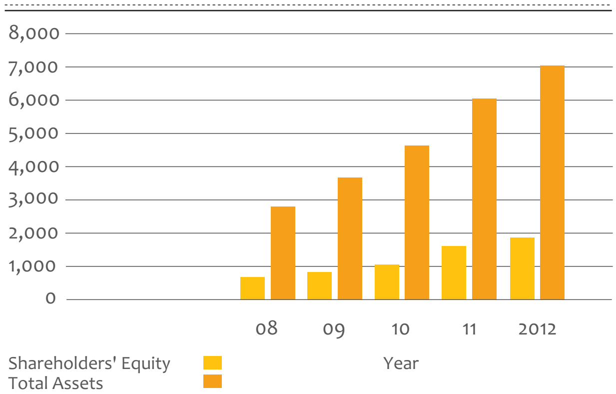
Both the Life and Non - Life Insurance Funds are valued based on best available information and in accordance with the provisions of the Regulation of Insurance Industry Act, No. 43 of 2000 as well as rules and guidelines issued by the Insurance Board of Sri Lanka (IBSL).

Shareholders' Funds

With the rising profitability and the resultant increase in revenue reserves, Shareholders' Funds of the Company reached Rs. 1,867 Million in 2012, recording a growth of 17% over the Rs. 1,593 Million *(Restated)* observed in 2011.

The Stated Capital of the Company remained at Rs. 1,172 Million during the year, and using the funds raised through the Rights Issue in 2011. The Company increased the Shareholders' Funds set aside for the Life Insurance business to Rs. 500 Million during the year. Thus, we are now fully compliant with the IBSL's proposed increase in Stated Capital to Rs. 500 Million for each class of business.

Stability (Rs. Mn.)



The phenomenal growth of 65% in our revenue reserves (net of Life Policyholders Reserve Fund) in 2012 is mainly attributable to the profits for the year which grew by 43%.

Solvency Margins

Maintaining Solvency Margins, which is an indication of the quality of an insurer's Financial Position, is a regulatory requirement of the Insurance Board of Sri Lanka (IBSL). The Company comfortably met the Solvency Margins criteria throughout the year, in both Life Insurance and Non-Life Insurance businesses.

Non-Life Insurance Solvency Margin

As at the year-end of 2012, the admissible assets in Non - Life Insurance amounted to Rs. 2,076 Million while the total liabilities amounted to Rs. 1,157 Million, resulting in an Available Solvency Margin of Rs. 918 Million. As the Required Solvency Margin in Non - Life Insurance amounted to Rs. 264 Million, the Company was able to surpass the Required Solvency Margin by 3.48 times (2011: 3.15 times).

Life Insurance Solvency Margin

The Company recorded a Solvency Margin Ratio of 2.28 times in Life Insurance (2011: 2.89 times) as at the year - end, by maintaining an Available Solvency Margin of Rs. 380 Million, whereas the Required Solvency Margin was Rs. 167 Million. This achievement was made possible with admissible assets in Life Insurance amounting to Rs. 4,042 Million and the total liabilities amounting to Rs. 3,662 Million.

	2012	2011
Non-Life Insurance Business		
1. Value of Admissible Assets (Rs. Mn)	**2,076**	1,928
2. Amount of Total Liabilities (Rs. Mn)	**1,157**	1,106
3. Value of Admissible Assets minus Amount of Liabilities (Rs. Mn)	**918**	822
4. Required Solvency Margin (Rs. Mn)	**264**	261
5. Solvency Ratio [Line 3 divided by Line 4]	**3.48**	3.15
Life Insurance Business		
1. Value of Admissible Assets (Rs. Mn)	**4,042**	3,312
2. Amount of Liabilities:		
2.1 Policy Liabilities (Rs. Mn)	**3,332**	2,704
2.2 Other Liabilities (Rs. Mn)	**330**	218
3. Value of Admissible Assets minus Amount of Liabilities (Rs. Mn)	**380**	390
4. Factor	**0.5**	0.5
5. Required Solvency Margin (Rs. Mn)	**167**	135
6. Solvency Ratio [Line 3 divided by Line 5]	**2.28**	2.89

Approved Assets

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

	2012	2011
Non - Life Insurance Business		
1. Approved Assets maintained in Non - Life Insurance Business (Rs. Mn)	**2,076**	1,928
2. Technical Reserve (Rs. Mn)	**856**	834
3. Approved Assets in Excess of the Technical Reserve (Rs. Mn)	**1,220**	1,094
4. Approved Assets as a % of the Technical Reserve	**243%**	231%
5. Required Ratio	**100%**	100%
Life Insurance Business		
1. Approved Assets maintained in Life Insurance Business (Rs. Mn)	**3,661**	3,019
2. Life Insurance Fund (Rs. Mn)	**3,547**	2,991
3. Excess in Approved Assets over the Life Insurance Fund (Rs. Mn)	**114**	28
4. Approved Assets as a % of Life Insurance Fund	**103%**	101%
5. Required Ratio	**100%**	100%

Yielding Impressive Returns: Investment Management Review

Investments Guided by Prudence

Prudent policies have always formed the guideline for the investment function at HNBA and the year 2012 was no exception. Our efforts to bring forth the best possible returns for a diverse group of stakeholders are reflected in our consistent attempts to improve the return yielded on the funds provided to us by our valued policyholders. Investment Income is a key component recognised under the Other Revenue segment of our Income statement, and the ensuing discussion will demonstrate the importance placed on Investment Income in the financials of the Company.

Our Strategy on Investments

The fund management strategy at HNBA strives to maximise investment value creation to both shareholders and policyholders. This is achieved by managing investment risks within an acceptable risk-return profile that is based on a conservative risk appetite appropriate for an insurer, whilst also giving due respect to the regulatory framework prescribed by the relevant authorities. Accordingly, the Company's Investment Policy, including the Asset and Liability Management (ALM) and Liquidity Management Policies, amongst others, is geared towards achieving the above objective.

The Company's internal fund managers, with the assistance of the internal investment analysts, manages the investment portfolios of the Company, which consist of the Life Insurance fund, Non - Life Insurance fund and the Life Shareholders' fund, the income of which is recognised under Non - Life Insurance. The Company does not use external fund managers, although it does not hesitate to obtain external investment advice where necessary.

Superlative Investment Performance

During the year, both the Life Insurance and Non - Life Insurance investment portfolios performed exceptionally well, greatly assisting the Company's overall profitability, and in turn generating immense value to the Company and its stakeholders.

These impressive results were made possible through the active and dynamic investment management strategies adopted by the Company. The risk exposure was managed appropriately through apposite yield curve management and prudent portfolio mix management, while investment activities were also backed by effective investment analysis, timely reaction to market changes, efficient liquidity management through effective treasury management strategies and win-win rate negotiations with financial intermediaries.

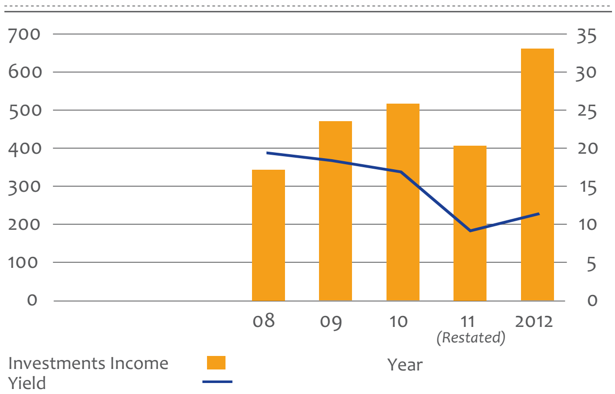
Investment Income and Investment Returns

The total Investment Income earned by the Company for the year amounted to Rs.662 Million, and this tremendous achievement is at a 62% year-on-year growth. It is observed that the Investment Income from the Life Insurance Fund grew by 52% to reach Rs. 414 Million while the Investment Income generated from the Non - Life Insurance Fund was recorded at Rs. 248 Million, at a 83% growth compared to 2011.

The fact that such excellent investment performance was achieved amidst a highly volatile market environment is definitely praiseworthy. The CSE continued to decline after the sharp drop of the previous year while a drastic impact was observed on Investment Income through fair value adjustments on the fixed income trading portfolio due to interest rates increasing over the course of the year by more than 200 basis points.

The average investment returns on the Life Insurance fund and the Non - Life Insurance fund stood at 12.28% and 12.29%, respectively, which are commendable accomplishments especially considering the fact that such returns were achieved without taking undue and excessive risks. Further, the above returns compare well with the average three months and 1 year treasury bill rates, which were merely 10.7% and 11.9%, respectively, for the year, whilst the average return at the CSE was a negative 7.1%.

Investment Income vs Yield
(Rs. Mn.)

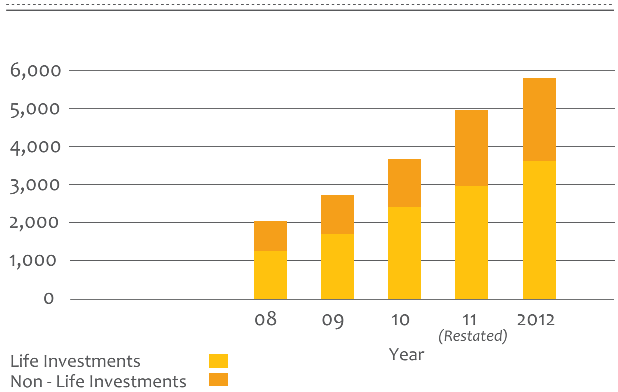


The Company had, in the previous year of 2011, emerged as the local listed insurance company with the highest average investment return and the highest average long term investment return when considering a five year period. The superlative performance of our investment function during the year makes us confident that this achievement may have been repeated in possible for 2012 as well.

Funds under Management

The total Funds under Management stood at Rs. 5.8 Billion as at the year-end, recording a significant 17% growth over the end 2011 value. Funds under the Life Insurance business grew by 22% over the previous year to Rs. 3.6 Billion, while the Non - Life Insurance Fund, including the Life Shareholder's Fund, recorded a growth of 9% for the year ended 31st December 2012 to reach Rs. 2.2 Billion.

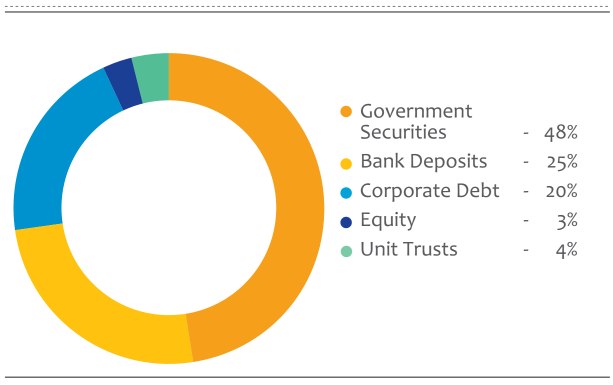
Funds Under Management
(Rs. Mn.)



Investment Portfolios

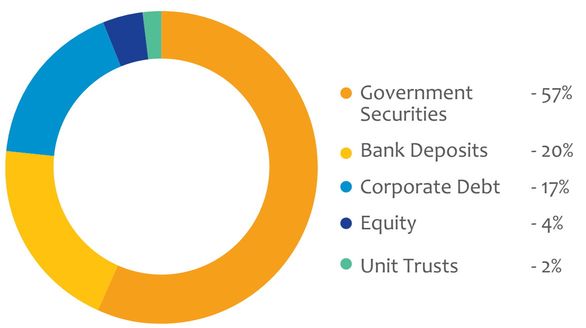
Since the Company strives to maximise its investment returns while minimising the portfolio risk, maintaining a well-diversified assortment of investments is highly essential. To achieve this objective, asset allocation and/ or switching decisions regarding portfolios are taken after carefully scrutinising the political and market environments, which includes analyses on the world and Sri Lankan economies, inflation, interest rates and exchange rates, amongst other relevant factors.

Asset Allocation - Non-Life Fund
(%)



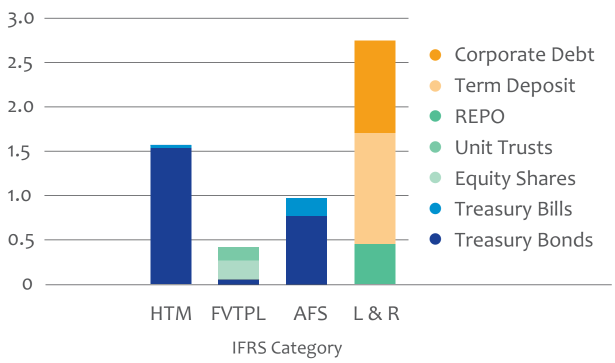
In maintaining a diversified asset allocation, the decline at the CSE was a huge challenge to the Company during 2012. To counter the adverse effects of this development, we made a prudent decision to abstain from any further equity purchases and consequently, the total exposure to equity on our Non - Life Insurance Fund declined to 3% in 2012 from 4% in 2011, while the same for the Life Insurance Fund declined from 6% in 2011 to 4% by the end of 2012.

Asset Allocation - Life Fund
(%)

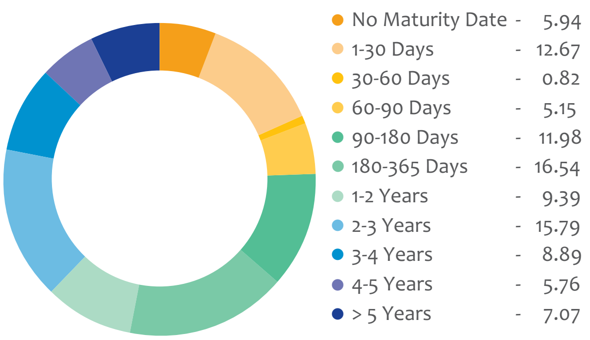


Further, considering the widened interest rate differential between government securities and corporate debt instruments including term deposits, we engaged in actions to trim down the government securities allocation in the Non - Life Fund to 48% in 2012 from 49% in 2011, while the Life Funds' allocation was reduced to 56%. Further, following the regulatory changes implemented in 2011, we continued to increase our exposure to corporate debt by investing in listed or investment grade rated instruments and accordingly, the total exposure to corporate debt increased to 18% from 15% a year earlier. All such investments in corporate debt instruments or term deposits which have been made by the Company are in institutions that have received investment grade ratings from reputed rating agencies such as Fitch Ratings Lanka or RAM Ratings.

Assets Allocation - Life and Non-Life
(Rs. Bn.)

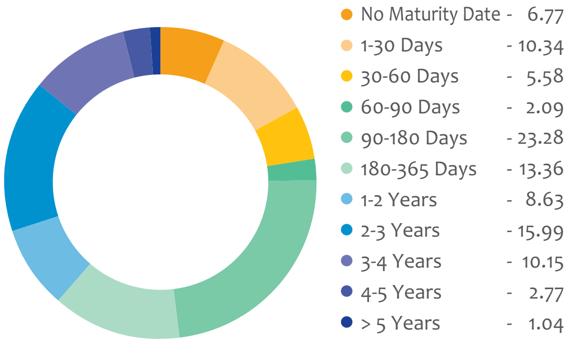


Maturity Mix - Life
(%)



We also placed significant emphasis on maintaining an appropriate maturity mix in our funds, and in doing so, the maturity mix guidelines in the Investment Policy were strictly adhered to. Accordingly, we were successful in achieving a reasonable balance between long term and short term investments. By the year end, 61% of the Non - Life Fund was invested in instruments with maturities less than one year, while in the Life Fund, which takes a more long term approach, 47% was invested in instruments with maturities of more than one year.

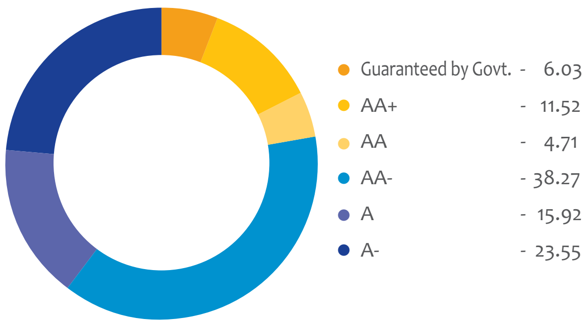
Maturity Mix - Non-Life
(%)



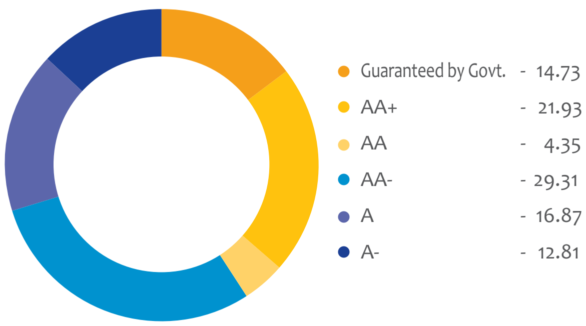
Investment Risk Management

A detailed report of the investment risks faced by the Company and measures taken to eliminate or minimise such risks appears under the Risk Management Report on pages 192 to 195.

Corporate Bond Rating - Non-Life (%)



Corporate Bond Rating - Life (%)



Regulatory Environment Pertaining to Investments

The investments of the Company are carried out within the framework stipulated by the Regulation of Insurance Industry Act, No. 43 of 2000 and the rules and regulations promulgated by the Insurance Board of Sri Lanka (IBSL). In ensuring that the respective rules and regulations are adhered to, the Solvency Margin of the Company is monitored regularly through frequent sensitivity analyses and what-if analyses, to ensure that the required margin is maintained in a consistent manner and immediate remedial action is taken if discrepancies are detected. Through such efforts, the Solvency Margin requirements of both Non - Life and Life Insurance businesses were fulfilled throughout the year, as per regulations.

Please refer page 61 for information regarding the Solvency Margin of the Company.

Future Direction of the Investment Function

We perceive that improving or even maintaining the high performance levels recorded in terms of Investment Income will be a significant challenge for the Company, and the insurance industry as a whole, during 2013. The conditions of the macro economy are not encouraging, with interest rates starting to decline during the latter part of 2012 and being expected to gradually decline further in the coming year and with the equity market unlikely to perform well. Further, with Risk Based Capital (RBC) requirements expected to become effective in 2016, our long term investment strategies will have to take a cautious approach, since extra reserving will be necessary for investments with higher risk.

However, we applaud the positive steps taken to develop the capital market of Sri Lanka by the Government and the relevant regulatory authorities, such as exempting newly listed corporate debt instruments from income taxes, granting a 3 year reduced tax period to new listings at CSE with a sufficient public float and fully automating the government securities trading system. We are optimistic that these steps will lead to a significant enhancement in the capital market, and we are geared to reap full benefits afforded by such new developments.

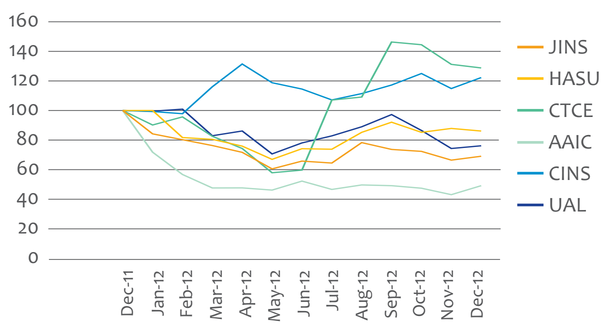
Providers of Financial Capital: Investor Review

We, at HNBA, recognise investors as the key stakeholder category in our business, for they have provided us with financial capital – hence, we are fully committed to deliver solid and sustainable returns to our investors.

HASU in 2012

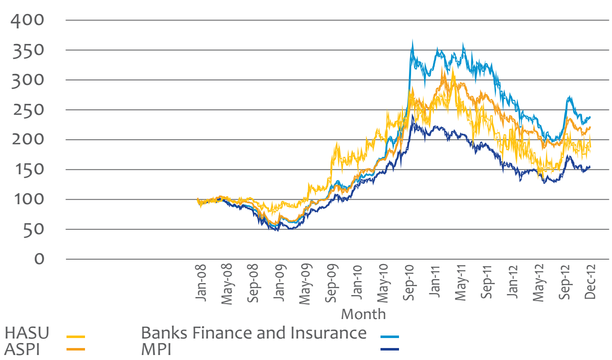
Following on from the general performance of the CSE (discussed in our Economic Review on pages 35 to 39), the share price of HNB Assurance PLC (CSE ticker: HASU) too reported a negative growth of 25.83% during the first half of 2012. Nevertheless, it regained during the second half, when it improved by 16.11%, thereby bringing positive hopes for 2013.

HASU vs Peers
(Index)



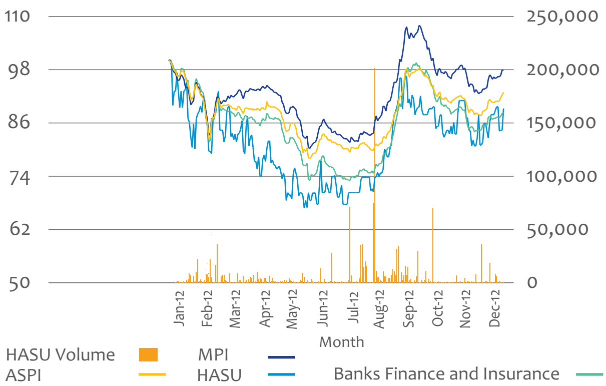
However, when comparing the closing share price on the final day of trading in 2012 with that of 2011, it is observed that the price has declined by 13.88%, underperforming both the ASPI and the MPI, which declined by 7.1% and 2.1% respectively.

HASU Performance vs Market (Over 5 years)
(Index)



HASU's performance during 2012 relative to its peers is shown in the graph. Despite the share price having declined, it is positively noted that the performance of HASU has been fairly stable over 2012, when compared with the performance of the share prices of peers.

HASU Share Volumes and Relative Performance vs Market
(Index) (Volume)

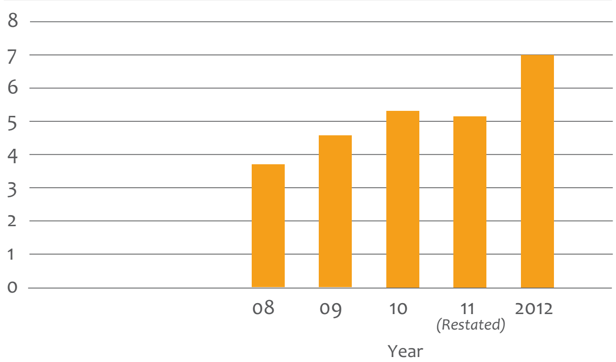


In terms of liquidity, HASU traded on 217 days out of a total 243 market days for 2012, which converts to 89% of market days (2011: 94%), displaying the high liquidity of our share.

Earnings per Share Reaching New Heights

Earnings Per Share (EPS) refers to the portion of a company's profit allocated to each issued ordinary share and is also considered to be the single most important variable in determining the price of a share. It is also a key indicator of the performance of a company.

Earnings Per Share
(Rs.)

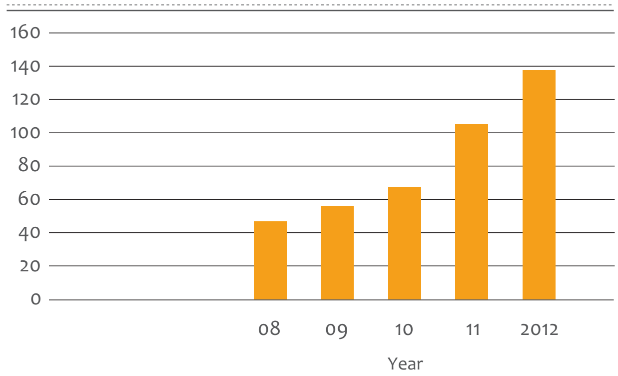


The reported Earnings per Share (EPS) of HASU for 2012 is at Rs. 7.02, which is at an upside of 37% as against the restated EPS (as per SLFRS) for 2011 of Rs. 5.14 (published figure for 2011 as per SLAS: Rs. 5.74). Impact of convergence to SLFRS resulted in a 12% decrease in the 2011 EPS, the details of which are discussed under the Financial Review on pages 52 to 62.

Dividends Continuously Improving

The first and final dividend, proposed at Rs. 2.75 per share (2011: Rs. 2.10) records a 31% increase in dividend per share from the last year, thereby increasing the total dividend proposed to Rs. 137.5 Million (2011: Rs. 105 Million). Dividend pay-out increased to 39% as against the pay-out of 38% in 2011 as per published profits (2011 pay-out as per restated figures SLFRS is 43%). Dividend yield, which gives the return in terms of dividends as percentage of the share price, increased to 4.29% from 3.69% in 2011.

Dividend Payment (Rs. Mn.)

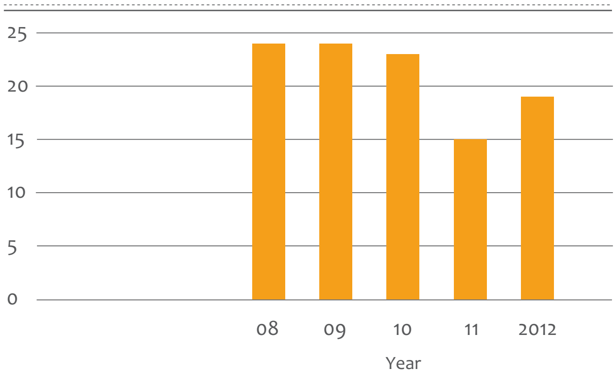


Stable Return on Equity

Return on Equity (ROE), which measures the profit attributable to shareholders as a percentage of shareholders' funds, is a commonly used KPI measuring profit generated using the shareholders' funds.

The Company improved its ROE to 19% in 2012 from 15% as per 2011 restated results (and also the 2011 published figure of 17%). The relatively lower ROE in the past two years, in comparison to the prior years, is due to the increase in shareholders' funds with the issue of rights in 2011. Nevertheless, we intend to cross the 20% level in ROE back again in 2013.

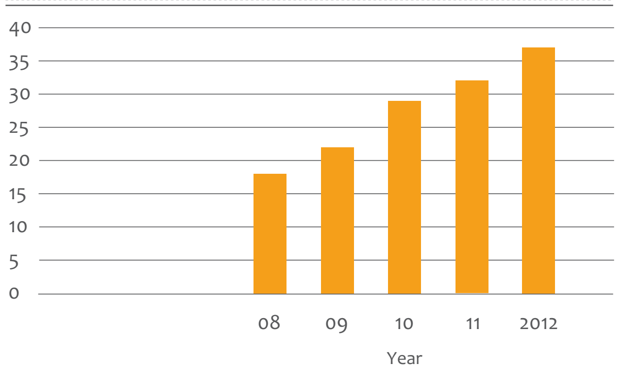
Return on Equity (ROE) (%)



Net Assets Mounting

Maintaining its growth momentum through the years, net assets improved by 16% to reach Rs. 37.37 per share from Rs. 32.32, as per 2011 restated figures (2011 published: Rs. 32.19).

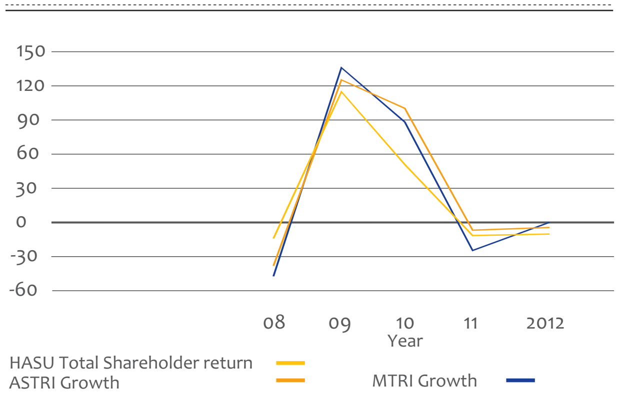
Net Asset Value Per Share (Rs.)



Total Return Index in Line with Market Performance

Total Return Indices (TRI) track the capital appreciation of a group of stocks over a specific period of time, and considers any cash distributions, such as dividends, as being re-invested in the index. As a result, the change in a TRI reflects not only the return from the change in share prices, but also from dividend payments and the re-investment of the same.

Total Shareholder Return (%)



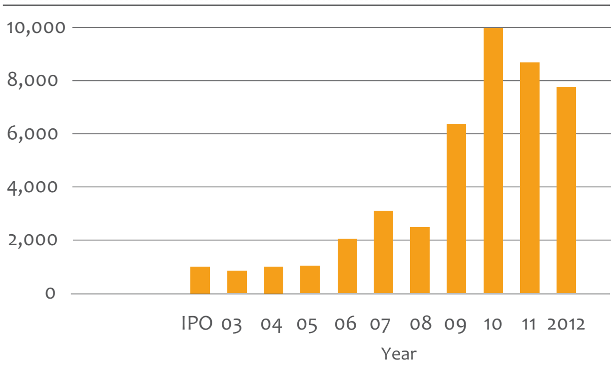
Mainly due to the sharp decline in its share price, HASU has reported a negative growth of 10.19% in its total returns for 2012, while the total return on ASPI too witnessed a negative growth of 4.42% during 2012.

Journey through the Year:
Management Discussion and Analysis

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

A long-term investor who purchased HASU shares for Rs. 1,000/- ten years ago from the IPO, and re-invested all dividends, would have seen the value of the position grow to Rs. 7,752/- as of December 31, 2012. This in turn corresponds to an annual effective return of 22.7%.

Rs. 1,000/- Invested at HASU IPO
(Rs.)



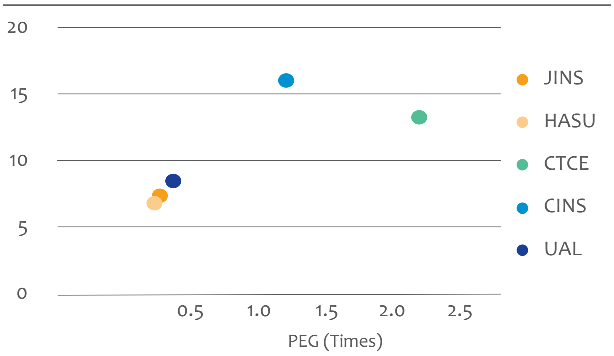
PEG Ratio of HASU Compared with Peers

PEG or 'Price Earnings to Growth' Ratio determines the relative trade-off between the price of a stock, the earnings generated per share (EPS), and the company's expected growth, and is frequently used to gain a better understanding of whether a company's stock is overpriced, under-priced, or fairly priced.

$$\text{PEG Ratio} = \frac{\text{Price/Earnings}}{\text{Annual EPS Growth}}$$

If a company's stock is fairly priced, then its P/E Ratio should equal its annual growth rate. i.e. a PEG ratio of 1 suggests that the stock is fairly priced and that the current market price justifies the anticipated growth rate.

P/E Ratio vs PEG Ratio
P/E (Times)



According to HASU's PEG ratio, which is 0.13, the stock is significantly under-valued in terms of its earnings growth rate. This can be considered as an indicator of HASU's potential to grow in value in the future.

In the Coming Year

As with previous years, our focus in the coming year will also be placed on devising ways to improve the investment return for our shareholders. In all our business processes, highest attention will be paid to minimise costs and improve profits, both in terms of GWP and investment income. However, we will also remain vigilant regarding the necessity to comply with regulatory restrictions. Further, we will also endeavour to maintain the respected image and reputation of the Company, so that our shareholders will be proud to be a part of HNBA.

Achieving Operational Excellence: Life Insurance Review

Mixed Market Conditions

Surrounded by mixed sentiments, the Life Insurance industry slowed down in terms of growth during the year. A specific cause for such mixed sentiments was the increase in interest rates, which yielded both positive and negative impacts on the industry – such increase led to a positive impact by way of higher investment income, while the negative impact was through the contraction of the housing loan market, which in turn resulted in lower sales of Mortgage Reducing Policies (MRP).

Industry wide discussions took place with IBSL during the year with regard to the shift from a rules-based supervision platform to a new paradigm of risk-based supervision, in order to improve the capital adequacy measurement by considering the risks faced by an insurer, as well as to provide comfort to the stakeholders that risks are being actively managed. Such discussions and preparations have given a great opportunity for the management to closely monitor the performance of various segments of the business.

Further, insurers were required to review their insurance products to ensure compliance with the new accounting standards. Accordingly, the Company's product portfolio was reviewed during the year and a conclusion that all products of the Company meet the requirements of SLFRS 4 – Insurance Contracts was arrived at.

Our Superlative Performance

Gross Written Premium (GWP)

	2008 Rs. Mn.	2009 Rs. Mn.	2010 Rs. Mn.	2011 Rs. Mn.	2012 Rs. Mn.
GWP	914	985	1,084	1,291	**1,500**
Growth in GWP	19%	8%	10%	19%	**16%**

The Life Insurance Gross Written Premium (GWP) continued its growth trajectory during 2012 as well, increasing from Rs. 1,291 Million in 2011 to Rs. 1,500 Million in 2012 at a healthy growth of 16%. Though the growth attained is lower than the 19% growth achieved in 2011, this is a commendable achievement given the slower growth rate of the industry. Thus, our market share increased to 4% in 2012 from 3.7% in 2011.

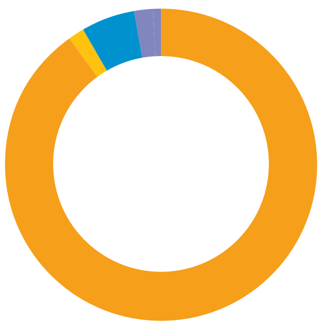
The Sri Lankan insurance industry has been recording Life Insurance premiums on a cash basis as a practice. However, with the implementation of new accounting standards (SLFRS/LKAS), the industry decided to account for Life Insurance premiums on an accrual basis from the year 2012.

Following this practice, the Company too recognised Rs. 9.6 Million as accrued premium income in Life Insurance for the year ended 31st December 2012. With the concurrence of the External Auditors, the Company arrived at a decision not to restate the values of the previous year (Rs. 7.8 Million approximately) in the accrual income, since the amounts are not material. Accounting for commission and reinsurance costs was also converted to accrual basis from 2012, and accordingly the amount of accrued commission was Rs. 1.5 Million whilst the accrued reinsurance cost was Rs. 0.67 Million.

Life Insurance Business Mix

	2012 Rs. Mn	2011 Rs. Mn	Contribution % 2012	Contribution % 2011	Growth% 2012	Growth% 2011
Endowment New Business	**448**	408	**30%**	32%	**10%**	25%
Endowment Renewal Premium	**903**	713	**60%**	55%	**27%**	23%
MRP	**78**	124	**5%**	10%	**(37%)**	62%
Investment/Annuity	**40**	22	**3%**	2%	**82%**	(75%)
Group Life	**25**	17	**2%**	1%	**47%**	82%
Micro Insurance	**6**	7	**0%**	0%	**(14%)**	30%
	1,500	1,291	**100%**	100%	**16%**	19%

Class-wise GWP - Life Insurance 2012 (%)



The escalating cost of living and the decline in economic growth negatively influenced the generation of new business in Life Insurance, and hence new business growth experienced a slowdown from 25% in 2011 to 10% in 2012, leading to the Endowment New Business category to end the year at Rs.448 Million.

About Us | Management Discussion | Approaching Sustainability | Corporate Governance | Financial Information

"A noteworthy achievement is the continued expansion in endowment business, the core of Life Insurance, which currently contributes 90% of our Life Insurance GWP as a result of the focused efforts of the Company."

Prasantha Fernando
General Manager - Life

Mainly fuelled by the 25% growth in new business during the year 2011, renewal premiums reached Rs. 903 Million by the end of 2012, showing a growth of 27%. A noteworthy achievement is the continued expansion in endowment business, the core of Life Insurance, which currently contributes 90% of our Life Insurance GWP as a result of the focused efforts of the Company.

The stabilisation measures undertaken by the Central Bank of Sri Lanka to increase interest rates and to control credit growth negatively influenced the MRP business, resulting in a negative growth of 37% during the year, and a drop in premiums to Rs. 78 Million in 2012 compared to Rs. 124 Million in 2011. Accordingly, the contribution from MRP to Life Insurance GWP also dropped to 5 % from 10% in the previous year.

The Company's decision to capitalise on the rising interest rates by introducing a new single premium investment policy generated a GWP of Rs. 40 Million during the year, also increasing its contribution to Life Insurance GWP from 2 % in 2011 to 3 % in 2012, while the Group Life premium reached Rs. 25 Million in 2012 at an increase of 47%. Micro Insurance GWP fell by 14% to Rs. 6 Million in 2012, reflecting the adverse impact of the current economic conditions on the lower income earning categories.

On a positive note, it is noted that our attempts at product innovation have been successful, with the new products introduced by the Company under the 'my' series generating premiums of Rs. 343 Million during 2012, accounting for 23% of our Life Insurance GWP.

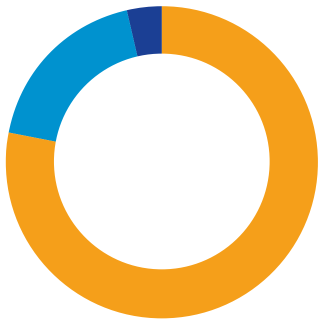
Growth in GWP

16%

In 2012

Our Efforts in Expanding Business

Channel-wise GWP - Life Insurance 2012
(%)



Channel Wise GWP - Life Insurance 2012

	2012 Rs. Mn	2011 Rs. Mn	Growth% 2012	Growth% 2011	Contribution% 2012	Contribution% 2011
Insurance Advisors	**1,174**	973	**21%**	21%	**78%**	75%
Bancassurance Channel (with MRP)	**274**	267	**3%**	69%	**18%**	21%
Direct & Other Channels	**52**	51	**2%**	(58%)	**4%**	4%
Total	**1,500**	1,291	**16%**	19%	**100%**	100%

	2012	2011	2010	2012 Growth%	2011 Growth%
Active Insurance Advisors	**1,455**	1,314	1,282	**11%**	2%
GWP per advisor (Rs. Mn)	**0.81**	0.74	0.63	**9%**	17%

Advisor Channel

The Sri Lankan Life Insurance business is driven by the advisor channel, and the same applies for HNBA as well. Advisors' contribution to Life Insurance GWP accounted for over 75% during the previous two years, and 2012 proved no exception at a contribution of 78%, although it must be noted that the drop in MRP business also worked to increase the contribution of advisors during the year.

It is observed that the 16% growth in Life Insurance GWP was mainly driven by this channel, which in itself achieved a 21% growth in premiums. In absolute terms, the channel provided Rs. 1,174 Million to Life Insurance GWP in 2012 compared to Rs. 973 Million in 2011. In terms of productivity, the average GWP per advisor improved to Rs. 0.81 Million from Rs. 0.74 Million in 2011. However, despite constant efforts aimed at expanding the advisor network, only an 11% growth in the number of active advisors was achieved by the Company during the year.

Considering their high worth to the Life Insurance business, our advisor channel was given necessary training during the year, to improve their communication and business skills in liaising with both existing and potential customers. Further, as an additional step towards enhancing the trust placed on us by our customers, mobile receipting machines have been provided to selected advisors, who consequently have the ability to issue electronically generated temporary receipts as and when they receive cash for policies.

Bancassurance Channel and HNB

	Contribution			Growth %	
	2012	**2011**	**2010**	**2012**	**2011**
Bancassurance staff	**148**	120	98	**25%**	22%
Bancassurance GWP excluding MRP (Rs Mn)	**195**	155	92	**26%**	68%
GWP per Bancassurance staff (Rs. Mn)	**1.32**	1.29	0.94	**2%**	38%

The GWP recorded through the bancassurance channel from the HNB branch network amounted to Rs. 274 Million in total during 2012 (2011: Rs. 267 Million). Despite emerging as the second highest contributor to Life Insurance GWP, this channel achieved only a 3% growth in 2012, significantly lower than the 69% growth of 2011. This reduced growth was mainly due to the 37% drop in MRP business, as explained above; the performance of the bancassurance channel excluding MRP reflects a 26% growth, with GWP reaching Rs. 195 Million in 2012.

By the end of 2012, 148 of our officers, who primarily engage in the sale of Life Insurance products, were placed in 142 HNB branches island wide, while 28 of such officers were deployed during 2012.

Several initiatives have been embarked upon by us to stimulate the efficiency of the bancassurance channel. Accordingly, once bancassurance officers join the Company, they participate in an extensive induction programme, where the opportunity to familiarise themselves with the HNBA culture and the bancassurance business model is provided, after which they are also offered technical training regarding the various aspects of bancassurance. Further, once they are placed at HNB branches, their performance is constantly supervised, and through our committed development initiatives, we have been able to improve the GWP per bancassurance officer to Rs. 1.32 Million per annum from Rs. 1.29 Million in 2011 at a 2% increase, and it is our intention to improve this productivity level further in the coming years.

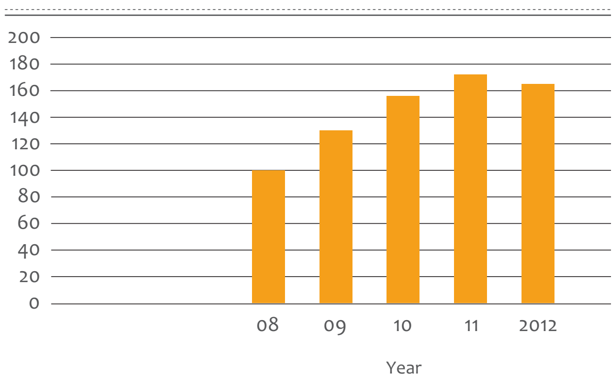
Direct and Other Channels

During the year, the direct and other channels segment, which includes business received through brokers as well as directly through our branches, contributed Rs. 52 Million to GWP, indicating a growth of 2% compared to the previous year.

Share of Profits in Life Insurance

Continuing with its practice of previous years, the Company distributed profits from our Life Insurance business to both our policyholders and shareholders. Profits were allocated based on the year-end life actuarial valuation conducted by our Consultant Actuary, after maintaining adequate reserves for future liabilities and contingencies.

Life Surplus Transfer (Rs. Mn.)



Annual Bonus to Policyholders

We declared Rs.83 Million as the annual bonus for our loyal policyholders, which was a 19% increase over the Rs. 70 Million bonus declared in 2011. The bonus rates for each policyholder varied depending on the year of purchase of each policy, with a maximum of Rs. 55/- per Rs. 1,000/- sum assured being recorded for policies purchased during 2002 and 2003.

Declaration of Dividends to Policyholders

One of the main contributors to GWP during the year under the endowment business category was our fund-based product "My Fund". This product was introduced to the market in 2011 and with the completion of its' first policy year, attractive dividend rates of 8% and 9% were declared for the years 2010 and 2011, respectively. The total dividend amount declared amounted to Rs. 8 Million for the year.

Surplus to Shareholders

Following the valuation by our Consultant Actuary, Rs. 165 Million was transferred to the Company's shareholders as a surplus transfer from Life Insurance. This year's transfer was 4% lower than the transfer of 2011 which amounted to Rs. 172 Million. This decline is primarily attributable to the higher growth in policy liabilities when compared with the growth in the Life Fund. The primary contributor to the increasing liability is the features inherent in participating products and their related treatments, and we are in the process of redesigning some of our products in order to alleviate such adverse effects.

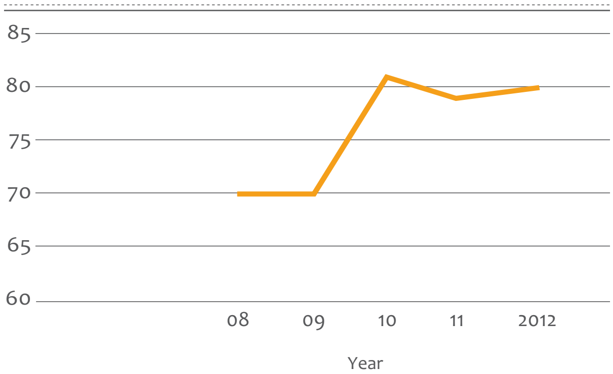
Improving Policy Retention

Lapse Ratio

	2012	2011	2010
First Year Lapse Ratio	**50%**	49%	55%
Second Year Lapse Ratio	**27%**	27%	31%

Lapsation is a serious concern across the entire Life Insurance industry and HNBA is no exception. Despite continuous efforts to reduce lapsation, our first year Lapse Ratio increased marginally from 49% in 2011 to 50% in 2012 while the second year Lapse Ratio was maintained at 27% in 2012 and 2011. Nevertheless, a significant improvement has been made over 2010. As a step towards actively monitoring and managing lapses, branch-wise focused studies and discussions are taking place and we are confident that these strategies will enable us to reduce the Lapse Ratio from 2013 onwards.

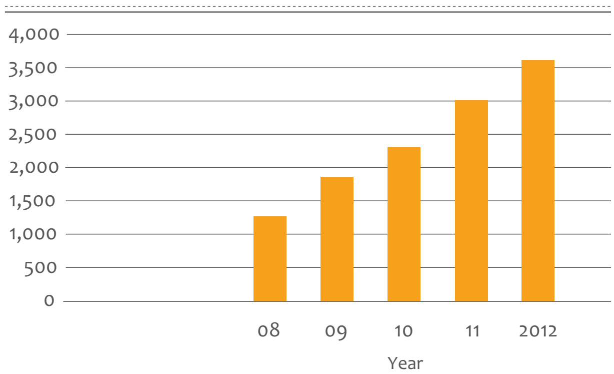
Premium Persistency Ratio (Endowment Policies)
(%)



Persistency Ratio

Despite there being a serious concern on policy lapsation as measured by the policy count, on a more positive note it is observed that the Company was able to achieve favourable results in improving its Premium Persistency Ratio, which presents the rupee value of renewals as a percentage of total premiums due. Accordingly, consequent to our constant monitoring on renewal premiums, we were able to increase the Premium Persistency Ratio from 79% in 2011 to 80% in 2012. It is our intention to take steps which will enable the achievement of a Premium Persistency Ratio in excess of 80% in the coming years.

Life Fund
(Rs. Mn.)



Growing Life Fund

	2012	2011	2010	2009	2008
Life Fund (Rs. Mn)	**3,626**	3,021	2,415	1,854	1,361
Growth rate	**20%**	25%	30%	36%	54%

With the growth in life business, the Life Fund as at the end of year 2012 amounted to Rs. 3,626 Million (including outstanding claim reserves), at a growth of 20% over 2011.

The Company has appointed a Consultant Actuary (Mr. M. Poopalanathan from Actuarial and Management Consultants (Pvt) Ltd) to calculate the policy liabilities at the end of each year, to ensure compliance with all regulatory requirements and provisions are made based on his recommendations.

Surplus to Shareholders
Rs. 165 Mn

Dividends to Policyholders
Rs. 8 Mn

Bonus to Policyholders
Rs. 83 Mn

Strengthening Service Standards and Operations

We believe that servicing our valued customers is as equally essential as business expansion, for the survival of the Company. Therefore, processes involved in servicing customers are under constant review to retain and increase our customer base and thereby to achieve business growth.

As one such measure, new workflow management systems were implemented for the functions of new business underwriting, issuance of policies and servicing of customers, with the view of improving turnaround times. This in turn led to a significant speeding of our processes, resulting in greater satisfaction for our customers. Further, with the objective of enhancing its accessibility, the Company has successfully established premium collection centers with Sampath Bank, Bank of Ceylon and National Savings Bank while also enabling the payment of premiums through the Dialog eZ Cash payment mechanism.

The resultant advances in service standards have facilitated the offering of a better customer experience and thus has supported the retention of our customers – greater retention levels are endorsed in the high growth achieved in renewal business during the year.

With the objective of enhancing operational standards, as a preparation for facing changing regulatory regimes, the Company has developed models to project cash flows into the foreseeable future. This allows the identification of future cash flows which in turn facilitates higher efficiency in operations. Significant work has also been done in the area of aligning our business with the risk-based supervision regime which is to become effective in 2016.

Towards the Future

For 2013, our prime focus is on accelerating growth in GWP. Thus, the Company expects to equip the bancassurance channel with greater facilities and to expand it to cover more HNB branches. Considerable attention will also be placed on improving the productivity of agents, developing alternative channels and other means of generating new business.

The growth of the Life Insurance business lies in introducing innovative products to the market, and we believe that in future there will be a growing demand for health insurance and pension products due to the ageing population, changing lifestyles and cultural values in the Sri Lankan society. In light of these and other factors, the Company intends to continue providing innovative insurance solutions to match the exact evolving needs of our customers. Simultaneously, further improvements in customer service standards and focused strategies to curb lapsation and maintain premium persistency above 80% levels are also planned for the upcoming year.

The introduction of the risk-based supervision platform from 2016 onwards, is believed to supplement sound regulation with a focus on the volatile nature of the insurance business, which affects solvency and the ability to meet contingencies. On the part of the Company, work on this aspect has already begun with the assistance of the regulator, industry and an appointed independent consultant, Mr. John C. Vieren of the Pinnacle Consulting Group. We remain confident that the implementation process can be managed smoothly within the timeframe specified by the IBSL.

In terms of the industry, it is positively noted that the close monitoring and supervision in place through the Insurance Board of Sri Lanka (IBSL) has improved the security felt by individuals in obtaining a Life Insurance policy and thus we expect this supervision to continue in the future and lead positively towards the expansion of our business in the coming years.

Achieving Operational Excellence: Non-Life Insurance Review

Challenging Surroundings Impact Non-Life Business

Similar to the Life Insurance business, 2012 emerged as an intensely challenging year for the Non-Life Insurance business as well, with stiff competition taking place in the industry as new entrants sought to grab market share by overpowering existing players. Consequently, most players were engaged in activities to outdo each other, the outcome of which was intense price competition that led to both operational and financial challenges.

On the operational front, the loss of talented and experienced staff and sales advisors to emerging players and the need for strong reinsurance backing were key concerns which required considerable attention throughout the year. On the other hand, from a financial perspective, when financial institutions expanded in to insurance by establishing subsidiaries, existing players in the market experienced losses of business. This was further aggravated by declining margins due to reductions in prices to keep up with the competition. Restrictions placed upon private sector insurers from underwriting government business proved to be yet another challenge.

The increasing number of natural catastrophes which had a direct impact upon profitability through raised claims, also added to the despair of insurers, following which negotiations with reinsurers for better terms became crucial for business continuity. Meanwhile, the increased import tariffs and high rates of interest restricting the growth of the leasing industry also had a direct impact on the insurance business, as the decrease in the importation of motor vehicles resulted in a drop in the number of Motor Insurance policies issued.

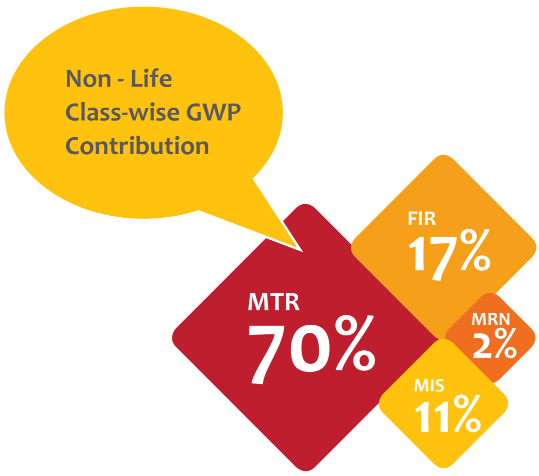
In spite of such developments, however, the industry was slightly fortunate to experience opportunities for growth in the Property and Accident Insurance segments, which resulted from large-scale infrastructure development, impressive advancement in tourism and other positive developments in the construction sector.

Our Performance: Stable during Trying Times

Gross Written Premium (GWP)

In terms of Non-Life Insurance market share and GWP achievement, the year 2012 would be marked in the annals of HNBA as the most challenging year faced by the Company so far . As the unfavourable sentiments in the market made their imprint on our performance, our commitment to consistency and drive for stability enabled us to record a growth of 1% over last year, achieving a GWP of Rs.1,711 Million as against the Rs. 1,694 Million (restated) of the previous year. The key reason for the lower growth can be identified as the Company's decision to defend its pricing structure despite the intense price competition that prevailed in the market.

Year	2007	2008	2009	2010	2011 Restated	2012
	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn	Rs. Mn
GWP	705	925	1,131	1,344	1,694	**1,711**



Class-wise Performance

Class	2012 Rs. Mn	2011 Rs. Mn Restated	Contribution		Growth
Fire	**294**	303	17%	18%	(3%)
Miscellaneous	**189**	177	11%	10%	7%
Marine	**24**	25	2%	2%	(4%)
Motor	**1,204**	1,189	70%	70%	1%
Total	**1,711**	1,694	100%	100%	1%

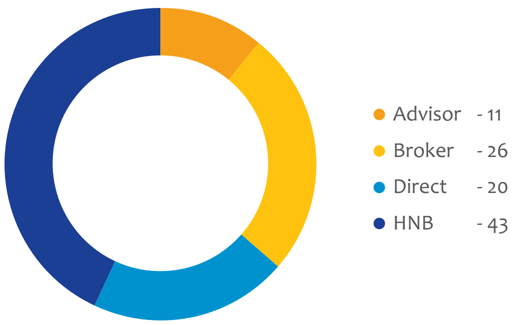
Considering the class-wise composition of the Non-Life Insurance GWP, it is observed that the predominant contribution was from the Motor Insurance class, which accounted for 70% (2011:70%). However, high import duties and a lacklustre leasing market hampered growth in this class and accordingly, GWP from Motor Insurance grew by only 1% to reach Rs. 1,204 Million compared to Rs. 1,189 Million (restated) made in the previous year.

Despite the higher prospects anticipated in the Non-Motor segment, particularly in Fire and Marine Insurance, it is noted that both these classes recorded a dip in results when compared to 2011. Accordingly, the Fire class, which is the second highest contributor to Non-Life GWP accounting for 17%, recorded a decline of 3%, whilst the Marine class recorded a dip of 4%.The Miscellaneous class, which brought in 11% of the Non-Life GWP, reported the highest class-wise growth of 7%, to reach Rs.189 Million compared to the Rs. 177 Million (restated), last year.

Vigorous Activities for Business Expansion: Channel - Wise GWP

The Non-Life Insurance category of HNBA acquires business through four main channels, with which the Company endeavours to maintain strong, win-win relationships with the objective of realising cost-effective outcomes and sustainable future growth. These channels consist of the Hatton National Bank, insurance brokers, insurance advisors and direct business.

Channel-wise GWP - Non-Life Insurance 2012 (%)



Class	2012 Rs. Mn	2011 Rs. Mn Restated	Contribution		Growth
HNB	735	725	43%	43%	1%
Broker	437	433	26%	26%	1%
Advisor	189	170	11%	10%	11%
Direct	350	366	20%	21%	(4%)
Total	1,711	1,694	100%	100%	1%

Hatton National Bank (HNB)

HNB, our parent company, continued to engage with us as our leading business partner, providing 43% of our Non- Life Insurance GWP amounting to Rs 735 Million. The contribution from this channel, which is in respect of both Motor and Non-Motor classes, demonstrates 1% growth over the previous year's Rs.725 Million (restated).

We consider our relationship with HNB as a key element forming our competitive advantage, which permits us to capitalise on the Bank's branch network and to form links with its wide array of clients from all corners of the country. The senior management of both companies possesses a strong understanding of the scope for mutual value addition, and their commitment to increase the contribution from this channel has led to the devising of a win-win situation for both companies and their stakeholders. Details of this business relationship are discussed further in our Business Partner Review appearing on pages 107 to 112.

Insurance Brokers

The insurance broker channel is the second highest contributor towards the Non-Life GWP, (26%), which, in rupee terms amounts to Rs. 437 Million (2011: Rs. 433 Million - restated). The performance of the broker channel too indicates a 1% growth over the previous year's contribution, and this lower growth is mainly attributable to the price sensitivity that prevailed in the market consequent to persisting intense competition between players. Nevertheless, it is positively observed that during the year we were able to build new relationships with brokers, which in turn have helped in expanding our broker network. Further, we continued to strengthen our broker relationships through training, sports events and other entertainment activities, details of which are presented in our Business Partner Review on pages 107 to 112.

"The performance of the broker channel too indicates a 1% growth over the previous year's contribution, and this lower growth is mainly attributable to the price sensitivity that prevailed in the market consequent to persisting intense competition between players."

Chandana L Aluthgama
Head of Corporate Business Development

Journey through the Year:
Management Discussion and Analysis

Insurance Advisors

Within our channel mix, the highest growth in terms of GWP is observed with regard to the insurance advisor channel, which recorded 11% growth to reach Rs. 189 Million, over last year's Rs.170 Million (restated). This impressive performance is mainly resultant from the Company's focus on the development of this emerging channel, which is further explained through our Business Partner Review on pages 107 to 112.

Direct Business

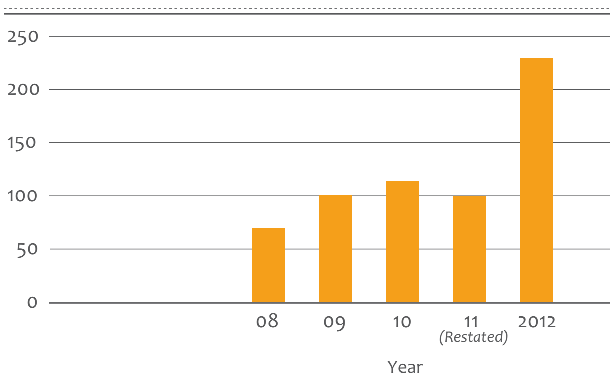
The direct business channel, which consists of business derived via our small team of sales executives, walk-in customers and business introductions by our employees, contributed 20% of the Non-Life Insurance GWP, amounting to Rs.350 Million. However, in terms of growth, this channel has seen a 4% dip, possibly as a result of the deployment of stringent underwriting measures to weed out and/or re-price unprofitable accounts.

Underwriting Profitability

Reducing the Combined Ratio to improve underwriting profits amidst a competitive market environment, is an absolute challenge for any insurance company. Our efforts in this regard nevertheless yielded pleasing results, with an improvement of 1% being achieved in the ratio during 2012, which ended at 102% compared to 103% last year. This translates to about Rs 15 Million being added to profitability during 2012. We also note with pride that this is the fourth consecutive year the Company has seen a reduction in the Combined Ratio, which stood at 110% in 2008.

We believe that the reduction of the Combined Ratio is attributable to the introduction of efficient claim management measures and also to the prudent management of expenses.

Profit Before Tax - Non-Life Insurance
(Rs. Mn.)

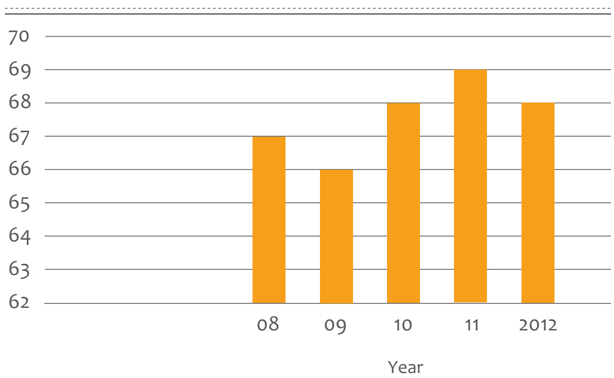


Non-Life Insurance Ratios

	2008	2009	2010	2011	2012
Claims Ratio	67%	66%	68%	69%	**68%**
Expense Ratio	43%	42%	39%	34%	**34%**
Combined Ratio	110%	108%	107%	103%	**102%**

The Company was able to manage its Claims Ratio at 68% against 69% last year - a remarkable achievement when considering the increase in the motor accident rate, increase in spare part prices and floods that occurred due to heavy rains, especially in the latter part of the year, which led to higher non-motor claims costs. We were also able to maintain our Expense Ratio at the previous year's level of 34%, despite the adverse effects of inflation, through prudent management of expenses. It is also pertinent to mention that this was achieved while spending an additional Rs. 9.2 Million for advertising and promotions to launch new products introduced by the Company.

Claims Ratio - Non-Life Insurance
(%)



Improving
Underwriting results

68% Reduced Claims Ratio from 69% to 68%

34% Maintained Expense Ratio at 34%

102% Reduced Combined Ratio from 103% to 102%

"It was the cumulative effect of the reduced Claims Ratio and stable Expense Ratio which led to the decrease of our overall Combined Ratio to 102%. This 1% reduction in the Combined Ratio saw a 41% decrease in our underwriting loss."

Niranjan Manickam
General Manager - General

It was the cumulative effect of the reduced Claims Ratio and stable Expense Ratio which led to the decrease of our overall Combined Ratio to 102%. This 1% reduction in the Combined Ratio saw a 41% decrease in our underwriting loss from Rs. 39 Million in 2011 (restated) to Rs.23 Million in 2012.

In addition to improved underwriting results, we also saw an improvement in investment and other income during the year, which amounted to Rs 308 Million, an 82% growth compared to the last year's Rs 169 Million (restated).

Helped by these positive factors, the Company recorded a PBT of Rs 229 Million for 2012, which is an impressive growth of 129% over last year's PBT of Rs 100 Million (restated). PAT for the year also improved by 151%, from Rs 74 Million in 2011 to Rs.186 Million in 2011 (restated).

Strengthened through Reinsurance

A sound and structured reinsurance programme is the backbone of an insurance operation. During 2012 we were able to secure and maintain our relationships with a panel of well-established and recognised reinsurers who have amply demonstrated technical expertise, financial stability, claims paying ability and global reach.

Floods in Thailand, earthquakes in Japan and New Zealand and other catastrophic events in the region during the past two years had a major impact during this renewal year, with global reinsurers adopting a very cautious approach with regard to who they operated with. Nevertheless, we pleasingly note that we were able to successfully secure the required agreements, enabling us to manage a smooth flow within our business operations.

All reinsurers in our panel have been rated 'A' or above (Superior/Excellent) by A M Best, except for one reinsurer which possess a rating of 'B++' (Good) from the same rating agency. Highlighting the interest shown by top rated reinsurers to be associated with our operations, during the year we were able to successfully enlist two new 'A' rated reinsurers onto our panel.

While most of our reinsurers are foreign entities, the government reinsurer, National Insurance Trust Fund, also participates in our reinsurance programme and adds a local element to the reinsurance operation. As a result of the Government increasing the level of mandatory reinsurance this year, they enhanced their participation in all our treaty programs.

129%

Growth in Non - Life Profit Before Tax

A Well-Diversified Product Range

With regard to our Non-Life Insurance business segment, we successfully launched a range of products during the year – the new products presented under the 'My' series were 'My Health', 'My Home' and 'My Card', while additionally a Motor Insurance policy under the name "Motor Guard Xtra" was also introduced. Further, features of our shop insurance product were enhanced during the year, which led to its relaunch under the brand "Sesatha".

New Product	Product Description/Features
My Home	"My Home" comprehensive insurance policy is designed to provide essential insurance covers for your house/family, domestic staff and even pets under the scope of a single policy. The following risks are covered by this policy: • Material damage to property • Legal and personal liability of the insured • Spoilage of food in freezer • Personal accident to insured, family and domestic staff • Medical expenses of household pets
My Health	"My Health" insurance product is designed to offer protection to individuals in respect of • Personal accidents • Critical illness • Hospitalisation Under this policy, the personal accident and critical illness covers are mandatory, whereas the hospitalisation cover is optional. This novel product thereby combines these covers, which were traditionally required to be purchased separately. This is the first occasion such a packaged policy has been introduced to the Sri Lankan market.
My Card	"My Card" is a credit card protection insurance policy offered exclusively for 'HNB' credit card holders. This protection covers you against 5 different credit card risks for a premium of only Rs 250/- per annum. The policy pays sums not exceeding Rs. 50,000 in the event of the following occurrences. • Unauthorised use of credit card following its loss • Loss of wallet/handbag along with the card • Expenses incurred to replace the national identity card, driving license or passport if lost along with the credit card, whilst travelling abroad. • Costs of replacing the credit card
Motor Guard Xtra	'Motor Guard Xtra' is a premium product targeting the top end of the market providing a wide range of benefits that covers every possible risk faced by motorists. The additional benefits are: • No contribution on replacement parts • Free life cover for the policyholder • Daily cash benefit following hospitalisation • Emergency expenses following an accident • A discount when obtaining a "My Home" policy • Cash grant for children's education in the event of the death of the policyholder due to an accident • Cost to replace the key in the event of its loss • Named driver discount • No claim bonus protection
Relaunched Product	**Product Description/Features**
Sesatha	"Sesatha" is a packaged insurance policy for shops, which primarily covers building and/or contents and can be extended to cover various risks associated with a shop. The extensions are: • Material damage to property • Public liability to customers • Loss of money due to hold up/theft • Damage to plate glass/sign boards • Deterioration of freezer contents • Workmen's compensation • Infidelity of employees • Personal accident benefits • Daily cash benefits following hospitalisation • Terminal expenses benefit

We consistently improve the service delivered to customers, by using the latest technology

Introducing innovative products to meet the exact needs of our customers

Enhancements to Customer Service and Speedy Claims Settlement

Customer service is a focal point of our operations, and accordingly, continuous efforts were afforded upon introducing measures to enhance the service delivered by us to our valued customers island wide.

Decentralising the claims operation and strengthening branch underwriting are examples of such endeavours embarked upon by us during the year. Hitherto, our motor claims operation was conducted on a centralised basis, with all claims being processed only at the Head Office. Identifying this as an operational weakness, we took steps to change this structure and accordingly, motor claim handlers, with the authority to settle claims up to agreed limits, were appointed to Anuradhapura and Ratnapura branches. This has resulted in a significant improvement in the efficiency and speed of our claims settlement procedure and accordingly, it is our intention to expand this initiative further, to expedite the claim settlement process for the benefit of all our customers.

A similar development also took place in our Non-Motor Insurance segment as well, where the underwriting authority for some classes and products was granted to our zonal and regional underwriters. This was an initiative aimed at strengthening the relationship with our customers at branch levels, whilst also endowing our zonal/regional staff with more authority.

With further focus on efficiency, our motor assessor network was expanded during the year, which led to the number of assessors on our panel growing to 106 (2011: 91). Similarly, our network of garages was also expanded to 70 (2011: 56).

Operational Developments

One key development that took place during the year was the implementation of new accounting standards (SLFRS/LKAS) by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) with effect from 1st January 2012. These standards have introduced significant changes to the recognition and measurement of financial assets and financial liabilities. Additionally, SLFRS 4 – Insurance Contracts requires insurers to perform a Liability Adequacy Test (LAT) to check the adequacy of its reserves to meet the liabilities arising from insurance contracts. Abiding with this requirement, the Company performed the LAT with the assistance of the Consultant Actuary M/S K.A. Pandit, Consultants and Actuaries, and concluded that the Company's Non-Life Insurance business adequately satisfies the LAT as required by the accounting standard.

Further, the Company during the year decided to change the basis of recognising the Co-Insurance premiums, where an insurance risk is shared between two or more local insurance companies. Accordingly, now only the Company's share of a co-insured risk is included in the GWP, and this change resulted in reversing Rs.9.3 Million (2011 – Rs. 17.8 Million) from the Company's GWP in the current year.

Journey through the Year:
Management Discussion and Analysis

"For 2013, the Company intends to accelerate the growth of its GWP by mainly focusing on the retail market segment and through the development of new channels, whilst also maintaining profitability. Notwithstanding the introduction of new products and winning new customers, the Company also intends to keep a strong focus on improving our renewal retention."

Future Outlook for Non-Life Insurance

For 2013, the Company intends to accelerate the growth of its GWP by mainly focusing on the retail market segment and through the development of new channels, whilst also maintaining profitability. Notwithstanding the introduction of new products and winning new customers, the Company also intends to keep a strong focus on improving our renewal retention. Periodic review of our pricing and products, with revisions being introduced to maintain competitiveness in the market place, and the development of a new direct sales channel to exploit untapped business areas, are some strategies that would be implemented during the year to broad base the presence of HNBA.

We are acutely aware that the most important element of our business is our customer base and hence, many measures are in the pipeline to further improve our customer service with all touch points and 'moments of truth' being reviewed and changes to processes being introduced to ensure that customer satisfaction is maintained in all key areas.

Another key challenge facing the business is the splitting of composite insurers into Life and Non-Life Insurance companies as per regulations which are to become effective from 2015. This would involve detailed planning and meticulous implementation. We are mindful of the structural changes that need to be carried out and believe it is also important to maintain healthy growth and profit ratios going forward into the years of change.

On the regulatory front, the Insurance Board of Sri Lanka (IBSL) announced its intention to introduce a risk-based supervision platform from 2016 onwards, changing from the presently operational rules-based supervision mechanism. It is believed that risk-based supervision will supplement sound regulation with a focus on the volatile nature of the insurance business, which affects solvency and the ability to meet contingencies. Work on this aspect has already begun with the assistance of the regulator, industry and an appointed independent consultant, NMG Consulting. We remain confident that the implementation process can be managed smoothly within the timeframe specified by the IBSL.

Through all such endeavours, we believe that the business plans developed by us for 2013 would propel us forward in the desired path, fulfilling the expectations of our customers whilst adding value to all our stakeholders.

Keeping Up with Rapid Advancements: Information Technology Review

Cutting-Edge Technological Enhancements

We recognise that information technology is a central source of our competitive advantage and hence diverse efforts have been exerted to ensure that we keep up our pace with the rapid changes that are taking place within the sphere of information technology on a global scale. Looking back, we observe that 2012 has been a year of consolidation and collaboration for HNBA IT. Many enhancements were made in our application systems to consolidate information while the IT infrastructure was strengthened to cater for the higher demand for timely information, enriched customer service and strengthened information security. It was also a year where advancements in mobile technology were harnessed by us to provide a better customer experience and where training efforts were boosted to augment the service standards by educating the end-users at all levels on IT in general and specifically on our core applications.

Our Strategy with respect to Information Technology

With the rapid changes taking place in the domain of information technology, the primary challenge faced by the IT function is to ascertain the technological advancements best suited for the Company, which in turn would deliver the highest returns on investment within a reasonable time frame. Already daunting given the numerous options available, this task is made more demanding by the constant need for connectivity, necessity of newer mediums of communication and the pressure for speedy delivery of consolidated information for business decision making. HNBA IT has successfully reaped benefits of the opportunities presented through technological advancements to mitigate the increasing demand from both internal and external customers and has also managed to provide cost effective solutions, thereby creating an edge over our peers through our systems, applications and processes which essentially form an integral element of our intellectual capital.

Achievements and Improvements during 2012

Android Mobile Applications

Through our committed efforts, we were able to reach new heights in delivering customer service – now at HNBA the concept of 'service on demand' has been escalated to 'service at your fingertips' through the introduction of novel mobile applications to our customer service suite. HNBA was the first insurance company in Sri Lanka to introduce a mobile application system based on an Android platform for smartphones, which can be used by both sales advisors and customers to check policy status, outstanding payments as well as benefits and claims information. Additionally, advisors also use this application coupled with a Bluetooth printer to generate and issue receipts upon collecting premiums.

Further, our systems which enable assessors to receive notifications of accidents and upload accident images using an Android mobile application, have greatly improved the service delivered to our customers at their time of need. The exact location of the accident is tagged on a Google map based on GPS co-ordinates obtained from the accident image, enabling the assessor to reach the accident site speedily. This process has also facilitated cost reduction, greater information availability and quicker decision making with regard to claims settlement.

Augmenting Service Standards and Cost Reductions

Our processes, which deliver a flow of information on a timely basis, and their ability to monitor and control deviations from benchmarks, have enabled the achievement of higher service standards, while also leading to the speedy delivery of services to our valued customers. Workflows between branches, underwriting departments, engineering and claims departments and the finance division have contributed towards enhancing employee productivity and the turnaround time of service delivery.

"HNBA was the first insurance company in Sri Lanka to introduce a mobile application system based on an Android platform for smartphones, which can be used by both sales advisors and customers to check policy status, outstanding payments as well as benefits and claims information"

Namal Gunawardhane
Head of IT

Further, our state-of-the-art Customer Relations Center, equipped with cutting-edge technology including IP Telephony, tracking of assessors and accidents on Google maps, obtaining digital images of accidents and facilitating pre-underwriting inspections, has significantly boosted the quality of our customer service and reduced costs arising due to manual procedures while also providing adequate control to detect fraudulent activities.

Profitability of business underwritten is a key element for achieving both top line as well as bottom line growth. Analysing profitability based on premiums collected, expenses incurred to acquire and service the policy and claims experience had been a challenge hitherto. A 'profitability calculator' was successfully introduced for this purpose by integrating core applications for analysing data based on several input criteria over a period, leading to retaining profitable business while reducing operational costs incurred by underwriting unprofitable portfolios.

Enhancing the use of social media as a cost effective advertising and selling tool was another initiative. HNBA boasts of having a growing fan base of over 3,100 on Facebook. We are proud to have an active social media presence enabling our marketing communications team to drive innovative campaigns increasing our visibility with minimum cost impacts.

Employee overtime is usually a major component related to operational expenses. HNBA IT designed a system integrating the HRIS application where prior approval can be granted for late work. Immediate supervisors were provided the facility to approve late work, after evaluating employee's late work history and departmental needs. Benefits include the prevention of employee burnout as well as controlling costs incurred via habitual late work. A pilot project in this regard was carried out at Head Office in 2012, targeting an island wide launch in 2013.

Online Training (MS Lync)

Keeping in line with the Company's annual theme of 'Sustainable growth through continuous learning', end-user training programmes on various aspects of the information technology function were carried out island-wide throughout the year. For this purpose, we were successfully able to use the Microsoft Lync application, via which online training was conducted, especially for our employees located in branches. This initiative has greatly assisted in reducing the mandatory costs associated with training activities such as travelling, accommodation as well as saving time and resolving the problem of specialised staff availability. Online training activities have also contributed towards reducing the Company's carbon footprint through the use of video conferencing.

Re-vamping the e-learning application using open source technology was another initiative aimed at creating a knowledge culture. Employees can access predesigned course material on Life and Non - Life underwriting, sales management, IT and other related and non-related topics. Another key feature is Self-evaluation of Knowledge by taking an online questionnaire. In addition to being recipients of knowledge, they are encouraged to update the knowledge repository by submitting valuable articles.

Systems Implementation Progress

Continuing from the previous year's development portfolio, the main framework for information sharing was completed during the year, with many reports developed to cater for various information needs of the Company and the management hierarchy on a 'need to know' basis. Development of the BI system for Non - Life Insurance is also now complete and is available for user testing. All insurance related areas of the Finance Module of our core system, TCS Bancs, have been completed, and only the general ledger integration element remains to be completed.

Maintaining Compliance

It is proudly noted that the Company is already compliant with the license requirements imposed by Microsoft on operation systems and applications, and has also entered in to an enterprise agreement with the Microsoft Corporation. Further, we take steps to ensure that licensed virus protection solutions are used company-wide and database licenses from Oracle Corporation have been obtained for databases.

Intrusion Detection & Prevention System (IDPS)

As a compliance initiative, HNBA took measures to enhance the security of its data and systems by introducing Snort®, open source network intrusion prevention and detection system (IDS/IPS). Combining the benefits of signature, protocol, and anomaly-based inspection, Snort is the most widely deployed IDS/IPS technology worldwide. With Millions of downloads and nearly 400,000 registered users, Snort has become the de facto standard for IPS, which are network security appliances that monitor networks and/or systems for malicious activity, log information about the said activity and also attempt to block/stop and report the relevant activity.

Another initiative towards strengthening compliance was through the introduction of a system to automatically track the Company's assets and content. OCS Inventory NG makes the automated inventory of computer hardware more efficient and today, our solution not only extends to the inventory - it includes a sophisticated deployment system, interfacing with third tier applications and network devices.

SNMP and ipdiscover scans are accordingly used to retrieve extensive information about network devices, including printers, switches, computers and applications installed on devices. This has enabled the detection and prevention of unauthorised usage of applications and devices, thereby assisting us to take a major step towards information security and compliance at the Company.

Future Outlook: Vision for 2013

In 2013, the Company intends to concentrate on strengthening and expanding the IT initiatives carried out during the previous years. Accordingly, consolidation of supporting applications drawing on the strengths of the core application will be our primary objective. Embracing Green IT to further reduce our carbon footprint and focusing more on research and development with regard to mobile solutions will also receive our significant concentration.

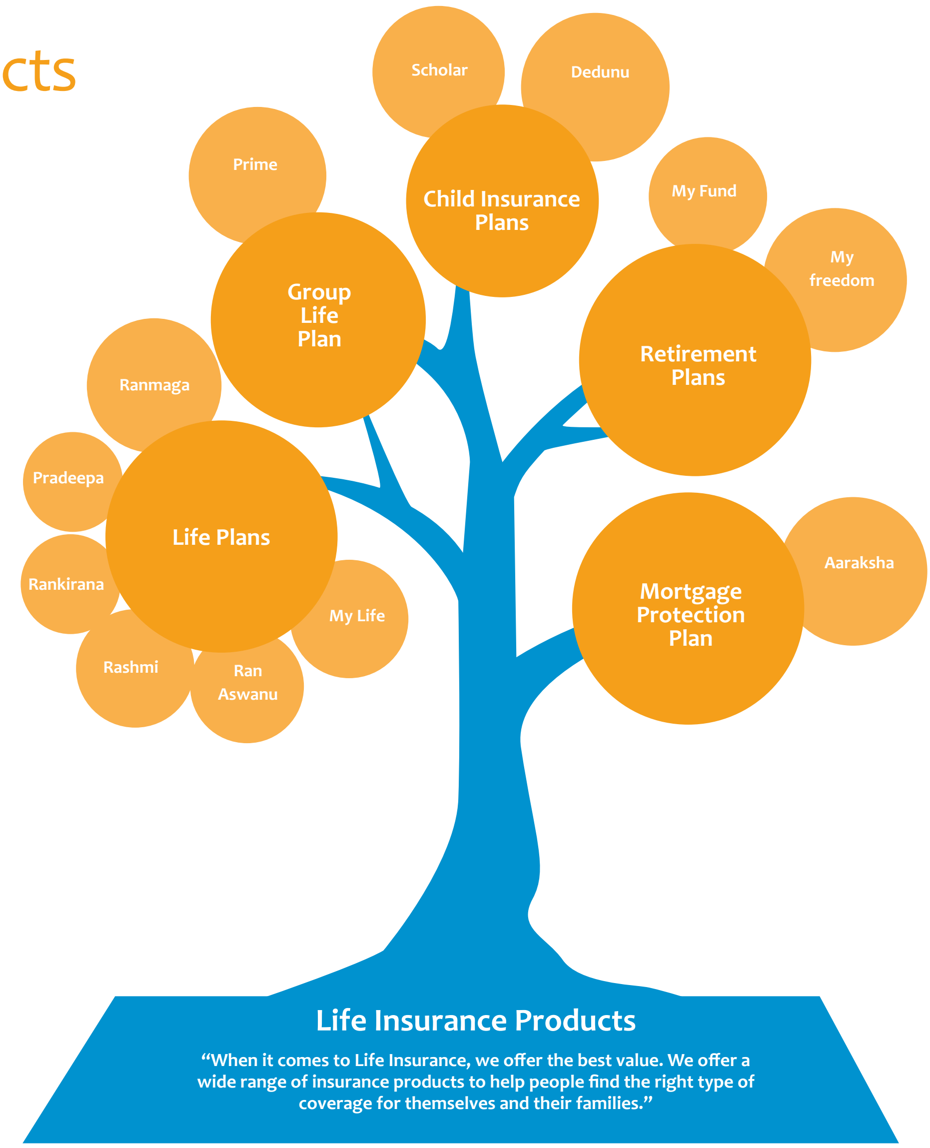
Initiatives towards Green IT have already commenced, with a drive being created within the Company towards reducing paper usage, use of recycled printing material, and enhancement of information availability by deploying new communication media which in turn lead to reduced travel and less usage of energy.

Research and development targeted at technological innovations that can reduce costs of operations while augmenting customer service have also commenced, and beta releases and pilot projects are currently being conducted to determine their effectiveness. We believe that harnessing open source components will continue to add strength to our development initiatives.

Implementing a comprehensive sales force management process for tracking leads and business conversions as a pilot project was successfully carried out using selected members of the bancassurance channel in 2012. The application will be launched covering the entire bancassurance network and other channels, including corporate business development, in 2013.

Further, it is envisaged that IT infrastructure advancements will be conducted building on existing Microsoft as well as open source components, creating a hybrid environment that will adhere to compliance requirements while reducing our operational costs.

Our Products



Life Plans

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

Total protection for your life.

A comprehensive Life cover for the entire family.

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

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

A unique plan for the youth.

Retirement Plans

A hassle-free and enjoyable retirement fund building plan.

A guaranteed monthly income for a happy retirement.

Child Insurance Plans

Best way to secure your child's future.

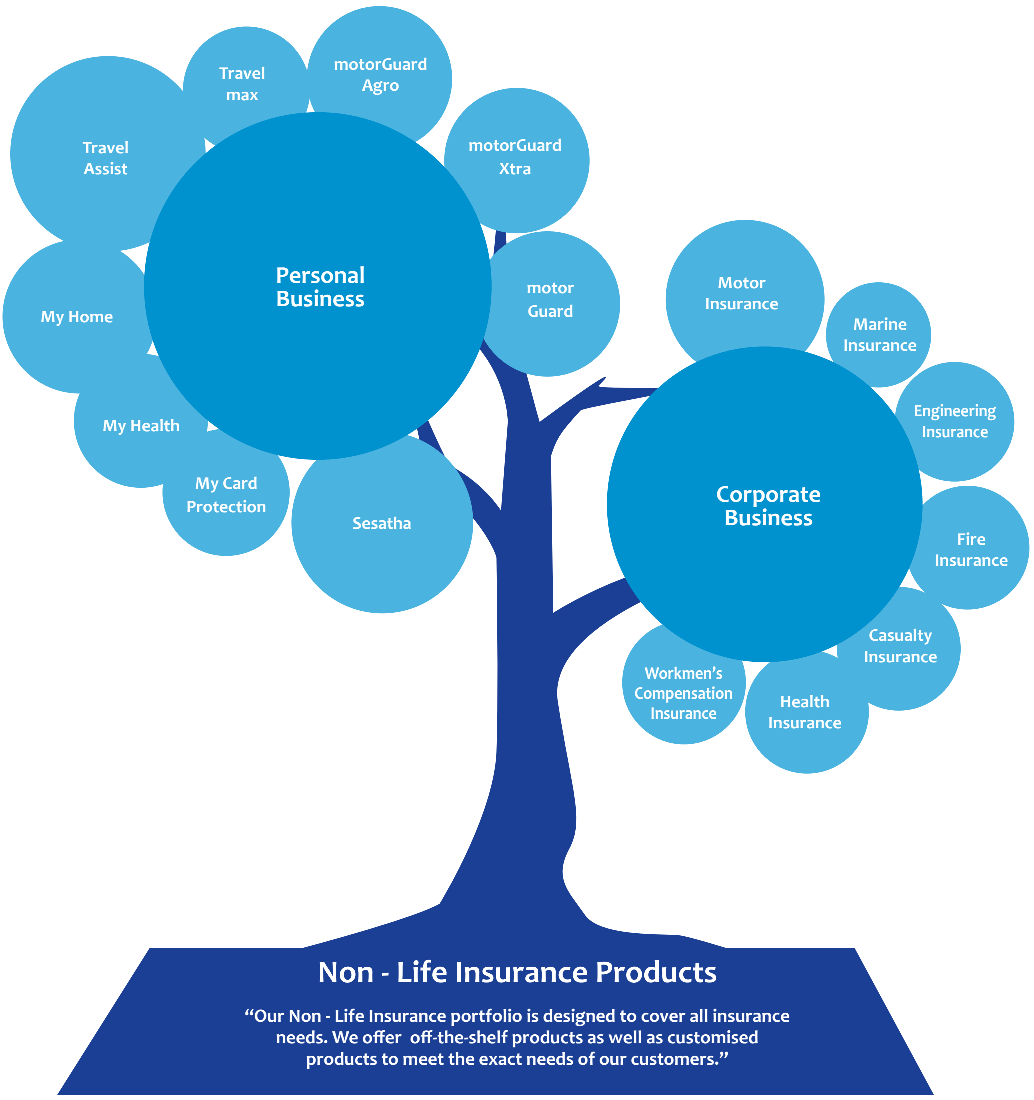
Ensures uninterrupted support for your child's education.

Group Life Plan

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

Mortgage Protection Plan

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



Personal Business

motorGuard	A comprehensive Motor Insurance policy which offers the highest no claim bonus within the shortest period.
XTRA	A premium Motor Insurance policy with added benefits including free life cover.
motorGuard	Total protection for agricultural vehicles.
TRAVELMAX	A Travel Insurance policy that covers up to the age of 70 years.
TRAVEL ASSIST	A Travel Insurance policy that goes beyond insurance.
my HOME	A comprehensive policy that provides the right protection for your home.
myhealth	A unique plan which covers hospitalisation expenses, personal accident and critical illness under one policy.
mycard protection	A unique insurance policy for HNB credit card holders.
සෙසත	A comprehensive shop insurance plan.

Corporate Business

MOTOR	A comprehensive Motor Insurance for corporate fleets and individual vehicles.
MARINE	Covers transportation of goods from source to destination.
Engineering	Covers unforeseen damages in construction/ erection projects.
FIRE	Protection against fire, riots and weather perils.
Casualty	Pays for losses arising from burglary/ infidelity of employees and loss of money in transit, affecting the business.
Health	Reimburses the medical expenses of the employees and their families.
Workmen's Compensation	Covers employer's liabilities to employees.

Journey through the Year:
Management Discussion and Analysis

The Secret behind Our Success: Customer Review

'With a Spirit of Caring'

Servicing the needs of customers is at the core of any business; but in the context of HNBA, it goes a step further, for meeting the insurance needs of customers 'with a spirit of caring' is inherently a part of our vision, the ultimate and ideal state we want to achieve.

Although we are only 11 years young, we have been fortunate enough to be able to reach every corner of this paradise isle, and to receive the admiration, trust and love of all customers who have stepped in to our fold. Being a provider of insurance solutions, trust and admiration form the base of our business model; one would entrust looking after his valuable possessions only to someone he can trust, and we have happily stepped in whenever our customers needed someone to give them that assurance.

Our Customer Strategy

Our vision, *'to be Sri Lanka's most admired and trusted partner in meeting insurance needs professionally with a spirit of caring'* in essence summarises our long term customer strategy. What the customers desire is what we want to deliver, and hence, we rhythm ourselves according to their needs at all times. Our connection to the very pulse of our customers makes us proud possessors of an unbeatable competitive advantage.

In the short and medium terms, our customer strategy founds itself on three areas;

- firstly, on providing innovative products to meet customer's requirements,
- secondly on providing superior customer service with the highest standards of professionalism,
- and thirdly, on treating our customers with a spirit of caring.

The HNBA Brand: Our Core Intellectual Capital

Being a provider of services, our greatest asset comes in the form of our brand. The HNBA brand is our core intellectual capital, a distinct component of our competitive advantage.

It is to successfully overcome the challenge of making a prominent presence in the mass market, that we have formed partnerships with popular icons in the Sri Lankan entertainment industry. Bathiya and Santhush, who are considered idols of the young generation, operate as our brand ambassadors, and their presence has added incredible value to our brand. Further, Amila Nadeeshani, a popular singer and actress, serving as the PR representative of HNBA, has actively participated in many of our awareness campaigns and recruitment programmes, and in turn has greatly assisted us in reaching the hearts and minds of Sri Lankans across the island.

Increasing the visibility of our brand received special attention during the year 2012. This objective was achieved by way of enhanced coverage in the print media, radio and TV discussions, while significant sponsorships for corporate and academic events were also granted with the same objective. Mass advertising campaigns, island wide promotions and corporate brand building activities were a few other techniques used in enhancing the position of our brand. Market research has indicated that the public's awareness of our brand, both in urban and rural areas, has increased significantly consequent to these activities.

Targeting to build greater awareness on our brand and products, we organised our new product launches in two different ways. Accordingly, the main product launches of "myhome" and "myhealth" were held as a colourful ceremony at a leading five star hotel in Colombo, with the participation of Bathiya & Santhush, our brand ambassadors.

The launch of Motor Guard Xtra, our new Motor Insurance product took an entirely different twist. Moving away from the traditional practices, we initiated a process much closer to the hearts of the customers. Accordingly, our employees

"Since inception, HNBA has maintained a strong and appealing reputation as a company delivering novel and unique products to the insurance market of Sri Lanka."

Lalith Fernando
General Manager - Marketing and Distribution

We truly created excitement on the road with our new product launch

Our brand development activities have enabled the HNBA brand to shine globally

Idols of today's generation, our brand ambassadors Bathiya & Santhush

and the members of the field force from all layers and functions participated at street campaigns conducted in the Colombo area and 30 locations around the island. They personally interacted with the public in introducing the features of the product- this campaign was viewed as a one-of-a-kind event, and created much buzz in the industry, and following the success of this main event, subsequent street promotions were held in other parts of the country as well.

While focusing on engaging in vibrant marketing communication campaigns, we also take maximum efforts to maintain strict adherence to all related laws and regulations in the country. Due to this vigilant commitment on our part, no incidents of non-compliance with regulations regarding marketing communications were recorded during the year.

In further emphasis of our commitment to enhance our brand image, we created the position of 'Head of Marketing' at Senior Management Level in the Marketing & Distribution Division and recruited an experienced professional for this post, during 2012. The primary objective of this deed was to streamline our strategic marketing activities; Marketing Communications and Customer Relations of the Company.

As a remarkable achievement with regard to intellectual capital, HNBA was adjudged a winner in the 'Service Industry' at the Global Awards for Brand Excellence 2012 organised by the World Brand Congress. This award was presented in recognition of our contribution towards the insurance industry by providing our customers with the best possible range of insurance solutions through strategic marketing initiatives. This was the first international marketing award received by us. We believe that it is a tremendous recognition of our efforts in marketing activities that will lay the foundation for many more such achievements in the future under the leadership of the Head of Marketing appointed recently to the team.

Journey through the Year:
Management Discussion and Analysis

During 2012, we also continued to be placed in the top 100 brands as compiled by Lanka Monthly Digest (LMD), showing the consistency of our approach in building and enhancing our brand image. Our brand received a rating of “A-”, while also being ranked as No. 65 among the top 100 companies.

We were also included in the LMD top 100 companies in the country for the first time, which is a significant achievement for a company which has just completed eleven years of existence.

Innovative Products to Meet Customer’s Needs

Since inception, HNBA has maintained a strong and appealing reputation as a company delivering novel and unique products to the insurance market of Sri Lanka.

Our products are designed by the best people we have. Their expertise and technical knowledge in the industry, along with the extensive research that is put in to the process of product development, guarantee that we develop the best product that precisely addresses the needs of various customer groups.

Following such strenuous and persevering efforts, during 2012 we successfully launched 4 new products with multiple features. Three of these products were branded based on the “my” theme which is a continuation of our award winning product “mylife”, while the other was an extension to our flagship vehicle insurance product “motorguard”

- Myhealth
- Myhome
- Mycard protection
- Motor Guard Xtra

These products are targeted at addressing the fast evolving needs of the modern day consumers and their performance during the brief period following the introduction indicates that these products have been well-received by the Sri Lankan insurance industry.

While focusing attention on novelty and innovation, our product development teams also maintain strict vigilance on compliance with laws and regulations governing the insurance industry, for as a responsible corporate citizen we consider it our duty to abide by all such regulations while sustaining our business model. Due to our strict adherence to such laws, no incidents of non-compliance with regulations relating to product information, labelling or the provision and use of products were reported during the period. It is also positively noted that none of our products have been banned or have been subject to public debate.

Superior Customer Service and Professionalism

We believe that our customers deserve right royal treatment - it is this notion that drives all our customer relation processes. Our efforts are always directed towards unearthing new ways to improve the quality of the services we deliver to our treasured customers.

What the media had to say...

Claim settlements, an inherent component of the business model of any insurance company, are usually viewed by customers as a tedious and laborious process. Therefore, our focus has been continuously placed on improving the efficiency and friendliness of the claim settlement procedure at HNBA. With this objective in mind, our Motor Claims Department was strengthened with the addition of new recruits at a senior level who are professionally qualified and well-experienced.

Further, with the objective of granting our customers with access to speedier claims settlements, the Company took a strategic decision to decentralise the motor claims process. Under this new venture, Anuradhapura and Ratnapura branches are equipped to process motor claims up to a certain limit. It is our expectation to expand this venture to a few other branches during the coming year.

In order to provide for the convenience of our customers, we have also created a pool of registered suppliers, garages and hospitals that work closely with HNBA. The approved garages provide unique services to our customers, including the cashless repair service. The number of registered spare part suppliers was increased to 41 in 2012 (2011 – 37). Similarly, our network of hospitals provides our customers with all necessary testing services when they wish to obtain a life or health insurance cover.

Taking another refreshing turn, we established processes during the year to credit the claim amounts directly to the customer's bank account, with a notification being sent to the customer via SMS immediately upon the completion of the transaction. Through this, we are in a position to conduct transactions of any amount with any account maintained at any bank.

While simplifying the claim settlement process through direct transfers as discussed above, we have also established mechanisms to simplify the premium payment process, because of which our valued customers can now pay their premiums using different alternatives.

Customers can also forward us their payments through our insurance advisors, some of whom are equipped to instantly issue a receipt for the money rendered through our mobile receipting facility. We intend to expand this facility to our advisors further during the year 2013 enabling them to acknowledge the collection of premiums at the site while updating our systems.

Taking a further step forward, we successfully enabled an option for our customers to make premium payments through Dialog eZ Cash from the latter part of the year 2012. Actions will be taken in the year 2013 to communicate these new initiatives to our customers to use them as they wish.

In addition, 2012 also saw the introduction of a workflow management system for certain operational functions which led to transformational improvements in efficiency by reducing the turnaround time, especially in underwriting and servicing areas in Life Insurance.

.....we have also established mechanisms to simplify the premium payment process, because of which our valued customers can now pay their premiums using different alternatives.

	Cash	Cheque	0% Interest Credit Card Payments	Inter-Bank Transfers	Online Payments	Standing Orders
HNB	✓	✓	✓	✓	✓	✓
Commercial	✓	✓	x	✓	✓	✓
BOC	✓	✓	x	✓	✓	✓
Sampath	✓	✓	x	✓	✓	✓
NSB	✓	✓	x	✓	✓	✓

Journey through the Year:
Management Discussion and Analysis

Engaging with the youth through our Facebook fan page

The lucky winners of our active policyholder competition

Our trilingual website

In all our dealings with our customers, we maintain the highest moral and ethical standards. We understand that it is a big decision for our customers to entrust us with the risks to their valuables, and hence, we ensure them of the highest degree of transparency and professionalism. In reflection of this commitment, we note with pride that throughout the history of HNBA no complaint has been received with regard to breaching customer's privacy or losing customer's data.

Reaching Our Customers with a Spirit of Caring

It is our firm belief that the experiences of customers form the foundation of their loyalty. This is why we have dedicated ourselves to providing the highest quality service with a sense of warmth and friendliness.

SMS Alerts

During the past few years, we have been using SMS alerts to 'keep in touch' with our customers, and today, many of our services such as renewal reminders and confirmations of payments/receipts are linked to SMS. Simultaneously, the use of SMS based alerts has reduced our transaction costs, enabling us to pass the benefit onto our customers through competitive premiums.

Live Interaction with Customers

Our mobile propaganda vehicle is another approach we use to extend our customer reach. In the year 2012, this service made its presence in 204 different villages around the country (2011 – 186), disseminating knowledge about our products and services among customers, both existing and potential.

All competitions organised by us for our valued customers saw a very enthusiastic participation. At our annual policyholders competition, eleven lucky policyholders won tickets for overseas tours.

Facebook Fan Page

Yes, we serve the youth and progress with the youth. HNBA, as a young and dynamic service provider, improved its active engagement in social media, through the use of its fan page in the 'hottest' social networking site, Facebook. This fan page is continuously updated and news items on our activities are published on the page, along with photographs.

This development was enthusiastically welcomed by our customers, who maintain very active participation on the fan page. It is encouraging to note that the number of our Facebook fans have increased to 3,100 which was at 628 in 2011.

"We operate in the business of providing insurance services and thus, close proximity to our loyal customers has the ability to give us an edge over our competitors. Therefore, broadening our distribution network and increasing the efficiency of the distribution channels are a strategic priority for HNBA"

Ivan Nicholas
Head of Distribution

Many competitions were also organised for our fans through Facebook, where, again, the participation was most encouraging.

HNBA Website

Our trilingual website, which was re-launched during 2011, continued to maintain an active dialogue with our customers during the year 2012 as well. It is continuously updated with the latest news about HNBA, and any member of the general public can access this information at www.hnbassurance.com. Being trilingual, language will not be a barrier for any person to browse through this website, and hence, all our customers and potential customers can benefit from the information supplied. Customers are also enabled the option of sending their inquiries directly through the website, and all such inquiries are given due attention by the relevant parties, immediately.

24 Hour Connectivity

We have in place a 24-hour Customer Relations Centre which serves our customers with personalised service-around the clock. Customers could access these services by dialling 0114 883 883.This helpline plays a major role especially when dealing with motor accidents - our well trained customer service representatives work to ensure that the burden on the customer is minimised, maintaining constant contact with the customer from the moment the accident is notified till the claim settlement.

Customer Newsletter

Periodic customer newsletters, which include details of our recently introduced novel service features, are sent to our customers, to keep them up-to-date with our endeavours to serve them better.

For the Benefit of the Society

As a responsible corporate citizen, we believe we have an obligation to promote social benefit. It is to fulfil this obligation that we have joined hands with our parent to provide Micro Insurance facilities for those obtaining micro-credit under HNB's Gami Pubuduwa project. This policy seeks to protect low income generating people against unexpected eventualities and specific perils by providing a Life Insurance and Mortgage Protection cover, and enables us to serve thousands of customers from all corners of the island. We humbly note that it was during a time when other insurers were reluctant to provide insurance for these customers that HNBA stepped in to fill the void, for ultimately, underlying all our actions is our 'spirit of caring'. By the end of 2012, we had issued 2,078 Micro Insurance policies (2011: 2,988) generating a total GWP of Rs. 5.7 Million – but we believe that the true value we have generated to our society from these policies is much higher in the eyes of our customers.

Strengthened Distribution Network

We operate in the business of providing insurance services and thus, close proximity to our loyal customers has the ability to give us an edge over our competitors. Therefore, broadening our distribution network and increasing the efficiency of the distribution channels are a strategic priority for HNBA, as it in turn contributes to our competitive advantage.

Our distribution network is multi-channelled – inclusive of insurance advisors, bancassurance officers, brokers, direct sales etc.

During 2012, we opened one new branch at Killinochchi. We constantly review our branch structure, which led us to carry out a restructuring whereby our Colombo West and Colombo South branches were amalgamated and relocated to a new, more convenient and spacious location, for the benefit of our customers. Thus, despite expanding our presence, we maintained our total number of branches at 51. All our branch employees are well trained and knowledgeable, always ready and equipped to provide a seamless service to customers.

Journey through the Year:
Management Discussion and Analysis

In consideration of the convenience and ease of access to our customers, we also conducted 6 re-locations of branches during the year.

Our bancassurance channel assumes high importance within our distribution network, as it is a venture we have embarked upon with our parent, HNB. Through this channel, we have improved our proximity to our customers, whereby they can conduct both their banking and insurance transactions under one roof. As with previous years, in 2012 too, we placed considerable focus on its development, and by the year end, our bancassurance officers were located at 142 HNB branches island wide (2011: 120).

Our advisor force, which is aptly spread across the country, consisted of 1,643 advisors by the year end (2011: 1,451), while our relationship with insurance brokers also flourished during the year, with both parties reaping mutual benefits. For more details on our business partners, please refer pages 107 to 112.

Our employees, as well as advisors, are well-trained and are always ready to provide our customers with the best suited insurance solutions. We also make it a point to provide all relevant information, including costs and benefits of the product, to customers at the point of sale itself, thereby enabling them to make well-informed decisions.

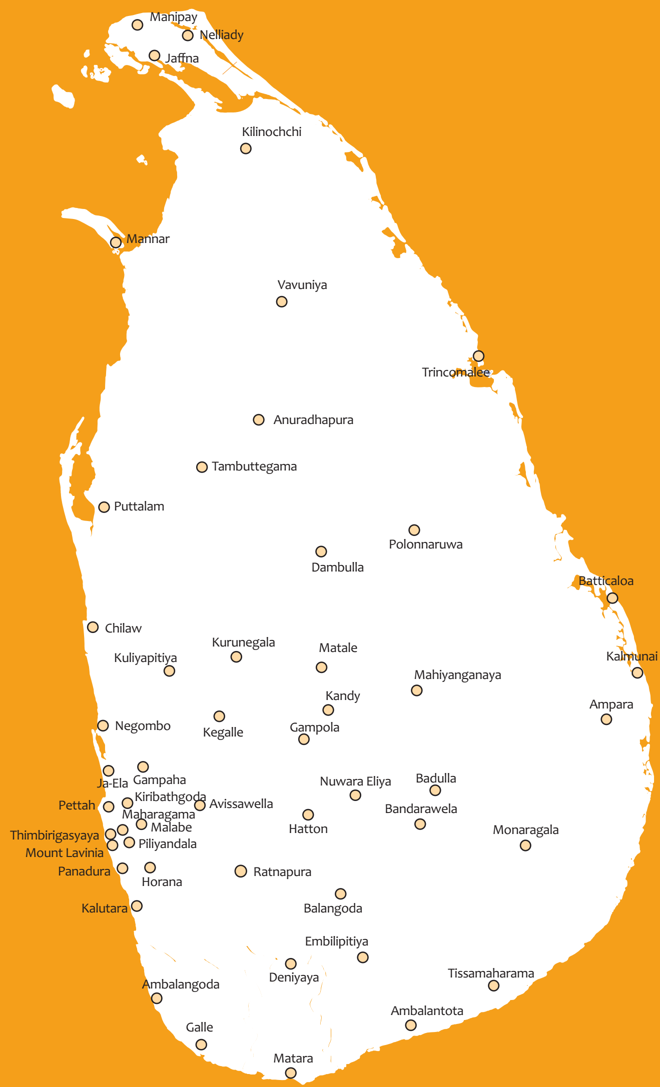
Challenges Faced and Prospects for 2013

The insurance industry of Sri Lanka is no easy place to survive in – this is especially true for a growing company of our nature which has to battle with strong industry giants who benefit from economies of scale. Moreover, new companies are entering the market, potentially due to the perceived lucrativeness of the insurance industry, and their aggressive marketing campaigns and brand strategies have resulted in cut-throat competition, necessitating that we remain constantly vigilant about our strategic approaches. New challenges are thrown our way every day, yet amidst all such competitive developments we attempt to keep the HNBA flag flying, by differentiating ourselves through innovation, high quality service and undisputed professionalism.

Our focus for the year 2013 will remain on becoming the most admired and innovative insurance company in Sri Lanka. To achieve this state, we will continue to introduce positive improvements to all our processes, which will in turn result in enhanced quality and efficiency of services delivered to our customers- not forgetting that in all our endeavours, we will strive to satisfy our core objective, of satisfying our customers, 'with a spirit of caring'.

Distribution
Network

" Our broad network of branches spreads across the country, making sure that people will always have access to the insurance services they need. "



Branches → 51

Bancassurance Units → 148

Employees → 723

Advisors → 1,643

	Number of Locations	Number of Bancassurance Units	GWP Contribution (Rs. Mn)	GWP %	Number of Staff	Number of Advisors	Number of Assessors
Central Province	6	15	280	9%	55	180	10
Eastern Province	4	14	143	4%	36	146	5
North Central Province	3	6	99	3%	23	68	8
North Western Province	4	13	216	7%	34	135	10
Northern Province	6	15	204	6%	43	272	4
Sabaragamuwa Province	4	7	198	6%	29	117	10
Southern Province	6	12	279	9%	44	180	10
Uva Province	4	6	167	5%	25	108	4
Western Province	14	57	1,125	35%	145	434	37
Total Branches	51	145	2,711	84%	434	1,640	98
Head Office and Customer Relations Centre	2	3	500	16%	289	3	8
Company	53	148	3,211	100%	723	1,643	106

Our Driving Force: Employee Review

"A Place Where You Can Shine"

Having been in operation for over a decade, we have come to realise that human capital is an indispensable element of our business model. The enormity of its true value may not be reflected in our financials, but it is our belief that the high calibre of our human capital continuously enhances our position within the industry, being a key contributor to our unique competitive advantage.

Hence, HNBA engages in continuous efforts to expand, refine and upgrade this diverse pool of talent, with the core objective of offering our employees a fulfilling career in a place where they can shine. This effort derives high importance as we recognise that fostering the quality of our employees will in turn lead to higher value addition for our other stakeholders including, customers, shareholders, business partners, the community and the environment, amongst others.

Our HR Strategy

Our overall long-term human resource strategy is to recruit people of the right calibre and to train, develop and empower them to drive the value creation process of the Company. For this purpose, we do an apt review of performance, offer attractive rewards and recognition schemes, promote work-life balance, health and wellbeing, safety and welfare, while also ensuring a pleasing work environment.

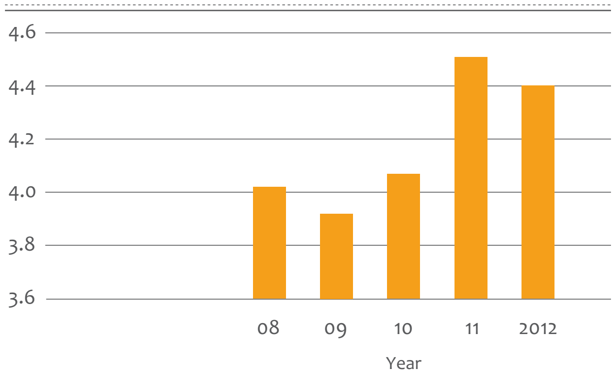
We ensure consistency and equality in all our dealings with regard to human capital, through the strict adherence to our clearly documented Human Resource Manual, which sets out the guidelines, policies and procedures relating to all areas of HR. Our long-term human resource strategy draws on our vision, mission and values and both local and global best HR practices, while short and medium term strategies are determined at the annual corporate planning sessions of the Company and communicated accordingly.

Further, we strictly maintain our stance as an equal opportunity provider, making no distinction in terms of race, gender, religion or any other discriminatory factors in any HR process.

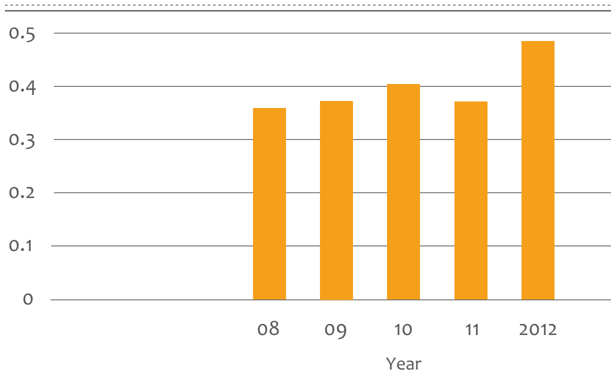
Linking Human Capital with Other Forms of Capital

We recognise human capital as the driver of all other forms of capital, and hence we strive to ensure that there is a strong and positive impact of human capital on others. In order to monitor this impact whilst developing the skills and competencies of our people, we place careful scrutiny on agreed KPIs, so that necessary corrective action may be initiated where necessary.

GWP per Employee
(Rs. Mn.)



Profit per Employee
(Rs. Mn.)



Transparent Process to Recruit the Best Talent

At HNBA, we seek competent individuals with a passion for excellence, professionalism and integrity to join our team and drive us forward. We are also an equal opportunity employer, as a result of which our recruitments are based on qualifications, merit and capability, regardless of race, faith or gender. We source internally, to ensure career progression of our people, as well as externally, to infuse new talent for the development of our human capital.

We use diverse methods such as career fairs, university/professional institute placement schemes, print media, web and social media to attract potential applicants. As a new venture for recruitment, we introduced an employee referral scheme this year, enabling existing employees to recommend and introduce new people to our cadre. The scheme was well received by our staff, who reiterated, through their own personal experience, that HNBA is an employer worthy of recommendation.

Another event brightened with our participation - career fair

Selection for vacancies, upon receipt of applications, is a rigorous process, involving shortlisting of applicants by the criteria specified in the advertisement, impartial interviews, and mandatory background verifications as specified in the HR Manual. Firm measures are taken to ensure transparency at every stage of the selection process.

In furtherance of our equal opportunity provisioning stance, we participated in a career fair organised collectively by the Ministry of Labour Relations, International Labour Organization, Employers' Federation of Ceylon and the Association for Persons with Disabilities, where many differently-abled persons received the opportunity to interact with us and learn about our HR practices. It is our intention to provide the opportunity for a few differently-abled persons to join with us in the year 2013.

Warm Welcome with a Comprehensive Induction

At HNBA, all new recruits undergo an induction programme, where members of the EXCO provide them with an introduction about the Company, while placing strong emphasis upon instilling in them the Company's vision, mission, values and culture. Accordingly, 28 induction and familiarisation programmes (2011: 20) were held for 298 participants (2011: 276) during the year. Additionally, job-specific trainings and on the job trainings are provided for new recruits at the relevant division or branch.

Winners of our 'Masterminds' Quiz competition

As a measure to assist the familiarisation process of new recruits, we introduced a 'buddy system' during the year. This system operates through the assignment of a 'buddy' to each new comer; the 'buddy' aids the familiarisation of the new comer to the workplace and the Company's culture while also assisting in building a healthy rapport with the team. "Buddies" have been given special training on their role in assisting new comers.

Fostering Diversity across the Team

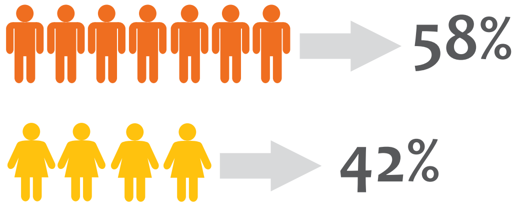
HNBA continuously fosters diversity as a corporate strength; in all our HR practices, we uphold this positive attitude towards diversity. Diversity is a natural occurrence in our large team, which consisted of 723 individuals by end 2012 (2011: 662) from all regions across the country; it was with the expansion of business, especially the bancassurance and direct business channels, that we were able to increase our total cadre by 9% over the year.

Of the total cadre, 86% were permanent employees, while 14% were employed under fixed term contracts. All permanent employees are full time employees, and no employee is recruited by the Company on a part-time basis. In terms of geographic parity, it was observed that 60% of our employees were based in the Western Province while 40% represented other provinces of the country.

We endeavour to maintain an optimum balance in the gender mix of our workforce, and our efforts have yielded favourable results by consistently improving the female employee participation ratio over the years. For 2012, the female participation ratio was recorded at 42% of total employees (2011: 40%).

Gender Representation amongst Employees

Year	Male	Female
2012	58%	42%
2011	60%	40%
2010	64%	36%



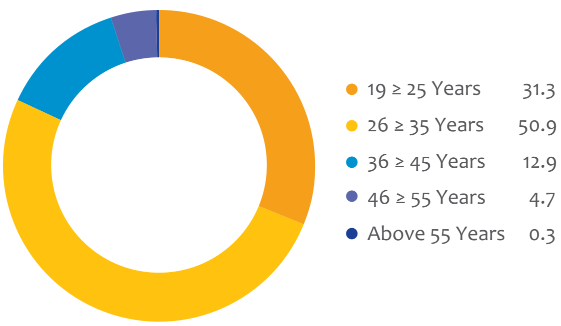
Staff Category	2012					2011	
	Male	Female	Total	Male %	Female %	Male %	Female %
EXCO	8	0	8	100%	0%	86%	14%
Management	59	14	73	81%	19%	82%	18%
Executives	87	39	126	69%	31%	67%	33%
Non-Executives	267	249	516	52%	48%	55%	45%
Total	421	302	723	58%	42%	60%	40%

In terms of staff categories however, it is regrettably noted that the female representation in the 'executive and above' grades is considerably lower when compared with the Company's overall female representation ratio. On a positive note nevertheless, the percentage of female employees in the management grade has improved slightly this year, and through our active HR endeavours we expect to improve these ratios further, across all staff categories, in future.

Age and Service Analysis of Employees

The youth and vibrancy of our Company, amply reflected in all our activities, stems from over 82% of our team being below the age of 35. The team, however, is also well experienced, as indicated by the fact that over one-half of our employees have been with us for over two years while nearly a quarter have been with us for over six years.

Age Analysis of Employees (%)



Age Range	2012 No. of Employees	%	2011 No. of Employees	%
19 ≥ 25 Years	**226**	**31.3%**	237	35.8%
26 ≥ 35 Years	**368**	**50.9%**	315	47.6%
36 ≥ 45 Years	**93**	**12.9%**	87	13.1%
46 ≥ 55 Years	**34**	**4.7%**	21	3.2%
Above 55 Years	**2**	**0.3%**	2	0.3%
Total	**723**	**100.0%**	662	100.0%

Service Range	2012 No. of Employees	%	2011 No. of Employees	%
0 ≥ 2 Years	**300**	**41.5%**	347	52.5%
2 ≥ 4 Years	**152**	**21.0%**	134	20.2%
4 ≥ 6 Years	**106**	**14.7%**	81	12.2%
6 ≥ 8 Years	**73**	**10.1%**	60	9.1%
Above 8 Years	**92**	**12.7%**	40	6.0%
Total	**723**	**100.0%**	662	100.0%

Employees with over 6 years service

23%

of total Employees

Energy is what drives us at HNBA, our staff participating at an outbound training

Training and Development to Enhance Team Quality

We recognise the necessity of continuously improving the quality of our employees to raise the level of value generated by the Company, as it is our belief that the constant search for knowledge and the consequent development of oneself is the only way to survive in the dynamic and fast evolving environment that surrounds us. Hence, we foster a culture of learning, within which employees are consistently encouraged to expand their knowledge horizons.

For this purpose, we follow a policy of making continuous investments in the development of our people, in technical, functional and managerial competencies. The duty of developing their subordinates has been imparted on all management personnel. Accordingly, our objective is to train and develop all employees, from different levels and involved in different functions, not only to enable them to better perform their duties but also to prepare them for future responsibilities.

The significance of this approach was reinforced in the year 2012, when HNBA's annual theme was set as 'sustainable development through continuous learning', and the month of October 2012 was dedicated as 'the month of learning and development'. Many learning and development initiatives including a Career Guidance Day were carried out in line with the theme.

2012 was the year of "sustainable development through continuous learning" at HNBA

Clear Identification and Apt Delivery of Training

At HNBA we follow a five-step process for training;

- Analysing the training need
- Designing training programmes
- Planning and implementation of training
- Evaluating training outcomes
- Monitoring and ensuring transfer of learning

Accordingly, at the initial stage, the management identifies training needs of employees, either taking a holistic view of the Company or as per the specific needs of a division/ branch. Additionally, the bi-annual employee appraisal process also provides the opportunity for the identification of training needs of individual employees, in consultation with the employee himself.

Following the identification of the need, in-house training programmes are designed using internal or external resource persons, as appropriate. Additional opportunities are granted to our employees to participate in external training programmes through which they will not only garner new knowledge, but also recognise new perspectives and build networks with industry peers and professionals. For those employees specially nominated by the senior management, overseas trainings are offered following the adoption of a strict and transparent process of recommendation and approval.

As a mechanism of measuring and enhancing the quality of in-house training programmes conducted, all participants are required to provide an evaluation of each training programme they attend. Further, employees are encouraged to share the knowledge gained through training sessions with their peers at divisional/branch level, which in turn enables the dissemination of knowledge to a larger base within the Company, while fostering mutual learning and reinforcing the level of understanding of the imparter.

As a new initiative, a formal feedback to capture the effectiveness of learning and development processes and the programmes conducted as well as the transformation achieved was carried out at year-end.

Overall, 140 training programmes, including induction and familiarisation programmes, were offered during the year (2011: 173) for a headcount of 2,059 participants (2011: 2,178). In total, 17,848 hours (2011: 14,834) of training were provided for the year, which translates to 25.8 hours of training per employee (2011: 23.4 hours).

Number of Programmes	2012	2011
Internal Training	**46**	36
External Training	**85**	129
Overseas Training	**9**	8

Training Hours Per Employee	2012 Hrs	2011 Hrs
EXCO	**27.56**	32.86
Management	**39.40**	48.11
Executives	**22.60**	44.53
Non- Executives	**28.31**	13.32
All Staff	**25.80**	23.40

Highlights of Our Training and Development Calendar

- Evening lectures and guest lectures were organised at HNBA on varied topics under the guidance of internal and external resource personnel.
- Our staff ranging from junior executives to assistant manager grades participated in a 2 day out-bound professional development training programme organised by Sri Lanka Business Development Centre (SLBDC) at the Dambulu Oya Family Park.
- Annual divisional outdoor training programmes were continued during the year, facilitating the building of camaraderie and sportsmanship among employees.
- Focused trainings were given to all our bancassurance officers, termed as the 'HNBA Dream Team', to enhance their sales orientation and customer service.
- In recognition of the need for trilingual knowledge to enhance customer service, a Tamil language course was arranged at the Head Office for all interested employees.
- The Management Development Pool, consisting of individuals earmarked for future leadership of the Company, received numerous training opportunities under the 'Licence to Lead' programme, which included sessions conducted by international resource persons.
- A year-end survey, focused on assessing the quality of HNBA's training programmes, was conducted with the participation of all employees, and feedback was used to improve the training calendar of 2013.
- The General Insurance Academy continued to discharge its duty by producing 3 batches of employees proficient in the basics of Non - Life Insurance
- A 3-day workshop carried out for the Senior Management Team on capability building and leadership by Ms. Margeretha Alberts, an expert on MBTI profiling, training and coaching from overseas.

HNBA's annual theme was set as 'sustainable development through continuous learning', and the month of October 2012 was dedicated as 'the month of learning and development'.

Spotlight on Miss, Mrs & Mr HNB Assurance


Celebrating religious enlightenment


Many were the talents of our employee that unfolded during the year

Facilitating Personal and Professional Development

HNBA is 'A place where you can shine'. This tagline, carried in all our vacancy advertisements, summarises our HR policy and spells out our emphasis on the overall development of our people. It is our belief that a multi-competent employee possesses an enormous ability to contribute to the value addition process of the Company, and it is exactly this belief that guides our policies of developing individuals professionally as well as personally.

During the year, several impactful programmes were organised, primarily aimed at facilitating the personal and professional development of our employees.

In line with our theme, 'sustainable development through continuous learning', a Career Guidance Day was conducted for all interested employees, where employees were also given the opportunity to undergo an individual guidance session with the EXCO member they are attached to. The high participation rate, from both the Head Office and the branch network, was an indicator that the employees were actively responsive to the Company's offer to enhance their personal and professional development.

As in previous years, HNBA offered many opportunities for our employees to display their vibrant talents. The 'Talent Show' held during the year unleashed a wide array of aesthetic skills of the HNBA team, while the Sports day, organised by the Welfare Society, saw many hidden sporting and other talents unfold. Providing an opportunity for those of our employees who thirst for knowledge of the world around them, an Inter-Divisional/Branch Quiz Competition was conducted during the year, with the participation of employees from all parts of the island.

Further, our employees participated actively at the Vesak Lantern and Bhakthi Gee Competition and the Christmas Card and Christmas Decoration Competition, where they unified with their colleagues in enjoying a break from their routine responsibilities.

In addition to these events, which were organised specifically for the year 2012, the Company also initiated numerous strategies for the personal and professional development of its employees. Accordingly,

- Clear career paths enticing professional development are provided for all employees.
- For those taking professional examinations, duty leave and interest free examination loans are granted, while upon the successful completion of such examinations, the exam fee is reimbursed.
- Honorariums are granted for employees upon successful completion of stipulated professional exams

- The Company pays annual subscriptions to specified professional bodies, on behalf of employees who are members.
- To nourish the intellect of all our team members, we maintain an in-house library, which is upgraded frequently with relevant publications, and provide our employees with membership access to a leading external library as well.

Through all such endeavours, our aim is to provide an optimum opportunity for employees to develop themselves, both professionally and personally, so that they may become true ambassadors of the HNBA brand, increasingly adding value to all our stakeholders.

Rewarding Our Team

We consider rewarding our employees with utmost importance; and such rewards granted to our employees come in both monetary and non-monetary forms.

As a sensible employer, we recognise the necessity of offering lucrative remuneration packages to attract and retain high calibre employees and hence, we remunerate our people keeping at par with the industry, while additional benefits are accrued to employees by virtue of their grade. Further, to be in line with the ever-evolving conditions of the external environment and to ensure that our remuneration packages remain competitive, we conducted a salary survey during the year. Following the revelations obtained from this survey, salaries and benefits of employees will be adjusted in 2013 where appropriate.

As a result of our commitment to designing an attractive and equitable remuneration policy, our minimum wage and salary levels are well above the country's legal requirements; the ratio of our minimum entry-level wage to the legally stipulated minimum wage level stands at 1.67:1. (2011: 1.67:1). Further, we reiterate that we allow no discrimination with regard to remuneration based on gender, race or faith or any other distinction.

When determining the annual salary increments and bonuses, attention is placed on the year-end appraisals of employees, where their performance levels are identified, and recommended increments and promotions are later reviewed and approved by the Remuneration Committee. This process of performance-linked increment/bonus applies to employees of all levels, inclusive of the EXCO.

Retirement benefits available to our employees include the two defined contribution plans denoted under the Employees' Provident Fund Act No. 15 of 1958 (and its subsequent amendments) and the Employees' Trust Fund Act No. 46 of 1980 (and its subsequent amendments). Accordingly, the Company contributes 12% of an employee's basic salary to the Employee Provident Fund (EPF) and 3% of an employee's basic salary to the Employee Trust Fund (ETF) on behalf of each of its employees.

The contributions so made by the Company for the year are duly paid to the relevant authorities and are given below with comparative information for the last year.

Rs. Mn	2012	2011
EPF	28.16	23.84
ETF	7.04	5.96

As per the requirements of the Payment of Gratuity Act No. 12 of 1983, all permanent employees are further entitled to a defined benefit plan, by virtue of which employees, upon the completion of 5 years of service, are entitled to receive a retirement gratuity amounting to half a month's basic salary for each year served at HNBA. The gratuity liability of the Company is valued by a Consultant Actuary (Mr. Hugh Terry - Fellow of the Institute of Actuaries, U.K.) each year, using the Projected Unit Credit (PUC) method, and for 2012, the liability was as follows.

	2012 Rs. 000	2011 Rs. 000
Opening Liability	34,129	25,076
Payments during the financial year	3,155	1,607
Additional Provision made for the year	11,386	10,660
Closing Liability	42,360	34,129

Having identified the true value of our treasured employees, we have made available numerous other benefits to our human capital.

- All employees receive a life insurance cover and a personal accident cover, the sum assured of which depends on the employee's basic salary.
- Employees and their families (spouse and children) are covered under the staff surgical and hospitalisation scheme.
- Employees are also entitled to a critical illness cover.
- Employees in senior grades are allowed the opportunity of obtaining vehicle loans at concessionary interest rates, while all permanent employees who have been in service for a specified period, are eligible for emergency loans, wedding loans and educational loans.

Chairman's Awards winners


Celebrating the Victory - Sports day 2012

- We recognise the need for recreation in maintaining a healthy and motivated workforce, and hence, HNBA offers sports club membership to all employees, which includes the use of a gym, badminton courts and the swimming pool.
- Employees of senior grades are offered the use of a Company maintained holiday bungalow in Digana, to relax with family and friends.
- Leave facilities are offered to employees as per statutory requirements, and include annual leave, casual leave and medical leave. In addition, 84 days of paid maternity leave are available to female employees.

Clear Mechanisms for Performance Evaluation

We recognise that the performance of our valued employees will enable us to achieve our corporate objectives and therefore, we have created a cascading mechanism whereby the objectives of the Company derived from the annual corporate plan trickle down to lower levels and are assigned to the employees whose work is most closely related to the objective.

Accordingly, the aim of our performance evaluation mechanism is to provide clear feedback on the performance of employees, which will in turn determine the extent

"We believe that exemplary performance needs special recognition, and it is based on this belief that seven employees who discharged their duties beyond the call of duty were recognised with the Chairman's Award for Excellence at the Annual Staff Conference 2012."

to which the Company can reach for its own corporate objectives. Hence, continuous evaluations and formal bi-annual evaluations are conducted for all permanent employees by their superiors, to track performance as well as to provide guidance to improve on areas that display shortcomings.

The performance appraisal mechanism assumes further importance, as it assigns a grade for each employee, which in turn acts as the base for salary increments, bonuses and promotions. This formal appraisal process also acts as a forum for the identification of training needs of each employee.

For 2012, 502 employees, which amounts to 100% of the permanent cadre confirmed employees, were appraised. This number is equivalent to 69% of the total cadre (2011: 76% of total cadre). The distribution of performance grades obtained by the appraised staff appears of the next page.

Grade	2012	2011
A	11%	10%
B	20%	20%
C+	47%	46%
C	19%	19%
D	3%	5%

Probationary employees are excluded from the Company's above-mentioned overall performance appraisal mechanism, but are also subjected to two appraisals, one during the middle of their period of probation, and another during the end of such period, in order to assess their eligibility for confirmation.

Recognition of Committed Efforts

We believe that exemplary performance needs special recognition, and it is based on this belief that seven employees who discharged their duties beyond the call of duty were recognised with the Chairman's Award for Excellence at the Annual Staff Conference 2012. It is also customary for us to recognise those members of our staff who have provided continuous loyal service to HNBA, and this year too these awards are scheduled to be presented at a grand ceremony.

It is with great pride we observe that our efforts to develop the qualitative worth of our employees have yielded bountiful returns, with our employees receiving exceptional acclaim going beyond the confines of the Company as well.

Accordingly, during the National Sales Congress (NASCO) 2012 organised by SLIM, two of our employees emerged triumphant;

- Regional Office Territory Category - Silver Award: Mr. A.R.B Salih, Zonal Manager – Southern Zone
- Sales Executive Category - Silver Award Mr. Nalin Weerasinghe, Branch Manager – Colombo West

Further, Mr. Thilan Perera, Manager – HR, won the National Excellence Award for the Performance Management category at the International HR Conference organised by the Institute of Personnel Management, in recognition of his in-depth knowledge as well as his exceptional contribution in the sphere of performance management.

Retaining Our Valued Employees

The staff turnover level is an indicator of employee satisfaction as well as the overall effectiveness of the Company's strategies to retain staff. It is noted with concern that the greatest challenge faced by HNBA with regard to human capital was the high level of staff turnover that prevailed through the year.

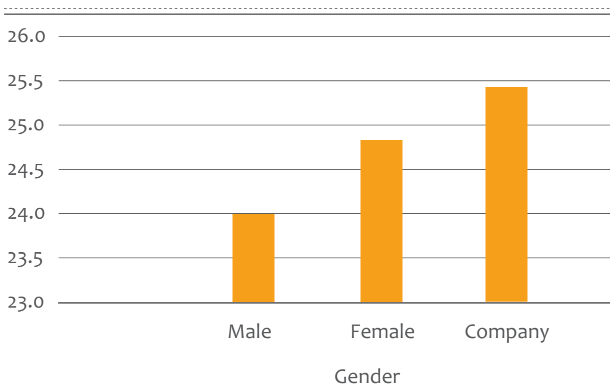
The Company's staff turnover ratio increased to 25% in 2012 from 23% in 2011. Employee turnover is the turnover headcount as a percentage of average employee headcount during the year.

The high caliber of our employees was appreciated at many awards ceremonies during 2012

Staff Turnover by Gender	2012	2011
Male	24.%	21%
Female	25%	23%
Company	25%	23%

The fact that the bancasurance officers positioned at HNB branches, consisting mainly of contract staff, have a significant level of attrition has been a matter of discussion amongst the senior management during the past years. Reasons unearthed with regard to their high turnover levels include, amongst others, their separation from HNBA staff and poor sales orientation. This, in turn, bears a significant effect on the overall turnover rate of HNBA and inflates it considerably. However for 2012, turnover excluding bancassurance officers also shows a considerable increase from the previous year.

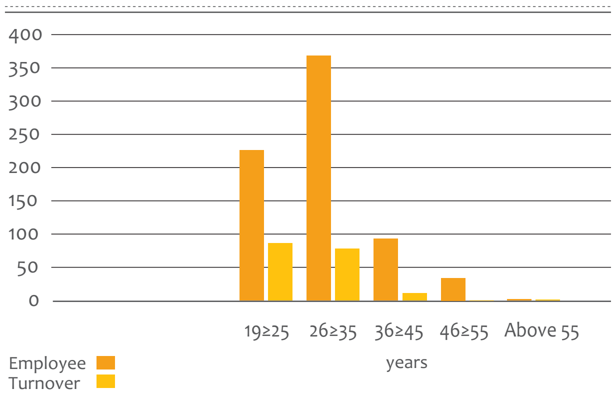
Turnover by Gender (%)



Employee Turnover including and excluding the Bancassurance Channel	2012	2011
Including Bancassurance	25%	23%
Excluding Bancassurance	17%	13%

The same high pattern is apparent in the age analysis of the staff turnover as well. Turnover is highest in the 19-25 years age group which mostly consists of new employees, where typically individuals tend to explore many opportunities before deciding to settle down with a chosen career.

Employee Turnover by Age (Headcount)



Employee Turnover by Age	2012 Employees - headcount	2012 Turnover - headcount	2012 Turnover %	2011 Employees - headcount	2011 Turnover - head ount	2011 Turnover %
19 ≥ 25 Years	226	86	37%	237	81	41%
26 ≥ 35 Years	368	78	23%	315	55	17%
36 ≥ 45 Years	93	11	12%	87	5	6%
46 ≥ 55 Years	34	-	-	21	1	5%
Above 55 Years	2	1	50%	2	1	40%
Total	723	176	25%	662	143	23%

Employee turnover by Grade	2012 Turnover headcount	2012 % of the total Turnover	2011 Turnover headcount	2011 % of the total Turnover
Management	5	2.8%	7	4.9%
Executive	28	15.9%	25	17.5%
Clerical	139	79.0%	108	75.5%
Support	4	2.3%	3	2.1%
Total	176	100%	143	100%

Enjoying the spirit of Christmas

Laughing and having a good time!

On a positive note, the turnover of the management category (Assistant Manager and above grade employees) is only 2.8% of the total turnover compared to 4.9% in 2011 while the contribution to turnover by executive grades has also improved from 17.5% in 2011 to 15.9%. Therefore, it is evident that the high turnover is at clerical grades of the Company where specific actions are being taken to address this issue in the future.

The high level of staff turnover experienced by the Company has been identified as a concern affecting the human capital of HNBA. As disclosed at exit interviews conducted with employees who resigned during the year, the primary reason for such high attrition is the strategies used by new entrants to the industry to attract skilled and experienced staff. Accordingly, we have placed our serious attention on retaining our employees, who we believe have been nurtured to the highest quality, and hence, several initiatives have been embarked upon for this purpose.

- A salary survey was conducted during the year and salary scales have been adjusted where appropriate, to become effective from January 2013.
- Special training programmes were designed for managers in areas such as people management skills and relationship building, so that the rapport between managers and employees may be improved further.
- Special focus is placed on maintaining a strong relationship with and among staff through MD's Forums, Branch Communication Meetings conducted by HR, etc., so that they will enjoy a congenial atmosphere at the workplace.

Succession Planning: For the Future

We at HNBA consider succession planning as a fundamental component of our long-term HR strategy, which will enable us to maintain the continuity of our operations and processes. Hence, successors have been identified for all managerial positions, in order to ensure a smooth transition should a managerial position fall vacant unexpectedly. These earmarked individuals receive focused and customised training, which will assist them in building management and technical capabilities necessary for their future roles.

In addition to these targeted individuals, the Company intends to build a strong and able talent pool of talent with high potential, which led to the creation of a Management Development Pool for the second tier and an Executive Development Pool for the third tier of employees. Promising and capable individuals from each tier are identified and selected to the two pools accordingly, and are given comprehensive training opportunities to develop their skills and capabilities.

Preserving Employee Health, Safety and Welfare

We recognise the importance of upgrading the health conditions of our employees, to enable them to perform their tasks efficiently and effectively. Hence, we strive to provide them with a safe and pleasant work environment as well as all possible facilities to improve their health conditions.

For this end, we have established staff medical schemes and during the year we arranged basic medical check-ups and wellness seminars for all employees at the Head Office. Further, first aid boxes are placed in all divisions/

main branches of the Company and First Aid Committees, consisting of employees representing all divisions, were appointed and granted necessary training continuously.

In order to enhance the safety of the working environment, an emergency evacuation procedure was introduced and a special training on fire and emergency response was given to all Head Office employees by an external resource person. Regular emergency evacuation drills are conducted so that the employees will be prepared to act in an appropriate manner should an emergency arise.

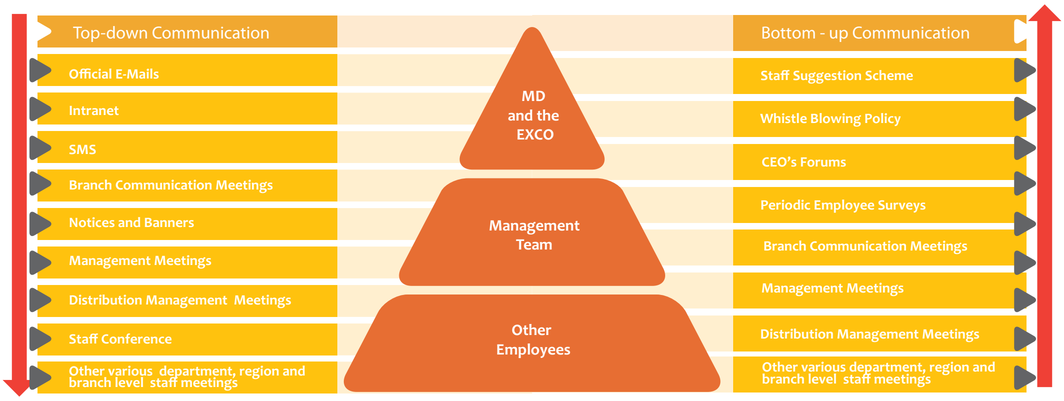
The Welfare Society of HNBA is the gathering point for all employees, and provides ample opportunities for the employees to gather and enjoy. During the year, as with the previous years, many recreational activities were organised by the Welfare Society for the pleasure of its members, and all employees at HNBA are encouraged to join the Welfare Society, which grants them plentiful benefits, both in their life's good times and bad.

Congenial Culture and Effective Communication

At HNBA, we endeavour to maintain an open and friendly culture, where the prime focus is placed on continuous learning and development. Unity is strengthened by reciting the Company's anthem across the Company at the start of each day and employees are expected to uphold our five core values (given on page 2) at all times.

With regard to communication across levels, we maintain an open-door culture, where any employee can directly access any manager, EXCO member or even the Managing Director. The channelling of communication happens both in the top-down form and the bottom-up form.

Further, HNBA welcomes employee suggestions, and such suggestions will be evaluated by the Suggestions Committee to be considered and accommodated in the processes of policy development and strategy formulation.



Dealing with Resignations, Terminations and Transfers

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

Upon resignation, all employees are required to participate in an exit interview conducted by HR; the information gathered at the exit interview will be used for the betterment of the Company's HR policies and procedures, as well as to identify areas in need of improvement. The Company may terminate the service of an employee due to reasons specified in the Manual, but will follow the set procedure fairly and equitably.

Handling Grievances and Safeguarding Human Rights

At HNBA, we operate under a clearly documented policy on grievance handling, aiming to create a fair and amiable work environment within which employees are kept inspired and motivated. We welcome employees to come forward with their grievances, so that we will be able to provide them with adequate and appropriate solutions. We guarantee that no employee will be subjected to adverse treatment by participating in the grievance procedure.

During the year, we strictly adhered to the grievance procedure, and no cases of discrimination based on gender, race, faith or any other distinction were reported.

We believe that we are also obligated to uphold human rights in our workplace and in all our dealings, and hence careful attention is placed on this aspect at all levels of operation. Accordingly, no forced or compulsory labour took place during the year and all our recruits are above the age of 18. No cases of violation of human rights were reported during the year.

Compliance with Laws and Adherence with Anti-Corruption Procedures

At HNBA, we strongly maintain maximum adherence to all laws applicable within the jurisdiction of Sri Lanka. Our senior management, along with the Human Resource, Legal and Internal Control and Compliance Departments maintain strict vigilance in this regard, and hence no fines, monetary or otherwise, were levied upon us for non-compliance with laws and regulations during the year 2012. Further, we fully avoid engaging in anti-competitive, anti-trust and monopoly practices and accordingly, no legal actions were maintained against us during the year for such reasons.

While the Company maintains strict compliance with laws and regulations, the employees are also expected to maintain strict adherence with the following policies which are clearly communicated and made available to all staff through the Company's intranet.

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

Our Staff Handbook and Code of Ethics, the need to comply with which is notified to each new recruit, spell out the desired behaviour of our employees including the need to abstain from corruption. The Whistle-Blowing Policy that is in place allows employees to bring any corruption issues to the notice of the management under the guarantee of confidentiality and of not being subjected to discrimination.

All our employees have been made aware of and trained on the Company's anti-corruption procedures, while all our business units have been analysed for risks related to corruption. No material incidents of fraud with regard to employees were recorded during the year, and no court cases are reported.

We actively participate in public policy development and lobbying through the Insurance Association of Sri Lanka, the Ceylon Chamber of Commerce and the Institute of Chartered Accountants of Sri Lanka.

We have not made any contribution to political parties, politicians or related institutions, in cash or kind, and we have received no financial assistance from the government.

Challenges Faced

In terms of human capital, the key challenge faced by the Company during the year was the retention of employees amidst the increased number of new players in the insurance industry and their strategies to attract skilled staff from established, well regarded companies. Our response to this challenge is explained in 'Retaining Our Valued Employees' on page 102 of this report.

The other key challenge we have identified is that lower numbers of individuals are attracted to work in the insurance industry, while banks and financial institutions receive first preference due to their perceived lucrativeness. We, as a responsible player of the Sri Lankan insurance industry, have recognised this as a threat required to be mitigated and hence, we participated, both individually and as an industry through the IASL, in various career fairs and campaigns to raise awareness amongst students of Sri Lankan universities and other prospects.

Future Outlook

Amidst those challenges, a positive outlook on all aspects of HR at HNBA is clearly visible. The HR Department has already made the primary evaluations for automating certain operational work which will add value to the Company as well as employees. With the green concept, HR Department intends to forge ahead using technology as well as other e-based mechanisms for its processes.

A more critical evaluation will be incorporated for focused training and development opportunities, thus ensuring the enhancement of both the proficiency level and skills of employees across the Company.

Employee engagement activities such as the unique series of branch communication meetings will play a major role in sustaining the motivation levels of employees whilst enhancing the productivity and reducing high turnover rates.

The expansion of the insurance industry and establishment of new insurance companies will have mixed impacts to the Company. Whilst the expansion is seen as a positive sign for attracting good talent to the field of insurance, necessary precautionary measures will have to be taken in retaining the key talent within the Company.

We also strive to identify and implement emerging trends in people management and best HR practices across the globe with a special emphasis on industry and sub-continent. We believe that through these initiatives our employees will have unique opportunities to develop themselves along with the Company in the years to come.

HR is keen on strengthening the business partner role they play at present, thus making a key contribution to the business by having an employee cadre which is second to none and which will complement the employee value proposition of "A place where you can shine".

Reaping Mutual Benefits: Business Partners Review

Winning Partnerships

The success of our business, our ability to reach great heights, depends significantly on the winning partnerships we form and maintain with our valued business partners. They are a crucial component of our value chain and the effectiveness and efficiency of our mutual relationships determines the extent of value we generate to all our stakeholders. The synergies we receive through our business partnerships give us an edge over our competitors, and hence form an important part of our unique competitive advantage.

After careful perusal of all our business transactions, we have identified the following groups as our key business partners.

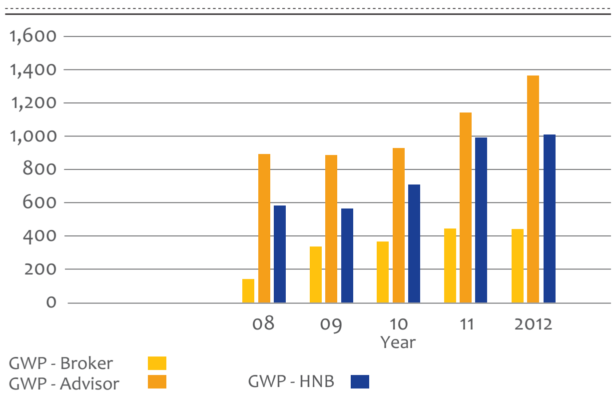
- Insurance Advisors
- Insurance Brokers
- HNB Group
- Reinsurers
- Other Suppliers

Our Strategy towards Business Partners

Our valued business partners form our relationship capital, which, together with other forms of capital, enhance the operation of our business model. It is in the success and quality of our relationship capital that the success and quality of our business model depends, and our experience in the insurance industry during the past eleven years amidst cut-throat competition has taught us the high level of importance that must be placed on such relationships.

We are well aware of the vitality of long term synergies that can provide us with a significant edge over other players in the industry and we know that such synergies are only obtained through mutually satisfactory long term affiliations. Hence, in all our dealings with our business partners, we strive to achieve a win-win position, where both parties are satisfied and both parties would prefer to engage with each other on a long term basis.

Major Business Partners' contribution to total GWP (Rs. Mn.)



Further, we take maximum efforts to ensure that all our relationships are guided not only by the relevant external regulations, but also by the internal policies and procedures in place. Accordingly, we have affirmed engagement guidelines, agreements and qualifying criteria to ensure a smooth understanding between parties in all our dealings. We also consider with high regard the ethics of all our business partners, in order to ensure that the ethical practices we abide by remain unblemished by our association with any party.

Insurance Advisors

Our dynamic advisor force, consisting of 1,643 members by the year end (2011: 1,451), has continuously driven our sales, while enabling us to reach our customers and satisfy their diverse needs. They are a core component of our overall performance, as portrayed in the enormity of their contribution to our business, having accounted for 42% of our total GWP in 2012 (2011: 32%). Their contribution is particularly significant in respect of Life Insurance where they generate 78% (2011: 75%) of the business.

We consider the development and maintenance of a productive and customer-oriented advisor force to be of essential value in keeping close connectivity with our customers. Being the key bearer of the HNBA image to most of our customers, they have a strong role to play within our business model, and hence we ensure that a careful screening process is followed in their recruitment. Accordingly, in addition to mandating a service letter from the previous employer, we also require them to possess;

- A pass in the Technical Competence Course in Life Insurance for Life Insurance Advisors
- A pass in Technical Competence Course in Non - Life Insurance for Non - Life Insurance Advisors

Having identified the necessity of building greater proximity with our customers through our advisors, we started a process of recruiting advisors from diverse geographical areas during the year. For this purpose we conducted eleven recruitment campaigns in different areas of the country, in addition to the standard recruitment programmes.

About Us | Management Discussion | Approaching Sustainability | Corporate Governance | Financial Information


Our talent recognised at an international platform, MDRT 2012


Our advisors' efforts are duly recognised


We consistently encourage our advisors to develop professionally

We place significant emphasis on developing an attractive career path for our advisors, and accordingly, we have created a mechanism whereby their performance, individually and as a team, behavioural attributes, leadership skills and commitment can lead them to the senior management of the Company. The effectiveness of this mechanism is observed in the fact that 6% of our branch managers have graduated to their current positions after having launched their careers as advisors - in the year 2012 alone 101 promotions were granted to our advisors with a view to upgrading their careers.

Developing Our Advisor Force

We acknowledge the ability of our advisors to contribute immensely to our value chain and we believe that developing them will lead to a further enhancement of our business relationship. Hence, we place high priority on the training and development of our advisors, and comprehensive training programmes covering a variety of areas are conducted for this purpose by our Sales Training and Development Department under a well-planned training calendar.

Internal training programmes are conducted by our highly qualified and experienced in-house trainers, who numbered 5 by the year end. During 2012, we successfully conducted 156 such in-house training programmes (2011: 172), with the view of enhancing the skills and competencies of our advisors. Of these 156, 111 were conducted in the Sinhala medium while 45 were in the Tamil medium. In addition, our advisors also received the opportunity of being trained under the guidance of Dr Shantha Yahampath, a renowned trainer and a lecturer at many universities in Australia.

One of our prime achievements in terms of our sales team during 2012 was the qualification of 4 advisors (2011:3 advisors) to participate at the prestigious Million Dollar Round Table (MDRT) programme, which is the highest recognition a sales professional can ever receive. One of our advisors also received the opportunity to participate in the MDRT Experience programme, which was held in Thailand.

With regard to encouraging our advisors to obtain professional qualifications, it is with great pride we observe that HNBA is the only insurer who has established an alliance with the Sri Lanka Institute of Marketing (SLIM), through which we have enabled our advisors to follow the Preliminary Certificate in Marketing, which also paves the way to the Post Graduate Diploma in Marketing. Additionally, our advisors have also been encouraged to follow the Diploma in Professional Selling, also conducted by SLIM. During the year, 17 of our advisors completed the Diploma in Professional Selling, while 63 completed the Preliminary Certificate in Marketing.

Furthering our efforts in developing our advisor force, in 2012 we finalised a partnership with the London Centre of Marketing, a well-recognised deliverer of qualifications in marketing and management, providing a tremendous opportunity for our advisors to obtain an internationally recognised qualification. Obtaining such well-recognised qualifications serves as a solid foundation for the professional careers of our advisors, which in turn will improve the qualitative worth of their services rendered, both to us and to our customers. It is joyously observed that as of December 2012, 13% of our advisors possessed professional qualifications in the area of sales.

Reflecting that our attempts at developing our advisor force have been productive, for the second consecutive year, the outstanding performance of our sales persons was recognised at the National Sales Congress (NASCO) 2012 organised by SLIM. Accordingly, Ms. U K K C Silva, Senior Financial Advisor attached to the Colombo North zone won the Gold Award under the Front Liners Category.

Enhancing Professionalism

Professionalism is a key feature we seek to imprint upon our advisor force. The importance of professionalism is mainly derived from the fact that the advisors are sometimes the only route for our customers to assess the professionalism of the entire Company. The image portrayed by the advisor will be instilled in the minds of our customers as the image of the Company – and we need to ensure that it is positive. For this purpose, we continuously encourage our advisors to improve their professional behavioural traits.

We place rigorous attention on ensuring that our advisors behave professionally in all their interactions. Such attention is significant as 'meeting insurance needs professionally with a spirit of caring' is a part and parcel of our vision. We believe that integrity and professionalism go hand in hand and thus we take maximum effort to eliminate misconduct and misappropriation by any of our advisors. All reported incidents are investigated immediately and impartially and justice is granted to affected parties at the earliest. Where allegations are proven, the services of the advisor are terminated immediately and is updated on the industry's website maintained by the Insurance Association of Sri Lanka (IASL) while other authorities concerned are also informed.

Building Camaraderie

Our focus on developing the advisor force takes an exhaustive view, which takes in to consideration not only their knowledge, but also their overall development, including recreation and interaction. Throughout the year we conducted numerous activities to enable advisors to interact with each other and to enjoy fellowship activities organised at branch-level, along with their families.

Further, intent on the overall development of our advisor force and to guide them to remain competent in this highly competitive environment, we organised the National Advisor Quiz Competition for the 4th consecutive year, which saw 60 advisors from all regions competing actively to improve their knowledge with a spirit of camaraderie. "Knowledge Star", another competition focusing on the members of the field management, was also conducted during the year, and the winners were recognised at the Sales Convention held in December.

Recognising Efforts

We are constantly aware of the enormous contribution of our advisors for the growth of the Company, and we take steps to ensure that such contributions never go unrewarded.

The key form of monetary reward our advisors receive is the commission, and therefore, we have taken steps to ensure that they receive highly lucrative commission rates for their efforts, while of course, keeping within the regulatory parameters we operate in.

Our annual Sales Convention is the key event where we celebrate the great achievements of the sales force and the staff, and this year, the Sales Convention saw more than 250 advisors participating, all of whom were invited in recognition of their superlative performance. The top performers were recognised with monetary rewards.

In marking a landmark in the annals of HNBA, we held our first ever International Sales Convention in Thailand in 2012, with the participation of over 150 top performing sales advisors. At this glamorous event, members of the sales force who have rendered their services to HNBA for more than 5 years and those who surpassed their performance targets, were recognised. The success of our long term business relationships was amply portrayed in us being able to recognise one member of our advisor force for having rendered 10 years' of dedication to HNBA while another 35 members were appreciated for their committed service of 5 years.

This year too our advisors were given the opportunity to participate in a foreign tour, and 188 of our best performing advisors, along with their families, participated in this annual trip as a recognition of their outstanding performance.

At HNBA, the welfare of our advisors is given due consideration, for which objective we have established life and surgical insurance schemes. Additionally, they are also entitled to a terminal benefit scheme comprising contributions from the advisor and the Company. Our advisors have also been given the option of obtaining loan facilities from the Company, and the ability to obtain the commission in advance, with two weeks' notice.

Brokers

Our network of insurance brokers continued to play a pivotal role within the value generation process of our business model, and on an overall basis the 49 insurance brokers contributed 14% to the total GWP of HNBA in 2012 (2011: 15%). It is in recognition of this tremendous support that we strive to maintain a strategic partnership with them, where both parties may agree on mutually value adding solutions.

Adhering to the regulations that bind us, steps are taken to ensure that we deal only with brokers who are registered at the IBSL. Once such registered brokers have been included in our broker network, we strive to maintain a harmonious relationship with them. Accordingly during the year we conducted 2 training programmes to sharpen the knowledge and competencies of our brokers, one aimed at covering various aspects of the insurance industry and the other to disseminate information regarding our new products.

With a view to improving the interaction and sportsmanship of our brokers, this year too we conducted the Beach Rugby Fiesta at the Mount Lavinia beach, where 6 teams participated. Further, the six-a-side cricket tournament organised for the brokers by the Company for the first time also proved to be a success.

Another joyous event for our brokers – Beach Rugby Fiesta

"Being a subsidiary of one of Sri Lanka's leading commercial banks contributed immensely towards the sharpening of our competitive advantage"

Partnering with HNB...

HNB Group

Being a subsidiary of one of Sri Lanka's leading commercial banks contributed immensely towards the sharpening of our competitive advantage, and our bancassurance channel is one key aspect where this edge above our competitors is clearly apparent. Under the bancassurance channel, we have the opportunity to place our officers in HNB branches, by virtue of which we have the ability to attract the customer base of our parent. This channel has performed exceptionally during its short period of existence and the excellent relationship we possess with our parent works as the cornerstone of such success.

The considerable contribution of HNB to the performance of our value chain has made us aware of the numerous benefits that can be accrued to HNB as well as HNBA through this venture. Hence, at all times we place our maximum efforts on managing a healthy partnership with HNB. In order to strengthen this bond, we recognise the contribution of the employees of HNB through incentives and recognitions at mid-year and year-end award ceremonies. Further, we sponsor some of HNB's events such as their branch level sports days and branch level outings, and in order to improve their knowledge of our products, we also conduct trainings on our business and our products for the HNB branch managers, as per their request.

Reinsurers

Being an insurer, our core business is to accept the risks faced by economic agents in return for a premium. The sustainability of our business in turn lies on the strength of the panel of reinsurers we deal with, and hence, we recognise that the pillar of strength backing our acceptance of risks is our panel of reinsurers.

Since we recognise that financial stability is a key performance indicator of a reinsurer, our policy with regard to reinsurers is to only engage with those who possess a financial strength rating of A- and above from Standard and Poor or the equivalent rating from AM Best. Additionally, we also place due attention on their financial soundness, service standards and reputation in the industry.

In all our dealings with reinsurers, we ensure the maintenance of the highest degree of professionalism and integrity. Further, we have frequently received the opportunity to be trained by these world renowned reinsurers, and the knowledge so gained has been utilised in many of our processes and products.

Reinsurer	Rating	Rating Agency
Munich Reinsurance Company	A+	A.M. Best
General Insurance Corporation of India	A-	A.M. Best
Trust International Insurance & Reinsurance Co.	A-	A.M. Best
Malaysian Reinsurance Berhad	A-	A.M. Best
Labuan Reinsurance (L) Ltd	A-	A.M. Best
Toa Reinsurance Company Limited	A+	Standard & Poor's
Mitsui Sumitomo Insurance Company Limited	AA	Standard & Poor's
National Insurance Trust Fund	-	Fully owned by Government of Sri Lanka
Korean Reinsurance Company	A-	Standard & Poor's
Arab Insurance Group	B++	A.M. Best

> **"Our strategic relationships place our customers at an advantage, enabling them to obtain high quality and value-for-money services. Being the insurer, we consider it our responsibility to regularly map their service standards with our internal quality standards, and thus we conduct constant inspections and random visits, to ensure that our customers receive nothing less than the best..."**

Other Suppliers

As with the other groups of business partners we have recognised, we believe that our other suppliers can also contribute significantly to enhance the value generation process of our business model. Hence, we place considerable attention on screening and selecting suppliers with whom to deal, for their activities have a strong bearing on our overall performance. Accordingly, all suppliers are required to register with us and, prior to registration, we conduct rigorous checks regarding their eligibility, including the exploration of areas such as quality, reliability, ethical standards, after sales service and value for money, while also obtaining reference checks from parties they have dealt with before.

Claim assessors, the first to reach our customers in the unfortunate event of an accident, are an essential element in our supply chain, and the network of claim assessors consisted of 112 well-qualified and experienced members who operate on a free-lance basis, by the year end. For the purpose of guaranteeing an efficient and prompt service for our customers at one of their most critical times in need, we carefully groom all our assessors by investing in their training and development.

Accordingly, all our assessors are constantly provided technical training by our in-house trainers, whilst they have also been granted access to the latest technological devices. Our assessors have access to camera phones, using which they can instantly upload photographs and information regarding the accident to our system, in turn enhancing the efficiency of services delivered to our valued customers. In 2012 we granted 39 camera phones to our assessors to reinforce the use of this technology. Further, as an initiative to strengthen our service, we took steps in 2012 to locate two in-house motor claims units at our Ratnapura and Anuradhapura branches.

As another important component of our supplier network, we have established relationships with 70 garages for Motor Insurance purposes (2011:56), and with 119 laboratories and hospitals (2011:141) for Life Insurance purposes, by 2012. These strategic relationships place our customers at an advantage, enabling them to obtain high quality and value-for-money services. Being the insurer, we consider it our responsibility to regularly map their service standards with our internal quality standards, and thus we conduct constant inspections and random visits, to ensure that our customers receive nothing less than the best.

Stepping towards a New Year

During a short but stable period of existence, we have realised the full potential of our business partners in assisting us to reach our goals; and as the fierce competition in the insurance industry intensifies, we are more than ever aware of the strategic advantage afforded to us by our valued business partners. Stepping in to our twelfth year of operations, we believe that further measures could be embarked upon to strengthen this reciprocal bond we share. Hence, in the coming year and the years ahead, we will continue to support our business partners, and strive to unearth ways to take our relationships to a higher level.

As a Responsible Corporate Citizen: Community Review

Recognising Our Duty towards the Community

We at HNBA acknowledge that our activities can generate immense value for the community within which we operate, whether in assisting those in need, encouraging generous activities or enhancing awareness regarding socially important topics. Hence, throughout our journey, we have been unceasingly committed towards such endeavours, which have in turn enabled us to reach the very pulse of the people. The treasured relationships thus built, form the basis of the mutual association between us and the diverse segments of the society. We recognise this association as the key factor underlying our success - for the community has directed us towards our great performance levels, while blessing us with their utmost respect. Thus, we take great pride in calling ourselves a responsible corporate entity; we are proud, because this is not merely a tagline used for our fame, but rather a result of our efforts to serve our community, our people, in whatever way possible.

Our Strategy towards the Community

Our strategy with regard to the community is simple: make use of every opportunity to 'do good' – and hence, we are constantly on the lookout for where our support is needed.

Although our core business model revolves around the delivery of insurance services, we in no way consider our responsibility towards the community as an ancillary component of our business. Through our experiences, we have come to realise that promoting the wellbeing of our community translates itself to an enhancement of our own business model, for our community forms the social capital of our business – the social license under which we operate. Hence, we endeavour to continuously enhance the value generated through social capital, for us, the Company, as well as the community, our counterpart, and our performance in this regard can be identified through the KPI's appearing on pages 50 to 51.

Our Dedicated Endeavours towards the Community

A Fountain for Life

Despite the large scale development activities taking place, many areas of the country are yet to achieve access to clean water, a basic necessity for the survival of all living beings. For a number of years therefore, our focused attention has been placed on improving water accessibility throughout the island, especially for our children, the future of our beloved country.

Clean Water

Over the years, we have listened to the pleas of many schools that grieve due to insufficient access to clean water, and in continuation of our noble and determined efforts, this year too we assisted Five schools in remote areas of the country, in quenching the thirst of their needy students.

Over the years, we have listened to the pleas of many schools that grieve due to insufficient access to clean water, and in continuation of our determined efforts, this year too we assisted five schools in remote areas of the country, in quenching the thirst of their needy students.

One such school which benefited from our endeavours was Weeraba Vidyalaya, Konkatuwa in the Ratnapura District, with a student population of nearly 500 students and a staff of 28 teachers. We noted with disappointment that despite being the main school in the area, this school had been denied adequate water facilities for over 50 years. Diyapota Vidyalaya, Embilipitiya, educating almost 135 students was facing a similar problem.

Iyankerny Tamil Vidyalaya located in Chenkaladi in the Batticaloa District, being the school of approximately 550 students from low income families, is another rural school which struggled due to its limited access to clean water. Serana Vidyalaya, Mahiyanganaya, the educational institution for 269 students, and Athumalpitiya Vidyalaya in Polonnaruwa were also happy recipients of our efforts to provide access to clean water.

Our efforts in establishing proper water systems capable of delivering purified water have brought forth much joy to these students, resolving a problem that had persisted for many years. We are humbly proud of our efforts to bring a smile to their faces, and we are determined to continue these endeavours through the coming year as well.

Encouraging the talents of differently-abled in the community

We brought a smile to their little faces with a drop of clean water

Drive for Wisdom

We are well aware that the child today is the forerunner in the future world, and hence, we consider it our obligation to build a nurturing environment for our children. In order to create an environment conducive to the development of our youngsters, we embarked upon numerous endeavours through the year.

In continuation of our commitment to promote the talents of the younger generation, we offered our sponsorship for the 67th UN Day Celebration for the 7th consecutive year. This annual event, which aims to generate enthusiasm for learning by giving equal opportunities for students from both rural and urban areas to participate in speech, essay and quiz competitions, enabled the youngsters to demonstrate their talents and to use their creativity for the betterment of all. Further, we made a contribution to the Department of Economics of the University of Colombo to establish a website to promote the National Economic Research Conference conducted by them in December 2012.

We believe that knowledge garnered from books alone does not develop a perfect citizen, and it was this belief that prompted us to donate musical instruments to the eastern band of Sri Deerananda Maha Vidyalaya in Galle, whose students now have the ability to sharpen their musical talents. Our robust efforts in mounting young entrepreneurship are also mirrored in the assistance given to Yashodharadevi Balika Vidyalaya, Gampaha to establish a company under the Young Entrepreneurs Sri Lanka (YESL) Project, which was viewed as an initial step for the furtherance of entrepreneurial activities amongst the younger generation of Sri Lanka.

It is our firm belief that differently-abled members should have equal rights to live in our society, and therefore we donated educational equipment for Mahawewa Siviraja Special School in Puttalam, which caters to deaf and blind students in the area.

Uplifting Sports

Having recognised the importance of sporting activities in forming well-disciplined and healthy citizens, we extended our support for the upliftment of sports in numerous ways throughout the year.

In a heartwarming gesture, we helped the national deaf cricket team to participate in the Asia Cup Cricket Tournament organised by the Asia Deaf Cricket Federation. Moreover, our patronage encouraged other members of the society to also make contributions in numerous ways, and this collective effort ultimately paved the way for an international victory honoring our motherland, when the team emerged as runners-up at the tournament.

Making our contribution to another noble cause, we sponsored the six-a-side cricket tournament organised by the Colours of Courage Trust Guarantee Limited, in aid of the Surgical Intensive Care Unit at the National Cancer Institute, Maharagama. Our sponsorship was also granted for a cricket tournament organised by the Old Boys Association of Prince of Wales College, Moratuwa and for a swimming competition organised by Lyceum International School, Nugegoda.

Enriching Welfare

The annual blood donation campaign organised by our employees, has received much praise throughout the years, and this year, we successfully conducted this endeavour for the 7th consecutive occasion. Our passion for enhancing the worthiness of human life received enthusiastic support from many parties, including the valuable contribution of more than 184 blood donors.

In order to promote health, we also extended our helping hand to the Medical Camp organised by the Old Pupils Association of Dharmashoka College in Ambalangoda, where a large number of residents in the area received free medical consultations with qualified doctors. Further, focusing our attention on the welfare of its patients, we donated water purifying units to the Meegalawa Hospital in Kurunegala. Not forgetting to extend our support to the elderly members of our society, we offered a sponsorship for the Elders' Day celebrations at the Bolawalana Senior Citizens' Association in Negombo, where dry rations were distributed for the members of the association.

Inspiring Arts and Culture

Within each human being there lies a concealed aspiration for creativity - the value of human life can be heightened through the profound awareness of arts and culture. It is in understanding of the spiritual blend between humans and the arts that we have embarked upon many ventures for endorsing cultural and entertainment activities. Accordingly, during the year we sponsored the "Pahasara" Arts Festival, the annual event organised by the Pahasara Sansadaya, Thawalama, in the Galle District, which aims to develop the appreciation of arts among students of the area while also providing an opportunity to experience classical entertainment. Further, to advocate the appreciation of music, we offered sponsorship for the "Saumya Rathriya" musical show organised by the Welfare Society of Airport and Aviation Service (Sri Lanka) Limited. The Welfare Society of HNBA also contributed towards uplifting arts and culture when they organised 'Thala', a dancing concert presented by the Channa Upuli Performing Arts Foundation, where dances and acts from multiple cultures were displayed for the entertainment of a discerning audience.

Our efforts for uplifting the quality of human life reaped dividends for the community

Enhancing the worthiness of human lives

Helping children with diverse talents

An elegant performance at 'Thala'

Many were our attempts to appreciate arts & culture

Future Efforts in Aiding Our Community

We are well aware that there are many people around us who deserve our support, and as a responsible corporate entity, it is our passion to support them. In the coming years too, we will continue to be driven by this passion as we embark on numerous projects to support our community. A key component of our future plan is to expand our water supply projects, as we have done in the previous years, for we realise the burdens experienced by our school children due to limited access to clean water. Additionally, we will also strive to extend our helping hand for the furtherance of sports, arts and culture, for we recognise their necessity in building complete human beings.

Supporting Our Surroundings: Environment Review

Mother Nature Needs Protection

We derive sustenance from our Mother Nature, and Mother Nature in return pleads that we do her no harm. It is our recognition therefore that sustaining our environment will result in sustenance for the planet and as corporate citizens we have a greater responsibility in this regard, for our actions can potentially impact the eco-system on a larger scale, while further, we have the ability, financial and otherwise, to rectify the impact of any adversity on our planet. It is exactly this understanding that drives our endeavours towards preserving the quality of our environs.

Our Strategy on the Environment

The environment around us forms the natural capital that enhances the value generation process of our business, and in turn this natural capital is affected by the activities we engage in. Although, being a service provider, our extraction of or impact upon natural resources may be lower than those of a manufacturing organisation, we take maximum efforts to ensure that in all our actions, any adverse imprints on the environment are minimised when and where ever possible.

We believe that our responsibility towards the environment goes beyond the realm of black and white legal codes. Rather, it is our consideration that our commitment towards the environment should stem from the very core of our corporate citizenship, and that in all our actions, significant or minute, our commitment towards maintaining the sustainability of the environment should be reflected. Due to our commitment, no fines, monetary or otherwise, have been imposed upon us during the year, for non-compliance with environmental laws and regulations, and no court cases have been initiated against us for the same reason.

Further, we also endeavour to enhance awareness amongst the general public regarding the vitality of preserving our environs.

A Greener Work Place

It is with great pride we notice that the initial steps embarked upon by us over the past few years have now led to a vast revolution within our workplace, converting it to a greener environment. These steps are continuously enhanced while introducing newer steps in order to further minimise any adverse impacts on the environment through our operations.

Accordingly, our employees are fully aware of the significance of saving energy and protecting the environment, both as a company and on an individual scale. They are encouraged to improve the efficiency of their work with the objective of eliminating the wastage of energy, and extensive trainings on environmental preservation are regularly conducted at the workplace. All unnecessary lights and air conditioners are switched off after working hours, while transportation of staff after hours and vehicle usage are vigilantly monitored in order to ensure optimum fuel efficiency.

Continuing our efforts of previous years, we have replaced 18 desktop computers with laptop computers as an energy saving measure, while 55 energy efficient LCD-screen monitors replaced the high energy-consuming CRT monitors. Additionally, 14 virtual PC's were implemented in place of physical PC's, in furthering the objective of achieving greater energy efficiency.

Energy Saving Initiatives	2009	2010	2011	2012
No. of laptop computers purchased	21	16	21	**18**
No. of flat screen computers purchased	57	68	75	**55**
No. of SMS based services	6	12	21	**31**
Server virtualisations	10	17	25	**32**

All dot-matrix printers have been replaced with laser printers, with the objective of reducing noise pollution. Further, the introduction of central UPS at the Head Office, Colombo South branch and Jaffna branch, has enabled the energy efficiency levels to develop significantly.

Following all such endeavours, it is with delight that we mention the achievement of a considerable reduction in our power usage over the years. Energy savings due to replacements via LCDs is estimated at 425.92 kW/h for 2012 or 1.53 GJ (2011:623 kW/h or 2.3 GJ). Energy consumption at the Head Office, which is our indirect energy consumption, stood at 561,779 kW/h in 2012, which converts to 2,022.40 GJ. (2011: 574,003 kW/h or 2,066.40 GJ).

Energy for our operations is sourced from the national grid of the Ceylon Electricity Board, which is the country's main electricity supplier. According to the provisional data released by the Central Bank of Sri Lanka, during 2012, 40% of the total electricity generated by the national grid used renewable energy sources (hydro and wind power), while 60% was generated using thermal power, which is a non-renewable source of energy. The Central Bank of Sri Lanka also declares that the contribution of renewable energy sources to the generation of electricity via the national grid declined from 64% in 2011 to 40% in 2012, due to the severe droughts experienced by the country during 2012.

In line with these figures, it is observed that out of the 2,022.40 GJ used by us in 2012, 1,219 GJ were generated using non-renewable energy sources, while 803 GJ were generated using renewable energy sources. Comparative figures appear in the below table.

Indirect Energy Consumption by HNBA		2012 GJ		2011 GJ
Total Energy Used		**2,022.40**		2,066.41
Non-Renewable	**60%**	**1,218.99**	36%	748.71
Renewable	**40%**	**803.42**	64%	1,317.70

Promoting a Paperless Environment

> **The application of new methods of internal communication with the assistance of improved technology has enabled the furtherance of this initiative - text messages and e-mails are used as internal communication methods wherever possible, and hard copies are obtained only where it is absolutely necessary.**

Our endeavours from previous years for the minimisation of paper usage followed on to 2012 as well. Accordingly, for internal documentation purposes envelopes are re-used and both sides of paper are used. Further, the application of new methods of internal communication with the assistance of improved technology has enabled the furtherance of this initiative - text messages and e-mails are used as internal communication methods wherever possible, and hard copies are obtained only where it is absolutely necessary.

The practice of scanning and storing documents in soft form, which was initiated in the Life Insurance Division in 2011, was extended to the Non-Motor and Motor Departments during 2012. This process of e-documentation has yielded favourable results, both by reducing the paper usage and also by improving the levels of efficiency. A workflow system, through which employees can view the current status and all other relevant information pertaining to a policy, has been introduced to the Life Insurance Division and the Motor Claims Department, again, significantly reducing the usage of telephone calls, faxes, photocopies and courier services. Further, our Accident Image Search system enables the capturing, selecting and uploading of pictures of an accident site in soft form through the assessor's mobile phones instead of in the form of printed copies.

In advancing our duty towards sustaining our environs through minimised paper usage, during the year we introduced 10 new SMS based services, including life claim intimation, life claim approval as well as employee salary notification. Additionally, we have installed alternative methods to make payments, instead of through cheques, as it involves higher paper usage – more payments are now made in the form of SLIPs where the paper usage is comparatively low. Further, daily updates of GWP, PPW and renewal lists are now being sent to the branches from the Head Office via SMS and e-mails, in turn condensing the paper usage.

Meanwhile, we also continued with our agreement with Neptune Papers (Pvt) Ltd, which was initiated in 2010, for recycling paper, and the following savings were made during the current year.

	2012	2011**	2010*
Fully grown trees	**77**	202	41
Water (Litres)	**143,773**	378,404	78,337
Electricity (kW/h)	**18,096**	47,628	9,860
Oil (Litres)	**7,940**	20,896	4,326
Land fill (Cubic metres)	**14**	35	7
Reduced Green House Gas Emission by Carbon Equivalent of (Kg)	**4,525**	11,907	-

* *This venture was initiated during August 2010.*

** *One-off increase due to the waste disposed following the implementation of the 5'S' programme during the year.*

Greening Schools...

Further, as with the previous year, this year too our annual report will be published in a CD-ROM format, leading to a significant reduction in paper usage, considering that we have over 4,000 shareholders. Printed copies of the annual report will be sent only on request. The same option will be offered to the employees as well.

Creativity through Eco-Friendliness

With the objective of supplementing our environmental preservation endeavours, we attempted to maintain a status of full eco-friendliness during the Vesak and Christmas seasons. Whereas earlier all employees were ambitious to spend lavishly on non-degradable decorations, this year all employees heartily participated in the competitions by using strictly eco-friendly material. This was a refreshing twist to our usual habits, while also enabling us to further our stance on protecting our environs.

Raising Awareness

With the objective of raising awareness amongst the public on the importance of sustaining our environment, we have sponsored the launch of 'Greening Schools' programme in five schools selected by the Central Environment Authority (CEA) in the areas of Monaragala, Kandy, Matara, Anuradhapura and Kurunegala. This initiative is conducted under the Environmental Pioneer Programme, which has been designed to promote environmental education, awareness and management amongst students, and has been conducted by the Environmental Education and Awareness Division of the CEA since 1984. Thematic areas of health, water, energy, agriculture, waste management, and biodiversity management are stressed upon through this programme, and students are encouraged to actively participate in these endeavours in making their surroundings greener.

Eco-friendly creativity

Expectations for 2013

Our core expectation with regard to supporting the environment that nurtures us is to 'go greener' in all our activities. Already, many steps have been installed within our processes to achieve the objective of going green, but in 2013, we will aim to move a step beyond what we have already achieved. Accordingly, initiatives such as expanding the use of e-documentation, improving our usage of electricity, and limiting the polythene usage in the Company's processes will be considered with high regard in the coming year. Through all our efforts, we will focus on protecting our mother nature, for this is a duty entrusted to us since the day we came in to existence.

What a Journey It has been!

While the focus of our Company has always been geared towards generating value for our diverse range of stakeholders, it was indeed a remarkable journey that we made during 2012. The beginning of our second decade of existence was no bed of roses – challenging economic conditions, new regulations and accounting standards, cut-throat competition in the market place, amongst others, made it a demanding year, during which the strength of each player was intensely tested. And our triumphant emergence through such difficult times amply demonstrates our unwavering strength, our ability to survive and our passion to excel.

What is more alluring is that we continued to optimise the value generated for the diverse group of stakeholders associated with us, and in turn, we continued to receive their maximum support. The interests of none were compromised in our journey towards victory, and it is exactly this outcome we strived to achieve.

Through many trials, challenges and hurdles, we have triumphed... indeed, what a journey it has been!

“Uncles and aunties at HNBA listened to our plea – now we have clean water at our school”

Nelum (14)

the power to Dream

Approaching Sustainability

Our Sustainability Perspective

We are in the business of providing insurance, and we aim to do it 'with a spirit of caring'. It is this spirit of caring, underlying all our activities and operations, that defines our approach to sustainability.

Sustainability is therefore not a mere tagline at HNBA. It is a drive, a culture, which we strive to inculcate in each individual or institution we deal with. Whatever the activity, operation, process or procedure that receives our contribution, we will put sustainability at the forefront. This holistic approach is what gets defined in each page of this integrated annual report, symbolising that all components of our business are inherently interlinked in delivering value to our stakeholders.

Our approach to sustainability takes a top-down form, with the Board of Directors possessing the ultimate responsibility in ensuring that sustainability concepts are abided by us in all our activities. This responsibility is given due consideration by the Board in formulating the strategic direction of the Company and its decision making process.

The management team of the Company has been delegated the task of absorbing sustainability concepts to the business strategy of the Company, under the aegis of the Board, and this duty is discharged by taking adequate notice of the triple bottom line parameters at the annual corporate planning sessions.

Moreover, two management committees specifically linked to sustainability activities operate within the sphere of our Company. One, the CSR Committee, chaired by the Managing Director and comprising General Manager – Marketing and Distribution, Head of Corporate Business Development and Head of Finance, explores, evaluates and implements specific activities targeting the betterment of our community and environment. The second committee, i.e. the Sustainability Reporting Committee, has the primary responsibility of collecting, measuring and reporting data for the purposes of the sustainability report, which, this year, is published in the form of this integrated annual report.

All our activities maintain strict adherence to 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. Further, by virtue of being a public quoted company, we are also liable to maintain allegiance to the Listing Rules issued by the Colombo Stock Exchange. More details regarding our compliance activities appear in the Corporate Governance Report, from pages 135 to 175.

Our commitments also extend to the following organisations by virtue of membership.

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

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

We are certainly cognizant of the fact that an ideal state in terms of sustainability is the result of a long journey – as they say, good things do take time. Our efforts may still be in the budding stage, but we are patient, and determined, to reach this ideal state, for the betterment of all parties that have a stake in what we do.

Assessing Materiality

The Global Reporting Initiative's G3 Guidelines allow organisations to decide which indicators they report on, by performing a materiality test. In assessing the indicators to be reported in the current report, which in essence is its very content, we opted to use a materiality matrix, taking in to consideration,

a) the importance of such indicators from the perspective of our stakeholders

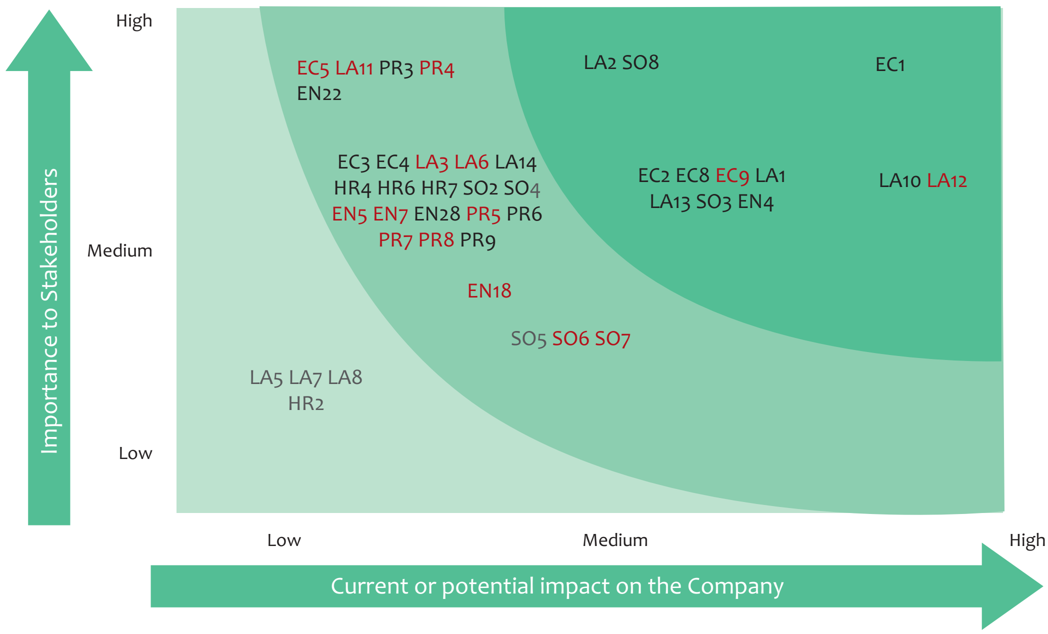
b) the importance of such indicators from the perspective of the Company

All GRI indicators were then assessed against these criteria, in order to determine their materiality. Following such assessment, it was observed that two indicators, which were previously deemed inapplicable, have become relevant for the Company, and hence, steps were taken to include them within the scope of this report, and necessary disclosures have been made accordingly. These two indicators are;

- EN18
- EN22

No indicators were deemed to have deteriorated in terms of materiality.

The following matrix demonstrates the materiality of GRI indicators as applicable to our Company.



Note1: Additional indicators are marked in red.

Note 2: Indicators deemed inapplicable EC6, EC7, EN1- EN3, EN6, EN8- EN17, EN19 – EN21, EN23-EN27, EN29- EN30, LA4, LA9, HR1, HR3, HR5, HR8- HR9, SO1, PR1, PR2

The issues in these quadrants were identified as having a high importance to our stakeholders and also having a high impact on the Company. Hence, these were deemed as material issues and are fully or partially reported on depending on data availability.

Issues in these quadrants were identified as having a moderate importance to our stakeholders and a moderate impact on the Company. Due to the moderate level of materiality of these issues, we have fully reported on some issues while partially reporting on others depending on the readily availability of data.

The issues falling in to these quadrants have a low level of importance to our stakeholders while having a low impact on the Company. Therefore we have not covered these in this report.

The GRI Content Index presented at the end of this report includes cross references to areas covered within this report.

As an additional methodology of determining the content of this report, we also placed attention on issues raised by our stakeholders through the various stakeholder engagement mechanisms, and relevant disclosures have been made where applicable.

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **HNB Assurance PLC** has presented its report "HNB Assurance Annual Report - Power to Dream" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 18 February 2013

B
GRI REPORT
GRI CHECKED

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

Disclaimer: *Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 15 February 2013. GRI explicitly excludes the statement being applied to any later changes to such material.*

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Financial Information

G3 Content Index				
Application Level B		Assured by	No External Assurance Obtained	
STANDARD DISCLOSURES PART I: Profile Disclosures				
Profile Disclosure	Description	Reported	Cross-reference/ Direct answer	Reason for omission / Explanation
1. Strategy and Analysis				
1.1	Statement from the most senior decision-maker of the organisation.	Fully	Page 12 - 17	
1.2	Description of key impacts, risks, and opportunities.	Fully	Page 42 - 49, 148	
2. Organizational Profile				
2.1	Name of the organisation.	Fully	Page 6	
2.2	Primary brands, products, and/or services.	Fully	Page 5, 84 - 85	
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully	Page 5 - 6	
2.4	Location of organisation's headquarters.	Fully	Page 4	
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Fully	Page 5	
2.6	Nature of ownership and legal form.	Fully	Page 6	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Fully	Page 6, 93	
2.8	Scale of the reporting organisation.	Fully	Page 6, 84 -85	
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Fully	Page 5	
2.10	Awards received in the reporting period.	Fully	Page 4, 87	
3. Report Parameters				
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Fully	Page 5	
3.2	Date of most recent previous report (if any).	Fully	Page 4	
3.3	Reporting cycle (annual, biennial, etc.)	Fully	Page 5	
3.4	Contact point for questions regarding the report or its contents.	Fully	Page 4	
3.5	Process for defining report content.	Fully	Page 5, 29 - 32, 121 - 122	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	Fully	Page 5	
3.7	State any specific limitations on the scope or boundary of the report.	Fully	Page 5	

Profile Disclosure	Description	Reported	Cross-reference/ Direct answer	Reason for omission / Explanation
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	Fully	Page 5	
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Fully	Page 5	
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g.,mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).	Fully	Page 5	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	Page 5, 52 - 62, 69 - 80, 213 - 214	
3.12	Table identifying the location of the Standard Disclosures in the report.	Fully	Page 124 - 133	
3.13	Policy and current practice with regard to seeking external assurance for the report.	Fully	5	
4. Governance, Commitments, and Engagement				
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Fully	Page 135 - 140	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	Page 141	
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	Fully	Page 137	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	Page 30 - 32, 142, 145	
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	Fully	Page 101 -102, 150	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Fully	Page 207	
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics.	Fully	Page 156	
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Fully	Page 2	

Profile Disclosure	Description	Reported	Cross-reference/ Direct answer	Reason for omission / Explanation
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	Fully	Page 121	
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Fully	Page 141	
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	Fully	Has not committed to comply	
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	Fully	Page 121	
4.13	Memberships in associations (such as industry associations) and/ or national/international advocacy organisations in which the organisation: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	Fully	Page 121	
4.14	List of stakeholder groups engaged by the organisation.	Fully	Page 30	
4.15	Basis for identification and selection of stakeholders with whom to engage.	Fully	Page 30	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Fully	Page31 - 32	
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	Fully	Page 32	

STANDARD DISCLOSURES PART II: Disclosures on Management Approach (DMAs)				
G3 DMA	Description	Reported	Cross-reference/Direct answer	Further comments
DMA EC	Disclosure on Management Approach EC			
Aspects	Economic performance	Fully	Page 7, 33	
	Market presence	Fully	Page 93	
	Indirect economic impacts	Fully	Page 113	
DMA EN	Disclosure on Management Approach EN			
Aspects	Materials	Not		
	Energy	Fully	Page 117	
	Water	Not		
	Biodiversity	Not		
	Emissions, effluents and waste	Not		
	Products and services	Not		

G3 DMA	Description	Reported	Cross-reference/Direct answer	Further comments
	Compliance	Fully	Page 117	
	Transport	Not		
	Overall	Not		
DMA LA	Disclosure on Management Approach LA			
Aspects	Employment	Fully	Page 94	
	Labour/management relations	Fully	Page 31 - 32, 105	
	Occupational health and safety	Fully	Page 104 - 105	
	Training and education	Fully	Page 97 - 98	
	Diversity and equal opportunity	Fully	Page 94	
DMA HR	Disclosure on Management Approach HR			
Aspects	Investment and procurement practices	Not		
	Non-discrimination	Fully	Page 94	
	Freedom of association and collective bargaining	Not		
	Child labour	Fully	Page 105	
	Forced and compulsory labour	Fully	Page 105	
	Security practices	Not		
	Indigenous rights	Not		
DMA SO	Disclosure on Management Approach SO			
Aspects	Community	Fully	Page 113	
	Corruption	Fully	Page 106	
	Public policy	Fully	Page 106	
	Anti-competitive behaviour	Fully	Page 106	
	Compliance	Fully	Page 106	
DMA PR	Disclosure on Management Approach PR			
Aspects	Customer health and safety	Not		
	Product and service labelling	Fully	Page 88	
	Marketing communications	Fully	Page 87	
	Customer privacy	Fully	Page 90	
	Compliance	Fully	Page 88	

STANDARD DISCLOSURES PART III: Performance Indicators			
Performance Indicator	Description	Reported	Cross-reference/ Direct answer
Economic			
Economic performance			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and Governments.	Fully	Page33
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Partially	Page 42 - 43
EC3	Coverage of the organisation's defined benefit plan obligations.	Fully	Page 100
EC4	Significant financial assistance received from Government.	Fully	Page 106
Market presence			
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Fully	Page 100
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Not	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Not	
Indirect economic impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Fully	Page 31 - 32, 113 - 116
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Fully	Page 91, 113 - 116
Environmental			
Materials			
EN1	Materials used by weight or volume.	Not	
EN2	Percentage of materials used that are recycled input materials.	Not	
Energy			
EN3	Direct energy consumption by primary energy source.	Not	
EN4	Indirect energy consumption by primary source.	Partially	Page 117
EN5	Energy saved due to conservation and efficiency improvements.	Fully	Page 117
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Not	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Fully	Page 117

STANDARD DISCLOSURES PART III: Performance Indicators			
Performance Indicator	Description	Reported	Cross-reference/ Direct answer
Water			
EN8	Total water withdrawal by source.	Not	
EN9	Water sources significantly affected by withdrawal of water.	Not	
EN10	Percentage and total volume of water recycled and reused.	Not	
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Not	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Not	
EN13	Habitats protected or restored.	Not	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Not	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not	
Emissions, effluents and waste			
EN16	Total direct and indirect greenhouse gas emissions by weight.	Not	
EN17	Other relevant indirect greenhouse gas emissions by weight.	Not	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Fully	Page 118
EN19	Emissions of ozone-depleting substances by weight.	Not	
EN20	NOx, SOx, and other significant air emissions by type and weight.	Not	
EN21	Total water discharge by quality and destination.	Not	
EN22	Total weight of waste by type and disposal method.	Partially	Page 118
EN23	Total number and volume of significant spills.	Not	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Not	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	Not	
Products and services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Not	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not	
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully	Page 117

STANDARD DISCLOSURES PART III: Performance Indicators			
Performance Indicator	Description	Reported	Cross-reference/ Direct answer
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Not	
Overall			
EN30	Total environmental protection expenditures and investments by type.	Not	
Social: Labour Practices and Decent Work			
Employment			
LA1	Total workforce by employment type, employment contract, and region.	Fully	Page 95 - 96
LA2	Total number and rate of employee turnover by age group, gender, and region.	Partially	Page 103 - 104, Region-wise turnover data not available.
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Fully	Page 100 - 102
Labour/management relations			
LA4	Percentage of employees covered by collective bargaining agreements.	Not	
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Not	
Occupational health and safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Partially	Page 104 -105, Percentage data not available
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Not	
LA8	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Not	
LA9	Health and safety topics covered in formal agreements with trade unions.	Not	
Training and education			
LA10	Average hours of training per year per employee by employee category.	Fully	Page 97 - 98
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Partially	Page 99 - 100, Data on transition assistance programs not available.
LA12	Percentage of employees receiving regular performance and career development reviews.	Fully	Page 101 - 102

STANDARD DISCLOSURES PART III: Performance Indicators			
Performance Indicator	Description	Reported	Cross-reference/ Direct answer
Diversity and equal opportunity			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Partially	Page 95 - 96, Data on minority groups not available.
LA14	Ratio of basic salary of men to women by employee category.	Fully	Page 100
Social: Human Rights			
Investment and procurement practices			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Not	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Not	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Not	
Non-discrimination			
HR4	Total number of incidents of discrimination and actions taken.	Fully	Page 105
Freedom of association and collective bargaining			
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	Not	
Child labour			
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	Fully	Page 105
Forced and compulsory labour			
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	Fully	Page 105
Security practices			
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	Not	
Indigenous rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Not	

STANDARD DISCLOSURES PART III: Performance Indicators			
Performance Indicator	Description	Reported	Cross-reference/ Direct answer
Social: Society			
Community			
SO1	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	Not	
Corruption			
SO2	Percentage and total number of business units analyzed for risks related to corruption.	Fully	Page 106
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	Fully	Page 106
SO4	Actions taken in response to incidents of corruption.	Fully	Page 106
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying.	Partially	Page 106
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Fully	Page 106
Anti-competitive behaviour			
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	Fully	Page 106
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fully	Page 106
Social: Product Responsibility			
Customer health and safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Not	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Not	
Product and service labelling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Fully	Page 88
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.	Fully	Page 88
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Fully	Page 31, 88

STANDARD DISCLOSURES PART III: Performance Indicators			
Performance Indicator	Description	Reported	Cross-reference/ Direct answer
Marketing communications			
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Fully	Page 88
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.	Fully	Page 88
Customer privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Fully	Page 90
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Fully	Page 88


"Thaththa has worked at HNBA for a long time. He says his job is what keeps all of us happy"
Elisha (7)
the power to Dream

Corporate Governance

HNB Assurance's belief and commitment towards Corporate Governance

HNB Assurance firmly believes that good Corporate Governance is not only fundamental in ensuring that the Company is well-managed in the interests of all its stakeholders, but is also essential to attain long-term sustainable growth. Therefore, we consider Corporate Governance to be of utmost importance in driving the Company towards success and accordingly take comprehensive measures to ensure that all stakeholders are recognized equitably.

Continuous efforts are also taken to identify and formalize best practices, in order to ensure that the Company continues to comply and exceed the requirements in the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) as well as Rule Number 7.10 of Listing Rules issued on Corporate Governance by the Colombo Stock Exchange (CSE).

The principles set out in these codes have been adopted by us to shape our Corporate Governance structure. Our commitment to good Corporate Governance however is not solely based on the need to comply with such requirements, but rather on our recognition of good Corporate Governance as an effective management tool.

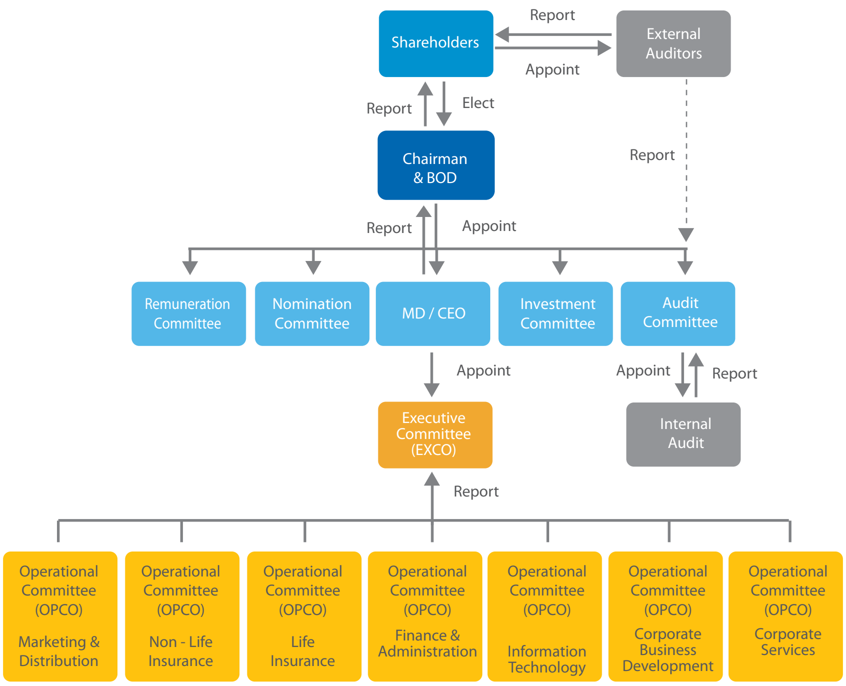
Our efforts in this regard were recently recognized by the Institute of Chartered Accountants of Sri Lanka (ICASL) at its 48th Annual Report Awards, where we were awarded third place for Corporate Governance Disclosures for our Annual Report 2011.

Corporate Governance at HNB Assurance PLC consists of, but is not limited to, areas such as Board structure, roles and responsibilities, performance measurement, internal controls, policies and procedures, ethics and audit. In addition, focus is also placed on strategy formulation and implementation, management structure and value creation. In essence, the structure of Corporate Governance will determine what rights, responsibilities and privileges are extended to each of the corporate participants and the degree to which each participant may enjoy such rights.

Our commitment towards caring for all stakeholders stems from our vision "to be Sri Lanka's most admired and trusted partner in meeting insurance needs professionally with a spirit of caring". Our corporate objectives, which have been derived from our vision and mission, further complement our commitment to caring.

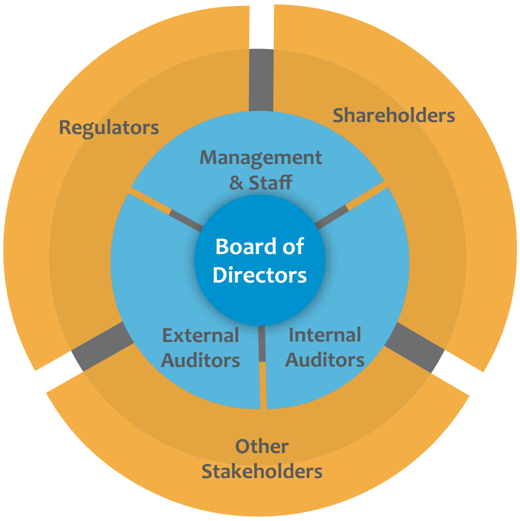
In pursuing these corporate objectives, we commit ourselves to adhere to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, mutual respect, commitment, performance orientation, personal and corporate integrity,

The Governance Structure of HNBA



Corporate Governance

responsibility, accountability and transparency, which have been embedded in our corporate culture through our value statement.



Our Values

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

Corporate Governance Framework

Broadly, our Corporate Governance Framework rests on two important commitments:

- Recognition of the need to adopt and improve principles and practices continuously, in light of our experience, regulatory requirements, international developments and investor expectations.
- Comprehensive disclosure of Corporate Governance principles and practices.

This Corporate Governance Report, together with the Audit Committee Report given on Pages 176 to 180, the Remuneration Committee Report given on Pages 181 to 183 and the Investment Committee Report given on Pages 184 to 185, is aimed at keeping our stakeholders abreast of all our important policies and practices, which will in turn give them assurance on the high standards we set ourselves as a Company.

We trust that this Report will assist in broadening your understanding of the operations of Corporate Governance at HNB Assurance PLC. As an organization which believes in transparency and accountability, we welcome your valuable feedback towards facilitating continuous improvement of our Corporate Governance Framework. Please contact us on;

Hotline	-	+94 11 4883883
Website	-	www.hnbassurance.com
E-mail	-	info@hnbassurance.com
Address	-	HNB Assurance PLC 10, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.

Board of Directors

The Company's commitment to 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 has a duty to act in good faith and in the best interests of the Company. All Directors are aware of their collective and individual responsibilities to all stakeholders regarding the manner in which the affairs of the Company are managed, controlled and operated.

The Board of Directors, as the body responsible to shareholders for the sustainable development of the Company, recognizes Corporate Governance as one of its most critical areas of concern. Accordingly, the Board, together with the Management, has proven its commitment to effective Corporate Governance in different ways.

- The Board of Directors comprises professionals who possess vast knowledge and experience in diverse areas, and hence their cumulative input is beneficial in directing the Company towards success.
- Of the nine (9) Board members, four (4) are Independent Non-Executive Directors, exceeding the minimum number required of three (3) as per rules. (Requirement - Two or 1/3rd of Non-Executive Directors, whichever is higher).
- The Board ensures substantial compliance with the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC and full compliance with the Rules on Corporate Governance issued by the CSE.

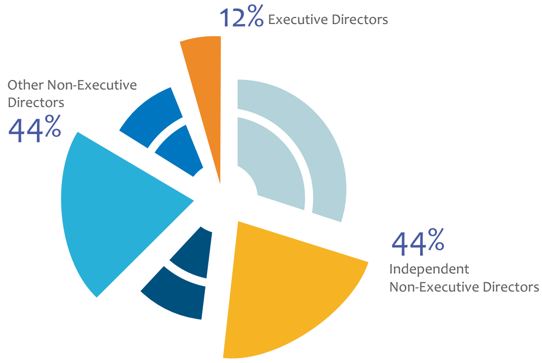
- Some responsibilities of the Board have been assigned to 4 Board Sub-Committees, namely
    - Audit Committee
    - Remuneration Committee
    - Nomination Committee
    - Investment Committee

  These committees ensure that the Board oversees the Company's operations effectively and demonstrates the commitment towards transparency in all dealings.
- The Company's quarterly financial statements were published in a newspaper and circulated amongst all shareholders, despite this no longer being a mandatory requirement.
- All staff members of the Company are encouraged to demonstrate integrity and transparency in all their activities, whether official or personal.
- An Interim Audit was performed voluntarily for the 6 months ended 30th June 2012 in order to obtain an independent opinion from the external auditors on the Company's financial performance. The audited figures as at 30th June 2012 were circulated amongst shareholders.
- All laws applicable to the Company are complied with and all taxes and dues to regulatory authorities settled on time, without exception.
- Performance evaluation procedures have been introduced to improve the performance of the Board of Directors and the Audit Committee.

Composition of the Board

We recognize the importance of having a Board equipped with the skills and experience necessary for the discharge of its responsibilities, for ensuring the continued effective oversight of the Company's operations as well as for effective and timely decision-making with respect to the issues affecting the Company. Hence, we are committed to continuing Board renewal to ensure that fresh perspectives are infused from time to time and that it always possesses the skills and experience required to oversee and govern amidst an ever-changing operating environment.

During the year, three Non-Executive Directors resigned from the Board and four Non-Executive Directors (out of whom two are independent) with expertise in the areas of Economics, Banking, Regulation, Finance and General Management joined our Board. Details of the new appointments to the Board and resignations during the year are given in the Annual Report of the Board of Directors on page 200.



Of the nine (9) Board members, four (4) are Independent Non-Executive Directors, exceeding the minimum number required as per rules.

By the end of the year, the Board comprised nine (9) Directors and all, except the Managing Director, are non-executive, thereby promoting critical review and control.

The Board includes four (4) Independent Non-Executive Directors. They bring a wide range of experience, specific expertise, and fresh perspectives to the Board.

Four (4) other Non-Executive Directors are not considered independent, due to their association with Hatton National Bank PLC, the parent company which has a substantial interest (59.99%) in HNB Assurance PLC.

Selection of Board members

The Board as a whole is responsible for reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession of Directors. The Board, through the Nomination Committee, regularly reviews its own structure, size and composition, in order to ensure that it has a balance of appropriate expertise, skills and experience that matches the business needs of the Company.

During the year, four (4) Non-Executive Directors were recommended by the Nomination Committee to the Board and these recommendations were approved by the Board of Directors unanimously. In addition, according to the terms of the Regulation of Insurance Industry Act, prior approval from the Insurance Board of Sri Lanka (IBSL) was obtained for all new appointments.

Appointment and Re-election of Directors

According to Section 92 of the Articles of Association of the Company, the Board shall have power at any time to appoint any person as a Director, either to fill a casual vacancy or as an additional member of the Board. Any Director so appointed, shall hold office until the next Annual General Meeting where he/she shall then be eligible for re-election. Accordingly Dr. Ranee Jayamaha, Mr. Jonathan

Alles, Mr. Mahendra Jayasekera and Mr. K Balasundaram are subject to re-election by shareholders at the Annual General Meeting (AGM) to be held on 27th March 2013.

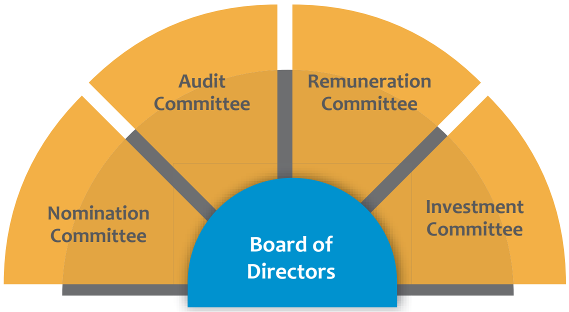
Further, according to Section 86 of the Articles of Association, Directors other than the Chairman, the Managing Director and Nominee Directors have to retire by rotation at least once every three years. Accordingly Mr. Sarath Ratwatte retires from the Board on rotation and is subject to re-election by shareholders at the forthcoming Annual General Meeting.

As per Sections 210 and 211 of the Companies Act, No 7 of 2007, a Director who has attained the age of seventy years has to retire and his re-appointment is required to be approved by a resolution passed at a General Meeting. Accordingly, the re-appointments of Mr. M U de Silva and Mr. Pratapkumar de Silva are subject to such approval at the Annual General Meeting to be held on 27th March 2013.

Please refer the Notice of Meeting on Page 320 for more information in this regard.

Sub-Committees of the Board

The Board performs its supervisory functions through its sub committees namely Audit Committee, Remuneration Committee, Nomination Committee and Investment Committee, thus ensuring competence and effectiveness.



Detailed reports on the functions of the Audit Committee, Remuneration Committee and the Investment Committee are given in the Audit Committee Report on pages 176 to 180 Remuneration Committee Report on pages 181 to 183 and the Investment Committee Report on pages 184 and 185 which also form a part of this Corporate Governance Report.

During the year, in view of strengthening the governance of these Sub-Committees, the Board Secretary was appointed as the Secretary of the Audit Committee and the Remuneration Committee, replacing Head of Finance and Manager – Human Resources, who previously functioned as Secretaries in the two Sub-Committees.

The following tables describes the responsibilities of each Sub-Committee during 2012 and up to the date of this Report and gives a summary of the work undertaken, on behalf of the Board.

Audit Committee

Criteria	Comment
Membership	Three Non-Executive Directors (two are independent).
Chairman	J A P M Jayasekera (FCA), Independent Non-Executive Director, (appointed as Chairman w.e.f. 11th December 2012). D M de S Wijeyeratne (ACA), who functioned as the Chairman of the Committee, resigned from the Board w.e.f. 14th November 2012.
Other Members	S C Ratwatte - Independent Non-Executive Director A J Alles - Non-Executive Director (appointed w.e.f. 11th December 2012). J D N Kekulawala, who was a member of the Committee, resigned from the Board w.e.f. 8th October 2012.
Secretary	Board Secretary w.e.f. 27th April 2012. Head of Finance functioned as the Secretary up to 27th April 2012.
Invitees	Managing Director (CEO), Head of Finance (CFO), Other EXCO Members, Finance Manager, Manager - Internal Control & Compliance, External & Internal Auditors and Consultant Actuary.
Meeting frequency	Quarterly (However, the Committee had only 3 meetings during the year). In addition to the formal meetings, the members of the Committee met the management several times during the year to discuss various matters of importance to the Company.
Circulation of Agenda and Papers	One week in advance

Criteria	Comment
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Audit Committee Charter which is reviewed annually. Some of such key responsibilities are; - Overseeing the process of preparation and presentation of the financial statements (interim and annual) - Reviewing the Company's internal control and risk management process - Monitoring and reviewing the effectiveness of the external and internal audit function - Making recommendations to the Board on the remuneration, appointment, re-appointment and removal of External and Internal Auditors - Reviewing and monitoring the independence of the External Auditor as well as the objectivity and effectiveness of the audit process, and - 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 Audit Committee Report on pages 176 to 180 for more details.

Remuneration Committee

Criteria	Comment
Membership	Three Non-Executive Directors (Two are independent).
Chairman	M U de Silva – Non-Executive Director.
Other Members	S C Ratwatte - Independent Non-Executive Director. K Balasundaram - Independent Non-Executive Director (appointed w.e.f. 11th December 2012). D M de S Wijeyeratne, who was a member of the committee resigned from the Board w.e.f. 14th November 2012.
Secretary	Board Secretary w.e.f. 27th April 2012. Manager – Human Resources functioned as the Secretary up to 27th April 2012.
Invitees	Managing Director and Manager – Human Resources.
Meeting frequency	Twice a year (Three Meetings were held during the year).
Circulation of Agenda and Papers	One week in advance.
Main Functions of the Committee	- 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, and - Reviewing the leadership needs of the Organisation, both Executive and Non-Executive, with a view to ensure the continued ability of the Organisation to compete effectively in the market place. Please refer Remuneration Committee Report on pages 181 to 183 for more details.

Nomination Committee

Criteria	Comment
Membership	Four Directors (including the Chairperson and the Managing Director).
Chairperson	Dr. Ranee Jayamaha, Non-Executive Director, (appointed as the Chairperson w.e.f. 29th June 2012). Until her appointment, R Theagarajah functioned as the Chairman of the Committee.
Other Members	Manjula de Silva – Managing Director R Theagarajah - Non-Executive Director M U de Silva - Non-Executive Director
Secretary	Board Secretary
Invitees	None
Meeting frequency	As and when necessary (two meetings were held during the year).
Circulation of Agenda and Papers	As and when necessary.
Main Function of the Committee	Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Investment Committee

Criteria	Comment
Membership	Two/Three Directors and an external expert.
Chairman	S C Ratwatte, Independent Non-Executive Director (appointed as Chairman w.e.f. 11th December 2012).
Other Members	Manjula de Silva – Managing Director Rajive Dissanayake – (Senior Manager Strategic Planning at HNB) J D N Kekulawala, who was a member of the Committee, resigned from the Board w.e.f. 8th October 2012.
Secretary	Head of Finance
Invitees	Head of Investment, Manager - Internal Control and Compliance and Senior Investment Analysts.
Meeting frequency	Quarterly (Four Meetings were held during the year).
Circulation of Agenda and Papers	One week in advance.
Main Functions of the Committee	- 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, and - Monitoring the implementation of the Investment Policy of the Company. Please refer Investment Committee Report on pages 184 and 185 for more details.

Board and Committee Attendance

The full Board meets monthly. In addition, Sub Committee meetings are held depending on the requirement. Details of the attendance of Directors at the Board Meetings and Board Sub-Committee Meetings held in 2012 are given on Page 201.

Directors' Commitments

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.

As at the year ended 31st December 2012, no current Director held directorships in more than five public companies including the Company. The Executive Director does not hold a directorship in any other public company, but is encouraged to participate in professional, public and community organizations.

Chairman and Chief Executive Officer (CEO)

The posts of the Chairman and the MD/CEO were held separately by Mr. Rajendra Theagarajah (up to 29th June 2012)/Dr. Ranee Jayamaha (from 29th June 2012) and Mr. Manjula de Silva, respectively. This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the CEO's responsibility to manage the Company's business.

The Non-Executive Chairperson is responsible for chairing and managing the operations of the Board, as well as 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.

As the only Executive Director representing the Board, the MD/CEO, is responsible to the Board for managing the business of the Company with the support of the Executive Committee (EXCO). Biographies of the Members of EXCO are set out on Pages 22 and 23.

Directors' Remuneration

The Company has established a formal and transparent procedure for the remuneration of Directors and the Management. All Non-Executive Directors are paid a fee for their attendance at each Board/Sub-Committee Meeting. Remuneration to the Executive Director/Managing Director is based on the market and group practices, and is reviewed annually by the Board through the Remuneration Committee.

The Remuneration Committee, appointed by the Board and consisting exclusively of Non-Executive Directors, assumes the responsibility for reviewing and advising the Board on appropriate remuneration to the Directors, the management and the Staff of the Company. Due care is taken to ensure that the remuneration paid to Board Members, management and the staff is commensurate with their skills, knowledge, competencies and involvement in Board activities as well as with the remuneration of Directors in other companies of similar size and operations.

The remuneration and other benefits paid to Executive and Non-Executive Directors is disclosed on Page 202 of this Annual Report.

Board Evaluation

The Board, for the first time, conducted a self-evaluation of the Board's performance during the year. This evaluation was conducted by the Board using a checklist, which covered a range of areas including composition of the Board, skills and experience of the members, adequacy of Sub-Committees, proceedings of meetings, quality of reports and materials submitted, etc. Each Director filled the checklist and submitted to the Board Secretary, who in turn will compile all checklists and table a summary at the Board for discussion during the current year.

The objective of this evaluation is to improve the performance of the Board to support the achievement of the Company objectives.

Audit Committee Evaluation

The Audit Committee also continued its self-assessment process from previous years to ensure it functions effectively and efficiently and discharges all its responsibilities as outlined in the Audit Committee Charter.

In addition, the management also assessed the performance of the Audit Committee using a checklist. These checklists used to evaluate the performance were prepared covering the responsibilities of the Committee derived from the Charter.

The results of both the self-assessment by the members of the Audit Committee and the management's assessment of the Audit Committee were tabled at a Board meeting and will be used to further improve the effectiveness of the Audit Committee. Further, the Company envisages expanding this process of evaluating the Audit Committee to a 360 degree appraisal in 2013, involving both Internal and External Auditors.

Board Secretary

Ms. Shiromi Halloluwa, an Attorney-at-Law by profession, serves as the Board Secretary of the Company. The Board Secretary supports the Chairperson, 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 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.

Share Dealing Policy and Code

In view of strengthening the ethics of the Company, a Share Dealing Policy and Code applicable to the Board of Directors and certain categories of employees were introduced during the year. 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 Internal Control and Compliance Department
- Members of the Actuarial Department attached to the Life Division, and
- All other employees in possession of any Insider Information

The specific Corporate Governance initiatives taken by the Company in relation to the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC on Board of Directors and its activities are given from Page 156 to 172.

Shareholders

The Board and the Senior Management acknowledge their responsibilities to represent the interests of all shareholders and to maximize the shareholder value. The Investor section given on pages 66 to 68 of this Annual Report under the Management Discussion and Analysis, details our policies and action taken in this respect.

Communication with Shareholders

HNB Assurance PLC uses numerous channels to keep its shareholders informed of the performance and operations of the Company.

A primarily important channel in this regard is our annual and interim financial statements. The Company ensures that these reports contain accurate, timely and reliable information of the Company's affairs during the period. Moreover, efforts are also made to include a significant amount of important information beyond regulatory requirements.

Our corporate website provides an additional channel for shareholders, customers and other stakeholders to access information about the Company. Financial statements, company details, new product details and announcements are available on this website.

Further, as per the Listing Rules of the CSE, the Company is required only to submit interim financial statements to the CSE for public release. However, as a best practice, the Company also communicates the interim financial statements through the following methods;

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

Institutional Shareholders

We are committed to maintain a constant dialogue with institutional investors, brokers and financial analysts in order to improve their understanding of our operations, strategy and plans, thereby enabling them to raise any issues they may have. However, the Board and the management strictly adhere to the statutory and ethical guidelines with regard to their responsibility of maintaining confidentiality of information.

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 communication between the Board and the shareholders. 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 shareholders' questions. 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 10th Annual General Meeting (AGM) held on 29th of March 2012, at the Auditorium on Level 22 of "HNB Towers", at No: 479, T.B. Jayah Mawatha, Colombo 10.

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

Decision	Percentage of votes
Declaration of a dividend of Rs. 2.10 per share	100%
Re-election of Mr D M de Silva Wijeyeratne, a Director of the Company	100%
Re- appointment of Mr. M U de Silva, a Director of the Company	100%
Re-appointment of Mr J E P A de Silva, a Director of the Company	100%
Re-appointment of Auditors for the ensuing year and authorizing the Directors to fix their remuneration	100%
Authorizing the Directors to determine payments for charitable and other purposes	100%

Matters discussed at the AGM

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

- A member appreciated the efforts taken to present an excellent Annual Report but raised his concerns over the high cost involved.

Response:

The Company delivered an excellent Annual Report since it was the 10th Anniversary of the Company, but the total cost did not increase as the Annual Report was given in a CD-ROM and a printed copy was provided only to the shareholders who had so requested. As such, the Company managed to reduce the total cost.

- A member appreciated the performance of the Company for the year 2011 but raised concerns over the dividend payment, stating that it is not in line with the Company's performance.

Response:

Although the dividend paid for 2011 was Rs. 2.10 per share and was only an increase by 17% on a per share basis, this was based on a much larger number of shares following the Capitalization of Reserves and the Rights Issue conducted in 2011. As such, the absolute value of the dividend payment had increased by 56%.

- A member referred to the Risk Management Report of 2011, drawing attention to the requirement of segregating the Life and Non - Life Insurance businesses of composite insurance companies by 2015 and inquired regarding the replication of administrative staff and other resources and the impact on shareholders.

Response:

This was a new development that came into effect with an amendment to the Regulation of Insurance Industry Act. The IBSL has given 4 years' time since the coming into effect of the Act for Companies to comply with this regulation.

At the moment, there is an ongoing discussion between the insurance industry and the IBSL to agree on a sensible model of implementing this proposal and the industry, through Insurance Association of Sri Lanka (IASL), has recommended many models to minimize the negative impact of the proposal.

The most recent shareholders' meeting was the 10th Annual General Meeting (AGM) held on 29th of March 2012

Disclosures in the Annual Report

The Share Information section given on Pages 311 to 314 sets out a wide range of other information of particular interest to shareholders, including details of the profile of shareholders of the Company and aggregate shareholding. In addition, a significant amount of specific information that is of interest to shareholders and potential investors is disclosed in the Management Discussion and Analysis on Pages 29 to 119.

Feedback from Shareholders

As a best practice, the Company introduced a Shareholder Feedback Form in the Annual Report from the year 2010. All shareholders were encouraged to use the Form and provide their comments on the Company. The feedback so received is attended to by the Board or the Management as appropriate. Please refer Page 323 for the Investor Feedback Form.

Equitable Treatment to All Shareholders

The Company has consistently ensured that all shareholders are treated equitably. Accordingly, both Sinhala and Tamil translations of the Chairman's Message, the Managing Director's Review, Balance Sheet, Income Statement, Cash Flow Statement and Statement of Changes in Equity were distributed along with the Annual Report of 2011. The Company will continue the distribution of above reports in Sinhala and Tamil relating to 2012 along with the Annual Report of 2012.

Enquiries by Shareholders

Shareholders are encouraged to maintain direct communication with the Company. They may raise enquiries and concerns with the Board by contacting the Board Secretary, Ms. Shiromi Halloluwa, who could be contacted on the following;

Telephone	-	+94 11 2661856
E-mail	-	shiromih@hnb.lk
Address	-	Board Secretary – HNB Assurance PLC No. 479, T B Jayah Mawatha, Colombo 10, Sri Lanka

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 below demonstrates the dates on which important information was released to the CSE/shareholders during the year 2012.

Important Shareholder Communications during 2012

Nature of the Information	Date in 2012
Announcement to CSE on the change of Company Secretary	06th January 2012
Dividend announcement to CSE	30th January 2012
Submission of unaudited interim financial statements for the year ended 31st December 2011 to CSE	2nd February 2012
Circulation of unaudited financial statements for the year ended 31st December 2011 to shareholders	3rd February 2012
Publication of unaudited financial statements for the year ended 31st December 2011 in the print media (Daily Financial Times)	08th February 2012
Submission of audited financial statements (Annual Report) for the year ended 31st December 2011 to CSE	28th February 2012
Circulation of audited financial statements (Annual Report) for the year ended 31st December 2011 to shareholders	06th March 2012
Circulation of the Notice of Annual General Meeting to shareholders	06th March 2012
Annual General Meeting (AGM)	29th March 2012
Announcement to CSE on the resignation of Mr J M J Perera from the Board	30th April 2012
Submission of unaudited interim financial statements for the 1st quarter (31st March 2012) to CSE	3rd May 2012
Circulation of unaudited interim financial statements for the 1st quarter (31st March 2012) to shareholders	09th May 2012
Publication of unaudited interim financial statements for the 1st quarter (31st March 2012) in the print media (Daily Financial Times)	09th May 2012
Announcement to CSE on the appointment of Dr. Ranee Jayamaha to the Board	29th June 2012
Announcement to CSE on the appointment of Dr. Jayamaha as the Chairperson	09th July 2012
Submission of audited interim financial statements for the 2nd quarter (30th June 2012) to CSE	3rd August 2012
Circulation of audited interim financial statements for the 2nd quarter (30th June 2012) to shareholders	08th August 2012
Publication of audited interim financial statements for the 2nd quarter (30th June 2012) in the print media (Daily Financial Times)	09th August 2012
Announcement to CSE on the resignation of Mr J D N Kekulawala from the Board	04th October 2012
Announcement to CSE on the resignation of Mr D M de S Wijeyeratne from the Board	26th November 2012
Submission of unaudited interim financial statements for the 3rd quarter (30th September 2012) to CSE	07th November 2012
Circulation of unaudited interim financial statements for the 3rd quarter (30th September 2012) to shareholders.	09th November 2012
Publication of unaudited interim financial statements for the 3rd quarter (30th September 2012) in the print media (Daily Financial Times)	15th November 2012
Announcement to CSE on the appointment of Mr. A J Alles, Mr J A P M Jayasekera and Mr. K Balasundaram to the Board	03rd December 2012

Corporate Governance

Management and staff

The Board, while monitoring the performance of the Company, relies on the management for the day-to-day operation of the business, and holds the management accountable for the achievement of set objectives. Further, the Board works closely with the management in formulating the Company's strategy, direction, long-term plans, as well as action plans to deal with the various opportunities and risks faced by the Company.

Accordingly, both the management and the staff also play a major role in the Governance Structure of the Company. The primary task of the management and the staff is the successful implementation of the strategy and the direction determined by the Board. 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 in the management

In order to strengthen the Governance structure of the Company, various committees have been appointed to overlook the management function.

The Company's management function is headed by the Executive Committee (EXCO) chaired by the Managing Director/CEO. The decisions taken at the EXCO are communicated and implemented through various divisional Operational Committees (OPCOs). In addition, various cross-functional committees such as the Business Continuity Plan (BCP) Committee, product development committees, procurement committees, etc. are formed to achieve tasks that require the support of various divisions. More information on these committees is given below.

Executive Committee (EXCO)

The EXCO consists of eight (8) Members.

- Managing Director/CEO
- General Manager – Marketing & Distribution
- General Manager – General Insurance
- General Manager – Life Insurance
- Head of Corporate Business Development
- Head of Information Technology
- Head of Finance
- Head of Distribution

The EXCO is the top management committee of the Company and is chaired by the Managing Director. It is responsible for the effective functioning of all operations of the Company. The Committee meets regularly, and during 2012 it met on 17 occasions.

The EXCO, together with other members of the Management Team, also meets the Board periodically to review the progress of the implementation of strategies and action plans contained in the Corporate Plan.

Operational Committees (OPCOs)

Operational Committees (OPCOs) are headed by the General Managers or the Heads of Divisions, and comprise members of the Senior Management Teams from the respective divisions. Existing OPCOs are;

- Marketing and Distribution OPCO
- Non -Life Insurance OPCO
- Life Insurance OPCO
- Finance and Administration OPCO
- Information Technology OPCO
- Corporate Business Development OPCO
- Corporate Services OPCO

The Objectives of OPCOs are to ensure the effective functioning of divisional responsibilities and the proper co-ordination among all divisions.

Operational Committees meet on a regular basis to discuss and resolve issues. Key officers of other divisions are also invited to Operational Committees where necessary, and this has proven to be an effective strategy in improving communication and co-ordination among divisions.

The Managing Director also attends OPCO meetings, by invitation, to brief the OPCOs on important developments of the Company. The minutes of the OPCO meetings are circulated to the EXCO.

Claims Panels

Settlement of insurance claims is one of the most critical processes of the Company, and the Company may receive complaints/appeals from customers to reconsider the amount paid or to review a repudiation decision.

In order to handle such cases in a transparent manner, we have introduced Claims Panels, which consider these complaints/appeals independently. Members of the Panels are:

- Managing Director
- Relevant Technical General Manager (Non -Life or Life Insurance, depending on the case)
- Head of Finance

The Panels review the complaint/appeal together with the opinions of technical claim managers and decide on the best course of action as a team. Other relevant factors such as the commercial value of the customers and humanitarian grounds are also taken into consideration in the process. The effectiveness of this process has been proven by the fact that HNBA has only a limited number of court cases or matters referred to the Insurance Ombudsman relating to claims.

In addition to the above main Claims Panels which consider appeals on claims already decided, Sub-Claims Panels have been appointed to solve issues during the early stages of the claim process. Sub-Claims Panels consist of representatives from the relevant technical divisions, the Finance Division, and the relevant distribution channel.

Procurement Committees

HNBA has formed Procurement Committees in order to handle purchasing in a transparent manner. Currently, the following committees are functioning effectively.

- Administration Procurement Committee
- IT Hardware Procurement Committee
- IT Software Procurement Committee
- Marketing Communications Procurement Committee
- Other Purchases Procurement Committee

These Committees comprise members at management level from different divisions. No procurement committee has members from the same division from which the procurement activity originates.

A recommendation is made to the relevant approving authority by the Procurement Committee only after a unanimous decision is reached. The Committees maintain strict adherence to transparent and auditable procedures at all times.

In addition to the above, the Company has also formed a Supplier Registration Committee to register various suppliers of the Company.

Other Committees

The Company makes it a practice at all times to appoint cross-functional committees to handle activities where the Company spends a substantial amount of money. This practice has proved very effective and has provided opportunities for employees to demonstrate talents external to their job scope.

Some of the committees that functioned effectively during the year are;

- Annual Report Committee led by Head of Finance
- Complementary Items Committee headed by Manager-Marketing Communication
- Staff Conference Committee headed by Manager – Human Resources
- Product Development Committees headed by the relevant Technical General Manager (Non -Life or Life Insurance, depending on the product)
- Business Continuity Plan (BCP) Committee led by Head of Finance

As this practice has shown many positives and much transparency, we expect to continue with it in the year 2013 when handling various operational aspects of the Company.

Governance over Financial Activities

Manual of Financial Authority (MOFA)

The Board has delegated its financial authority to the MD/CEO and the Management through a comprehensively documented Manual of Financial Authority (MOFA). The MOFA indicates the authority levels of all staff members who enter into financial transactions and commitments on behalf of the Company, including persons responsible for recommendation, approval and payment.

The MOFA was strictly adhered to throughout the year 2012. Further, the MOFA is under continuous review, and appropriate amendments are made as and when necessary, subject to Board approval, in order to facilitate quick decision making without violating the controls existing within the Company. Further, the Internal Auditors, during their audits, check whether the management has followed the guidelines set out in the MOFA.

Procurement Policy and Procedure

The Company has introduced a comprehensive Procurement Policy to be followed by staff members involved in procurement activities. The Procurement Policy has been approved by both the Audit Committee and the Board. The Board/Audit Committee and the management continuously review the Procurement Policy and necessary improvements are made to ensure that it has robust and practical procedures. Any subsequent amendments to the Policy are routed through the Audit Committee.

During the year, the Procurement policy was amended to reconstitute the Procurement Committees with members independent from the relevant business operations. Thus, all Procurement Committees now consist of independent members, thereby further strengthening governance over procurement activities of the Company.

Investment Policy

The investment function plays a critical role in the Company and handles significant risks. Having identified the importance of this function, the Company has taken numerous steps to strengthen governance in this area.

- The Board has established an Investment Committee to review the operations of the Investment function of the Company.
- A comprehensive Investment Policy has been designed, considering both legal requirements and best practices.
- The investment function has been segregated as Investment Front Office and Back Office, to ensure better monitoring of the function. Front-office functions as a separate Division under the Head of Investment while the Back Office functions as a unit within the Finance Department.
- Monthly Investment Meetings are conducted by the Investment Division with the participation of the MD and the Head of Finance, in order to provide an update on the activities of the Investment Division.
- All management information used to assess the performance of the Investment Division is prepared by the Back Office.

A detailed review of the functions of the Investment Committee is given in the Investment Committee Report on Pages 184 and 185.

Procedure Manuals

Considering the financial implications, legal requirements and various other risks involved, the Company has introduced comprehensive Procedure Manuals to cover all operational areas such as underwriting, claims management and branch operations. These Manuals ensure that all daily operational activities are conducted within an appropriate framework. They are regularly updated whenever a change is deemed necessary.

Financial Reporting

HNB Assurance PLC aims to present a clear and balanced assessment of its financial position and prospects through its financial reporting initiatives. Financial results are announced as early as possible after Board approval of the same. All financial statements should be reviewed and approved by the Audit Committee prior to tabling at the Board meeting for final approval for publishing.

The audited financial statements for the year ended 31st December 2011 were released to CSE on 28th February 2012 and to the Insurance Board of Sri Lanka (IBSL) on 03rd March 2012. Further, during the year, quarterly statements were issued and communicated in numerous ways to keep the shareholders informed of the performance and operations of the Company.

The table on Page 145 shows the dates on which the Company submitted relevant information to the CSE and the shareholders.

Risk Management

The Company operates a comprehensive risk management program with the aim of identifying risks which may adversely affect the achievement of business objectives and to develop appropriate mitigation strategies. The Risk Assessment Report was updated during the year with the involvement of the Risk Management Team, comprising the Top Management and members of the Management Team representing all operational areas of the Company.

Manager - Internal Control and Compliance has been given the responsibility of monitoring compliance with the Risk Assessment Report and to follow-up on agreed actions to be implemented to further mitigate risks where necessary. In addition, the Company has requested the Internal Auditors to align their Audit Plan with the Risk Management Report and to pay attention to the high risk areas identified in the Report.

During the year, the management made presentations and submitted reports to the Board Integrated Risk Management Committee of the parent Company, HNB, with regard to the risk management activities. This initiative is identified as a further strengthening of the risk management function of the Company.

A detailed report on the risk management initiatives of the Company appears on Pages 186 to 195.

Internal Control Process

A system of effective internal controls is fundamental to the safe and sound management of an institution. Effective internal controls help an institution to protect and enhance shareholders' value and reduce the possibility of unexpected losses or damage to its reputation.

The Company's internal control process has been designed with the following objectives

- Effectiveness and efficiency of operations
- Effective risk management systems
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of Company's assets

The Company's internal control procedure keeps the Company on course toward its objectives and the achievement of its mission, by minimizing surprises along the way.

The Board of Directors and the Senior Management of the Company are responsible for establishing, maintaining, and operating an effective system of internal controls. The Audit Committee ensures that the senior management regularly verifies the integrity of the Company's internal control process. However internal control is, to a large degree, everyone's responsibility.

The Internal Auditors and the management conduct frequent reviews of the effectiveness of the Company's system of internal controls, and their findings are reviewed by the Audit Committee and reported to the Board.

It is in view of strengthening the governance over its internal controls that the Company has created the position of Manager - Internal Control and Compliance. The tasks of the Manager - Internal Control and Compliance include;

- Reviewing all aspects of the Company's internal controls, with unrestricted access granted to all operations of the Company
- Coordination with internal auditors, external auditors, management and the audit committee and making sure the auditors' recommendations on required improvements are properly implemented
- Conducting special reviews on areas of concern identified by the management or the Audit Committee
- Ensuring that the Company has an effective risk management process to identify, measure and manage the risks faced by the Company and following up on actions required to mitigate identified risks
- Monitoring all compliance activities of the Company

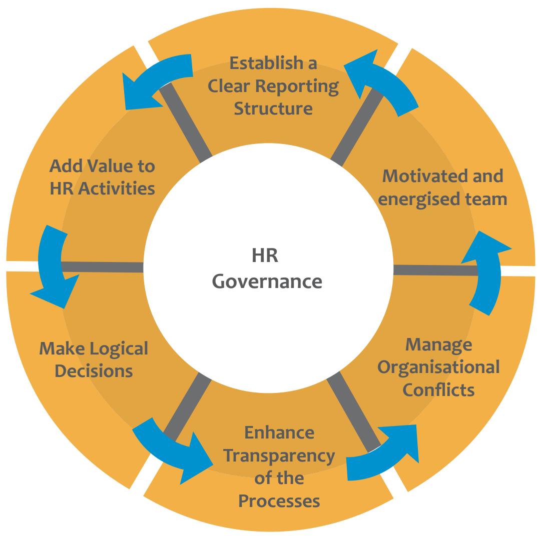
Manager - Internal Control and Compliance reports directly to the Chairman of the Audit Committee and the Managing Director, and has the right to consult the Committee without reference to the Management.

HR Governance

HR governance involves a systematic approach that enables the different functions of the Company to yield their strategic and operational objectives while maintaining strong levels of performance. Accordingly, the HR governance system at HNBA is expected to establish;

- A clear reporting structure and role clarity
- Value addition to HR activities and decisions taken at each level of the organization
- Logical decision making and sufficient controls to integrate with business priorities
- Enhancement of the transparency in processes to increase employee trust and commitment
- To develop a motivated and energized team

The principles and details of the Remuneration Policy of the Company are given in the Remuneration Committee Report on Pages 181 to 183 of this Annual Report.



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Financial Information

Staff Handbook

The Company's Staff Handbook provides all policies, procedures and guidelines relating to the activities of the Staff. A copy of the Staff Handbook has been made available in the Company's intranet and all new members are educated on this during their Induction Program.

Code of Ethics

The Management and Staff are subject to a formal Code of Ethics which places them under specific obligations as to the ethics and principles within which our business is conducted. This Code of Ethics is set out in full on the Company's intranet to promote easy access, and all new staff members are educated on the Code during the Induction Program. Non-compliance with the Code results in disciplinary action; disciplinary measures are decided by the EXCO after following an investigation/inquiry and also considering the degree of the violation, thereby ensuring consistency and fairness of treatment.

There were no material violations of the Code of Business Conduct and Ethics during the year except for certain insignificant transgressions noted at the operational level of the business, for which appropriate actions have been taken.

Whistle Blowing Policy

The Company has implemented a formal Whistle Blowing Policy which is set out in full on the Company's intranet. All new staff members are educated on the Policy and the process of making a complaint during the Induction Program. Through this Policy the Company encourages any employee who suspects wrongdoing at work - whether by his seniors, peers, or another employee - to raise his/her concern directly with the following nominated officers of the Company.

- Manager Human Resources
- Manager Internal Control and Compliance
- Managing Director
- Chairman of the Audit Committee
- Chairperson of the Board of Directors

Concerns raised are investigated as per the Policy and the identity of the person raising the concern is kept confidential.

Remuneration

Remuneration of the Staff is based on the structure approved by the Board, while annual increments are based on year–end appraisals. All increments to employees are reviewed and approved by the EXCO and Remuneration Committee. Promotions at higher levels (above Senior Executive Grade) are subject to the approval of the Remuneration Committee and then by the Board. Promotions and upgrades at other levels are reviewed and approved by the EXCO.

Employee Feedback

The Company believes in the importance of listening to the Staff for its success, and many steps taken by the Company in this regard are given below;.

- CEO's forums are conducted regularly where the junior members of the Staff receive the opportunity to directly meet the CEO without the presence of their superiors. This process helps unearth the concerns they bear in carrying out their day-to-day activities while also enabling them to articulate suggestions for improvement. This process was extended during the year to cover middle management levels such as Managers, Assistant Managers and Senior Executive grades.
- The Company participated in a survey conducted by 'Great Place to Work', which was a part of the "Sri Lanka's Best Companies to Work For – 2013" study, the results of which will be published in the near future. Participating in this survey enabled the Company to benchmark employee perceptions with selected standards within and outside the industry. This in turn helped the Company better appreciate the strengths and identify focus areas for improvement.
- A separate e-mail address is provided for employees to direct any suggestions they may have with regard to any aspect of the work environment.
- Exit interviews are conducted for all employees who resign from the Company, and a summary of the details extracted is presented to the EXCO to identify and correct any deficiency on the part of the Company.

A detailed analysis of the HR activities carried out during the year is available in the Management Discussion and Analysis from Pages 94 to 106.

Performance Governance

Performance governance has its roots in the Company's strategic direction and corporate objectives, and aims at successfully managing business risk.

Based on the corporate strategy and in consultation with the MD/CEO, the Board sets performance objectives for the year. These are included in the Corporate Plan which is the formal articulation of the Company's strategy. The Board, along with the MD/CEO, provides leadership in achieving the stated objectives, and such achievements are then measured against Key Performance Indicators (KPIs).

The Company maintains a target-driven performance culture, where employees are motivated to achieve set targets and the achievement is monitored closely at different levels throughout the year. Some such mechanisms include;

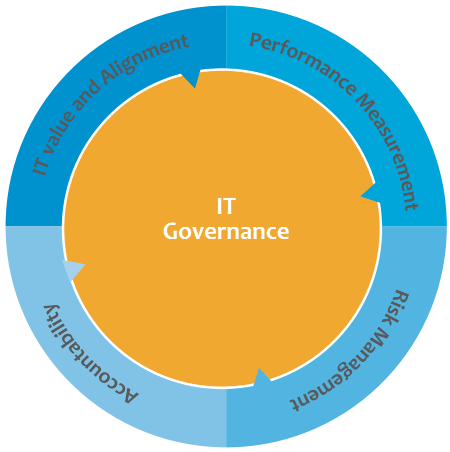
- Performance objectives are established for all Executive Staff and semi-annual performance appraisals are conducted to evaluate the progress
- Performance-linked rewarding mechanisms
- Routine Distribution Management Meetings and Regional Meetings to discuss performance
- Discussion on performance at EXCO meetings, based on monthly management information
- Submission of monthly financial information on KPIs to the Board and comparison with the budget and the information pertaining to the previous year
- Periodic review by the Board of Directors on the achievement of objectives and the implementation of action plans stated in the Corporate Plan

An important development during the year was the introduction of an IT system to monitor performance against the set Corporate Plan actions/objectives.

The following diagram illustrates the performance governance framework of HNBA.

IT Governance

Considered an integral part of Corporate Governance in the modern world, IT governance in the context of the Company refers to the alignment of the IT strategy with the business strategy to ensure that the Company stays on track to achieve its goals, as well as the implementation of structured methods to measure IT performance. It guarantees that interests of all stakeholders are accounted for and that processes provide measurable results.



The Company follows a carefully planned IT governance system, where IT values, alignment, accountability, performance measurement and risk management are considered as key objectives driving the governance process.

Accordingly, the Company's IT governance implementation is two dimensional, concentrating on governance in terms of Operational Management and Service Level Management. The implementation of IT governance is distributed among both IT personnel and non-IT personnel, thereby ensuring that good governance prevails in the Company.

Governance in Operational Management concentrates on vital areas such as;

- Business continuity and disaster recovery
- Compliance on regulatory requirements
- Information security
- Risk management

Service Level Management focuses on implementing best practices related to

- IT service management
- Knowledge management
- Project governance

IT Security Policy

While continuous improvements to IT standards are carried out within the organization, independent evaluation such as internal/external audits, regular reviews by internal committees ensure adherence to key governance objectives in both Operational and Service Level IT values.

External Auditors

The Company's External Auditors are Messrs KPMG, firm of Chartered Accountants. In order to maintain their independence, they are not employed for non-audit work unless such work has been pre-approved by the Audit Committee. In addition, steps are taken to ensure that there are clear efficiencies and value-added benefits to the Company from such tasks undertaken by the External Auditors, with no adverse effect on the independence of their audit work or the perception of such independence.

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

- Year End Audit as at 31st December 2012
- Special Purpose Audit as at 30th June 2012
- Certification of Solvency Report for the purpose of dividend declaration
- Certification of Insurance Solvency
- Assistance in the Implementation of transition to LKAS and SLFRS

A break-up of the fees paid to External Auditors is given on Page 199.

Further, with a view of improving transparency, the External Auditors were given the opportunity to meet the Audit Committee without the presence of the Management during the current year as well.

Internal Auditors

The Company's internal audit function has been outsourced to Messrs Ernst & Young Advisory Services (Pvt) Ltd. During 2012, Internal Auditors issued 10 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 29 to 119 of this Annual Report explains how we discharge our responsibilities towards our investors, employees, customers, business partners, the community and the environment within which we operate.

Regulatory compliance

As discussed above, the Company has taken all possible action to ensure compliance with laws and best practices relating to Corporate Governance. The Board and the management recognize their responsibility and duty in ensuring that business is conducted in accordance with all applicable laws, rules and regulations.

A compliance checklist, covering all applicable laws and regulations, is signed-off by the management on a quarterly basis and is tabled at Audit Committee meetings. Compliance reports prepared by the Manager - Internal Control and Compliance are also presented to the Audit Committee and the Investment Committee on a regular basis.

Manager - Internal Control and Compliance, who possesses an accounting background, monitors the compliance with all applicable laws, rules and regulations.

The Company submitted all returns to the IBSL within the stipulated time by the IBSL. All IBSL returns were subject to the review of the Audit committee prior to releasing it to the IBSL. The details of the IBSL submissions during year are given below;

Submission of Statutory Returns to IBSL	Date of submission	Deadlines set by IBSL
Annual Audited Financial Statement for year ended 31st December 2011	3rd March 2012	30th June 2012
Annual Statutory Returns for the year ended 31st December 2011	29th June 2012	30th June 2012
Circular 29 Auditor's Compliance Certificate	29th June 2012	30th June 2012
Risk Assessment Summary	29th March 2012	31st March 2012
Quarterly Returns for 2012		
- 31st March 2012 (1st Quarter)	15th May 2012	15th May 2012
- 30th June 2012 (2nd Quarter)	14th August 2012	15th August 2012
- 30th September 2012 (3rd Quarter)	12th November 2012	15th November 2012
- 31st December 2012 (4th Quarter)	14th February 2013	15th February 2013
Biannual Compliance (Circular 18) Certificate		
- 30th June 2012	14th August 2012	15th August 2012
- 31st December 2012	14th February 2013	15th February 2013

In addition to the above the Company has submitted the following returns and payments to Department of Inland Revenue, Central Bank of Sri Lanka and Registrar General of Companies within the stipulated time period.

Information	Frequency of submission	Compliance
Inland Revenue		
Income Tax Payment and Return	Annually	√
PAYE Tax Payment	Monthly	√
PAYE Tax Return	Annually	√
Value Added Tax (VAT) Payment	Monthly	√
Value Added Tax (VAT) Return	Quarterly	√
Stamp Duty Payment and Return	Quarterly	√
Nation Building Tax (NBT) Payment	Monthly	√
Nation Building Tax (NBT) Return	Quarterly	√
Central Bank		
EPF Payment and Return	Monthly	√
ETF Payment	Monthly	√
ETF Return	Half Yearly	√
Registrar General of Companies		
Annual Accounts	Annually	√
Annual Returns	Annually	√
Change of Directors and Company Secretary (Form 20)	As required	√

The Corporate Governance Framework of the Company deviates only with Section D.4.1 of the Code, which relates to the adoption of a Code of Business Conduct and Ethics for Directors and the Senior Management.

The Company, however, does operate a Code of Ethics which is applicable to the Executive Director and employees including Senior Management and has mandated that it should be followed without exception. In furtherance of the initiative of the Company to achieve compliance with this section, a Share Dealing Policy and Code applicable to the Board of Directors and the Senior Management was also introduced during the year. The Company will take steps to formulate and adopt a comprehensive Code of Business conduct and Ethics for Directors in 2013.

Code of Best Practice on Corporate Governance Issued Jointly by ICASL and SEC

The above Code was issued in 2008, with the primary objective of establishing good Corporate Governance practices in Sri Lanka, and deals with six key areas a Company should focus on when developing its Corporate Governance structure.

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

} Focuses on the Company

E. Institutional Shareholders
F. Other Investors

} Focuses on the Shareholders

Statement of Compliance

HNB Assurance PLC is substantially compliant with the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC. In addition, we have achieved fully compliant status 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 156 to 172. We have also included a table which summarizes the compliance status of the Company with Rule No. 7.10 of the Listing Rules of the CSE, on Pages 173 to 175.

Initiatives taken during the Year to Strengthen the Corporate Governance Activities of the Company

- Introduced a process for the evaluation of the performance of Board of Directors
- Adopted a 'Share Dealing Policy and Code' which is applicable to the Board of Directors as well as the Senior Management and relevant employees.
- 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
- Increased the percentage of the Independent Non-Executive Directors in the Board (As at the end of 2012, 44% of the Directors were independent as opposed to 38% in 2011)
- Both Sinhala and Tamil translations of the Chairman's Message, the Managing Director's Review, Balance Sheet, Income Statement, Cash Flow Statement and Statement of Changes in Equity were distributed along with the Annual Report of 2011.
- Procurement Committees were made independent from the relevant business operations
- The Company's succession plan was extended to cover all positions at Manager-level during the year.
- Risk Assessment Reports were submitted to the Board Integrated Risk Management Committee of the parent Company, HNB.
- Introduced an IT system to monitor performance against the set Corporate Plan actions/ objectives
- 'CEO's forums,' which is the process to get feedback from employees directly to the Managing Director, was extended during the year to cover middle management levels such as Managers, Assistant Managers and Senior Executive grades.

A Snapshot of HNBA Level of Compliance with the Code of Best Practice on Corporate Governance

HNBA is committed for an effective governance procedure, in order to provide benefits to our stakeholders. Our structures, rules and processes are designed to facilitate proper organisational conduct within the Company. The above diagram depicts a Snapshot of HNBA level of compliance on the Code of Best Practices on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. The Company's commitment to comply with above code is discussed in detail from pages 156 to 172.

Corporate
Governance

HNBA's Compliance with the Code of Best Practice on Corporate Governance issued jointly by the SEC and the ICASL

Section Number	Principle	Compliance Status	Company's Commitment
1	THE COMPANY		
A	DIRECTORS		
A.1	THE BOARD		
A.1	Every public company should be headed by an effective Board.	Compliant	As at 31st December 2012, the Board comprises nine Directors including Executive, Non-Executive and Independent Non- Executive Directors. The Managing Director is the only Executive Director on the Board.
	The names of the Directors of the Company who held office as at the year end, together with a brief description of their profiles are presented on Pages 18 to 21 of this Annual Report. A detailed review of the role of the Board of Directors is given on Pages 136 to 142.		
A.1.1	The Board should meet regularly (at least once every quarter).	Compliant	The Board meets once a month to review the Company's performance and to determine whether its strategies and business practices are in line with the expectations of the Board.
	The number of Board meetings and Sub-Committee meetings held during 2012, together with individual attendance, is given on Page 201.		
A.1.2	The Board should: Ensure formulation and implementation of a sound business strategy	Compliant	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 each year. 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	Compliant	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 22 to 27.		
	Adopt effective CEO and Senior Management succession strategy	Compliant	Succession plans are in place for all members of the top management and are monitored continuously by the Remuneration Committee. This was extended to cover all positions at Manager level during the year. The key aspect of succession plans is to develop people internally, so that there are adequate internal options available for replacements when required, ensuring a smooth transition and business continuity.

<table>
<tr><th>Section Number</th><th>Principle</th><th>Compliance Status</th><th>Company's Commitment</th></tr>
<tr><td rowspan="2"></td><td>Ensure that effective systems are in place to secure integrity of information, internal controls and risk management</td><td>Compliant</td><td>Effective systems and procedures are in place to ensure 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 with regard to the relevant areas.</td></tr>
<tr><td colspan="3">Effective mechanisms are also in place to identify, assess and manage/mitigate risks faced by the Company. Please refer the Risk Management section on Pages 186 to 195 for further information in this regard.

The Board monitors the risk management process closely through the Audit Committee and the Investment Committee.</td></tr>
<tr><td rowspan="2"></td><td>Ensure that the Company's activities are conducted in compliance with laws, regulations and ethical standards</td><td>Compliant</td><td>The Board ensures that the Company adheres to the highest ethical standards and is in compliance with all statutory requirements.

The Company has appointed a Manager – Internal Control and Compliance, reporting to the Chairman of the Audit Committee and the Managing Director, for the continuous monitoring of compliance with laws and regulations.</td></tr>
<tr><td colspan="3">Please refer pages 152 and 153 under Regulators for the Company's actions with regard to compliance activities.

The Company has also issued a Code of Ethics applicable to all employees.</td></tr>
<tr><td rowspan="2"></td><td>Ensure that all stakeholder interests are considered in corporate decisions</td><td>Compliant</td><td>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 29 to 119.</td></tr>
<tr><td colspan="3">Indicating the Company's success in this regard, the Company was adjudged as the winner in the Medium scale category at the ACCA Annual Sustainability Reporting Awards 2012.</td></tr>
<tr><td rowspan="2"></td><td>Ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations</td><td>Compliant</td><td>The Company's accounting policies are fully in line with Sri Lanka Accounting Standards (SLFRS/LKAS) which was adopted from the current financial year. Accordingly the accounting policies were changed to be in line with these accounting standards. Further, the accounting policies are reviewed annually to be in line with the changing business requirements and best practices in the industry.</td></tr>
<tr><td colspan="3">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 212.

In addition, significant emphasis is placed on compliance with applicable financial regulations such as IBSL rules and determinations, CSE and SEC rulings, CBSL rulings, etc.</td></tr>
<tr><td></td><td>Fulfill other Board functions that are vital, given the scale, nature and complexity of the business concerned</td><td>Compliant</td><td>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.</td></tr>
</table>

<table>
<tr><th>Section Number</th><th>Principle</th><th>Compliance Status</th><th>Company's Commitment</th></tr>
<tr><td rowspan="1">A.1.3</td><td>The Board collectively, and Directors individually, must act in accordance with the laws of the country. Also there should be a procedure for Directors to obtain independent professional advice where necessary.</td><td>Compliant</td><td>As mentioned above, the Board is collectively and individually devoted to ensure full compliance with all laws and regulations applicable to the Company.

All Directors are permitted to seek independent professional advice, at the Company's expense, if considered appropriate and necessary, at any time. This could be co-ordinated through the Board Secretary. However, no such advice has been taken by any of the Directors during the period.</td></tr>
<tr><td>A.1.4</td><td>All Directors should have access to the advice and services of the Company Secretary.</td><td>Compliant</td><td>The Company Secretary, who is an Attorney-at-Law by profession, is accessible to any Director at any time.

The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.</td></tr>
<tr><td rowspan="2">A.1.5</td><td>All Directors should bring independent judgment to bear on issues of strategy, performance, resources and standards of business conduct.</td><td>Compliant</td><td>The Board is conscious of its obligation to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to the Company and their other interests.

All Directors are expected to make decisions objectively and in the best interests of the Company.</td></tr>
<tr><td colspan="3">Members of the Board are required to disclose all transactions with the Company, including those of their close family members, as obligatory under the Sri Lanka Accounting Standards 24 – Related Party Disclosures and the Companies Act, No. 7 of 2007. This has been fully complied with and adequately disclosed in this Annual Report.

Please refer Pages 279 and 207 for information on Related Parties and Directors' Interests in Contracts, respectively.</td></tr>
<tr><td>A.1.6</td><td>Every Director should dedicate adequate time and effort to the matters of the Board and the Company.</td><td>Compliant</td><td>Please refer page 141 for details of the Directors' commitments.</td></tr>
<tr><td rowspan="2">A.1.7</td><td>Every Director should receive appropriate training when first appointed to the Board and subsequently as necessary</td><td>Compliant</td><td>New Directors are inducted to the Board with comprehensive understanding of their duties and responsibilities. The Board acknowledges the need for continuous development and expansion of knowledge and skills to perform their duties as Directors.</td></tr>
<tr><td colspan="3">Accordingly, 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 and matters specific to the industry and Company.

The Directors are also constantly updated on the latest trends and issues facing the Company and the insurance industry.</td></tr>
</table>

Section Number	Principle	Compliance Status	Company's Commitment
A.2	**CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)**		
	There should be a clear division of responsibilities at the head of the Company.	Compliant	The functions of the Chairman and the Managing Director/ CEO are clearly separated, to ensure balance of power and authority. Please refer page 141 of the annual report for the details of separate responsibilities of Chairman and MD/CEO.
A.2.1	If the positions of the Chairman and the CEO are combined, the fact needs to be disclosed.	Not Applicable	The positions of the Chairman and the MD/CEO are separated.
A.3	**CHAIRMAN'S ROLE**		
	The Chairman should preserve order and facilitate effective discharge of Board functions.	Compliant	The Chairperson is responsible for leading the Board and ensuring that it operates under the highest standards of governance. The Chairperson is charged with encouraging the effective participation of all Directors in the decision making processes and thereby ensuring the effective performance of the Board.
A.3.1	The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that • the effective participation of both Executive and Non-Executive Directors is secured • all Directors are encouraged to make an effective contribution • a balance of power exists between Executive and Non-Executive Directors • the views of Directors on issues under consideration are ascertained; and • the Board is in complete control of the Company's affairs.	Compliant	Mr. Rajendra Theagarajah, Managing Director of the parent Company, Hatton National Bank PLC overlooked the functions as the Acting Chairman of the Board until the appointment of Dr. Ranee Jayamaha as the Chairperson on 29th June 2012. Both Mr. Theagarajah and Dr. Jayamaha possess vast experience and knowledge in Banking, Management and other related areas. Both of them have provided effective leadership to the Board by, • maintaining effective participation and contribution of both Executive and Non-Executive Directors, • encouraging debate and constructive criticism, • setting agendas for meetings of the Board in conjunction with the Company Secretary, • ensuring that adequate time is available for discussions on strategic issues, • ensuring a proper balance of power between Executive and Non- Executive Directors, • representing the views of the Board to the shareholders and the public, and • ensuring that the Board is in complete control of the Company's affairs.

<table>
<tr><th>Section Number</th><th>Principle</th><th>Compliance Status</th><th>Company's Commitment</th></tr>
<tr><td>A.4</td><td colspan="3">FINANCIAL ACUMEN</td></tr>
<tr><td></td><td>The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.</td><td>Compliant</td><td>The Board is made up of knowledgeable and experienced individuals for guidance on matters of finance. All Directors possess qualifications and/or experience in accounting and finance.

Members of our Board are:</td></tr>
<tr><td></td><td colspan="3">- Dr. Ranee Jayamaha B.A. Hons (University of Ceylon, Peradeniya), MSc. (University of Stirling, U.K.), Ph.D (University of Bradford, U.K.), Duniv (University of Stirling, U.K.) - Chairperson and Non-Executive Director (Former Deputy Governor in charge of Financial System Stability of the Central Bank of Sri Lanka with over 37 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 (USA) - Managing Director (Chartered Management Accountant with over 20 years of experience in Fund Management and Insurance)

- R Theagarajah FCMA (UK), CGMA (USA), FCA (Sri Lanka), MBA (Cranfield University, UK), FIB (Hon) Sri Lanka – Non-Executive Director (Chartered Accountant and Chartered Management Accountant with over 25 years of experience in Banking)

- M U de Silva FCIB (London) – Non-Executive Director (Banker with over 50 years of experience)

- Pratapkumar de Silva FICM (Sri Lanka), FICM (England) – Independent Non-Executive Director (Fellow of the Institute of Credit Management with over 50 years of experience in the Finance sector)

- Sarath Ratwatte FCMA (UK), CGMA (USA) - Independent Non-Executive Director (Chartered 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 18 years experience in Accounting and General Management)

- K Balasundaram - Independent Non-Executive Director (45 years of experience in Finance)

Brief profiles of each member of the Board can be found on Pages 18 to 21.</td></tr>
<tr><td>A.5</td><td colspan="3">BOARD BALANCE</td></tr>
<tr><td></td><td>The Board should have a balance of Executive and Non-Executive Directors.</td><td>Compliant</td><td>The Board comprises eight Non-Executive Directors and one Executive Director who also functions as the Managing Director/CEO. Names of the Directors of each category are given on Page 200.</td></tr>
<tr><td>A.5.1</td><td>The Board should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of the total number of Directors, whichever is higher.</td><td>Compliant</td><td>The Board has eight Non- Executive Directors which is in excess of one third of the total number of Directors. Please refer Pages 18 to 21 for the profiles of these directors.</td></tr>
</table>

Section Number	Principle	Compliance Status	Company's Commitment
A.5.2	Two or one-third of Non-Executive Directors appointed to the Board, should be 'Independent Non-Executive Directors'.	Compliant	Of the eight Non-Executive Directors of the Company, Mr. Pratapkumar de Silva, Mr. Sarath Ratwatte, Mr. J A P M Jayasekera and Mr. K Balasundaram are Independent Non- Executive Directors. Therefore, the number of Independent Non- Executive Directors is in excess of one third of Non-Executive Directors.
A.5.3	For a Director to be deemed 'Independent', such Director should be independent of the management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.	Compliant	All four Independent Non-Executive Directors meet the criteria for independence as per the 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	A declaration should be signed by each Non-Executive Director annually, stating independence or non-independence against specified criteria.	Compliant	All Non-Executive Directors have submitted the declaration of independence or non-independence as per the Code of Best Practice on Corporate Governance and Listing Rules.
A.5.5	The Board should make a determination on the independence or non-independence of the Directors based on the above declaration and other information available to the Board.	Compliant	The Board, in its Annual Report, has determined the independence or non-independence of each Director. This was declared at the Board Meeting held on 06th February 2013. The Annual Report of the Board of Directors is given on Pages 198 to 206.
A.5.6	When the Chairman and the CEO is the same, the Board should appoint an Independent Non- Executive Director to be the Senior Independent Director.	Not Applicable	Since the roles of the Chairman and the CEO of the Company are separated, this requirement does not arise.
A.5.7	The Senior Independent Director should make himself available for confidential discussions with other Directors.	Not Applicable	Since the roles of the Chairman and the CEO of the Company are separated, this requirement does not arise.
A.5.8	The Chairman should hold meetings with Non- Executive Directors, without the presence of the Executive Directors, at least once a year.	Compliant	The Board meets at least once a year, without the presence of MD/CEO. One of the main areas of focus at this meeting is the performance of MD/CEO and his remuneration package. Any other such meeting would be held as and when the need arises.

Section Number	Principle	Compliance Status	Company's Commitment
A.5.9	When Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should be recorded in the Board Minutes.	Compliant	All decisions of the Board were taken unanimously and there were no concerns raised by the Directors during the year which needed to be recorded in the Board Minutes. However if such concerns do arise, the Company's policy is to record them accordingly.
A.6	**SUPPLY OF INFORMATION**		
	The Board should be provided with timely information in a form and of a quality appropriate to enable it discharge its duties.		
A.6.1	The management has an obligation to provide the Board with appropriate and timely information.	Compliant	The Management ensures that a set of timely, accurate, relevant and comprehensive information is provided to the Directors before the Board Meeting every month, with adequate time for them to review the same and prepare for discussions. All significant financial and non-financial information for the period are included in these analyses.
	In addition, the Board requests additional information with respect to areas such as the Company's operations, industry and competitors, risk management, laws and regulations and Corporate Governance, as the need arises.		
A.6.2	The minutes, agenda and papers required for Board Meetings should be provided at least Seven days before the meeting.	Compliant	All Board papers and papers for Sub-Committee meetings are circulated at least one week (seven days) prior to such meetings.
A.7	**APPOINTMENTS TO THE BOARD**		
	There should be a formal and transparent procedure for the appointment of new Directors to the Board.	Compliant	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 Page 137.
A.7.1	A Nomination Committee should be established to make recommendations to the Board.	Compliant	The Nomination Committee comprises four Directors including the Chairperson and the MD/CEO. The composition, responsibilities and other information of the Nomination Committee are disclosed on Page 140.
A.7.2	An annual assessment of the Board composition should be conducted by the Nomination Committee.	Compliant	The composition of the Board is subject to continuous review by the Nomination Committee, especially with regard to changes in the environment and regulations. The Committee makes recommendations for new appointments where necessary.

Section Number	Principle	Compliance Status	Company's Commitment
A.7.3	The Company should disclose information to the shareholders upon the new appointment of Directors.	Compliant	All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the CSE. The Annual Report also carries details of new appointments of Directors, together with a brief profile of each Director. Please refer Page 200 for details of the new appointments.
A.8	**RE-ELECTION**		
	All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.		
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election.	Compliant	Refer pages 137 and 138 for the Company's procedure of directors' Appointments and Re-election of Directors
A.8.2	All Directors and Chairman should be subject to election by shareholders at the first opportunity after the appointment and to re-election at regular intervals.	Compliant	Please refer pages 137 and 138 for the detailed procedure of re-election and re-appointment of Directors.
A.9	**APPRAISAL OF BOARD PERFORMANCE**		
	The Board should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.		
A.9.1	The Board should annually appraise its own performance in the discharge of key responsibilities.	Compliant	During the year, the Board carried out a self-evaluation using a formal questionnaire covering all the responsibilities of the Board. The evaluation was coordinated by the Board Secretary.
	Further, the Audit Committee continued its self-assessment process and the evaluation by the Management from the previous years to ensure it functions effectively and efficiently and discharges all its responsibilities as outlined in the Audit Committee Charter. The Company plans to expand this process to a 360 degree appraisal in 2013, involving both the Internal and External Auditors in the Audit Committee Evaluation process. Please refer page 141 for the details of the evaluation process.		
A.9.2	The Board should undertake an annual self-evaluation of its own performance and that of its committees.	Compliant	As noted above, the Board of Directors and the Audit Committee carried out a self-evaluation during the year.
A.9.3	The Board should state in the Annual Report how such performance evaluations have been conducted.	Compliant	Please refer Page 141 for details on the process followed with regard to the evaluation of the Board.

Section Number	Principle	Compliance Status	Company's Commitment
A.10	**DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS**		
	Shareholders should be kept advised of relevant details in respect of Directors.		
A.10.1	Annual Report should contain details of all Directors.	Compliant	Required information with respect to Directors is disclosed in this Annual Report where relevant.
	- The profiles of all Board members are provided on Pages 18 to 21. - Details of Directors' Interests in Contracts are provided on Page 207. - Details of Related Party Transactions are provided on Pages 279 to 283. - The composition of Board Sub-Committees and attendance at Board meetings and Board Sub-Committee meetings by each Director are provided on Pages 138 to 140 and 201, respectively.		
A.11	**APPRAISAL OF MD/CEO**		
	The Board should be required, at least annually, to assess the performance of the MD/CEO.		
A.11.1	The Board should set, with consultation of the CEO, the financial and non-financial targets to be achieved by the CEO during the year, in line with short, medium and long term objectives of the Company.	Compliant	The Board, in consultation with the MD/CEO, sets reasonable financial and non-financial targets in line with 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 2012 were;
	- Market Share - Profitability - Underwriting Results - Premium Persistency - Dividend Payout - Corporate Governance - Remuneration of Employees - Gross Written Premium for Life and Non - Life Insurance The Board monitored the achievement of these targets throughout the year and provided guidance to the MD/CEO where necessary.		
A.11.2	The performance of the MD/CEO should be evaluated by the Board at the end of each year.	Compliant	The performance of the MD/CEO is evaluated by the Board at the end of each year based on the agreed objectives described in A.11.1. Remuneration to the MD/CEO is determined based on the achievement of targets set for the year.
B	**DIRECTORS' REMUNERATION**		
B.1	**REMUNERATION PROCEDURE**		
	Companies should establish a formal and transparent procedure for developing policies on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.		

Section Number	Principle	Compliance Status	Company's Commitment
B.1.1	Board should set up a Remuneration Committee to make recommendations to the Board.	Compliant	A Remuneration Committee has been appointed and functions within agreed terms of reference. The main responsibility of the Remuneration Committee is to assist the Board with regard to the Remuneration Policy of the Company. According to the Company's policy, no Director or employee should get involved in deciding his/her own remuneration. The MD/CEO and Manager – Human Resources participate in Remuneration Committee Meetings by invitation. The Remuneration Committee met three times during the year. Please refer Pages 181 to 183 for the Remuneration Committee Report.
B.1.2	The Remuneration Committee should consist of Non-Executive Directors, accompanied by a Chairman.	Compliant	All three members of the Remuneration Committee are Non- Executive Directors out of whom two are Independent Non-Executive Directors. The Board appoints the Chairman of the Remuneration Committee. Mr. M U de Silva acts as the current Chairman of the Remuneration Committee. Please refer the Remuneration Committee Report on Pages 181 to 183 for details on the functions of the Remuneration Committee.
B.1.3	Members of the Remuneration committee should be listed in the Annual Report.	Compliant	Members, responsibilities and other information in respect of the Remuneration Committee are disclosed on Page 139.
B.1.4	Determination of Remuneration of Non-Executive Directors.	Compliant	Non-Executive Directors who are nominees of the parent company are paid a nominal fee for their attendance at the Board and Sub-Committee Meetings. Other Non-Executive Directors are remunerated in line with market practices, based on attendance at Board and Sub-Committee meetings.
B.1.5	The Remuneration Committee can consult MD/CEO or external consultants regarding the remuneration of Executive Directors.	Compliant	The Committee consults 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**		
	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.		

Section Number	Principle	Compliance Status	Company's Commitment
B.2.1	The Remuneration Committee should provide attractive packages to retain Executive Directors.	Compliant	The remuneration package of the MD/CEO, who is the only Executive Director, is linked to corporate and individual performance. Annual increments of all Executive employees will be dependent on the achievement of objectives set at the beginning of the year and their individual performance on selected personal attributes. Annual increments of Non-Executive employees will be dependent only on their individual performance on selected personal attributes.
B.2.2	The Remuneration Committee should set remuneration in line with industry standards and the Company's performance.	Compliant	The Remuneration Committee compares the remuneration levels of the Company with such packages of comparable companies in the industry and is sensitive to changes in the remuneration levels. It reviews reports of salary surveys periodically to get an assessment of comparable industry standards. A survey carried out by Messrs. KPMG was taken into consideration when deciding on changes to remuneration levels at the end of 2012.
B.2.3	Remuneration Committee should consider employment conditions and remuneration elsewhere in the Company or within the Group, when determining the remuneration levels.	Compliant	The Remuneration Committee considers remuneration levels of the Group when deciding HNBA's remuneration packages.
B.2.4	Performance related elements of the remuneration of Executive Directors should be aligned with the interests of the Company and main stakeholders.	Compliant	As stated above, 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 should not be offered at a discount.	Not Applicable	The Company does not have any type of share option scheme for the Directors or employees at present.

Section Number	Principle	Compliance Status	Company's Commitment
B.2.6	The Remuneration Committee should design a performance related remuneration scheme, in line with the provisions set in the standard.	Compliant	The MD/CEO and employees at all levels are eligible for annual performance linked bonuses based on the achievement of Life and Non - Life Insurance business targets and profitability targets. A special production bonus scheme is in place for Distribution Managers and other staff involved in Distribution and related activities. The Company does not have any long term incentive schemes, including share option schemes.
	There are no pension schemes other than Gratuity. The consequences on Gratuity are considered when determining salary increases. Performance-related remuneration schemes are not applied retrospectively. Non-Executive Directors are not eligible for performance based remuneration schemes.		
B.2.7 & B.2.8	Compensation commitments on early termination.	Compliant	There are no terminal compensation commitments other than Gratuity in the Company's contracts of service.
B.2.9	Remuneration of Non-Executive Directors should reflect the time, commitment and responsibilities of their role, in line with market practices.	Compliant	All 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		
	The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.		
B.3.1	Remuneration Policy and details of remuneration of the Board should be stated in the Annual Report.	Compliant	The aggregate remuneration paid to MD/CEO and Non-Executive Directors is disclosed in Page 202 of this Report. The Remuneration Committee's Report, which highlights the Remuneration Policy of the Company, is given on Pages 181 to 183.
C	RELATIONS WITH SHAREHOLDERS		
C.1	CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS		
	The Board should use the AGM to communicate with shareholders and should encourage their participation.		
C.1.1	Companies should count all Proxy Votes	Compliant	The Company has a mechanism to record all proxy votes and proxy votes lodged on each resolution.
C.1.2	Companies should propose a separate resolution at the AGM on each substantially separate issue.	Compliant	Each substantially separate issue is proposed as a separate resolution. The adoption of the Annual Report of the Board of Directors, along with the financial statements, is also proposed as a separate resolution.

<table>
<tr><th>Section Number</th><th>Principle</th><th>Compliance Status</th><th>Company's Commitment</th></tr>
<tr><td>C.1.3</td><td>The Board Sub-Committees' Chairmen should be available at the AGM to answer questions of the shareholders.</td><td>Compliant</td><td>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 Sub-Committees at the last AGM held on 29th March 2012.</td></tr>
<tr><td rowspan="2">C.1.4</td><td>Companies should arrange for circulation of Notice of Meeting and related documents to shareholders before the meeting.</td><td>Compliant</td><td>The Annual Report together with Notice of Meeting and related documents and other resolutions, if any, is circulated to the shareholders at least fifteen (15) working days prior to the date of the AGM.</td></tr>
<tr><td colspan="3">Annual Report 2011 was submitted to the CSE on 28th February 2012 and was posted to all shareholders by 06th March 2012. The AGM was held on 29th March 2012.

Please refer Page 320 for the Notice of Meeting of the AGM 2012 to be held on 27th March 2013.</td></tr>
<tr><td>C.1.5</td><td>Summary of procedures governing voting at the AGM should be circulated with every Notice of General Meeting.</td><td>Compliant</td><td>The proxy form, which includes a summary of the procedures governing voting at the AGM, is circulated to all shareholders as noted.</td></tr>
<tr><td>C.2</td><td colspan="3">MAJOR TRANSACTIONS</td></tr>
<tr><td></td><td colspan="3">All material transactions i.e. which if entered into, would materially alter/vary the net asset value of the Company, should be disclosed.</td></tr>
<tr><td>C.2.1</td><td>Directors should disclose all material facts of major transactions to the shareholders.</td><td>Compliant</td><td>There were no major transactions during the year. However, if there were any such transactions, it is the policy of the Company to disclose them in the quarterly and annual financial statements in accordance with relevant Sri Lanka Accounting Standards and the Companies Act.</td></tr>
<tr><td>D</td><td colspan="3">ACCOUNTABILITY AND AUDIT</td></tr>
<tr><td rowspan="2">D.1</td><td colspan="3">FINANCIAL REPORTING</td></tr>
<tr><td colspan="3">The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.</td></tr>
</table>

Section Number	Principle	Compliance Status	Company's Commitment
D.1.1	The Board should be responsible in presenting balanced and understandable financial statements, other price-sensitive public reports and reports to regulators.	Compliant	The Company presents its financial statements in line with Sri Lanka Accounting Standards (SLFRS/LKAS) and other applicable laws and regulations. It strives to provide a detailed and transparent analysis of the performance and the future strategies in the Annual Report, to enable investors to make informed decisions. Further, the interim annual financial statements were published on a timely basis during 2012.
	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 2012 are disclosed in Page 145. The Company's financial position and prospects have been discussed in detail in the following reports: • Chairperson's Message on Pages 8 to 11. • Managing Director's Review on Pages 12 to 17. • Management Discussion and Analysis on Pages 29 to 119.		
D.1.2	The Directors' Report should contain a declaration by the Directors.	Compliant	The Directors' Report contains a declaration by the Directors regarding the Code of Best Practice on Corporate Governance.
D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements together with the Auditors' Report.	Compliant	Page 208 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 212.
D.1.4	The Annual Report should contain a Management Discussion and Analysis.	Compliant	The Management Discussion and Analysis, included in Pages 29 to 119 of this Annual Report, covers all relevant areas.
D.1.5	The Board should report that the business is a going concern.	Compliant	The Board, after conducting necessary reviews and enquiries, decided to apply the 'Going Concern' assumption in preparing the Company's financial statements for the year 2012. The declaration of the Company as a "Going Concern" is given in the Directors' Report on Page 198.
D.1.6	Directors shall summon an EGM to notify shareholders, if net assets fall below one half of the shareholder's funds.	Compliant	Although the likelihood of such a situation is remote, if it arises, an EGM would be called to inform shareholders.
D.2	INTERNAL CONTROL		
	The Board should maintain a sound system of internal controls to safeguard shareholders' investments and the Company's assets.		

<table>
<tr><th>Section Number</th><th>Principle</th><th>Compliance Status</th><th>Company's Commitment</th></tr>
<tr><td>D.2.1</td><td>The Board should review the effectiveness of the internal control system at least annually.</td><td>Compliant</td><td>The Board has overall responsibility for the system of internal controls and has delegated some of these responsibilities to the Audit Committee and the Investment Committee.</td></tr>
<tr><td></td><td colspan="3">The details of the work carried out by the Audit committee are given on the Audit Committee report on pages 176 to 180.

The Investment Committee also monitors the internal controls in respect of investments through the review of various reports and levels of compliance with internal and regulatory requirements. The details of the work carried out by the Investment Committee are given on the Investment Committee report on pages 184 and 185.</td></tr>
<tr><td>D.2.2</td><td>The need for an internal audit function should be reviewed from time to time.</td><td>Compliant</td><td>The Company has appointed M/S Ernst & Young Advisory Services (Pvt) Ltd as the Internal Auditors for the Company. All reports by the Internal Auditors are filed with the Audit Committee.</td></tr>
<tr><td>D.3</td><td colspan="3">AUDIT COMMITTEE</td></tr>
<tr><td></td><td colspan="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.</td></tr>
<tr><td>D.3.1</td><td>The Audit Committee should comprise Non-Executive Directors, majority of whom should be independent.</td><td>Compliant</td><td>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 176 to 180 for details on the functions of the Audit Committee.</td></tr>
<tr><td>D.3.2</td><td>Effectiveness of the audit and independence and objectivity of Auditors should be reviewed by the Audit Committee</td><td>Compliant</td><td>The Audit Committee monitors and reviews the effectiveness of the Company's Internal and External Audit functions and ensures proper co-ordination between all the relevant parties, so that the Company receives adequate services.</td></tr>
<tr><td></td><td colspan="3">During the year, the Audit Committee evaluated the integrity, competency and professionalism of Auditors as a routine responsibility and concluded that no aspect of the Auditor's work was impaired due to the lack of independence.

The Audit Committee also has the primary responsibility for making recommendations on the appointment, re-appointment or removal of the External Auditors in-line with professional standards and regulatory requirements.

Further, the Company's External Auditor, M/S KPMG has given a declaration of its independence to the Audit Committee as per the relevant rules.</td></tr>
<tr><td>D.3.3</td><td>The Audit committee should have a written Terms of Reference.</td><td>Compliant</td><td>The Audit Committee operates with clearly defined terms of reference. Main areas of focus in the Audit Committee Charter are;</td></tr>
<tr><td></td><td colspan="2">- Composition
- Meetings
- Financial reporting
- Risk management and internal control
- Other responsibilities</td><td>- Internal audit
- External audit
- Compliance and litigation
- Reporting responsibilities</td></tr>
<tr><td></td><td colspan="3">A summary of the duties of the Committee is provided on Page 139.</td></tr>
</table>

Section Number	Principle	Compliance Status	Company's Commitment
D.3.4	Names of the Directors comprising the Audit Committee and their independence should be disclosed in the Annual Report.	Compliant	Names of the Directors comprising the Audit Committee are set out on Page 176 of the Annual Report.
D.4	**CODE OF BUSINESS CONDUCT & ETHICS**		
	Companies must adopt a Code of Business Conduct & Ethics for Directors and members of the Senior Management Team and must promptly disclose any waivers of the Code by Directors or others.		
D.4.1	Companies must adopt a Code of Business Conduct and Ethics for the Directors and the Senior Management.	To be fully implemented in year 2013	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. In addition, the Company introduced a Share Dealing Policy and Code during the year, which is applicable for the Board of Directors, Senior Management and other relevant employees. The Company is planning to issue a Code of Business Conduct and Ethics for the Board in the year 2013.
D.4.2	The Board must affirm that there is no violation of the provisions of the Code.	Compliant	Please refer the Annual Report of the Board of Directors on Page 205, which affirms that there are no material violations of the Company's Code of Business Conduct and Ethics during 2012.
D.5	**CORPORATE GOVERNANCE DISCLOSURE**		
	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	The Directors should include a Corporate Governance Report in the Annual Report.	Compliant	The Board has implemented a systematic process, supported by a culture where compliance is at a maximum level, in line with the provisions of the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC and the Rule No. 7.10 of Listing Rules issued on Corporate Governance by the CSE.
	This Report sets out the manner and extent to which the Company has complied with the principles and provisions of the above mentioned Codes and Rules. The Corporate Governance Report can be found on Pages 135 to 175 of this Annual Report. Further, Pages 198 to 206 of the Annual Report of the Board includes a section highlighting the Company's commitment to maintain an effective Corporate Governance structure and process, in order to be in compliance with all possible rules, regulations and best practices on Corporate Governance.		
2	**SHAREHOLDERS**		
E	**INSTITUTIONAL INVESTORS**		
E.1	**Shareholders Voting**		
	Should ensure institutional shareholders' voting intentions are translated into practice.		
E.1.1	Listed companies should conduct regular and structured dialogue with shareholders.	Compliant	The Annual Report, quarterly financial statements and the AGM are the main means of communication between the Company and the shareholders. The shareholders are always encouraged to participate and vote at the AGM.

Section Number	Principle	Compliance Status	Company's Commitment
	The Chairperson ensures that the views expressed at the AGM are properly addressed.		
E.2	Evaluation of Governance Disclosures		
	Institutional investors should be encouraged to give due weight to the relevant governance arrangements.	Compliant	Sufficient attention has been given to the interests of institutional investors. This Annual Report highlights the governance structure of the Company.
F	**OTHER INVESTORS**		
F.1	**Investing/ Divesting Decisions**		
	Individual shareholders are encouraged to seek independent advice on investing or divesting decisions.	Compliant	The Annual Report contains sufficient information to make an informed decision. Following are the main sections included in this Annual Report which provides an overall assessment of the Company's affairs during the financial year 2012:
	- Chairperson's Message from Pages 8 to 11 - Managing Director's Review from Pages 12 to 17 - Management Discussion and Analysis from Pages 29 to 119 - Corporate Governance Report from Pages 135 to 175 - Annual Financial Statements from Pages 213 to 308 Both Sinhala and Tamil translations of the Chairperson's Message, the Managing Director's Review, Statement of Financial Position Sheet, Statements of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity are available on request.		
F.2	**Shareholder Voting**		
	The Company must encourage individual shareholders to participate in General Meetings and exercise voting rights.	Compliant	All shareholders are encouraged to participate at General Meetings and cast their votes.

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

The following table has been published in accordance with the requirement to disclose the level of compliance with the above Rules.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.1	Non-Executive Directors	Two or one-third of the total number of Directors, whichever is higher, shall be Non-Executive Directors.	Compliant	Eight out of nine Directors of the Company function as Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors appointed to the board, whichever is higher, shall be independent.	Compliant	Four out of eight Non-Executive Directors are independent.
7.10.2 (b)		Each Non-Executive Director shall submit a declaration of independence/ non- independence in the prescribed format.	Compliant	Non-Executive Directors have submitted declarations during 2012.
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 200 of the Annual Report of the Board of Directors.
7.10.3 (b)		In the event a Director does not qualify as independent as per the Rule 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 20 and 21.
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Exchange for dissemination to the public.	Compliant	The announcements to the Exchange were made as follows; Appointment of Dr. Ranee Jayamaha to the Board - 29th June 2012 Appointment of Mr. A J Alles, Mr. J A P M Jayasekera and Mr. K Balasundaram - 03rd December 2012.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee.	Compliant	Details of the Remuneration Committee are given on Page 139.
7.10.5 (a)		The Remuneration Committee shall comprise 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.		Mr. M U de Silva (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 139.
7.10.5 (c)		The Annual Report should set out: Names of the Directors serving in the Remuneration Committee Statement of Remuneration Policy Aggregate remuneration paid to Executive and Non- Executive Directors	Compliant	- Please refer Page 181 for the composition of the Remuneration Committee. - Please refer the Remuneration Committee Report on Pages 181 to 183. - Please refer page 202 of the Annual Report of the Board of Directors.
7.10.6	Audit Committee	A listed entity shall have an Audit Committee.	Compliant	Please refer Page 176.
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 Audit Committee.
		Chief Executive Officer (CEO) and Chief Financial Officer (CFO) shall attend Audit Committee meetings.	Compliant	MD/CEO attends the meetings by invitation. In the beginning of the year, Head of Finance attended the meetings in the capacity of Secretary to the Committee and as the CFO. However, following the appointment of the Board Secretary as the Secretary to the Committee, Head of Finance now attends the meetings by invitation.

Rule No.	Subject	Requirement	Compliance Status	Remarks
		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 recognized professional accounting bodies. Please refer Page 176 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 Pages 138 and 139 for a brief description of the functions of the Committee and Pages 176 to 180 for the Report of the Audit Committee.
7.10.6 (c)		The Annual Report should set out, - Names of the Directors serving in the Audit Committee - The Committee's determination of the independence of the Auditors and the basis for such determination - A Report by the Audit Committee setting out the manner of compliance with the requirements set out in section 7.10 of the Listing Rules.	Compliant	- Please refer Page 176 for the composition of the Audit Committee. - Please refer Page 178 for the Report of the Audit Committee. -Please refer Page 180 for the Report of the Audit Committee.

Audit Committee
Report

Composition

The Audit Committee, appointed by and responsible to the Board of Directors, comprises three Non-Executive Directors, two of whom are independent. The Committee is made up of members who bring their varied expertise and knowledge to effectively carry out their duties.

Members of the Committee as at the year-end are:

Name of the Member	Category	Date of appointment to the Committee	Qualifications
Mahendra Jayasekera	Independent Non-Executive Director	11th December 2012	FCA, BSc Special Hons (University of Sri Jayawardenapura)
Sarath Ratwatte	Independent Non-Executive Director	30th January 2009	FCMA (UK), CGMA (USA)
Jonathan Alles	Non-Executive Director	11th December 2012	MBA (University of Stirling – Scotland), AIB (SL)

A brief profile of each member is given on pages 20 and 21 of this Annual Report.

During the year, the Board Secretary was appointed as the Secretary to the Audit Committee to emphasize the Company's commitment towards best governance.

Following members of the Committee resigned from the Board during the year.

Name of the Member	Category	Date of resignation
D M de S Wijeyeratne	Independent Non-Executive Director and the Chairman of the Audit Committee	14th November 2012
J D N Kekulawala	Non-Executive Director – Member of the Audit Committee	8th October 2012

The functions of the Audit Committee are governed by an Audit Committee Charter, which is reviewed annually.

Meetings of the Audit Committee

The Committee met three (3) times during the financial year under review. The attendance of each member is given on page 201. Agendas of the meetings were prepared and distributed sufficiently in advance to members, along with appropriate briefing material.

Several other informal meetings and communications among the Chairman and other members of the Committee, internal and external auditors and members of the Executive Committee and the management also took place during the year.

The Managing Director (CEO) and Head of Finance (CFO) attend all meetings by invitation. Other Executive Committee Members, Finance Manager, Manager – Internal Control and Compliance and other members of the management are also invited to attend these meetings when necessary.

Additionally, Internal Auditors and External Auditors attend some of these meetings by invitation.

Objective and Authority

The main objective of the Audit Committee is to assist the Board of Directors to perform its duties effectively and efficiently. Accordingly, the objectives of the Audit Committee can be described in detail as follows:

- To satisfy itself that a good financial reporting system is in place in order to present accurate and timely financial information to the Board of Directors, regulators and shareholders and to make sure that the Financial Statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS), Regulations of the Insurance Industry Act, No. 43 of 2000 and amendments thereto, Companies Act, No. 07 of 2007 and other relevant laws and regulations.
- To satisfy itself of the effectiveness of the Company's risk management processes to identify and mitigate risks.
- To review the process to assess the design and implementation of the internal control systems and take steps to strengthen them as necessary.
- To ensure that the conduct of the business is in compliance with the applicable laws and regulations of the country, and policies and procedures of the Company.

- To monitor processes for compliance with laws and regulations.
- To assess the independence of the External Auditors and monitor the performance of Internal and External Auditors.
- To assess the evaluation of the Company's ability to continue as a going concern into the foreseeable future.

The Audit Committee is empowered to seek any information it requires from the management and staff (all of whom are directed to cooperate with the Committee) or external parties, meet with the management and staff, External and Internal Auditors, Consultant Actuaries, regulators or outside counsel, in order to achieve the objectives stated above.

The Committee also reviewed all published financial statements, internal and external audit reports, risk management reports, compliance reports, etc., during the year to ensure that the objectives were met effectively.

The members have also segregated the key responsibilities of the Committee among the three members to focus on specific areas. Whilst understanding that all three members as a team are responsible when it comes to achieving the set objectives of the Committee, each member focuses on areas allocated to him. Such segregated areas are;

- Financial Reporting and External Audit
- Internal Control, Risk Management and Internal Audit
- Compliance and Other

Activities and Responsibilities

The Committee carried out following activities during the year.

Financial Reporting:
The Committee, as a part of its responsibility to oversee the Company's financial reporting process on behalf of the Board of Directors, reviewed in consultation with the External Auditors and the management when necessary, significant accounting and reporting issues, developments in the Financial Reporting Framework (Sri Lanka Accounting Standards – SLFRS/LKAS), the consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Financial Reporting Standards (SLFRS/LKAS), disclosure requirements and other applicable accounting and financial reporting requirements such as the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

The Company policy is to review and approve Interim and Annual Financial Statements before publishing. Accordingly, the Committee reviewed all four (4) Interim Financial Statements and the Annual Financial Statements for the year 2012 and recommended the adoption of the same to the Board.

Implementation of new/revised Sri Lanka Accounting Standards (SLFRS/LKAS)

For all periods up to and including the year ended 31st December 2011, the Company prepared its financial statements in accordance with the generally accepted local accounting practices, Sri Lanka Accounting Standards (SLAS). These financial statements, for the year ended 31st December 2012, are the first, that the Company has prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

Implementation of SLFRS/LKAS brought significant changes in Financial Statements of the Company in respect of classification, measurement, presentation and disclosures which are complex in nature. Having identified this complexity in advance, the Company took a number of initiatives on its own as well as with the industry to ensure that the implementation process does not create any unexpected changes to the Financial Statements of the Company. The Company also appointed Messrs. KPMG, to advice the management and the Board on the proper implementation of these accounting standards.

The Company also started to present its Interim Financial Statements in line with the new/revised SLFRS/LKAS from the second quarter onwards. Messrs. KPMG audited these second quarter Interim Financial Statements and confirmed that the numbers are in line with requirements of SLFRS/LKAS.

The Financial Statements for the year ended 31st December 2012 are also audited by Messrs. KPMG and are fully compliant with the new/revised SLFRS/LKAS.

Compliance with Laws and Regulations:

The Company has developed a comprehensive compliance checklist which covers all the compliance requirements under the prevailing laws and regulations. The checklist is signed off by respective officers of the Company on a quarterly basis. The Committee reviewed 4 such Compliance Checklists signed off by the members of the Management Team to monitor compliance with all applicable rules and regulations to the Company.

In addition, the Committee also reviewed 4 compliance reports submitted by the Manager - Internal Control and Compliance to ensure that the Company has complied with all statutory requirements including those set out by the Regulation of Insurance Industry Act, No. 43 of 2000.

Audit Committee
Report

Statutory Reporting to the Insurance Board of Sri Lanka (IBSL):

The Committee reviewed and approved all Quarterly and Annual Returns submitted by the Company during the year to the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

External Audit:

The Audit Committee met with the External Auditors to discuss the audit scope and plan. The Committee reviewed the external audit plan and the methodology to understand the audit quality control / assurance processes adopted by the external auditors.

The Committee also discussed about the coordination of the audit effort with the management and the internal auditors and ensured that the external auditors get required information and assistance from all relevant parties.

The Committee perused the Report of the Auditors and the Management Letters issued by them in consultation with both the External Auditors and the Management. The actions taken by the management to implement the recommendations made by the auditors were followed up. The External Auditors were given adequate access to the Audit Committee and all relevant information required.

The Audit Committee met the External Auditors without the management being present on one occasion during the year.

The Committee has recommended to the Board of Directors that Messrs. KPMG be reappointed as Auditors for the financial year ending 31st December 2013 subject to the approval of Shareholders at the Annual General Meeting to be held on 27th March 2013.

The Audit Committee also reviewed and recommended the fees payable to the statutory auditors for approval by the Board.

Independence of External Auditors

The Audit Committee reviews the audit and non-audit work which are assigned to the External Auditors, Messrs. KPMG before such services are assigned, to ensure that provision of such services does not impair independence.

The services provided by the external auditors are segregated between what requires an independent view such as audit and assurance services and other advisory services such as consultancy services and work is assigned to prevent a conflict of interest for the external auditors.

The Committee has received a declaration from Messrs. KPMG, as required by the Companies Act, No. 7 of 2007, confirming that they do not have any relationship with the Company which may have a bearing on their independence within 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) and 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 in such circumstances.

During the year, Messrs. KPMG completed the work assigned to them in last year to act as an independent reviewer to assist the Company in implementation of Sri Lanka Financial Reporting Standards (SLFRS/LKAS) which became effective from 1st January 2012.

No advisory services were provided by Messrs. KPMG, to the Company during the financial year under review.

Internal Audit:

The Internal Audit function has been out-sourced to Messrs. Ernst & Young Advisory Services (Pvt) Ltd. The Committee monitors the effectiveness of the internal audit function and is responsible for approving their appointment or removal. The Committee approves the fees for the internal auditors.

The Committee reviews and approves the Internal Audit plan, scope, and reporting requirements, etc. of the Company every year. The Committee reviewed 10 Internal Audit Reports covering the operations of 30 branch locations and several head office functions i.e. underwriting, claims, reinsurance, credit control, finance, investments, etc. Audit findings presented in the reports are prioritised based on the level of risk.

Progress on implementation of Internal Audit recommendations was also monitored regularly by the Committee. Internal Audit reports were made available to the External Auditors as well.

The Audit Committee met the Internal Auditors without the management being present once during the year.

Reports of External Actuaries

The Audit Committee received written reports from the Life and Non - Life Independent External Actuaries and their observations and comments with regard to the work performed in valuing Life Insurance Policyholder Liabilities and Non - Life Insurance Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER).

The Committee also reviewed the assumptions used by the actuaries in valuing insurance contract liabilities and discussed with the management about the reasonableness 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).

As required by SLFRS 4 – Insurance Contracts, the Company also performed Liability Adequacy Tests (LAT) with the support of external actuaries and concluded that the recorded insurance contract liabilities for both Life and Non - Life Insurance are adequate as at 31st December 2012.

Please refer Note 15.1 and 16.7 on Pages 255 and 256 respectively of the Financial Statements for the detailed disclosure on LAT.

In addition, the Committee reviewed the Gratuity Valuation report by the appointed actuary (as required by LKAS 19 – Employee Benefits) and discussed the methodology and the reasonableness of assumptions used by the actuary with the management.

All the reports by external actuaries were made available for the review of the External Auditors.

Internal Control and Risk Management

The effectiveness of the Company's internal controls and risk management processes were evaluated mainly by the reports furnished by the management, and the reports from the External and Internal Auditors.

Finance, Non - Life and Life Divisions signoff monthly procedure checklists covering all the operational controls in respective divisions and report same to both the Executive Committee and the Audit Committee.

The management is in the process of preparing similar checklists for the Marketing & Distribution Division and the IT Division to be deployed from the year 2013 onwards.

Manager - Internal Control 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 by the auditors.

The Committee also received an updated Risk Assessment Report during the year which included significant risks identified by the Risk Management Committee of the Company. The Committee also reviewed the process for identification, evaluation and management of significant risks throughout the Company and the effectiveness of the mitigating actions taken or to be taken by the management.

As noted in the previous year's report too, the Company completed internal controls questionnaires based on the "What Could Go Wrong" model to review Life Insurance and Finance related processes to ensure there are adequate and effective internal controls to mitigate risks in these areas. These questionnaires were prepared by senior officers in respective divisions led by the Manager- Internal Control and Compliance. The completed questionnaires were reviewed by the Committee. These questionnaires have now been shared with internal auditors to be tested.

The management is in the process of completing similar questionnaires for the Non - Life and IT Divisions which are planned to be completed in the first half of the year 2013.

IT Risk and Control Assessment

The Committee pays significant attention to the risks of IT related processes of the Company. Thus, the Committee appointed Messrs. Ernst & Young to carry out a comprehensive IT Security Audit in the year 2011 covering IT General Controls and Application Controls in both Life and Non - Life Insurance systems.

The focus in the year 2012 was to implement or take actions to address the observations made by the IT Auditors. The Company intends to carry out a similar audit in the year 2013 to check the progress of implementing the identified action plans in the previous report as well as to detect any other weaknesses in the IT Systems of the Company.

The Committee also reviewed the comments in respect of general controls related to IT Systems made by both Internal and External Auditors in their reports and discussed with the management the appropriate actions required to mitigate identified risks.

Fraud Risk

There are a number of control procedures in place to mitigate the risk of fraud such as a documented Procurement Policy adopted by the Board, Procurement Committees (which comprises members from areas different from the Department/Division who initiates the procurement activity), a formal Whistle Blowing Policy, etc. The Manager - Internal Control and Compliance, Internal Auditors

Audit Committee Report

and External Auditors review all processes of the Company continuously to identify and mitigate the risk of frauds.

The Audit Committee makes a conscious effort to ensure the risk of fraud is minimised to the lowest possible levels and reports that no material frauds were uncovered during the year.

Whistle Blowing

The Company 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 wrong doing at work - whether by the Management, peers, or another employee – to raise his/her concerns directly with the following nominated members of the Company:

- Manager - Human Resources
- Manager - Internal Control and Compliance
- Managing Director
- Audit Committee Chairman
- Board Chairperson

Concerns raised are investigated as per the policy and the identity of the person raising the concern is kept confidential.

Compliance with 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 from 173 to 175 for the Compliance table.

In addition, the Company is substantially 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 from 156 to 172 for the Compliance table.

Performance Evaluation of the Committee

Based on a checklist approved by the Committee, an Audit Committee performance evaluation was carried out by the Committee for the third consecutive year. In addition, the Executive Committee together with the Manager - Internal Control and Compliance too evaluated the Committee performance using a set checklist and the results were shared with the Committee.

These checklists used in the performance evaluation process cover all the responsibilities of the Committee which is derived from the Audit Committee Charter. The summary of the feedback received through the self-evaluation of the Committee performance together with the management evaluation were tabled at the Board Meeting and discussed.

The ultimate objective of these evaluations is to improve the effectiveness of the activities of the Committee and enhance its support to the management and the Board of Directors.

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
6th February, 2013

Remuneration Committee Report

Composition and Charter of the Remuneration Committee;

Members of the Committee as at the year-end are shown in the table below;

Name of the Member	Position	Category	Date of appointment to the Committee
M U de Silva	Chairman	Non-Executive Director	29th March 2005
Sarath Ratwatte	Member	Independent Non-Executive Director	25th February 2009
K Balasundaram	Member	Independent Non-Executive Director	11th December 2012

A brief profile of each member is given on pages 20 and 21 of this Annual Report.

During the year, the Board Secretary was appointed as the Secretary to the Remuneration Committee.

Following member of the Committee resigned from the Board during the year.

Name of the Member	Category& Position	Date of resignation
D M de S Wijeyeratne	Independent Non-Executive Director and a Member of the Remuneration Committee	14th November 2012

The Managing Director and Manager – Human Resources attend all meetings by invitation and assist the Committee by providing information required for its decision making process.

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.
- Ensuring that no Director is involved in setting his own remuneration package.

Remuneration Committee Meetings

The Committee met three (3) times during the financial year under review. The attendance of each member is given on page 201. Agendas of the meetings were prepared and distributed sufficiently in advance to members, along with appropriate briefing material. The minutes of the meetings were circulated to the Board.

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 Committee
Report

Remuneration Package

Employees

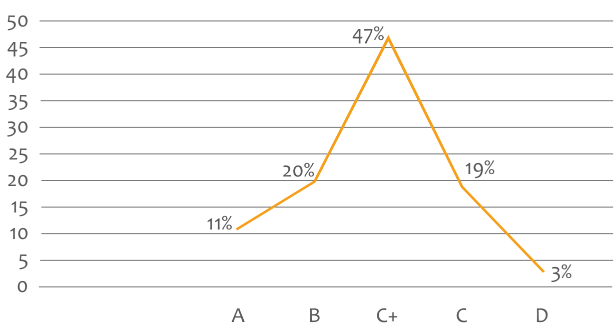
The remuneration packages of employees consist of a fixed component and a variable component. In addition, some other benefits are also available to employees as noted below.

Fixed Components	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
Limits for reimbursement of Travelling Expenses	Production Bonus for Distribution Management Team, Other Marketing Personnel and Bancassurance Officers	Other Loans (Emergency, Wedding etc)
		Insurance Benefits
		Holiday Bungalow (selected categories of staff) and recreational facilities

Fixed Components

Basic salary and the limits for reimbursement of travelling expenses are the fixed components 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 gradings 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 the Bancassurance Officers are entitled to a production bonus scheme based on achievement of business targets under pre-determined criteria.

Other Employee Benefits

Benefits provided to employees include vehicle loans, educational loans, other loans, various insurance benefits including the Staff Health Insurance Cover, Critical Illness Cover and the Personal Accident Cover, regular health check ups and 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 to Gratuity as per the Payment of Gratuity Act, No. 12 of 1983. 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 are disclosed on page 202. Non-Executive Directors are not entitled to retirement benefits. The Managing Director is entitled to gratuity as all other employees.

Share Plans for Directors
The Company does not have a share plan for Directors.

Directors' Shareholding
The shareholdings of Directors are provided on page 312.

Personal Loans for Directors
No Director is entitled to Company loans.

M U de Silva
Chairman - Remuneration Committee

Colombo, Sri Lanka
6th February, 2013

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 vast experience in risk management, fund management and investments.

Members:

Name of the Member	Category	Qualifications
Sarath Ratwatte	Chairman (w.e.f 11th December 2012) Independent Non-Executive Director	FCMA (UK), CGMA (USA)
Manjula de Silva	MD/CEO	BA Hons (Colombo), MBA (London), FCMA (UK),CGMA (USA)
Rajive Dissanayake	Senior Manager, Strategic Planning (HNB)	BBA (Colombo), ACMA (UK), CGMA (USA) CFA (USA),

JDN Kekulawala, who was the Chairman of the Committee, resigned from the Board w.e.f. 8th October 2012.

Head of Finance functions as the Secretary.

Head of Investment, Manager – Internal Control and Compliance and Senior Investment Analysts attend meetings by invitation.

Investment Committee Meetings

During 2012, the Committee met on four (4) occasions to discuss the performance of the investment portfolios and to provide advice and guidance on investment strategies. The minutes of the Investment Committee meetings were duly tabled at the meetings of the Board of Directors, to ensure that the members of the Board remain updated on the performance and direction of the investment function of the Company.

Apart from these formal meetings, the Committee also maintained a regular and consistent communication with the Management throughout the year, discussing matters as and when they arose.

Functions of the Investment Committee

The Committee is guided by the Board-approved Investment Policy for the Life Insurance, Non - Life Insurance and Life Shareholder's Funds. The main functions of the Committee include;

- 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 and regulations relating to investments
- Monitoring the implementation of the Investment Policy of the Company
- Making recommendations for Board approval of any changes to the Investment Policy considered necessary by the Committee
- Considering and the granting approval for any investment activities which require specific approval of the Committee under the Investment Policy

Activities Conducted during the Year

At the beginning of the year, the Board agreed on a budget for the Investment Income of the Company. The responsibility for achieving this was placed on the Investment Management team.

- The Investment Committee provided guidance in devising a strategic framework within which the investment function could operate, after considering, amongst others, the investment objectives, maturity profiles and risk appetites of the funds and the overall macro-economic environment of the country.
- The Committee met after the expiry of each quarter, where a report including information on investment portfolios, the macro-economy and the investment strategy was tabled.
- At each meeting, the Committee reviewed in detail, the performance of the investment function during the past quarter and on a cumulative basis, while also agreeing on the investment strategy to be followed in the next quarter.

- Extensive discussions on economic, political, social and other conditions that may impact on the Company's investments were held during meetings, and the investment strategy was shaped by agreements reached during such discussions.
- In setting the parameters of the investment policy and strategies, the Committee also paid due consideration to the types of institutions, types of instruments/assets, ratings attached to instruments/institutions, strength and reputation of the institutions and other factors deemed relevant by the members.
- Committee members extended their advice on the asset allocation, maturity mix and asset and liability management of the funds, in order to ensure the achievement of the budgeted investment income for the period while maintaining compliance with rules and regulations.
- Relevant information such as the fund growth, solvency ratios, admissible assets, amongst others, were also given due consideration by the members of the Committee when reviewing past performance and advising on future strategies.
- The Committee provided guidance on the implementation of new/revised Sri Lanka Accounting Standards (SLFRS/LKAS) and their impact on investments, as well as on categorising assets under the different baskets as required through these accounting standards.
- Throughout the year, strict scrutiny was maintained with regard to the compliance with both internal rules and controls (as set out in the Investment Policy) and external regulations (as set out in the legislation applicable to the Company). Manager-Internal Control and Compliance, who participates in Investment Committee meetings by invitation, tabled a report each quarter, affirming the state of compliance with all such applicable rules and regulations.

Conclusion

Following careful perusal of the investment activities carried out during the year and the strategies implemented, the Committee is of the view that the performance of the Life Insurance, Non - Life Insurance and Life Shareholder's Funds during 2012 is in line with expectations.

Sarath Ratwatte

Chairman - Investment Committee

Colombo, Sri Lanka

6th February, 2013

Risk Management

Risk Management in the Insurance Industry

Risk management refers to activities that are undertaken to reduce an entity's exposure to loss. For insurance companies, risk management is a fundamental aspect of the industry's business activities because insurance is necessarily the business of accepting risk.

When observing the current evolutions in the macroeconomic environment, it is clear that all industries face dynamic factors that are beginning to transform the way business is conducted. It is our belief, however, that the insurance industry, due to its very nature, will be affected by environmental changes to a greater extent than most other sectors.

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 adequately identify, measure, control, monitor and mitigate these risks.

Considering both core and supporting activities of the business, the risks we face can be broadly divided into seven main categories.

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

HNBA's Strategy on Risk Management

The Company has a sound strategy to manage the risks arising from its core activities. Accordingly, at the initial stage the risk tolerance level is determined after considering the Company's business objectives and available resources. The actions necessary to be implemented in order to manage risks or groups of risk which fall beyond the tolerance limit are determined thereafter. In formulating the Company's risk management strategy, the following are also given due consideration;

- The prevailing and projected economic and market conditions and their impact on the risks inherent in the Company's core activities;
- The resources available to achieve the Company's business targets and the Company's ability to identify, monitor and control risks in the markets it operates; and
- The Company's mix of business risks underwritten and investments made and the resultant concentration of risks which may lead to volatility in performance.

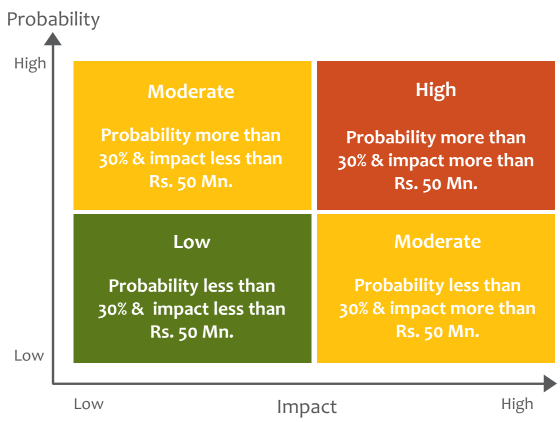
After agreeing on actions required to mitigate these identified risks, the responsibilities on their implementation are assigned to the relevant members of the management with targeted timelines. This process is subjected to close monitoring, and the Company periodically reviews its risk management strategy taking into account its own financial/non-financial performance, changes in operation and business strategies as well as material environmental developments.

Risk Management Activities at HNBA

The Risk Assessment Report that was initially prepared in the year 2009 was updated this year too by the Risk Management Team. The Team discussed in detail the risks faced by the Company in terms of the main categories identified above. When analyzing risks in terms of the probability of occurrence and impact, a risk matrix, which provides a quantitative background to the process based on our prior experience, is usually employed.

This year, the risk assessment process led to a change in the weighting of 07 risks identified. All identified risks were documented in the risk schedule and plotted on the risk grid as per the diagram given below. Accordingly, risks identified with a high probability of occurrence and of high potential financial impact were given higher priority in the risk management process.

HNBA Risk Grid



As a matter of routine, a follow-up on the risk assessment report is carried out by the Manager - Internal Control and Compliance, 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.

During the year, the Company initiated reporting to the 'Board Integrated Risk Management Committee' (BIRMC) of Hatton National Bank PLC, the parent Company. Accordingly, two reports providing details of the Company's risk management activities were submitted to the said committee.

Structure of Risk Management

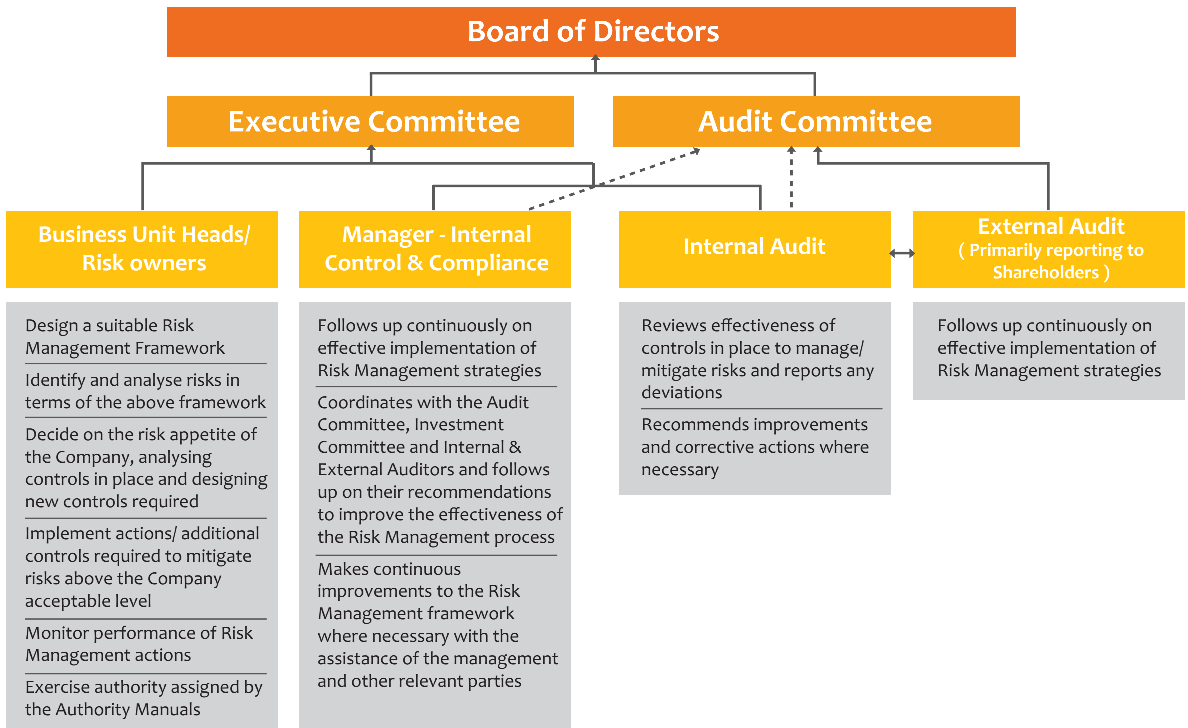
The Company adopts a risk management structure that is commensurate with its size and the nature of its activities. The Board of Directors is ultimately responsible for the sound and prudent management of the Company, and thus, their approval is necessary for the risk management strategy and risk policies pertaining to all activities of the Company. Further, the Board also ensures that adequate resources, expertise and support are provided for the effective implementation of the risk management strategy, policies and procedures of the Company.

The management team, comprising members of the senior management from business operations and control functions, oversees 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.

Further, the establishment of the 'Internal Control and Compliance Department' has made the risk management function of the Company independent from operational processes. This unit is primarily entrusted with the task of developing the Company's risk management policies and procedures as well as ensuring compliance. In order to be effective, it has been allowed to raise issues directly with the Audit Committee, which oversees the risk management process of the Company.

Messrs Ernst & Young Advisory Services (Pvt) Ltd. acts as the Internal Auditor of the Company - they report their findings to the management on a monthly basis and to the Audit Committee on a quarterly basis.

Messrs KPMG, the External Auditor of the Company, also reports on internal control weaknesses identified during the audit.



Risk Management

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.

This is the primary area of focus in the Company's risk management program. Underwriting risk could also arise due to a lack of understanding regarding changes in the environment, such as the effect of climate changes due to global warming.

HNB Assurance's strategy in managing Underwriting Risk

- An adequate level of segregation of duties is ensured.
- Strict adherence to the Manual of Financial Authority is maintained, and the same is reviewed and updated regularly.
- Underwriting is conducted selectively considering both the risk and return, instead of solely focusing on growth in the top line (GWP).

Specific to Non - Life Insurance

- Significant investments are made for training and development of underwriting and claims management staff, including those attached to the distribution network. The "General Insurance Academy", an internal training and development school has been set up targeting the improvement of technical knowledge on Non - Life Insurance across the Company.
- Strict controls are maintained on the issue of cover notes.
- Both the underwriters and the distribution managers are assigned Key Performance Indicators on both turnover and profitability.
- Statistical databases are maintained on loss making clients to ensure such clients are strategically declined.
- Post-underwriting audits 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.

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 part 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 policy most appropriate.

Reinsurance Risk

Nature of the risk

Reinsurance risk is;

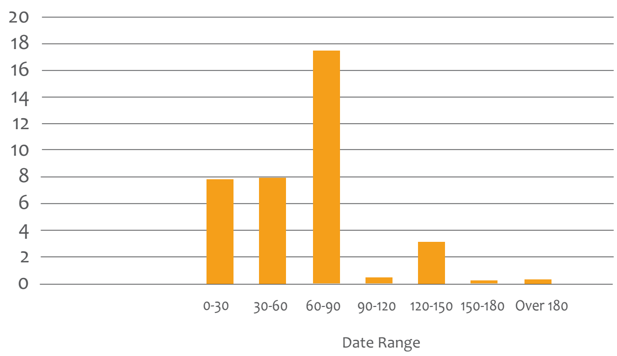
- retaining risks beyond the Company's net retention capacity without having adequate reinsurance; or
- inability of reinsurers to meet their commitments due to insufficient financial strength.

HNB Assurance's strategy in managing 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.
- Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Standard & Poor's or A.M. Best is used.

RI Receivables - Life and Non-Life Insurance
(Rs. Mn.)



Please refer page 290 for the Credit Ratings of the Company's Reinsurer Portfolio.

Claim Reserving Risk

Nature of the risk

Claim reserving risk refers to the non-provision of adequate reserves to meet future obligations arising from claims in the Non-Life Insurance business and claims as well as maturities in the Life Insurance business.

HNB Assurance's strategy to manage Claim Reserving Risk

Specific to Non - Life Insurance

- Claim intimation is conducted through a 24-hour fully fledged Customer Relation Centre (CRC).
- Assessments are carried out by an independent expert panel of assessors/loss adjustors working throughout the island on a 24 hour basis.
- Comprehensive estimation of costs and a high quality service to customers are granted through certified garages located island-wide.
- Claims are assessed immediately upon intimation and reserved accordingly.
- The Claims Panel (comprising of Managing Director, General Manager - General Insurance and Head of Finance) makes decisions on significant/problematic claims and appeals made in respect of claims.
- Significant outstanding claims are subjected to monthly reviews by the management.
- The service of a qualified Independent Actuary is obtained bi-annually to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- All third party claim intimations are separately reviewed with the support of the Manager – Legal.

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 part qualified actuary is in place to review reserving in the Life Insurance business more closely and guide the management to take more informed decisions.
- Claims are reserved immediately at the intimation or on the availability of information of the death or injury of an insured.
- The Claims Panel (comprising Managing Director, General Manager – Life Insurance and Head of Finance) is involved in taking decisions on significant/ problematic claims and appeals made in respect of claims.

We have performed a Liability Adequacy Test (LAT) for both Life and Non-Life Insurance Reserves as required by SLFRS 4 – Insurance Contracts to check whether the recorded reserves are adequate to meet future liabilities. The Liability Adequacy Test (LAT) was performed by Independent Actuaries appointed by the Company. Accordingly, it has been concluded that the recorded reserves in respect of both Life and Non-Life Insurance businesses of the Company as at 31st December 2012 are adequate to meet the future liabilities of the business.

Credit Risk

Nature of the risk

Credit risk is identified as the risk pertaining to uncertainty on the debtors' ability to meet obligations due to the Company.

HNB Assurance's strategy in managing Credit Risk

- Premium Payment Warranty (PPW) is strictly implemented and all Non - Life Insurance policies with payments outstanding for more than 60 days are cancelled.
- Follow up meetings on debt collection are conducted

with the participation of finance, distribution and underwriting officials on a monthly basis.

- Information regarding policies cancelled due to non - payment of premiums is submitted to the industry database on a routine basis.
- New technology such as SMS is used to inform customers on premiums due to the Company.
- 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.
- During the year, the Company started recording Life Insurance premiums too on credit basis. However, all life policies uncollected within 30 days are lapsed as per the Company policy.

Please refer pages 250 and 251 for the age analysis of Premium and Reinsurance Receivables of the Company as at 31st December 2012. 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 285 to 290.

INVESTMENT RISK

Nature of the Risk

Investment risk refers to the various types of risks associated with the significant portfolio of investments managed by the Company.

- Concentration Risk
- Interest Rate Risk
- Investment Credit Risk
- Liquidity Risk
- Market Risk

Concentration Risk

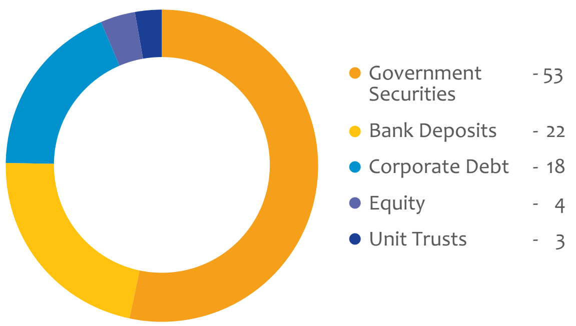
Nature of the risk

The risk of over-exposure to a particular company or sector due to lack of diversification in the investment portfolio is referred to as the concentration risk.

HNB Assurance's strategy to manage Concentration Risk

- Target asset allocations are set by the Investment Committee in consultation with the management and are 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.
- Investment Policy guidelines and the Investment Authority Manual are strictly adhered to in all placements.
- The investment portfolio is reviewed by the Managing Director and Head of Finance 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.
- A monthly review is conducted by the Board of Directors on all new investment placements made by the Company.
- Single party exposure limits are decided based on credit ratings and regulatory requirements, and are monitored closely at different levels.
- A considerable portion of investments is allocated to Government Securities which are risk-free.
- The Company's compliance with set policies and best practices is reviewed by the internal auditors and the Manager - Internal Control and Compliance.

Asset Allocation of Consolidated Investments
(%)



Sectoral allocation of investment portfolios are given on pages 244 to 249.

Credit Risk in investments

Nature of the Risk

This relates to the risk of not being able to recover the capital and/or interest relating to investments. This is mainly applicable to investments in Corporate Debt and Fixed Deposits.

HNB Assurance's strategy to manage Credit Risk in Investments

- A list of entities approved by the Investment Committee consisting of companies which, in the opinion of the Committee, carry minimal credit risk is adopted.
- Creditworthiness of potential investment entities is checked mainly through ratings assigned to the issuing institution or the ratings assigned to the issue.
- Any investments in any other entity are carried out only with the explicit approval of the Investment Committee.
- Single party exposure limits are decided based on the credit ratings and regulatory requirements and are monitored closely at different levels.
- Master Repo Agreements are signed with all primary dealers the Company works with in order to ensure zero level of default risk in respect of Government Securities bought through such parties in the event of their bankruptcy.
- Maintaining a custodian arrangement for Government Securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd (a joint venture of HNB and DFCC Bank).

Credit Ratings of Company's Investment Portfolio are given on page 291.

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 and being unable to meet solvency standards as a result of the fall in bond prices due to a rise in interest rates.

HNB Assurance's strategy to manage Interest Rate Risk

- Market interest rates and other macro-economic indicators 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

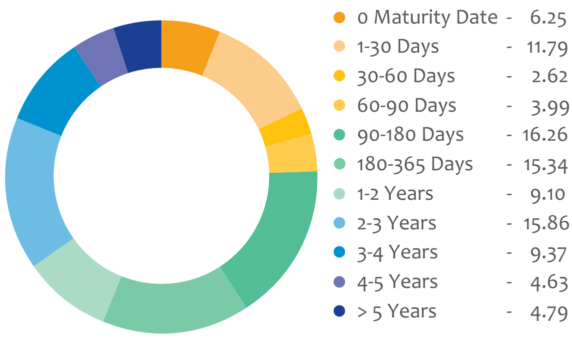
Liquidity risk refers to the inability of the Company to meet contractual obligations such as claim settlements and payments to reinsurers due to the insufficient availability of cash and other liquid investments.

HNB Assurance's strategy to manage Liquidity Risk

- The maturity mix of the investment portfolio is reviewed and agreed upon by the management and the Investment Committee on a regular basis.
- All large cash outflows are planned in advance and necessary arrangements are made to ensure the availability of funds to meet such outflows.
- Life Insurance policies sold with a guaranteed return are fully backed by corresponding investments for a higher return and a similar tenure.

Maturity mix of the Investment Portfolio is given on Page 293.

Maturity Mix - Consolidated
(%)



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 from the current year onwards as a result of the adoption of new Sri Lanka Accounting Standards (SLFRS/LKAS).

HNB Assurance's strategy to manage Market Risk in Investments

- Investment decisions are based on fundamental principles.
- Investments are classified into different categories as required by new Sri Lanka Accounting Standards (SLFRS/LKAS) following a systematic basis considering both intention and ability of the Company to hold such investments as per the classification.
- A target portfolio of equities has been developed based on their performance in the market and growth potential.
- Investments are made only on selected companies which are identified after an in-depth research and evaluation process.
- The investment portfolio is reviewed by the Managing Director and Head of Finance 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 242 to 249.

In addition, further details of the investment related risks are discussed on pages 291 to 296 as a part of the financial statements.

STRATEGIC RISK

Nature of the Risk

Strategic or business risk is the risk associated with the Company's future business plans and strategies, and includes instances such as the failure of future business plans, unexpected threats from rivals or new entrants and the inadequate expansion of service levels and infrastructure in the nature of 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.

HNBA's strategy to Manage Strategic Risk

- A Corporate Plan is prepared every year by the corporate planning team, addressing potential risks and including plans for the next three years, and is subsequently approved by the Board after careful review. Based on the agreed plan, objectives for the year are set for all employees in the Executive category and above.
- A summary of key financial information is reported to the Board on a monthly basis together with appropriate clarifications, interpretations and actions to be taken if there is a deviation from the set objectives.
- The Board reviews the achievement of the Corporate Plan against the set targets on a periodic basis.
- A mid-year review of the Company's Corporate Plan and budgets is carried out to ensure that they are in line with changes in the environment within which the Company operates, and necessary revisions are done with the approval of the Board, if required.
- Performance appraisals of all employees of above the Executive category are conducted twice a year, primarily based on the achievement of the targets set.
- A management information system has been introduced to monitor the status of the agreed activities of the corporate plan on a continuous basis.

The Company has recorded outstanding results for the year amidst various challenges in overcoming these risks. Please refer Financial Review from pages 52 to 65 for details.

REGULATORY RISK

Nature of the Risk

Regulatory risk may arise if the Company is unable to comply with regulatory requirements which may change periodically.

HNBA's Strategy to Manage Regulatory Risk

- All employees are encouraged to commit to the goal of 100% compliance with applicable laws and regulations.
- A compliance checklist, covering all the laws and regulations applicable to the Company, is prepared on a quarterly basis, and a sign-off is obtained from all relevant members of the management. This checklist is tabled at Audit Committee Meetings.

- A report is submitted by the Manager - Internal Control and Compliance to the Audit Committee on a quarterly basis highlighting the Company's compliance with applicable laws and regulations.
- Financial reports, statutory returns to IBSL and information to the CSE are reviewed and approved by the Audit Committee before submission.
- Compliance with all applicable laws and regulations is monitored by the Board of Directors through the Audit and Investment Committees.
- Special care is taken when handling employee-related concerns, in order to pre-empt labour law related issues.
- Internal Auditors have been requested to review and report on any instance of non-compliance with laws and regulations, if any, to both the management and the Audit Committee.

The Company maintained its 100% compliance status with all applicable laws and regulations in the Country during the year 2012 too. Please refer page 40 for the Regulatory Review. We have also presented a Compliance Table summarizing compliance with applicable laws and regulations on page 153.

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.

HNBA's Strategy to Manage Business Continuity Risk

- The continuous updating and effective implementation of the Business Continuity Plan (BCP) is our main response to counter this risk. The Company carried out a BCP testing during the year covering all the operational areas of the Company. However, we noted that certain improvements are required for the testing process to ensure continuous functioning of the business in the event of an actual incident and we intend to perform a comprehensive BCP testing in the year 2013 onwards addressing such identified concerns too.
- 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.

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.

HNBA's Strategy to Manage Fraud Risk

- Strict adherence is maintained with the Manual of Financial Authority (MOFA), which has been approved by the Board of Directors.
- A stringent Procurement Policy covering all procurement related activities of the Company has been introduced and is strictly implemented at all levels.
- A comprehensive Whistle-Blowing Policy, allowing employees at all levels to communicate any wrongdoing, misappropriation or misconduct by any employee to the top management, Audit Committee and the Board confidentially, is in place.
- Responsibilities for all positions have been properly delegated through a clearly defined organizational structure.
- Duties regarding all significant operations have been clearly segregated to prevent the concentration of authority.
- A strong control environment, subjected to periodic monitoring by an independent internal audit team (M/S Ernst & Young Advisory Services (Pvt) Ltd), is maintained within the Company.
- External Auditors have been requested to perform a detailed internal control review in their Interim and Final 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 of the Board of Directors, which also monitors the implementation of all agreed follow-up actions.
- A Code of Best Practice and Ethics has been made applicable to employees at all levels without exception.
- Any complaints or indications whatsoever regarding possible fraud or misappropriation by employees

or members of the agency force are investigated immediately and appropriate action is taken promptly. There is zero tolerance of fraud within the Company.

- Many initiatives are promoted to minimize dependence on manual controls and documents, especially through the implementation of information systems.

No significant frauds were identified during the year.

Information Security Risk

Nature of the Risk

This refers to incurring losses as a result of the improper use of information systems or as a result of a disaster or a breakdown.

HNBA's Strategy to Manage Information Security Risk

- Adequate investments have been made on IT infrastructure to improve both access and applications controls.
- The IT Security Policy is strictly applied and is communicated to all employees.
- Firewalls and security initiatives, access controls, and back-up controls are in place and are reviewed and improved continuously to face future challenges.
- IT security audits/penetration tests are carried out periodically to ensure the Company's systems are well secured and not exposed to hacking.
- A Disaster Recovery Centre with adequate support of IT infrastructure has been set up.

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.

HNBA's Strategy to Manage Human Resource Risk

- The Company's HR policy is aimed at supporting the continuous education and development of employees at all levels.
- 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.
- 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 the management in order to report or discuss issues requiring their attention.
- Exit interviews are carried out when a member of the staff resigns, in order to identify the causes for leaving.
- Summarized results of the exit interviews are shared with the members of the EXCO to take necessary action if required.
- Employee surveys are carried out on a periodic basis to assess satisfaction levels and to identify areas for improvement.
- Investments are made on staff welfare through the Welfare Society and 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.
- An annual staff conference is held with the participation of the entire staff and it is used as a forum to brief the staff on the Company's performance in the previous accounting year and the plans due to be executed during the year in progress.

Please refer Human Resources Review from pages 94 to 106 for details of action taken to attract, develop and retain the best talent within the Company.

REPUTATIONAL RISK

Nature of the risk

This refers to the impairment of the corporate image and goodwill of the Company due to a particular event or behavior.

HNB Assurance's Strategy to Manage Reputational Risk

- A sound system of internal controls is in place and is regularly monitored by various parties such as the Manager - Internal Control & Compliance, Internal and External Auditors, IT Internal Auditors, etc.
- High 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 and advisors without exception.
- The release of all financial information to the public is subject to approval by the Audit Committee and the Board of Directors.

No significant reputational risks were identified or materialized during the year.

SOCIO-ECONOMIC AND POLITICAL RISKS

Nature of the risks

Socio-economic and political factors have a direct impact on the insurance business as well as on the investment activities of the Company. Particularly when the country is economically or politically unstable, insurance business similar to other businesses can be adversely affected. This was clearly evident at the height of the conflict and during the recent economic downturn.

HNB Assurance's Strategy to Manage Socio-Economic and Political Risks

- Significant attention is paid to socio-economic and political factors at the Corporate Planning Sessions on an annual basis.
- Advice is sought from independent specialists such as economists when necessary to identify trends and to understand their financial implications.
- Both global and local economic indicators are discussed in detail at quarterly Investment Committee meetings and necessary actions are taken to mitigate/manage potential risks.
- Pricing of insurance policies is reviewed in light of inflation, fluctuation in interest rates etc.
- Actions are taken to minimize lapses in Life Insurance, which are likely to increase in unstable economic conditions.

No significant socio-economic or political risks were identified or materialized during the year.


"'Appachchi says the support of HNBA made him strong – and our family too'"
Buddhika (6)
the power to Dream

Financial Calendar

SUBMISSION OF STATUTORY RETURNS TO IBSL	Date of submission	Deadlines set by IBSL
Annual Audited Financial Statement for year ended 31st December 2011	3rd March 2012	30th June 2012
Annual Statutory Returns for the year ended 31st December 2011	29th June 2012	30th June 2012
Quarterly Returns for 2012		
- March	15th May 2012	15th May 2012
- June	14th August 2012	15th August 2012
- September	12th November 2012	15th November 2012
- December	14th February 2013	15th February 2013
Biannual Compliance (Circular 18) Certificate		
- 30th June 2012	14th August 2012	15th August 2012
- 31st December 2012	14th February 2013	15th February 2013
All IBSL statutory returns are submitted within the stipulated time lines		

FINANCIAL CALENDAR	Target set for 2013	Achievements in 2012
Interim Unaudited Reports		
1st Quarter (ended 31st March)	May 2013	3rd May 2012
2nd Quarter (ended 30th June)	August 2013	3rd August 2012
3rd Quarter (ended 30th September)	November 2013	7th November 2012
4th Quarter (ended 31st December)	February 2014	7th February 2013
Annual Report and Accounts		
2011		28th February 2012
2012	February 2013	
Dividend Payments		
First and final dividend for 2011		10th April 2012
First and final dividend for 2012	8th April 2013	

Annual Report of the Board of Directors on the Affairs of the Company

The Board of Directors of HNB Assurance PLC (the Company) has pleasure in presenting its Report with the audited Financial Statements for the year ended 31st December 2012 and the Auditors' Report thereon. The Financial Statements were accepted and approved by the Board of Directors at its meeting held on 6th February 2013.

HNB Assurance PLC 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).

Principal Activities

Non - Life Insurance and Life Insurance businesses remained the principal activity of the Company with no significant changes during the financial year under review. The Company has not engaged in any activities which contravene laws and regulations of the country.

Review of Performance and Future Developments

A review of the Company's financial and operational performance during the year and future developments is contained in the Chairperson's Message (pages 8 to 11), the Managing Director's Review (pages 12 to 17) and the Management Discussion and Analysis (pages 29 to 119). These reports, together with the Financial Statements, reflect the state of affairs of the Company and form an integral part of this report.

Financial Statements

For all periods up to and including the year ended 31st December 2011, the Company prepared its financial statements in accordance with local generally accepted accounting practices, Sri Lanka Accounting Standards (SLAS). These financial statements, for the year ended 31st December 2012, are the first, the Company has prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

Accordingly, the Company has prepared financial statements which comply with SLFRS/LKAS applicable for periods beginning on or after 1st January 2012 as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1st January 2011, the Company's date of transition to SLFRS/LKAS.

SLFRS/LKAS has been applied retrospectively and therefore the comparative financial information provided in these Financial Statements has been restated to be in line with the current year accounting policies and presentations.

These Financial Statements also comply with the requirements of the Companies Act, No. 7 of 2007. In addition, these financial statements also provide the information required under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto and the listing rules of the Colombo Stock Exchange (CSE) and other Rules and Regulations of the Insurance Board of Sri Lanka (IBSL).

The Financial Statements of the Company for the year ended 31st December 2012, duly signed by two Directors and Head of Finance of the Company are given on pages 213 to 308 and form an integral part of the Annual Report of the Board.

Significant Accounting Policies

Due to the application of new/revised SLFRS/LKAS as discussed above, the accounting policies of the Company changed significantly. Please refer pages Note 37 given on pages 270 to 276 for the impact of the new accounting standards compared to previously adopted Sri Lanka Accounting Standards existed immediately prior to 1st January 2012 (SLASs).

The significant accounting policies adopted in preparation of these Financial Statements are given on pages 225 to 239.

Directors' responsibility for Financial Reporting

The Directors are responsible for the preparation and presentation of these Financial Statements of the Company to reflect a true and fair view of the state of affairs of the Company. The Statement of Directors' Responsibility for Financial Reporting is given on page 208 and forms an integral part of the Annual Report of the Board of Directors.

Going Concern

The Board has made necessary reviews and inquiries including a review of the Company's Budget and Corporate Plan for ensuing years, future prospects and risks, capital expenditure requirements, cash flows, etc, to assess the Company's ability to use the going concern assumption in the preparation of these Financial Statements. Accordingly, the Board is satisfied that the Company has adequate resources to continue its operations into the foreseeable future and continues to adopt the going concern basis in preparing these Financial Statements.

Auditors' Report

The Financial Statements for the year ended 31st December 2012 have been audited by Messrs. KPMG, firm of Chartered Accountants and their report on the Financial Statements which form an integral part of the Report of the Board of Directors is given on page 212 of this Annual Report.

Reappointment of Auditors

The retiring Auditors, Messrs. KPMG, have expressed their willingness to continue in office as the Company Auditor.

In accordance with the Companies Act, No. 7 of 2007, a resolution relating to their re-appointment and authorizing the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting to be held on 27th March 2013.

Auditors Fees and Expenses

The fees paid/ payable to auditors Messrs. KPMG, for the services provided to the Company during the year together with corresponding figures for the previous year is presented below.

	2012 Rs. '000	2011 Rs. '000
Audit Fees and Expenses	**1,155**	1,010
Audit Related Fees and Expenses	**1,058**	687
Non Audit Fees	**635**	680
Total	**2,848**	2,377

Audit related fees and expenses consist of fees for the interim audit, reports issued to Commissioner General of Inland Revenue (CGIR), Insurance Board of Sri Lanka (IBSL), etc. Non audit fees incurred in 2011 comprise the advice provided on implementation of Sri Lanka Financial Reporting Standards (SLFRS/LKAS) and the Company share valuation for the purpose of Capitalization of Reserves and the Rights Issue in the year 2011.

Independence of Auditors

As far as the Directors are aware, the Auditors do not have any relationship (other than that of an Auditor) with the Company. The Auditors have provided a declaration confirming their independence.

Risk and Internal Control

The Board understands that strong internal controls are integral to the sound management of the Company and is committed to maintain strict financial, operational and risk management controls over all activities of the Company. The Directors are ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to minimize 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 Company has an ongoing process for identifying, evaluating and managing the risks that are faced by the Company, and the Directors have reviewed this process through 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.

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 beyond regulatory requirements.

The Company, being listed in the Colombo Stock Exchange (CSE) main board, is fully compliant with the rules on Corporate Governance under the Listing Rules of the CSE. In addition, the Company is substantially in compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL).

A separate report on Corporate Governance is given on pages 135 to 175.

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 comparatives for the previous year.

Line of Business	2012 Rs. Million	2011 (Restated) Rs. Million
Non-Life Insurance	**1,711**	1,694
Life Insurance	**1,500**	1,290
Total	**3,211**	2,984

A detailed analysis of the total GWP recorded by the Company is given in Note 21 to the Financial Statements on page 259.

Financial Results and Appropriations

The Statement of Comprehensive Income of the Company is given on page 214. Transfers to/from reserves of the Company are shown in the Statement of Changes in Equity on page 215.

Description	2012 Rs. Million	2011 (Restated) Rs. Million
Profit Before Taxation (PBT)	**393,866**	271,840
Income Tax Expenses	**(42,726)**	(25,772)
Profit for the year	**351,140**	246,068
Other Comprehensive income	**6,209**	-
Total Comprehensive income	**357,349**	246,068
Unappropriated Profit brought forward	**444,057**	676,118
Capitalization of Reserves	-	(406,250)
Share Issue Related Cost	-	(4,379)
Profits available for appropriation	**801,406**	511,557
Appropriations	-	-
Dividends Paid	**(105,000)**	(67,500)
Unappropriated Profit carried forward	**696,406**	444,057

Annual Report of the Board of Directors on the Affairs of the Company

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 distribution of the first and final dividends proposed and to be paid on 8th April 2013.

The Statement of Solvency prepared by the Board was audited by Messrs. KPMG.

The Board of Directors recommends a first and final dividend of Rs. 2.75 (2011 - Rs. 2.10) per share payable on 8th April 2013 to holders of issued and paid up Ordinary Shares of the Company as at the close of business on 27th March 2013.

The dividend will be paid partly out of dividend received and partly out of taxable profits of the Company. The dividends to be paid out of profits will be subject to withholding tax.

The Board of Directors
The Board of Directors of the Company consists of nine Directors (2011 – Eight Directors) with wide financial and commercial knowledge and experience.

The following Directors held office during the year and their brief profiles are given on pages 20 and 21 of the Annual Report.

Name of the Director	Executive / Non Executive status	Independence / Non Independence status
Dr. Ranee Jayamaha – Chairperson *(appointed w.e.f. 29th June 2012)*	Non-Executive Director	Non Independent
Manjula de Silva – Managing Director	Executive Director	Non Independent
R Theagarajah	Non-Executive Director	Non Independent
M U de Silva	Non-Executive Director	Non Independent
Pratapkumar de Silva	Non-Executive Director	Independent
S C Ratwatte	Non-Executive Director	Independent
A J Alles *(appointed w.e.f. 3rd December 2012)*	Non-Executive Director	Non Independent
J A P M Jayasekera *(appointed w.e.f. 3rd December 2012)*	Non-Executive Director	Independent
K Balasundaram *(appointed w.e.f. 3rd December 2012)*	Non-Executive Director	Independent
J M J Perera *(resigned w.e.f. 27th April 2012)*	Non-Executive Director	Non Independent
J D N Kekulawala *(resigned w.e.f. 8th October 2012)*	Non-Executive Director	Non Independent
D M de Silva Wijeyeratne *(resigned w.e.f. 14th November 2012)*	Non-Executive Director	Independent

Appointments of Directors
Dr. Ranee Jayamaha and Mr. A J Alles were appointed to the Board in terms of Article 92 of the Articles of Association as Non-Executive Directors with effect from 29th June 2012 and 3rd December 2012 respectively. Mr. J A P M Jayasekera and Mr. K Balasundaram were also appointed to the Board as Independent, Non-Executive Directors with effect from 3rd December 2012 by the Board in terms of Article 92 of Articles of Association.

Retirement and re-election/ Re-appointment of Directors recommended
Dr. Ranee Jayamaha, Mr. A J Alles, Mr. J A P M Jayasekera and Mr. K Balasundaram retire at the AGM under Article 92 of the Articles of Association of the Company and offer themselves for re-election under the said Article.

Mr. S C Ratwatte retires by rotation at the AGM and offers himself for re- election under Article 86 of the Articles of Association of the Company.

Mr. M U de Silva – (Non –Executive Director) and Mr. Pratapkumar de Silva (Independent Non – Executive Director) are over the age of 70 years. In terms of the provisions of the Companies Act, a Director of a Public Company over 70 years who continues on the Board has to be re-appointed by the membership annually. Accordingly, two separate resolutions will be proposed for the re-appointment of Mr. M U de Silva and Mr. Pratapkumar de Silva, Directors of the Company, notwithstanding the age limit of 70 years stipulated by Section 210 of the Companies Act, No. 7 of 2007.

The re-election/re-appointment of the aforesaid Directors has the unanimous support of the Board.

Board Sub Committees

The Board while assuming the overall responsibility and accountability in the management of the Company has also appointed Board Sub Committees to ensure control over certain affairs of the Company, conforming to Corporate Governance Standards of the Listing Rules of the Colombo Stock Exchange (CSE) and adopting best practices. Accordingly, the following Board Sub Committees have been constituted by the Board.

- Audit Committee
- Remuneration Committee
- Nomination Committee

In addition, the Board has appointed an Investment Committee comprising members of the Board and an outside expert to oversee control over investments.

The composition of each Board Sub Committee is given on pages 138 to 140 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 and Investment 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	
	A	B	A	B	A	B	A	B	A	B
Dr. Ranee Jayamaha – Chairperson (appointed w.e.f 29th June 2012)	5	5	-	-	-	-	2	2	-	-
Manjula de Silva (Managing Director)	12	12	-	-	-	-	2	2	4	4
R Theagarajah	12	11	-	-	-	-	2	2	-	-
M U de Silva	12	11	-	-	3	3	2	2	-	-
Pratapkumar de Silva	12	9	-	-	-	-	-	-	-	-
S C Ratwatte	12	12	3	3	3	3	-	-	4	4
A J Alles (appointed w.e.f 3rd December 2012)	1	1	1	1	-	-	-	-	-	-
J A P M Jayasekera (appointed w.e.f. 3rd December 2012)	1	1	1	1	-	-	-	-	-	-
K Balasundaram (appointed w.e.f. 3rd December 2012)	1	1	-	-	1	-	-	-	-	-
J M J Perera (resigned w.e.f. 27th April 2012)	4	4	-	-	-	-	-	-	-	-
J D N Kekulawala (resigned w.e.f 8th October 2012)	10	8	2	2		-	-	-	3	3
D M de Silva Wijeyeratne (resigned w.e.f 14th November 2012)	11	5	2	1	2	2	-	-	-	-

A = Number of meetings held during the period the Director held office in the year
B = Number of meetings attended

Annual Report of the Board of Directors on the Affairs of the Company

Directors' Interest Register

The Company maintains a Directors' Interest Register conforming to the provisions of the Companies Act. All Directors of the Company have disclosed their interests in other Companies to the Board and those interests are recorded in the Interest Register conforming to the provisions of the Companies Act.

The particulars of those entries are set out on page 207 of the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

a) **Directors' Interest in Contracts**
No Directors has had direct or indirect interest in any contracts or proposed contracts with the Company other than those disclosed on page 207.

b) **Directors' Interest in Shares as at the Statement of Financial Position date**
The following table discloses the Directors' interest in shares of the Company.

Directors	As at 31st Dec 2012	As at 31st Dec 2011
Dr. Ranee Jayamaha – Chairperson *(appointed w.e.f. 29th June 2012)**	**Nil**	N/A
Manjula de Silva – Managing Director	**38,332**	38,332
R Theagarajah	**8,332**	8,332
M U de Silva	**3,000**	3,000
Pratapkumar de Silva	**1,332**	1,332
S C Ratwatte	**14,666**	14,666
A J Alles *(appointed w.e.f. 3rd December 2012)*	**Nil**	N/A
J A P M Jayasekera *(appointed w.e.f. 3rd December 2012)*	**Nil**	N/A
K Balasundaram *(appointed w.e.f. 3rd December 2012)*	**10,000**	N/A
J M J Perera (resigned w.e.f. 27th April 2012)	**N/A**	7,000
J D N Kekulawala (resigned w.e.f. 8th October 2012)	**N/A**	49,998
D M de Silva Wijeyeratne (resigned w.e.f. 14th November 2012)	**N/A**	583

* *Dr Ranee Jayamaha has purchased 100 shares of the Company on 7th January 2013.*

There has been no other change in their interest in shares between 31st December 2012 and 6th February 2013, being the date of this Report.

c) **Share Dealing by Directors**
There have been no share dealings by the Directors during the year ended 31st December 2012. Therefore, there were no further entries in the interests' register of the Company for the year ended 31st December 2012.

d) **Directors' Remuneration and Other Benefits**
The details of the Directors' fees and emoluments including post-employment benefits for the financial year ended 31st December 2012 is given below

	2012 Rs. '000	2011 Rs. '000
Short-term employee benefits	**17,039**	16,114
Post-employment benefits	**4,930**	3,816
Total	**21,969**	19,930

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 considering 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 also disclosed the transactions with related parties in terms of Sri Lanka Accounting Standard (LKAS) 24, Related Party Disclosures, which is adopted in the preparation of these Financial Statements. Those transactions disclosed by the Directors are given in Note 39 to the Financial Statements in pages 279 to 283 and forms a part of the Annual Report of the Board.

Share Information

Information relating to earnings, dividend, net assets and market price per share is given on page 314. Information on share trading is also given on page 314 of the Annual Report.

Shareholding

The number of registered shareholders of the Company as at 31st December 2012 was 3,811 (2011 - 3,966). The distribution and analysis of shareholdings are given on page 313.

Equitable Treatment to all Shareholders

The Company has at all times ensured that all shareholders are treated equitably. This Annual Report together with the financial statements are primarily prepared and presented in the English Language. However, both Sinhala and Tamil translations of the Chairperson's Report, Managing Director's Report, Statement of Financial Position and Statement of Comprehensive income are available on request.

Major Shareholders

The twenty largest shareholders of the Company as at 31st December 2012, together with comparative shareholding as at 31st December 2011 are given on page 311.

Hatton National Bank PLC (Dr. Ranee Jayamaha, Chairperson, Mr. R. Theagarajah, Managing Director/ Chief Executive Officer and Mr. Jonathan Alles, Deputy Chief Executive Officer of Hatton National Bank PLC represents the main shareholder in the Company's Board) owns 59.99% (2011 - 59.99%) shares of HNB Assurance PLC.

Corporate Donations

The Company made charitable donations amounting to Rs. 300,000/- (2011 - Rs. 300,000/-) during the year.

This included providing three (3) water purifying units to the Meegalawa Government Hospital for a value of Rs.110,000/= approximately. This hospital is situated in a remote area (close to Thambuththegama) in Kurunegala District where most of the surrounding people are suffering from kidney infections due to unavailability of clean drinking water.

Further, the Company donated Rs.40,000/- to Mahawewa Siviraja Special School for Deaf and Blind children, Chilaw to purchase essential items (such as Brail Slates, Tables, etc) . Currently there are about 100 students in this school. However, this school is operated with minimum facilities and the government is funding only the school teachers' salaries whilst the school has to find the funding for their activities and materials.

The Company also provided Rs. 50,000/- to Sri Deerananda Maha Vidyalaya in the Galle district to purchase essential musical equipment to support their Eastern Music Band.

The total cost of the above donations amounted to Rs. 200,000/-.

In line with past practice, the Company donated a sum of Rs. 100,000/- to nine religious institutions representing the four main religions. These donations were also made to support a specific activity in each religious institution chosen.

It must be noted that no donations were made to political parties or for politically influential activities.

Taxation

Income Taxes are computed based on rates enacted or substantively enacted as at the Statement of Financial Position date. The Income Tax rate applicable to the Company's operations is 28% (2011 - 28%).

The income tax expense of the Company is given in Note 33 to the Financial Statements on pages 264 and 265.

As further explained in Note 33.4 to the Financial Statements, no Deferred Tax asset is recognised since it is not probable that future taxable profits will be adequate to utilize the available tax losses fully in the foreseeable future.

Statutory payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government, the Insurance Board of Sri Lanka (IBSL) and related to 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 quarterly basis by responsible officers, and reported to the Audit Committee.

The Company has submitted all returns and other required details to the relevant regulators on or before the due dates.

The Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 requires composite insurance companies to segregate into two separate companies by the year 2015. Specific rules and guidelines pertaining to the above are yet to be finalized by the regulator, but it is heartening to note that these are being developed in consultation with industry stakeholders.

In addition, the IBSL is planning to implement a Risk Based Capital (RBC) framework from the year 2016 onwards to monitor the insurance companies in the country replacing the existing Solvency regime. The Company is working towards this target and steady progress is being made on the implementation of the said Risk Based Capital (RBC) framework in the Company.

Annual Report of the Board of Directors on the Affairs of the Company

Financial Investments

Financial Investments mainly comprises the Company's investment portfolios which has been classified in to different categories as required by Sri Lanka Financial Reporting Standards (SLFRS/LKAS).

The amount of Financial Investments held by the Company as at 31st December 2012 amounted to Rs. 5,703.9 Million (2011 - Rs. 4,884.3 Million 2010 – Rs. 3,643.4 Million - Restated).

A detailed description of the Financial Investments held is disclosed in Note 6 to the Financial Statements on pages 244 to 249.

Property, Plant and Equipment (PPE)

The capital expenditure on acquisition of Property, Plant and Equipment during the year amounted to Rs. 37.8 Million (2011 - Rs. 24.7 Million, 2010 – Rs. 44.9 Million). Net book value of Property, Plant and Equipment as at the Statement of Financial Position date amounted to Rs. 118.4 Million (2011 - Rs. 121.6 Million, 2010 – Rs. 131.0 Million).

An analysis of the Property, Plant and Equipment of the Company, additions and disposals made together with the depreciation charge for the year are set out in Note 5 to the Financial Statements on pages 241 and 242.

Following initial recognition, PPE are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Intangible Assets

The capital expenditure on acquisition of Intangible Assets during the year amounted to Rs. 25.4 Million (2011 - Rs. 8.4 Million, 2010 Rs. 31.7 Million) which is mainly the expenditure incurred on acquisition of Computer Software. The Net Book Value of Intangible Assets as at the Statement of Financial Position date amounted to Rs. 61.1 Million (2011 - Rs. 48.9 Million, 2010 - Rs. 52.3 Million).

A movement of Intangible Assets from the balance as at 1st January 2012 to the balance as at 31st December 2012 having additions and disposals made together with the amortization charge for the year are set out in Note 4 to the Financial Statements on page 240.

Following initial recognition, Intangible Assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Capital Commitments

No significant capital expenditure commitments exist as at 31st December 2012 (2011 - Rs. Nil).

Liabilities and Provisions

The Directors have taken all reasonable steps to ensure adequate provisioning for all known liabilities. Adequate provisions are made for unearned premiums and claims outstanding including provisions for Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) in Non-Life Insurance. The Directors have also consulted an independent Actuary in the process of valuing IBNR and IBNER reserves and his report is given on page 210.

Moreover, the Directors have arranged a Consultant Actuary to value the Life Fund and the report of the Consultant Actuary is given on page 211.

The Company also carried out the Liability Adequacy Test (LAT) in respect of both Life and Non-Life Insurance Contract Liabilities (Insurance Provisions) as required by SLFRS 4 - Insurance Contracts with the assistance of external actuaries and concluded the recorded liabilities are adequate to meet future obligations arising from the insurance contracts. The Company has decided to perform the LAT on an annual basis.

Gratuity liability was also valued by an independent Actuary as required by the Sri Lanka Accounting Standards No 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

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 litigation for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

Events occurring after the Statement of Financial Position date

There have not been any material events that occurred subsequent to the Statement of Financial Position date which requires adjustments to or disclosure in the Financial Statements other than the proposal of the first and final dividends for the year which is disclosed in Note 35.2 to these Financial Statements.

Stated Capital and Reserves

The stated capital of the Company as at 31st December 2012 was Rs. 1,171,875,000/- (2011 - Rs. 1,171,875,000/-) comprising 50,000,000 ordinary shares.

There were no changes in the stated capital during the year.

The total reserves of the Company as at 31st December 2012 amounted to Rs. 696.4 Million (2011 - Rs. 444.1 Million - Restated). The movement of reserves is shown in the Statement of Changes in Equity on page 215.

Minimum Capital Requirements to continue Non-Life and Life Insurance Businesses

Section 13 (b) of the Regulation of Insurance Industry Act, No. 43 of 2000 requires a minimum Stated Capital of Rs. 100 Million each to carry on Non-Life and Life Insurance businesses. However, Insurance Board of Sri Lanka (IBSL) has indicated that they are planning to increase the Stated Capital per line of business (Non-Life and Life) to Rs. 500 Million each. In fact, the IBSL has already increased the minimum capital requirement for new companies to commence up to Rs.500 Million w.e.f. 24th June 2011. Therefore a composite insurance Company will soon be required to have a Stated Capital of Rs. 1 Billion. The Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011 issued in February 2011 has paved the way for IBSL to issue rules to implement this.

HNB Assurance has an issued and fully paid Stated Capital of Rs. 1,171.9 Million (2011 - Rs. 1,171.9 Million) and therefore has already fulfilled this proposed statutory requirement.

The Company has set aside Rs. 500 Million (2011 - Rs. 337.5 Million) out of Shareholders' funds and invested in a separate fund, namely the Life Shareholder's Fund, which is dedicated to the solvency requirements of Life Insurance business.

Environment

The Company's activities can have direct or indirect effects on the environment. It is the policy of the Company to minimize 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 by the Company are described in detail in the Management Discussion and Analysis on pages 117 to 119.

Human Resources

The employment strategies of the Company are framed to recruit, train, develop and retain the best talent available with 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 providing employment opportunities to youth from almost all parts of the country, including the North and the East.

Recruitment levels are determined by the staff requirements forecast, which is updated every year. The annual staff requirements forecast is prepared by considering the projected growth and expansion of the distribution network, profitability, expense ratio, level of automation of activities, productivity, work volumes, multiple skills, etc.

Medical and Life Insurance are available for all employees of the Company irrespective of their level or period of service.

The Company encourages sports and recreational activities by supporting the Employees' Welfare Society, which organises such activities, in addition to those organised by the Company's Human Resource (HR) Department.

A brief description of the Company's HR policy and the remuneration methodology is given in the Remuneration Committee report in pages 181 to 183.

Code of Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without any exception. There were no material violations of the Code during the year except certain insignificant violations noted at the operational level for which appropriate action has been taken.

Whistleblowing

The Company has implemented a formal Whistle Blowing Policy 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 in this regard during the year.

Annual Report of the Board of Directors on the Affairs of the Company

Vision, Mission and Corporate Conduct

The Company's vision and mission is provided on page 2 of this report. In achieving its vision and mission, all Directors and employees conduct their activities maintaining the highest levels of ethical standards and integrity as set out in the Code of Ethics and in conformity with the values stated on page 2 of this report.

Reports of the Audit Committee, Remuneration Committee and the Investment Committee

The Audit Committee, Remuneration Committee and Investment Committee reports are given on pages 176 to 180, 181 to 183 and 184 to 185 respectively of this Annual Report.

Annual General Meeting

The Eleventh 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 Wednesday, the 27th day of March 2013 at 10.00 in the forenoon. The Notice of the Eleventh Annual General Meeting is on page 320 of the Annual Report.

For and on behalf of the Board

Ranee Jayamaha *Chairperson*	**Manjula de Silva** *Managing Director*	**Shiromi Halloluwa** *Board Secretary*

Colombo, Sri Lanka
6th February, 2013

Directors' Interest in contracts with the Company

The Company carries out transactions in the ordinary course of business at commercial rates with entities in which a Director of the company is the Chairman or a Director. The transactions with entities where a Director of the Company either has control or exercises significant influence have been classified as related party transactions and disclosed in Note No. 39 to the Financial Statements. The details of such entitles are given below.

Company	Name of Director / Relationship
Hatton National Bank PLC	Dr. Ranee Jayamaha - Chairperson R Theagarajah - Managing Director/ Chief Executive Officer
Sithma Development (Pvt) Ltd	Dr. Ranee Jayamaha - Chairperson R Theagarajah - Director A Jonathan Alles - Director
Acuity Partners (Pvt) Ltd	R Theagarajah - Chairman A Jonathan Alles - Director
Acuity Securities Ltd	R Theagarajah - Chairman
Acuity Stock Brokers (Pvt) Ltd	R Theagarajah – Director A Jonathan Alles - Director
Colombo Stock Exchange	R Theagarajah - Director

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Company, prepared in accordance with the provisions of the Companies Act, No. 7 of 2007, is set out in the following statement. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Report of the Auditors, given on page 212 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 2012, the Statement of Comprehensive Income, Statement of Changes in Equity and the Cash Flow statement for the year then ended and notes thereto.

The Financial Statements of the Company give a true and fair view of:

1. the state of affairs of the Company as at the date of the Statement of Financial Position; and

2. the financial performance of the Company for the financial year ended 31st December 2012.

   In preparing these Financial Statements, the Directors are required to ensure that:

1. appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;

2. judgments and estimates have been made and that they are reasonable and prudent;

3. all applicable accounting standards as relevant have been followed; and

4. it provides the 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.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparation of these Financial Statements.

The Directors also have a responsibility to ensure that the Company maintains sufficient accounting records to disclose with reasonable accuracy the financial position of the Company.

These Financial Statements which have been prepared and presented in the Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, Regulation of Insurance Industry Act, No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange (CSE).

The Directors have also taken reasonable steps to establish and maintain appropriate systems of internal controls to safeguard the assets of the Company, prevent and detect frauds and other irregularities, and to secure as far as practicable the accuracy and reliability of records.

Directors are required to prepare the Financial Statements and to provide the Company's External Auditors, Messrs KPMG, Chartered Accountants with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary to express their independent audit opinion on the Financial Statements.

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. 2.75 per share for this year, to be paid on 08th April 2013.

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the Reporting date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board

Shiromi Halloluwa
Board Secretary

Colombo, Sri Lanka
06th February, 2013

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements are prepared in compliance with the new 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.

For all periods up to and including the year ended 31st December 2011, the Company prepared its financial statements in accordance with local generally accepted accounting practices, Sri Lanka Accounting Standards (SLAS). These financial statements, for the year ended 31st December 2012, are the first, the Company has prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

Accordingly, the Company has prepared financial statements which comply with SLFRS/LKAS applicable for periods beginning on or after 1st January 2012 as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1st January 2011, the Company's date of transition to SLFRS/LKAS.

SLFRS/LKAS has been applied retrospectively and therefore the comparative financial information provided in these Financial Statements has been restated to be in line with the current year accounting policies and presentations.

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the Financial Statements.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to these Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Company's state of affairs is reasonably presented. To ensure this, the Company has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by Messrs. KPMG, Chartered Accountants, the Independent Auditors.

The Audit Committee of the Company meets periodically with the Internal Auditors and the External Auditors to review the manner in which these Auditors are performing their responsibilities, and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

We confirm that the Company has complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the Company other than those arising in the normal course of conducting insurance business.

Manjula de Silva
Managing Director/Chief Executive Officer

Vipula Dharmapala
Head of Finance / Chief Financial Officer

Colombo, Sri Lanka
06th February, 2013

Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserve

PARTNERS

D. K. PANDIT

AKSHAY PANDIT

N. G. DIWAN

N. K. PARIKH

P. I. MAJMUDAR

M/S. K. A. PANDIT

CONSULTANTS & ACTUARIES

(ISO 9001 2008 CERTIFIED)

CERTIFICATE

As Consulting Actuaries to the HNB Assurance PLC, Colombo- 3, Sri Lanka, we are required to estimate and certify the IBNR and IBNER Claims Reserves of the Company's Non-Life Insurance as on 31st December, 2012. We are also required to certify the company's compliance with the Liability Adequacy Test as on 31st December 2012.

IBNR and IBNER Claims Reserves include the following:

1) A reserve for claims that have occurred but have not been reported to the insurer. This is referred to as Incurred But Not Reported (IBNR) Claims Reserve. Such reserves should be both in respect of insurer's direct (including coinsurance) business.

2) A reserve for future development of known (reported) claims referred to as Incurred But Not Enough Reported (IBNER) Claims Reserve, which may alternatively be described as reserve for Incurred (& Reported) But Not Enough Reserved Claims. This would arise in respect of claims which are settled for amounts higher than the corresponding reserve amounts;

3) A reserve for claims that may re-open after they have been closed; and

4) Claims administration expenses in respect of the above.

The Company submitted the data, as required, which were analysed in two segments – Motor and Non-Motor. The distinguishing features of the Company's business, procedures and practices were noted; also the considerations impacting the calculations of IBNR/IBNER Claims Reserves were taken into account whilst applying appropriate methods to arrive at a scientific estimate of the IBNR/IBNER Claims Reserves required.

We certify, on the above basis, that the IBNR and IBNER Claims Reserves as on 31st December 2012 to be provided by the HNB Assurance PLC in respect of its Non-Life business are estimated as Rs. 24,805,000 (rounded) equal to 1.8720% of the Net Earned Premium of Rs.1,325,072,000 as on 31st December 2012. They seem adequate and may be provided accordingly. We further certify that the HNB Assurance PLC in respect of its Non-Life business adequately satisfies the LAT test as required under SLFRS-4.

(Akshay Pandit)
(PARTNER)

Mumbai, India,
17th January, 2013

Offices Churchgate Andheri Ahmedabad

** PRINTED ON ECO-FRIENDLY PAPER **

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

06 February 2013

To the Shareholders of HNB Assurance PLC.

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER, 2012

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2012. 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, 2012, 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, 2012 by Rs.462.222 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.166.645 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2012.

M POOPALANATHAN
ACTUARY

Independent
Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HNB ASSURANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of HNB Assurance PLC ("the Company"), which comprise the statement of financial position as at December 31, 2012, the statements of comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 213 to 308 of the annual report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2012 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2012, and of its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007. Pursuant to Regulation of Insurance Industry Act, No. 43 of 2000 Section 47 (2), we also report, so far as appear from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

KPMG

CHARTERED ACCOUNTANTS
Colombo
6th February 2013

Statement of
Financial Position

As at 31st December,	Note	Page No.	**2012** Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
Assets					
Intangible Assets	4	240	**61,068**	48,876	52,308
Property, Plant and Equipment	5	241	**118,447**	121,568	130,971
Financial Investments	6	242	**5,703,866**	4,884,262	3,643,361
Loans to Life Policyholders	7	249	**29,888**	20,097	15,000
Reinsurance Receivables	8	250	**162,715**	130,867	122,403
Premium Receivables	9	250	**247,417**	231,385	231,929
Other Assets	10	251	**482,239**	397,385	337,745
Insurance Contract - Deferred Expenses	11	252	**19,968**	20,059	12,392
Cash and Cash Equivalents	12	253	**209,270**	190,355	81,444
Total Assets			**7,034,878**	6,044,854	4,627,553
Equity and Liabilities					
Equity					
Stated Capital	13	253	**1,171,875**	1,171,875	375,000
Revenue Reserves	14.1	254	**696,406**	444,057	676,118
Life Policyholder Reserve Fund	14.2	254	**(1,191)**	(22,526)	31,050
Total Equity			**1,867,090**	1,593,406	1,082,168
Liabilities					
Insurance Contract Liabilities - Life	15	254	**3,626,239**	3,021,331	2,415,214
Insurance Contract Liabilities - Non Life	16	255	**969,443**	944,321	743,049
Employee Benefits	17	257	**42,360**	34,129	25,076
Current Tax Liabilities	18	258	**42,950**	25,998	28,618
Reinsurance Creditors	19	258	**83,253**	103,256	77,309
Other Liabilities	20	258	**403,543**	322,413	256,119
Total Liabilities			**5,167,788**	4,451,448	3,545,385
Total Equity and Liabilities			**7,034,878**	6,044,854	4,627,553

The Notes to the Financial Statements as set out on pages 224 to 308 form an integral part of these Financial Statements.

These Financial Statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.

Vipula Dharmapala
Head of Finance / Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed and on behalf of the Board;

Dr. Ranee Jayamaha
Chairperson

Manjula de Silva
Managing Director / Chief Executive Officer

Colombo, Sri Lanka
6th February 2013

Statement of Comprehensive Income

As at 31st December,	Note	Page No.	2012 Rs.'000	2011 *Restated* Rs.'000	Change %
Gross Written Premium	21	259	**3,211,232**	2,984,710	8
Premium Ceded to Reinsurers	22	259	**(519,709)**	(492,821)	5
Net Written Premium			**2,691,523**	2,491,889	8
Net Change in Reserves for Unearned Premium	23	259	**5,501**	(142,270)	(104)
Net Earned Premium			**2,697,024**	2,349,619	15
Other Revenue					
Investment Income	24	260	**654,584**	478,506	37
Net Realised Gains	25	260	**7,271**	1,157	528
Net Fair Value Loss	26	261	**(93)**	(71,329)	(100)
Fee and Commission Income	27	261	**71,674**	55,929	28
Other Income	28	261	**3,374**	2,693	25
			736,810	466,956	58
Net Income			**3,433,834**	2,816,575	22
Net Benefits, Claims and Expenses					
Net Insurance Benefits and Claims Paid	29	262	**(1,090,721)**	(824,305)	32
Net Change in Insurance Claims Outstanding	30	262	**(63,800)**	(40,825)	56
Change in contract Liabilities - Life Fund	15	254	**(555,909)**	(558,325)	-
Other Operating and Administration Expenses	31	262	**(966,573)**	(815,709)	18
Underwriting and Net Acquisition Costs	32	263	**(348,108)**	(288,059)	21
Other Insurance Related Costs			**(14,857)**	(17,512)	(15)
Total Benefits, Claims and Expenses			**(3,039,968)**	(2,544,735)	19
Profit Before Taxation			**393,866**	271,840	45
Income Tax Expenses	33	264	**(42,726)**	(25,772)	66
Profit for the Year			**351,140**	246,068	43
Other Comprehensive Income					
Investments classified as Available for Sale					
- Net Change in fair value of Available - For - Sale financial assets			**27,544**	(6,149)	(548)
- Net Change in fair value of Available - For - Sale financial assets (transferred to) / from Life Policyholder Reserve			**(21,335)**	6,149	(447)
Total Other Comprehensive Income for the year net of income tax			**6,209**	-	100
Total Comprehensive Income for the year - attributable to owners of the Company			**357,349**	246,068	45
Basic Earnings Per Share (Rs.)	34	266	**7.02**	5.14	
Dividend Per Share (Rs.)	35	266	**2.75**	2.10	

The Notes to the Financial Statements as set out on pages 224 to 308 form an integral part of these Financial Statements.

Statement of Changes in Equity

For the year ended 31st December 2012	Stated Capital Rs. '000	Revenue Reserves Rs. '000	Life Policyholder Reserve Fund Rs. '000	**Total Equity Rs. '000**
Balance as at 31st December 2010	375,000	641,340	-	**1,016,340**
Prior period adjustment	-	34,778	31,050	**65,828**
Balance as at 01st January 2011 - Restated	375,000	676,118	31,050	**1,082,168**
Profit for the Year - Restated	-	246,068	-	**246,068**
Change in Fair value measurements applicable to Life Contracts Liability	-	-	(47,427)	**(47,427)**
Other Comprehensive Income for the Year	-	-	(6,149)	**(6,149)**
Dividend Paid for 2010	-	(67,500)	-	**(67,500)**
Capitalisation of Reserves	406,250	(406,250)	-	**-**
Rights Issue	390,625	-	-	**390,625**
Share Issue Related Costs (Note 13.4)	-	(4,379)	-	**(4,379)**
Balance as at 31st December 2011 - *Restated*	1,171,875	444,057	(22,526)	**1,593,406**
Balance as at 01st January 2012 - *Restated*	1,171,875	444,057	(22,526)	**1,593,406**
Profit for the Year	-	351,140	-	**351,140**
Other Comprehensive Income for the year	-	6,209	21,335	**27,544**
Dividend Paid for 2011	-	(105,000)	-	**(105,000)**
Balance as at 31st December 2012	1,171,875	696,406	(1,191)	**1,867,090**

Cash Flow
Statement

For the Year Ended 31st December,	Note	2012 Rs.'000	2011 *Restated* Rs.'000
Cash Flow From Operating Activities			
Profit Before Taxation		393,866	271,840
Adjustments for:			
Interest Income		(641,379)	(470,114)
Dividend Income		(13,205)	(8,392)
Amortisation of Intangible Assets		13,172	11,839
Depreciation of Property, Plant and Equipment		40,154	33,344
Provision for Employee Benefits		11,386	10,660
Net Fair Value Losses		93	71,329
Net Loss on Investments at Fair Value Through Profit or Loss		-	3,042
Net Gain on Sale of Available For Sale securities		(7,271)	(4,199)
Change in Fair value measurements applicable to Life Contracts Liability		-	(47,427)
Loss on Sale of Property, Plant and Equipment		170	582
		(203,014)	(127,496)
Change in Operating Assets	A	(214,550)	(108,717)
Change in Operating Liabilities	B	708,365	899,630
Cash Flows from Operating Activities		290,801	663,417
Gratuity Paid		(3,155)	(1,607)
Net Cash Generated from Operating Activities		287,646	661,810
Cash Flows from Investing Activities			
Net Acquisition of Investment Securities		(803,168)	(1,244,949)
Interest Received		659,666	397,842
Dividend Received		13,205	8,392
Acquisition of Intangible Assets		(1,352)	(8,407)
Acquisition of Property, Plant and Equipment		(32,690)	(24,704)
Proceeds from the Sale of Property, Plant and Equipment		608	181
Net Cash Used in Investing Activities		(163,731)	(871,645)
Cash Flows from Financing Activities			
Dividend Paid		(105,000)	(67,500)
Proceeds from Rights issue of shares		-	390,625
Share Issue Related Costs Paid		-	(4,379)
Net Cash (Used in)/ from Financing Activities		(105,000)	318,746
Net Increase in Cash and Cash Equivalents	C	18,915	108,911
Cash and Cash Equivalents at the beginning of the Year		190,355	81,444
Cash and Cash Equivalents at the end of the Year	12	209,270	190,355

Notes to the Cash Flow Statement

		2012 Rs.'000	2011 *Restated* Rs.'000
A. Change in Operating Assets			
Decrease/(Increase) in Deferred Expenses		91	(7,667)
Increase in Loans to Life Policyholders		(9,791)	(5,097)
Increase in Reinsurance Receivables		(31,848)	(8,464)
(Increase) /Decrease in Premium Receivables		(16,032)	544
Increase in Other Assets		(156,970)	(88,033)
		(214,550)	(108,717)
B. Change in Operating Liabilities			
Increase Other Liabilities		98,338	66,294
Increase in Insurance Contract Liabilities - Non - Life		25,122	201,272
Increase in Insurance Contract Liabilities - Life		604,908	606,117
(Decrease)/Increase in Reinsurance Creditors		(20,003)	25,947
		708,365	899,630
C. Increase / (Decrease) in Cash and Cash Equivalents			
Net Cash and Cash Equivalents at the end of the Year		209,270	190,355
Net Cash and Cash Equivalents at the beginning of the Year		(190,355)	(81,444)
Net Increase in Cash and Cash Equivalents		18,915	108,911

Statement of Financial Position - Segmental Review - 2012

As at 31st December 2012	Non - Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Assets			
Intangible Assets	61,068	-	61,068
Property, Plant and Equipment	118,447	-	118,447
Financial Investments	2,176,444	3,527,422	5,703,866
Loans to Life Policyholders	-	29,888	29,888
Reinsurance Receivables	121,999	40,716	162,715
Premium Receivables	237,844	9,573	247,417
Other Assets	344,444	137,795	482,239
Insurance Contract - Deferred Expenses	19,968	-	19,968
Cash and Cash Equivalents	79,354	129,916	209,270
Total Assets	3,159,568	3,875,310	7,034,878
Equity and Liabilities			
Equity			
Stated Capital	1,171,875	-	1,171,875
Revenue Reserves	696,406	-	696,406
Life Policyholder Reserve Fund	-	(1,191)	(1,191)
Total Equity	1,868,281	(1,191)	1,867,090
Liabilities			
Insurance Contract Liabilities - Life	-	3,626,239	3,626,239
Insurance Contract Liabilities - Non - Life	969,443	-	969,443
Employee Benefits	37,417	4,943	42,360
Current Tax Liabilities	42,950	-	42,950
Reinsurance Creditors	53,325	29,928	83,253
Other Liabilities	188,152	215,391	403,543
Total Liabilities	1,291,287	3,876,501	5,167,788
Total Equity and Liabilities	3,159,568	3,875,310	7,034,878

The Notes to the Financial Statements as set out on pages 224 to 308 form an integral part of these Financial Statements.

Statement of Financial Position - Segmental Review - 2011

As at 31st December 2011 - *(Restated)*	Non - Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Assets			
Intangible Assets	26,673	22,203	48,876
Property, Plant and Equipment	117,292	4,276	121,568
Financial Investments	1,948,775	2,935,487	4,884,262
Loans to Life Policyholders	-	20,097	20,097
Reinsurance Receivables	103,019	27,848	130,867
Premium Receivables	231,385	-	231,385
Other Assets	268,162	129,223	397,385
Insurance Contract - Deferred Expenses	20,059	-	20,059
Cash and Cash Equivalents	127,887	62,468	190,355
Total Assets	2,843,252	3,201,602	6,044,854
Equity and Liabilities			
Equity			
Stated Capital	1,171,875	-	1,171,875
Revenue Reserves	444,057	-	444,057
Life Policyholder Reserve Fund	-	(22,526)	(22,526)
Total Equity	1,615,932	(22,526)	1,593,406
Liabilities			
Insurance Contract Liabilities - Life	-	3,021,331	3,021,331
Insurance Contract Liabilities - Non - Life	944,321	-	944,321
Employee Benefits	29,564	4,565	34,129
Current Tax Liabilities	25,998	-	25,998
Reinsurance Creditors	75,150	28,106	103,256
Other Liabilities	152,287	170,126	322,413
Total Liabilities	1,227,320	3,224,128	4,451,448
Total Equity and Liabilities	2,843,252	3,201,602	6,044,854

The Notes to the Financial Statements as set out on pages 224 to 308 form an integral part of these Financial Statements.

Statement of Financial Position - Segmental Review - 1st January 2011

As at 1st January 2011 - *(Restated)*	Non - Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Assets			
Intangible Assets	31,535	20,773	52,308
Property, Plant and Equipment	126,398	4,573	130,971
Financial Investments	1,227,508	2,415,853	3,643,361
Loans to Life Policyholders	-	15,000	15,000
Reinsurance Receivables	103,786	18,617	122,403
Premium Receivables	231,929	-	231,929
Other Assets	235,189	102,556	337,745
Insurance Contract - Deferred Expenses	12,392	-	12,392
Cash and Cash Equivalents	68,439	13,005	81,444
Total Assets	2,037,176	2,590,377	4,627,553
Equity and Liabilities			
Equity			
Stated Capital	375,000	-	375,000
Revenue Reserves	676,118	-	676,118
Life Policyholder Reserve Fund	-	31,050	31,050
Total Equity	1,051,118	31,050	1,082,168
Liabilities			
Insurance Contract Liabilities - Life	-	2,415,214	2,415,214
Insurance Contract Liabilities - Non - Life	743,049	-	743,049
Employee Benefits	21,670	3,406	25,076
Current Tax Liabilities	28,618	-	28,618
Reinsurance Creditors	51,968	25,341	77,309
Other Liabilities	140,753	115,366	256,119
Total Liabilities	986,058	2,559,327	3,545,385
Total Equity and Liabilities	2,037,176	2,590,377	4,627,553

The Notes to the Financial Statements as set out on pages 224 to 308 form an integral part of these Financial Statements.

Statement of Comprehensive Income - Segmental Review - 2012

For the Year Ended 31st December 2012,	Non - Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Gross Written Premium	1,711,204	1,500,028	3,211,232
Premium Ceded to Reinsurers	(391,633)	(128,076)	(519,709)
Net Written Premium	1,319,571	1,371,952	2,691,523
Net Change in Reserves for Unearned Premium	5,501	-	5,501
Net Earned Premium	**1,325,072**	**1,371,952**	**2,697,024**
Other Revenue			
Investment Income	231,033	423,551	654,584
Net Realised Gains	7,271	-	7,271
Net Fair Value Gain/(Loss)	9,864	(9,957)	(93)
Fee and Commission Income	56,638	15,036	71,674
Other Income	3,374	-	3,374
	308,180	428,630	736,810
Net Income	**1,633,252**	**1,800,582**	**3,433,834**
Net Benefits, Claims and Expenses			
Net Insurance Benefits and Claims Paid	(861,858)	(228,863)	(1,090,721)
Net Change in Insurance Claims Outstanding	(30,892)	(32,908)	(63,800)
Change in contract Liabilities - Life Fund	-	(555,909)	(555,909)
Other Operating and Administration Expenses	(450,741)	(515,832)	(966,573)
Underwriting and Net Acquisition Costs	(53,652)	(294,456)	(348,108)
Other Insurance Related Costs	(7,468)	(7,389)	(14,857)
Total Benefits, Claims and Expenses	(1,404,611)	(1,635,357)	(3,039,968)
Profit Before Taxation	**228,641**	**165,225**	**393,866**
Income Tax Expenses	(42,726)	-	(42,726)
Profit for the Year	**185,915**	**165,225**	**351,140**

The Notes to the Financial Statements as set out on pages 224 to 308 form an integral part of these Financial Statements.

Statement of Comprehensive Income - Segmental Review - 2011

For the Year Ended 31st December 2011 - *(Restated)*	Non - Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Gross Written Premium	1,694,343	1,290,367	2,984,710
Premium Ceded to Reinsurers	(390,125)	(102,696)	(492,821)
Net Written Premium	1,304,218	1,187,671	2,491,889
Net Change in Reserves for Unearned Premium	(142,270)	-	(142,270)
Net Earned Premium	1,161,948	1,187,671	2,349,619
Other Revenue			
Investment Income	155,779	322,727	478,506
Net Realised Gains /(Loss)	(3,042)	4,199	1,157
Net Fair Value Loss	(16,921)	(54,408)	(71,329)
Fee and Commission Income	30,867	25,062	55,929
Other Income	2,707	(14)	2,693
	169,390	**297,566**	**466,956**
Net Income	**1,331,338**	**1,485,237**	**2,816,575**
Net Benefits, Claims and Expenses			
Net Insurance Benefits and Claims Paid	(760,291)	(64,014)	(824,305)
Net Change in Insurance Claims Outstanding	(42,079)	1,254	(40,825)
Change in Contract Liabilities - Life Fund	-	(558,325)	(558,325)
Other Operating and Administration Expenses	(380,337)	(435,372)	(815,709)
Underwriting and Net Acquisition Costs	(40,680)	(247,379)	(288,059)
Other Insurance Related Costs	(8,111)	(9,401)	(17,512)
Total Benefits, Claims and Expenses	(1,231,498)	(1,313,237)	(2,544,735)
Profit Before Taxation	**99,840**	**172,000**	**271,840**
Income Tax Expenses	(25,772)	-	(25,772)
Profit for the Year	**74,068**	**172,000**	**246,068**

The Notes to the Financial Statements as set out on pages 224 to 308 form an integral part of these Financial Statements.

Cash Flow Statement - Segmental Review - 2012

For the Year Ended 31st December 2012	Note	Non - Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Cash Flow From Operating Activities				
Profit Before Taxation		228,641	165,225	393,866
Adjustments for:				
Interest Income		(225,223)	(416,156)	(641,379)
Dividend Income		(5,810)	(7,395)	(13,205)
Transfer of Profit		165,225	(165,225)	-
Amortisation of Intangible Assets		11,383	1,789	13,172
Depreciation of Property, Plant and Equipment		39,441	713	40,154
Provision for Employee Benefits		9,877	1,509	11,386
Net Fair Value (Gains)/Losses		(9,864)	9,957	93
Net Gain on Sale of Available For Sale securities		(7,271)	-	(7,271)
Loss on Sale of Property, Plant and Equipment		170	-	170
		206,569	(409,583)	(203,014)
Change in Operating Assets	A	(173,746)	(40,804)	(214,550)
Change in Operating Liabilities	B	32,393	675,972	708,365
Cash Flows from Operating Activities		65,216	225,585	290,801
Gratuity Paid		(2,024)	(1,131)	(3,155)
Net Cash Generated from Operating Activities		63,192	224,454	287,646
Cash Flows from Investing Activities				
Net Acquisition of Investment Securities		(201,967)	(601,201)	(803,168)
Interest Received		222,866	436,800	659,666
Dividend Received		5,810	7,395	13,205
Acquisition of Intangible Assets		(1,352)	-	(1,352)
Acquisition of Property, Plant and Equipment		(32,690)	-	(32,690)
Proceeds from the Sale of Property, Plant and Equipment		608	-	608
Net Cash Used in Investing Activities		(6,725)	(157,006)	(163,731)
Cash Flows from Financing Activities				
Dividend Paid		(105,000)	-	(105,000)
Net Cash Used in Financing Activities		(105,000)	-	(105,000)
Net Increase in Cash and Cash Equivalents	C	**(48,533)**	**67,448**	**18,915**
Cash and Cash Equivalents at the beginning of the Year		127,887	62,468	190,355
Cash and Cash Equivalents at the end of the Year	12	**79,354**	**129,916**	**209,270**
Notes to the Cash Flow Statement				
A. Change in Operating Assets				
Decrease in Deferred Expenses		91	-	91
Increase in Loans to Life Policyholders		-	(9,791)	(9,791)
Increase in Reinsurance Receivables		(18,980)	(12,868)	(31,848)
Increase in Premium Receivables		(6,459)	(9,573)	(16,032)
Increase in Other Assets		(148,398)	(8,572)	(156,970)
		(173,746)	(40,804)	(214,550)
B. Change in Operating Liabilities				
Increase in Other Liabilities		29,096	69,242	98,338
Increase in Insurance Contract Liabilities - Non - Life		25,122	-	25,122
Increase in Insurance Contract Liabilities - Life		-	604,908	604,908
(Decrease)/Increase in Reinsurance Creditors		(21,825)	1,822	(20,003)
		32,393	675,972	708,365
C. Increase / (Decrease) in Cash and Cash Equivalents				
Net Cash and Cash Equivalents at the end of the Year		79,354	129,916	209,270
Net Cash and Cash Equivalents at the beginning of the Year		(127,887)	(62,468)	(190,355)
Net Increase in Cash and Cash Equivalents		(48,533)	67,448	18,915

Cash Flow Statement -
Segmental Review - 2011

For the Year Ended 31st December 2011 - *(Restated)*	Note	Non - Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Cash Flow From Operating Activities				
Profit Before Taxation		99,840	172,000	271,840
Adjustments for:				
Interest Income		(151,865)	(318,249)	(470,114)
Dividend Income		(3,914)	(4,478)	(8,392)
Transfer of Profit		172,000	(172,000)	-
Amortisation of Intangible Assets		7,371	4,468	11,839
Depreciation of Property, Plant and Equipment		31,103	2,241	33,344
Provision for Employee Benefits		8,977	1,683	10,660
Net Fair Value (Gains)/Losses		16,921	54,408	71,329
Net Loss on Investments at Fair Value Through Profit or Losses		3,042	-	3,042
Net Gain on Sale of Available For Sale securities		-	(4,199)	(4,199)
Change in Fair value measurements applicable to Life Contracts Liability		-	(47,427)	(47,427)
Loss on Sale of Property, Plant and Equipment		568	14	582
		184,043	(311,539)	(127,496)
Change in Operating Assets	A	(67,722)	(40,995)	(108,717)
Change in Operating Liabilities	B	235,988	663,642	899,630
Cash Flows from Operating Activities		352,309	311,108	663,417
Gratuity Paid		(1,083)	(524)	(1,607)
Net Cash Generated from Operating Activities		351,226	310,584	661,810
Cash Flows from Investing Activities				
Net Acquisition of Investment Securities		(725,464)	(519,485)	(1,244,949)
Interest Received		136,100	261,742	397,842
Dividend Received		3,914	4,478	8,392
Acquisition of Intangible Assets		(2,509)	(5,898)	(8,407)
Acquisition of Property, Plant and Equipment		(22,723)	(1,981)	(24,704)
Proceeds from the Sale of Property, Plant and Equipment		158	23	181
Net Cash Used in Investing Activities		(610,524)	(261,121)	(871,645)
Cash Flows from Financing Activities				
Dividend Paid		(67,500)	-	(67,500)
Proceeds from Rights issue of shares		390,625	-	390,625
Share Issue Related Costs Paid		(4,379)	-	(4,379)
Net Cash from Financing Activities		318,746	-	318,746
Net Increase in Cash and Cash Equivalents	C	**59,448**	**49,463**	**108,911**
Cash and Cash Equivalents at the beginning of the Year		68,439	13,005	81,444
Cash and Cash Equivalents at the end of the Year	12	**127,887**	**62,468**	**190,355**

Notes to the Cash Flow Statement

	Non - Life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
A. Change in Operating Assets			
Increase in Deferred Expenses	(7,667)	-	(7,667)
Increase in Loans to Life Policyholders	-	(5,097)	(5,097)
Decrease/(Increase) in Reinsurance Receivables	767	(9,231)	(8,464)
Decrease in Premium Receivables	544	-	544
Increase in Other Assets	(61,366)	(26,667)	(88,033)
	(67,722)	(40,995)	(108,717)
B. Change in Operating Liabilities			
Increase Other Liabilities	11,534	54,760	66,294
Increase Insurance Contract Liabilities - Non - Life	201,272	-	201,272
Increase in Insurance Contract Liabilities - Life	-	606,117	606,117
(Decrease)/Increase in Reinsurance Creditors	23,182	2,765	25,947
	235,988	663,642	899,630
C. Increase / (Decrease) in Cash and Cash Equivalents			
Net Cash and Cash Equivalents at the end of the Year	127,887	62,468	190,355
Net Cash and Cash Equivalents at the beginning of the Year	(68,439)	(13,005)	(81,444)
Net Increase in Cash and Cash Equivalents	59,448	49,463	108,911

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).

1.2 Principal Activities and Nature of Operations

The principal activity of the Company continued to be carrying on insurance business (both Life and Non - Life Insurance). There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.3 Parent Entity and Ultimate Parent Entity

The Company's parent entity is Hatton National Bank PLC. In the opinion of the Directors, the Company's ultimate parent undertaking and controlling party is Hatton National Bank PLC which is incorporated in Sri Lanka.

1.4 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements.

1.5 Number of Employees

The staff strength of the Company as at 31st December 2012 is 723 (2011 was 662).

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with new Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000.

These are the Company's first financial statements prepared in accordance with Sri Lanka Accounting Standards prefixed SLFRS and LKAS and SLFRS 1-First-time Adoption of Sri Lanka Financial Reporting Standards has been applied.

An explanation of how the transition to the new SLASs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 37.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value

- available-for-sale financial assets are measured at fair value

The Company presents its statement of financial position broadly in the order of liquidity.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

2.2.a Supplementary Statements - Statement of Financial Position of the Life Insurance Fund

Supplementary Statement of Financial Position of the Life Insurance Fund together with the notes are disclosed in page numbers 298 to 308 continuing the past practice which is a requirement of the Statement of Recommended Practice (SoRP) for Insurance Contracts then applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

2.3 Date of authorization of issue

The financial statements were authorized for issue by the Board of Directors on 6th February 2013.

2.4 Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional currency.

Except as indicated, financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

2.5 Use of Estimates and Judgements

The preparation of the financial statements in conformity with SLASs requires management to make judgements, 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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

2.5.a Insurance contract liabilities – Life Insurance

The valuation of the Long Term insurance business as at 31st December 2012 was carried out by the Consultant Actuary based on the assumptions set out in Note No. 15 to the Financial Statements on Page 254.

2.5.b Insurance contract liabilities – Non - Life Insurance

For Non - Life Insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

2.5.c 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 17.3.

2.5.d Deferred tax assets and liabilities

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimate based on the tax laws and interpretations.

The Company has utilised such tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences. 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. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits.

2.5.e Assessment of Impairment

The Company assesses at each Reporting date whether there is objective evidence that an asset or a portfolio of assets is impaired.

The table below provides the reference for different locations in the report which discusses each of the above estimates in detail.

Significant Accounting Estimate/Judgment	Disclosure Reference Note No.	Page No.
Insurance Contract liabilities - Life Insurance	15	254
Insurance Contract liabilities - Non - Life Insurance	16	255
Employee Benefits	17	257
Deferred Tax Assets	33.4.b	265
Assessment of Impairment		
- Intangible Assets	4.4	240
- Property, Plant and Equipment	5.7	242
- Loans to Life Policyholders	7.3	249
- Reinsurance Receivables	8.3	250
- Premium Receivables	9.3	251
Liability Adequacy Test (LAT)		
- Life Insurance	15.1	255
- Non - Life Insurance	16.7	256

2.6 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening new SLAS statement of financial position at 1st January 2011 for the purposes of the transition to new SLASs, unless otherwise indicated.

3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

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.

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.

3.2 Insurance contracts

As permitted by SLFRS 4 Insurance Contracts, the Company continues to apply the existing accounting policies for Insurance Contracts that were applied prior to the adoption of SLFRS.

Product classification

SLFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred.

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

All the products sold by the Company are insurance contracts and therefore classified as Insurance contracts under the SLFRS 4 – Insurance Contracts. Thus, the Company does not have any investment contracts within its product portfolio as at the reporting date.

3.3 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 Company and the cost of the asset can be measured reliably.

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent Expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is six years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

De-recognition
An Intangible Asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of such Intangible Assets is included in the Statement of Comprehensive Income when the item is derecognised.

3.4 Property, Plant and Equipment

Basis of Recognition

Property, Plant and Equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be measured reliably.

Measurement
An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

The Company applies the cost model to Plant and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. The Company does not own any property.

Subsequent Costs
The cost of replacing a part of an item of Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The cost of day to day servicing of Property, Plant and Equipment is charged to the Statement of Comprehensive Income as incurred.

Repairs and maintenance
Repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

Depreciation
The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

The estimated useful lives for the current and comparative years are as follows:

Office equipment	5 years
Computer hardware	6 years
Furniture and fittings	10 years
Motor vehicles	4 years
Lease hold improvements (Fixtures)	Based on the Lease Agreement period

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

De-recognition
The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment is included in the Statement of Comprehensive Income when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is derecognised.

Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred on Property, Plant and Equipment, awaiting capitalisation.

3.5 Leased assets – Lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date.

Finance Leases

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the Statement of Comprehensive Income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating Leases

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term.

3.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

However, no borrowing costs in the Company during the financial periods under review.

3.7 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss.

3.8 Financial assets and financial liabilities

3.8.1 Non-derivative financial assets

3.8.1.a Initial recognition and measurement

The Company initially recognises loans and receivables and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

At inception a financial asset is classified into one of the following categories:

1. Fair value through profit or loss (FVTPL);
2. Loans and receivables (L&R);
3. Held to maturity investments (HTM); and
4. Available-for-sale (AFS) financial assets, as appropriate.

The Company determines the classification of its financial assets at initial recognition.

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the Company's ability. Financial assets are classified as at fair value through profit or loss where the Company's investment strategy is to manage financial investments on a fair value basis. The available-for-sale and held to maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortised cost.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the settlement date, i.e., the date that the Company receives/settles money for the sale/purchase of the financial asset. However, when it comes to investment in quoted equities and corporate debt, the transaction date (i.e. trade date) is used to recognize/derecognise the asset.

The Company's existing types of financial assets and their classifications are shown in the table below.

Financial Asset	Category
Treasury Bonds	Fair Value through Profit or Loss, Available for Sale, Held to Maturity
Treasury Bills	Fair Value through Profit or Loss, Available for Sale, Held to Maturity, Loans and Receivables
Listed Equity Shares	Fair Value through Profit or Loss
Unit Trusts	Fair Value through Profit or Loss, Loans and Receivables
Corporate Debt	Loans and Receivables
Term Deposits	Loans and Receivables
Policy Loans	Loans and Receivables
Staff and Advisor Loans	Loans and Receivables

3.8.1.b Subsequent measurement

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

For investments designated as at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, Or

- The assets and liabilities are part of a Company's financial assets, financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with the Company's investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Fair value gains and losses' in the Statement of Comprehensive Income.

Interest is accrued and presented in '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 Company 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 Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset.

Available-for-sale financial assets (AFS)

Available-for-sale financial investments include equity and debt securities (Government Securities and Corporate Debt). Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in Other Comprehensive Income (OCI) in the available-for-sale reserve.

Interest earned whilst holding available-for-sale investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding available-for-sale investments are recognised in the income statement as 'Investment Income' when the right of the payment has been established. When the asset is derecognized, 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 income statement in the 'Investment Income' and removed from the available-for-sale reserve.

The Company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Company is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset that 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 income statement.

Loans and receivables - (L & R)
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company also decided to classify 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 income statement.

Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

The fair value of policy loans are estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans. The fair value of fixed rate policy loans are estimated by discounting cash flows at the interest rates charged on policy loans of similar policies currently being issued. The varying values of policy loans with variable rates approximate to their fair value.

Held to maturity financial assets (HTM)
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the intention and ability to hold until maturity. After initial measurement, held to maturity financial assets are measured at amortised cost, using the EIR, less impairment.

The EIR amortisation is included in 'Investment Income' in the income statement.

Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

3.8.2 Non-derivative financial liabilities
The Company initially recognises financial liabilities (including liabilities designated at fair value through profit or loss) on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

3.8.3 De-recognition
The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or

in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3.8.4 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLASs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3.8.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.8.6 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument **(Categorize as Level 1)**. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique **(Categorize as Level 2)**. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate for a similar instrument. The use of different pricing models and assumptions could produce materially different estimates of fair values.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability **(Categorize as Level 3)**. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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
Repos/Overnight Repos	Carrying Value (Cost + Accrued Interest)	Level 2
Investment in Listed Shares	Volume Weighted Average (VWA) prices	Level 1
Units Trusts		
Listed Units Trusts	Published Market Prices (VWA)	Level 1
Unlisted Redeemable Units Trusts	Net Assets Values (NAV)	Level 2
Close ended Irredeemable Units Trusts	Published Net Assets Value (NAV)	Level 2
Corporate Debt		
Listed instrument (Security)	Published Market Prices	Level 1
Unlisted Fixed Rate instrument	Discounted Cash Flow (DCF) Method Using current Treasury Bond/ Treasury bill rates for similar maturity plus a risk premium. The risk premium is determined based on the credit rating of the instrument	Level 2
Unlisted Floating Rate instrument	Cost plus interest	Level 3
Commercial Paper & promissory note	Cost plus interest	Level 3
Fixed and Term Deposits		
Deposit < 1year	Cost plus interest	Level 2
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 credit rating of the institution	Level 2
Forex Deposits	Cost plus interest	Level 3

** As explained in note 3.8.6*

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

3.8.7 Identification and measurement of impairment

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.8.7.a Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. 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 income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Investment Income' in the income statement.

The Company has not experienced any indication of impairment and thus no impairment losses were recognized during the financial year.

3.8.7.b Available-for-sale financial investments (AFS)

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Investment Income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

3.9 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 Non - Life 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 income statement. No such indication of impairment was experienced during the year.

DAC is derecognised when the related contracts are either settled or disposed of.

3.10 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 income statement.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3.11 Premium Receivable

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Collectability of premiums is reviewed on an ongoing basis.

According to the Premium Payment Warranty (PPW) directive issued by the Insurance Board of Sri Lanka (IBSL), all Non-Life insurance policies are issued subject to PPW and are cancelled upon the expiry of 60 days if not settled.

The Company decided to account for life insurance premiums on accrual basis with the implementation of new/revised SLFRS/LKAS. Accordingly, 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.

3.12 Other Assets

3.12.1 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.

3.12.2 Advance Paid for Software

Advance paid for Software is stated at cost. These are expenses directly incurred in the development of computer software, awaiting capitalisation

3.12.3 Inventories

Inventories include all consumable items which are stated at lower of cost and net realisable value.

3.13 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.

LIABILITIES AND PROVISIONS

3.14 Insurance contract liabilities

3.14.1 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.

As required by the 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 adequacy test, 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.

3.14.2 Insurance Provision – Non - Life Insurance

Non - Life Insurance contract liabilities include the outstanding claims provision including IBNR and IBNER, the provision for unearned premium and the provision for premium deficiency.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date.

The valuation of Unearned Premium Reserve are measured in accordance with guidelines of the Regulation of Insurance Industry Act, No. 43 of 2000 (i.e. based on the 1/24th basis).

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims reserve are actuarially computed.

The liability is not 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.

As required by the SLFRS 4- Insurance Contracts, the Company performed a Liability Adequacy Test (LAT) in respect of Non - Life Insurance contract liabilities with the assistance of the external actuary.

3.14.3 Title Insurance Reserve

Title insurance reserve is maintained by the Company to pay potential claims arising from the title insurance policies. Title insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised in the first year of the policy given the higher probability of claims occurring in that year. From the 2nd year onwards, profit is recognised by amortising the premium received and will be distributed throughout the remaining period of the policy using the straight line method. Profit for the first year will only be recognised in the 2nd year and thereafter it is periodically recognised.

If the corresponding loan of the Title Insurance Policy issued is settled before the maturity, full premium of such policies remaining as at the date of settlement of such loan is recognised in profits upon confirmation of the same by the respective Bank.

3.15 Employee benefits

3.15.1 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 Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.15.2 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 Company are member of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary to EPF.

Employees Trust Fund

All employees of the Company are members of the Employees' Trust Fund (ETF). The Company contributes 3% of the salary of each employee to ETF.

3.15.3 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - 'Employee Benefits'. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded.

Actuarial Gains and Losses
All Actuarial gains or losses are recognised immediately in profit or loss applying the faster recognition approach.

3.16 Provisions
A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.17 Trade and other payable
Trade and other payables including related party payables are stated at their cost.

3.18 Revenue recognition

3.18.1 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). Any premiums received in advance is not recorded as revenue and recorded as a liability until the premium is due. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

Non - Life insurance business
Gross written premiums - Non - Life Insurance 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 recognized is written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on 1/24th basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums which is included under liabilities.

3.18.2 Reinsurance premiums
Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Reinsurance premiums are decided based on rates agreed with reinsurers.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts (using 1/24th basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000).

3.18.3 Fees and commission income
Insurance and investment contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or becoming due.

3.19 Interests
Interest income and expenses are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

3.20 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.

3.21 Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

3.22 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.

3.23 Benefits, claims and expenses

a. Gross benefits and claims

Life insurance business

Claims by death and maturity are charged against revenue on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

Expenses on Life Insurance relates to the acquisition expenses and expenses for maintenance of Life Insurance business, investment related expenses not treated as a part of the capital cost of investment, etc which are accounted on accrual basis.

Non - Life insurance business

Non - Life insurance claims include all claims occurring during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

The provision in respect of Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) is actuarially valued to ensure a more realistic estimation of the future liability based on the past experience and trends. Actuarial valuations are performed on a semi-annual basis.

Whilst the Directors consider that the provisions for claims are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such amounts are reflected in the Financial Statements for that period.

The methods used to estimate claims and the estimates made are reviewed regularly.

b. Reinsurance claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

3.24 Net Deferred Acquisition Expenses

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned.

Reinsurance commission is also treated in the same manner within deferred acquisition costs.

3.25 Actuarial Valuation of Life Insurance Fund

The Directors agree to the long term insurance provision for the Company at the year-end on the recommendations of the Independent Consultant Actuary following his annual investigation of the Life Insurance business. The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the Independent Consultant Actuary.

3.26 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 income statement.

Share issue related expenses are charged against the reserves in the equity statement.

3.27 Income Tax expense

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

3.27.1 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 income statement.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

3.27.2 Deferred tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount substantively enacted by the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences. As at the date of the Statement of Financial Position, the Company has deferred tax liabilities arising from Property Plan and Equipment only.

Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be fully utilised. Deferred tax assets, if any, are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside profit or loss, if any is recognised outside profit or loss. Deferred tax items are recognised in relation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.27.3 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 a part of the cost of acquisition of the asset or as a part of the expense item, as applicable.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority are included as a part of receivables or payables in the Statement of Financial Position.

3.27.4 Withholding Tax on Dividends

Withholding tax that arises from the distribution of dividends by the Company is recognised at the same time as the liability to pay the related dividend is recognised.

3.27.5 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, if the Company in relation to any relevant quarter commencing on or after April 01, 2012, where such part of the taxable income as consists of profits from any trade, business, profession or vocation assessed under the provisions of Inland revenue Act No, 10 of 2006 for the year of assessment 2011/2012, is more than zero, the relevant turnover for such quarter shall be deemed to be zero.

3.28 Segmental Reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Company's primary format for segment reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Accordingly, segmental information of the Company reflects Non - Life Insurance and Life Insurance. Inter-segment transfers are based on fair market prices.

3.29 Capital Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

3.30 Events Occurring after the Reporting Date

All material post Statement of Financial Position events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the Financial Statements.

3.31 Proposed Dividends

Dividend proposed by the Board of Directors after the Reporting date is not recognised as a liability and is only disclosed as a Note to the Financial Statements (Note 41 in page No 297). 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.

3.32 Earning Per Share (EPS)

The Company presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by dividing the profit or loss attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares.

3.33 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.

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.

As at 31st December	2012 Total Rs.'000	2011 *Restated* Total Rs.'000	1st Jan 2011 *Restated* Total Rs.'000
4. INTANGIBLE ASSETS			
Computer Software			
Cost			
Balance as at 01st January	**103,411**	95,150	63,484
Acquisition /Capitalised during the year	**25,364**	8,407	31,666
Impairment during the year	**-**	(146)	-
Balance as at 31st December	**128,775**	103,411	95,150
Amortisation and Impairment Losses			
Balance as at 01st January	**54,535**	42,842	32,859
Amortisation for the year	**13,172**	11,839	9,983
Impairment during the year	**-**	(146)	-
Balance as at 31st December	**67,707**	54,535	42,842
Carrying amount as at 31st December	**61,068**	48,876	52,308

4.1 Acquisition of Intangible Assets during the year
During the financial year, the Company acquired/capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 25.36 Million (2011 - Rs. 8.4 Million). Cash payments amounting to Rs. 1.4 Million (2011 - Rs. 8.4 Million) were made during the year for purchase of Intangible Assets (Computer Software).

4.2 Fully amortised Intangible Assets in use
Intangible Assets includes fully depreciated Computer Software which are in the use of normal business activities having a gross carrying amounts of Rs. 32.5 Million (2011 - Rs. 28.7 Million).

4.3 Title restriction on Intangible Assets
There are no restrictions that existed on the title of the Intangible Assets of the Company as at the Reporting date. There were no items pledged as securities for Liabilities.

4.4 Assessment of impairment of Intangible Assets
The Board of Directors has assessed potential impairment loss of intangible assets as at 31st December 2012. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the Reporting date in respect of intangible assets.

4.5 Inter Segment Transfer of Intangible Assets During the year
During the year, the Company transferred intangible assets with an aggregate carrying value of Rs. 20.4 Million from Life Insurance Segment to Non - Life Insurance Segment

	Computer Hardware Rs.'000	Motor Vehicles Rs.'000	Office Equipment Rs.'000	Furniture and Fittings Rs.'000	Fixtures Rs.'000	Total Rs.'000
5. PROPERTY, PLANT AND EQUIPMENT (PPE)						
Cost						
Balance as at 01st January 2011	109,203	17,409	44,362	73,676	-	244,650
Additions during the year	15,939	132	2,884	5,749	-	24,704
Disposals during the year	-	(74)	(483)	(1,828)	-	(2,385)
Sub category transfers during the year (Note 5.1)	(3,162)	-	-	(42,244)	45,406	-
Balance as at 31st December 2011	121,980	17,467	46,763	35,353	45,406	266,969
Balance as at 01st January 2012	121,980	17,467	46,763	35,353	45,406	266,969
Additions during the year	18,011	-	5,573	5,415	8,811	37,810
Disposals during the year	(4,267)	-	(754)	(899)	(2,041)	(7,961)
Balance as at 31st December 2012	135,724	17,467	51,582	39,869	52,176	296,818
Depreciation and Impairment Losses						
Balance as at 01st January 2011	56,290	9,275	24,931	23,183	-	113,679
Depreciation for the year	14,574	4,342	6,840	7,588	-	33,344
Depreciation on Disposal	-	(74)	(483)	(1,065)	-	(1,622)
Sub category transfers during the year (Note 5.1)	(1,602)	-	-	(14,261)	15,863	-
Balance as at 31st December 2011	69,262	13,543	31,288	15,445	15,863	145,401
Balance as at 01st January 2012	69,262	13,543	31,288	15,445	15,863	145,401
Depreciation for the year	14,845	3,571	5,999	3,515	12,224	40,154
Depreciation on disposals	(4,019)	-	(730)	(703)	(1,732)	(7,184)
Balance as at 31st December 2012	**80,088**	**17,114**	**36,557**	**18,257**	**26,355**	**178,371**
Carrying Value as at 31st December 2012	**55,636**	**353**	**15,025**	**21,612**	**25,821**	**118,447**
Carrying Value as at 31st December 2011	52,718	3,924	15,475	19,908	29,543	121,568
Carrying Value as at 1st January 2011	52,913	8,134	19,431	50,493	-	130,971

5.1 Sub Category Transfers

During the Financial year, the Company transferred leasehold improvements which was previously classified under Furniture and Fittings (with an aggregate value of Rs. 42.2 Million) and Computer Hardware (with an aggregate value of - Rs.3.2 Million) to Fixtures.

The estimated useful life of the Fixtures has been changed according to the term of the leased agreements of the respective premises (Previously 10 Years). Accordingly, the Company has made an additional depreciation charge of Rs.3.2 Million due to the change in estimate of useful life for fixtures during the year.

5.2 Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs.37.81 Million (2011- Rs. 24.7 Million). Cash payments amounting to Rs.32.7 Million (2011 - Rs. 24.7 Million) were made during the year for purchase of PPE.

5. Property, Plant and Equipment (PPE) (Contd.)

5.3 Fully depreciated PPE in use

The initial cost of fully depreciated PPE which are still in use as at reporting date, is as follows:

As at 31st December,	2012 Rs.'000	2011 Rs.'000
Computer Hardware	**36,909**	32,639
Office Equipment	**17,849**	13,431
Fixtures	**8,506**	284
Furniture and Fittings	**1,487**	1,399
	64,751	47,753

5.4 PPE pledged as security

None of the PPE have been pledged as securities as at the reporting date.

5.5 Permanent fall in value of PPE

There has been no permanent fall in the value of PPE which require a provision in the Financial Statements.

5.6 Title restriction on PPE

There are no restrictions that existed on the title of the PPE of the Company as at the reporting date.

5.7 Assessment of impairment

The Board of Directors has assessed the potential impairment loss of PPE as at 31st December 2012. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of PPE.

5.8 Inter segment transfer during the year

During the year, Company transferred Property,Plant and Equipment with an aggregate carrying value of Rs. 4.05 Million from Life Insurance Segment to Non - Life Insurance Segment.

As at 31st December,	Note	2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
6. FINANCIAL INVESTMENTS				
Held to Maturity (HTM)	(Note 6.1)	**1,567,968**	1,579,941	1,480,013
Loans and Receivable (L & R)	(Note 6.2)	**2,747,869**	2,438,458	1,375,451
Available for Sale (AFS)	(Note 6.3)	**973,680**	96,686	132,063
Fair Value Through Profit or Loss (FVTPL)	(Note 6.4)	**414,349**	769,177	655,834
Total Financial Investments		**5,703,866**	4,884,262	3,643,361

The following table consists of the fair values of the financial investments together with their carrying values:

As at 31st December,		2012		2011		1st Jan 2011	
		Carrying value Rs.'000	**Fair value Rs.'000**	Carrying value *Restated* Rs.'000	Fair value Rs.'000	Carrying value *Restated* Rs.'000	Fair value Rs.'000
Held to Maturity (HTM)	(Note 6.1)	**1,567,968**	**1,533,502**	1,579,941	1,611,600	1,480,013	1,604,930
Loans and Receivable (L & R)	(Note 6.2)	**2,747,869**	**2,723,252**	2,438,458	2,442,484	1,375,451	1,422,256
Available for Sale (AFS)	(Note 6.3)	**973,680**	**973,680**	96,686	96,686	132,063	132,063
Fair Value Through Profit or Loss (FVTPL)	(Note 6.4)	**414,349**	**414,349**	769,177	769,177	655,834	655,834
Total Financial Investments		**5,703,866**	**5,644,783**	4,884,262	4,919,947	3,643,361	3,815,083

As at 31st December,		2012		2011		1st Jan 2011	
		Carrying value	**Fair value**	Carrying value *Restated*	Fair value	Carrying value *Restated*	Fair value
		Rs.'000	**Rs.'000**	Rs.'000	Rs.'000	Rs.'000	Rs.'000
6. Financial Investments (Contd.)							
6.1 Held to Maturity (HTM)							
Treasury Bonds		**1,533,066**	**1,498,605**	1,440,098	1,471,895	631,095	754,158
Treasury Bills		**34,902**	**34,897**	139,843	139,705	848,918	850,772
		1,567,968	**1,533,502**	1,579,941	1,611,600	1,480,013	1,604,930
6.2 Loans and Receivable (L & R)							
Treasury Bills - Repo		**292,539**	**292,539**	165,366	165,366	226,520	226,520
Treasury Bills - Overnight Repo		**157,181**	**157,181**	352,881	352,881	145,403	145,403
Term Deposit	(Note 6.5)	**1,255,703**	**1,256,458**	1,148,701	1,178,939	570,691	628,301
Corporate Debt	(Note 6.6)	**1,042,446**	**1,017,074**	746,510	714,903	407,837	390,682
Unit Trusts	(Note 6.8.1)	**-**	**-**	25,000	30,395	25,000	31,350
		2,747,869	**2,723,252**	2,438,458	2,442,484	1,375,451	1,422,256
6.3 Available for Sale (AFS)							
Treasury Bonds		**767,221**	**767,221**	96,686	96,686	132,063	132,063
Treasury Bills		**206,459**	**206,459**	-	-	-	-
		973,680	**973,680**	96,686	96,686	132,063	132,063
6.4 Fair Value Through Profit or Loss (FVTPL)							
Treasury Bonds		**51,290**	**51,290**	61,650	61,650	297,558	297,558
Treasury Bills		**-**	**-**	381,409	381,409	100,122	100,122
Equity Shares	(Note 6.7)	**215,668**	**215,668**	256,003	256,003	215,240	215,240
Unit Trusts	(Note 6.8.2)	**147,391**	**147,391**	70,115	70,115	42,914	42,914
		414,349	**414,349**	769,177	769,177	655,834	655,834

Fair Value Through Profit or Loss Investments and Available-For-Sale Investments have been valued at fair value. Held to Maturity and Loans and Receivable are valued at amortised cost.

As at 31st December,		2012		2011 Restated	
		Carrying value	**Fair value**	Carrying value	Fair value
		Rs.'000	**Rs.'000**	Rs.'000	Rs.'000
6.5 Term Deposits					
Long term and medium term deposits with,					
Licensed Commercial Banks	(Note 6.5.1)	**739,883**	**738,006**	918,553	946,081
Licensed Specialised Banks		**231,587**	**232,692**	27,493	27,138
Registered Finance Companies		**284,233**	**285,760**	202,655	205,720
		1,255,703	**1,256,458**	1,148,701	1,178,939
6.5.1 Licensed Commercial Banks					
Term Deposits with Related Parties -					
Hatton National Bank PLC		**150,324**	**150,155**	253,432	256,152
Other Banks		**589,559**	**587,851**	665,121	689,929
		739,883	**738,006**	918,553	946,081

As at 31st December,		2012 Carrying Value Rs.'000	2012 Fair Value Rs.'000	2011 (Restated) Carrying Value Rs.'000	2011 (Restated) Fair Value Rs.'000
6. Financial Investments (Contd.)					
6.6 Corporate Debt					
Debentures - Quoted	(Note 6.6.1)	548,638	521,947	446,715	418,335
Debentures - Unquoted	(Note 6.6.2)	340,059	339,625	251,275	248,071
Commercial Papers	(Note 6.6.3)	141,855	143,510	36,870	36,862
Promissory Notes	(Note 6.6.4)	11,894	11,992	11,650	11,635
		1,042,446	1,017,074	746,510	714,903

As at 31st December,	Redeemable Date	2012 No. of Debentures	2012 Carrying Value Rs.'000	2012 Fair Value Rs.'000	2012 Coupon Rate (Per Annum)	2011 (Restated) No. of Debentures	2011 (Restated) Carrying Value Rs.'000	2011 (Restated) Fair Value Rs.'000	2011 (Restated) Coupon Rate (Per Annum)
6.6.1 Debentures - Quoted									
DFCC Bank	26/09/2016	5,000	5,698	5,000	14.00%	5,000	5,694	5,000	14.00%
Hatton National Bank PLC	31/03/2021	75,000	15,195	7,500	11.00%	75,000	13,685	7,500	11.00%
Lanka Orix Leasing Company PLC	05/08/2016	750,000	79,475	75,000	11.90%	750,000	78,619	75,000	11.90%
Merchant Bank of Sri Lanka PLC	15/11/2015	675,000	71,515	67,500	11.80%	675,000	68,482	67,500	11.80%
Sampath Bank PLC	11/10/2017	283,100	29,334	28,310	16.50%	250,000	25,535	18,415	3 Month Gross T Bill rate + 1.50%
Singer Sri Lanka PLC	25/10/2015	302,170	30,217	30,217	17.00%	-	-	-	-
Bank of Ceylon	23/11/2013	200,000	20,246	20,000	Weighted Average 6 Month Gross T Bill rate + 0.75%	200,000	20,434	20,000	Weighted Average 6 Month Gross T Bill rate + 0.75%
Bank of Ceylon	27/06/2015	150,000	15,012	15,000	6 Months Gross T/Bill + 0.75% p.a	150,000	15,014	15,000	6 Months Gross T/Bill + 0.75% p.a
Bank of Ceylon	27/06/2015	200,000	21,178	19,000	11.50%	200,000	21,172	19,000	11.50%
Bank of Ceylon	08/12/2016	150,000	15,108	15,000	11.00%	150,000	15,104	15,000	11.00%
Bank of Ceylon	30/11/2017	1,100,000	111,495	110,000	16.00%	-	-	-	
Nations Trust Bank PLC	30/04/2013	17,000	18,764	17,000	20.53%	17,000	18,759	17,000	20.53%
Urban Development Authority	05/10/2015	1,124,200	115,401	112,420	11.00%	1,124,200	115,368	112,420	11.00%
Hatton National Bank PLC	-	-	-	-	-	125,000	13,158	12,500	6 Month Net TB + 2.25%
Seylan Bank PLC	-	-	-	-	-	100,000	10,983	10,000	16.75%
Singer Sri Lanka PLC	-	-	-	-	-	240,000	24,708	24,000	1 Yr Gross T.Bill rate + 1.65% p.a
Total Investment in Quoted Debentures			548,638	521,947			446,715	418,335	
6.6.2. Debentures - Unquoted									
People's Leasing & Finance PLC	30/06/2015	750,000	75,000	75,000	11.70%	750,000	79,400	75,000	11.70%
Abans (Pvt) Ltd	06/06/2014	75,000	75,227	73,491	12.00%	75,000	75,227	75,318	12.00%
Abans (Pvt) Ltd	01/03/2016	25,000	25,841	24,591	13.50%	-	-	-	
National Development Bank PLC	30/06/2016	40,000	41,233	41,233	03 Month Gross T. Bill Rate + 1% p.a.	40,000	40,013	40,013	03 Month Gross T. Bill Rate + 1% p.a.
Singer Sri Lanka PLC	09/05/2015	490,000	50,248	51,236	15.50%	-	-	-	-
Sampath Leasing and Factoring Ltd	31/12/2015	35,000	35,003	35,000	12.25%	-	-	-	-
Sampath Leasing and Factoring Ltd	27/07/2015	350,000	37,507	39,074	16.65%	-	-	-	-
Senkadagala Finance PLC		-	-	-	-	40,000	40,135	41,240	15.50%
DSI Holdings Ltd		-	-	-	-	25,000	16,500	16,500	13.50%
Total Investment in Unquoted Debentures			340,059	339,625			251,275	248,071	

As at 31st December,	2012 Carrying Value Rs.'000	2012 Fair Value Rs.'000	2012 Coupon Rate (Per Annum)	2011 (Restated) Carrying Value Rs.'000	2011 (Restated) Fair Value Rs.'000	2011 (Restated) Coupon Rate (Per Annum)
6. Financial Investments (Contd.)						
6.6 Corporate Debt (Contd.)						
6.6.3. Commercial Papers						
People's Leasing & Finance PLC	30,980	31,146	16.50%	-	-	-
People's Leasing & Finance PLC	40,690	41,571	17.25%	-	-	-
Merchant Bank of Sri Lanka PLC	15,157	15,394	17.50%	-	-	-
Merchant Bank of Sri Lanka PLC	55,028	55,399	16.25%	-	-	-
Abans (Pvt) Ltd	-	-	-	11,927	11,986	12.20%
Central Finance Company PLC	-	-	-	24,943	24,876	11.25%
Total Investments in Commercial Paper	141,855	143,510		36,870	36,862	
6.6.4. Promissory Notes						
People's Leasing & Finance PLC	11,894	11,992	16.50%	11,650	11,635	11.25%
Total Investments in Promissory Notes	11,894	11,992		11,650	11,635	
Total Investments in Corporate Debt	1,042,446	1,017,074		746,510	714,903	

As at 31st December,	2012 No. of Shares	2012 Fair Value Rs.'000	2011 (Restated) No. of Shares	2011 (Restated) Fair Value Rs.'000
6. Financial Investments (Contd.)				
6.7 Equity Shares				
Banks, Finance and Insurance				
National Development Bank PLC	**78,200**	**10,784**	78,200	10,799
Commercial Bank of Ceylon PLC	**147,164**	**15,158**	144,598	14,460
Sampath Bank PLC	**76,125**	**15,263**	74,399	14,508
Nations Trust Bank PLC	**275,000**	**15,400**	275,000	15,675
DFCC Bank	**43,000**	**4,855**	43,000	4,855
Peoples Leasing & Finance PLC	**1,162,800**	**15,347**	1,162,800	18,605
Seylan Bank PLC - (Non Voting)	**399,999**	**14,040**	399,999	12,320
Sector Total		**90,847**		91,222
Diversified Holdings				
John Keells Holdings PLC	**87,556**	**19,254**	108,256	18,425
Richard Pieris and Company PLC	**1,375,000**	**10,725**	1,375,000	12,375
Hemas Holdings PLC	**321,000**	**8,667**	321,000	10,593
Expolanka Holdings PLC	-	-	221,700	1,995
Softlogic Holdings PLC	-	-	170,600	3,071
Browns Investments PLC	-	-	142,200	597
Sector Total		**38,646**		47,056
Telecommunications				
Dialog Axiata PLC	**217,500**	**1,805**	217,500	1,697
Sector Total		**1,805**		1,697
Manufacturing				
Royal Ceramic Lanka PLC	**183,000**	**18,117**	183,000	25,895
Dipped Products PLC	**19,500**	**2,145**	19,500	2,077
Chevron Lubricants Lanka PLC	**24,000**	**4,848**	24,000	4,080
ACL Cables PLC	**50,000**	**3,370**	50,000	3,700
ACL Plastics PLC	-	-	3,600	450
Tokyo Cement Company (Lanka) PLC	**402,912**	**11,523**	402,912	17,728
Kelani Cables PLC	**44,300**	**3,106**	44,300	3,557
Textured Jersey Lanka PLC	**428,500**	**3,813**	428,500	4,370
Sector Total		**46,922**		61,857

As at 31st December,	2012 No. of Shares	2012 Fair Value Rs.'000	2011 (Restated) No. of Shares	2011 (Restated) Fair Value Rs.'000
6. Financial Investments (Contd.)				
6.7 Equity Shares (Contd.)				
Hotels and Travels				
Dolphin Hotels PLC	149,900	5,471	149,900	6,446
Palm Garden Hotels PLC	23,000	3,220	46,000	4,830
The Lighthouse Hotel PLC	21,400	1,137	21,400	1,145
John Keells Hotels PLC	92,700	1,280	92,700	1,251
Aitken Spence Hotel Holdings PLC	-	-	75	5
Sector Total		11,108		13,677
Chemicals and Pharmaceuticals				
CIC Holdings PLC	95,000	6,109	95,000	10,593
Haycarb PLC	20,500	3,507	20,500	3,178
Sector Total		9,616		13,771
Power and Energy				
Laugfs Gas PLC	175,000	4,480	175,000	6,650
Sector Total		4,480		6,650
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	60,000	9,960	60,000	8,826
Sector Total		9,960		8,826
Information Technology				
PC House PLC	82,820	447	178,800	2,485
Sector Total		447		2,485
Investment Trusts				
Renuka Holdings PLC	50,877	1,837	50,877	2,742
Sector Total		1,837		2,742
Health Care				
Asiri Hospital Holdings PLC	-	-	700,000	6,020
Sector Total		-		6,020
Carrying Value of total Investment in Equity Shares		215,668		256,003

As at 31st December,	2012 No. of Units	2012 Carrying Value Rs.'000	2011 (Restated) No. of Units	2011 (Restated) Carrying Value Rs.'000
6. Financial Investments (Contd.)				
6.8 Unit Trusts				
6.8.1 Unit Trusts carried at Loans and Receivable (L & R)				
Unquoted				
NAMAL Gilt-Edged Fund	-	-	1,000,000	10,000
Ceybank Gilt - Edged Fund	-	-	1,500,000	15,000
Total Investment in Unquoted Unit Trusts Carried at L & R		-		25,000

As at 31st December,	2012 No. of Units	2012 Fair Value Rs.'000	2011 (Restated) No. of Units	2011 (Restated) Fair Value Rs.'000
6.8.2 Unit Trusts carried at Fair Value Through Profit or Loss (FVTPL)				
Quoted				
NAMAL Acuity Value Fund	114,400	7,550	114,400	7,699
Total Investment in Quoted Unit Trusts Carried at FVTPL		7,550		7,699

As at 31st December,	2012 No. of Units	2012 Manager's Buying Value Rs.'000	2011 (Restated) No. of Units	2011 (Restated) Manager's Buying Value Rs.'000
Unquoted				
Ceybank Savingsplus Money Market Fund	1,800,000	19,602	1,800,000	18,792
Ceylon Financial Sector Fund	664,622	4,333	664,622	4,486
Ceylon Income Fund	2,686,703	34,470	1,896,813	25,266
Namal IPO Fund	1,000,000	10,270	1,000,000	9,700
First Capital Wealth Fund	3,851	4,349	3,851	4,172
NAMAL High Yield Fund	2,686,567	30,251	-	-
Eagle Income Fund	969,932	10,417	-	-
Comtrust Money Market Fund	383,877	4,131	-	-
Guardian Acuity Fixed Income Fund	1,998,002	22,018	-	-
Total Investment in Unquoted Unit Trusts Carried at FVTPL		139,841		62,416
Total Investment in Unit Trusts Carried at FVTPL		147,391		70,115

	Fair Value Through Profit or Loss Rs.'000	Loans and Receivable Rs.'000	Held to Maturity Rs.'000	Available for Sale Rs.'000	Total Rs.'000

6. Financial Investments (Contd.)

6.9 Movement of Carrying values in Financial Investments

	Fair Value Through Profit or Loss Rs.'000	Loans and Receivable Rs.'000	Held to Maturity Rs.'000	Available for Sale Rs.'000	Total Rs.'000
As at 1st January 2011	655,834	1,375,451	1,480,013	132,063	3,643,361
Purchases	1,151,661	69,437,285	1,165,024	95,963	71,849,933
Maturities	(756,422)	(68,550,590)	(1,246,975)	(85,450)	(70,639,437)
Disposals	(255,270)	-	-	(50,256)	(305,526)
Fair value gains recorded in the Income Statement	(79,171)	-	-	4,199	(74,972)
Fair value gains recorded in Other Comprehensive Income Statement	-	-	-	(6,150)	(6,150)
Amortisation adjustment	52,545	176,312	181,879	6,317	417,053
As at 31st December 2011	769,177	2,438,458	1,579,941	96,686	4,884,262
As at 01st January 2012	769,177	2,438,458	1,579,941	96,686	4,884,262
Purchases	188,168	62,441,713	267,974	1,020,809	63,918,664
Maturities	(502,673)	(62,322,156)	(466,362)	(159,076)	(63,450,267)
Disposals	(43,036)	(120,785)	-	(84,216)	(248,037)
Fair value gains recorded in the Income Statement	(14,573)	-	-	3,119	(11,454)
Fair value gains recorded in Other Comprehensive Income Statement	-	-	-	27,543	27,543
Amortisation adjustment	17,286	310,639	186,415	68,815	583,155
As at 31st December 2012	414,349	2,747,869	1,567,968	973,680	5,703,866

7. LOANS TO LIFE POLICYHOLDERS

As at 31st December,	**2012 Rs.'000**	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
Balance as at 1st January	**17,530**	13,263	9,309
Loans Granted during the Year	**15,926**	10,595	8,583
Repayments during the year	**(7,298)**	(6,328)	(4,629)
Balance as at 31st December	**26,158**	17,530	13,263
Interest Receivable	**3,730**	2,567	1,737
Total	**29,888**	20,097	15,000

7.1 The surrender value of the policy loans granted to Policyholders as at 31st December 2012 amounted to Rs. 50.5 Million (2011: Rs. 34.3 Million).

If the total receivable of the loan, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Company has a first lien on all policies which are subject to policy loans. This mitigates the Company's credit exposure on Policy Loans.

The Company grants policy loans at a rate equivalent to the market rate, hence initial recognition is at Fair Value.

7.2 Number of Policy Loans due as at 31st December 2012 was 980 (2011 - 727)

7.3 Impairment Losses on Loans to Life Policyholders

The Board of Directors has assessed potential impairment loss of Loans to Life Policyholders as at 31st December 2012. 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.

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
8. REINSURANCE RECEIVABLES				
Reinsurance Receivable on Outstanding Claims	(Note 8.1)	**126,092**	106,406	86,310
Reinsurance Receivable on Settled Claims	(Note 8.2)	**36,623**	24,461	36,093
		162,715	130,867	122,403

8.1 The reinsurance portion of the receivable has not been materialised, since the insurance claim has not been paid yet.

8.2 The age analysis of the reinsurance receivable on settled claims is as follows:

	2012	2011	1st Jan 2011
Up to 30 days	**7,833**	3,967	18,769
31 to 60 days	**7,937**	4,830	3,249
61 to 90 days	**17,202**	9,266	13,378
91 to 180 days	**3,344**	5,992	389
181 to 365 days	**307**	406	308
	36,623	24,461	36,093

8.3 Impairment Losses on Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of Reinsurance Receivables as at 31st December 2012. 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. 40.3.3 for Reinsurer rating analysis.

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
9. PREMIUM RECEIVABLES				
Premium Receivable From;				
Non Life Insurance				
Policyholders		**57,337**	28,937	15,580
Related Parties	(Note 9.1)	**15,264**	15,378	19,755
Agents, Brokers and Intermediaries		**165,243**	187,070	196,594
		237,844	231,385	231,929
Life Insurance				
Policyholders	(Note 9.2)	**18,097**	-	-
Impairment for Premium Default		**(8,524)**		
		9,573	-	-
Total Premium Receivables		**247,417**	231,385	231,929
9.1 Premium Receivable from Related Parties				
Non Life Insurance				
Hatton National Bank PLC		**14,715**	14,931	12,306
Sithma Development (Pvt) Limited		**-**	-	6,057
Acuity Stock Brokers (Pvt) Limited		**285**	-	-
Others		**264**	447	1,392
		15,264	15,378	19,755

9. PREMIUM RECEIVABLES (Condt.)

9.2 The Company has opted to record the Life Insurance premium on an accrual basis in terms of Sri Lanka Financial Reporting Standard No. 4 Insurance Contracts from the current financial year. 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 is also recorded.

The prior year balance has not been restated since the impact is not material.

9.3 Impairment Losses on Premium Receivables

The Board of Directors has assessed potential impairment loss of premium receivable as at 31st December 2012. Based on the assessment, adequate impairment provisions have been made in the Financial Statements as at the Reporting date in respect of premium receivable. The age analysis of these premium receivables is as follows:

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
Up to 30 days		**171,513**	155,285	147,755
31 to 60 days		**72,219**	72,809	79,161
61 to 90 days		**3,685**	3,291	5,013
		247,417	231,385	231,929

Premium receivable over 60 days totally comprise of Non - Life Premium Receivable, which have been recovered in full subsequent to the reporting date.

10. OTHER ASSETS

		2012 Rs.'000	2011 Rs.'000	1st Jan 2011 Rs.'000
Staff and Agent Loans	(Note 10.1)	**195,021**	156,731	136,516
Advance Payments		**57,916**	41,125	37,471
Advance paid for Acquisition of Software		**16,394**	25,252	14,691
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note 10.2)	**208,320**	165,773	145,275
Co - Insurance Receivables		**697**	343	29
Inventories		**1,043**	796	1,067
Other receivables		**2,848**	7,365	2,696
		482,239	397,385	337,745

10.1. Staff and Agent Loans

		2012 Rs.'000	2011 Rs.'000	1st Jan 2011 Rs.'000
Staff Loans	(Note 10.1.b.)	**169,069**	135,223	115,125
Agent Loans	(Note 10.1.c.)	**25,952**	21,508	21,391
		195,021	156,731	136,516

10.1.a. Carrying value of the staff and agent loans has been computed based on the market interest rates which were prevailed at the time of loan granted, and the fair value of the same has been computed based on the interest rates prevailed at the reporting date.

10.1.b. Staff Loans

	2012 Rs.'000	2011 Rs.'000	1st Jan 2011 Rs.'000
Balance as at 1st January	**131,850**	112,054	105,917
Loans granted during the year	**112,144**	86,403	58,101
	243,994	198,457	164,018
Repayments during the year	**(82,644)**	(66,607)	(51,964)
Loan Balance as at 31st December	**161,350**	131,850	112,054
Allowance for Impairment Losses	**(1,478)**	(1,518)	(1,514)
Fair Value Adjustment on Staff Loan	**9,197**	4,891	4,585
Fair value of the Loan balance as at 31st December	**169,069**	135,223	115,125

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
10.	**OTHER ASSETS (Contd.)**			
10.1.c.	**Agent Loans**			
	Balance as at 1st January	**21,936**	21,863	24,528
	Loans granted during the year	**25,917**	23,821	18,438
		47,853	45,684	42,966
	Repayments during the year	**(20,933)**	(23,748)	(21,103)
	Balance as at 31st December	**26,920**	21,936	21,863
	Allowance for Impairment Losses	**(465)**	(460)	(472)
	Fair Value Adjustment on Agent Loan	**(503)**	32	-
	Fair value of the Loan balance as at 31st December	**25,952**	21,508	21,391

10.1.d. No loans have been granted to the Directors of the Company.

			2012	2011	1st Jan 2011
10.2	**Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)**				
	Withholding Tax Recoverable (WHT)		**35,322**	19,211	16,791
	Economic Service Charge (ESC) and Other Taxes Recoverable		**45**	8,660	11,478
	Notional Tax on Government Securities	(Note 10.2.a.)	**172,953**	137,902	117,006
			208,320	165,773	145,275

		2012	2011	1st Jan 2011
10.2.a	**Notional Tax on Government Securities**			
	Balance as at 1st January	**137,902**	117,006	98,518
	Notional tax additions during the year	**35,051**	29,691	35,051
	Notional tax utilised during the year	**-**	(8,795)	(16,563)
	Balance as at 31st December	**172,953**	137,902	117,006
11	**INSURANCE CONTRACT - DEFERRED EXPENSES**			
	Reserve for Net Deferred Acquisition Expenses			
	Reserve for Deferred Acquisition Expenses			
	Balance as at 1st January	**72,553**	58,681	48,189
	(Decrease)/Increase in Deferred Acquisition Expenses	**(1,682)**	13,872	10,492
	Balance as at 31st December	**70,871**	72,553	58,681
	Reserve for Deferred Reinsurance Commission			
	Balance as at 1st January	**(52,494)**	(46,289)	(43,545)
	Decrease/(Increase) in Deferred Acquisition Expenses	**1,591**	(6,205)	(2,744)
	Balance as at 31st December	**(50,903)**	(52,494)	(46,289)
	Total Reserve for Net Deferred Acquisition Expenses	**19,968**	20,059	12,392

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
12. CASH AND CASH EQUIVALENTS				
Cash in Hand		**1,007**	973	941
Cash at Bank with Related Parties - Hatton National Bank PLC		**86,272**	73,320	53,303
Cash at Bank with other Licensed Commercial Banks		**20,155**	33,485	10,074
		107,434	107,778	64,318
Short Term Deposits	(Note 12.1)	**101,836**	82,577	17,126
		209,270	190,355	81,444
12.1 Short Term Deposits				
With Related Parties - Hatton National Bank PLC		**8,332**	-	10,489
With other Licensed Commercial Banks		**93,504**	82,577	6,637
		101,836	82,577	17,126

13 STATED CAPITAL

As at 31st December,	2012 Number of Shares	2012 Rs.'000	2011 Number of Shares	2011 Rs.'000	1st Jan 2011 Number of Shares	1st Jan 2011 Rs.'000
Balance as at 1st January	**50,000,000**	**1,171,875**	37,500,000	375,000	37,500,000	375,000
Capitalisation of Reserves (Note 13.1)	-	-	6,250,000	406,250	-	-
Rights Issue (Note 13.2)	-	-	6,250,000	390,625	-	-
Balance as at 31st December	**50,000,000**	**1,171,875**	50,000,000	1,171,875	37,500,000	375,000

13.1 Capitalisation of Reserves

At an Extra-Ordinary General Meeting held on 29th March, 2011 at which members of the Company approved a Capitalisation of Reserves amounting to Rs. 406,250,000/- by way of issuing 6,250,000 new fully paid ordinary shares in the proportion of 1 new Ordinary Share for every 6 existing Ordinary Shares. After the Capitalisation of Reserves number of shares of the Company increased to 43,750,000/=

13.2 Rights Issue

In addition, members also approved a Rights Issue of Shares in order to raise additional funds of Rs. 390,625,000/- at the Extra-Ordinary General Meeting held on 29th March 2011. Accordingly, another 6,250,000 new Ordinary Shares were issued under this on the basis of 1 new Ordinary Share for every 7 existing Ordinary Shares held by shareholders post Capitalisation of Reserves at an issue price of Rs. 62.50. After the Rights Issue, the total number of shares increased to 50 Million and the Stated Capital thereon was Rs. 1,171,875,000/=

13.3 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.

13.4 Share Issue Transaction Cost

The Company incurred various expenses relating to above mentioned share issues, and such expenses have been charged against revenue reserves as shown in the statement of Changes in Equity during the year ended 31st December 2011 (Refer Note 14.1.a)

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
14. RESERVES				
14.1 Revenue Reserves				
Balance as at 1st January		**444,057**	676,118	455,851
Prior period adjustment - Implementation of new SLAS's		-	-	34,778
Profit for the Year		**351,140**	246,068	241,739
Other Comprehensive Income		**6,209**	-	-
Dividend Paid for previous year		**(105,000)**	(67,500)	(56,250)
Capitalisation of Reserves		-	(406,250)	-
Share Issue Transactions Costs	(Note 14.1.a)	-	(4,379)	-
Balance as at 31st December		**696,406**	444,057	676,118
14.1.a The share issue related costs include the following:				
- Secretarial and other professional fees		-	2,226	-
- Stamp Duty paid to Commissioner General of Inland Revenue		-	2,153	-
		-	4,379	-
14.2. Life Policyholder Reserve Fund				
Balance as at 1st January		**(22,526)**	31,050	-
Prior Period Adjustment - Implementation of new SLAS's		-	-	31,050
Change in Fair value measurements applicable to Life Contract Liability	(Note 14.2.b)	-	(47,427)	-
Other Comprehensive Income for the Year		**21,335**	(6,149)	-
Balance as at 31st December 2012		**(1,191)**	(22,526)	31,050

The prior year adjustments resulting from the restatement of balances due to the implementation of new SLASs and other transactions impacting the Other Comprehensive Income relating to the Life Fund are adjusted through the Life Policyholder Reserve Fund.

14.2.b This relates to the impact resulting from transition to new SLASs (Excluding adjustments relating to assets classified as Available - For - Sale)

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
15. INSURANCE CONTRACT LIABILITIES - LIFE				
Life Insurance Fund	(Note 15.a)	**3,546,907**	2,990,998	2,385,246
Claims Outstanding		**79,332**	30,333	29,968
		3,626,239	3,021,331	2,415,214
15.a. Life Insurance Fund				
The movement in the Life Insurance Fund is as follows:				
Balance as at 1st January		**2,990,998**	2,385,246	1,853,513
Change in Contract Liabilities Life Fund				
Increase in Life Insurance Fund Before Surplus Distribution to Shareholders		**721,132**	730,325	687,733
Surplus Distributed to Shareholders		**(165,223)**	(172,000)	(156,000)
Increase in Life Insurance Fund		**555,909**	558,325	531,733
Transferred to Life Policyholders Reserve Fund		-	47,427	-
Balance as at 31st December		**3,546,907**	2,990,998	2,385,246

15. INSURANCE CONTRACT LIABILITIES - LIFE (Contd.)

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 2012 was made by Mr. M Poopalanathan, AIA, of M/S Actuarial and Management Consultants (Pvt.) Ltd. In accordance with the Consultant Actuary's report, the reserve for the year amounted to Rs. 3,249.2 Million (2011 - Rs. 2,599.5 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 2012 by Rs. 462.2 Million (2011 - Rs. 563.5 Million) before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to the shareholders. As recommended by the Consultant Actuary a sum of Rs. 165.2 Million (2011 - Rs. 172 Million) has been transferred from the Life Insurance fund to the Shareholders fund as the surplus for the year 2012.

Further the Actuary has estimated that the solvency margin required (including the solvency margin for the new reversionary bonus allotted as at 31st December 2012) under the Regulation of Insurance Industry Act, No. 43 of 2000 as Rs. 166.6 Million (2011 - Rs. 135.2 Million)

15.1 Liability Adequacy Test (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 2012 as required by SLFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compared this amount with the carrying value of the liability. According to the consultant actuary's report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31st December 2012. No additional provision was required against the LAT as at 31st December 2012.

As at 31st December,			2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
16.	**INSURANCE CONTRACT LIABILITIES - NON LIFE**				
	The Non - Life Insurance Reserves as shown in the Statement of Financial Position represents the following:				
	Reserves for Net Unearned Premium	(Note 16.1)	**675,644**	685,328	552,181
	Reserves for Title Insurance & Unexpired Risk Reserve	(Note 16.2)	**20,526**	20,209	12,641
	Reserves for Gross Outstanding Claims	(Note 16.3)	**273,273**	238,784	178,227
	Total		**969,443**	944,321	743,049
16.1	**Reserves for Net Unearned Premium**				
16.1.a	***Reserves for Unearned Premium***				
	Balance as at 1st January		**897,425**	748,856	626,056
	Transfer during the Year	(Note 23)	**(52,146)**	148,569	122,800
	Balance as at 31st December		**845,279**	897,425	748,856
16.1.b	***Reserves for Unearned Reinsurance Premium***				
	Balance as at 1st January		**(212,097)**	(196,675)	(202,352)
	Transfer during the Year	(Note 23)	**42,462**	(15,422)	5,677
	Balance as at 31st December		**(169,635)**	(212,097)	(196,675)
	Total Reserves for Net Unearned Premium		**675,644**	685,328	552,181

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
16. INSURANCE CONTRACT LIABILITIES - NON LIFE (Contd.)				
16.2 Reserves for Title Insurance & Unexpired Risk Reserve				
16.2.a. Reserves for Title Insurance				
Balance as at 1st January		**20,030**	12,374	9,164
Transfer to Title Insurance Reserve	(Note 23)	**4,183**	9,123	5,885
Recognition of Title Insurance Profit	(Note 16.5)	**(3,767)**	(1,467)	(2,675)
Balance as at 31st December		**20,446**	20,030	12,374
16.2.b. Reserves for Unexpired Risk Reserve		**80**	179	267
Total Reserves for Title Insurance & Unexpired Risk Reserve		**20,526**	20,209	12,641
16.3 Reserves for Gross Outstanding Claims				
Balance as at 1st January		**211,524**	154,175	151,825
Claims Incurred during the Year		**982,765**	880,375	695,002
Claims Paid during the Year		**(953,939)**	(823,026)	(692,652)
Balance as at 31st December		**240,350**	211,524	154,175
IBNR / IBNER balance as at 1st January		**27,260**	24,052	19,235
Increase in IBNR / IBNER		**5,663**	3,208	4,817
IBNR / IBNER balance as at 31st December		**32,923**	27,260	24,052
Total Reserves for Gross Outstanding Claims		**273,273**	238,784	178,227
16.4 Reconciliation between Insurance Contract Liabilities Non - Life and Technical Reserves				
Insurance Contract Liabilities Non - Life		**969,443**	944,321	743,049
Reserve for Net Deferred Acquisition Expenses		**(19,968)**	(20,059)	(12,392)
Reinsurance on Claims Reserves		**(93,834)**	(90,236)	(71,759)
Technical Reserves		**855,641**	834,026	658,898

16.5 Net Written Premium on Title Insurance after deducting acquisition cost has been transferred to the Title Reserves account to pay potential claims arising from the Title insurance policies. During the year the Company recognised Rs. 3.8 Million (2011: Rs. 1.5 Million) as profit from Title Insurance. (Please refer Note 3.14.3 for the Accounting Policy on Title Insurance).

16.6 Significant delays occur in the notification of claims and a substantial measure of experience and, judgement 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 2012 has been actuarially computed by M/s K A Pandit, Mumbai, India, using the graphical method of extrapolating the past trends. The valuation is based on internationally accepted actuarial methods and is performed on a semi annual basis.

Changes in Assumption

The estimation technique used for the IBNR/IBNER reserve has not changed during the year.

16.7 Liability Adequacy Test (LAT)

A Liability Adequacy Test ("LAT") for Non-Life Insurance contract liability was carried out by M/s K A Pandit as at 31st December 2012 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, the Company adequately satisfies the LAT as at 31st December 2012. No additional provision was required against the LAT as at 31st December 2012.

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
17. EMPLOYEE BENEFITS				
17.1 Defined contribution plans				
Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.				
Employees' Provident Fund				
Employer's contribution (12%)		**28,156**	23,838	20,273
Employees' contribution (8%)		**18,771**	15,892	13,515
Employees' Trust Fund (3%)		**7,039**	5,959	5,068
17.2 Defined benefit plans - Provision for Employee Benefits				
Present value of unfunded obligation	(Note 17.2.1.)	**42,360**	34,129	25,076
Present value of funded obligation		-	-	-
		42,360	34,129	25,076
17.2.1 Movement in the present value of the Employee Benefits				
Balance as at 1st January		**34,129**	25,076	18,180
Provision recognised during the year	(Note 17.2.1.a)	**11,386**	10,660	7,691
		45,515	35,736	25,871
Payments during the year		**(3,155)**	(1,607)	(795)
Balance as at 31st December		**42,360**	34,129	25,076
17.2.1.a Provision recognised in the Statement of Comprehensive Income				
Current service cost		**12,704**	9,520	7,472
Interest on obligation		**4,589**	2,812	2,055
Actuarial gain during the plan year	(Note 17.2.2)	**(5,907)**	(1,672)	(1,836)
		11,386	10,660	7,691

As at 31st December 2012, 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.

17.2.2 As explained in note 3.15.3, the Company applies faster recognition basis. Accordingly actuarial gains and losses are recognized to profit or loss immediately.

17.3 Principal assumptions used

		2012	2011	2010
(a)	Discount Rate	**12.00%**	9.50%	9.50%
(b)	Future Salary Increase Rate	**11%**	9%	9%
(c)	Early withdrawal through Resignations			
	i) Less than 5 years	**18%**	12%	12%
	ii) More than 5 years	**7.5%**	5%	5%
(d)	Retirement Age	**55 years**	55 years	55 years

The Gratuity Liability is not externally funded.

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
18. CURRENT TAX LIABILITIES				
Balance as at 1st January		**25,998**	28,618	29,074
Current tax for the year	(Note 33)	**42,691**	26,012	28,208
Under/(Over) provision pertaining to previous year	(Note 33)	**35**	(240)	(422)
		68,724	54,390	56,860
Tax set off during the year				
Economic Service Charge		**(17,977)**	(14,132)	(28,242)
Withholding tax		**(7,797)**	(5,465)	-
Notional tax on Government securities	(Note 10.2.a)	**-**	(8,795)	-
Balance as at 31st December		**42,950**	25,998	28,618
19. REINSURANCE CREDITORS				
Domestic Reinsurer - National Insurance Trust Fund (NITF)		**21,859**	31,443	29,487
Foreign Reinsurers		**61,394**	71,813	47,822
		83,253	103,256	77,309
20. OTHER LIABILITIES				
Policyholders Advance Payments		**69,263**	56,881	37,494
Acquisition Cost Payable		**50,154**	36,694	41,969
Agent Terminal Benefit Scheme	(Note 20.1)	**77,731**	51,707	33,662
Government Levies		**28,357**	27,455	31,409
Amounts due to Related Parties	(Note 20.2)	**11,041**	24,153	18,939
Accrued Expenses		**29,354**	26,858	17,104
Co - Insurance Payable		**1,780**	7,007	4,674
Others		**135,863**	91,658	70,868
		403,543	322,413	256,119
20.1 Agent Terminal Benefit Scheme				
Life Insurance		**75,021**	50,224	33,093
Non - Life Insurance		**2,710**	1,483	569
		77,731	51,707	33,662
20.2 Amounts due to Related Parties				
Hatton National Bank PLC		**11,041**	21,971	18,857
Others		**-**	2,182	82
		11,041	24,153	18,939

For the Year Ended 31st December,	2012 Rs.'000 Basic	 Rs.'000 SRCC/TC*	 Rs.'000 Total	2011 *Restated* Rs.'000 Basic	 *Restated* Rs.'000 SRCC/TC*	 *Restated* Rs.'000 Total
21. GROSS WRITTEN PREMIUM (GWP)						
Non - Life Insurance						
Fire	**227,062**	**67,417**	**294,479**	241,155	62,030	303,185
Motor	**1,039,701**	**164,473**	**1,204,174**	1,029,784	159,083	1,188,867
Marine	**23,656**	**71**	**23,727**	25,291	44	25,335
Miscellaneous	**180,413**	**8,411**	**188,824**	168,517	8,439	176,956
Gross Written Premium - Non - Life Insurance	**1,470,832**	**240,372**	**1,711,204**	1,464,747	229,596	1,694,343
Life Insurance						
Individual Policies			**1,475,383**			1,273,025
Corporate Policies			**24,645**			17,342
Gross Written Premium - Life Insurance (Note 21.1)			**1,500,028**			1,290,367
Total Gross Written Premium			**3,211,232**			2,984,710

** SRCC – Strike Riot and Civil Commotion Cover, TC – Terrorism Cover*

21.1 As explained in Note 9.2, the Company has opted to record Life Insurance premium on an accrual basis. The prior year balances has not been restated since the impact was not material.

For the Year Ended 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000
22. PREMIUM CEDED TO REINSURERS			
Non - Life Insurance		**391,633**	390,125
Life Insurance		**128,076**	102,696
Total Premium Ceded to Reinsurers		**519,709**	492,821
23. NET CHANGE IN RESERVES FOR UNEARNED PREMIUM			
Non - Life Insurance			
Change in Reserve for Unearned Premium	(Note 16.1.a)	**52,146**	(148,569)
Change in Reserve for Unearned Reinsurers Premium	(Note 16.1.b)	**(42,462)**	15,422
Transfer to Title Insurance Reserve	(Note 16.2.a)	**(4,183)**	(9,123)
Net Change in Reserves for Unearned Premium		**5,501**	(142,270)

For the Year Ended 31st December,			2012 Rs.'000	2011 *Restated* Rs.'000
24.	**INVESTMENT INCOME**			
	Interest Income	(Note 24.1)	**641,379**	470,114
	Dividend Income	(Note 24.2)	**13,205**	8,392
	Total Investment Income		**654,584**	478,506
24.1	**Interest Income**			
	Interest Income from Financial Investments at Fair Value Through Profit or Loss			
	- Treasury Bonds		**5,953**	25,330
	- Treasury Bills		**13,253**	34,831
			19,206	60,161
	Interest Income from Financial Investments at Held to Maturity			
	- Treasury Bonds		**202,192**	149,349
	- Treasury Bills		**4,937**	50,476
			207,129	199,825
	Interest Income from Financial Investments at Available for Sale			
	- Treasury Bonds		**58,128**	7,009
	- Treasury Bills		**18,333**	-
			76,461	7,009
	Interest Income from Financial Investments at Loans and Receivables			
	- Debentures		**97,042**	58,898
	- Repurchase Agreements on Government Securities		**47,713**	32,573
	- Commercial Papers		**15,190**	2,403
	- Promissory Notes		**1,540**	1,244
	- Fixed Deposits		**141,492**	84,019
	- Staff, Agent and Policy Loans		**25,970**	21,428
			328,947	200,565
	Interest Income from Cash and Cash Equivalents		**9,636**	2,554
	Total Interest Income		**641,379**	470,114
24.2	**Dividend Income**			
	- Equity Shares		**7,363**	5,094
	- Unit Trusts		**5,842**	3,298
	Total Dividend Income		**13,205**	8,392
25	**NET REALISED GAINS**			
	Financial Investments at Available For Sale			
	Realised Gains			
	- Treasury Bonds		**2,918**	4,199
	- Unit Trust		**4,353**	-
			7,271	4,199
	Financial Investments at Fair Value Through Profit or Loss			
	Realised Gains			
	- Unit Trusts		-	660
	- Equity Shares		-	739
	Realised Losses			
	- Treasury Bonds		-	(4,441)
			-	(3,042)
	Net Realised Gains		**7,271**	1,157

For the Year Ended 31st December,	2012 Rs.'000	2011 *Restated* Rs.'000
26. NET FAIR VALUE LOSS		
Financial Investments at Fair Value Through Profit or Loss		
Unrealised Gains		
- Treasury bonds	**46**	-
- Treasury bills	**2,658**	-
- Unit Trust	**6,276**	-
	8,980	-
Unrealised Losses		
- Treasury bonds	**(407)**	(8,943)
- Treasury bills	**-**	(1,367)
- Equity Securities	**(22,944)**	(61,066)
- Unit Trust	-	(2,875)
	(23,351)	(74,251)
Loans and Receivables		
Unrealised Gains		
- Foreign Exchange - Term Deposits	**14,278**	2,922
Net Fair Value Loss	**(93)**	(71,329)
27. FEE AND COMMISSION INCOME		
Profit commission from reinsurers	**36,512**	26,200
Policy fee	**34,457**	29,279
Sundry Income	**705**	450
	71,674	55,929
28. OTHER INCOME		
Loss on Sale of Property, Plant and Equipment	**(170)**	(582)
Others	**3,544**	3,275
	3,374	2,693

For the Year Ended 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000
29 NET INSURANCE BENEFITS AND CLAIMS PAID			
Non - Life Insurance			
Gross Claims			
Fire		74,161	46,013
Motor		789,878	679,940
Marine		3,302	8,526
Miscellaneous		98,133	107,731
Total Gross Claims		965,474	842,210
Less : Recoveries from sale of Salvage		(11,534)	(19,185)
Gross Non - Life Insurance Claims		953,940	823,025
Less : Claims recovered from Reinsurers		(92,082)	(62,734)
Net Non - Life Insurance Claims		861,858	760,291
Life Insurance			
Gross Claims - Deaths, Disability and Hospitalisation		72,457	61,907
Surrenders		44,099	20,363
Annuity Payments		1,485	119
Policy Maturities		134,494	10,164
Gross Life Insurance Claims		252,535	92,553
Less : Claims recovered from Reinsurers		(23,672)	(28,539)
Net Life Insurance Claims		228,863	64,014
Total Net Insurance Claims Paid		1,090,721	824,305
30. NET CHANGE IN INSURANCE CLAIMS OUTSTANDING			
Gross Change in Insurance Claims Outstanding			
Change in Outstanding Claims - Life Insurance		48,999	365
Change in Outstanding Claims - Non - Life Insurance		41,490	60,556
		90,489	60,921
Gross Change in Insurance Contract Liabilities recoverable from Reinsurers			
Change in Outstanding Claims - Life Insurance		(16,091)	(1,619)
Change in Outstanding Claims - Non Life Insurance		(10,598)	(18,477)
		(26,689)	(20,096)
Total Net Change in Insurance Outstanding Claims		63,800	40,825
31. OTHER OPERATING AND ADMINISTRATION EXPENSES			
Directors' Emoluments and Post Employment Benefits		1,790	2,060
Staff Expenses	(Note 31.1)	414,365	339,334
Administration and Establishment Expense		329,609	285,196
Selling Expenses		164,295	141,222
Amortisation of Intangible Assets		13,172	11,839
Depreciation of Property Plant and Equipment		40,154	33,344
Auditor's Fees and expenses	(Note 31.2)	2,848	2,377
Legal Fees		40	37
Donations		300	300
		966,573	815,709

For the Year Ended 31st December,			2012 Rs.'000	2011 *Restated* Rs.'000
31.	**OTHER OPERATING AND ADMINISTRATION EXPENSES (Contd.)**			
31.1	**Staff Expenses**			
	Staff Salaries		**234,634**	198,645
	Defined Contribution Plan Costs - EPF		**28,156**	23,838
	Defined Contribution Plan Costs - ETF		**7,039**	5,959
	Provision for Employee Benefit		**11,386**	10,660
	Other Staff Costs (Travelling, Over-time, Bonus etc.)		**133,150**	100,232
			414,365	339,334
31.2	**Auditors' Fees and expenses**			
	Audit Fees and Expenses		**1,155**	1,010
	Audit Related Fees		**1,058**	687
	Non Audit Services		**635**	680
			2,848	2,377
32.	**UNDERWRITING AND NET ACQUISITION COSTS**			
	Underwriting and Policy Acquisition Costs		**458,014**	401,757
	Reinsurance Commission		**(109,997)**	(106,031)
	Net Decrease / (Increase) in Deferred Acquisition Expenses	(Note 32.1)	**91**	(7,667)
			348,108	288,059
32.1	**Decrease / (Increase) in Deferred Acquisition Expenses**			
	Commission income from Reinsurers	(Note 11)	**1,591**	(6,205)
	Commission cost	(Note 11)	**(1,682)**	13,872
			(91)	7,667

For the Year Ended 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000
33. INCOME TAX EXPENSES			
The major components of income tax expense for the years ended 31st December are as follows :			
Current Tax			
Income Tax on Current Year's Profits		42,691	26,012
Under / (Over) Provision of Current Taxes in respect of Prior Years		35	(240)
		42,726	25,772
Deferred Income Tax			
Origination of Deferred Tax Liability		4,147	2,724
Origination of Deferred Tax Assets		(4,147)	(2,724)
Deferred Taxation Charge / (Reversal)	(Note 33.4)	-	-
Income Tax Expense reported in the Statement of Comprehensive Income		42,726	25,772

33.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows :

For the Year Ended 31st December,		2012 Rs.'000		2011 *Restated* Rs.'000
Profit for the year		351,140		246,068
Income Tax Expenses		42,726		25,772
Profit Before Income Tax		393,866		271,840
At the statutory income tax rate of 28% (2011 :28%)	28.0%	110,281	28.0%	76,115
Income Exempt from Tax	(13.0%)	(51,362)	(16.6%)	(45,148)
Aggregate allowable expenses	(4.3%)	(16,847)	(4.7%)	(12,830)
Aggregate disallowed expenses	6.0%	23,608	8.0%	21,704
Recognition of previously unrecognised tax losses	(5.8%)	(22,989)	(5.1%)	(13,829)
Under/(Over) Provision of Current Taxes in respect of Prior Years	0.0%	35	(0.1%)	(240)
Income Tax Expenses	10.9%	42,726	9.5%	25,772

33. **INCOME TAX EXPENSES (Contd.)**

33.2 The Company is liable to pay income tax at the rate of 28% (2011 : 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 Income Tax wholly consists of income tax charge on Non - Life 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 Economic Service Charge and credit available on the Withholding Tax on Corporate Debts.

The tax loss carried forward as at 31st December 2012 is Rs.93.6 Million (2011: Rs. 175.8 Million) is made as follows:

As at 31st December,	**2012 Rs.'000**	2011 Rs.'000	2010 Rs.'000
33.3 Tax loss analysis (Non - Life Insurance)			
Balance as at 1st January	**175,783**	225,172	268,074
Tax losses utilised during the year	**(82,100)**	(49,389)	(42,902)
Balance as at 31st December	**93,683**	175,783	225,172

As at the year end, total carried forward loss from Life business is Rs. 1,646 Million (2011: Rs. 1,242.2 Million). As per the amendment made to Section 32 of the Inland Revenue Act, any 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.

33.4 **Deferred Taxation**

Deferred tax assets and liabilities are off set when there is a legally enforceable right to off set tax assets against tax liabilities and when the deferred income taxes relate to the same fiscal authority. The off set amounts are as follows:

As at 31st December,		**2012 Rs.'000**	2011 Rs.'000
Deferred tax assets	(Note 33.4.a)	**(20,781)**	(16,635)
Deferred tax liabilities	(Note 33.4.b)	**20,781**	16,635
Net Deferred tax asset / liability		**-**	-

	Statement of Financial Position				Statement of Comprehensive Income	
	2012		2011		**2012**	2011
	Temporary Difference Rs.'000	**Tax Effect Rs.'000**	Temporary Difference Rs.'000	Tax Effect Rs.'000	**Rs.'000**	Rs.'000
33.4.a Deferred Tax Liability						
Property, Plant and Equipment	**74,219**	**20,781**	59,410	16,635	**4,147**	2,724
33.4.b Deferred Tax Assets						
Employee Benefit	**(37,417)**	**(10,476)**	(29,564)	(8,278)	**(2,199)**	(2,210)
Brought Forward Tax Losses	**(36,802)**	**(10,305)**	(29,846)	(8,357)	**(1,948)**	(514)
	(74,219)	**(20,781)**	(59,410)	(16,635)	**(4,147)**	(2,724)

33.4.c **Unrecognised Deferred Tax Assets**

As at the year end, total carried forward tax loss is Rs. 93.6 Million (2011: Rs. 175.8 Million). The Company has utilised such tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences. 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 2012 amounted to Rs. 15.9 Million (2011: Rs. 40.9 Million).

For the Year Ended 31st December,	2012	2011 Restated
34. BASIC EARNINGS PER SHARE (EPS)		
Amounts used as the numerator:		
Profit Attributable to Ordinary Shareholders (Rs. '000)	**351,140**	246,068
Weighted of shares as at 31st December ('000)	**50,000**	47,872
Basic Earnings Per Share (Rs.)	**7.02**	5.14

34.1 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.

For the Year Ended 31st December,	2012 Rs.'000	2011 Rs.'000
35. DIVIDEND PER SHARE (DPS)		
Dividend per Share (Rs.)	**2.75**	2.10
35.1 Dividend declared		
Dividends to Shareholders (Rs.'000)	**125,319**	94,500
Tax deducted at source (Rs.'000)	**12,181**	10,500
	137,500	105,000

35.2 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. 2.75 per share for the year ended 31st December 2012 (2011 - Rs. 2.10 per share) which is to be approved at the Annual General Meeting to be held on 27th March 2013. In accordance with Sri Lanka Accounting Standards LKAS 10 - Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31st December 2012.

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.

35.3 Compliance with the Section 56 and 57 of the Companies act No. 7 of 2007

As required by the Section 56 of the Companies Act, No. 7 of 2007, the Board of Directors of the Company has satisfied the Solvency Test in accordance with the Section 57, prior to recommending the first and final dividend for the year ended 31st December 2012. A statement of Solvency completed and duly signed by the Directors on 06th February 2013 has been audited by M/S KPMG, Chartered Accountants.

For the Year Ended 31st December,	2012 Rs.'000	2011 Rs.'000
35.4 Dividend paid during the year		
Final dividend for 2011: Rs. 2.10 per share (2010: Rs. 1.80 per share)	**105,000**	67,500

36 FINANCIAL ASSETS AND LIABILITIES

36.1 Accounting classifications and fair value

The table below sets out the carrying amounts and fair values of the Company's financial assets and financial liabilities:

As at 31st December,	Note	2012 Designated at FVTPL	2012 AFS	2012 Held to Maturity	2012 Loans and Receivables	2012 Total carrying value	2012 Fair value	2011 (Restated) Designated at FVTPL	2011 (Restated) AFS	2011 (Restated) Held to Maturity	2011 (Restated) Loans and Receivables	2011 (Restated) Total carrying value	2011 (Restated) 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
36.1.a Financial Assets													
Financial Investments													
Measured at fair value	6.3 & 6.4	414,349	973,680	-	-	1,388,029	1,388,029	769,177	96,686	-	-	865,863	865,863
Measured at amortised cost	6.1 & 6.2	-	-	1,567,968	2,747,869	4,315,837	4,256,754	-	-	1,579,941	2,438,458	4,018,399	4,054,084
Loans to Life Policyholders	7	-	-	-	29,888	29,888	29,888	-	-	-	20,097	20,097	20,097
Reinsurance Receivables	8	-	-	-	162,715	162,715	162,715	-	-	-	130,867	130,867	130,867
Premium Receivables	9	-	-	-	247,417	247,417	247,417	-	-	-	231,385	231,385	231,385
Staff and Other Loans	10.1.	-	-	-	195,021	195,021	137,661	-	-	-	156,731	156,731	113,805
Cash and Cash Equivalents	12	-	-	-	209,270	209,270	209,270	-	-	-	190,355	190,355	190,355
Total Financial Assets		414,349	973,680	1,567,968	3,592,180	6,548,177	6,431,734	769,177	96,686	1,579,941	3,167,893	5,613,697	5,606,456

	Note			2012 Fair Value Through Profit or Loss	2012 Loans and Receivables	2012 Total carrying amount	2012 Fair value			2011 Fair Value Through Profit or Loss	2011 Loans and Receivables	2011 Total carrying amount	2011 Fair value
				Rs. '000	Rs. '000	Rs. '000	Rs. '000			Rs. '000	Rs. '000	Rs. '000	Rs. '000
36.1.b Financial Liabilities													
Reinsurance Creditors	19			-	83,253	83,253	83,253			-	103,256	103,256	103,256
Other Liabilities (Excluding Government Levies and Accruals)	20.			-	209,969	209,969	209,969			-	176,442	176,442	176,442
Total Financial Liabilities				-	293,222	293,222	293,222			-	279,698	279,698	279,698

36.2. The Company's exposure to interest rate risk and a sensitivity analysis for Financial Assets is disclosed in note 40.6.b.

36 Financial Assets and Liabilities (Contd.)

36.3 Fair value Hierarchy for Assets Carried at fair value

The table below analyses financial investments carried at fair value, by valuation method. The Company applied the exemption in SLFRS 1 First - time Adoption of Sri Lanka Financial Reporting Standards, that allows an entity not to provide comparative information for periods ending before 31 December 2010 in respect of the fair value hierarchy disclosures below.

The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table represents an analysis of financial Investments recorded at fair value by level of the fair value hierarchy.

		Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total fair value Rs.'000
31st December 2012					
Fair Value Through Profit or Loss	(Note 6.4)				
- Treasury Bonds		51,290	-	-	51,290
- Unit Trusts		7,550	139,841	-	147,391
- Equity Shares		215,668	-	-	215,668
Available for Sale	(Note 6.3)				
- Treasury Bonds		767,221	-	-	767,221
- Treasury Bills		206,459	-	-	206,459
Total Financial Assets		1,248,188	139,841	-	1,388,029
31st December 2011					
Fair Value Through Profit or Loss	(Note 6.4)				
- Treasury Bonds		61,650	-	-	61,650
- Treasury Bills		381,409	-	-	381,409
- Unit Trusts		7,699	62,416	-	70,115
- Equity Shares		256,003	-	-	256,003
Available for Sale	(Note 6.3)				
- Treasury Bonds		96,686	-	-	96,686
Total Financial Assets		803,447	62,416	-	865,863

36.4 Financial Assets and Liabilities (Contd.)

Fair values of Financial Assets and Liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the financial instruments of the Company which are not measured at fair value in the financial statements. These tables do not include non-financial assets and liabilities.

	Note	2012 Carrying Amount Rs.'000	2012 Fair Value Rs.'000	2011 (Restated) Carrying Amount Rs.'000	2011 (Restated) Fair Value Rs.'000
Financial Assets					
Financial Investments					
Measured at amortised cost	36.4.a.	**4,315,837**	**4,256,754**	4,018,399	4,054,084
Loans to Life Policyholders		**29,888**	**29,888**	20,097	20,097
Reinsurance Receivables		**162,715**	**162,715**	130,867	130,867
Premium Receivables		**247,417**	**247,417**	231,385	231,385
Staff and Agent Loans	36.4.b.	**195,021**	**137,661**	156,731	113,805
Cash and Cash Equivalents	36.4.c.	**209,270**	**209,270**	190,355	190,355
Financial liabilities					
Reinsurance Creditors		**83,253**	**83,253**	103,256	103,256
Other Liabilities (Excluding Government Levies and Accruals)		**209,969**	**209,969**	176,442	176,442

The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value, are as follows:

36.4.a. Financial Investments

- *Reverse Repo*
  The fair values of money market placements and reverse repurchase agreements with maturity period of less than one year also approximate their carrying amounts due to the relatively short maturity of the financial instruments.
- *Financial investments held-to-maturity*
  The fair values of Financial Investments Held-To-Maturity are estimated based on current market yields.
- The fair values of listed debentures are calculated based on published market prices. The fair value of unlisted variable rate debentures equals carrying value due to inability to reliably predict future cash flows unlisted fixed rate corporate debts are based on discounted cash flow method using current market yields of treasury bonds or treasury bills for similar 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.

36.4.b. Staff and Agent Loans

- The fair value of the staff and agent loans has been computed based on the interest rates prevailed at reporting date.

36.4.c. Cash and balances with banks – The carrying amount of cash and bank balances approximate the fair value due to the relatively short maturity of the financial instruments. This includes cash balances as well.

36.4.d. For all the other items the carrying value has been considered as the fair value due to the timing of the cash flows.

37 EXPLANATION OF TRANSITION TO NEW SLASS

As stated in note 2.1, these are the Company's first financial statements prepared in accordance with new Sri Lanka Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL).

The accounting policies set out in Note 3 have been applied in preparing these Financial Statements for the year ended 31st December 2012, the comparative information presented in these Financial Statements for the year ended 31st December 2011 and in the preparation of an opening statement of financial position as at 1st January 2011 (the Company's date of transition).

In preparing its opening new SLAS Statement of Financial Position, the Company has adjusted amounts reported previously in Financial Statements prepared in accordance with previous SLASs. An explanation of how the transition from previous SLASs to new SLASs has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

37.1 Reconciliation of equity

As at,		01st January 2011			31st December 2011		
	Note	Previous SLASs Rs.'000	Effect of Transition to new SLASs Rs.'000	New SLASs Rs.'000	Previous SLASs Rs.'000	Effect of Transition to new SLASs Rs.'000	New SLASs Rs.'000
Assets							
Intangible Assets		52,308	-	52,308	48,876	-	48,876
Property, Plant and Equipment		130,971	-	130,971	121,568	-	121,568
Financial Investments	37.3.a & b	3,403,905	239,456	3,643,361	4,655,042	229,220	4,884,262
Loans to Life Policyholders		15,000	-	15,000	20,097	-	20,097
Reinsurance Receivables	38	122,431	(28)	122,403	131,210	(343)	130,867
Premium Receivables		231,929	-	231,929	231,385	-	231,385
Other Assets	37.3.b & c	510,306	(172,561)	337,745	638,273	(240,888)	397,385
Insurance Contract - Deferred Expenses	37.3.d	-	12,392	12,392	-	20,059	20,059
Cash and Cash Equivalents	37.3.b	81,354	90	81,444	189,453	902	190,355
Total Assets		**4,548,204**	**79,349**	**4,627,553**	**6,035,904**	**8,950**	**6,044,854**

37 EXPLANATION OF TRANSITION TO NEW SLASS (Contd.)

37.1 Reconciliation of equity (contd.)

As at ,	Note	Effect of Previous SLASs Rs.'000	01st January 2011 Transition to new SLASs Rs.'000	New SLASs Rs.'000	Effect of Previous SLASs Rs.'000	31st December 2011 Transition to new SLASs Rs.'000	New SLASs Rs.'000
Equity							
Stated Capital		375,000	-	375,000	1,171,875	-	1,171,875
Revenue Reserves	37.3,a,c,e	641,340	34,778	676,118	437,841	6,216	444,057
Life Policyholder Reserve Fund	37.3.a	-	31,050	31,050	-	(22,526)	(22,526)
Total Equity		**1,016,340**	**65,828**	**1,082,168**	**1,609,716**	**(16,310)**	**1,593,406**
Liabilities							
Insurance Contract Liabilities - Life	38	2,385,246	29,968	2,415,214	2,990,998	30,333	3,021,331
Insurance Contract Liabilities - Non - Life	37.3.d	730,658	12,391	743,049	924,262	20,059	944,321
Employee Benefits		25,076	-	25,076	34,129	-	34,129
Income Tax Liabilities	38	-	28,618	28,618	-	25,998	25,998
Reinsurance Creditors	38	81,983	(4,674)	77,309	110,263	(7,007)	103,256
Other Liabilities	37.3. e	308,901	(52,782)	256,119	366,536	(44,123)	322,413
Total Liabilities		**3,531,864**	**13,521**	**3,545,385**	**4,426,188**	**25,260**	**4,451,448**
Total Equity and Liabilities		**4,548,204**	**79,349**	**4,627,553**	**6,035,904**	**8,950**	**6,044,854**

37 EXPLANATION OF TRANSITION TO NEW SLASS (Contd.)

37.2 Reconciliation of comprehensive income for the year ended 31st December 2011

For the year ended,	Note	31st December 2011 Previous SLASs Rs.'000	Effect of Transition to new SLASs Rs.'000	New SLASs Rs.'000
Gross Written Premium	38	3,002,511	(17,801)	2,984,710
Premium Ceded to Reinsurers	38	(510,622)	17,801	(492,821)
Net Written Premium		2,491,889	-	2,491,889
Net Change in Reserves for Unearned Premium		(142,270)	-	(142,270)
Net Earned Premium		2,349,619	-	2,349,619
Other Revenue				
Investments Income	37.3.a & c	474,557	3,949	478,506
Net Realised Gains	37.3.a	-	1,157	1,157
Net Fair Value Loss	37.3.a	-	(71,329)	(71,329)
Fee and Commission Income	37.3.f	-	55,929	55,929
Other Income		2,693	-	2,693
		477,250	**(10,294)**	**466,956**
Net Revenue		**2,826,869**	**(10,294)**	**2,816,575**
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims Paid		(824,305)	-	(824,305)
Net Change in Insurance Claims Outstanding		(40,825)	-	(40,825)
Change in Contract Liabilities - Life Fund	37.3.a	(605,752)	47,427	(558,325)
Other Operating and Administration Expenses	37.3.c & e	(805,945)	(9,764)	(815,709)
Underwriting and Net Acquisition Costs	37.3.f	(232,128)	(55,929)	(288,059)
Other Insurance Related Costs		(17,512)	-	(17,512)
Total Benefits,Claims and Expenses		(2,526,469)	(18,266)	(2,544,735)
Profit Before Tax		300,402	(28,560)	271,840
Income Tax Expenses		(25,772)	-	(25,772)
Profit for the Year		**274,630**	**(28,560)**	**246,068**
Basic Earnings Per Share (Rs.)		**5.74**		**5.14**

37 EXPLANATION OF TRANSITION TO NEW SLASS (contd.)

37.3 Notes to the reconciliations

37.3.a Financial Investments

The Company's investments comprise treasury bills/bonds, repurchase agreements on Government securities, quoted/unquoted debentures, commercial papers, promissory notes, term deposits, quoted shares and unit trusts.

Investments in quoted shares and unit trusts were measured at lower of cost and market value determined on an aggregate portfolio basis while investments in corporate debt instruments, Government securities and repurchase agreements on Government securities were measured at cost according to the previous SLASs.

The Company has categorize investments as required by LKAS 39, "Financial Instruments-Recognition and Measurement" and subsequent measurement of investments have changed according to the categorization as shown below:

Type of instrument	Measurement under previous SLASs	Classification under LKAS 39	Subsequent measurement under LKAS 39
Treasury Bills and Treasury Bonds	Cost	Fair Value Through Profit or Loss Held to Maturity Available For Sale	Fair value through Income Statement Amortized cost Fair value through Other Comprehensive Income (OCI)
Term deposits	Cost	Loans and receivables	Amortized cost
Repurchase agreements on Government securities	Cost	Loans and receivables	Amortized cost
Corporate debts	Cost	Loans and receivables	Amortized cost
Quoted shares	Lower of cost and market value	Fair Value Through Profit or Loss	Fair value through Income Statement
Unit trusts	Lower of cost and market value	Loans and receivables Fair Value Through Profit or Loss	Amortized cost Fair value through Income Statement

such changes have been applied retrospectively.

The impact arising from the change is summarised as follows:

For the Year Ended,		1st Jan 2011 Rs.'000	31st Dec 2011 Rs.'000
Statement of Comprehensive Income			
Investment Income			(6,185)
Net Realised Gains			1,157
Net Fair Value Loss			(71,329)
Adjustment to profits			(76,357)
Statement of Financial Position			
Financial Investments	(Note A)	62,338	(76,357)
Life Policy Holder Reserve Fund		31,397	(43,284)
Adjustment to retained earnings		30,941	(33,073)
Note A - Investments			
Held to Maturity		(18,648)	2,878
Available for Sale		4,605	(212)
Fair Value Through Profit or Loss		76,381	(79,022)
		62,338	(76,356)

37 Explanation of transition to new SLASs (contd.)

37.3 Notes to the reconciliations

37.3.b Reclassification of interest receivable

According to LKAS 39, "Financial Instruments-Recognition and Measurement", the amortised cost of financial asset includes the cumulative amortisation using the effective interest rate method. Accordingly, the interest receivable has been added to the carrying value of the financial assets.

The impact arising from the change is summarised as follows:

As at,	1st Jan 2011 Rs.'000	31st Dec 2011 Rs.'000
Statement of Financial Position		
Financial Investments	177,027	248,487
Other assets	(177,117)	(249,389)
Cash and Cash Equivalents	90	902
Adjustment to retained earnings	-	-

37.3.c Staff and Agent loans

According to the previous SLASs loans given to staff, agents and policyholders were granted at concessional interest rates and were recognized at cost.

LKAS 39, "Financial Instruments-Recognition and Measurement", requires all financial instruments to be initially measured at fair value. Subsequent measurement would be based on the categorization of the financial instrument. Accordingly, loans to staff and agents has been initially recognized at fair value, and subsequently measured at amortized cost.

The difference between fair value and face value of the loan has been treated as prepaid employee cost (in case of loans to employees) , prepaid benefits to agents (in case of loans to agents) and amortized on a straight line basis through income statement over the tenure of the loan. Interest income has been accrued using effective interest rate method.

The impact arising from the change is summarised as follows:

For the Year Ended,	1st Jan 2011 Rs.'000	31st Dec 2011 Rs.'000
Statement of Comprehensive Income		
Investment Income		10,134
Other Operating and Administration Expenses		(9,862)
Adjustment to profit		272
Statement of Financial Position		
Other assets	4,619	272
Adjustment to retained earnings	4,619	272

37.3.d Insurance Contract - Deferred Expenses

Reserve for Deferred Acquisition Expenses was classified under Insurance Contract Liabilities - Non - Life previously under previous SLASs. However Sri Lanka Accounting Standard - SLFRS 4 "Insurance Contracts" does not permit to offset insurance assets against the liability. Therefore, the Company has reclassified the Deferred Acquisition Expenses from Liabilities to Assets.

For the Year Ended,	1st Jan 2011 Rs.'000	31st Dec 2011 Rs.'000
Statement of Comprehensive Income		-
Statement of Financial Position		
Insurance Contract - Deferred Expenses	12,392	20,059
Insurance Contract Liabilities - Non Life	(12,392)	(20,059)
Adjustment to retained earnings	-	-

37 Explanation of transition to new SLASs (cont.)

37.3 Notes to the reconciliations

37.3.e Operating Lease

As per the agreements entered with the lessors, the Company has paid interest free security deposits. Further, the lease agreements have escalation clauses for the lease rentals.

As per LKAS 17 Leases, the Company should recognize lease rentals on a straight line basis over the primary lease period (since the lease is in the nature of operating leases). Accordingly, the impact of straight lining of lease rentals over the period of the lease has been adjusted.

The impact arising from the change is summarised as follows:

For the Year Ended 31st December,	1st Jan 2011 Rs.'000	31st Dec 2011 Rs.'000
Statement of comprehensive income		
Other Operating and Administration Expenses - Rent expenses		98
Adjustment to profit		98
Statement of financial position		
Other Liabilities	1,129	98
Adjustment to retained earnings	1,129	98

37.3.f Fee and Commission Income

According to the SLFRS - 4 "Insurance Contracts" insurance related income cannot be offset against expenses. The insurance related income, profit commission from Reinsurers, policy fee and other sundry income, which was previously classified under Underwriting and Net Acquisition Cost has been reclassified as Fee and Commission Income.

The impact arising from the change is summarised as follows:

For the Year Ended 31st December,	1st Jan 2011 Rs.'000.	31st Dec 2011 Rs.'000
Statement of comprehensive income		
Fee and Commission Income		55,929
Underwriting Net Acquisition Cost		(55,929)
Adjustment to profit		-
Statement of financial position		
Adjustment to retained earnings	-	-

37.4 Material adjustments to the Statement of Cash Flows for 2011

There were no material differences between the Statement of Cash Flows presented under new SLASs and the statement of cash flows presented under previous SLASs.

37.5 Reconciliation of Profit Before Tax(PBT), in accordance with Sri Lanka Accounting Standards effective immediately after 1st January 2012 and prior to 1st January 2012

For the Year Ended 31st December,	2012 Rs.'000	2011 Rs.'000
PBT in accordance with the accounting standards, effective immediately prior to 1st January 2012 (previous SLAS)	**382,760**	300,402
Impact on Administration Expenses		
Increase in Staff Expenses	**(5,001)**	(5,692)
(Increase)/Decrease in Office Rent	**(45)**	70
Impact on Investment Income		
Increase in Investment Income	**16,152**	(22,940)
PBT Reported in the Statement of Comprehensive Income in accordance with (new SLASs)	**393,866**	271,840

38 COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year information.

As at 31st December,		2011 Rs.'000
As reported previously (2011 Financial Statements)		
Reinsurance Receivables	(Note 38.1.)	131,210
Reinsurance Creditors	(Note 38.3.)	110,263
Other Assets	(Note 38.1.)	638,273
Other Liabilities	(Note 38.3.) and (Note 38.2.)	366,536
Insurance Contract Liabilities – Life	(Note 38.4.)	2,990,998

As at 31st December,		2012 Rs.'000	2011 Rs.'000
Current Presentation			
Reinsurance Receivables	(Note 38.1.)	**162,715**	130,867
Current Tax Liabilities	(Note 38.2.)	**42,950**	25,998
Reinsurance Creditors	(Note 38.3.)	**83,253**	103,256
Other Assets	(Note 38.1.)	482,239	397,385
Other Liabilities	(Note 38.3.) and (Note 38.2.)	403,543	322,413
Insurance Contract Liabilities – Life	(Note 38.4.)	3,626,239	3,021,331

Reasons for change in the presentation and classifications are as follow:

38.1. Amounts receivable on Co-insurance was classified under Reinsurance Receivable previously. However, since Co-insurance is not considered as Reinsurance it is shown under Other Assets.

38.2. Current Tax Liabilities were previously classified under Other Liabilities. However it is shown as a separate item in the Statement of Financial Position.

38.3. Co-insurance creditors was classified under Reinsurance creditors previously. However, since Co-insurance is not considered as Reinsurance it is shown under Other Liabilities.

38.4. Claims outstanding under Life Insurance was previously classified under other Liabilities. However claims outstanding has been shown under Life Insurance contract Liabilities

38 COMPARATIVE INFORMATION (Contd.)

38.5. Adjustment to the Statement of Cash Flow

As at 31st December,	2012 Rs.'000	2011 Rs.'000
As reported previously (2011 Financial Statements)		
Net Cash Generated from Operating Activities		1,108,960
Net Cash Used in Investing Activities		(1,319,607)
Current Presentation		
Net Cash Generated from Operating Activities	**287,646**	661,810
Net Cash Used in Investing Activities	**(163,731)**	(871,645)

Interest income and dividend income which was previously classified under operating activities has been reclassified under investing activities.

38.6 Presentation and classification between Interim Financial Statements and Audited Annual Financial Statements

The presentation and classification of the following items shown in these Annual Financial Statements varies from Interim Financial Statements. The Annual Financial Statements are amended to ensure better presentation of the current year information in line with the Sri Lanka Accounting Standards applicable with effect from 1st January 2012.

38.6.a Statement of Financial Position

As at 31st December,		2012 As Reported in the 4th Qtr. Interim Report (Unaudited) Rs.'000	2012 As Reported in the Annual Report Rs.'000	2012 Change Rs.'000	2011 As Reported in the 4th Qtr. Interim Report (Unaudited) Rs.'000	2011 As Reported in the Annual Report Rs.'000	2011 Change Rs.'000
Financial Investments	(a)	**5,705,330**	**5,703,866**	**1,464**	4,884,537	4,884,262	275
Reinsurance Receivables	(b)	**163,412**	**162,715**	**697**	131,210	130,867	343
Other Assets	(a)/(b)	**480,076**	**482,239**	**(2,163)**	396,768	397,385	(617)
Insurance Contract - Deferred Expenses	(c)	**-**	**19,968**	**(19,968)**	-	20,059	(20,059)
Life Policyholder Reserve Fund	(d)	**-**	**(1,191)**	**1,191**	-	(22,526)	22,526
Insurance Contract Liabilities - Life	(e)	**3,545,716**	**3,626,239**	**(80,523)**	2,968,472	3,021,331	(52,859)
Insurance Contract Liabilities - Non - Life	(c)	**949,473**	**969,443**	**(19,970)**	924,262	944,321	(20,059)
Income Tax Liabilities	(f)	**-**	**42,950**	**(42,950)**	-	25,998	(25,998)
Reinsurance Creditors	(g)	**85,033**	**83,253**	**1,780**	110,263	103,256	7,007
Other Liabilities	(e)/(f)/(g)	**524,045**	**403,543**	**120,502**	371,737	322,413	49,324

(a) Financial Investments

In the Interim Financial Statements, Interest Receivable on Term Deposits is transferred to the Financial Investments, from the Other Assets. However, in the Annual Financial Statements, Interest Receivable is Classified according to the provisions of the new SLAS's.

(b) Reinsurance Receivables

In the Interim Financial Statements, amounts receivable on Co-insurance was classified under Reinsurance Receivable. However, since Co-insurance is not considered as Reinsurance it is shown under Other Assets in the Annual Financial Statements.

(c) Insurance Contract - Deferred Expenses

Reserve for Deferred Acquisition Expenses was classified under Insurance Contract Liabilities - Non - Life in the Interim Financial statements, under previous SLASs. However Sri Lanka Accounting Standard - SLFRS 4 "Insurance Contracts" does not Permit to offset in insurance assets against the liability. Therefore, the Company has reclassified the Deferred Acquisition Expenses from Liabilities to Assets in the Annual Financial Statements.

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38 COMPARATIVE INFORMATION (Contd.)

(d) Life Policyholder Reserve Fund

Life Policyholder Reserve Fund in the Annual Financial Statements, consist of the impact to the Life Fund due to initial impact on the application of the Sri Lanka Accounting Standards applicable after 1st January 2011, as well as the unrealised gains and losses arising from Financial Investments classified as Available-for-Sale.

In the Interim Financial Statements such impact is accumulated to the Insurance Contract Liabilities - Life.

(e) Insurance Contract Liabilities - Life

Apart from the classification change described in "(d)", Claims Outstanding balance of the Life Insurance is also disclosed under Insurance Contract Liabilities - Life in the Annual Financial Statements. However, in the Interim Financial Statements such balance is disclosed under the Other Liabilities.

(f) Income Tax Liabilities

In the Interim Financial Statements, Income Tax Liabilities were classified under Other Liabilities. However it is shown as a separate item in the Annual Financial Statements.

(g) Reinsurance Creditors

Co-insurance creditors were classified under Reinsurance creditors in the Interim Financial Statements. However, since co-insurance is not considered as reinsurance it is shown under Other Liabilities, in the Annual Financial Statements.

38.6.b Statement of Comprehensive Income

As at 31st December,		2012 4th Qtr. Interim Report (Unaudited) Rs.'000	2012 As Reported in the Annual Report Rs.'000	2012 Change Rs.'000	2011 4th Qtr. Interim Report (Unaudited) Rs.'000	2011 As Reported in the Annual Report Rs.'000	2011 Change Rs.'000
Investments Income	(h)	661,762	654,584	7,178	408,334	478,506	(70,172)
Net Realised Gains	(h)	-	7,271	(7,271)	-	1,157	(1,157)
Net Fair Value Loss	(h)	-	(93)	93	-	(71,329)	71,329
Fee and Commission Income	(i)	-	71,674	(71,674)	-	55,930	(55,930)
Net Insurance Benefits and Claims Paid	(j)	(1,154,520)	(1,090,720)	(63,800)	(865,133)	(824,308)	(40,825)
Net Change in Insurance Claims Outstanding	(j)	-	(63,800)	63,800	-	(40,825)	40,825
Underwriting and Net Acquisition Costs	(i)	(276,434)	(348,108)	71,674	(232,129)	(288,059)	55,930

(h) Investments Income

Net Realized Gains and Net Fair Value Losses, are disclosed separately in the Annual Financial Statements, However, in the Interim Financial Statements, such amounts are disclosed under Investment Income.

(i) Fee and Commission Income

According to the SLFRS - 4 "Insurance Contracts" insurance related income cannot be offset against expenses. The insurance related income, profit commission from Reinsurers, policy fee and other sundry income, which was classified under Underwriting and Net Acquisition Cost In the Interim Financial Statements, has been reclassified as Fee and Commission Income in the Annual Financial Statements.

(j) Net Insurance Benefits and Claims Paid

Net Insurance Benefits and Claims Paid and Net Change in Insurance Contract Liabilities, are disclosed separately in the Annual Financial Statements. However, in the Interim Financial Statements, such amounts are disclosed under Net Insurance Benefits and Claims Paid.

39. RELATED PARTY DISCLOSURES

39.1 Transactions with Key Management Personnel of the Company or its Parent

According to Sri Lanka Accounting Standard (LKAS) 24, Related Party Disclosure, Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors (including Executive and Non-Executive Directors) of the Company and their immediate family members have been classified as Key Management Personnel of the Company. In Addition, members of the Executive Committee (EXCO) and their immediate family members have also been classified as Key Management Personnel of the Company from the current year onwards.

Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective Director for his/her financial needs. As the Hatton National Bank PLC is the ultimate parent of the Company, and the Board of Directors of the Bank have the authority and responsibility of planning, directing and controlling the activities of the Company, the Directors of the Bank and their immediate family members have also been identified as Key Management Personnel of the Company.

		2012 Rs.'000	2011 (Restated) Rs. '000
a).	**Key Management Personnel Compensation**		
	Short-term employee benefits	**42,821**	36,509
	Post employment benefits	**11,808**	8,373
		54,629	44,882
	Loans outstanding from EXCO Members *	**19,342**	9,870

In addition to salaries, the Company also provides non-cash benefits to Key Management Personnel and contributes to a defined benefit plan (Gratuity) on behalf of the Executive Director and the EXCO members.

* No loans have been granted to the Directors of the Company.

		2012 Rs.'000	2011 (Restated) Rs. '000
b).	**Other Transactions with Key Management Personnel**		
	Insurance Premium - Non - Life	**573**	1,164
	Insurance Premium - Life	**936**	208
	Claims Paid - Non - Life	**358**	603

c). Dr. Ranee Jayamaha was appointed as the Chairperson of HNB Assurance PLC w.e.f. 29th June 2012. She was appointed as the Chairperson of our parent Company, Hatton National Bank PLC on 31st March 2011.

Following Directors have resigned from the Board during the year

Director	Effective date of Resignation
Mr. J M J Perera	27th April 2012
Mr. J D N Kekulawala	8th October 2012
Mr. D M de Silva Wijeyeratne	14th November 2012

Accordingly, these Directors cease to be Key Management Personnel of the Company w.e.f. their respective dates of resignation.

Also following Directors were appointed to the Board during the year

Director	Effective date of Appointment
Mr. J A P M Jayasekera	3rd December 2012
Mr. A J Alles	3rd December 2012
Mr. K Balasundaram	3rd December 2012

Mr. R S Captain, Mr. Sujeewa Mudalige, Ms. D S C Jayawardena and Mr.L U D Fernando were appointed to the Board of Hatton National Bank PLC, parent company, w.e.f. 2nd April 2012.

Accordingly, the above personnel have been considered as Key Management Personnel of the Company w.e.f. respective dates of their appointment.

39. RELATED PARTY DISCLOSURES (Contd.)

39.2 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.

	2012 Rs.'000	2011 Rs.'000
39.2. a Transactions with the Parent and Ultimate Controlling Party		
Hatton National Bank PLC		
Nature of Transaction		
Insurance Premium		
Non - Life	36,681	41,275
Life	16,517	10,750
	53,198	52,025
Administration Expenses		
Non - Life	96,861	66,171
Life	35,331	29,551
	132,192	95,722
Claims Incurred		
Non - Life	6,573	8,156
Investments Balance as at 31 December (Includes Deposits and Debentures)		
Non - Life	99,000	134,510
Life	52,875	127,749
	151,875	262,259
Current Account Balances as at 31 December		
Non - Life	54,936	40,830
Life	51,474	45,155
	106,410	85,985
Investment Income		
Non - Life	7,184	5,308
Life	15,757	7,556
	22,941	12,864
Rent Expenses	22,660	16,409
Dividends Paid	62,985	40,491

39. RELATED PARTY DISCLOSURES (Contd.)

39.2. b Transactions with / between Subsidiary Companies of the Parent Company

a). Sithma Development (Pvt) Limited

Nature of Transaction		
Insurance Premium		
Non - Life	1,118	3,994
Claims Incurred		
Non - Life	570	43

b). Splendor Media (Pvt) Ltd.

Insurance Premium		
Non - Life	-	122
Claims Incurred		
Non - Life	-	443
Media Placements Commission Fee	1,998	625

39.2. c Transactions 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	2012 Rs.'000	2011 Rs.'000
Sri Lanka Insurance Corporation Ltd (SLIC)	SLIC holds a significant stake in Hatton National Bank PLC (HNB), and thereby enjoys a significant influence over HNB and its controlled entities.	Co-insurance Premium	Non - Life	3,431	241
		Co-insurance Claims	Non - Life	4	104
Government of Sri Lanka	Shareholder of the Parent Company with significant influence (a-1)	Treasury Bill Investment	Non - Life	149,553	305,129
			Life	91,808	216,123
		Treasury Bond Investment	Non - Life	619,278	296,949
			Life	1,732,299	1,301,485
		Treasury Bill Interest Income	Non - Life	18,339	38,086
			Life	18,183	47,220
		Treasury Bond Interest Income	Non - Life	54,736	23,400
			Life	211,538	158,286
Bank of Ceylon	Government related entity (a-1)	Investment	Non - Life	50,463	25,429
			Life	132,576	46,398
		Investment Income	Non - Life	3,369	1,825
			Life	6,355	3,736
HDFC Bank	Government related entity (a-1)	Investment	Non - Life	70,707	-
			Life	54,453	-
		Investment Income	Non - Life	5,707	-
			Life	4,453	-
Merchant Bank of Sri Lanka PLC	Government related entity (a-1)	Investment	Non - Life	70,141	45,655
			Life	71,559	22,827
		Investment Income	Non - Life	7,816	655
			Life	6,451	327

39. RELATED PARTY DISCLOSURES (Contd.)

39.2. c Transactions with / between shareholders of the parent company with significant influence (Contd.)

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2012	2011
				Rs.'000	Rs.'000
People's Finance PLC	Government related entity (a-1)	Investment	Non - Life	22,735	-
			Life	45,249	-
		Investment Income	Non - Life	1,735	-
			Life	3,249	-
People's Leasing and Finance PLC	Government related entity (a-1)	Investment	Non - Life	92,046	71,251
			Life	81,867	38,403
		Investment Income	Non - Life	9,454	4,177
			Life	5,716	1,467
Urban Development Authority	Government related entity (a-1)	Investment	Non - Life	26,392	26,384
			Life	89,010	88,983
		Investment Income	Non - Life	2,836	2,828
			Life	9,564	9,538
People's Bank	Government related entity (a-1)	Investment	Non - Life	107,218	-
			Life	103,276	-
		Investment Income	Non - Life	4,268	-
			Life	3,276	-

(a) **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 2012 and thus has significant influence over its operation and thereby holds an indirect control over the Company. Accordingly 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".

(a-1) **Transactions which are Individually Significant**

Company uses an internal threshold of 5% of total equity of the Company in order to identify individually significant transactions with the Government and Government related entities. Accordingly the said threshold limit was set at Rs 95.7 Million as at 31st December 2012. All transactions with the Government of Sri Lanka and Government related entities that exceeded the above threshold have been reported.

(a -2) **Transactions which are not Individually Significant**

Apart from the transactions listed above, the Company has carried out transactions with the Government of Sri Lanka and other Government related entities in the form of payment of taxes, payment of utility bills etc. during the year ended 31st December 2012. Such transactions were carried out on an arms length basis / applicable rules and regulations and on comparable terms which are applied to transactions between the Company and its unrelated customers/suppliers.

39. RELATED PARTY DISCLOSURES (Contd.)

39.2. d Transactions with other Related entities

Other related entities are those which are controlled or significantly influenced, directly or indirectly by Key Management Personnel of the 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	2012 Rs.'000	2011 Rs.'000
Acuity Stock Brokers (Pvt) Limited	R Theagarajah J M J Perera (c) A J Alles	Insurance Premium	Non - Life	**1,123**	1,836
		Claims Incurred	Non - Life	**1,068**	370
		Brokerage Fee	Non - Life	**59**	343
			Life	**138**	517
Acuity Securities Limited	R Theagarajah and J M J Perera (c)	Insurance Premium	Non - Life	**524**	304
			Life	**10**	-
		Claims Incurred	Non - Life	**693**	254
		Investment in REPO (b)	Non - Life	**94,465**	173,570
			Life	**33,603**	68,587
		Investment Income from REPO (b)	Non - Life	**5,665**	8,252
			Life	**6,854**	7,280
Acuity Partners (Pvt) Limited	R Theagarajah J M J Perera (c) and A J Alles	Insurance Premium	Non - Life	**878**	1,175
			Life	**-**	483
		Claims Incurred	Non - Life	**688**	162
Colombo Stock Exchange	R Theagarajah	Supplier payments	Non - Life	**113**	-

(b) Investments held in the form of Repurchase Agreements in Government Securities (REPO) as at 31st December.

(c) Mr. J M J Perera resigned from the Board on 27th April 2012, and therefore he ceased to be a KMP w.e.f that date.

40. RISK MANAGEMENT

40.1. Introduction and Overview

The Company is exposed to the following risks.

- Insurance Risk
- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This note presents information about Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring/managing such risks, and the manner in which the Company manages its capital.

40.2. 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 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. 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. Management recognises the paramount importance of having efficient and effective risk management systems in place. The Company adopts a risk management structure that is commensurate with its size and the nature of its activities.

The Company has appointed a Risk Management Committee, comprising members of the senior management from business operations and control functions, which oversees 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 Committee is headed by the Managing Director and meets on a semi-annual basis.

The Committee developed a comprehensive Risk Assessment Report in 2009 identifying all the risks affecting the Company. Each risk identified is categorised 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.

a) Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approaches to manage the risks that affect its capital position:

- To maintain the required level of solvency of the Company, thereby providing a degree of security to policyholders
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meets the requirements of its shareholders and policyholders
- To retain financial flexibility by maintaining strong liquidity
- To align the profile of assets and liabilities taking account of risks inherent in the business
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and other stakeholders
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The operations of the Company are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. Solvency Margin, Approved Assets Requirements of IBSL) to minimise the risk of default and insolvency on the part of the Company to meet unforeseen liabilities as these arise.

The Company has been in compliance with all these regulatory requirements throughout the financial year to the best of our knowledge.

In addition, the Company has already increased its capital well above the minimum regulatory requirements of the IBSL. (The Company has a Stated Capital of Rs. 1.17 Billion whereas the current minimum capital requirement is only Rs. 200 Million - i.e. Rs. 100 Million per class of business, Life and Non-Life Insurance).

b) Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a co-ordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds. The capital requirements are routinely forecasted on a periodic basis by the management and the Board. The solvency margins are calculated on a monthly basis and shared with the Board.

There were no changes in the capital structure in the Company during the year. Please refer Note 13 on Page 253 for the Stated Capital of the Company.

c) Regulatory framework

Insurance regulator in the Country, 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.

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 ALM framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts.

40.3. Insurance Risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Insurance Risk has been discussed in detail in respect of Life and Non-Life business lines separately.

40.3.1 Life Insurance contracts

Life Insurance contracts offered by the Company include term assurance, endowment plans, annuity plans and group plans. Endowment and term assurance are conventional regular or single premium products where lump sum benefits are payable on death, maturity or in some cases, permanent total disability. Endowment products acquire a surrender value upon completion of three years.

Guaranteed annuities are single premium products which pay a specified payment to the policyholder for a specified period. Payments are fixed. Most contracts guarantee an income for a minimum period, usually of ten or fifteen years, irrespective of death. The Company has only one guaranteed annuity product, "myfreedom".

The main risks that the Company is exposed to 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 Company's underwriting strategy is designed to ensure that risks are well diversified in terms of the type of risk and the level of insured benefits. This is largely achieved through prudent underwriting, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose different terms at revivals and it has the right to reject the payment of fraudulent claims.

The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. The Company limits exposure on any single life by way of retention limits agreed with the reinsurers.

For annuity contracts, the Company has accepted only fixed term annuity contracts which has a guaranteed payment. The Company has invested the corresponding proceeds from the sale of annuity contracts in similar term investments at a higher return.

Some of the specific actions by the Company to mitigate Life Insurance 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 part 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.

Life Claims Risk Management

- 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 part qualified actuary is in place to review reserving in the Life Insurance business more closely and guide the management to take more informed decisions.
- Claims are reserved immediately at the intimation or on the availability of information of the death or injury of an insured.
- The Claims Panel (comprising Managing Director, General Manager – Life Insurance and Head of Finance) is involved in taking decisions on significant/ problematic claims and appeals made in respect of claims.

The following table shows the concentration of Life Insurance based on the nature of the contract.

31st December 2012	Gross		
	Insurance Liabilities with DPF*	Insurance Liabilities without DPF*	Total gross insurance liabilities
Endowment	1,924,037	919,149	2,843,186
Term Assurance	-	331,667	331,667
Guaranteed Annuity	-	18,876	18,876
Group Products	-	10,898	10,898
Rider Benefits	-	104,122	104,122
	1,924,037	1,384,712	3,308,749
Less : Reinsurance			(108,200)
Total			3,200,549

31st December 2011	Gross		
	Insurance Liabilities with DPF*	Insurance Liabilities without DPF*	Total gross insurance liabilities
Endowment	1,238,506	945,662	2,184,168
Term Assurance	-	306,114	306,114
Guaranteed Annuity	-	12,209	12,209
Group Products	-	7,630	7,630
Rider Benefits	-	121,712	121,712
	1,238,506	1,393,327	2,631,833
Less : Reinsurance			(86,000)
Total			2,545,833

**DPF – Discretionary Participating Feature*

Key assumptions for valuation of liabilities in Life Insurance

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions used are based on past experience, current internal data, investment returns and benchmarks which reflect current observable market prices and other published information. All these assumptions are subject to the guidelines issued by the IBSL. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

- *Mortality and morbidity rates*

Assumptions are based on standard mortality tables which are used by the industry.

- *Longevity*

Longevity is not applicable for the Company as the products offered are for a limited term.

- *Lapse and surrender rates*

Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders after acquiring a surrender value.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increments are broadly neutral in effect.

- *Discount rate*

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows.

The discount rate used for the computation is as per IBSL stipulated guidelines. For participating regular premium plans, the maximum discount rate allowable is determined by considering 55% of the average of last three years' yield. For participating single premium plans, non-participating regular premium plans, paid-up plans and reversionary bonus, the discount rate used is 1.5% greater than the discount rate used for the participating regular 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 reduce profits for the shareholders.

40.3.2 Non-Life Insurance contracts

The Company principally issues the following types of Non-Life Insurance contracts.

- Motor
- Fire
- Marine
- Miscellaneous
- Workmen Compensation

The significant risks arising under the Non-Life Insurance portfolio emanates from changes in the climate leading to natural disasters, behavioral trends of people due to changing life styles and the steady escalation of costs in respect of spares 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.
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., 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.

Some of the specific actions by the Company to mitigate Non-Life Insurance Risks are shown below.

Non - Life Underwriting Risk Management

- Significant investments are made for training and development of underwriting and claims management staff, including those attached to the distribution network. The "General Insurance Academy", an internal training and development school, has been set up targeting the improvement of technical knowledge on Non - Life Insurance across the Company.
- Strict controls are maintained on the issue of cover notes.
- Both the underwriters and the distribution managers are assigned Key Performance Indicators on both turnover and profitability.
- Statistical databases are maintained on loss making clients to ensure such clients are strategically declined.
- Post-underwriting audits 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.

Non - Life Claims Risk Management

- Claim intimation is conducted through a 24-hour fully fledged Customer Relation Centre (CRC).
- Assessments are carried out by an independent expert panel of assessors/loss adjustors working throughout the island on a 24 hour basis.
- Comprehensive estimation of costs and a high quality service to customers are granted through certified garages located island-wide.
- Claims are assessed immediately upon intimation and reserved accordingly.
- The Claims Panel (comprising Managing Director, General Manager - General Insurance and Head of Finance) makes decisions on significant/problematic claims and appeals made in respect of claims.
- Significant outstanding claims are subjected to monthly reviews by the management.
- The service of a qualified Independent Actuary is obtained bi-annually to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- All third party claim intimations are separately reviewed with the support of the Manager – Legal.

The table below sets out the concentration of Non-Life Insurance contract liabilities by type of contracts. This includes Unearned Premium, Insurance Contracts - Deferred Acquisition, Claims outstanding and IBNR / IBNER Reserves.

Non-Life Insurance Contract Liabilities

	31 December 2012			31 December 2011		
	Gross Liabilities	Reinsurer's Share	Net Liabilities	Gross Liabilities	Reinsurer's Share	Net Liabilities
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Fire	258,228	(203,932)	54,296	295,174	(243,716)	51,458
Motor	726,707	(3,161)	723,546	713,195	(3,389)	709,806
Marine	16,344	(11,274)	5,070	17,614	(11,699)	5,915
Miscellaneous	114,942	(44,653)	70,288	106,754	(43,121)	63,633
Workman Compensation	2,889	(448)	2,441	3,621	(407)	3,214
Total	1,119,110	(263,468)	855,641	1,136,358	(302,332)	834,026

Key assumptions for valuation of liabilities in Non-Life Insurance

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, such as one–off occurrences, changes in market factors such as public attitude to claiming, economic conditions as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

The Non-Life Insurance claim liabilities are sensitive to the key assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. It should be noted that movements in these assumptions are non–linear.

Sensitivity analysis of Non-Life Insurance claims liabilities

Year	Change in assumptions	Reported Claim Outstanding	Impact on gross liabilities	Impact on net liabilities	Impact on Profit Before Tax	Impact on Equity (after tax)
	%	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Average Claim cost 2012	+10%	240,349	24,035	15,530	(15,530)	(11,182)
Average Claim cost 2011	+10%	211,524	21,152	12,884	(12,884)	(9,277)

40.3.3 Reinsurance Risk

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a 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 business. Non–proportional reinsurance programmes, which are primarily excess–of–loss reinsurance arrangements, are designed to mitigate the Company's net exposure to large single and catastrophic losses. Retention limits on the excess–of–loss reinsurance programmes vary by product line.

Premium ceded to the reinsurers is in accordance with the terms on the programmes already agreed based on the risks written by the insurance companies. 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 Non-Life insurance as the exposure is very high) that is neither dependent on a single reinsurer nor substantially dependent upon any single reinsurance contract. In Life Insurance, the Company uses Munich Re as its reinsurance provider (which is one of the largest reinsurance companies in the world). All Non-Life Insurance reinsurance contracts are with companies holding credit ratings above the minimum stipulated by the Insurance Board of Sri Lanka (IBSL).

Some of the specific actions by the Company to mitigate Reinsurance Risks are shown below.

- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- A very close and professional relationship is maintained with all reinsurers.
- No cover is issued without a confirmed reinsurance in place.
- Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Standard & Poors or AM Best is used.

The following table shows the credit ratings of the reinsurance companies with whom the Company has arrangements.

Reinsurer	Rating	Rating Agency
Munich Reinsurance Company	A+	A.M. Best
General Insurance Corporation of India	A-	A.M. Best
Trust International Insurance & Reinsurance Co.	A-	A.M. Best
Malaysian Reinsurance Berhad	A-	A.M. Best
Labuan Reinsurance (L) Ltd	A-	A.M. Best
Toa Reinsurance Company Limited	A+	Standard & Poor's
Mitsui Sumitomo Insurance Company Limited	AA	Standard & Poor's
National Insurance Trust Fund	-	Fully owned by Government of Sri Lanka
Korean Reinsurance Company	A-	Standard & Poor's
Arab Insurance Group	B++	A.M. Best

40.4. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company's credit risk could mainly arise from financial assets such as its investment portfolios, premium receivables from policyholders, receivables from reinsurers, loans given to employees, loans given to policyholders and insurance advisors.

The table below provides information regarding the credit risk exposure of the Company as at 31st December by classifying assets according to the respective credit ratings. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB- are classified as speculative grade.

Government securities have been classified as a separate category as it is considered a risk free investment.

Credit risk exposure on Assets

31st December 2012	Government Guaranteed	AAA	AA+ AA-	A+ A-	BBB+ BBB-	Not rated	Total
Financial Assets	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**
Held-to-maturity financial assets	1,567,968	-	-	-	-	-	1,567,968
Loans and receivables	565,121	-	1,204,259	773,854	204,635	-	2,747,869
Available-for-sale financial assets	973,680	-	-	-	-	-	973,680
Financial assets at fair value through profit or loss	51,290	-	-	-	-	-	51,290
Reinsurance receivable	-	9,811	24,332	2,040		441	36,623
Cash and cash equivalents	-	-	76,650	-	25,186	-	101,836
Total	**3,158,059**	**9,811**	**1,305,241**	**775,894**	**229,821**	**441**	**5,479,266**
31st December 2011	**Government Guaranteed**	**AAA**	**AA+ AA-**	**A+ A-**	**BBB+ BBB-**	**Not rated**	**Total**
Financial Assets	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**
Held-to-maturity financial assets	1,579,941	-	-	-	-	-	1,579,941
Loans and receivables	633,615	194,414	691,057	843,254	51,118	25,000	2,438,458
Available-for-sale financial assets	96,686	-	-	-	-	-	96,686
Financial assets at fair value through profit or loss	443,059	-	-	-	-	-	443,059
Reinsurance receivable	-	5,172	796	17,458	863	172	24,461
Cash and cash equivalents	-	-	75,899	6,678	-	-	82,577
Total	**2,753,301**	**199,586**	**767,752**	**867,390**	**51,981**	**25,172**	**4,665,182**

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk. During the year, no credit exposure limits were exceeded.

Credit exposure analysis

31st December 2012	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days	180< days
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Reinsurance receivable	7,833	7,937	17,202	3,344	307
Premium receivables	171,513	72,219	3,685	-	-
Total	**179,346**	**80,156**	**20,887**	**3,344**	**307**

31st December 2011	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days	180< days
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Reinsurance receivable	3,967	4,830	9,266	5,992	406
Premium receivables	155,285	72,809	3,291	-	-
Total	**159,252**	**77,639**	**12,557**	**5,992**	**406**

No financial assets of the Company has impaired during the year.

Collateral
Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending. Credit risk is also mitigated by entering into Master Repo Agreements with primary dealers whom the Company deals with, for lending under repurchase agreements. The management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

Some of the specific actions by the Company to mitigate Credit Risks are shown below.

- 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.
- Single party exposure limits are decided based on the credit ratings and regulatory requirements and are monitored closely at different levels.
- Master Repo Agreements are signed with all primary dealers the Company works with in order to ensure zero level of default risk in respect of Government Securities bought through such parties in the event of their bankruptcy.
- Maintaining a custodian arrangement for Government Securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd (a joint venture of HNB and DFCC Bank).

Some of the actions specific to Premiums Receivables in Non-Life Insurance are shown below.

- Premium Payment Warranty (PPW) is strictly implemented and all Non - Life Insurance policies with payments outstanding for more than 60 days are cancelled.
- Follow-up meetings on debt collection are conducted with the participation of finance, distribution and underwriting officials on a monthly basis.
- Information regarding policies cancelled due to non-payment of premiums is submitted to the industry database on a routine basis.
- New technology such as SMS is used to inform customers on premiums due to the Company.
- Claim settlements are processed only after reviewing the position of outstanding receivables.

40.5. Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. However, the Company has a right to request for a cash call option from the respective reinsurer on such incidents.

The table below summarises the maturity profile of the financial assets of the Company based on remaining contractual obligations, including interest payable and receivable.

For insurance contract liabilities and reinsurance assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance liabilities.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

Maturity Analysis of Assets 2012

	Carrying Amount	Up to a year	1-3 years	3-5 years	5-15 years	Over 15 Years	No Maturity Date
Financial assets	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**
Loans and receivables	2,747,869	1,746,438	678,051	308,185	15,195	-	-
Available-for-sale	973,680	360,946	288,443	191,465	132,826	-	
Fair value through profit & loss	414,350	51,290	-	-	-	-	363,060
Held to Maturity	1,567,967	641,862	483,058	288,306	154,741	-	-
Cash and cash equivalents	101,836	101,836	-	-	-	-	-
Total undiscounted assets	**5,805,702**	**2,902,372**	**1,449,552**	**787,956**	**302,762**	**-**	**363,060**

Some of the specific actions by the Company to mitigate Liquidity Risks are shown below.

- The maturity mix of the investment portfolio is reviewed and agreed upon by the management and the Investment Committee on a regular basis.
- All large cash outflows are planned in advance and necessary arrangements are made to ensure the availability of funds to meet such outflows.
- Life Insurance policies sold with a guaranteed return are fully backed by corresponding investments for a higher return and a similar tenure.

40.6. Market Risk

Market risk is the risk that the fair value / present value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market price risk.

(a) Currency risk

Currency risk is the risk that the fair value / present value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's principal transactions are carried out in Sri Lankan Rupees and its exposure to foreign exchange risk arises primarily with respect to the US Dollar and the EURO.

The Company's financial assets are primarily denominated in the same currencies as its insurance liabilities. This mitigates the foreign currency exchange rate risk for the operations. Thus, the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

Foreign Currency Assets

	31st December 2012		31st December 2011	
	Amount in Foreign Currency	LKR amount	Amount in Foreign Currency	LKR amount
	'000	Rs. '000	'000	Rs. '000
USD Assets	USD 1,085	136,289	USD 1,088	122,888
EURO Assets	EURO 127	21,023	EURO 121	17,637
Total foreign currency denominated assets		157,312		140,525

The Company sells foreign currency denominated policies to eligible clients in the normal course of business. However, no material claim liabilities are recorded on foreign currency denominated policies as at the reporting date.

The table below summarises the Company's exposure to currency risk, based on changes in market.

Sensitivity analysis – Currency Risk

Currency	Change in variables	31st December 2012		31st December 2011	
		Impact on profit before tax	Impact on equity (After tax)	Impact on profit before tax	Impact on equity (After tax)
	%	Rs. '000	Rs. '000	Rs. '000	Rs. '000
EURO	+10%	438	315	8	6
USD	+10%	1,939	1,396	771	555
		2,377	1,711	779	561
EURO	-10%	(438)	(315)	(8)	(6)
USD	-10%	(1,939)	(1,396)	(771)	(555)
		(2,377)	**(1,711)**	**(779)**	**(561)**

(b) **Interest rate risk**

Interest rate risk is the risk that the fair value / present value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The Company's Investment Policy sets guidelines to manage the interest rate risk. The Policy also requires the management of the maturities of interest bearing financial assets. Compliance with the Policy is monitored and the exposure and non-compliances 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 analysis that follows is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of floating rate financial assets) and equity (that reflects adjustments to profit before tax and revaluing fixed rate available–for–sale financial assets).

Sensitivity analysis Interest Rate Risk

31st December 2012

Change in Variables	Impact on profit before tax	Impact on equity
Notes	Rs.'000	Rs.'000
+100 basis points	1,003	(15,957)
-100 basis points	(1,003)	16,594

31st December 2011

Change in Variables	Impact on profit before tax	Impact on equity
Notes	Rs.'000	Rs.'000
+100 basis points	(228)	(2,271)
-100 basis points	243	2,367

(c) **Equity Price risk**

Equity price risk is the risk that the fair value / present value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally investments in equity securities.

The Company's Investment Policy requires it to manage equity price risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments.

The analysis below is performed for reasonably possible movements in the key variable, All Share Price Index (ASPI) with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in the variable, it had to be changed on an individual basis. It should be noted that movement in this variable is non–linear.

Sensitivity analysis - Equity Price Risk

Market indices	Change in variables	31st December 2012		31st December 2011	
		Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASPI	+10%	22,322	16,072	26,370	18,987
	-10%	(22,322)	(16,072)	(26,370)	(18,987)

(d) **Sensitivity analysis on financial assets**

As part of the Company's investment strategy, in order to reduce both insurance and financial risk, the Company matches its investments to the liabilities arising from insurance by reference to the type of benefits payable to contract holders to the maximum possible extent. However, due to the limited availability of long term investment opportunities in the country, insurance liabilities (particularly Life Insurance) are of a longer term than corresponding assets.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets whose fair values are recorded in the Income Statement) and equity (that reflects 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).

The correlation of variables will have a significant effect in determining the ultimate fair value and/or amortised cost of financial assets but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non–linear.

Summary of sensitivity analysis

Variables	Change in variables	31st December 2012		31st December 2011	
		Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Exchange rate	+10%	2,377	1,711	779	561
Interest yield curve	+100 basis points	1,003	(15,957)	(228)	(2,271)
Stock market	+10%	22,322	16,072	26,370	18,987
Total		25,702	1,826	26,921	17,277
Exchange rate	-10%	(2,377)	(1,711)	(779)	(561)
Interest yield curve	-100 basis points	(1,003)	16,594	243	2,367
Stock market	-10%	(22,322)	(16,072)	(26,370)	(18,987)
Total		(25,702)	(1,189)	(26,906)	(17,181)

Some of the specific actions by the Company to mitigate Market related risks are shown below.

- Investment decisions are based on fundamental principles.
- A target portfolio of equities has been developed based on their performance in the market and growth potential.
- Investments are classified into different categories as required by new Sri Lanka Accounting Standards (SLFRS/LKAS) following a systematic basis considering both intention and ability of the Company to hold such investments as per the classification.
- Investments are made only on selected companies which are identified after an in-depth research and evaluation process.
- The investment portfolio is reviewed by the Managing Director and Head of Finance 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.
- Market interest rates and other macro-economic indicators 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.

40.7. Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial losses. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks.

Controls to manage the Operational Risk includes effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

41. EVENTS OCCURRING AFTER THE REPORTING DATE

The Board of Directors has recommended the payment of a first and final dividend of Rs.2.75 per share for the year ended 31st December 2012 (2011 - Rs. 2.10/- per share) which is to be approved at the Annual General Meeting to be held on 27th March 2013. More information with respect to a dividend declaration is given on Note 35.

Except for the above mentioned event there have been no material events occurring after the Reporting date that require adjustments to or disclosure in the Financial Statements.

42. COMMITMENTS

42.1 As at the year end, no capital expenditure approved by the Board and contracted for which no provision has been made in the Financial Statements. (2011: Nil)

42.2 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

As at 31st December	2012 Rs.'000	2011 Rs.'000
b). Future commitments on operating leases		
Less than one year	**18,255**	24,766
Between one and five years	**36,522**	24,937
More than five years	**1,136**	617
Total Operating Lease Commitments	**55,913**	50,320

The Company leases a number of offices under operating leases. The leases typically run for a period of five to seven years, with an option to renew the lease after that date. Lease payments are increased to reflect market rentals at regular intervals.

During the year ended 31st December 2012 an amount of Rs. 3.3 Million was recognised as an expense in respect of operating leases (2011: Rs. 3.3Mn). There were no contingent rent recognised as an expense during the year.

43. CONTINGENCIES

In the opinion of the Directors, and in consultation with the Company Lawyers, litigation currently pending against the Company would not have a material impact on the reported financial results of the Company.
All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

44. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer to page 208 of the Statement of Directors' Responsibility for Financial Reporting.

Statement of Financial Position of the Life Insurance - Supplemental

As at 31st December,	Note	Page No.	2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
Assets					
Intangible Assets	A		-	22,203	20,773
Property, Plant and Equipment	B		-	4,276	4,573
Financial Investments	C		**3,527,422**	2,935,487	2,415,853
Loans to Life Policyholders	D		**29,888**	20,097	15,000
Reinsurance Receivables	E		**40,716**	27,848	18,617
Premium Receivables	9		**9,573**	-	-
Other Assets	F		**137,795**	129,223	102,556
Cash and Cash Equivalents	G		**129,916**	62,468	13,005
Total Assets			**3,875,310**	3,201,602	2,590,377
Equity and Liabilities					
Equity					
Life Policyholder Reserve Fund	14.2		**(1,191)**	(22,526)	31,050
			(1,191)	(22,526)	31,050
Liabilities					
Insurance Contract Liabilities - Life	15		**3,626,239**	3,021,331	2,415,214
Employee Benefits	H		**4,943**	4,565	3,406
Reinsurance Creditors	I		**29,928**	28,106	25,341
Other Liabilities	J		**215,391**	170,126	115,366
Total Liabilities			**3,876,501**	3,224,128	2,559,327
Total Equity and Liabilities			**3,875,310**	3,201,602	2,590,377

The Notes to the Financial Statements as set out on pages 224 to 308 form an integral part of these Financial Statements.

Notes to the Financial Statements
Life Insurance - Supplemental

For the Year Ended 31st December,		Note	**2012 Total Rs.'000**	2011 Total Rs.'000	1st Jan 2011 Total Rs.'000
A.	**INTANGIBLE ASSETS**				
	Computer Software				
	Cost				
	Balance as at 01st January		**32,683**	26,785	17,083
	Acquisition/Capitalised during the year		**-**	5,898	9,702
	Impairment during the year		**-**	-	-
	Inter Segment Transfer During the Year	(A.1)	**(32,683)**	-	-
	Balance as at 31st December		**-**	32,683	26,785
	Amortisation				
	Balance as at 01st January		**10,480**	6,012	2,560
	Charge for the year		**1,789**	4,468	3,452
	Impairment during the year		**-**	-	-
	Inter Segment Transfer During the Year	(A.1)	**(12,269)**	-	-
	Balance as at 31st December		**-**	10,480	6,012
	Carrying amount as at 31st December		**-**	22,203	20,773

A.1 Inter Segment Transfer During the Year

During the year, the Company transferred intangible assets with an aggregate carrying value of Rs. 20.4 Million from Life Insurance Segment to Non -Life Insurance Segment.

		Computer Hardware Rs.'000	Motor Vehicles Rs.'000	Office Equipment Rs.'000	Furniture and Fittings Rs.'000	Fixtures Rs.'000	Total Rs.'000
B. PROPERTY, PLANT AND EQUIPMENT (PPE)							
Cost							
Balance as at 01st January 2011		5,737	4,958	1,023	2,223	-	13,941
Additions during the year		1,819	-	25	137	-	1,981
Disposals during the year		-	-	-	(164)	-	(164)
Sub category transfers during the year		-	-	-	(781)	781	-
Balance as at 31st December 2011		7,556	4,958	1,048	1,415	781	15,758
Balance as at 01st January 2012		7,556	4,958	1,048	1,415	781	15,758
Additions during the year		-	459	-	-	28	487
Disposals during the year		-	-	-	-	-	-
Inter Segment Transfer During the Year	(B.1)	(8,015)	(4,958)	(1,048)	(1,443)	(781)	(16,245)
Balance as at 31st December 2012		-	-	-	-	-	-
Depreciation and Impairment Losses							
Balance as at 01st January 2011		-	4,460	3,225	586	1,097	9,368
Depreciation for the year		585	1,239	202	215	-	2,241
Depreciation on disposals		-	-	-	(127)	-	(127)
Sub category transfers during the year		-	-	-	(410)	410	-
Balance as at 31st December 2011		5,045	4,464	788	775	410	11,482
Balance as at 01st January 2012		5,045	4,464	788	775	410	11,482
Additions during the year		237	340	65	45	25	712
Disposals during the year		-	-	-	-	-	-
Inter Segment Transfer During the Year	(B.1)	(5,282)	(4,804)	(853)	(820)	(435)	(12,194)
Balance as at 31st December 2012		-	-	-	-	-	-
Carrying Value as at 31st December 2012		-	-	-	-	-	-
Carrying Value as at 31st December 2011		2,511	494	260	640	371	4,276
Carrying Value as at 1st January 2011		1,277	1,733	437	1,126	-	4,573

B.1 Inter Segment Transfer During the Year

During the year, the Company transferred Property, Plant and Equipment with an aggregate carrying value of Rs. 4.05 Million from Life Insurance Segment to Non Life Insurance Segment.

As at 31st December,	Note	**2012 Rs.'000**	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
C. FINANCIAL INVESTMENTS				
Held to Maturity (HTM)	(Note C.1)	**1,223,283**	1,180,928	1,180,888
Loans and Receivable (L & R)	(Note C.2)	**1,488,929**	1,198,788	783,564
Available for Sale (AFS)	(Note C.3)	**600,824**	96,686	132,063
Fair Value Through Profit or Loss (FVTPL)	(Note C.4)	**214,386**	459,085	319,338
Total Financial Investments		**3,527,422**	2,935,487	2,415,853

C. Financial Investments (Contd.)

The table below shows the carrying values of these Financial Instruments together with their fair values

As at 31st December,	2012 Carrying value Rs.'000	2012 Fair value Rs.'000	2011 Carrying value Restated Rs.'000	2011 Fair value Rs.'000	1st Jan 2011 Carrying value Restated Rs.'000	1st Jan 2011 Fair value Rs.'000
Held to Maturity (HTM)	**1,223,283**	**1,211,530**	1,180,928	1,225,494	1,180,888	1,305,116
Loans and Receivable (L & R)	**1,488,929**	**1,481,727**	1,198,788	1,210,764	783,564	826,783
Available for Sale (AFS)	**600,824**	**600,824**	96,686	96,686	132,063	132,063
Fair Value Through Profit or Loss (FVTPL)	**214,386**	**214,386**	459,085	459,085	319,338	319,338
Total Financial Investments	**3,527,422**	**3,508,467**	2,935,487	2,992,029	2,415,853	2,583,300

	As at 31st December,		2012 Carrying value Rs.'000	2012 Fair value Rs.'000	2011 Carrying value Rs.'000	2011 Fair value Rs.'000	1st Jan 2011 Carrying value Rs.'000	1st Jan 2011 Fair value Rs.'000
C.1	**Held to Maturity (HTM)**							
	- Treasury Bonds		**1,208,325**	**1,196,575**	1,143,149	1,187,753	631,095	754,158
	- Treasury Bills		**14,958**	**14,956**	37,779	37,740	549,793	550,958
			1,223,283	**1,211,531**	1,180,928	1,225,493	1,180,888	1,305,116
C.2	**Loans and Receivable (L & R)**							
	-Treasury Bills - Repo		**118,892**	**118,892**	-	-	77,716	77,716
	-Treasury Bills - Overnight Repo		**62,716**	**62,716**	139,014	139,014	98,912	98,912
	-Term Deposit	(Note C.5)	**702,842**	**713,627**	702,222	733,650	396,283	452,256
	-Corporate Debt	(Note C.6)	**604,479**	**586,492**	357,552	338,099	210,653	197,899
			1,488,929	**1,481,727**	1,198,788	1,210,763	783,564	826,783
C.3	**Available for Sale (AFS)**							
	- Treasury Bonds		**523,974**	**523,974**	96,686	96,686	132,063	132,063
	- Treasury Bills		**76,850**	**76,850**	-	-	-	-
			600,824	**600,824**	96,686	96,686	132,063	132,063
C.4	**Fair Value Through Profit or Loss (FVTPL)**							
	- Treasury Bonds		-	-	61,650	61,650	101,465	101,465
	- Treasury Bills		-	-	178,344	178,344	34,072	34,072
	- Unit Trusts	(Note C.7)	**67,086**	**67,086**	44,003	44,003	30,029	30,029
	- Equity Shares	(Note C.8)	**147,300**	**147,300**	175,088	175,088	153,772	153,772
			214,386	**214,386**	459,085	459,085	319,338	319,338

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.

C. Financial Investments (Contd.)

As at 31st December,		2012 Rs.'000	2011 Restated Rs.'000
C.5. Term Deposits			
Long term and medium term deposits with,			
Licensed Commercial Banks	(Note C.5.1.)	**454,505**	620,758
Licensed Specialised Banks		**107,666**	8,748
Registered Finance Companies		**140,671**	72,716
		702,842	702,222
C.5.1. Licensed Commercial Banks			
Term Deposits with Related Parties - Hatton National Bank PLC		**52,605**	129,905
Others Banks		**401,900**	490,853
		454,505	620,758

C. Financial Investments (Contd.)

As at 31st December,		2012 Carrying Value Rs.'000	2012 Fair Value Rs.'000	2011 (Restated) Carrying Value Rs.'000	2011 (Restated) Fair Value Rs.'000
C.6. Corporate Debt					
Debentures - Quoted	(Note C.6.1)	341,134	322,356	245,952	227,286
Debentures - Unquoted	(Note C.6.2)	168,605	168,159	96,634	95,888
Commercial Papers	(Note C.6.3)	94,740	95,977	14,966	14,925
		604,479	586,492	357,552	338,099

As at 31st December,	Redeemable Date	2012 No. of Debentures	2012 Carrying Value Rs.'000	2012 Fair Value Rs.'000	2012 Coupon Rate (Per Annum)	2011 (Restated) No. of Debentures	2011 (Restated) Carrying Value Rs.'000	2011 (Restated) Fair Value Rs.'000	2011 (Restated) Coupon Rate (Per Annum)
C.6.1. Debentures - Quoted									
DFCC Bank	26/09/2016	5,000	5,698	5,000	14.00%	5,000	5,694	5,000	14.00%
Hatton National Bank PLC	31/03/2021	75,000	15,195	7,500	11.00%	75,000	13,685	7,500	11.00%
Lanka Orix Leasing Company PLC	05/08/2016	250,000	26,492	25,000	11.90%	250,000	26,206	25,000	11.90%
Merchant Bank of Sri Lanka PLC	15/11/2015	225,000	23,838	22,500	11.80%	225,000	22,827	22,500	11.80%
Sampath Bank PLC	12/10/2017	177,600	18,402	17,760	16.50%	-	-		
Singer Sri Lanka PLC	30/09/2015	188,856	18,886	18,886	17.00%				
Bank of Ceylon	24/11/2013	150,000	15,170	15,000	Weighted Average 6 Month Gross T Bill rate + 0.75% p.a.	150,000	15,156	15,000	Weighted Average 6 Month Gross T Bill rate + 0.75% p.a.
Bank of Ceylon	28/06/2015	200,000	21,178	19,000	11.50%	200,000	21,172	19,000	11.50%
Bank of Ceylon	08/12/2016	100,000	10,072	10,000	11.00%	100,000	10,069	10,000	11.00%
Bank of Ceylon	30/11/2017	850,000	86,155	85,000	16.00%				
Nations Trust Bank PLC	30/04/2013	10,000	11,038	10,000	20.53%	10,000	11,035	10,000	20.53%
Urban Development Authority	05/10/2015	867,100	89,010	86,710	11.00%	867,100	88,983	86,710	11.00%
Seylan Bank PLC		-	-	-		50,000	5,491	5,000	16.75%
Sampath Bank PLC		-	-	-		130,000	13,278	9,576	3 Month Gross T Bill rate + 1.50% p.a.
Singer Sri Lanka PLC		-	-			120,000	12,356	12,000	I Year Gross T Bill rate + 1.65% p.a.
Total Investment in Quoted Debentures			341,134	322,356			245,952	227,286	
C.6.2. Debentures - Unquoted									
People's Leasing & Finance PLC	30/06/2015	250,000	25,000	25,000	11.70%	250,000	26,467	25,000	11.70%
Abans (Pvt) Ltd	06/06/2014	25,000	25,076	24,497	12.00%	25,000	25,076	25,108	12.00%
Abans (Pvt) Ltd	01/03/2016	25,000	25,841	24,591	13.50%	-	-	-	
National Development Bank PLC	30/06/2016	20,000	20,617	20,617	03 Month Gross T. Bill Rate + 1% p.a.	20,000	20,006	20,005	03 Month Gross T. Bill Rate + 1% p.a.
Singer (Sri Lanka) PLC	09/05/2015	250,000	25,637	26,141	15.50%	-	-	-	
Sampath Leasing and Factoring Limited	31/12/2015	25,000	25,002	25,000	12.25%	-	-	-	
Sampath Leasing and Factoring Limited	31/07/2015	200,000	21,432	22,313	16.65%	-	-	-	
Senkadagala Finance Co. Ltd		-	-	-		25,000	25,085	25,775	15.50%
Total Investment in Unquoted Debentures			168,605	168,159			96,634	95,888	
C.6.3. Commercial Papers									
Central Finance Company PLC			-	-			14,966	14,925	11.25%
People's Leasing & Finance PLC			16,596	16,694	16.50%		-	-	
People's Leasing & Finance PLC			30,424	31,106	17.25%				
Merchant Bank of Sri Lanka PLC			15,156	15,394	17.50%				
Merchant Bank of Sri Lanka PLC			32,564	32,783	16.25%				
Total Investment in Commercial Papers			94,740	95,977			14,966	14,925	
Total Investments in Corporate Debt			604,479	586,492			357,552	338,099	

C. Financial Investments (Contd.)

As at 31st December,	2012 No. of Units	2012 Fair Value Rs.'000	2011 (Restated) No. of Units	2011 (Restated) Fair Value Rs.'000
C.7. Unit Trusts				
Quoted				
NAMAL Acuity Value Fund	80,000	5,280	80,000	5,384
Total Investment in Quoted Unit Trusts				

As at 31st December,	2012 No. of Units	2012 Managers' Buying Value Rs.'000	2011 No. of Units	2011 Managers' Buying Value Rs.'000
Unquoted				
NAMAL High Yield Fund	995,025	11,204	-	-
Cey Bank Savings Plus Money Market	1,800,000	19,602	1,800,000	18,792
Guardian Acuity Fixed Income Fund	999,001	11,009	-	-
Ceylon Financial Sector Fund	408,998	2,666	408,998	2,761
Ceylon Income Fund	531,108	6,814	531,108	7,074
Namal IPO Fund	600,000	6,162	600,000	5,820
First Capital Wealth Fund	3,851	4,349	3,851	4,172
Total Investment in Unquoted Unit Trusts		61,806		38,619
Total Investments in Unit Trusts		67,086		44,003

C. **Financial Investments (Contd.)**

As at 31st December,	2012 No. of Shares	2012 Fair Value Rs.'000	2011 (Restated) No. of Shares	2011 (Restated) Fair Value Rs.'000
C.8. Equity Shares				
Banks, Finance and Insurance				
National Development Bank PLC	53,200	7,336	53,200	7,347
Commercial Bank of Ceylon PLC	98,219	10,117	96,506	9,651
Sampath Bank PLC	53,090	10,645	51,886	10,118
Nations Trust Bank PLC	190,000	10,640	190,000	10,830
DFCC Bank	38,000	4,290	38,000	4,290
Peoples Leasing & Finance PLC	746,000	9,847	746,000	11,936
Seylan Bank PLC - (Non Voting)	233,333	8,190	233,333	7,187
Sector Total		61,065		61,359
Diversified Holdings				
John Keells Holdings PLC	67,326	14,805	84,326	14,352
Richard Pieris and Company PLC	980,000	7,643	980,000	8,820
Hemas Holdings PLC	221,000	5,967	221,000	7,293
Expolanka Holdings PLC	-	-	128,100	1,153
Softlogic Holdings PLC	-	-	105,000	1,890
Browns Investments PLC	-	-	82,800	348
Sector Total		28,415		33,856
Telecommunications				
Dialog Axiata PLC	80,000	664	80,000	624
Sector Total		664		624
Manufacturing				
Royal Ceramic Lanka PLC	118,000	11,681	118,000	16,697
Dipped Products PLC	11,000	1,210	11,000	1,172
Chevron Lubricants Lanka PLC	16,000	3,232	16,000	2,720
ACL Cables PLC	30,000	2,022	30,000	2,220
ACL Plastics PLC	-	-	3,600	450
Tokyo Cement Company (Lanka) PLC	285,725	8,172	285,725	12,572
Kelani Cables PLC	27,000	1,893	27,000	2,166
Textured Jersey Lanka PLC	244,300	2,174	244,300	2,492
Sector Total		30,384		40,489

C. Financial Investments (Contd.)

As at 31st December,	2012 No. of Shares	2012 Fair Value Rs.'000	2011 (Restated) No. of Shares	2011 (Restated) Fair Value Rs.'000
C.8. Equity Shares (Contd.)				
Hotels and Travels				
Dolphin Hotels PLC	117,600	4,292	117,600	5,057
Aitken Spence Hotels Holdings PLC	-	-	75	5
Palm Garden Hotels PLC	15,300	2,142	30,600	3,213
The Lighthouse Hotel PLC	11,400	605	11,400	610
John Keells Hotels PLC	77,700	1,073	77,700	1,049
Asian Hotel & Properties PLC	-	-	-	-
Sector Total		8,112		9,934
Chemicals and Pharmaceuticals				
CIC Holdings PLC	75,000	4,823	75,000	8,363
Haycarb PLC	13,000	2,225	13,000	2,015
Sector Total		7,048		10,378
Power and Energy				
Laugfs Gas PLC	105,000	2,688	105,000	3,990
Sector Total		2,688		3,990
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	40,000	6,640	40,000	5,884
Sector Total		6,640		5,884
Information Technology				
PC House PLC	82,820	447	110,200	1,532
Sector Total		447		1,532
Investment Trusts				
Renuka Holdings PLC	50,877	1,837	50,877	2,742
Sector Total		1,837		2,742
Health Care				
Asiri Hospital Holdings PLC	-	-	500,000	4,300
Sector Total		-		4,300
Carrying Value of total Investment in Quoted Shares		147,300		175,088

As at 31st December,			2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
D.	**LOANS TO LIFE POLICYHOLDERS**				
	Balance as at 1st January		**17,530**	13,263	9,309
	Loans Granted during the Year		**15,926**	10,595	8,583
	Repayments during the year		**(7,298)**	(6,328)	(4,629)
	Balance as at 31st December		**26,158**	17,530	13,263
	Interest Receivable		**3,730**	2,567	1,737
	Total		**29,888**	20,097	15,000
E.	**REINSURANCE RECEIVABLES**				
	Reinsurance Receivable on Settled Claims	E.1	**8,456**	11,679	4,067
	Reinsurance Receivable on Outstanding Claims	E.2	**32,260**	16,169	14,550
			40,716	27,848	18,617

E.1 The age analysis of the reinsurance receivable on settled claims is as follows:

	2012	2011	1st Jan 2011
Up to 30 days	**5,525**	1,451	1,826
31 to 60 days	**2,157**	932	761
61 to 90 days	**774**	7,467	1,480
91 to 180 days	**-**	1,829	-
	8,456	11,679	4,067

E.2 The reinsurance portion of the receivable has not been materialised, since the insurance claim has not been paid yet.

E.3 **Impairment Losses on Reinsurance Receivables**

The Board of Directors has assessed potential impairment loss of Reinsurance Receivables as at 31st December 2012. 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. 40.3.3 for Reinsurance rating analysis.

			2012	2011	1st Jan 2011
F.	**OTHER ASSETS**				
	Advance Payments		**11,787**	9,188	9,068
	Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note F.1)	**125,722**	119,424	93,289
	Amounts due from Related Parties		**-**	-	-
	Inventories		**-**	-	-
	Other receivables		**286**	611	199
			137,795	129,223	102,556

F.1 **Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)**

		2012	2011	1st Jan 2011
Withholding Tax Recoverable (WHT)		**26,369**	11,242	7,111
Notional Tax on Government Securities	(Note F.2)	**99,353**	108,182	86,178
		125,722	119,424	93,289

F.2 During the year 2012 the Company has transferred Notional Tax on Government Securities which has a value of Rs. 34.4 Million to Life Shareholder Fund under Non - Life Insurance Segment.

F.3 As at the year end total carried forward loss from life business is Rs. 1,646 Million (2011: Rs. 1,242.2 Million). As per the amendment made to Section 32 of the Inland Revenue Act, any losses incurred in the business of Life Insurance on or after 1st April 2007 shall be deducted only to the extent of the statutory income generated in the business of Life Insurance.

Notes to the Financial Statements
Life Insurance - Supplemental

As at 31st December,		2012 Rs.'000	2011 *Restated* Rs.'000	1st Jan 2011 *Restated* Rs.'000
G. CASH AND CASH EQUIVALENTS				
Cash in Hand		**65**	55	55
Cash at Bank with Licensed Commercial Banks		**2,909**	520	336
Cash at Bank with Related Parties - Hatton National Bank PLC		**44,820**	36,619	12,614
		47,794	37,194	13,005
Short Term Deposits	(Note G.1)	**82,122**	25,274	-
		129,916	62,468	13,005
G.1 Short Term Deposits				
With Licensed Commercial Banks		**76,409**	25,274	-
With Related Parties - Hatton National Bank PLC		**5,713**	-	-
		82,122	25,274	-
H. EMPLOYEE BENEFITS				
Defined benefit plans - Provision for Employee Benefits				
Balance as at 1st January		**4,565**	3,406	2,597
Expense recognised in the year		**1,509**	1,683	1,070
		6,074	5,089	3,667
Payments during the year		**(1,131)**	(524)	(261)
Balance as at 31st December		**4,943**	4,565	3,406

As at 31st December 2012, 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.

Principal assumptions used	2012	2011	2011
(a) Discount Rate	**12.00%**	9.50%	9.50%
(b) Future Salary Increase Rate	**11.00%**	9.00%	9.00%
(c) Early withdrawal through Resignations			
i) Less than 5 years	**18.00%**	12.00%	12.00%
ii) More than 5 years	**7.50%**	5.00%	5.00%
(d) Retirement Age	**55 years**	55 years	55 years

The Gratuity Liability is not externally funded.

	2012	2011	1st Jan 2011
I. REINSURANCE CREDITORS			
Foreign Reinsurer	**29,928**	28,106	25,341
J. OTHER LIABILITIES			
Policyholders Advance Payments	**69,263**	56,881	37,494
Acquisition Cost Payable	**32,869**	29,719	25,333
Agent Terminal Benefit Scheme	**75,021**	50,224	33,093
Government Levies	**785**	721	624
Accrued Expenses	**19,879**	19,081	8,250
Others	**17,574**	13,500	10,572
	215,391	170,126	115,366

Quarterly Analysis
2012 and 2011

Quarterly Analysis 2012
Company Statement of Income

	1st Quarter Jan-Mar 12 Rs. '000	2nd Quarter Apr-Jun 12 Rs. '000	3rd Quarter Jul-Sep 12 Rs. '000	4th Quarter Oct-Dec 12 Rs. '000	Total Rs. '000
Revenue	790,685	820,846	905,210	917,093	3,433,834
Gross Written Premium	828,803	752,760	793,499	836,170	3,211,232
Premiums Ceded to Reinsurers	(121,671)	(156,332)	(132,672)	(109,034)	(519,709)
Net Written Premium	707,132	596,428	660,827	727,136	2,691,523
Net Change in Reserves for Unearned Premium	(67,685)	59,783	6,089	7,314	5,501
Net Earned Premium	639,447	656,211	666,916	734,450	2,697,024
Benefit, Losses and Expenses					
Insurance Claims and Benefits (Net)	(265,269)	(241,243)	(320,123)	(327,886)	(1,154,521)
Change in Contract Liabilities Life Fund	(150,838)	(202,070)	(203,731)	730	(555,909)
Underwriting and Net Acquisition Costs	(104,397)	(75,146)	(81,708)	(86,857)	(348,108)
Other Insurance Related Costs	(4,205)	(3,418)	(4,569)	(2,666)	(14,858)
Total Benefits, Claims and Expenses	(524,709)	(521,877)	(610,131)	(416,679)	(2,073,396)
Net Earned Premium Less Benefits, Claims and Expenses	114,738	134,334	56,785	317,771	623,628
Other Revenue					
Income from Investments and Other Income	151,238	164,635	238,294	182,643	736,810
Expenses					
Other Operating,Investment Related and Administration Expenses	(227,572)	(227,860)	(230,746)	(280,394)	(966,572)
Profit Before Taxation	38,404	71,109	64,333	220,020	393,866
Income Tax Expense	(8,268)	(16,217)	(9,477)	(8,764)	(42,726)
Profit for the Period	30,136	54,892	54,856	211,256	351,140

Quarterly Analysis 2011
Company Statement of Income - Restated

	1st Quarter Jan-Mar 12 Rs. '000	2nd Quarter Apr-Jun 12 Rs. '000	3rd Quarter Jul-Sep 12 Rs. '000	4th Quarter Oct-Dec 12 Rs. '000	Total Rs. '000
Revenue	635,104	666,531	727,238	787,702	2,816,575
Gross Written Premium	684,016	714,519	773,746	812,429	2,984,710
Premiums Ceded to Reinsurers	(99,796)	(138,885)	(130,489)	(123,651)	(492,821)
Net Written Premium	584,220	575,634	643,257	688,778	2,491,889
Net Change in Reserves for Unearned Premium	(64,281)	(26,346)	(38,316)	(13,327)	(142,270)
Net Earned Premium	519,939	549,288	604,941	675,451	2,349,619
Benefit, Losses and Expenses					
Insurance Claims and Benefits (Net)	(198,777)	(208,297)	(254,585)	(203,471)	(865,130)
Change in Contract Liabilities Life Fund	(143,824)	(184,898)	(199,547)	(30,056)	(558,325)
Underwriting and Net Acquisition Costs	(78,099)	(63,283)	(65,203)	(81,474)	(288,059)
Other Insurance Related Costs	(3,513)	(3,958)	(4,303)	(5,738)	(17,512)
Total Benefits, Claims and Expenses	(424,213)	(460,436)	(523,638)	(320,739)	(1,729,026)
Net Earned Premium Less Benefits, Claims and Expenses	95,726	88,852	81,303	354,712	620,593
Other Revenue					
Income from Investments and Other Income	115,165	117,243	122,297	112,251	466,956
Expenses					
Other Operating,Investment Related and Administration Expenses	(199,664)	(185,703)	(187,573)	(242,769)	(815,709)
Profit Before Taxation	11,227	20,392	16,027	224,194	271,840
Income Tax Expense	(4,586)	(6,588)	(4,400)	(10,198)	(25,772)
Profit for the period	6,641	13,804	11,627	213,996	246,068

Insurance Revenue Accounts

For the Year Ended 31st December,	2012 Rs.'000	2011 *Restated* Rs.'000
Non Life Insurance		
Gross Written Premium	1,711,204	1,694,343
Premium Ceded to Reinsurers	(391,633)	(390,125)
Net Written Premium	1,319,571	1,304,218
Net Change in Reserves for Unearned Premium	5,501	(142,270)
Net Earned Premium	1,325,072	1,161,948
Net Claims Incurred	(892,750)	(802,370)
Net Commission	(156,417)	(147,597)
(Increase) / Decrease in Deferred Acquisition Expenses	(91)	7,667
Expenses	(355,353)	(289,198)
Fee and Commission Income	56,638	30,867
Underwriting Surplus / (Deficit)	(22,901)	(38,683)
Investment Income	231,033	155,779
Net Realised Gains	7,271	(3,042)
Net Fair Value Gain/(Loss)	9,864	(16,921)
Other Income	3,374	2,707
Operating Profit from Non - Life Insurance Business	228,641	99,840
Life Insurance		
Gross Written Premium	1,500,028	1,290,367
Premium Ceded to Reinsurers	(128,076)	(102,696)
Net Written Premium	1,371,952	1,187,671
Net Benefits Expense	(261,771)	(62,760)
Net Commission	(301,597)	(254,160)
Expenses Attributable to Policyholders	(516,080)	(437,992)
Fee and Commission Income	15,036	25,062
Underwriting Surplus / (Deficit)	307,540	457,821
Change in Contract Liabilities Life Fund	(555,909)	(558,325)
Investment Income	423,551	322,727
Net Realised Gains	-	4,199
Net Fair Value Gain/(Loss)	(9,957)	(54,408)
Other Income	-	(14)
Surplus from Life Insurance Business	165,225	172,000
Reconciliation of Statement of Income and Insurance Revenue Accounts		
Operating Profit from Non - Life Insurance Business	228,641	99,840
Surplus from Life Insurance Business	165,225	172,000
Profit Before Income Tax	393,866	271,840
Income Tax Expenses	(42,726)	(25,772)
Profit for the Year	351,140	246,068

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 2011 were submitted to the CSE on 28th February 2012. The Interim Financial Statements of the 4th Quarter, for the year/quarter ended 31st December 2012, will be submitted to the CSE on 7th February 2013. The audited Financial Statements for the year ended 31st December 2012 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 200.

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

The principal activities of the Company during the year are given in the Annual Report of the Board of Directors and Note 1.2 in Accounting Policies on pages 198 and 224 respectively.

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

The 20 largest shareholders as at 31st December 2012 together with their Shareholding as at 31st December 2011 are given below.

Name of the Shareholder	2012		2011	
	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
Mercantile Merchant Bank Ltd.	4,221,666	8.44	3,065,596	6.13
The Ceylon Guardian Investment Trust PLC A/C No.2	2,000,000	4.00	2,000,000	4.00
Bank of Ceylon A/C Ceybank Century Growth Fund	650,356	1.30	444,066	0.89
Mr. M. F. Hashim	525,386	1.05	521,186	1.04
Employees Trust Fund Board	375,494	0.75	375,494	0.75
Union Assurance PLC A/C No.1	336,266	0.67	336,266	0.67
Phoenix Ventures Limited	325,289	0.65	133,332	0.27
Pershing LLC S/A Averbach Grauson & Co	300,000	0.60	-	-
Corporate Holdings (Pvt.) Ltd	242,700	0.49	242,700	0.49
Deutsche Bank AG – Comtrust Equity Fund	195,500	0.39	200,000	0.40
Malship Ceylon Ltd.	186,345	0.37	186,345	0.37
Mr. K. N. J. Balendra	184,732	0.37	189,732	0.38
Mr. M. H. V. U. Gunatilaka	180,629	0.36	180,360	0.36
National Development Bank PLC/ R.Senathirajah	156,400	0.31	156,400	0.31
Mr. S. Abishek	137,666	0.28	-	-
Mrs. N. I. Hashim	136,820	0.27	136,820	0.27
Mr. B. Selvanayagam & Mrs. L. Selvanayagam	120,000	0.24	120,000	0.24
Mr. K. Laveendrakumar	111,632	0.22	-	-
Mr. R. Gautam	106,727	0.21	-	-
	40,486,608	80.96		

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Share Information

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

The details of the public shareholding are given as follows.

	2012		2011	
	No. of Shares	**% on Total No. of Shares**	No. of Shares	% on Total No. of Shares
Number of Shares	**19,931,338**	**39.86**	19,883,757	39.77

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 2012**	No. of Shares as at 31st December 2011
Dr. Ranee Jayamaha - Chairperson (Appointed w.e.f. 29th June 2012)*	Nil	N/A
Manjula de Silva - Managing Director / Chief Executive Officer	**38,332**	38,332
R Theagarajah	**8,332**	8,332
M U de Silva	**3,000**	3,000
J E P A de Silva	**1,332**	1,332
Sarath Ratwatte	**14,666**	14,666
A Jonathan Alles (Appointed w.e.f. 03rd December 2012)	**Nil**	N/A
J A P M Jayasekera (Appointed w.e.f. 03rd December 2012)	Nil	N/A
K Balasundaram (Appointed w.e.f. 03rd December 2012)	**10,000**	N/A
J M J Perera (Resigned w.e.f. 27th April 2012.)	**N/A**	7,000
J D N Kekulawala (Resigned w.e.f. 08th October 2012)	**N/A**	49,998
D M de S Wijeyeratne (Resigned w.e.f. 14th November 2012)	**N/A**	583

* *Dr. Ranee Jayamaha has purchased 100 shares of the Company on 7th January 2013.*

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

Information pertaining to material foreseeable risk factors is given on the Risk Management Report from pages 186 to 195.

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

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

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

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

11. Stated Capital (Rule 7.6 (IX))

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

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

12. Shareholdings

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

There were 3,811 registered shareholders as at 31st December 2012 (2011 - 3,966). The distribution and composition of shareholders as per the above rule are given as follows,

Shares			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	2,226	726,925	1.45	8	3,432	0.01	2,234	730,357	1.46
1,001	–	10,000	1,384	4,772,894	9.55	16	57,185	0.12	1,400	4,830,079	9.67
10,001	–	100,000	150	3,616,257	7.23	5	127,267	0.25	155	3,743,524	7.48
100,001	–	1,000,000	17	4,074,647	8.15	2	406,727	0.81	19	4,481,374	8.96
Over	–	1,000,000	3	36,214,666	72.43	0	0	0.00	3	36,214,666	72.43
Total			**3,780**	**49,405,389**	**98.81**	**31**	**594,611**	**1.19**	**3,811**	**50,000,000**	**100.00**

b) Analysis of Shareholders

i. Resident/Non-Resident

	31st December 2012			31st December 2011		
	No. of Shareholders	**No. of Shares**	**%**	No. of Shareholders	No. of Shares	%
Resident	**3,780**	**49,405,389**	**98.81**	3,925	49,644,509	99.29
Non-Resident	**31**	**594,611**	**1.19**	41	355,491	0.71
Total	**3,811**	**50,000,000**	**100**	3,966	50,000,000	100

ii. Individual /Institutional

	31st December 2012			31st December 2011		
	No. of Shareholders	**No. of Shares**	**%**	No. of Shareholders	No. of Shares	%
Individual	**3,716**	**10,261,624**	**20.52**	3,872	10,460,469	20.92
Institutional	**95**	**39,738,376**	**79.48**	94	39,539,531	79.08
Total	**3,811**	**50,000,000**	**100**	3,966	50,000,000	100

Share Information

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

The details relating to the share performance are given below.

	2012	2011	2010	2009	2008
Number of Transactions	**1,465**	2,831	4,812	7,084	3,641
Number of Shares Traded	**1,347,828**	2,903,300	13,201,900	10,535,000	3,566,900
Value of Shares Traded (Rs.)	**61,959,216**	215,698,120	784,213,895	391,270,975	85,513,100
CSE Turnover (Rs.Bn.)	**213.83**	546.26	570.30	142.50	110.50
Market Capitalisation (Rs. Mn.)					
HNB Assurance PLC	**2,450**	2,845	2,925	1,856	694
CSE	**2,167,581**	2,213,873	2,210,452	1,092,138	488,813
Dividend per share (Rs.)	**2.75**	2.10	1.80	1.50	1.25
Dividend payment (Rs. Mn.)	**137.5**	105.0	67.5	56.3	46.9
Dividend payout (%)	**39.17**	40.86	27.92	27.93	28.52
Basic Earnings per share (Rs.)	**7.02**	5.14*	5.38	4.49	3.66
Net Asset Value per share (Rs.)	**37.34**	31.87*	28.86*	22.16	18.03
Market Price per share(Rs.)					
Highest	**56.90**	90.00	90.00	57.00	27.00
Lowest	**36.30**	42.50	45.00	17.25	17.00
Year end (VWA)	**49.00**	56.90	78.00	49.50	18.25
P/E Ratio (Times)	**6.98**	11.07*	12.33	10.01	5.87

** Restated*

14. **Valuation of property Plant and Equipment (Rule number 7.6 (XII))**

The Company uses the cost method as the accounting policy for maintaining records of Property, Plant and Equipment and the market value of such assets is considered not materially different to the book value. Details relating to the changes in the Company's fixed assets are given on Note 5 to the Financial Statements in page 241.

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

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

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

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

17. **Disclosures pertaining to 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 173 to 175.

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 39 to the Financial Statements

Decade at a Glance

Income Statement for the year ended 31st December,	2012 Rs.'000	2011 Restated Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000	2004 Rs.'000	2003 Rs.'000
NON - LIFE INSURANCE										
Gross Written Premium	**1,711,204**	1,694,343	1,343,703	1,130,781	924,709	704,577	618,502	469,929	338,708	243,392
Net Earned Premium	**1,325,072**	1,161,948	859,077	675,939	541,463	468,595	362,540	270,059	199,777	134,654
Income from Investments and Other Income	**308,180**	169,390	177,585	157,308	126,784	85,880	56,164	38,506	31,088	28,377
Net Claims Incurred	**(892,750)**	(802,370)	(588,237)	(448,210)	(363,813)	(291,283)	(219,336)	(144,548)	(123,751)	(59,632)
Underwriting and net acquisition cost	**(53,652)**	(40,680)	12,539	1,887	(6,272)	1,546	(6,058)	(4,947)	(4,957)	(7,460)
Expenses	**(458,209)**	(388,448)	(347,439)	(285,843)	(228,288)	(186,406)	(130,609)	(107,061)	(85,038)	(61,502)
Profit Before Taxation	**228,641**	99,840	113,525	101,081	69,874	78,332	62,701	52,009	17,119	34,437
LIFE INSURANCE										
Gross Written Premium	**1,500,028**	1,290,367	1,084,480	984,866	914,170	767,576	503,321	354,181	205,885	104,436
Net Earned Premium	**1,371,952**	1,187,671	985,283	891,808	834,218	698,048	451,920	318,684	188,980	95,009
Income from Investments and Other Income	**428,630**	297,566	339,295	311,730	217,223	114,920	53,497	26,483	12,208	6,172
Net Benefits Incurred	**(261,771)**	(62,760)	(59,900)	(63,701)	(44,669)	(25,595)	(14,924)	(12,183)	(7,673)	(1,478)
Underwriting and net acquisition cost	**(294,456)**	(247,379)	(177,530)	(151,995)	(161,894)	(154,212)	(115,132)	(88,675)	(58,785)	(20,960)
Expenses	**(523,221)**	(444,773)	(399,415)	(364,834)	(265,047)	(195,208)	(138,458)	(103,259)	(49,191)	(23,541)
Change in Contract Liabilities Life Fund	**(555,909)**	(558,325)	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)	(85,539)	(55,202)
Profit Before Taxation	**165,225**	172,000	156,000	130,000	100,000	65,000	30,000	10,000	-	-
COMPANY										
Gross Written Premium	**3,211,232**	2,984,710	2,428,183	2,115,647	1,838,879	1,472,153	1,121,823	824,110	544,593	347,828
Net Earned Premium	**2,697,024**	2,349,619	1,844,360	1,567,747	1,375,681	1,166,643	814,460	588,743	388,757	229,663
Income from Investments and Other Income	**736,810**	466,956	516,880	469,038	344,007	200,800	109,661	64,989	43,296	34,549
Net Claims and Benefits (Net)	**(1,154,521)**	(865,130)	(648,137)	(511,911)	(408,482)	(316,878)	(234,260)	(156,731)	(131,424)	(61,110)
Underwriting and net acquisition cost	**(348,108)**	(288,059)	(164,991)	(150,108)	(168,166)	(152,666)	(121,190)	(93,622)	(63,742)	(28,420)
Expenses	**(981,430)**	(833,221)	(746,854)	(650,677)	(493,335)	(381,614)	(269,067)	(210,320)	(134,229)	(85,043)
Change in Contract Liabilities Life Fund	**(555,909)**	(558,325)	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)	(85,539)	(55,202)
Profit Before Tax	**393,866**	271,840	269,525	231,081	169,874	143,332	92,701	62,009	17,119	34,437
Income Tax Expense	**(42,726)**	(25,772)	(27,786)	(29,471)	(5,401)	(20,000)	(1,377)	(1,720)	(733)	1,374
Profit for the Year	**351,140**	246,068	241,739	201,610	164,473	123,332	91,324	60,289	16,386	35,811
Basic Earnings per Share (Rs.)	**7.02**	5.14	5.38	4.49	3.66	2.75	2.03	1.34	0.36	0.80
Dividend per Share (Rs.)	**2.75**	2.10	1.80	1.50	1.25	1.00	1.00	0.50	-	-

Statement of Financial Position as at 31 st December	2012 Rs.'000	2011 Restated Rs.'000	1st Jan 2011 Restated Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000	2004 Rs.'000	2003 Rs.'000
NON - LIFE INSURANCE										
Assets										
Intangible Assets	**61,068**	26,673	31,535	16,102	17,316	17,603	17,982	21,175	17,391	4,893
Property, Plant and Equipment	**118,447**	117,292	126,398	110,896	83,566	68,064	54,096	44,881	27,486	33,713
Investments				1,031,342	774,477	627,655	530,914	442,077	352,050	307,301
Financial Investments	**2,176,444**	1,948,775	1,227,508	-	-	-	-	-	-	-
Loans to Life Policyholders	**-**	-	-	-	-	-	-	-	-	-
Reinsurance Receivables	**121,999**	103,019	103,786	57,541	59,289	24,683	7,620	14,268	1,558	1,499
Premium Receivables	**237,844**	231,385	231,929	157,029	120,922	86,721	95,572	67,538	67,536	48,350
Other Assets	**344,444**	268,162	235,189	251,675	184,361	121,267	105,320	98,798	68,777	16,929
Insurance Contract - Deferred Expenses	**19,968**	20,059	12,392							
Cash and Cash Equivalents	**79,354**	127,887	68,439	48,848	77,332	71,181	66,785	42,838	36,839	25,165
Total Assets	**3,159,568**	2,843,252	2,037,176	1,673,433	1,317,263	1,017,174	878,289	731,575	571,637	437,850
Equity and Liabilities										
Equity										
Stated Capital	**1,171,875**	1,171,875	375,000	375,000	375,000	375,000	250,000	250,000	250,000	250,000
Revenue Reserves	**696,406**	444,057	676,118	455,851	301,116	174,143	200,811	121,987	61,698	45,312
Life Policyholder Reserve Fund		-	-	-	-	-	-	-	-	-
Total Equity	**1,868,281**	1,615,932	1,051,118	830,851	676,116	549,143	450,811	371,987	311,698	295,312
Liabilities										
Insurance Contract Liabilities - Life	-	-	-	-	-	-	-	-	-	-
Insurance Contract Liabilities - Non Life	**969,443**	944,321	743,049	599,364	470,206	340,562	319,538	267,020	210,611	114,841
Employee Benefits	**37,417**	29,564	21,670	15,583	9,637	6,555	3,525	2,637	1,479	756
Current Tax Liabilities	**42,950**	25,998	28,618	-	-	-	-	-	-	-
Reinsurance Creditors	**53,325**	75,150	51,968	62,314	50,504	36,375	52,661	24,961	17,022	8,017
Other Liabilities	**188,152**	152,287	140,753	165,321	110,800	84,539	51,754	64,970	30,827	18,924
Total Liabilities	**1,291,287**	1,227,320	986,058	842,582	641,147	468,031	427,478	359,588	259,939	142,538
Total Equity and Liabilities	**3,159,568**	2,843,252	2,037,176	1,673,433	1,317,263	1,017,174	878,289	731,575	571,637	437,850

Decade
at a Glance

Statement of Financial Position as at 31 st December	2012	2011 *Restated*	1st Jan 2011 *Restated*	2009	2008	2007	2006	2005	2004	2003
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
LIFE INSURANCE										
Assets										
Intangible Assets	-	22,203	20,773	14,523	5,742	2,936	1,872	204	116	50
Property, Plant and Equipment	-	4,276	4,573	6,174	8,151	4,333	3,086	2,994	2,637	2,429
Investments	-	-	-	1,686,073	1,263,166	852,943	513,475	335,222	177,987	89,207
Financial Investments	**3,527,422**	2,935,487	2,415,853	-	-	-	-	-	-	-
Loans to Life Policyholders	**29,888**	20,097	15,000	10,338	4,908	1,674	1,286	993	-	-
Reinsurance Receivables	**40,716**	27,848	18,617	16,283	10,025	6,234	8,647	2,271	-	-
Premium Receivables	**9,573**	-	-	-	-	-	-	-	-	-
Other Assets	**137,795**	129,223	102,556	219,625	150,279	78,697	31,848	20,047	12,308	1,584
Insurance Contract - Deferred Expenses	-	-	-	-	-	-	-	-	-	-
Cash & Cash Equivalents	**129,916**	62,468	13,005	45,252	39,939	44,890	36,981	13,102	19,028	14,707
Total Assets	**3,875,310**	3,201,602	2,590,377	1,998,268	1,482,210	991,707	597,195	374,833	212,076	107,977
Equity and Liabilities										
Equity										
Stated Capital	-	-	-	-	-	-	-	-	-	-
Revenue Reserves	-	-	-	-	-	-	-	-	-	-
Life Policyholder Reserve Fund	**(1,191)**	(22,526)	31,050	-	-	-	-	-	-	-
Total Equity	**(1,191)**	(22,526)	31,050	-	-	-	-	-	-	-
Liabilities										
Insurance Contract Liabilities - Life	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505	880,674	507,721	300,818	169,768	84,229
Insurance Contract Liabilities - Non Life	-	-	-	-	-	-	-	-	-	-
Employee Benefits	**4,943**	4,565	3,406	2,597	1,681	922	455	464	242	60
Current Tax Liabilities	-	-	-	-	-	-	-	-	-	-
Reinsurance Creditors	**29,928**	28,106	25,341	24,937	32,535	42,052	35,867	9,542	9,489	5,441
Other Liabilities	**215,391**	170,126	115,366	117,221	87,489	68,059	53,152	64,009	32,577	18,247
Total Liabilities	**3,876,501**	3,224,128	2,559,327	1,998,268	1,482,210	991,707	597,195	374,833	212,076	107,977
Total Equity and Liabilities	**3,875,310**	3,201,602	2,590,377	1,998,268	1,482,210	991,707	597,195	374,833	212,076	107,977
COMPANY										
Assets										
Intangible Assets	**61,068**	48,876	52,308	30,755	23,058	20,539	20,402	21,379	17,507	4,943
Property, Plant and Equipment	**118,447**	121,568	130,971	117,070	91,717	72,397	57,182	47,875	30,123	36,142
Investments	-	-	-	2,717,415	2,037,643	1,480,598	1,044,389	777,299	530,037	396,508
Financial Investments	**5,703,866**	4,884,262	3,643,361	-	-	-	-	-	-	-
Loans to Life Policyholders	**29,888**	20,097	15,000	10,338	4,908	1,674	1,286	993	-	-
Reinsurance Receivables	**162,715**	130,867	122,403	73,824	69,314	30,917	16,267	16,539	1,558	1,499
Premium Receivables	**247,417**	231,385	231,929	157,029	120,922	86,721	95,572	67,538	67,536	48,350
Other Assets	**482,239**	397,385	337,745	471,170	334,640	199,964	136,620	118,845	81,085	18,513
Insurance Contract - Deferred Expenses	**19,968**	20,059	12,392	-	-	-	-	-	-	-
Cash and Cash Equivalents	**209,270**	190,355	81,444	94,100	117,271	116,071	103,766	55,940	55,867	39,872
Total Assets	**7,034,878**	6,044,854	4,627,553	3,671,701	2,799,473	2,008,881	1,475,484	1,106,408	783,713	545,827
Equity and Liabilities										
Equity										
Stated Capital	**1,171,875**	1,171,875	375,000	375,000	375,000	375,000	250,000	250,000	250,000	250,000
Revenue Reserves	**696,406**	444,057	676,118	455,851	301,116	174,143	200,811	121,987	61,698	45,312
Life Policyholder Reserve Fund	**(1,191)**	(22,526)	31,050	-	-	-	-	-	-	-
Total Equity	**1,867,090**	1,593,406	1,082,168	830,851	676,116	549,143	450,811	371,987	311,698	295,312
Liabilities										
Insurance Contract Liabilities - Life	**3,626,239**	3,021,331	2,415,214	1,853,513	1,360,505	880,674	507,721	300,818	169,768	84,229
Insurance Contract Liabilities - Non Life	**969,443**	944,321	743,049	599,364	470,206	340,562	319,538	267,020	210,611	114,841
Employee Benefits	**42,360**	34,129	25,076	18,180	11,318	7,477	3,980	3,101	1,721	816
Current Tax Liabilities	**42,950**	25,998	28,618							
Reinsurance Creditors	**83,253**	103,256	77,309	87,251	83,039	78,427	88,528	34,503	26,511	13,458
Other Liabilities	**403,543**	322,413	256,119	282,542	198,289	152,598	104,906	128,979	63,404	37,171
Total Liabilities	**5,167,788**	4,451,448	3,545,385	2,840,850	2,123,357	1,459,738	1,024,673	734,421	472,015	250,515
Total Equity and Liabilities	**7,034,878**	6,044,854	4,627,553	3,671,701	2,799,473	2,008,881	1,475,484	1,106,408	783,713	545,827

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Investor Information										
Return on Equity	**18.79%**	15.23%	23.00%	24.27%	24.32%	22.46%	20.26%	16.21%	5.26%	12.13%
Market Price per Share as at 31st Dec (VWA) (Rs.)	**49.00**	56.90	78.00	49.50	18.25	24.50	25.00	12.75	12.50	10.25
Market Price per Share as at 31st Dec (VWA) (Rs.)										
- Adjusted for Bonus Issue	**49.00**	56.90	66.31	44.94	21.50	26.19	26.56	14.19	14.06	12.94
Price Earning Ratio (Times)	**6.98**	11.07	12.33	10.01	5.87	9.53	13.06	10.56	38.53	16.22
Earnings Yield	**14.33%**	9.03%	8.11%	9.99%	17.02%	10.50%	7.64%	9.44%	2.56%	6.18%
Dividend Yield	**5.61%**	3.69%	2.31%	3.03%	6.85%	4.08%	4.00%	3.92%	-	-
Market Capitalisation (Rs. Mn)	**2,450**	2,845	2,925	1,856	694	919	625	319	313	256
Employee Information										
Number of Employees	**723**	662	597	540	457	377	308	262	208	180
GWP per Employee (Rs. Mn)	**4.44**	4.51	4.07	3.92	4.02	3.90	3.64	3.15	2.62	1.93
Net Profit per Employee (Rs. '000)	**485.67**	371.70	404.92	373.35	359.90	327.14	296.51	230.11	78.78	198.95
Non - Life Insurance Operations										
Net Claims Ratio	**68%**	69%	68%	66%	67%	62%	60%	54%	62%	44%
Expense Ratio	**34%**	34%	39%	42%	43%	39%	38%	41%	45%	51%
Combined Ratio	**102%**	103%	107%	108%	110%	101%	98%	95%	107%	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. commissions

Admissible Assets
Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto.

Claims
The amount payable under a contract of insurance arising from the occurrence of an insured event.

Claims Incurred
The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by claims outstanding provisions at the beginning and end of the accounting period.

Claims Incurred But Not Reported (IBNR)
At the end of the period of account a reserve in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but not yet been reported to the insurer.

Claims Incurred But Not Enough Reported (IBNER)
A reserve made in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but no comprehensive information is available to make adequate provisions as at the Balance Sheet date.

Claims Outstanding Reserve – Non - Life Insurance Business
The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the Balance Sheet date, including Incurred But Not Reported (IBNR), Claims Incurred But Not Enough Reported (IBNER) claims and claims handling expenses, less amounts already paid in respect of those claims.

Deferred Acquisition Cost – Non - Life Insurance Business
Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the Balance Sheet date which are carried from one accounting period to subsequent accounting periods.

Net Earned Premium – Non - Life Insurance Business
Gross Written Premium adjusted for reinsurance premium and for the increase or decrease in unearned premium.

Net Written Premium
The balance of the Gross Written Premium after deduction of any premium paid or payable by the insurer for reinsurance ceded. Commonly identifies as Net Premium.

Policy Loan
A loan from the insurer to a policy holder on the security of the surrender value of a long term insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

Premium Ceded to Reinsurers
The premium paid by the ceding company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

Reinsurance
An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (cedent – the primary insurer) against part or all of the liability assumed by the cedent under policy or policies of insurance.

Reinsurance Commission
Commission/discount received or receivable in respect of premiums paid or payable to a reinsurer.

Unearned Premium
It represents the portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the Balance Sheet date.

Unearned Premium Reserve
A fund kept by a Non - Life insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

Key Insurance Ratios

$$\text{Net Claims Ratio} = \frac{\text{Net claims incurred} \times 100}{\text{Net earned premium}}$$

$$\text{Expense Ratio} = \frac{\text{Net Expense incurred} \times 100}{\text{Net earned premium}}$$

$$\text{Combined Ratio} = \frac{(\text{Net claims incurred} + \text{Expenses}) \times 100}{\text{Net earned premium}}$$

Corporate Information

Name of the Company
HNB Assurance PLC

Legal form
A Public limited liability Company incorporated on 23rd August 2001 under the Companies Act, No.17 of 1982 in Sri Lanka. The Company was re-registered under the Companies Act, No.07 of 2007.

HNB Assurance PLC is a composite insurance company licensed by the Insurance Board of Sri Lanka (IBSL).

Company Registration No.
PQ 108

Stock Exchange Listing
The Ordinary Shares of the Company are listed on the Main Board of the Colombo Stock Exchange. Stock Exchange code for the Company share is "HASU".

Tax Payer Identification (TIN) No.
134009373

VAT Registration No.
134009373-7000

Fiscal Year-End
31st December

Principal Activities
Carrying on Non - Life and Life Insurance business.

Registered Office
No.479, T B Jayah Mawatha, Colombo 10, Sri Lanka

Head Office
No.10, Sri Uttarananda Mawatha,
Colombo 03, Sri Lanka
Telephone - +94 11 2421885-7
Facsimile - +94 11 4793728
E-mail - info@hnbassurance.com
Web - www.hnbassurance.com

Board of Directors
Ranee Jayamaha	*- Chairperson*
Manjula de Silva	*- Managing Director*
R Theagarajah	*- Non-Executive Director*
M U de Silva	*- Non-Executive Director*
Jonathan Alles	*- Non-Executive Director*
Pratapkumar de Silva	*- Independent Non-Executive Director*
Sarath Ratwatte	*- Independent Non-Executive Director*
Mahendra Jayasekera	*- Independent Non-Executive Director*
K Balasundaram	*- Independent Non-Executive Director*

Board Secretary
Shiromi Halloluwa
Attorney-at-Law & Notary Public

Audit Committee
Mahendra Jayasekera *- Chairman*
Sarath Ratwatte
Jonathan Alles

Remuneration Committee
M U de Silva *- Chairman*
Sarath Ratwatte
K Balasundaram

Investment Committee
Sarath Ratwatte *- Chairman*
Manjula de Silva
Rajive Dissanayake

Executive Committee
Manjula de Silva	*- Managing Director*
Lalith Fernando	*- General Manager – Marketing & Distribution*
Niranjan Manickam	*- General Manager – General Insurance*
Prasantha Fernando	*- General Manager – Life Insurance*
Namal Gunawardhane	*- Head of IT*
Chandana L Aluthgama	*- Head of Corporate Business Development*
Vipula Dharmapala	*- Head of Finance*
Ivan Nicholas	*- Head of Distribution*

Consultant Actuaries
Life Insurance
Actuarial and Management Consultants (Pvt) Ltd.,
1st Floor, 434, R A de Mel Mawatha, Colombo 03.

Non - Life Insurance
M/S K.A.Pandit
Consultants & Actuaries, 2nd Floor, Churchgate House,
Veer Nariman Road, Fort, Mumbai – 400 001, India.

Gratuity
Hugh Terry (Fellow of the Institute of Actuaries, U.K.)
Insight Consulting Group (Pte) Ltd.,
Level 31, 6 Battery Road,
Singapore 049909.

Auditors
KPMG
Chartered Accountants,
32 A, Sir Mohamed Macan Markar Mawatha, Colombo 03.

Credit Rating (Fitch)
National Long Term Rating A (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

Notice of Meeting

Notice is hereby given that the Eleventh (11th) Annual General Meeting of HNB Assurance PLC is convened on Wednesday the Twenty Seventh (27th) day of March 2013, 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 **Ordinary 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 2012, the Auditors' Report thereon.

ii. To declare a dividend of Rs. 2.75 per share for the year 2012, to the shareholders as recommended by the Directors.

iii. To re-elect Dr. Ranee Jayamaha, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 92 of the Articles of Association of the Company.

iv. To re-elect Mr. A J Alles, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 92 of the Articles of Association of the Company.

v. To re-elect Mr. J A P M Jayasekera, 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.

vi. To re-elect Mr. K Balasundaram, 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.

vii. To re-elect Mr. S C Ratwatte who retires by rotation at the Annual General Meeting, as a Director of the Company in terms of Article 86 of the Articles of Association of the Company.

viii. To re-appoint Mr. M U de Silva who retires at the Annual General Meeting, having attained the age of 71 years, as a Director of the Company and to adopt the following resolution :-

Resolution - *"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".*

ix. To re-appoint Mr J E P A de Silva who retires at the Annual General Meeting, having attained the age of 74 years, as a Director of the Company and to adopt the following resolution :-

Resolution - *"That Mr Joseph Eardley Pratapkumar Aditya de Silva who has attained the age of 70 years on 18th December 2008, be and is hereby re-appointed as a Director of the Company in terms of Section 211 of the Companies Act, No: 7 of 2007 and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, shall not apply to the said Director".*

x. To re- appoint the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.

xi. To authorise the Directors to determine payments for the year 2013 for charitable and other purposes.

By Order of the Board
HNB ASSURANCE PLC

Shiromi Halloluwa
Board Secretary

Colombo, Sri Lanka.

6th February, 2013.

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 Rajendra Theagarajah or failing him Madapathage Upali de Silva or failing him Joseph Eardley Pratapkumar Aditya de Silva or failing him Sarath Carlyle Ratwatte or failing him Antonio Jonathan Alles or failing him Jayasekera Arachchige Panduka Mahendra Jayasekera or failing him Kandasamypillai Balasundaram, 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 Eleventh Annual General Meeting of the Company to be convened on Wednesday the 27th day of March 2013 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. 2.75 per share	In favour	
	Against	
To re-elect Dr. Ranee Jayamaha, as a Director of the Company	In favour	
	Against	
To re-elect Mr. A J Alles, as a Director of the Company	In favour	
	Against	
To re-elect Mr. J A P M Jayasekera, as a Director of the Company	In favour	
	Against	
To re-elect Mr. K Balasundaram, as a Director of the Company	In favour	
	Against	
To re-elect Mr. S C Ratwatte, as a Director of the Company	In favour	
	Against	
To re- appoint Mr. M U de Silva, as a Director of the Company	In favour	
	Against	
To re - appoint Mr. J E P A de Silva, as a Director of the Company	In favour	
	Against	
To re-appoint 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.................................. 2013.

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 -

Head of Finance,
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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