



Outstanding Years

HNB Assurance PLC
Annual Report 2011

Ten Outstanding Years

This year we celebrate 10 years in business. 10 years of unmatched service, steady performance and a rising curve of profitability. There are many reasons why we have been able to celebrate this historic achievement today. In this report, we share 10 of those reasons with you. And offer you, our customers, suppliers and shareholders, the continuing promise of the best in insurance products and services for many years to come.

Ten Outstanding Reasons

Reason 1

Welcoming challenges

Reason 2

Consistent financial performance

Reason 3

Delivering promises

Reason 4

Innovative products

Reason 5

Island-wide reach

Reason 6

Best governance practices

Reason 7

Robust risk management

Reason 8

Sustainable development

Reason 9

Vibrant team

Reason 10

Superior customer service

Vision

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

Mission

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

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

Contents

Reason 1
**WELCOMING
CHALLENGES**

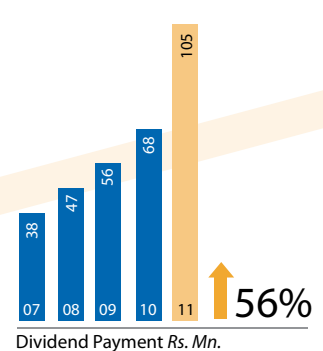
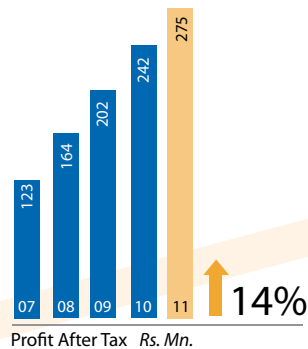
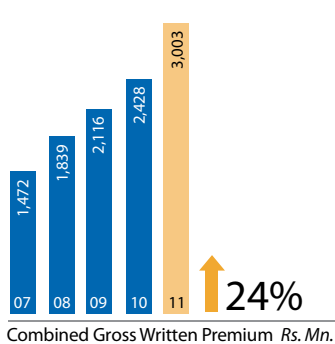
HNBA has always
embraced challenges;
they have made
us tougher, bolder
and smarter.

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Financial Highlights

Indicators of Earnings

	2011 Rs. Mn	2010 Rs. Mn	Growth %
Gross Written Premium			
<i>Life Insurance</i>	1,291	1,084	19
<i>General Insurance</i>	1,712	1,344	27
<i>Combined Gross Written Premium</i>	3,003	2,428	24
Net Earned Premium	2,350	1,844	27
Net Claims and Benefits	865	648	33
Investment Income	475	517	(8)
Life Surplus	172	156	10
Profit Before Tax	300	270	11
Profit After Tax	275	242	14
Earnings Per Share (Rs.)	5.74	5.38 <i>(Restated)</i>	7
Earnings Yield	10.1%	8.1%	24
Dividend Per Share (Rs.)	2.10	1.80	17
Dividend Yield	3.7%	2.3%	60
Dividend Payment (Rs. Mn)	105	67.5	56



+24%

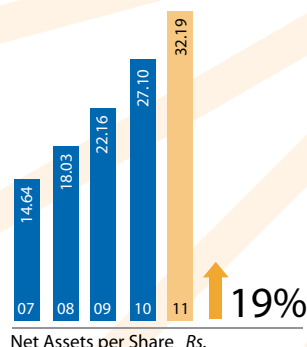
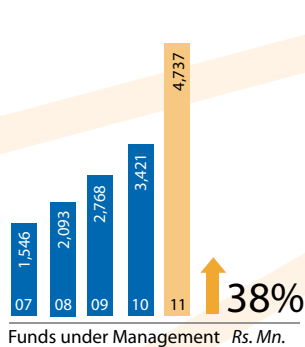
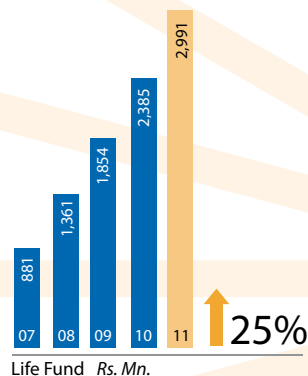
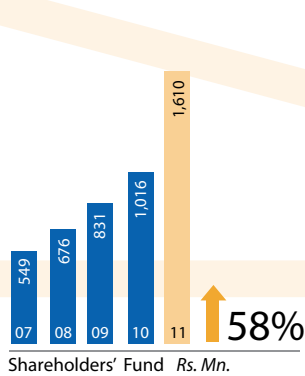
Gross Written Premium

+14%

Profit After Tax

+10%

Life Surplus



Reason 2
CONSISTENT FINANCIAL PERFORMANCE
 Our astute strategies and results-driven culture have ensured strong financial performance. Our numbers speak for themselves.

Indicators of Financial Position

	2011 Rs. Mn	2010 Rs. Mn	Growth %
Funds Under Management			
Life Insurance	2,957	2,243	32
General Insurance	1,780	1,178	51
Total Funds Under Management	4,737	3,421	38
Total Assets	6,036	4,548	33
Life Fund	2,991	2,385	25
Total Liabilities	4,426	3,532	25
Stated Capital	1,172	375	213
Shareholders' Fund	1,610	1,016	58
Net Assets Per Share (Rs.)	32.19	27.10	19

Chairman's Message

R Theagarajah
- Acting Chairman

The Company took early steps to conform to the proposed minimum capital requirements by increasing its stated capital more than threefold from Rs. 375 Million to Rs. 1.17 Billion during the year...



Having successfully completed its first decade of operations, the Company is now poised to begin a new phase of rapid growth aiming to become one of the most admired and respected entities in the insurance sector.

On behalf of the Board of Directors, I am pleased to welcome you to the tenth Annual General Meeting of the Company and present to you the Annual Report and Accounts for the year ended 31st of December 2011.

The Economy

The Sri Lankan economy continued its post-war forward thrust by recording a strong rate of GDP growth which is estimated to be around 8.3%. Based on the figures available for the first three quarters of the year, it appears that the Industrial and Service sectors led the way by recording growth rates of 10.1% and 8.6% respectively. The agricultural sector failed to keep pace, registering only a marginal growth rate of 0.8%, mainly due to the direct impact of adverse weather conditions. The overall performance of the economy was highly commendable against this backdrop.

The Central Bank was successful in keeping the rate of inflation down as depicted by an annual average of 6.7%, which was only slightly higher than the level recorded last year. It threatened to increase sharply in the early part of the year mainly due to the challenges posed by nature, but having peaked at 8.9% in April, the point-to-point rate of inflation came down gradually to reach 4.9% by December. Interest rates declined in the early part of the year in response to the reduction in policy rates by the Central Bank in January. However, since September 2011, yields on Treasury bills across all maturities increased in line with the mopping up of excess liquidity in the domestic money market by the Central Bank as it intervened in the foreign exchange market to keep the Rupee stable. By the end of 2011, yields on Treasury bills with the maturity of 91 days, 182 days and 364 days had risen to 8.68%, 8.71% and 9.31%, respectively.

A noteworthy development that took place on the economic front was the devaluation of the Rupee by 3% during November which was a welcome move from the perspective of exporters.

The Insurance industry recorded healthy rates of growth in both General and Life segments supported by favourable conditions stemming from the strong economic growth, import duty reductions and low leasing rates causing a sharp growth in motor vehicle imports and low lending rates on housing loans fuelling a similar growth in house building.

Regulatory Framework

The Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 was enacted in Parliament in February, 2011. This contains far reaching changes such as permitting corporate entities to become institutional agents of insurance companies and requiring composite insurance companies to segregate into two separate entities. Specific rules and guidelines pertaining to the above are yet to be finalised, but it is heartening to note that these are being developed in consultation with industry stakeholders. I am also pleased to note that steady progress is being made on the implementation of a Risk Based Capital (RBC) framework. The relaxation of rules relating to investments from April in the year under review has provided opportunities to explore new options in the pursuit of higher investment returns within an acceptable level of risk tolerance.

The implementation of Sri Lanka Financial Reporting Standards (SLFRS) with effect from the year 2012 in line with International Financial Reporting Standards (IFRS) will pose a few challenges to the insurance industry. However, it is believed that a collaborative effort among the players along with expert advice will help achieve full compliance within a short period of time. As one of the earliest in the insurance industry to voluntarily obtain an independent rating, we welcome any moves by the regulator to mandate ratings as in the case of licensed commercial banks and registered finance companies.

Performance

The Company was able to accelerate its growth trajectory by posting a 24% growth in its combined turnover for the year under review. This enabled the Company to reach another significant milestone by crossing the Rs. 3 Billion mark in annual turnover in only its 10th year of operation. Gross Written Premium (GWP) from General Insurance grew by 27% to reach Rs. 1.7 Billion while Life Insurance GWP recorded Rs. 1.3 Billion with a growth of 19%. The Company was also able to achieve a healthy 14% growth in its Profit After Tax (PAT) despite having to contend with an adverse investment climate which resulted in a decline in the Investment Income. This was made possible by bringing about a significant improvement in Underwriting Results from the General Insurance business which augurs well for the future.

Chairman's Message

Financial Strength and Stability

The Company took early steps to conform to the proposed minimum capital requirements by increasing its stated capital more than threefold from Rs. 375 Million to Rs. 1.17 Billion during the year. This was done through a capitalisation of reserves in the proportion of 1 for 6 followed by a rights issue in the proportion of 1 for 7. The Rights Issue was fully subscribed demonstrating the confidence of the shareholders in the Company's future prospects. As a further endorsement of the Company's financial strength, Fitch Ratings Lanka Limited affirmed its Rating of Claims paying ability and National Long Term Rating at 'A (lka)' with a stable outlook.

Social Responsibility

Always conscious of the role expected from it as a significant corporate citizen, the Company carried out a number of initiatives to demonstrate its social responsibility and sense of caring particularly for the underprivileged sections of the community. The overriding objective of these activities was to touch the lives of a significant number of people in a meaningful and sustainable manner. Maintaining consistency with past activities, the key areas of focus were the provision of water supply to needy schools, meeting critical needs of the healthcare sector, supporting the arts and promoting entrepreneurship. These are described in detail in the Managing Director's Review and the Sustainability Report.

Future Outlook

Having successfully completed its first decade of operations, the Company is now poised to begin a new phase of rapid growth aiming to become one of the most admired and respected entities in the insurance sector. Fully conscious of the emerging new challenges brought on by the influx of new entrants and changes in the regulatory environment, the Company will steer ahead charting its own path in the interest of all its valued stakeholders.

Acknowledgement

Mr. Rienzie T. Wijetilleke who served as a Director from the inception of the Company and as its Chairman since 2004 resigned from the Board on the 29th of March 2011 at the conclusion of the last Annual General Meeting. I wish to acknowledge the yeomen contribution made by Mr. Wijetilleke in launching this Company and steering it forward from then onwards over a long period of time.

Appreciation

I take this opportunity to thank the Chairperson, Director General and other officials of the Insurance Board of Sri Lanka for their guidance and continued support during 2011. I also wish to acknowledge the valuable contribution made by the Insurance Ombudsman. I thank my fellow Directors for their support and cooperation. The management and the staff have worked together diligently to deliver commendable results. I wish to recognise and appreciate their commitment.

On behalf of the Board of Directors, I assure you that the Company will build on the strong foundation laid during its first decade of operation and move forward with a renewed sense of dynamism and vigour.



R Theagarajah
Acting Chairman

30th January, 2012

Managing Director's Review

Manjula de Silva
- Managing Director

The Company was able to declare a unique one-off loyalty bonus of 50% of the annual bonus to its policyholders in view of its tenth anniversary...



It is noteworthy that both lines of business attained growth rates which are significantly higher than the rates achieved over the last two years, indicating a significant acceleration in business growth.

Managing Director's Review

It gives me great pleasure to present a review of our Company's performance during the year ended 31st December 2011, which has indeed been a period of significant achievement.

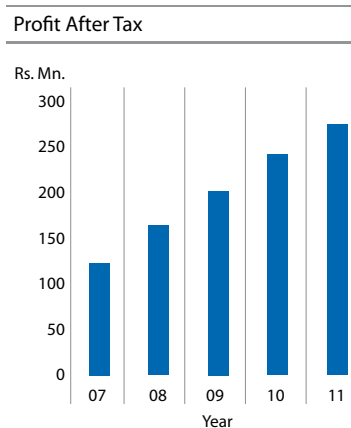
Business Environment

The rapidly changing external environment presented many opportunities and challenges during the year 2011. On the positive side, the continued growth in the import of vehicles fuelled by low import duties and favourable leasing rates supported a rapid growth in motor insurance business volumes. However, a significant rise in claims due to an alarming increase in the number and intensity of road accidents coupled with sharp increases in repair costs exerted pressure on margins in this class of business. Low interest rates triggered a rapid growth in house building activities as well contributing to a significant growth in home, title and mortgage reducing policies. The overall improvement in economic conditions provided a supporting environment for the growth of Life Insurance business although the market is yet to reach the level of sustained growth needed to raise penetration levels in a noteworthy manner.

While the external climate was generally favourable for the insurance underwriting activities as described above, it was not so in the case of the investment activities. While low interest rates kept fixed income yields significantly below the levels experienced in past years, the stock market failed to deliver a healthy return that could compensate for this. In fact, it recorded a decline for the year as indicated by the fall of 8% in the All Share Price Index and the fall of 26% in the Milanka Price Index. This seriously affected the profitability of insurance companies since significant provisions had to be made to account for the drop in market values of equity investments in the midst of low fixed income yields.

Financial Results

During the year ended 31st December 2011, the Company generated a turnover of Rs. 3 Billion, recording a growth of 24% over the turnover achieved last year. Its General Insurance premium income contributed Rs. 1.71 Billion while achieving a growth of 27% over the previous year. Life Insurance premium income grew by 19% to reach Rs. 1.29 Billion. It is noteworthy that both lines of business attained growth rates which are significantly higher than the rates achieved over the last two years indicating a significant acceleration in business growth.



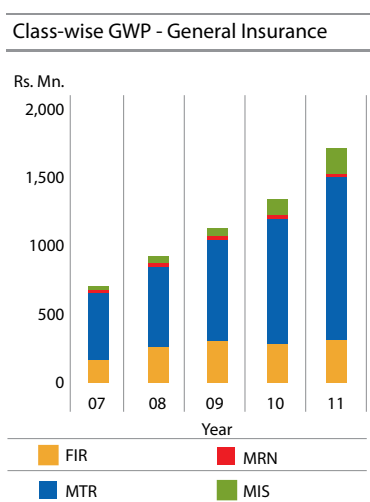
The Company was able to post a Profit Before Tax (PBT) of Rs. 300 Million and a Profit after Tax (PAT) of Rs. 275 Million for the year under review. These were 11% and 14% higher than the amounts recorded in the previous year respectively. Considering that the Company's Investment Income experienced a decline of 8%, these growth rates in PBT and PAT are commendable. Having recognised the likelihood of a low or negative contribution from Investment Income, the Company focused on improving its expense management resulting in significant reductions being achieved in expense ratios in both lines of business. The Expense Ratio in General Insurance was brought down from 39% in 2010 to 34% in 2011 while the same in Life Insurance was reduced from 59% to 56%. The satisfactory growth in profitability is mainly attributable to this achievement in the midst of a significant increase in General Insurance claims and the decline in Investment Income.

Business Performance and Profitability - General Insurance

As stated earlier, General Insurance business grew by 27% to record a Gross Written Premium (GWP) of Rs. 1.71 Billion. Motor and Miscellaneous classes led the way with the former contributing the most in absolute terms with an increase in GWP of Rs. 272.4 Million while the Miscellaneous class achieved the highest growth rate of 58%. A significant expansion in the volume of business generated coupled with a rate increase contributed to the growth in motor GWP while premium increases on medical policies accounted for much of the growth experienced by the Miscellaneous class. Fire and Marine classes registered moderate rates of growth.

One of the noteworthy achievements during the year under review has been the significant reduction in the Combined Ratio for General Insurance reflecting in an improvement in underwriting results. The Combined Ratio fell from 107% to

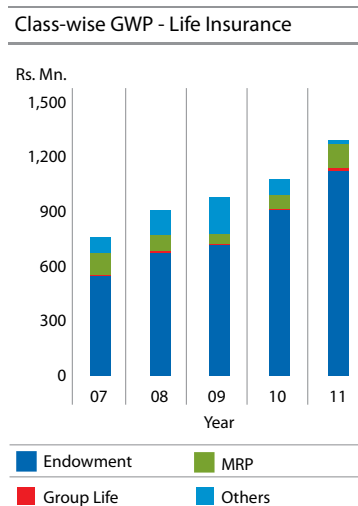
103%, which is the sharpest reduction achieved in recent times. It is worth recalling that this ratio reached a peak of 110% in 2008 and was brought down by 2% and 1% respectively in 2009 and 2010. This year's success in bringing down the Combined Ratio by 4% is primarily due to better expense management coupled with strong business growth which resulted in the Expense Ratio falling from 39% to 34%. The Net Claims Ratio increased from 68% to 69% offsetting a part of the gains, but restricting it to 69% can be considered an achievement by itself in light of a significant increase in motor claims.



The Underwriting result remained negative, but it improved from a loss of Rs. 64 Million to a loss of only Rs. 33 Million which is an improvement by almost 50%. Together with Investment Income, the Company generated a Profit before Tax of Rs. 128.4 Million and a Profit after Tax of Rs. 102.6 Million from the General Insurance business. The growth in PAT was 20%, a commendable achievement under challenging conditions.

Business Performance and Profitability - Life Insurance

Life Insurance business also experienced an acceleration of growth with the Company being able to achieve a 19% growth to record a GWP of Rs. 1.29 Billion. This is significantly higher than the 8% and 10% growth rates achieved in respect of Life Insurance in 2009 and 2010 respectively. Almost all the classes contributed to this achievement with regular premium endowment business growing by 25% and mortgage reducing policies growing by 62%. The recently introduced 'myfund' and 'myfreedom' policies also contributed Rs. 108.5 Million towards the GWP generated during the year. The Life Fund grew by 25% to reach Rs. 2.99 Billion, just short of the Rs. 3 Billion mark.



According to the valuation of the Long Term business conducted by the Consultant Actuary, the Long Term Insurance Fund exceeded the required actuarial reserves as at 31st December 2011 by Rs. 561.5 Million. Having allocated Rs. 104.6 Million to policyholders for distribution of bonus, Rs. 135.2 Million as provision for solvency margin and Rs. 149.7 Million as provision for future bonus and contingencies, the Board of Directors decided to transfer the balance of Rs. 172 Million to the shareholders account as a surplus from the Life Insurance business. This was only 10% higher than the surplus transferred in 2011 with the relatively low growth attributable to the drop in Investment Income. However, the Company was able to declare a unique one-off loyalty bonus of 50% of the annual bonus to its policyholders in view of its tenth anniversary. This was in addition to the annual bonus distribution at attractive rates of up to Rs. 55 per Rs. 1,000 Sum Assured.

Investment Performance

After many years of steady and impressive growth, Investment income recorded a decline by 8% exerting pressure on the Company's overall profitability. The Investment Income on the Life Insurance Fund declined by 7% while the Investment Income on the Shareholders' Fund fell by 11%. This was mainly a result of provisions made in respect of equity investments which amounted to Rs. 17.02 Million in Life and Rs. 18.52 Million in Shareholders' Fund. The Company's fund management team succeeded in achieving a satisfactory growth in Investment Income on fixed income instruments of 3.1% and 2.5% on Life and Shareholders' funds respectively, but the unrealised losses arising from the decline in the stock market resulted in the overall growth turning negative.

Managing Director's Review

Social Responsibility

As in the past, the Company gave focused attention to the needs of the community at large and identified specific areas in which it could make a meaningful contribution towards their fulfilment. In line with the need to ensure sustainability of its activities, the Company continued to pursue a number of themes that commenced in previous years. The most significant among them was the project started in 2008 to provide access to water to needy schools which had seen 14 schools covered up to the end of 2010. The year 2011 saw two more schools being added to this initiative, one in Mulaithivu and one in Karadeniya. The healthcare sector also continued to receive assistance from the Company with the Lady Ridgway children's Hospital benefitting from the construction of a much needed shelter at the entrance to the Medical Intensive Care (MIC) Unit and the Nuwara Eliya District Hospital benefitting from the erection of a number of signboards providing directions to patients and visitors. The Company also carried out community service projects for the benefit of the differently abled children at the Camilla School in Mattegoda, the senior citizens in the Bolawalana Grama Niladhari Division and the young offenders at the Correction Centre located in Dalupotha, Negombo during the year, demonstrating its commitment to serve all types of underprivileged communities.

Recognising the importance of rewarding and encouraging entrepreneurs who have a pivotal role to play in the economic development of this country, the Company came forward to partner the Sri Lankan Entrepreneur of the Year event organised by the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCI) as a Gold Sponsor for the second successive year. A unique feature of this award scheme, which was of great appeal to the Company, was its regional focus with four regional award ceremonies being held in addition to the grand finale held in Colombo. The Company also sponsored the UN Day celebrations organised by the United Nations Association of Sri Lanka for the sixth consecutive year.

The promotion of high quality arts and entertainment featured yet again as a key area of focus in our CSR calendar. For the second time, the Company exclusively sponsored and presented a highly acclaimed concert of classical and fusion music created and performed by sitar virtuoso, Pradeep Ratnayake accompanied by several other leading musicians. It also provided generous support to the Lanka Children's and Youth Theatre Foundation (LCYTF) enabling them to stage children's drama festivals featuring two

award winning plays in Anuradhapura and Galle. This is the sixth occasion that the Company supported the staging of children's theatre productions in collaboration with LCYTF and the first time that such events were held outside Colombo.

Taking a keen interest in promoting awareness about environmental concerns, the Company completed the project undertaken in 2010 to erect signboards around the periphery of the Bolgoda Lake at the request of the Central Environmental Authority (CEA). It also partnered the Environmental Foundation Limited, a respected NGO dedicated to the cause of environmental protection, to publish a beautiful collection of calendars and greeting cards drawing attention to the rich natural diversity offered by this country.

Recognitions

The Company's Ratings were reviewed by Fitch Ratings Lanka Limited during the year under review and were affirmed at 'A (lka)' in respect of both its Claims Paying Ability and National Long Term Rating with a stable outlook. The Company's Annual Report published in respect of the year ended 31st December 2010 collected several awards at Annual Report competitions as in previous years. It was placed second in the Insurance Category at the Best Presented Accounts Awards 2011 held by the South Asian Federation of Accountants (SAFA) in Dhaka, Bangladesh. It also won the Silver Award in the Insurance Category at the Annual Report Awards 2011 conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL). Further, it was placed Runner-up in the Small Scale category at the ACCA Sri Lanka Sustainability Reporting Awards 2011. Two members of the Distribution Management team and one member of the field force won awards at the National Sales Congress 2011 conducted by the Sri Lanka Institute of



Marketing (SLIM), becoming the first three individuals from the Company to win national recognition of this nature.

Key Areas of Strategic Focus

During the corporate planning process conducted for 2012 – 2014 with the active participation of the senior management team, the Company identified Life Insurance as the key line of business in which an acceleration of volume growth is most desired. Therefore, a number of strategies have been developed for execution within the plan period to achieve a faster growth in this area. These include the exploitation of hitherto untapped market segments as well as the development of alternate distribution channels. Product development and branding strategies are also expected to contribute.

With regard to General Insurance, which is the other major line of business of the Company, a twofold strategy of achieving moderate growth while improving profitability will be executed. The Company will aim to generate a faster rate of growth from more profitable classes and distribution channels while the others will be expected to deliver a more controlled growth with an eye on the bottom line. Selective underwriting, close monitoring and readjustment of rating levels and tighter claims management will play important roles in achieving this delicate balance.

Having recognised the critical importance of generating a satisfactory growth in Investment Income, the Company will actively pursue all avenues available to enhance returns operating within an acceptable level of risk tolerance. New investment instruments as well as overseas markets will be given due consideration in this process.

Acknowledgements

Mr. Rienzie T. Wijetilleke resigned from the Board of Directors with effect from 29th March 2011 having served as a Director for nearly a decade and the last seven years as its Chairman. Mr. Wijetilleke was primarily instrumental in setting up this Company along with our founder Chairman, the late Mr. Chrysantha Cooray, and played a vital role in guiding it to become a strong and stable entity greatly admired for its professionalism. I am deeply indebted to Mr. Wijetilleke for his invaluable contribution to the progress of the Company, and on a personal note, for the advice and support given to me.

Appreciation

I wish to convey my appreciation to the Acting Chairman and the Board of Directors for their constant guidance and support. I am also thankful to the Chairperson of Hatton National Bank PLC who has been attending our board meetings as an observer for her advice and encouragement. I am grateful to my team at HNB Assurance comprising the General Managers, Heads of Divisions, Managers, members of staff, field management and insurance advisors for their total commitment that enabled the Company to complete its tenth year on a high note. Along with my team, I convey my thanks to all our insurance brokers, managers and staff of all HNB branches, other intermediaries, reinsurers, reinsurance brokers and all other strategic partners for their excellent support.

Future Direction

HNB Assurance PLC has just completed a decade of operations. Within that period it has transformed itself into a dynamic, fast-growing entity in the insurance industry with a turnover of Rs. 3 Billion and a Profit before Tax of Rs. 300 Million. In addition, it is now endowed with one of the largest share capitals in the industry with its financial strength confirmed by a strong rating given by an independent rating agency. Its management team comprises well recognised professionals who are regularly called upon to play leadership roles in driving activities at the industry level. Hence, the Company is very well poised to face the future with a great deal of confidence and optimism. I remain confident that the Company will continue to meet the expectations of all its stakeholders effectively managing any challenge that it may have to contend with from time to time.



Manjula de Silva
Managing Director

30th January, 2012

Board of Directors



R Theagarajah FCMA (UK), FCA (Sri Lanka), MBA (Cranfield),
FIB (Hon) Sri Lanka
- *Acting Chairman*



Manjula de Silva BA Hons (Colombo), MBA (London), FCMA (UK)
- *Managing Director*



M U de Silva FCIB (London)
- *Director*



J M J Perera FCIB (London)
- Director



J D N Kekulawala FCIB (London), FCA (England & Wales),
MBA (Manchester)
- Director



Pratap Kumar de Silva FICM (Sri Lanka), FICM (England)
- Director

Board of Directors



D Manik de Silva Wijeyeratne ACA (Sri Lanka)
- Director



Sarath Ratwatte FCMA (UK)
- Director



Shiromi Halloluwa Attorney-at-law & Notary Public
- Board Secretary

R Theagarajah FCMA (UK), FCA (Sri Lanka), MBA (Cranfield),
FIB (Hon) Sri Lanka
- *Acting Chairman*

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 27 years of experience in Banking including overseas assignments. Chairman of Acuity Partners (Pvt) Ltd, Acuity Stock Brokers (Pvt) Ltd and Acuity Securities Ltd. Director of Sithma Development (Pvt) Ltd, Lanka Financial Services Bureau Ltd and Lanka Clear (Private) Limited. Past Chairman of Sri Lanka Banks' Association (Guarantee) Ltd and Financial Ombudsman Sri Lanka (Guarantee) Ltd, Chairman of the Asian Bankers Association. Member of the Sri Lanka Accounting & Auditing Standards Monitoring Board, Committee member 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.

Manjula de Silva BA Hons (Colombo), MBA (London), FCMA (UK)
- *Managing Director*

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, 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.

M U de Silva FCIB (London)
- *Director*

Non-Executive Director. Retired Senior Deputy General Manager (Administration & Marketing), Hatton National Bank PLC. Counts over 49 years of experience in Banking including 15 years at the Corporate Management level of Hatton National Bank PLC. Past President of Association of Professional Bankers. Past President of Chartered Institute of Bankers – Colombo Centre. Presently holds the positions of Secretary General – Sri Lanka Banks' Association (Guarantee) Ltd. Director – Lanka Financial Services Bureau Ltd. Member – National Payments Council and Financial Systems Stability Consultative Committee of the Central Bank of Sri Lanka.

J M J Perera FCIB (London)
- *Director*

Non-Executive Director. Senior Deputy General Manager (Business Development & International Relations) of Hatton National Bank PLC. Counts over 40 years experience in Banking. Director - Acuity Partners (Pvt) Ltd, Acuity Securities Ltd, Acuity Stockbrokers (Pvt)Ltd. and Lanka Ventures PLC.

J D N Kekulawala FCIB (London), FCA (England & Wales), MBA (Manchester)
- *Director*

Non-Executive Director. Senior Deputy General Manager - Strategy and Compliance of Hatton National Bank PLC. Counts over 25 years of commercial banking experience including 17 years as a member of the Corporate Management of the Hatton National Bank PLC. Director of Sithma Development (Pvt) Ltd and Lanka Ventures PLC.

Pratapkumar de Silva FICM (Sri Lanka), FICM (England)
- *Director*

Non-Executive Director. Chairman of Alliance Finance Co. PLC. First Sri Lankan to be honoured as a Fellow of the Institute of Credit Management, England. Honorary Consul of the Republic of Peru in Sri Lanka. Senior Chairman, Alliance Group of Companies, 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.

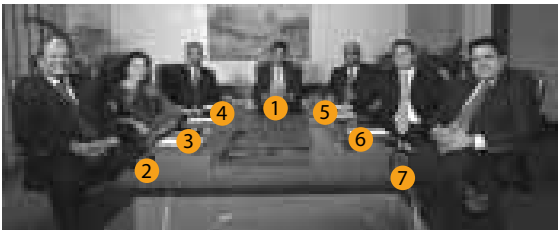
D Manik de Silva Wijeyeratne ACA (Sri Lanka)
- *Director*

Non-Executive Director. Over 30 years of varied post qualification experience in Accounting/Finance and Human Resources having worked both in Sri Lanka and overseas, holding senior positions in the private sector and the NGO sector. Served as CFO of Comsip Al A'ali WILL, a large Electrical and Instrumentation Company based in Bahrain (a subsidiary of GEC Alstom, a large French Electrical & Engineering Company), the Director Finance, Administration and Human Resources – IUCN Pakistan Country Office (one of the biggest NGOs in the field of environment) and CFO of the Pership Group of Companies.

Sarath Ratwatte FCMA (UK)
- *Director*

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

Executive Committee



1. Manjula de Silva

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

Managing Director

Profile appears on page 17.

2. Lalith Fernando

CMSLIM, EDDBA (Colombo), CII (Award) UK, MCPM, AMSLITAD,
Certified Professional Marketer (Asia)

General Manager - Marketing and Distribution

Counting over 22 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 also 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).

3. Indrani Weerasinghe

ACII (UK), BSc Hons (J'pura), PgDip Stat (J'pura), Chartered Insurer

General Manager - Life

Indrani joined HNB Assurance in June 2006 and counts over 30 years' experience; including senior managerial positions held at Bartleet Finance Ltd and Union Assurance PLC. She has gained international exposure in New Zealand and Sierra Leone. She was a member of the SLII council in the 2010/2011 period.

4. Niranjana Manickam

ACII(UK),Chartered Insurer

General Manager - General

Serving as the General Manager, General Insurance at HNB Assurance for nearly 3 years since joining the Company in April 2009, Niranjana counts over 25 years of local and international experience in handling all classes of General 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 a Lecturer at the Sri Lanka Insurance Institute.

5. Namal Gunawardhane

BCom Hons (Delhi), BIT (IGNOU)

Head of IT

Joined as the Head of IT in June 2008, Namal has over 8 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 Manager – Business Development and was promoted as the Head of Corporate Business Development in January 2009. He counts over 20 years experience in Business Development, Operations, Branch Coordination, Corporate Marketing, Bancassurance, and Channel Management. He is also a visiting Lecturer for the Postgraduate Unit of the University of Colombo - Management and Finance Faculty. Chandana served at Aviva NDB Insurance PLC prior to joining HNBA.

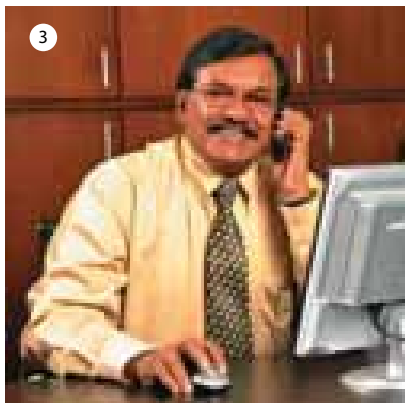
7. Vipula Dharmapala

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 8 years of finance and audit experience at the Company and at Ernst & Young. He is the current Chairman of the Financial Technical Sub Committee (FTSC) of the Insurance Association of Sri Lanka (IASL).

Management Team



1. **Ivan Nicholas**
Head of Distribution

2. **Donald Nandalal**
BSc Eng (Hons), P. G. Dip. B & Fin. Ad (SL)
AMIE (SL)
Manager – Motor Claims

3. **Jude Weerakoon**
AMInstCM (UK), ASSM (UK)
Zonal Manager – Central

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

5. **Asanka Unamboowe**
LUTCF (USA), ACPM
Sales Manager – Bancassurance

6. **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

7. **Hiran Fernandopulle**
BCom (Special) Col
Zonal Manager – North Western

8. **Manikavasakar Puviraj**
BSc Hons (Jaffna), Dip in HR (Moratuwa)
Zonal Manager – North & East



9. **Sajeewa Chandrasena**
*Regional Manager - Uva/
Sabaragamuwa*

10. **A R Bazlin Salih**
Regional Manager - Southern

11. **Vivekanandan Chitparan**
ACMA (UK)
Finance Manager

12. **Hazana Caffoor**
Dip. MGT (Peradeniya)
Manager - Motor Underwriting

13. **Dinesh Udawatta**
BSc Hons (Colombo), AIII, MBA
(Colombo)
Manager - Life Underwriting

14. **Nileshe Amarasinghe**
BSc Hons (Lon), M BUS (Fin) (Syd)
Manager - Investments

15. **Sawan Rodrigo**
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

Management Team



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

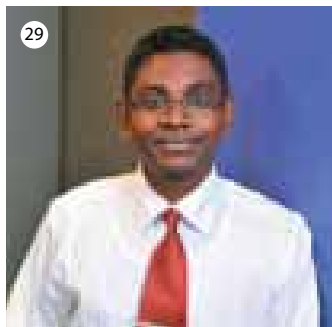
19. Sanjeewani Pitadeniya
DCCM (UK), DIP (SLII), MCPM
Manager-Customer Relations

20. Sitari Jayasundara
Attorney-at-Law & Notary Public
Manager – Legal

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

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

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



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

25. Harindra Ramasinghe
B.Sc. Business Management
Regional Manager –Panadura

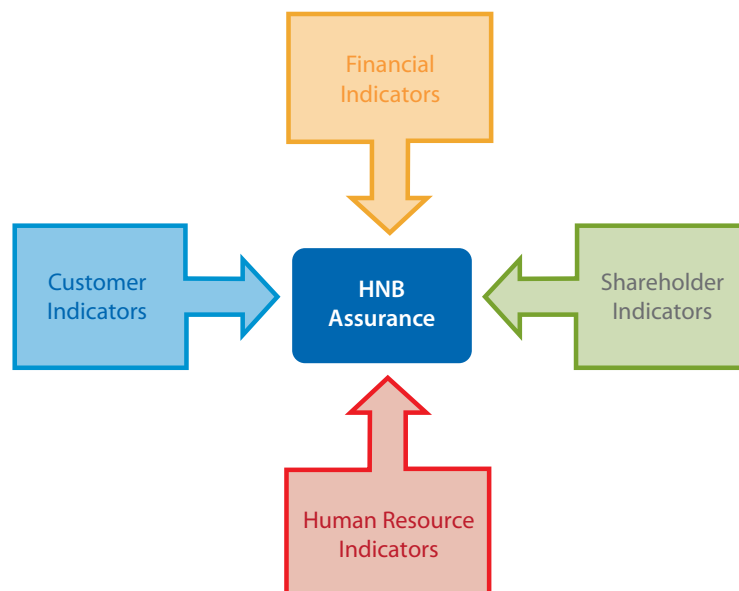
26. Rohan Hemantha
Manager – Internal Control & Compliance

27. M K D J R Miriyagalle
Dip. LIM (USA), LUTCF (USA)
Regional Manager –Gampaha

28. D M S Gunaratne
AIPM (SL), Dip. Bss. Mgt, AMIM (SL) AMITD (SL)
Regional Manager -Colombo South

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

Operational Highlights



Customer Indicators	2011	2010
No. of Life Insurance policies	90,260	79,321
No. of General Insurance policies	115,171	76,680
Insurance Claims & Benefits (Rs. Mn.)	865	648
No. of Claim Assessors	91	97
No. of Branches	51	51
Bancassurance Units	120	98
No. of Premium Collection Centres	1,088	443
No. of New Products	3	3

Financial Indicators	2011	2010
Gross Written Premium (Rs. Mn.)	3,003	2,428
Profit For the Year (Rs. Mn.)	275	242
Return On Equity	17%	24%
General Insurance:		
Net Claims Ratio	69%	68%
Expense Ratio	34%	39%
Combined Ratio	103%	107%

Shareholder Indicators	2011	2010
Market Price Per Share (As at 30th December VWA* Rs.)	56.90	78.00
*Volume Weighted Average		
Basic Earnings Per Share (Rs.)	5.74	5.38 (Restated)
Dividends Per Share (Rs.)	2.10	1.80
Dividend Payment (Rs. Mn.)	105	67.5
Market Capitalisation (Rs. Mn.)	2,845	2,925
Price Earnings Ratio (Times)	9.91	12.33
Net Assets Per Share (Rs.)	32.19	27.10

Human Resource Indicators	2011	2010
No. of Staff:		
Branches	391	368
Head Office	271	229
Total	662	597
Career Development:		
No. of Training Programmes	173	192
No. of Induction Programmes	3	3
Staff Remuneration (Rs. Mn.)	332	281
Field Staff:		
No. of Full Time Trainers	5	6
Pass rate for Life Insurance technical competence test		
- Sinhala Medium	85%	81%
- Tamil Medium	64%	61%
No. of Field Staff	1,451	1,401
Payments to Field Staff (Rs. Mn.)	389	310





Protection

Management Discussion & Analysis

“We have put a solid year of hard work behind us and can now seize the opportunities we see in the emerging new environment.”

Management Discussion & Analysis

OVERVIEW

A decade of professionalism

HNB Assurance entered its second decade of providing protection with a spirit of caring celebrating ten years of professionalism in fulfilling insurance needs.

Over the years we have been able to meet the expectations of our stakeholders in many aspects. We have delivered consistent growth in both revenue and profitability, whilst maintaining sound financial stability. While providing innovative, customised insurance solutions for our customers, we contributed to the national economy and created direct employment opportunities for over 650 Sri Lankans and indirect income generation opportunities through our field sales force for another 1,400. Our endeavours during this decade have been recognised with many awards and accreditations; some of which are noted below.

- Generating an annual combined turnover in excess of one Billion Rupees in the fifth year of operation, becoming the fastest insurance company in the country to reach this milestone. We also crossed the Rs.3 Billion mark in combined turnover in the year 2011 adding another two Billion Rupees to our annual turnover within just five years.
- Being accredited with the second-best rating received by a local insurance company by obtaining 'A (Ika)' ratings for Insurer Financial Strength and National Long Term Rating from Fitch Ratings Lanka Limited.
- The Company's annual report being recognised at an international Annual Report awards competition successively from 2009 and at local competitions consecutively since 2005.

HNB Assurance,

formed in 2001 as the insurance service providing arm of the HNB Group, is a composite insurer providing both Life and General Insurance solutions. In 2003 we obtained a listing on the CSE. Currently, we are the 6th largest insurance provider in the country. Our market capitalisation presently exceeds Rs. 2.8 Billion. Our island-wide distribution network consists of 51 branches.

- The 'HNB Assurance' brand was ranked within the 'Top 100 Brands' compiled by Lanka Monthly Digest (LMD) magazine in association with Brand Finance consecutively since 2008.
- The Company's innovative 'mylife' brand was awarded the Bronze Award in the Best New Entrant category at the SLIM Brand Excellence Awards 2010
- Three members of the HNB Assurance team were recognised and rewarded at the National Sales Congress (NASCO) 2011 conducted by the Sri Lanka Institute of Marketing.

We are indeed happy that our operations are vigilant to the needs of our stakeholders and furthermore for being acclaimed for our endeavours. However, we must also note that much planning and effort went in to achieving such results while operating within the dynamic insurance industry.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GWP (Rs. Mn)	158	348	545	824	1,122	1,472	1,839	2,116	2,428	3,003
PAT (Rs. Mn)	5	36	16	60	91	123	164	202	242	275
EPS (Rs.) (Restated)	0.11	0.80	0.36	1.34	2.03	2.75	3.66	4.49	5.38	5.74
Number of Employees	99	180	208	262	308	377	457	540	597	662

INDUSTRY REVIEW

A resolute player in the field of insurance

The Sri Lankan Insurance industry is dynamic, with the regular arrival of new players and competition amongst the players being intense. During 2011 alone two new players entered the market, increasing the total number of licensed insurance companies to twenty one. In addition to this the National Insurance Trust Fund (NITF) also engages in insurance business. Accordingly, the number of active players in the market is also twenty one (one Company's licence has been temporarily suspended by the Insurance Board of Sri Lanka). Twelve companies including HNB Assurance PLC are composite insurers, providing both Life and General Insurance solutions while six engage only in General Insurance business and the remaining three cater only to Life Insurance customers.

According to the available information during 2011, premium income from the insurance sector is expected to exceed Rs. 80 Billion and a growth of 17% is expected over the Rs. 68.5 Billion recorded in 2010. The contribution from General Insurance is expected to increase to 56% of the total GWP from 55% in 2010 while the contribution from Life Insurance is expected to decrease to 44% from the 45% in 2010. We also expect that industry growth will be slightly lower than last year, recording a 17% growth compared to the 20% achieved in 2010. General Insurance GWP is expected to grow by 21% whilst Life Insurance GWP is expected to grow only by 13%.

HNB Assurance is expected to outperform the industry in terms of growth in top line, with combined GWP growth reaching 24% whereas industry growth is expected to be around 17%.

Both General and Life Insurance business lines are also expected to outdo market growth. The Company achieved a 27% growth in General Insurance business while the industry is estimated to have grown by around 21%. The Life Insurance business of the Company grew by 19% whereas the industry is estimated to have grown only by 13%.

Sri Lankan Insurance Industry and HNB Assurance

Year	2007	2008	2009	2010	*2011
Insurance Industry					
Life (Rs. Mn.)	20,729	23,613	23,767	31,151	35,185
General (Rs. Mn.)	31,156	34,553	33,485	37,342	45,073
Total (Rs. Mn.)	51,885	58,166	57,252	68,493	80,258
Industry Growth	21%	12%	(2%)	20%	17%
General:Life	60:40	59:41	58:42	55:45	56:44
HNB Assurance					
Life (Rs. Mn.)	768	914	985	1,084	1,291
General (Rs. Mn.)	705	925	1,131	1,344	1,712
Total (Rs. Mn.)	1,473	1,839	2,116	2,428	3,003
HNBA Growth	31%	25%	15%	15%	24%
General:Life	48:52	50:50	53:47	55:45	57:43

* Industry figures for 2011 are estimated based on available information.

The GWP mix of the Company reflected the industry mix of 55:45 from General Insurance and Life Insurance respectively in 2010. However, the Company's GWP mix of General and Life Insurance has changed to 57:43 in the year 2011 compared to the 56:44 position in the industry in year 2011.

The local insurance industry is highly concentrated and could be segregated into two segments in terms of market share. 80% of the market is held by five large players, each holding in excess of 8% of the market and the balance 20% is shared by smaller players including new entrants. HNB Assurance is expected to continue leading the smaller players and hold the 6th position in terms of market share. Further, we expect our overall market share to improve from 3.55% in 2010 to around 3.74% in 2011. Market shares in both General and Life Insurance markets are also expected to increase to 3.8% (2010: 3.6%) and 3.7% (3.5%) respectively in 2011.

Management Discussion & Analysis

REGULATORY REVIEW

Within the regulations that govern us

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). During the year, certain changes to this Act were carried out through the Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011. Some of the salient features that were introduced through the new Act are;

- Institutions to be allowed to act as Agents of insurance companies.
- All insurance companies to be segregated as Long Term Insurance (Life Insurance) companies and General Insurance companies, by 2015.
- All insurance companies to be listed in the Colombo Stock Exchange within the next five years. All new entrants must list within three years of operation.
- IBSL vested with the power to decide the minimum stated capital.
- National Insurance Trust Fund (NITF) brought under the scope of the Regulation of Insurance Industry Act and the purview of IBSL.
- IBSL approval to be obtained when new directors are appointed.
- Loss Adjusters to be registered with the IBSL.

The IBSL has drafted a set of regulations pertaining to the registration of institutional agents and the industry has given its feedback on same through the Insurance Association of Sri Lanka (IASL).

The legislation introduced to segregate Life and General insurance businesses will have certain unfavourable impacts on existing companies. However, the IBSL has not yet finalised a structure for such segregation and the Company is actively involved in the industry's dialogue with the IBSL in this regard.

The minimum Stated Capital requirement for new insurance companies was changed during the year 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 General 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, IBSL has not yet stipulated a timeline for that. 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 ensuring an early compliance with the proposed rule.

The year also witnessed changes in Solvency Margin Rules and Determination -1 on Approved Assets. Some of the salient changes were;

- Investments on debt securities issued or fully guaranteed by any Foreign Government or a Central Bank of any foreign country is allowed up to a maximum limit of 20% of total admissible assets.
- Investments in deposits have been liberalised and deposits in registered finance companies are allowed up to 10% of Admissible Assets.
- Investment in gold is allowed up to 20% of Admissible Assets.
- Investments in Corporate debt instruments with an investment grade rating permitted up to 10% of Admissible Assets.
- Government Securities should be valued at the prevailing market value (Previously valued at Amortised Cost of the security).

During the year, the IBSL revised regulatory reporting formats given to insurance companies. Accordingly all insurance companies send quarterly information in a more detailed manner to the IBSL which in turn has allowed IBSL to have a closer supervision of the industry.

Further the IBSL has already commenced work for 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.

In addition, the Institute of Chartered Accountants of Sri Lanka (ICASL) has decided to implement Sri Lanka Financial Reporting Standards (SLFRS), which are in line with International Financial Reporting Standards (IFRS) with effect from financial years beginning on or after 1st January 2012.

HNB Assurance's response to significant changes in regulatory requirements

Regulatory Changes	HNB Assurance's Response
Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011	
All insurance companies to be listed in the Colombo Stock Exchange (CSE) within the next three years.	HNB Assurance is already listed in the CSE since 2003.
All insurance companies to be segregated as Long Term Insurance (Life Insurance) companies and General Insurance companies, by 2015.	The Company is working actively with an Industry Committee comprising both the regulator and representatives from the industry
IBSL is vested with the power to decide the minimum stated capital.	The Company has already increased its Stated Capital to Rs.1,172 Million from Rs. 375 Million last year.
IBSL approval to be obtained when new directors are appointed.	The Company did not appoint any new Directors during the year.
Institutions are allowed to act as Agents of insurance companies.	IBSL is yet to finalise the guidelines for this Rule
Other Regulatory Changes	
Revisions to Solvency Margin Rules.	The Company is in compliance with the revised Solvency Margin Rules.
Revisions to Determination 1.	The Company is in compliance with the revised Determination 1.
Revisions to Regulatory Reporting Formats.	The Company has submitted its Regulatory Returns to IBSL in the new format.
Implementation of RBC from 2015	The Company by itself as well as together with the industry is working towards implementation of RBC with effect from the stipulated timeline.
Implementation of SLFRS from 2012	The Company has appointed a cross functional Committee to work on the implementation of SLFRS. Also the Company appointed M/S KPMG Ford Rhodes, Thornton & Co. to assist in the SLFRS implementation process which is in progress currently. The Company is also working with the industry to ensure a consistent application of the standards.

Management Discussion & Analysis

ECONOMIC REVIEW

World Economy

Global Economic Disarray in Need of Swift Rectification

The world economy is yet in the process of extricating itself from the recent financial crisis and recovery continues to be slow and uncertain. Slow, mainly because advanced economies did not perform as expected and uncertain, because overall fiscal and financial positions have remained volatile. The globe is thus expected to undergo a dismal period in terms of its economy, while the uneven expansion between advanced and emerging economies witnessed in the past years is expected to continue.

Decelerating Global Economic Activity amidst Quivers

To add to its economic burdens, the global economy was also the subject of many unanticipated tremors during 2011, resulting in a significant deceleration of activities. The earthquake-cum-tsunami in Japan and the turbulence that persisted in the Middle Eastern countries proved to be extremely costly, as Japan and the Middle East are the key players in the global car and oil markets, respectively. The tense financial status of the European economy also exerted pressure on the global economy, increasing the downside risks on growth and inflation. The US too did not perform as expected in terms of external rebalancing, and is therefore widely expected to face further deteriorating financial conditions. Although the emerging economies performed mostly in line with forecasts, the cumulative impact of the occurrences in other parts of the world impeded the growth of the global economy in 2011 when compared with 2010.

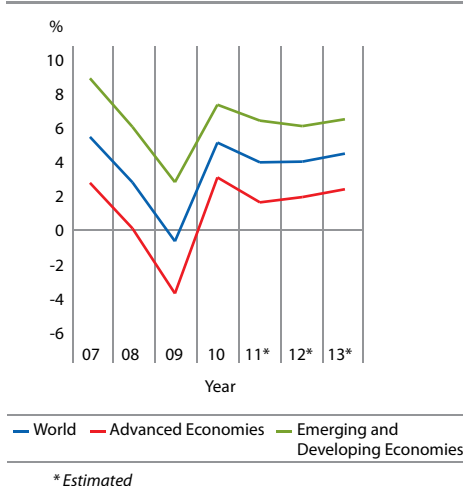
Worrisome Growth and Uneven Consumer Prices

The effects of these issues have been persistently worrisome in advanced economies and hence the IMF does not expect such economies to pick up significantly. They are more likely to encounter a slow journey accompanied by hurdles, with the EURO area and the US facing a large scale economic slowdown. Emerging economies on the other hand, reflect more resilience and, although uncertainty, capacity constraint, slowing foreign demand and the risk of overheating do exist, growth is expected to remain stable.

The world economy is thus forecasted to grow only by 4% in both 2011 and 2012, 1% slower when compared with the growth of 5% in 2010. In terms of segments, advanced economies are expected to grow by 1.9% in 2012, up from

the 1.5% expected for 2011, while emerging economies are only expected to grow by 6.1% in 2012, down from the 6.4% expected for 2011.

World Economic Growth - Advanced and Emerging Economies



The Future: Achieving Strong, Balanced and Sustainable Growth

The world, with these many shocks and unfavourable economic events, is in dire need of strong, balanced, and sustainable growth. Although economic advocates have consistently requested countries to maintain strong fiscal and monetary stances, the responses have been both slow and weak, resulting in the current catastrophic situation. Hence, the need for strong policies to counter these adverse effects is more prominent today than at any other period.

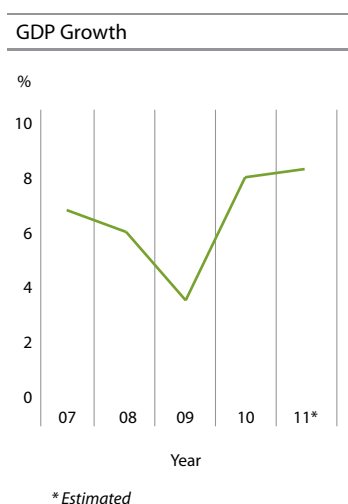
The objective of balancing must be achieved both internally and externally. Internally, balancing should focus on shifting from providing fiscal stimuli towards incentivising private demand. The goal is to achieve strict levels of fiscal consolidation, in addition to abstaining from excessive reliance on monetary policy. Externally, advanced economies with current account deficits should generate more foreign demand while emerging markets with current account surpluses should generate more domestic demand.

In a situation where both advanced and emerging markets are faced with considerable risks, strong policy action, with specific focus on fiscal policy, monetary policy and external rebalancing, is necessary to effectively curtail such threats. All these policies must take a cautious yet accurately paced approach so that neither the growth nor the credibility of the economies is compromised.

Sri Lankan Economy

Sri Lanka: Flame of Growth Continues its Resolute Glow

As widely expected, the Sri Lankan economy continued its growth momentum achieved in 2010 to 2011 as well, with estimates indicating that the country's GDP expanded by a phenomenal 8.3%. This is the highest ever GDP growth figure achieved by the Sri Lankan economy in its history (previous highest being 8.2% in 1978) and gives a broad hint that the potential of the economy is pointing in a positive direction. The recent trend indicates another milestone in the economic journey of the island nation as it is the first instance where economic growth of over 8% was recorded in two consecutive years (2010: 8%).



Overall Expansion Supplemented by Comprehensive Sectoral Growth

The progressive growth of the local economy was amply supplemented by the growth in all three of its main sectors. Although agriculture experienced a slight hiccup in the first quarter, declining by 5.1% due to the impact of natural disasters, it regained strength in the following quarters to end recording a marginal but positive growth of 2%. The industry and service sectors, nevertheless, continued to progress confidently through the year and are estimated to have grown by 10.1% and 8.6% respectively. In terms of contribution, the economy continued to depend on the services sector, which contributed to 58% of total GDP while industry and agriculture are estimated to have contributed to 30% and 12%, respectively.

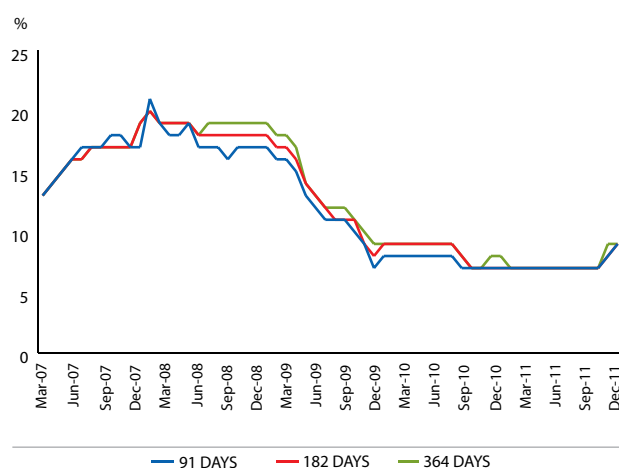
Vigilant and Stable Monetary Policy

The Central Bank of Sri Lanka opted for stability in terms of monetary policy during 2011. The policy rates of the CBSL did not undergo any significant changes in the year after the only revision that occurred in January 2011 when the Repurchase Rate and the Reverse Repurchase Rate were revised downwards by 25 basis points and 50 basis points respectively. Following this adjustment, the Repurchase Rate remained at 7.00% and Reverse Repurchase Rate remained at 8.5%.

The Central Bank however, did engage in active monetary policies to absorb the excess liquidity that persisted in the economy. Accordingly, in April 2011 the Statutory Reserve Ratio was increased to 8%. Monetary expansion for the year was nevertheless higher than expected. By October 2011, Broad Money (M2b) had recorded a 19.8% growth, significantly higher than the growth for 2010 (15.8%) and the target for 2011 (14.5%). A sharp increase was also observed in credit growth, with Credit to the Private Sector increasing by 33.2% by October 2011. This was far in excess of the growth in the deposit base of commercial banks, creating a funding gap in the banking system towards the year end.

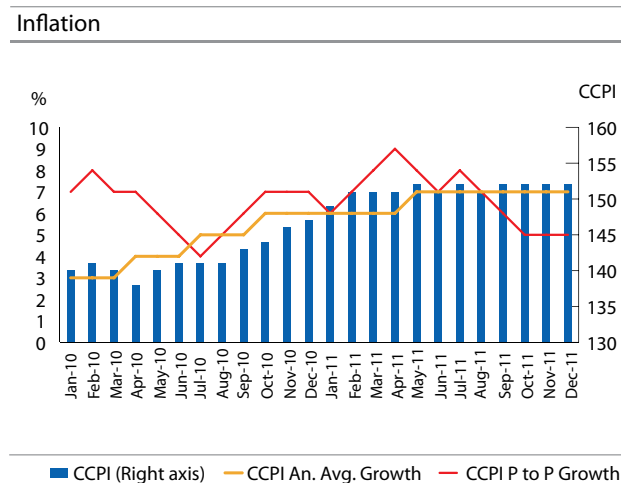
Market interest rates too were considerably stable and only from mid October 2011 did they demonstrate a slight increase. By the year end the Weighted Average Yield for 3 month, 6 month and 1 year Treasury Bills were recorded at 8.68%, 8.71% and 9.31% respectively.

Interest Rate Movements



Management Discussion & Analysis

Contained Inflation despite Unanticipated Money Growth



Despite the higher-than-expected growth in money supply however, the economy was able to control its commodity prices successfully. Inflation, both annual average and point-to-point, took a high ride during the first half of the year but moderated during the fourth quarter. The annual average rate, which stood at 6.1% in January 2011 rose to a high of 7.20% in September and ended the year at 6.7%, while year-on-year inflation was recorded at 4.9% by December 2011.

The stability in domestic prices is widely attributed to supply side improvements. However, the potential for negative risk is not completely mitigated as the country possesses a significant exposure to volatilities persisting in international commodity markets due to its high import dependence.

Fiscal Restraint Leading to Lower Budget Deficit

The fiscal deficit, which was recorded at 8% of GDP in 2010, is estimated to have declined to below 7% levels in 2011. Such a decline, in spite of the Government's broad investment agenda, is mainly achieved by the expansion in revenue sources. Nevertheless, attempts were made by the Government to reduce its expenditure by mainly cutting down on the current expenditure portion without compromising on public investment. The fiscal vigilance has further lead the debt- to-GDP ratio for Sri Lanka to decline to 78% in 2011 from 82% in 2010.

Amplified Investment Volume Paving the Way for Capacity Expansion

The year 2011 witnessed the Government spending heavily on investment projects while private investments also soared. Despite public investment as a proportion of GDP declining from 6.4% in 2010 to 6% in 2011, many Government investments projects, especially those focusing on areas such as road development, ports, power and energy, irrigation, water supply and sanitation, continued to uplift the potential of the economy. Private sector investments also ascended during the year, specifically in areas such as tourism, information and communication technology and business process outsourcing.

Unprecedented growth witnessed in the tourism industry contributed positively towards vitalizing investments. 855,975 tourists graced our land during 2011, which was a 30.8% increase when compared with 2010. The growth in tourism has enabled the industry to increase its presence in the composition of GDP, to a share of 1.4%. Positive publicity on Sri Lanka as a most sought after tourist destination will facilitate further expansion in tourism in 2012, with internationally reputed hoteliers already having expressed their willingness to invest in Sri Lanka.

In 2011, many events occurred to improve the image of Sri Lanka in the international sphere. Reputed international rating agencies, namely, Fitch Ratings, Moody's Investors Service, and Standard & Poor's Ratings (S&P) upgraded the sovereign rating for Sri Lanka. The economy's position in terms of global ranking indices also advanced, being ranked 89th in the Doing Business Index (2010: 98th) and 52nd in the Global Competitiveness Index (2010: 62nd).

	2009	2010	2011
Fitch	B + Negative	B + Positive	BB - Stable
S&P	B Negative	B + Stable	B + Positive
Moody's	Not rated	B1 Stable	B1 Positive

External Sector Robust amidst Global Slowdown

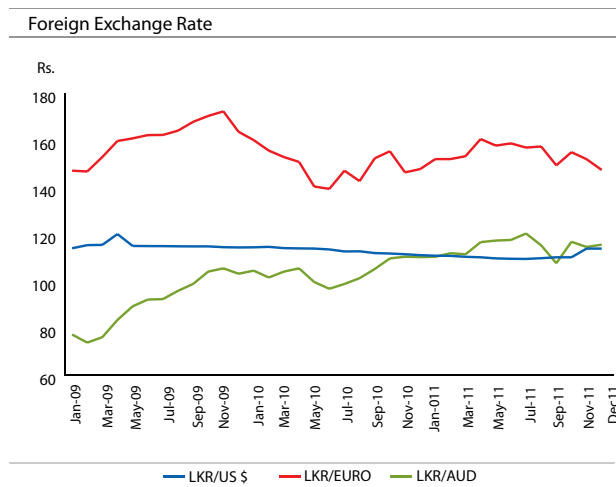
Despite the continued slowdown in global economic activities, the external sector of the Sri Lankan economy remained robust. In total, external trade accounted for 51.6% of GDP, up from 44.4% in 2010. Export earnings increased by 23% in 2011, benefiting significantly from growth recorded in textiles and garments, tea and rubber products. Greater value addition enabled local exports to remain competitive in responding to global demand. Imports too accelerated recording a growth of over 50%, with significant increases in

investment, intermediate and consumer goods. A significant growth is estimated to have been achieved particularly in terms of motor vehicle imports.

Of particular interest is the recent development in terms of worker remittances. During the year, worker remittances sailed to unprecedented heights and became the largest source of foreign exchange in the Sri Lankan economy, accounting for 8.8% of GDP.

The cumulative effect of these factors was that the trade account was maintained at a deficit as at the year end. However, the high growth in worker remittances and the inflows to the services account have contributed towards offsetting the deficit in the trade account. Gross official reserves, which had increased significantly over the year, were approximately equivalent to 4 months of imports as at the year end.

Exchange Rate compulsorily devalued



Due to consistent intervention by the Central Bank by absorbing or injecting liquidity in to the foreign exchange market where necessary, the exchange rate of the Rupee against the US Dollar was maintained at a stable level up to November 2011. The Budget 2012 however, provided for an immediate 3% devaluation of the Rupee against the US Dollar, with a view to promoting greater exports. Nevertheless, continued attempts by the Central Bank to maintain stability of the Rupee were observed in the period immediately following the compulsory devaluation, indicating signs of a further weakening. The Rupee against the US Dollar closed at Rs. 113.90 for 2011 while the Rupee against the Euro and the Australian Dollar closed at Rs. 147.42 and Rs. 115.58, respectively.

Undelivered Optimism at the Colombo Stock Exchange (CSE)

Despite being the best-performing Asian stock exchange in 2010, the immense optimism associated with the CSE did not materialise in 2011. The positive sentiments, which continued a few months into the year, reversed during the second half. By the end of the year, the All Share Price Index (ASPI) had declined significantly by 8% while the Milanka Price Index (MPI) had experienced a greater debacle, falling by 26%. These figures give rise to further concern when compared with the substantial growth recorded in ASPI (96%) and MPI (83%) in 2010.

The lethargy related to the market also diminished the opportunity for the series of IPOs planned for the year initially. Only 13 of these planned IPOs were issued during the year, raising Rs. 19 Billion. The year also witnessed 26 rights issues which, in total, raised funds worth Rs. 26 Billion. The price-to-earnings ratio of CSE declined from 16.5 times in 2010 to 15.82 times in 2011 and the market capitalisation as at the year-end was Rs 2,214 Billion.

Prospects for 2012: Will the Flame Continue?

Policies implemented as per Budget 2012 are largely expected to facilitate economic growth and to address fiscal deficits by broadening the tax base and restraining spending. The budget also facilitates consumption, productivity, investment and freer cross border capital flows which will all in turn supplement the broadening of economic activity.

The expansion of the economy of Sri Lanka is forecast to remain at 8% - 9% in 2012, facilitated by the growth of all three of its sub-sectors. Large scale private and public investment projects are envisaged to be the main contributor for such expansion, which in turn would generate greater employment opportunities and higher consumption levels.

With prudent policies and timely management, the economy of Sri Lanka appears ready to rejuvenate its growth momentum in 2012.

Management Discussion & Analysis

STRATEGIC FOCUS

The strategic direction of the Company for the short and medium terms is determined at the Corporate Planning sessions held each year. The senior management team of the Company led by the Managing Director discuss and agree on the plan for the next three years, which is then submitted to the Board for review and approval. Thus, the planning sessions conducted in 2011 covered the period 2012- 2014.

Initially, an internal and external environment analysis was done from which strengths, weaknesses, opportunities and threats were identified in the form of a SWOT analysis for the Company and goals were set to exploit the opportunities and mitigate the threats, by capitalising on our strengths and minimising our weaknesses. Next, detailed strategies were formulated to achieve these goals.

Plans thus agreed are encompassed in to the Corporate Plan and the strategies are further broken down to action plans which trickle down as KRAs (Key Result Areas) of the senior, middle and operational management teams of each division. The objectives and targets set were realistic yet ambitious and focused on the achievement of the Company's vision and mission in the long run while ensuring goal congruence amongst the various divisions.

The key areas of strategic focus and the related goals for 2011 and the progress made against them, as well as the plans for 2012 are summarised below.

Key areas of strategic focus

Area	Strategies	Performance in 2011	Plans for 2012
General Insurance	<ul style="list-style-type: none"> Accelerate growth of business from identified profitable segments through the branch network Scaling down some of the unprofitable corporate business Increase the capture of profitable corporate business Improvement and maintenance of healthy loss ratios 	<ul style="list-style-type: none"> Unprofitable clients were identified, some were weeded out while significant rate revisions were imposed on the remainder Combined Ratio improved from 107% to 103% Loss Ratio for Miscellaneous Class improved to 106% from 142% recorded last year General Insurance recorded 27% GWP growth (2010 - 24%) 	<ul style="list-style-type: none"> Review existing Motor and Non-Motor product portfolio Focus more on profitable Non-Motor products Introduce innovative new products Increase Market Share in General Insurance
Life Insurance	<ul style="list-style-type: none"> Place greater focus on regular premium endowment policies Introduce new products of a non-participatory nature Accelerate the growth of MRP business 	<ul style="list-style-type: none"> Premium from regular premium policies grew by 24% and the number of policies grew by 19% Two new products were introduced during the year of a non-participating nature ('myfund,' myfreedom) 62% growth achieved in MRP over last year 	<ul style="list-style-type: none"> Record higher growth in Life Insurance Continue to develop products of a non-participatory nature Redesign selected existing products Improve competitiveness of MRP product Reduce lapsation through advisor and customer awareness Increase Market Share in Life Insurance

Key areas of strategic focus (Contd.)

Area	Strategies	Performance in 2011	Plans for 2012
Distribution Network	<ul style="list-style-type: none"> Restrict branch expansion only to two more branches in 2011 Improve the productivity of branches and the field force Develop alternate distribution channels 	<ul style="list-style-type: none"> Branch network expansion was momentarily frozen in 2011 with greater emphasis placed on upgrading existing branches GWP per employee increased to Rs. 4.54 Mn from Rs. 4.07 Mn recorded last year. 	<ul style="list-style-type: none"> Develop alternate channels to promote high margin products Monitor and review existing business channels and branches Strengthen Bancassurance channel beyond Life Insurance Target migrant workers in overseas markets Expand bancassurance network to cover 30 more HNB branches
Information Technology	<ul style="list-style-type: none"> Complete implementation of the core application Use of technology to provide low cost solutions to meet customer needs 	<ul style="list-style-type: none"> Implementation of the General Insurance module was completed Agency Management, Commissions and RI modules added to core system Implementing a BI solution for Life Insurance SMS services, mobile receipting and launch of trilingual website 	<ul style="list-style-type: none"> Develop overall framework for generation and sharing of Management Information Complete implementation of Finance Module Implementing a BI solution for General Insurance
Brand Awareness	<ul style="list-style-type: none"> Develop a brand awareness and advertising strategy 	<ul style="list-style-type: none"> Brand awareness through field promotions, advertising via print and electronic media Successful mass media campaign for 'myfund' Product 	<ul style="list-style-type: none"> Create brand awareness through focused advertising Develop a mass media campaign for other selected products Establish a strong presence on internet and social media
Human Resources	Implement the new HRIS	<ul style="list-style-type: none"> Successful implementation of HRIS which automated the major HR processes 	<ul style="list-style-type: none"> Implement various programs to achieve the goal of "Sustainable Development through Continuous Learning" which is the theme for the year Decentralise sales trainings by locating trainers in the regions Introduce online goal setting and regular assessment through HRIS Create a shift towards a 'development culture' Promote the use of e-learning facilities in the Company

Management Discussion & Analysis

Key areas of strategic focus (Contd.)

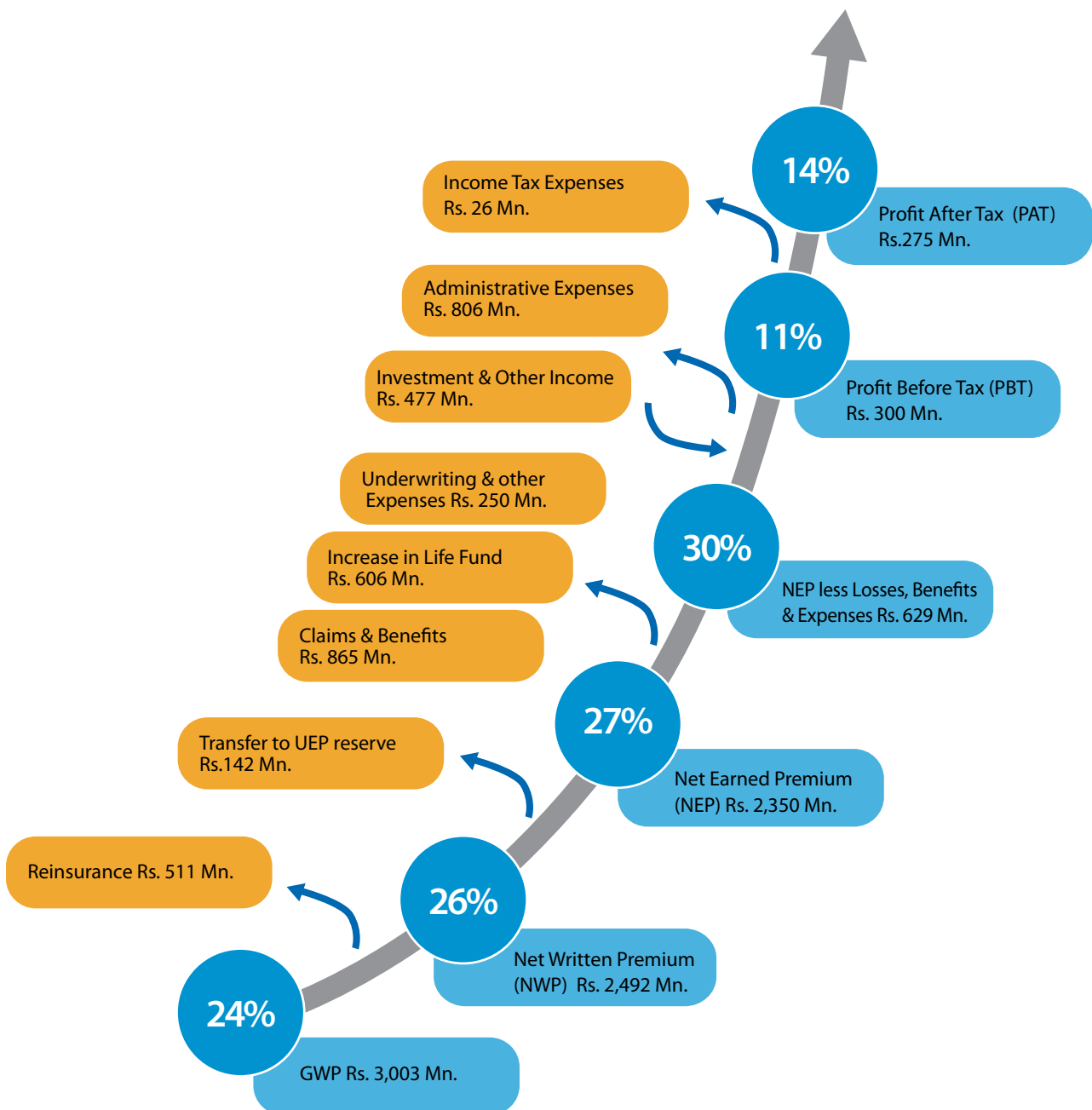
Area	Strategies	Performance in 2011	Plans for 2012
Expense Management and Investment Return	<ul style="list-style-type: none"> Reduce the expense Ratio Improve the Investment Returns 	<ul style="list-style-type: none"> Expense Ratio was reduced from 38% to 34% in General Insurance and from 65% to 62% in Life Insurance Investment Returns were badly affected from the poorly performing Equity Market. However, the Company's fixed income investment instruments delivered returns well above the market rates 	<ul style="list-style-type: none"> Carry out a process study to address cost management issues Explore new investment options to improve the investment returns Improve the Expense Ratio further
Customer Service	<ul style="list-style-type: none"> Introduce new premium collection methods Use of technology for improved customer service Introduce new products 	<ul style="list-style-type: none"> Number of new premium collection centres were added Mobile receipting instruments were introduced New SMS based services (Renewal Notices, Payment Reminders, Payment Acceptance Notifications, etc.) were introduced Number of camera phones given to assessors were increased Launching a new Web Site with trilingual capability and many more customer-centric features 3 attractive new products were introduced to serve customers better Declared a unique Loyalty Bonus to Life Insurance Customers Expanded Direct Debit Claim payment facility to all the Banks in the country 	<ul style="list-style-type: none"> Introduce innovative customer service points Introduce new premium collection methods Introduce more innovative products Further enhance customer service through Customer Relations Centre (CRC) Introduce more SMS based services for customers Introduce fast claim settlement facilities

While performance in 2011 is elaborated in greater detail in the ensuing reviews, plans for 2012 are discussed in the future outlook sections of each of the reviews.

FINANCIAL REVIEW

The close of year 2011 saw HNB Assurance passing yet another milestone in our history, not simply by the successful completion of our 10th year in operation, but being able to mark it with milestone figures in our performance.

Whilst achieving a combined Gross Written Premium of Rs. 3 Billion for the first time in a single year, we also crossed the Rs.2 Billion mark in Net Written Premium during the year. Notwithstanding the achievement in top line, our profit before tax surpassed Rs. 300 Million. Portraying our financial stability, our stated capital now exceeds the Rs. 1 Billion mark whilst our total assets crossed Rs. 6 Billion by the end of the year.



Management Discussion & Analysis

Top-line to Bottom-line

A steadfast top line is our lifeline which enables us to meet the needs of all our stakeholders. Thus, maintaining a sustainable growth in our GWP is considered as an utmost priority. In 2011, we surpassed the landmark figure of Rs. 3 Billion in combined GWP achieving an exceptional growth of 24% over the Rs. 2.4 Billion GWP achieved in 2010. Accumulation of premium was evenly spread through the year and combined growth rates in excess of 24% were maintained throughout the entire year. Healthy growth rates were maintained each quarter as well.

Gross Written Premium (GWP)

Rs. Mn	2007	2008	2009	2010	2011
General	705	925	1,131	1,344	1,712
Life	768	914	985	1,084	1,291
Total	1,473	1,839	2,116	2,428	3,003

Despite the Company's intention to generate equal contributions from General and Life Insurance businesses, General Insurance contributes a greater portion of GWP in the recent years, accounting for 55% and 57% of the achievements in 2010 and 2011 respectively. Contribution made by Life Insurance GWP showed a gradual decline, from 45% in 2010 to 43% in 2011.

General: Life Insurance GWP

	2007	2008	2009	2010	2011
Company					
General (Rs. Mn)	705	925	1,131	1,344	1,712
Life (Rs. Mn)	768	914	985	1,084	1,291
General : Life	48:52	50:50	53:47	55:45	57:43
Industry					
General (Rs. Mn)	31,156	34,553	33,485	37,342	45,073
Life (Rs. Mn)	20,729	23,613	23,767	31,151	35,185
General : Life	60:40	59:41	58:42	55:45	56:44

* Industry figures for 2011 are estimated based on available information.

General Insurance

General Insurance business spearheaded overall performance in GWP recording Rs. 1,712 Million, with a remarkable 27% growth over the Rs. 1,344 Million made in 2010. Phenomenal growth in Motor and Miscellaneous classes, of 30% and 58% respectively, were the key drivers whilst modest growth in Fire and Marine classes, of 9% and 10% respectively, also aided the achievement.

Further details on General Insurance GWP are discussed under the General Insurance Review.

Class Distribution in General Insurance

	2011		2010		Growth	
	GWP (Rs. Mn)	%	GWP (Rs. Mn)	%	%	%
Motor	1,189	69	917	68	30	
Fire	314	18	288	21	9	
Marine	26	2	24	2	10	
Miscellaneous	183	11	115	9	58	
Total	1,712	100	1,344	100	27	

Life Insurance

Contributing 43% to the overall achievement, Life Insurance recorded Rs. 1,291 Million in GWP achieving a noteworthy growth of 19% over the Rs. 1,084 Million achieved in 2010.

Mix in Life Insurance

	2011		2010		Growth	
	GWP (Rs. Mn)	%	GWP (Rs. Mn)	%	%	%
Endowment	1,121	87	907	84	24	
MRP	124	10	76	7	62	
Micro	7	0	5	0	40	
Investments	22	2	86	8	(75)	
Group Life	17	1	10	1	82	
Total	1,291	100	1,084	100	19	

Further details on Life Insurance GWP are discussed under the Life Insurance Review.

Reinsurance (RI)

Despite growth in top line recording 24%, growth in total reinsurance outgo was limited to 14%, increasing however from Rs. 449 Million to Rs. 511 Million. Furthermore, reinsurance as a percentage of Combined GWP fell from 19% in 2010 to 17% 2011. General Insurance accounted for 80% of the reinsurance outgo while the remainder was on account of Life Insurance.

The chief reason for the lower reinsurance outgo compared to GWP is the higher GWP contribution by Motor and Medical Insurance classes which require lower levels of reinsurance.

Net Earned Premium (NEP)

Consequent to the excellent growth in General Insurance GWP, a 6% increase was seen in the unearned premium reserve as the Company transferred Rs. 142 Million to be earned as income in 2012. Net Earned Premium rose to Rs. 2,350 Million, achieving an exceptional 27% growth

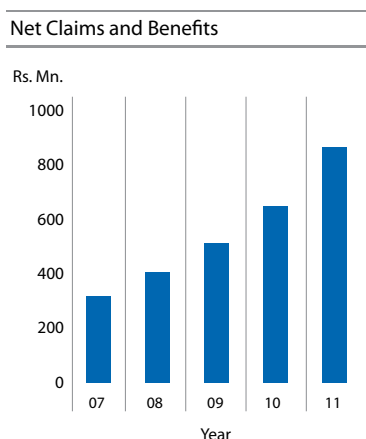
over the Rs. 1,844 Million earned in 2010. Earning 78% of GWP as premium for the year, as against the 76% earned in 2010, permitted the Company to have a much larger base of earned premium to set off against claims and benefits as well as expenses. General Insurance NEP accounted for 49% of total NEP while 51% was from Life Insurance.

Claims and Benefits

During the year 2011, Company paid Rs. 865 Million as Claims and Benefits to our valued customers, a 33% increase from the Rs. 648 Million paid during the previous year. 93% of Claims and Benefits were paid to General Insurance customers whilst the balance 7% was paid to Life Insurance Customers.

Since we are a relatively young Company, most of the Life Insurance policies underwritten have not yet matured, thus giving rise to only a few maturity claims.

This situation will change considerably in 2012, as the initial set of ten year endowment policies start to complete their policy period while a substantial number of Investment policies too are due to mature during the year.



Net Acquisition Costs

During 2011, the Company incurred 10% of its NEP as Net acquisition costs (2010: 9%), comprising commission and other acquisition costs paid to intermediaries, net of reinsurance commission and profit commission received from reinsurers. Net acquisition costs showed an increase of 41% from Rs. 165 Million to Rs. 232 Million during the year.

Of the Net Acquisition Costs 96% is attributable to Life Insurance since the commission cost is high in Life Insurance as well as due to the relatively low Reinsurance Commission. Contribution to Net Acquisition cost in General Insurance is low since Reinsurance Commission is high in General Insurance.

Investment Income

Recording a decline of 8% for the first time in Company history, investment Income dropped to Rs. 475 Million from the Rs. 517 Million achieved in the preceding year. The low interest rate environment, where yields steadily declined till the last few months of the year, made a significant imprint on the investment income.

Making matters worse, continuous poor performance of the CSE hampered all prospects of growth, as the Company had to absorb Rs. 35.5 Million as unrealised losses on equity investments despite maintaining our equity exposure as low as 6% of our funds under management.

Other Operating, Investment Related and Administration Expenses

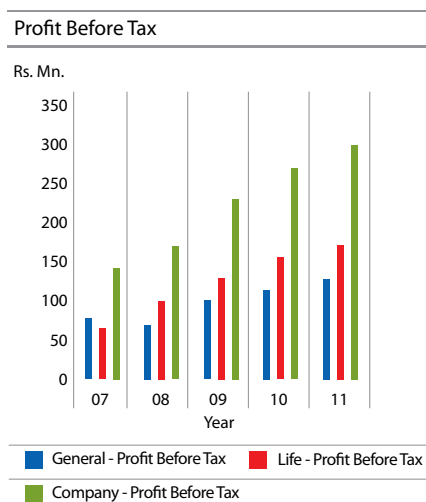
Salaries, administration expenses, depreciation, amortisation, investment related expenses, finance costs and all other expenses not included in above are taken into this category. Operating costs increased to Rs. 806 Million, a 10% increase from the Rs. 731 Million incurred in 2010.

The Company strategically opted for a tight but prudent management on expenses and practiced it at all levels, which bore fruit in terms of reducing the operating costs to 34% of the NEP as against the 39% recorded in 2010.

Of operating costs, 54% were from Life Insurance whilst the balance 46% was from General Insurance.

Profit Before Tax (PBT)

The year 2011 turned out to be a moderate year for profitability, with the Company recording a profit before tax of Rs. 300 Million, with an 11% increase when compared to the Rs. 270 Million achieved in 2010.



Management Discussion & Analysis

The 10% increase in the Surplus Transfer from the Life Fund, from Rs. 156 Million in 2010 to Rs. 172 Million in 2011, contributed to 57% of PBT. This surplus was calculated by the Consultant Actuary following his valuation of the Life Insurance Fund at the year end, keeping due allowances for all liabilities including bonuses for Life Insurance Policyholders.

General Insurance PBT grew by 13% to record Rs. 128 Million over the Rs. 114 Million made in 2010. The high levels of claims experienced during the year coupled with the low investment income which was adversely affected by the poor performance of the equity market, all made a negative impact on General Insurance profitability.

Nevertheless, the Company was able to leverage on its strong top line whilst reducing its expenses substantially, through carefully planned strategies, to provide a satisfactory rate of growth on returns to its shareholders.



Vipula Dharmapala
Head of Finance

The Company was able to manage the Combined Ratios in both General Insurance and Life Insurance well below last year's levels. General Insurance achieved a Combined Ratio of 103% compared to 107% recorded last year whilst Life Insurance achieved a 62% Combined Ratio as against 65% recorded last year.

Income Tax Expense

With the income tax rate applicable to the Company decreasing from 35% in 2010 to 28% in 2011, income tax expense declined by 7% to fall to Rs. 26 Million from the Rs. 28 Million incurred in the previous year. As per the income tax regulations in the country, Life and General Insurance profits are taxed separately. Life Insurance business is yet running at tax losses and therefore the total tax exposure is attributed to General Insurance.

Profit After Tax (PAT)

Despite having to face adverse external impacts as discussed above, the Company successfully delivered a 14% growth in profit after tax, which amounted to Rs. 275 Million as against the Rs. 242 Million in 2010. The significant growth in top line as well as the prudent management of expenses, improvement in underwriting results and also the 10% growth in the Surplus Transfer from the Life Insurance Fund, could be cited as key towards this growth.

With a lot of hard work, the Company was able to manage the Combined Ratios in both General Insurance and Life Insurance well below last year's levels. General Insurance achieved a Combined Ratio of 103% compared to 107% recorded last year whilst Life Insurance achieved a 62% Combined Ratio as against 65% recorded last year. Even though we experienced a higher Claim Ratio for the year due to the increase in claims in General Insurance, we managed the Expense Ratio well below the budgeted levels. Accordingly, the Company was able to achieve a 48% improvement in underwriting results for the year recording a Rs.33 Million Underwriting Loss compared to Rs.64 Million recorded last year. This is a commendable achievement in General Insurance given the sharp competition in the market and the escalating claim costs.

Despite recording a considerable improvement in Underwriting Results which has been the toughest challenge in General Insurance, the Company was unable to achieve a higher profit growth for the year. The main reason for this lower growth in profits was the negative performance in the equity market during the year.

The Company recorded Rs.18.5 Million in General Insurance and Rs.17 Million in Life Insurance, as unrealised losses on the equity portfolio. Had the Equity Market performed as expected, we would not have recorded the above losses and instead could have realised some capital gains.

Reason 3

DELIVERING PROMISES

We may be young, but we have earned a reputation as a dependable Insurer by having delivered our promises, every time.

In addition to the above, the Company, along with all other Insurers, did not receive any profit commission from the NITF for the financial years 2009 and 2010 due to a unilateral decision by the NITF not to pay profit commission. The profit commission due to the Company could be estimated around Rs.20 Million which the Company together with the industry is lobbying hard to collect from the NITF.

Accordingly, we strongly believe that recording a 14% growth in PAT is a highly commendable achievement given the significantly adverse environmental issues, which were way beyond the Company's control. Had we experienced a better equity market and/or received the profit commission from NITF, we would have easily crossed the Rs.300 Million mark in PAT, achieving a growth of around 25%.

Performance - General Insurance

Key Performance Indicator	Response	Goal for 2012												
<p>Gross Written Premium</p> <table border="1"> <caption>Gross Written Premium (Rs. Mn.)</caption> <thead> <tr> <th>Year</th> <th>Gross Written Premium (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>700</td> </tr> <tr> <td>08</td> <td>900</td> </tr> <tr> <td>09</td> <td>1100</td> </tr> <tr> <td>10</td> <td>1300</td> </tr> <tr> <td>11</td> <td>1700</td> </tr> </tbody> </table>	Year	Gross Written Premium (Rs. Mn.)	07	700	08	900	09	1100	10	1300	11	1700	<ul style="list-style-type: none"> Maintained a consistent average growth rate throughout history Rs. 1,712 Million GWP recorded against the Rs. 1,344 Million in 2010 GWP Growth rate was 27% (in excess of the estimated growth rate for the market of 21%) 	<ul style="list-style-type: none"> Cross Rs. 2 Billion mark in GWP Improve the GWP contribution from Non – Motor classes.
Year	Gross Written Premium (Rs. Mn.)													
07	700													
08	900													
09	1100													
10	1300													
11	1700													
<p>Claims Ratio</p> <table border="1"> <caption>Claims Ratio (%)</caption> <thead> <tr> <th>Year</th> <th>Claims Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>62</td> </tr> <tr> <td>08</td> <td>67</td> </tr> <tr> <td>09</td> <td>66</td> </tr> <tr> <td>10</td> <td>68</td> </tr> <tr> <td>11</td> <td>69</td> </tr> </tbody> </table>	Year	Claims Ratio (%)	07	62	08	67	09	66	10	68	11	69	<ul style="list-style-type: none"> Challenging task, insurers have little control over claims Ratio increased to 69% in 2011 from 68% in 2010 Increased the prices in Motor and Medical Insurance significantly Weeding out unprofitable clients and assessing profitability prior to renewal 	<ul style="list-style-type: none"> Expect to bring it down to 67.5% level in 2012 Further strengthen the Underwriting procedures Further increase the prices in Motor and Medical as appropriate Continue to weed out unprofitable clients at renewals
Year	Claims Ratio (%)													
07	62													
08	67													
09	66													
10	68													
11	69													

Management Discussion & Analysis

Performance - General Insurance (Contd.)

Key Performance Indicator	Response	Goal for 2012												
<p>Expense Ratio</p> <table border="1"> <caption>Expense Ratio (%)</caption> <thead> <tr> <th>Year</th> <th>Expense Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>39</td> </tr> <tr> <td>08</td> <td>43</td> </tr> <tr> <td>09</td> <td>42</td> </tr> <tr> <td>10</td> <td>39</td> </tr> <tr> <td>11</td> <td>34</td> </tr> </tbody> </table>	Year	Expense Ratio (%)	07	39	08	43	09	42	10	39	11	34	<ul style="list-style-type: none"> Continuously reduced the ratio from 43% in 2008 to 34% through effective expense management strategies Focused more on Development of the Branch network rather than expansion 	<ul style="list-style-type: none"> Expect to bring it down further by 2012 Will focus more on developing the Branch network for higher performance than expanding Reallocate human resources to distribution activities from operational activities
Year	Expense Ratio (%)													
07	39													
08	43													
09	42													
10	39													
11	34													
<p>Combined Ratio</p> <table border="1"> <caption>Combined Ratio (%)</caption> <thead> <tr> <th>Year</th> <th>Combined Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>101</td> </tr> <tr> <td>08</td> <td>110</td> </tr> <tr> <td>09</td> <td>108</td> </tr> <tr> <td>10</td> <td>107</td> </tr> <tr> <td>11</td> <td>103</td> </tr> </tbody> </table>	Year	Combined Ratio (%)	07	101	08	110	09	108	10	107	11	103	<ul style="list-style-type: none"> Challenging task, in recent years most insurers operate at ratios above 100% Our combined ratio peaked at 110% in 2008. Converted it to a declining trend through carefully planned strategies Ratio dropped to 103% from 107% in 2010. 	<ul style="list-style-type: none"> Expect to bring the Ratio closer to 100% level by 2012
Year	Combined Ratio (%)													
07	101													
08	110													
09	108													
10	107													
11	103													
<p>Profit Before Tax – General Insurance</p> <table border="1"> <caption>Profit Before Tax – General Insurance (Rs. Mn.)</caption> <thead> <tr> <th>Year</th> <th>Profit Before Tax (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>78</td> </tr> <tr> <td>08</td> <td>70</td> </tr> <tr> <td>09</td> <td>100</td> </tr> <tr> <td>10</td> <td>114</td> </tr> <tr> <td>11</td> <td>128</td> </tr> </tbody> </table>	Year	Profit Before Tax (Rs. Mn.)	07	78	08	70	09	100	10	114	11	128	<ul style="list-style-type: none"> Grew by 13% to Rs. 128 Million from Rs. 114 Million in 2010 	<ul style="list-style-type: none"> Maintain a growth in profitability at around 20% levels
Year	Profit Before Tax (Rs. Mn.)													
07	78													
08	70													
09	100													
10	114													
11	128													

Performance highlights – Life Insurance

Key Performance Indicator	Response	Goal for 2012												
<p>Gross Written Premium</p> <table border="1"> <caption>Gross Written Premium (Rs. Mn.)</caption> <thead> <tr> <th>Year</th> <th>Gross Written Premium (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>750</td> </tr> <tr> <td>08</td> <td>900</td> </tr> <tr> <td>09</td> <td>1000</td> </tr> <tr> <td>10</td> <td>1100</td> </tr> <tr> <td>11</td> <td>1300</td> </tr> </tbody> </table>	Year	Gross Written Premium (Rs. Mn.)	07	750	08	900	09	1000	10	1100	11	1300	<ul style="list-style-type: none"> Maintained a consistent average growth rate throughout history Rs. 1,291 Million recorded against the Rs. 1,084 Million in 2010 GWP Growth rate was 19% (in excess of the estimated growth rate for market of 13%) 	<ul style="list-style-type: none"> Reach a GWP in excess of Rs.1.6 Billion by 2012
Year	Gross Written Premium (Rs. Mn.)													
07	750													
08	900													
09	1000													
10	1100													
11	1300													
<p>Premium Persistency Ratio (Endowment Policies)</p> <table border="1"> <caption>Premium Persistency Ratio (%)</caption> <thead> <tr> <th>Year</th> <th>Premium Persistency Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>2007</td> <td>68</td> </tr> <tr> <td>2008</td> <td>70</td> </tr> <tr> <td>2009</td> <td>70</td> </tr> <tr> <td>2010</td> <td>81</td> </tr> <tr> <td>2011</td> <td>79</td> </tr> </tbody> </table>	Year	Premium Persistency Ratio (%)	2007	68	2008	70	2009	70	2010	81	2011	79	<ul style="list-style-type: none"> Unwavering focus maintained on keeping Premium Persistency at high levels Significantly improved the Premium Persistency over last 5 years Maintained a ratio above 78% throughout the year 	<ul style="list-style-type: none"> Expect to increase the Ratio to 80% levels and maintain at that level High focus on Renewal premium collections by various strategies
Year	Premium Persistency Ratio (%)													
2007	68													
2008	70													
2009	70													
2010	81													
2011	79													
<p>Expense Ratio</p> <table border="1"> <caption>Expense Ratio (%)</caption> <thead> <tr> <th>Year</th> <th>Expense Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>07</td> <td>49</td> </tr> <tr> <td>08</td> <td>50</td> </tr> <tr> <td>09</td> <td>57</td> </tr> <tr> <td>10</td> <td>58</td> </tr> <tr> <td>11</td> <td>55</td> </tr> </tbody> </table>	Year	Expense Ratio (%)	07	49	08	50	09	57	10	58	11	55	<ul style="list-style-type: none"> Reduced ratio from 59% in 2010 to 56% in 2011 through effective expense management strategies Focused more on Development of the Branch network than expansion 	<ul style="list-style-type: none"> Expect to bring it down further by 2012 Will focus more on developing the Branch network for higher performance than expanding Reallocate human resources to distribution activities from operational activities
Year	Expense Ratio (%)													
07	49													
08	50													
09	57													
10	58													
11	55													

Management Discussion & Analysis

Performance highlights – Life Insurance (Contd.)

Key Performance Indicator	Response	Goal for 2012
<p>Surplus transfer to Shareholders</p> <p>Rs. Mn.</p> <p>Year</p>	<ul style="list-style-type: none"> Continuous growth maintained throughout history Rs. 172 Million transferred in 2011, a 10% growth over the Rs. 156 Million transferred in 2010 	<ul style="list-style-type: none"> Expect to increase it further with the growth in business
<p>Policyholder Bonus</p> <p>Rs. Mn.</p> <p>Year</p>	<ul style="list-style-type: none"> Continuous growth maintained throughout history Declared Rs. 105 Million as bonus to Policyholders including a Loyalty Bonus of additional 50% on top of the normal annual bonus which is a 94% growth on last year's bonus of Rs.54 Million. Policyholder bonus is discussed in detail in the Life Insurance Review. 	<ul style="list-style-type: none"> Expect to increase it further with the growth in business

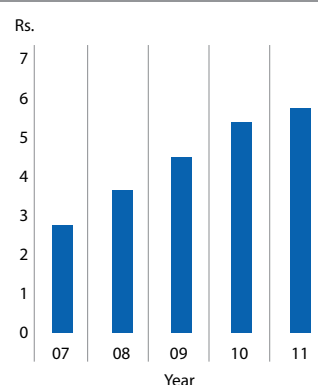
Performance Highlights – Investor focused

Earnings Per Share (EPS)

Considered one of the key indicators of a company's profitability, 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.

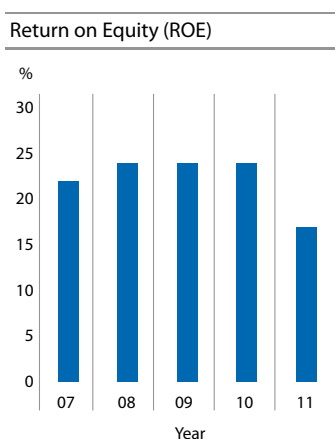
The Company's EPS grew by 7% from Rs. 5.38 to Rs. 5.74 in 2011. Consequent to the Capitalisation of Reserves and the Rights Issue, the number of issued and fully paid shares increased from 37.5 Million to 50 Million and therefore the EPS figure for the past years is restated as per Sri Lanka Accounting Standards.

Earnings Per Share



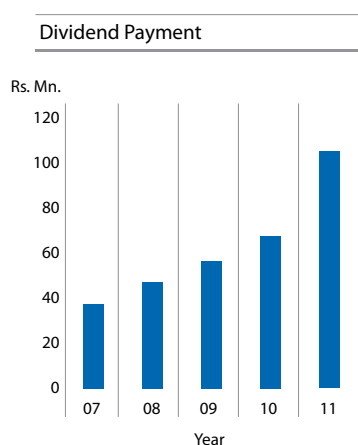
Return on Equity (ROE)

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



Although we have maintained a tradition of consistent growth in ROE, it declined to 17% from 24% in 2010. The key reason behind the decrease is the increase in Stated Capital, as the Company raised new funds through a Rights Issue in May 2011. Thus, new funds were with us only for about 7 months while a considerable time is required to generate high returns from additional funds, which resulted in a decrease in the ROE during the year. However, we are positive that we can again cross the 20% level in ROE within the next 2 years.

Dividends



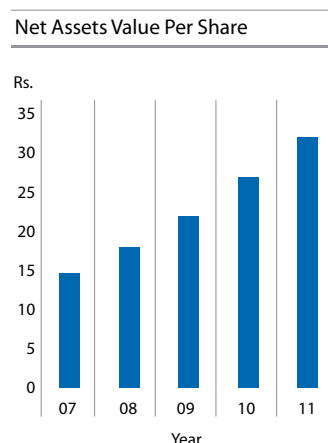
A first and final dividend of Rs 2.10 per share was proposed by the Company, which will result in a total dividend payment of Rs. 105 Million for the year 2011. This shows a 17% growth in dividend per share and a 56% growth in dividend

payment over the last year's dividend per share of Rs. 1.80 and payment of Rs. 67.5 Million respectively. Accordingly, the total dividend payment for the year crossed the Rs.100 Million mark for the first time in the Company's history which is a significant milestone for a Company of this size.

In addition, the dividend payment as a percentage of profits has also increased considerably to 38% from 28% recorded last year.

Net Asset Value per Share

Continuing the consistent average growth trend in assets maintained by the Company, Net Asset Value per share increased by 19% reaching Rs. 32.19 from Rs. 27.10 recorded in 2010.



A Sturdy Balance Sheet

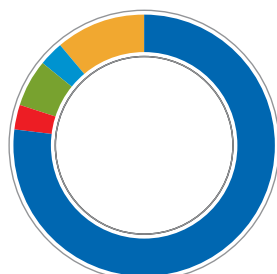
Asset Base

The asset base of an insurer is a portrayal of its financial stability; thus it has been our policy to maintain a sturdy balance sheet. A 33% growth was seen in total assets of the Company during the year, which rose from Rs. 4,548 Million to Rs. 6,036 Million in 2011. In addition to the assets acquired with the business growth, proceeds from the Rights Issue also contributed to the growth in total assets.

Investments comprised 77% of total assets, a detailed discussion of which is included in the Investment Portfolio review. Balance assets consist of premium and reinsurance receivables, cash and cash equivalents, property, plant and equipment, intangible assets and other assets.

Management Discussion & Analysis

Asset Base



Investments - 77%
Property, Plant and Equipment and Intangible Assets - 3%
Premium, Reinsurance & Policy Loan Receivable - 6%
Cash and Cash Equivalents - 3%
Other Assets - 11%

General Insurance Fund

General Insurance Fund Comprises Net Unearned Premium, Claims Outstanding and Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims reserves and Net Deferred Acquisition Costs.

The General Fund grew by 26% increasing to Rs. 924 Million from the Rs. 731 Million in 2010. With the growth in business volumes, provisions for General Insurance; Net Unearned Premium and Net Deferred Acquisition Costs also increased whilst management has taken all reasonable steps to ensure adequate provisioning for Claims Outstanding including provisions for IBNR and IBNER reserves. An Independent Actuary was consulted in the process of valuing IBNR and IBNER reserves and his report is given on page 213.

	2007	2008	2009	2010	2011
General Insurance Fund (Rs. Mn)	341	470	599	731	924
Growth%	7%	38%	27%	22%	26%
Life Insurance Fund (Rs. Mn)	881	1,361	1,854	2,385	2,991
Growth %	74%	54%	36%	29%	25%

Life Insurance Fund

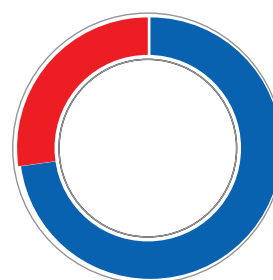
During the year under review, Life Fund grew by 25% from Rs. 2,991 Million to Rs. 2,385 Million. The valuation of the Life Fund was done by a Consultant Actuary; the Report of the Consultant Actuary is given on page 214, and adequate provisions have been made in respect of bonus to policyholders, solvency margins and other contingencies out of the current year's surplus as per the Actuary's Report.

Both the Life and General 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 and in line with rules and guidelines issued by the Insurance Board of Sri Lanka (IBSL).

Shareholders' Funds

Shareholders' Funds in the Company comprises Stated Capital and the Revenue Reserves which is the accumulated profits. The year 2011 showed a significant change in the composition of the Shareholders' Fund due to the Rights Issue and the Capitalisation of Reserves. In addition, the Funds grew significantly due to the proceeds from the Rights Issue.

Shareholders' Funds - 2011



Stated Capital - 73%
Revenue Reserves - 27%

Accordingly, Shareholders' Funds expanded from Rs. 1,016 Million to Rs. 1,610 Million during the year recording a 58% growth over the previous year. Profit for the year net of Dividends for 2010 amounting to Rs. 207 Million also contributed to the increase in Shareholders' Funds.

Initially the Company capitalised reserves amounting to Rs. 406.25 Million by way of issuing 6.25 Million new fully paid Ordinary Shares in the proportion of 1 new Ordinary Share for every 6 existing Ordinary Shares. Accordingly, Stated Capital increased by Rs.406.25 Million with the Capitalisation of Reserves whilst Revenue Reserves

decreased by the same amount. However, there was no change in total Shareholders' Funds at this level.

Thereafter, a Rights Issue was initiated to generate another 6.25 Million new Ordinary Shares on the basis of 1 new Ordinary Share for every 7 Ordinary Shares held by shareholders post Capitalisation of Reserves at an issue price of Rs. 62.50 per share. Consequently, the total number of shares was increased to 50 Million and the Stated Capital increased to Rs. 1,172 Million, a 213% increase from the Rs. 375 Million in 2010.

With the increase in Stated Capital, the Company is now ready to comply with the proposed increase in Stated Capital of Rs. 500 Million for each class of business which is expected to be imposed by the Insurance Board in due course.

Stability of an Insurer

Solvency Margins

The stability of an insurer is measured mainly by the Solvency Margin Ratio imposed by the Insurance Board. As in previous years, adoption of prudent investment policies, monitoring the positions of admissible assets and liabilities continuously and raising additional capital in a timely manner enabled the Company to satisfactorily meet the Solvency Margins criteria, amended in April 2011 by the Insurance Board of Sri Lanka (IBSL), throughout the year in both General and Life Insurance businesses.

General Insurance - Solvency Margin

As at the year end of 2011, the admissible assets in General Insurance amounted to Rs. 1,928 Million while the total liabilities amounted to Rs. 1,106 Million resulting in an Available Solvency Margin of Rs. 822 Million. As the Required Solvency Margin in General Insurance amounted to Rs. 261 Million, the Company was able to maintain the required solvency margin at 3.15 times.

Life Insurance - Solvency Margin

The Company maintained a Solvency Margin Ratio of 2.89 times in Life Insurance by keeping an Available Solvency margin of Rs. 390 Million whereas the Required Solvency Margin was Rs. 135 Million as at the year end. Admissible assets in Life Insurance amounted to Rs. 3,312 Million whilst the total liabilities stood at Rs. 2,922 Million.

Particularly with the new funds raised through the Rights Issue, Solvency position in both Life and General Insurance Businesses has improved considerably.

	2011	2010
General Insurance Business		
1. Value of Admissible Assets (Rs. '000)	1,927,723	1,300,141
2. Amount of Total Liabilities (Rs. '000)	1,105,779	901,125
3. Value of Admissible Assets minus Amount of Liabilities (Rs. '000)	821,944	399,016
4. Required Solvency Margin (Rs. '000)	260,844	198,688
5. Solvency Ratio [Line 3 divided by Line 4]	3.15	2.01
Life Insurance Business		
1. Value of Admissible Assets (Rs. '000)	3,312,085	2,459,534
2. Amount of Liabilities:		
2.1 Policy Liabilities (Rs. '000)	2,704,073	2,162,776
2.2 Other Liabilities (Rs. '000)	217,942	174,893
3. Value of Admissible Assets minus Amount of Liabilities (Rs. '000)	2,922,015	2,337,669
4. Factor	5%	5%
5. Required Solvency Margin (Rs. '000)	135,024	108,139
6. Solvency Ratio [Line 3 divided by Line 5]	2.89	1.13

Management Discussion & Analysis

Approved Assets

Determined 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.

	2011	2010
General Insurance Business		
1. Approved Assets maintained in General Insurance Business (Rs. '000)	1,697,457	1,106,029
2. Technical reserve (Rs. '000)	834,027	658,899
3. Approved Assets in Excess of the Technical Reserve (Rs. '000)	863,430	447,130
4. Approved Assets as a % of the Technical Reserve	204%	168%
5. Required Ratio	100%	100%
Life Insurance Business		
1. Approved Assets maintained in Life Insurance Business (Rs. '000)	3,312,085	2,399,455
2. Life Insurance Fund (Rs. '000)	2,990,998	2,385,246
3. Excess in Approved Assets over the Life Insurance Fund (Rs. '000)	321,087	14,209
4. Approved Assets as a % of Life Insurance Fund	111%	101%
5. Required Ratio	100%	100%

Investment Management at HNB Assurance

It is important for an insurance company to separate the responsibilities of managing the insurance business from managing the investments which back its insurance liabilities and capital. This is mainly due to the scale of investments in an insurance company's balance sheet and the impact of investment results on its profitability. Thus, managing investment portfolios effectively is a key function of an insurance company that can create significant value for the company's policyholders and shareholders. To accomplish this value creation, Investment Management at HNB Assurance uses a systematic and structured investment process focusing on the value drivers that matter most.

Investment portfolios of HNB Assurance, which consist of Life Fund, General Fund and the Life Shareholders' Fund are managed in-house and our investment objective is to focus on maximising total returns while managing the risk exposure appropriately. We maintain a high quality investment portfolio consistent with our clearly documented investment policy.

Performance of the Investment Management function

During 2011, the market environment posted a twofold challenge to the industry in achieving healthy returns on investment portfolios. The historically low interest rate environment reduced the income earned from Fixed Income Securities, while the CSE witnessed a sharp drop in

share prices particularly during the second half of 2011, after experiencing a tremendous growth in the years 2009 and 2010.

These challenging market conditions led to an investment income of Rs. 475 Million in 2011, which is a negative growth of 8% compared to Rs. 518 Million earned in 2010. Interest income reported a marginal growth of 2% under the low interest yields on interest earning assets (Government securities, corporate debt and term deposits) that prevailed during 2011. During the year ended 31st December 2011, the Company was only able to make a capital gain of Rs. 17 Million while it had to absorb Rs. 38 Million of unrealised losses on its equity portfolio.

Funds Under Management

Total Funds under management surpassed the Rs. 4 Billion mark and stood at Rs. 4,737 Million at the end of the year 2011. As of 31st December 2011 General Insurance Funds under management, including Life Shareholders' fund, grew by 66% to Rs. 1,956 Million. (2010 – Rs. 1,178 Million). However it should be noted that during 2011, the Company raised Rs. 391 Million new funds through a Rights Issue which is discussed in detail on page 207. The Fund reflected a growth of 33% excluding the proceeds of the Rights Issue.

The Life Insurance Funds under Management reflected a growth of 24% during 2011. At the end of 2011, Funds under management of Life insurance stood at Rs. 2,780 Million compared to Rs. 2,243 Million recorded in 2010.

Investment Portfolios

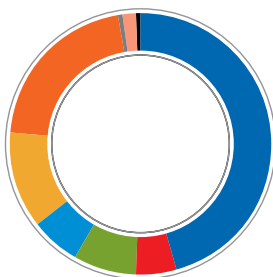
Due to the long-term nature of our liabilities, it is essential to strike a balance between long term and short term maturities in order to prevent any adverse effects. We manage our investments to optimise return while maintaining a diversified portfolio supportive of our underlying liabilities.

Asset Allocation - General



Treasury Bonds - 15%	Term Deposits - 18%
REPO - 19%	Unit Trusts - 3%
Treasury Bills - 15%	Commercial Paper - 1%
Listed Shares - 4%	Promissory Notes - 1%
Debentures - 18%	
Foreign Currency Deposits - 6%	

Asset Allocation - Life



Treasury Bonds - 46%	Term Deposits - 21%
REPO - 5%	Unit Trust - 2%
Treasury Bills - 7%	Commercial Paper - 0.5%
Listed Shares - 6%	
Debentures - 12%	
Foreign Currency Deposits - 0.5%	

During 2011 the Insurance Board of Sri Lanka, the regulator, revamped the Solvency Margin Rules broadening the classification of assets recognised as Admissible Assets. Under the fresh Solvency Rules, instruments such as Rated

Corporate Debt, Deposits in Finance Companies and Foreign-currency investments have also been allowed giving insurance companies the opportunity to tap diverse investment opportunities without affecting their Solvency Margins.

Following the regulatory changes and as a measure of combatting the low interest rates offered by Government Securities, we expanded our investment portfolios by investing in Corporate Bonds (Debentures) which are either listed or rated above the minimum investment grade (BBB) stipulated by the regulator.

All these new investments were made after carrying out a detailed evaluation on the risk-return profile of the instrument. Thereby we ensured that our investment portfolios do not carry any instrument with a high risk profile.

Considering the lack-lustre performance of the CSE, we trimmed down the Equity exposures to 4% and 6% in General and Life funds.

Corporate Bond Rating - General



AA 7%	A 21%
AA- 20%	A- 30%
A+ 15%	BBB+ 7%

Corporate Bond Rating - Life



AA 19%	A 20%
AA- 20%	A- 20%
A+ 19%	BBB+ 2%

Management Discussion & Analysis

LIFE INSURANCE

Market Conditions

Positive business sentiments of the post-war era continued to enhance Sri Lanka's Life Insurance industry during the year 2011, with the industry recording high business growth. The low interest rates prevailing in the market have also made a positive impact on certain aspects of the Life Insurance industry, such as creating an opportunity for increased sales of Mortgage Reducing Policies (MRP) by inducing a growth in the number of housing loans generated. Low interest rates have however, also had a negative impact on business through its effect on investment income, which was adversely affected during the year.

The current market conditions have posed the following opportunities, challenges and shifts for the Life Insurance industry of Sri Lanka

Opportunities

- Political stability prevailing in the country supporting overall business growth
- Increasing tendency to shift towards offering Unit Linked Insurance Products, resulting in business growth being driven by Unit Linked Products especially during the first half of 2011
- Higher focus on offering "non-participative" type products which create more value to shareholders
- More Investment opportunities for insurance companies with the revisions to Solvency Rules by the regulator

Challenges

- Decreasing yields due to the low interest rate environment and adverse performance in the equity market
- New players entering/ planning to enter the Life Insurance business

Shifts

- Regulator planning to implement "Risk Based Capital" for supervising both Life and General Insurance businesses
- Industry preparing to implement Sri Lanka Financial Reporting Standards (SLFRS), thus requiring product

portfolios to be reviewed for compatibility with Accounting Standards and a number of other significant changes to be addressed.

Assisted by the opportunities and in spite of the challenges, the industry experienced a commendable growth during the year. The low levels of Life Insurance penetration in the country provides considerable space for the industry to grow and expand in future.

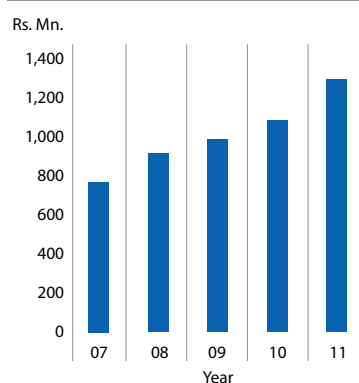
Despite the intense competition between Life Insurance companies in the market, the Company was able to contest well, through innovation and capitalisation on the Company's strengths, and recorded a commendable growth in all aspects of the business. The performance of the Company's Life Insurance business is discussed in detail below.

Business Review - A "Snapshot"

The total Gross Written Premium of the Life Insurance business increased up to Rs.1,291 Million in 2011, from Rs.1,084 Million in 2010, recording a healthy growth of 19%. This is a consequence of the Company's focused efforts to nurture the Life Insurance business, the growth rates of which had remained at moderate levels in the previous two years.

Accordingly, Life Insurance has reverted back to an area of high growth momentum, and is expected to continue to grow at faster rates in the future.

Gross Written Premium - Life Insurance



Growth in Sub Classes

The overall growth in the Life Insurance business was mainly facilitated by a 25% growth in new business premiums through the sale of endowment type policies, thus indicating the potential of Life Insurance for future business

development. A 23% growth in renewal premiums also contributed immensely towards the growth in overall Life Insurance business. Benefited by the high credit growth in a low interest rate environment, MRP business too grew at an exceptionally high rate of 62% compared to 2010. Both Micro and Group Life policies also recorded a strong growth from a low base. A decline was witnessed only in the case of single premium investment policies since the low interest rate environment did not offer a conducive climate for this type of product.

Life Insurance GWP breakdown

	2011	2010	Growth	Contribution	
	Rs. Mn	Rs. Mn	%	2011	2010
Endowment New	408	326	25%	32%	30%
Endowment Renewal	713	581	23%	55%	54%
MRP	124	76	62%	10%	7%
Investment	22	86	(75%)	2%	8%
Group Life	17	10	82%	1%	1%
Micro	7	5	40%	0%	0%
	1,291	1,084	19%		

A full 87% of the total Life Insurance GWP is composed of endowment insurance policies, and was at 84% last year. This is definitely a remarkable achievement since the management has been paying focused attention to this area, having identified it as the core of the Life Insurance business.

Contribution from MRP business to the overall GWP has also grown during the year to 10%, benefiting from the credit growth in the country. Contribution from Single Premium Investment Policies to the GWP however, has reduced significantly to 2% from 8% recorded in 2010. This was an expected result of our plan for the year, which was to reduce Investment Policies while developing traditional endowment policies, and this strategy has yielded positive results above expected levels.

GWP generated through Group Life business, despite recording a significantly high growth rate of 82% in 2011, remained at a mere 1% of total Life Insurance GWP due to the low values involved. Micro Insurance is yet to reach even 1% of GWP even though the number of policies has grown to about 3,000.



Indrani Weerasinghe
General Manager - Life

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Contribution from Business Channels

Traditionally, the Life Insurance industry is led by Insurance Advisors, and in this regard there is no exception at HNB Assurance PLC. 75% of the Life Insurance GWP originated from Insurance Advisors, at an increase of 1% over the 74% contribution in 2010. Contribution from direct channels to Life Insurance GWP has come down significantly to 4% from 11% in 2010, mainly due to the unavailability of an Investment Policy which is usually attractive to the direct channel. Bancassurance channel increased its contribution to GWP from 15% in 2010 to 21% in 2011, emerging as the fastest growing channel for Life Insurance business.

Advisor Channel

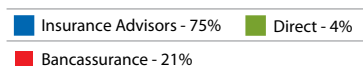
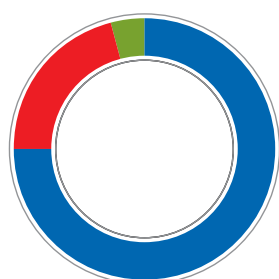
As mentioned above, the main contributor to Life Insurance GWP continued to be the Advisor channel, which accounted for 75% of the GWP. Since the Company has taken a policy decision to direct insurance Advisors mainly towards generating traditional endowment business, almost 100% of the Advisor contribution is on such endowment policies. More than 85% of the traditional endowment policies are sold through the Advisor Channel.

Business generated from Insurance Advisors grew by 21% during the year to reach Rs.973 Million in 2011, compared to Rs. 805 Million in 2010. This is a commendable achievement

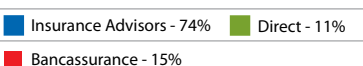
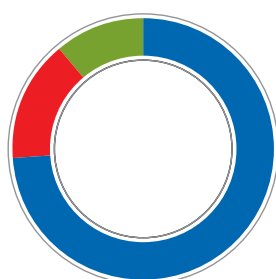
Management Discussion & Analysis

by Insurance Advisors, having recorded a 1% decline in 2010 compared to 2009 in terms of GWP achievement. Focused attention by the Management on developing the Insurance Advisor channel has produced these results, and they are expected to improve their contribution further in the future.

Channel-wise GWP - Life Insurance 2011



Channel-wise GWP - Life Insurance - 2010



GWP Contribution & Income Earned by Insurance Advisors

	2011	2010	2009	2008	2007
GWP (Rs. Mn)	973	805	813	778	613
Growth (%)	21%	(1%)	4%	27%	60%
Income(Rs. Mn)	178	137	126	146	127
Growth (%)	30%	9%	(14%)	15%	59%

Compensation to Insurance Advisors mainly comprises commissions and other incentives based on business achievements. Accordingly, continuous growth in business is essential for insurance advisors, since their earnings

are fully dependent on business achievement. We, as the management, focus particularly on this matter and motivate advisors to enhance their income levels gradually. As a result, income earned by Insurance Advisors has grown steadily along with the growth in business over the past years.

Whilst motivating existing performers to perform better, we also search for new talent to selectively expand our advisor base. Nevertheless, it is our policy to ensure that only performing advisors are retained and all non-performers are terminated following a due process. This has proved effective, as it allows us to pay specific attention to performers without spending resources on continuous non-performers.

Bancassurance Channel

The Bancassurance channel is the Company's most successful channel after Insurance Advisors. More importantly, it is the fastest growing business channel of the Company. The channel recorded an exceptional growth rate of 69% yet again in line with the 78% growth recorded in 2010. The slight reduction in the growth rate is justified given the higher base used when calculating the growth rate in 2011.

Business generated through this channel recorded a GWP of Rs. 267 Million (2010 – Rs. 158 Million), which resulted in an increase in the contribution to total Life GWP from 15% to 21%.

The phenomenal growth in the bancassurance channel is mainly due to the success of the initiative which began in 2008, to station Company employees in selected HNB branches in order to sell Life Insurance policies. This year, the project was expanded to 120 HNB branches from 98 HNB branches in 2010. The project is spearheaded and closely monitored by the management of both the Company and HNB and is expected to grow strongly in 2012, expanding to cover 30 more HNB branches. We also intend to widen the scope of Bancassurance Officers in the future by delegating to them the responsibility of selling General Insurance policies as well.

As discussed in detail under the Sustainability Report in pages 138 to 193, the Company has taken many initiatives to motivate Bancassurance Officers located at HNB Branches. Accordingly, the remuneration structure of Bancassurance Officers was revised, offering them a competitive monthly

package together with a Production Bonus based on business achievement. In addition, several Bancassurance Officers were promoted to the Junior Executive category, in appreciation of their exceptional achievements.

GWP Contribution & Income Earned by the Bancassurance Channel

	2011	2010	2009	2008	2007
GWP (Rs. Mn)	267	158	89	100	116
Growth (%)	69%	78%	(11%)	(14%)	22%
Income (Rs. Mn)	34	22	9	7	6
Growth (%)	58%	126%	45%	2%	1%

Apart from the endowment policies the other main product sold through the Bancassurance channel is the MRP (Mortgage Reducing Policy), which has also recorded a significant growth in GWP of 62% over the last year. With the increase in housing loans amidst the low interest rate environment, the Company has managed to capture a good part of MRP business originating from HNB. However, in our opinion, the housing industry is yet to perform to its full potential, and it is believed that the industry will develop faster in the coming years to provide more opportunities for MRP business. The Company is geared to capitalise on such opportunities and is focusing to remain competitive in the market to capture business at the appropriate price.

Profitability in Life Insurance

The Company continued with its procedure of generating and allocating profits in Life Insurance business to both its policyholders and shareholders in 2011. Profits were allocated after maintaining adequate reserves for future liabilities and contingencies, based on the year-end Life Fund valuation carried out by our Consultant Actuary.

Annual Bonus to Policyholders

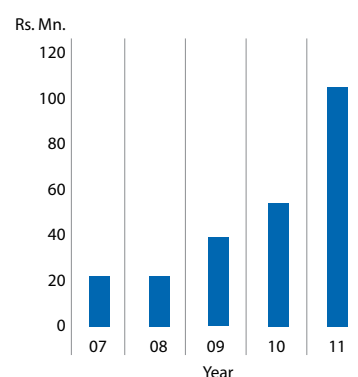
We offered Rs. 70 Million as an annual bonus to our Life policyholders. This recorded a growth of 29% over the previous year's bonus allocated to policyholders which stood at Rs. 54 Million. The bonus rates varied according to the year of purchase of each policy, with a maximum of Rs. 55/- per Rs. 1,000/- sum assured for policies purchased during 2002 and 2003.

Loyalty Bonus to Policyholders

On top of the annual policyholders' bonus, the Company declared an additional 50% of the annual bonus as a special Loyalty Bonus, in celebration of completing a decade in

business. Accordingly, all policyholders who were entitled to the annual bonus were also entitled to the Loyalty Bonus, at a maximum of Rs. 27.50 per Rs.1,000/- sum assured for policies purchased during 2002 and 2003. In turn, the Loyalty Bonus increased the total bonus declared to Life policyholders by a further Rs. 35 Million.

Bonus to Life Policyholders

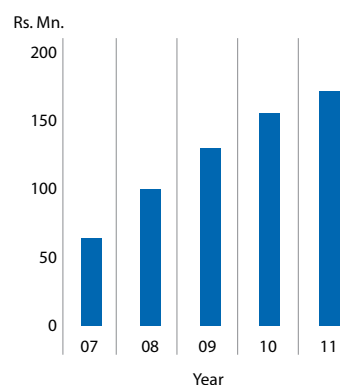


Thus, the Company has declared Rs.105 Million as bonus to policyholders in total, which is significantly higher than the bonus declared for the year 2010 which stood at Rs.54 Million. The amount of bonus declared in total, considering both the Annual Bonus and the Loyalty Bonus, has grown by 94% over the last year.

Surplus for shareholders

The surplus released to shareholders also grew by 10%, from Rs. 156 Million in 2010 to Rs. 172 Million in 2011. The prudent underwriting procedures adopted by our underwriters helped the Company to earn a profit commission of Rs. 22 Million from the reinsurer as a part of profits made by the reinsurer from the business ceded to them by the Company.

Surplus Transfer to Shareholders



Management Discussion & Analysis

Products in Life Insurance

HNB Assurance PLC has a comprehensive product portfolio covering all aspects of Life Insurance needs of our customers, potential customers and the society at large. As the "Innovative Insurance Solutions Provider" in the industry, we make it a practice to introduce new insurance products to the market, in response to the needs of customers falling into different stages of the life cycle. Accordingly during the year, we introduced two more new products namely, "myfund" and "myfreedom", which have already proven to be successful. The product "myfund", for which we ran a successful advertising campaign, has in particular performed exceptionally well during the year.

It is a known fact that the population is growing older with every passing year and as such, the importance of saving for retirement is becoming ever more important.

"myfund" is a dividend based retirement fund building product coupled with a life cover and a hospitalisation benefit which is ideal for an individual requiring both protection and investment. The policy offers a unique feature whereby it allows the customers to increase their expected returns at maturity by way of purchasing additional "investment blocks". The fund grows throughout the policy term with the dividends declared and vested on the policy.

"myfreedom" is offered to the market as a solution to ease the difficulty in maintaining a steady income at retirement. It allows a lump sum to be converted into a regular stream of annuities to generate a constant retirement income. This product offers both an immediate annuity option as well as a deferred annuity option for a fixed term.

Main Products in the Life Insurance portfolio





Product	Product Description	Benefits
	<p>'Ranmaga' is one of the "best-sellers" in our portfolio.</p> <p>Its unique feature of increasing the sum assured annually to keep pace with inflation is the key reason behind its success.</p>	<p>Basic life cover increases by 5% every year with no additions to the premium.</p> <p>In the event of a sudden demise before the end of cover, the total sum assured with 5% escalation up to the demise plus bonus accrued will be paid.</p> <p>Free life cover for 10 years after maturity until the policyholder reaches the age 70.</p>
	<p>To own a land or a house has become everyone's dream. To make it a reality, obtaining a loan has become a regular occurrence. In the event of unfortunate demise or total permanent disability of the insured, the balance amount of the loan taken from a bank or financial institution will be settled by a Mortgage Protection Policy.</p>	<p>The balance loan amount will be settled in the event of the sudden demise or permanent disability of the person who obtained the loan.</p> <p>In case of a joint loan, in the event of the sudden demise or permanent disability of either party, the balance loan amount will be settled.</p> <p>Policy can be obtained with a single premium.</p>
	<p>'myfund' retirement Plan provides the best protection with ample benefits that ensure a hassle free and enjoyable retirement.</p> <p>It allows to build a safe retirement fund while the policy holder is stable in his/her employment.</p>	<p>Provides protection through life cover and hospitalization cover.</p> <p>Allows policyholders to enjoy investment returns through a fund that grows with declared dividends.</p> <p>Allows the insured to maximize their returns by purchasing additional "investment blocks".</p>

Reason 4

INNOVATIVE PRODUCTS

We strive to innovate in our product offering, using our insights to deliver solutions to real problems.

Main Products in the Life Insurance portfolio (Contd.)

Product	Product Description	Benefits
	<p>Wondering how to secure your Child's future? 'Dedunu' is the best solution you could think of.</p>	<p>Receives annual payments for 8 years upon reaching maturity.</p> <p>In the unfortunate event of the parent's demise or total and permanent disablement during the premium payment period, the child's annual benefit will increase up to FOUR times.</p> <p>If the death of the parent is due to an accident, double the basic sum assured will be paid</p> <p>Life cover (for the parent) will continue for 8 years after premium payments cease.</p> <p>Declared annual bonus will be accumulated and paid as a lump sum on maturity.</p>
	<p>'Pradeepa' plan increases the value of Life coverage every year while the premium stays the same, hence becoming a product which offers more than Life Insurance.</p>	<p>At the selected period or at premature death, the Sum Assured, together with accumulated bonus will be paid.</p> <p>Free life cover equal to the basic sum assured will continue for a period of additional 10 years until the life assured reaches the age of 70.</p>
	<p>This product targets the nation's pillars of the future, the youth.</p> <p>A Strong branding strategy has created a significant interest among the youth in this innovative policy which relates to the key aspirations of a young adult.</p>	<p>The policy that makes the dreams of youth a reality!</p> <p>Early life benefits are paid upon the occurrence of specified (e.g: marriage, child birth, etc.) events during the policy on 4 occasions.</p> <p>In the case of loss of life due to an accident, double the sum assured will be paid.</p> <p>Life cover will continue for an additional 5 years after maturity.</p>
	<p>'Prime' product offers protection to all members of an institution or association through a group life benefit.</p>	<p>Provides life cover with an option for individuals to increase their cover amount.</p> <p>Option to include additional benefits such as hospitalisation, critical illness etc.</p>

Management Discussion & Analysis

Main Products in the Life Insurance portfolio (Contd.)

Product	Product Description	Benefits
	<p>A unique product to cater to the needs of the seasonal income earners such as,</p> <ul style="list-style-type: none"> • Farmers • Fishermen • Cultivators • Seasonal Businessmen 	<p>The policy will never lapse or be cancelled after being issued, even if the renewal premiums are not paid on time.</p> <p>The policy Holder can pay the premium anytime during the year and this is an additional benefit for the seasonal income earner, since they can pay as and when they have returns from their cultivation or other occupation during the year.</p> <p>Covers the risks of normal and accidental death till maturity</p> <p>Double the sum assured together with accumulated bonus will be paid on death of policy holder prior to maturity.</p>
	<p>One of the innovative products that was launched last year with the tagline “Enriching the joy of Life ”</p> <p>Who will not love to spend a peaceful life without worrying about the future? After retirement, financial strength is vital for a person to enjoy their freedom fully; ‘myfreedom’ provides the ideal solution for this need.</p>	<p>A guaranteed monthly income for 15 years.</p> <p>Possibility to delay the above benefit for 5 years from commencement date on insured’s preference.</p> <p>Agreed monthly sum is credited to the insured’s bank account irrespective of interest rate fluctuations.</p> <p>Protection through a life cover for a period of 15 years.</p> <p>Monthly benefit continues up to maturity even after demise of the life assured and payment of life cover</p>
	<p>The whole family will be covered with the ‘Golden Rays’ of this product for critical illness, hospitalisation, disability, natural or accidental death.</p>	<p>Policy covers the entire family.</p> <p>In the event of natural death the basic benefit amount is tripled for the insured and doubled for the spouse.</p> <p>In the event of an accidental death the basic benefit increases up to 4 times for insured and 3 times for spouse.</p> <p>Provides funeral benefit up to 10% of the basic benefit.</p>
	<p>It is said the education cannot be taken away from us by any external forces.</p> <p>“Scholar” is a niche product mainly focusing on children’s education.</p>	<p>Higher life cover provided to meet future school fees for a minimum premium in the event of a sudden demise of the parent.</p> <p>Double the sum assured if the policyholder’s demise is accidental.</p> <p>The option of receiving benefits either as a lump sum or in instalments.</p> <p>Customised premium payment plans to suit individual needs.</p>

Improving policy retention levels

Lapsation is identified as a key concern in the Life Insurance business, and for the industry in general. Accordingly, the management paid its focused attention through the implementation of various strategies, to reduce lapsation and improve persistency.

The increased effort on policy retention has reaped fruitful results, reducing the overall policy lapses in the Life Insurance business. The first year lapse rates have reduced from 50.7% to 47.8% during the year, while the second year lapse rates have also improved up to 24.9% from 26.7% in 2010. The Company expects to improve the lapsation position further with continued focused attention. Thus, improving lapsation has been made a KPI for all members of the Distribution Network. Relevant Management Information has also been made available in this regard through the implementation of a comprehensive Business Intelligence System from the beginning of the year 2012.

The improvement in lapsation was in turn reflected in the increased growth in renewal premiums of 23%.

Lapse Ratios

	2011	2010
First Year Lapse Ratio	47.80%	50.70%
Second Year Lapse Ratio	24.90%	26.70%

Improved processes and systems

Several processes related to Life business were improved during the year 2011, in order to provide an efficient and speedy service.

First, an e-documentation technique by scanning the documents was implemented along with a standardised procedure for policy proposal and approval at the point of policy acceptance, during the year. This serves to reduce the "underwriting" risk, leading to better risk management.

As a move towards improving the quality and effectiveness in handling claims, new mechanisms were introduced to automate claims related documentation and approval. This has had a significant impact on the speed of the claims handling procedure, thereby improving the ability to serve customers faster.

Future Outlook of Life Insurance Business

The Company believes that the growth in the Life Insurance sector will continue into the future as well. However, with the increasing competition, the Company is aware that it is significantly important to be pro-active and offer products that cater to the needs of both existing and prospective policyholders.

We believe that the new products launched during the year 2011 will prove to be very competitive and timely for the year 2012 as well. With customers becoming more concerned about investment returns and retirement planning, we believe that our new product '*myfund*' will be a very attractive offer as a tool to build up a retirement fund. Those receiving lump sum benefits from provident fund and Insurance policy maturities, gratuity proceeds, etc. will find our '*myfreedom*' policy a useful tool to convert such a lump sum into a regular stream of monthly incomes.

Through adaptability and innovation, therefore, we are committed to continue with these growth and performance standards in future years as well.

Management Discussion & Analysis

GENERAL INSURANCE

Market conditions

Much was expected of the year 2011 given a boom in development activities in the country which would directly and indirectly facilitate growth in General Insurance Business. In fact the General Insurance companies in the industry recorded excellent growth rates by capitalising on the opportunities presented by the environment. In particular, Motor Insurance was the most successful and growing class in the business, reaping the maximum benefits of the reduction in vehicle duties.

However, it also proved to be one of the most challenging years for General Insurance in terms of profitability, despite growth in volume. The perennial issue in the General Insurance market of diminishing margins due to price competition and increasing claims cost mainly in Motor insurance, attributable to the rising prices of spare parts and repair cost, continued, hampering increased value creation in the industry.

The newest, perhaps the most challenging issue in the market is the low interest rates and poor equity market performance affecting investment income which is beyond the industry's control.

In summary, the current market conditions have posed the following opportunities, challenges and shifts for the General Insurance industry in Sri Lanka.

Opportunities

- Growth prospects in construction, tourism, agriculture industries increasing prospects for Fire, Motor and Travel business
- Liberalisation of vehicle import duties creating an influx of vehicles leading to increased Motor business
- Growth in property insurance and personalised insurance markets

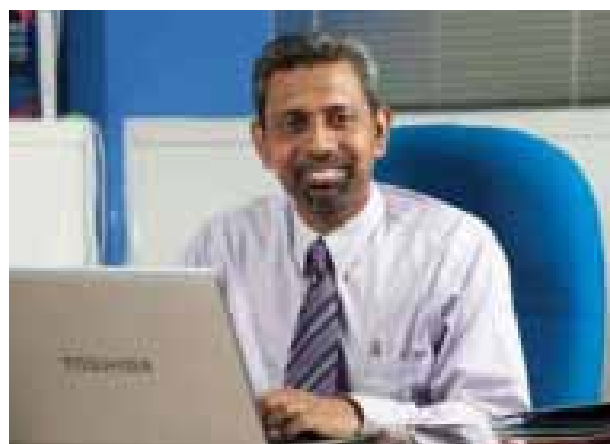
Challenges

- Maintaining underwriting profitability in the face of price competition and increased claims
- Low interest rate environment and adverse performance in the equity market resulting in falling investments yields
- New players entering the market

- Restricting private insurers from handling business emanating from state sector entities.

Shifts

- The planned implementation of "Risk Based Capital" as a tool to supervise both Life and General Insurance business, by the regulators.
- Amendment to the RII Act permitting Institutional Agents
- General Insurance industry to be prepared to maintain profitability on its own to face the challenge arising from splitting of existing composite companies



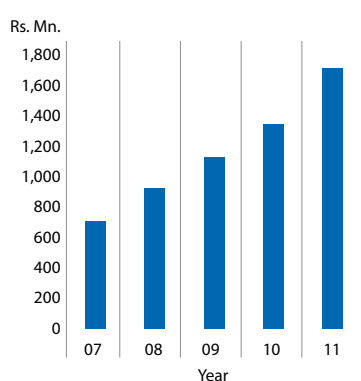
Niranjan Manickam
General Manager - General

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The year in a nutshell

Despite the challenging environment, the Company achieved a phenomenal growth in General Insurance business with GWP growing by 27% to increase to Rs. 1,712 Million from the Rs. 1,344 Million recorded in 2010. In terms of the number of policies, the Company experienced a remarkable 50% growth in the policy count. A pleasing feature of our performance in GWP was achieving such a high growth in terms of both value and volumes even with the Company's strict adherence to the 60 days premium payment rule even though some competitors take a more relaxed approach.

Gross Written Premium - General Insurance

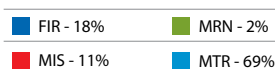


Class-wise performance

General Insurance business continued to be dominated by the Motor class contributing 69% of the GWP achievement, a 1% increase from the 68% contribution in 2010. Support to total GWP achievement from Fire class, though substantial, reduced to 18% from 21% in 2010. Contribution from Miscellaneous class improved to a moderate 11% from 9% in 2010 whilst the impact of Marine saw no significant change and remained at 2% as in the previous year.

Miscellaneous class recorded the highest growth during 2011 by achieving a growth rate of 58% to record Rs.183 Million (2010: Rs. 115 Million) followed by the Motor class achieving a 30% growth to reach Rs.1,189 Million (2010: Rs. 916 Million). This was achieved through the continuation of volume growth and upward revision of prices in respect of both these classes. A modest growth of 9% was seen in Fire class which recorded a premium of Rs.314 Million (2010: Rs. 288 Million) while a 10% growth helped to achieve a Marine GWP of Rs. 27 Million (2010: Rs. 24 Million).

Class-wise GWP - General Insurance - 2011



Class-wise GWP - General Insurance 2010



Business Channels

A General Insurer's GWP is channelled by different sources. In HNB Assurance, we have four key channels which contribute to our GWP achievement.

1. Hatton National Bank branch network
2. Insurance Brokers
3. Direct Channel
4. Insurance Agents

HNB as a business channel

HNB continued to be the mainstay in sourcing General Insurance business in both Motor and Non-Motor classes. The channel brought in Rs. 733 Million, recording an impressive growth of 33% over the Rs.551 Million generated in 2010. Notwithstanding the growth in value and volumes, the channel is also a profitable one and the effort made in this regard by the management and staff of the bank is truly commendable.

Management Discussion & Analysis

The Company recognises the importance of harnessing the HNB network and all efforts are taken to maximise the opportunities from this business source. Senior management and their teams from both companies committed themselves to pursuing planned goals and this approach has seen increased income generation, resulting in growth both in terms of volume and profitability.

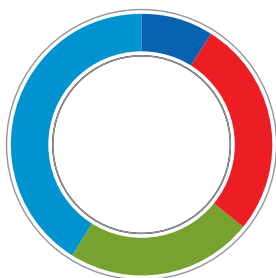
The Company has introduced various competitions and events in order to ensure HNB staff remains motivated in this quest. Our branches too played an active role, liaising with the relevant branches of the HNB to enhance customer satisfaction and thereby business volumes.

Channel-wise GWP - General Insurance - 2011



Agents - 10% Direct - 22%
Brokers - 25% HNB - 43%

Channel-wise GWP - General Insurance - 2010



Agent - 9% Direct - 23%
Broker - 27% HNB - 41%

Insurance Brokers

Broker channel showed a commendable 21% growth over the previous year and contributed Rs. 434 Million to General Insurance GWP (2010: Rs. 360 Million).

We recognise the importance of the broker channel and are keen to expand and develop the business relationship with brokers. Towards this the Company organised regular training programmes for employees of broker companies, to educate them on technical aspects and also brief them about the procedures and practices of the Company. This no doubt has created a better understanding between us and the broker companies.

In addition, we have extended our system facilities to some selected brokers in order for them to issue HNB Assurance covers to their customers directly. We also organised a number of entertainment events for broker staff to motivate them and to improve relationships between them and the staff of the Company. One such event was the Beach Rugby Fiesta 2011, which has become an annual event sought after by brokers, held on the Paradise Beach of the Mount Lavinia Hotel.



Chandana L Aluthgama
Head of Corporate Business Development

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Insurance Agents

Business from this channel saw an impressive growth during the year reaching Rs. 171 Million from Rs. 122 Million, a 41% growth over the previous year. The compulsory General Insurance technical competence test for Agents proved to be a challenge which was successfully overcome by continuous training and support for the new recruits and did not hinder the achievement of results.

More detailed discussions about business partners are presented in the Sustainability Report from pages 164 to 170.

Direct Channel

The Direct Channel which comprises walk in customers, and business from the Company staff and other sources also grew by 20% during the year to reach Rs.374 Million from Rs. 311 Million the previous year. Greater focus was placed on closer monitoring of the channel and on assessing its profitability, eliminating unprofitable accounts.

Profitability in General Insurance

One of the major challenges faced by all insurers in the industry is to maintain the Combined Ratios at low levels and to enhance the underwriting profitability. Despite a very competitive market environment we were able to reduce our Combined Ratio to 103% as against the 107% recorded last year.

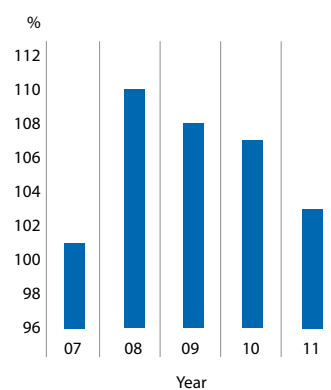
This reduction is mainly attributable to the prudent expense management strategies adopted by the Company through which we were able to reduce the Expense Ratio from 39% in 2010 to 34% this year. However due to increase in motor vehicle accidents and increased cost of repairs, our Claim Ratio rose to 69%, which was 1% above what we experienced last year.

General Insurance Ratios

	2007	2008	2009	2010	2011
Claims Ratio	62%	67%	66%	68%	69%
Expense Ratio	39%	43%	42%	39%	34%
Combined Ratio	101%	110%	108%	107%	103%

We managed to reduce our Combined Ratio to 103% during the year which was at 107% in the last year, marking a significant improvement. Year 2011 was the 4th consecutive year we recorded a drop in the Combined Ratio, a process which commenced in 2008 showing the commitment of the management towards improving underwriting profitability.

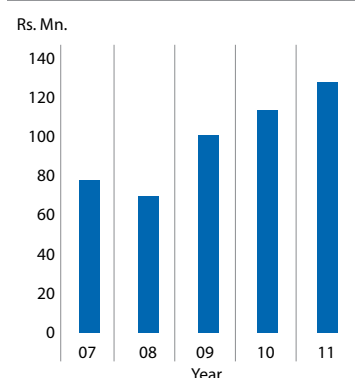
Combined Ratio



Accordingly, our underwriting loss was reduced to Rs.33 Million from Rs. 64 Million recorded last year. This is a sharp improvement in the underwriting results which reflected in a 48% reduction in underwriting losses.

Despite the Combined Ratio exceeding 100%, the Company was able to derive a Profit Before Tax (PBT) of Rs.128 Million. This is a 13% growth when compared to the profits recorded in the year 2010, which stood at Rs. 114 Million. Profit After Tax (PAT) from General Insurance was Rs.103 Million with a growth of 20% over Rs. 86 Million recorded last year. Accordingly, we have crossed the Rs.100 Million mark in PAT in General Insurance business for the first time, another commendable milestone.

Profit Before Tax - General Insurance



The above growth in profitability was achieved subsequent to having recorded a 11% decline in investment income, mainly due to the poor performance in the equity market and the low interest rate environment. Generally, a common occurrence in General Insurance has been that Companies record a good profit with the support of an exceptional growth in investment income. However, breaking away from that trend, we managed to record a reasonable growth in

Management Discussion & Analysis

profitability in spite of a significant decline in investment income by achieving a considerable improvement in underwriting results.

Having recognised the need to maintain the Combined Ratio below 100%, the management introduced various measures to curtail expenditure and minimise claims costs. Meeting profit expectations year on year is a very challenging task, especially with the poor performance of investments. However we are confident that we have the capability to take on this uphill task and deliver results in line with stakeholder expectations.

Pillar of strength - Reinsurance

The reinsurers on our panel are the pillars of strength behind our ability to accept risks and to honour our commitment to pay claims.

Our panel of stable and established international reinsurers have carried a rating of "A-" and above from 'Standard and Poor' or 'AM Best', who are renowned rating agencies. Their technical strength, claims paying ability and global reach provides us the security to accept risks that are many times the total value of our assets and offer terms as a competitive player in the market place. During the year we maintained our reinsurance capacity and added new members to the panel.

A list of the entire panel and their ratings is given on page 169 of the Risk Management report.



Product Range

Our product portfolio is designed to cover all General Insurance needs of the customers and we offer 'off the shelf' products as well as customise our products to meet the exact needs of our customers.

With regard to new products, this year's focus was placed on the needs of the agricultural sector and one new product and an extension to an existing product were initiated during the year. Accordingly, the newest addition to our General Insurance product portfolio was the introduction of 'Motorguard-agro', a policy specially designed to cater to the needs of the agricultural community. This policy covers agricultural vehicles such as tractors, trailers and combined harvesters and in addition a limited life cover is also granted.

An extension of the construction, plant and machinery policy was initiated with the introduction of 'CPM Agro', a policy to cover agricultural equipment.

Main Products in the General Insurance portfolio

Product	Product Description
	<p><i>Motorguard</i> from HNBA adds the dynamism of youth to experience and expertise to give a wider range of benefits that cover every possible risk motorists need to be ready for and is more than just a motor insurance.</p> <p>Motorguard offers;</p> <ul style="list-style-type: none"> • Highest No Claim Bonus (up to 75%) within the shortest period • Discount Card • Lease instalment payments • 24 hour Help line • On-site inspection • Same NCB for the second vehicle • Cash Grant for children's education
	<p>This is a transportation insurance, which indemnifies the Insured against loss, damage or destruction to his cargo whilst in transit (including incidental storage) locally or across-the-seas by over-land, sea or air.</p> <p>HNBA offers different forms of Marine policies such as, Marine Cargo, Goods in Transit, Open Covers etc. depending on the customer's needs.</p>

Main Products in the General Insurance portfolio (Contd.)

	<p>"Aruna" is a combined insurance policy to protect homes from fire, property damage, theft, legal liability, personal accident and damage to landscapes.</p>
	<p>"Travelmax" provides for Emergency Medical Expenses, Loss of Baggage, Emergency Financial Assistance, Personal Accident, Personal Legal Liability, Cancellation and Curtailment etc. It offers both a cashless settlement option and the ability to seek reimbursement of claims upon return. Customers up to the age of 70 years can purchase this cover.</p>
	<p>"Travel Assist" provides for Emergency Medical Expenses, Loss of Baggage, Emergency Financial Assistance, Personal Accident, Personal Legal Liability, Cancellation and Curtailment etc. It operates exclusively on a cashless settlement basis. There is no age limit to buy "Travel Assist"</p>
	<p>"Navoda" is a combined policy designed to protect small scaled businesses. The policy can be extended to cover fire, property damage, burglary, legal liability, personal accident, workmen compensation and medical.</p>
	<p>"Motor Guard Agro" is a policy designed to cover agricultural vehicles inclusive of a limited life cover. "Motor Guard Agro" offers;</p> <ul style="list-style-type: none"> • Free towing charges up to Rs.2,500/- • Free natural disaster cover when flood cover is obtained. • Rs.25,000 funeral expenses for insured • Free hiring cover (If the vehicle is used for hiring purpose) • No excess deductions on hiring cover
	<p>This special insurance package caters to those seeking an economical solution for a home insurance policy. The policy grants you peace of mind, security and much more for a very low premium. Its key feature is that cover can be purchased for any value on a 'first-loss' basis without facing any penalty for under-insurance.</p>

In addition, we customise our products based on customer requirements.

Customer Service Enhancements

We believe that customer service is the key differentiator in the insurance industry. Hence, our strategy is to provide a superior customer service and to develop a loyal customer base who are less sensitive to small differences in pricing. We also focus on providing innovative insurance solutions to our customers whilst ensuring the ease of access and availability of service to them. Accordingly, customer service was a key focal point in 2011 as well, with several initiatives being taken in this area.

Mobile and web based services

Leveraging on technology, we continued to disseminate information to customers via SMSs. Facilities are now available for sending SMS alerts to customers on renewal notices, confirmation of premium payments and notification of direct settlement of claims to their banks. In addition, customers are also given the facility to check their policy details online via our website, after an initial registration through the site. This facility is also extended to the area of claim intimations and customers are able to view claim details including pictures of the accident.

Management Discussion & Analysis

Claims management

During the year under review, we expanded our approved garage network to 56 garages from 52 in 2010. Supplying motor spare parts to any part of the island through our registered suppliers is another initiative taken during the year, avoiding undue delays in repairs as well as high prices.

Our 'fast track' claim settlement continued to make payments within a day of intimation for claims below Rs. 25,000/-. We also directly settle claims to garages thereby relieving the customer of the hassle of payment. Direct remittance of claim to customer's bank account is also done upon the request of the customer, saving both time and trouble of collection in the form of a cheque.

Assessors operating in selected areas were provided with special camera phones last year, which enabled them to upload pictures of the vehicle in its post-accident state directly to our system, almost immediately from the site of the accident. This feature facilitated quick assessments while also acting as a deterrent to staged and fraudulent claims. Therefore, we strengthened this facility during the year 2011 too by providing another set of camera phones to assessors. Currently 34% of our assessors are equipped with this facility.



System and process improvements

Our core insurance application, TCS Bancs which includes all key areas of the business, Underwriting, Claims and Reinsurance has streamlined the internal processes of the Company vastly and information could be accessed from any part of the country instantly.

The General Division is currently in the process of moving to e-documentation and once it is completed, all supporting documents could be accessed through the system irrespective of the location.

Future Outlook of General Insurance Business

The Company believes that the potential for growth in the General Insurance sector will continue to remain in the future as well. The challenge is how the Company is reaping the benefits of the new opportunities in the midst of increasing competition and other environmental impacts. Over the last decade, HNB Assurance has shown its excellence by consistent and exceptional performance despite all these challenges.

General Insurance business will continue to be highly price sensitive and therefore competitive in ensuing years as well. In addition, the investment income which played a significant role in the profitability of General Insurance business may not deliver adequate results to cover up underwriting losses. Accordingly, every insurer, with no exception, has to focus on improving the Combined Ratio and the underwriting profitability thereon.

We at HNB Assurance have clearly understood this need and have aligned our strategies to address these key issues in the core business of underwriting. At the same time, we will continue to focus consciously on improving the returns from our investments by exploring new but appropriate alternate investment opportunities.

HUMAN RESOURCES REVIEW

HR Strategy

Human capital is the indispensable element and the pillar of success of any organisation. We at HNB Assurance strongly believe that 'our people' are the driving force behind our growth momentum and achievements over our decade long history.

Over the years, the HNBA team has joined hands to face the challenges and targets set to ensure that the Company works towards achieving our vision. We are a people oriented Company, and thus we recognise fully that the skills of our people, though not included on our balance sheet, are more valuable than any other asset we possess.

We endeavour to transform their strengths for the satisfaction of our customers while never forgetting to empower our people to strive for excellence. We create an environment that is engaging, energising, challenging, safe as well as rewarding to ensure a win-win situation for the Company as well as our employees.

Adding to Pool of Talent

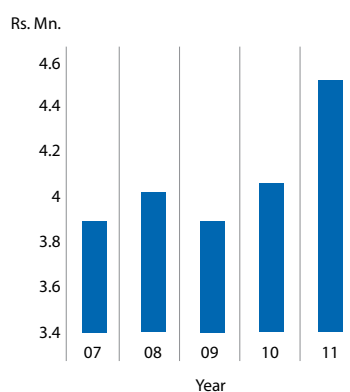
While positions falling vacant are filled from internal sources if the requisites are met, we do source externally for talent. We also create new positions as our business expands. Thus, we constantly add new talent to further widen the pool of talent we already possess.

The Company follows a transparent process for recruitment with a thorough screening and selection process which includes impartial interviews and background verifications. No recruitments were done during the year under review without following this process.

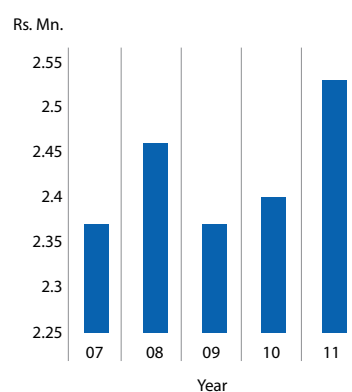
Employee Productivity



GWP per Employee



Value Addition per Employee



Clear Channels of Communication

Top-down Communication

Clear communication is another element of success in any organisation and we at HNBA ensure that our staff is not merely kept informed but are able to voice their concerns as well. The Company disseminates information through the intranet and SMSs regularly and special announcements are communicated via e-mail and through the public address system.

Management Meetings, Distribution Management Meetings, and the Staff Conference are some of the official events at which communications take place between the management and the employees. In addition, various other gatherings take place at the Head Office level as well as Regional/Branch level to communicate Company matters with employees.

Management Discussion & Analysis

Bottom-up Communications

In order to receive suggestions from employees for the betterment of the Company, we have introduced an "Employee Suggestion Scheme" which ensures all effective suggestions are accepted, evaluated and implemented. All implementable suggestions are rewarded in order to encourage the staff to come up with new suggestions continuously.

Employees can also use the Management Meetings, Distribution Management Meetings, Staff Meetings at Divisional/ Branch Level and various other meetings with the management to raise their concerns/suggestions.

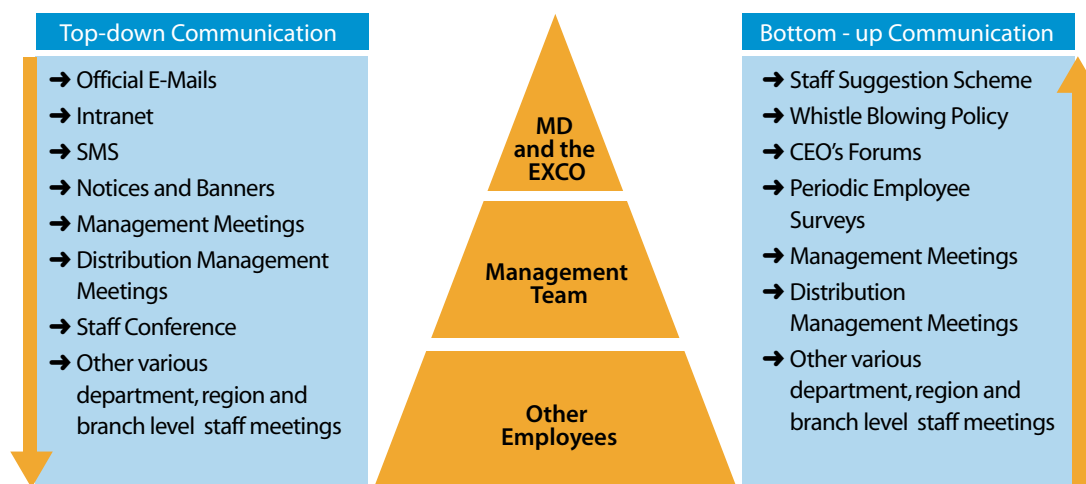
The Company implemented a formal Whistle Blowing Policy during the year and the same was communicated to all members of the staff. Through this policy, the Company encourages any employee who suspects wrong doing at work - whether by his/her management, peer, or another employee - to raise his/her concern directly with following nominated members of the Company.

- Manager Human Resources
- Manager Internal Control and Compliance
- Managing Director
- Audit Committee Chairman
- Board Chairman.

All concerns raised are investigated as per the policy and the identity of the person raising the concern is kept confidential.

The CEO's Forum is a yet another successful means for employees to directly communicate with the Managing Director without their supervisors. The facility was extended up to Assistant Manager Level during the year. The Company had 8 CEO's Forums during the year.

Additionally, the Company performs periodic Employee Surveys to get feedback from all the employees about the Company. According to the survey performed in 2010, 79% of employees have noted their overall satisfaction with the Company.



Performance Management

As a company which fosters career development to its employees, HNBA's Performance Management System plays a major role in determining the career development path of our employees. Each permanent employee at executive and higher grades is given a set of clear performance and development objectives at the beginning of the year which is evaluated bi-annually. This periodical evaluation and feedback to employees act as a motivational tool as well as a fair yardstick of evaluation. Further, salary increments, bonuses and promotions are determined purely on this transparent and unbiased performance evaluation system.

Succession Planning

With the prime objective of developing a second-tier for identified key positions, we have implemented a succession plan by re-launching the Management Development Pool during the year under review. In addition, the Executive Development Pool and the Distribution Management Pool were also introduced with the aim of conducting focused training and development initiatives to build a platform for succession planning at all levels.

Rewards and Recognition

We acknowledge that appreciation is one of the key tools of staff motivation. Apart from providing remuneration and benefits on par with the industry, we constantly recognise contribution of our team members contributions towards our success. Further details on Rewards and Recognition are given on pages 160 to 162 of the Sustainability Report.

A healthy work force

One other key focus of the Company is maintaining a healthy work force. Further details on employee health and safety appear on page 162 of the Sustainability Report.

HNBA Culture

All HNBA employees commence their working day with a rendition of the Company anthem.

The Company encourages its employees to strike a balance between work-learn-life. We provide a worker friendly culture where the doors are open for the employees to communicate their ideas, suggestions and complaints with all levels of management.

We foster diversity as a corporate strength and our team includes individuals from all races and religions of the country. Our geographical spread ensures the employability of individuals from around the Island.

Our culture has been designed in line with the HR strategy of the Company and employees are expected to observe strict adherence to Company policies and procedures and observe the five core values in their day- to – day activities.

Five Core Values in HNBA:

- 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

Developments during the year

The year 2011 has been very fruitful for us, with the implementation of the 'Human Resources Information System' (HRIS) which automated the HR processes such as attendance, overtime, leave, personal and educational details. These HR processes were made more efficient, as a result.

Performance improvement plans were implemented for the poor performers and the screening processes for potential recruits were strengthened with background verifications during 2011.

Hurdles along the way

With the insurance industry becoming more and more competitive and new players entering the market, attracting competent employees with high potential and retaining skilled employees have become two of the biggest challenges to the Company. Nevertheless, as in the past, the Company will continuously attempt to overcome these hurdles successfully with short term and long term motivational tools and strategies.

Way Ahead

With the implementation of the eLearning system, we will continue to develop talent, recognise and motivate staff as a part of our overall HR development strategy. The Company's theme for 2012 "Sustainable Growth through Continuous Learning", places greater emphasis on learning and development, to which all staff have a very positive attitude.

We will continue to review our HR strategies periodically and strengthen our human capital with continued learning and development initiatives transforming the Company into a 'Learning Organisation' which would eventually benefit the Company as well as our employees.

We also intend to systemise the performance management process with the newly implemented HRIS during the year 2012.

Management Discussion & Analysis

MARKETING AND DISTRIBUTION REVIEW

What Marketing means to us

Our customers are at the forefront of everything we do. In fact, we could fail to achieve our vision even if we became the Company selling the largest volume of insurance products or generating the largest revenue in the insurance sector, because our ultimate aim is to meet insurance needs of our customers professionally, with a spirit of caring.

Our Approach to Distribution

Our distribution strategy focuses on expanding our service operations, to provide greater and better ease of access to our customers. Such a strategy is executed through our branch network and distribution channels comprising over 1,400 Insurance Advisors and field management members, Insurance Brokers, HNB Assurance and HNB Branch Network and finally our 120 Bancassurance Officers, located throughout the country.

Our distribution channels cover the entire island and despite being in the business for just ten years, our branch network comprises 51 branches located in 23 districts of the country. Our Distribution Network is clustered into different Zones and Regions, in order to provide an efficient service by delegation of authority.

Our Strengths in the Distribution Network

The talents of our field force have extensively supported in penetrating diverse segments of the market and we are confident about the skills of our people. The trust the organisation has built with our people and the recognition, act as self-motivating factors which drive them to reach for greater heights.

We have identified different market segments and the opportunities available in providing customised products to such segments. Most Life and General insurance needs are met by the Company by way of 'off the shelf' products. We also customise our products to suit the exact needs of our customers. Thus, our product portfolio covers the entire market fulfilling the insurance needs of our customers and our distribution channels are well trained to identify and address their exact needs.

We are highly transparent in providing all relevant details of our products to our existing and potential customers and our well trained professional team of advisors clearly communicates the most appropriate and relevant information to our customers.

Challenges in Distribution and Our Response

The greatest challenge faced by us is identifying suitable people for serving our customers and retaining skilled and competent personnel with the increased competition from new entrants who are keen on attracting trained people.

Though new compliance procedures pose challenges to our growth momentum, we observe strict adherence to regulations and surpassed the challenges through our high calibre people.

Despite the competitive environment we have been able to capture a growing market share by charging an affordable premium with a quality service.



Lalith Fernando
General Manager - Marketing and Distribution

Our distribution strategy focuses on expanding our service operations, to provide greater and better ease of access to our customers. Such a strategy is executed through our branch network and distribution channels comprising over 1,400 Insurance Advisors and field management members, Insurance Brokers, HNB Assurance and HNB Branch Network and finally our 120 Bancassurance Officers, located throughout the country.

Our Distribution Focus for 2012

In 2012, our focus will be on developing alternate distribution channels concentrating on the untapped market segments in a cost effective manner. Worksite marketing, Affinity group marketing, e-marketing, social media marketing and direct marketing will be a few new channels we will look to use in capturing these market segments.

Whilst focusing on developing alternate channels, we continue strengthening our existing distribution channels by building strong relationships with them. Improving public relations skills of our personnel to improve their stature will also be prioritised in the coming year.

In addition, we are active participants in the combined effort in creating positive awareness regarding insurance with peers in our industry and relevant stakeholders, which we believe will ensure the success of all players in the industry.

Our Strategy and Approach in Building the HNBA Brand

Our strategies focus on innovative insurance solutions which will differentiate and position our brand in the minds of existing and potential clients. Mass advertising campaigns, using of our iconic brand ambassadors Bathiya and Santhush, other promotional campaigns, corporate image building activities such as event sponsorships and field promotions are a few strategies we use in building and positioning our brand.

Our major marketing campaigns during 2011 revolved around the 'myfund' product created a significant impact in the market place during the year. Stemming from 'mylife' the word 'my' is used as a part of our branding strategy to generate a sense of belonging in the mind of our customer in addition to being a form of instant identification that it is an HNB Assurance product.

Achievements in 2011

The HNB Assurance brand has been rated as 'A -' and continued to be ranked within the top 100 brands as compiled by Lanka Monthly Digest (LMD) magazine in association with Brand Finance and our brand value percentage is estimated to be 5% of our enterprise value of Rs. 4,826 Million.

Challenges in Brand Building and Our Responses

The threat of new entrants and the increasing competition from well-established giants in the insurance industry are challenges to us which are obvious. We are definitely conscious of the fact that we are not among the largest players in the industry and this pushes us to be more innovative and proactive than others. During the decade we just completed, we have proven with results that HNB Assurance is not just another player in the market place, but a player that can challenge everyone, big or small.

We will continue to tread our chosen path in our own unique way which we believe can make a difference.

Our Branding Efforts for 2012

Our marketing campaigns and efforts were visible to all during the last decade and we intend to launch many more initiatives during the year 2012 and beyond, in communicating and positioning our existing and new brands. We also intend to launch creative, competitively priced insurance products in line with customer needs and expand the reach of existing brands. Some of these existing brands may be re-launched and re-positioned to suit the changing needs of customers as evident from our market research.

The use of the worldwide web and social media as tools to promote our brand is another area that is receiving our attention. Our website was recently re-launched as a trilingual site with a number of advanced yet user – friendly features. We have also established an active presence on Facebook and will be looking at making our presence felt on other social media platforms as well in the year 2012.

Distribution Network



	Number of Branches	Number of Bancassurance Units	GWP		Number of Staff	Number of Advisors	Number of Assessors
			Contribution (Mn.)	%			
Central	6	9	251	8.4%	50	161	8
Eastern	4	9	129	4.3%	34	112	6
North Central	3	4	99	3.3%	21	53	6
North Western	4	7	192	6.4%	27	101	7
Northern	5	10	195	6.5%	29	260	3
Sabaragamuwa	4	9	193	6.4%	29	89	9
Southern	6	7	246	8.2%	39	158	10
Uva	4	7	145	4.8%	25	107	6
Western	15	56	1,041	34.6%	137	407	21
Total Branches	51	118	2,491	82.9%	391	1,448	76
Head Office	1	2	512	17.1%	271	3	15
Company	52	120	3,003	100%	662	1,451	91

Reason 5

ISLAND-WIDE REACH

Reaching our customers at their convenience is our priority - that's why we have built a strong island-wide network.

IT REVIEW

Role of Information Technology in an Insurance Company

Information Technology for insurance organisations has evolved from the task of transaction processing to a function that transforms and accentuates the service levels of the entire organisation. IT plays a vital role in all key customer contact points, in obtaining new business, servicing, handling claims and dealing with customers. Taking the new role of IT further, we at HNBA have concentrated on providing innovative solutions to our customers and service intermediaries such as insurance advisors and assessors, augmenting our service levels to a new dimension.

Our Strategy

Our focus with regard to IT has been on enhancing the value of IT as a key contributor to business success, and transforming IT from the mere task of a timely provider of information to implementing strategic alternatives for leveraging on existing resources. The key functional areas thus considered were deploying cost effective technological advancement to improve customer satisfaction and relaying information for timely decision making.

System Structure

HNBA is proud to announce that we are at the end of implementing the Integrated Insurance Application, TCSBaNCS, covering all aspects of the business from Underwriting, Claim Handling, and Finance Functions and extending to provide MIS through the same system. The project which commenced its implementation two years back is now reaching its end. Both Life and General Insurance Modules and other supporting modules are now fully implemented and the Company is currently in the process of implementing the Finance Module.

Servicing Customers

In aligning with the corporate strategy, attention was also paid to enhance service quality, especially in areas earmarked for improvement, such as accident intimation, claims payment and premium payment for policies.

Customer Relations Centre (CRC)

We have extensively strengthened the operations of the Customer Relations Centre (CRC). One such innovative functionality introduced during the year was harnessing the capabilities of Google maps to indicate the location of an accident, with a coloured flag indicating the current service status and the uploaded accident images. SMS services were enhanced to communicate policy/ accident information to all relevant parties.

VIP categorisation for high net worth clients and caller identification facilities were introduced to the CRC during the year, enabling customer service representatives to locate customer details and deliver their services efficiently.



Namal Gunawardhane
Head of IT

Taking the new role of IT further, we at HNBA have concentrated on providing innovative solutions to our customers and service intermediaries such as insurance advisors and assessors, augmenting our service levels to a new dimension.

Management Discussion & Analysis

Mobile Receipt

A mobile receipting facility was introduced to a few selected Insurance Advisors, enabling the issuance of a receipt as and when premium payments are collected by them. This novel feature is focused on satisfying the customers who receive an instant proof for their payment. This application can be used in any mobile phone with basic facilities such as Bluetooth.

This is currently being tested as a pilot project and if the results are positive, it will be extended to cover a much larger number of insurance advisors.



Use of SMS

Our SMS facilities to customers were further extended during the year. Our customers now receive SMS alerts when a premium payment is made, in dispatching claim payments to their bank accounts and for Premium Payment Warranty (PPW) cancellations at the end of the Credit period. Further, the SMS facility was introduced when payments are made to intermediaries, advisors and assessors.

www.hnbassurance.com

Our website was re-launched during the year, to mark our 10th anniversary. This trilingual website has been designed after careful consideration of the needs of customers and thus assists customers and the public in easily accessing product information and corporate news.

This website has departed from being merely a traditional website and possesses several noteworthy innovative features such as the customer portal where customers could view the current status of the policy, payment information,

claim details and accident images. It is also equipped with a branch locator based on Google maps, a secure online payment facility for registered policyholders as well as links to social media sites.

Social Media

The Company maintains a presence on Facebook through which news about the Company is frequently shared with a rapidly growing community of friends. It is planned to establish a presence on several other social media networks as well in the near future with the aim of promoting awareness about the Company and its products.



Human Resource Information System (HRIS)

A globally renowned industry standard HRIS solution from hSenid Business Systems was introduced during the year for automating activities of the Human Resources Department. This system consists of an employee master database and a time attendance and leave module, and has thus contributed significantly to improve efficiency levels. Further strengthening of operations is planned for 2012, with the introduction of an Objective Management and Performance Management Module.

Business Intelligence (BI)

Introducing a BI solution for the Life Insurance domain was another novel initiative launched during 2011. A comprehensive data warehouse, coupled with interactive dashboards, was designed and is currently under development. Implementation of the solution obtained for Life Insurance and extending it to cover the General Insurance domain are foremost among other activities lined up for 2012.



Green IT

In 2011 special attention was directed towards reducing the carbon footprint created by organisational activities. Several measures were taken in this direction in reducing power consumption, the use of paper, the use of courier services and travel.

Server virtualisation effort was further extended by implementing 8 servers, with an effort to accomplish the goals set in 2010 to reduce the usage of power and other resources.

Replacing CRT monitors with energy saving LCD monitors was another initiative we took towards saving energy. Accordingly, 75 CRT monitors were replaced by LCD monitors during the year, which in turn resulted in a sizeable reduction in power consumption.

What we achieved and what we intend to achieve in 2012

We would be concentrating on building upon the foundations laid during 2011. Paramount importance during the year would be the completion of the core insurance application by incorporating the Finance Module. Monitoring in-house processes closely and thereby improving the end-user efficiency at the workplace is another objective.

Expanding the use of BI (Business Intelligence) to cover General Insurance is yet another important target for the year 2012 enabling more informed business decisions. Enhancements to mobile applications are planned for improving customer service quality.

With regard to systems, we will continue to introduce open source enterprise level solutions to adjust with changes in a cost-effective manner without compromising functionality or quality. Application and hardware consolidation is another key strategy planned and we expect to introduce a common development framework for application unification in the years to come.





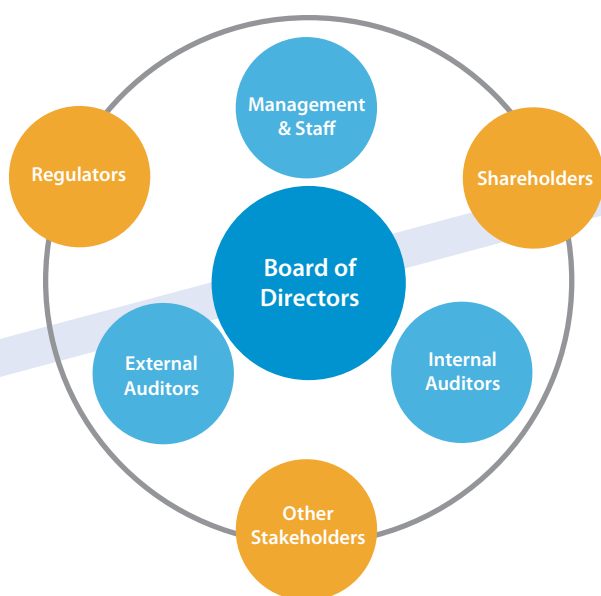
Responsibility

Corporate Governance

“Insurance is all about transparency and the highest standards of governance at all levels of the business. This is how we work and how we have won the trust of so many.”

Corporate Governance

Our Corporate Governance Framework provides the basis for identifying the key players involved in ensuring the application of good governance practices within the Company. It also provides a comprehensive understanding of governance practices and policies. We consider Corporate Governance to be of utmost importance in driving the Company towards success and therefore all possible measures are taken to ensure that all stakeholders are recognised equitably.



Our Corporate Governance Framework rests on two important commitments:

- Disclosure of our corporate governance principles and practices comprehensively; and
- Recognition of the need to adapt and improve our principles and practices continuously in light of our experience, regulatory requirements, international developments and investor expectations.

This Corporate Governance Report is aimed at keeping our stakeholders abreast of all our policies and practices, which will in turn give them assurance on our standards.

HNB Assurance's commitment towards Corporate Governance

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 supplement our commitment to caring.

In pursuing these corporate objectives, we commit ourselves to adhering to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity, and respect for others. Our approach to governance is firmly based on the belief that good Corporate Governance is the glue that holds together responsible business practices, which in turn promotes positive workplace management, marketplace responsibility, environmental stewardship, community engagement and sustained performance.

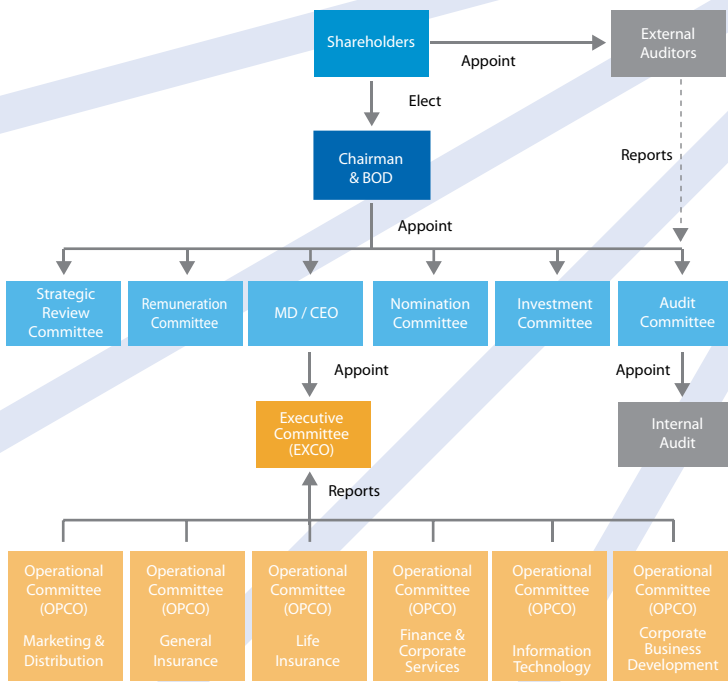
Corporate Governance at HNB Assurance PLC consists of, but is not limited to, concerns such as board structures, roles and responsibilities, performance measurement, internal controls, policies and procedures, ethics and audit. In addition, Corporate Governance also focuses on areas such as strategy formulation, 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 those rights.

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 (SEC) of Sri Lanka and Rule Number 7.10 of Listing Rules issued on Corporate Governance by the Colombo Stock Exchange (CSE) discuss the best practices on Corporate Governance that are to be followed by a public listed company. Our commitment to good Corporate Governance however is not solely based on the need to comply with such requirements, but rather on our identification of Corporate Governance as an effective management tool.

Reason 6
BEST GOVERNANCE PRACTICES
 Governance at HNBA is not just following guidelines, we blend it with our culture; it is our way.

The following diagram depicts the Governance Structure of HNBA.

The Governance Structure of HNBA



We trust that this Report will assist in broadening your understanding on the operation of Corporate Governance at HNB Assurance PLC. As an organisation 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 Board of Directors assumes the primary duty of promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interests of the Company. The 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. Decisions to be taken by the Board include those relating to,

- setting the Company’s values and standards
- formulating the strategic direction of the Company
- setting the objectives of the Company
- overseeing the management of HNBA’s relationships with stakeholders, such as the Government, the customers, the community and others who have a legitimate interest in the responsible conduct of the Company’s business
- monitoring the performance of the management, and
- ensuring that a framework of prudent and effective controls is in place to enable assessment and management of risks

The Board of Directors, as the body responsible to shareholders for the sustainable development of the Company, recognises Corporate Governance as one of its most critical responsibilities. Accordingly, the Board, together with the management, has proven their commitment to effective Corporate Governance in different ways.

- The Board of Directors comprises professionals who possess vast knowledge and experience in diverse areas, and as such their cumulative input is beneficial in directing the Company towards success.

Corporate Governance

- Of the 8 Board members, 3 are Independent Non-Executive Directors, which is in line with the required number as per rules.
- The Board ensures substantial compliance with 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 full compliance with the Rules on Corporate Governance issued by the Colombo Stock Exchange (CSE).
- Some of the Board's responsibilities have been assigned to 5 Board Sub-Committees, namely
 - o Strategic Review Committee
 - o Investment Committee
 - o Audit Committee
 - o Nomination Committee
 - o Remuneration Committee

These committees ensure that the Board oversees the Company's operations effectively and demonstrates the commitment to 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 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 2011 in order to obtain an independent opinion on the Company's financial performance and internal controls.
- All laws applicable to the Company are comprehensively complied with and all taxes and dues to regulatory authorities settled on time, without exception.
- Self-evaluation procedures have been introduced to improve the performance of the Audit Committee.

Composition of the Board

The Board comprises 8 Directors and all, except for the Managing Director, are Non-Executive and independent of management, thereby promoting critical review and control of the management process.

The Board includes three active Independent Non-Executive Directors to whom shareholder concerns can be conveyed. The Non-Executive members of the Board also bring a wide range of business and financial experience to the Board, thereby contributing towards effective guidance of the Company. Four Non-Executive Directors are not considered independent, due to their association with Hatton National Bank PLC, which is our parent company having a substantial interest (59.99%) in HNB Assurance PLC.

Qualifications and experience of Directors are given on Directors' Profile in page 17 of this Annual Report.

At the end of each financial reporting period, the Company seeks confirmation from the Directors in respect of any transactions of the Company with parties they are related to. The identified significant related party transactions are disclosed in Note number 30 to the Financial Statements of the Annual Report.

The full Board meets in person monthly. Details of Directors' attendance at the Annual General Meeting (AGM), Board Meetings and Board Sub Committee Meetings held in 2011 are given on page 205. The overall attendance rate of Directors at Board Meetings was 96% (2010: 91.7%).

Board Committees

The Board performs its supervisory functions through the Board Audit Committee, Remuneration Committee, Investment Committee, Nominations Committee and Strategic Review Committee (appointed in 2011), thus ensuring competence and effectiveness.



The following table describes the responsibilities and the work undertaken, on behalf of the Board, by each Board Sub Committee during 2011 and up to the date of this Report.

Committee	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee	Strategic Review Committee
Chairman	D M de S Wijeyeratne*	M U de Silva**	R Theagarajah**	J D N Kekulawala**	None
Members	Sarath Ratwatte* J D N Kekulawala**	Sarath Ratwatte* D M de S Wijeyeratne*	Manjula de Silva*** M U de Silva**	Sarath Ratwatte* Manjula de Silva*** Rajive Dissanayake	Manjula de Silva*** D M de S Wijeyeratne* Sarath Ratwatte*
Frequency	Quarterly	Once a year	As required	Quarterly	As required
Circulation of the Agenda & Papers	One week in advance	One week in advance	One week in advance	One week in advance	As appropriate depending on the nature of the discussion
Secretary	Head of Finance	Manager-HR	Board Secretary	Head of Finance	None
Invitees	Managing Director General Managers Head of IT Finance Manager Manager Internal Control & Compliance External & Internal Auditors Consultant Actuary	Managing Director	Board Secretary	Manager-Investments	Other members of the Board or members of the Management as appropriate
Main functions of the Committee	- 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 Internal Audit function.	- Reviewing and recommending to the Board on remuneration package for MD/CEO, top management and other employees of the Company. - Reviewing and making recommendations to the Board on annual increments, promotions, etc.	- Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.	- 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.	- Explore the opportunities of a strategic nature and analyse the feasibility of such opportunities for the Company. - Review the Company's Corporate Plan and give recommendations for improvement.

Corporate Governance

Committee	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee	Strategic Review Committee
Main functions of the Committee	<ul style="list-style-type: none"> - Making recommendations to the Board on the remuneration, appointment, re-appointment and removal of the External Auditors. - Reviewing and monitoring the External Auditor's independence and objectivity and the effectiveness of the audit process. - Continuous review of the Company's compliance with financial reporting requirements such as Sri Lanka Accounting Standards, Companies Act, Regulations of Insurance Industry Act and other regulations of the Insurance Board of Sri Lanka. 	<ul style="list-style-type: none"> - 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. - Review of leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the market place. 	<ul style="list-style-type: none"> - Regularly reviewing and evaluating the structure, size, and composition, balance of skills, knowledge and experience of the Board and making recommendations for improvement. 	<ul style="list-style-type: none"> - Monitoring compliance with laws and regulations relating to Investments. - Monitoring the implementation of the Investment policy, Asset and Liability Management (ALM) policy and Liquidity policy of the Company. 	<ul style="list-style-type: none"> - Advise the Board on matters of strategic interest.

* Independent Non-Executive Director

** Non-Executive Director

*** Executive Director

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. The Executive Director does not hold any directorship in any other public company, but is encouraged to participate in professional, public and community organisations.

Chairman and Chief Executive Officer

The posts of Chairman and CEO were held separately by Mr. Rienzie T. Wijetilleke and Mr. Manjula de Silva respectively up to the resignation of Mr. Rienzie T. Wijetilleke from the Board on 29th March 2011. Following the resignation of Mr. Rienzie T. Wijetilleke, Mr. Rajendra Theagarajah was appointed as the Acting Chairman of the Board. 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.

Directors' Remuneration

The Company has established a formal and transparent procedure/policy for remuneration of the 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.

The Remuneration Committee appointed by the Board and consisting exclusively of Non-Executive Directors, assumes the primary responsibility of reviewing and advising the Board on appropriate remuneration to Directors, Management and the staff of the Company. Due care is taken to ensure that remuneration paid to Board Members is commensurate with their skills, knowledge, competencies and involvement in Board activities as well as with remuneration of Directors in other companies of similar size and operation. The Remuneration Committee also takes into account the practices within the Group when determining salary increases.

The remuneration and other benefits paid to Executive and Non-Executive Directors is disclosed in page 205 in this Annual Report.

Board Secretary

Ms. Shiromi Halloluwa, an Attorney at Law by profession, serves as the Board Secretary of the Company since 4th

January 2012. Ms. Indrani Goonasekera who served as Secretary of the Board from the inception of the Company resigned with effect from 7th September 2011. Ms. Thushari Ranaweera served as the Board Secretary since then until the appointment of Ms. Shiromi Halloluwa.

Shareholders

The Board and the Senior Management acknowledge their responsibilities to represent the interests of all shareholders and to maximise shareholder value. The Investment section given on pages 44 to 47 of this Annual Report under the Management Discussion and Analysis details our policies and actions in this respect.

Communication with Shareholders

Annual and Interim Financial Statements

HNB Assurance PLC uses a number of channels to keep its shareholders informed of the performance and operations of the Company.

An 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. These reports moreover include a significant amount of important but voluntary information disclosed beyond regulatory requirements.

As per the Listing Rules of the Colombo Stock Exchange (CSE), the Company is only required to submit Interim Financial Statements to the Colombo Stock Exchange (CSE) for public release. However, as a best practice, the Company also communicates the Interim Financial Statements in the following manner;

- Circulating printed copies to all shareholders
- Publishing in print media
- Publishing on the Company's website

Meetings with Shareholders

Annual General Meeting (AGM)

The Annual General Meeting (AGM) is the most awaited meeting of the Company's shareholders. The AGM provides an opportunity for communication between the Board and the Company's shareholders. The Company regards the AGM as an important event in its corporate calendar. All members of the Board of Directors and the Senior Management make an effort to attend the AGM and answer shareholders'

Corporate Governance

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 Annual General Meeting (AGM) held on 29th of March 2011, 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:

- Declaration of a dividend of Rs. 1.80 per share (Percentage of votes - 100%);
- Re-election of Mr. M U de Silva as a Director of the Company (Percentage of votes - 100%);
- Re-appointment of Mr. J E P A de Silva as a Director of the Company (Percentage of votes - 100%);
- Re-appointment of Auditors for the ensuing year and authorising the Directors to fix their remuneration (Percentage of votes - 100%);
- Authorising the Directors to determine payments for charitable and other purposes (Percentage of votes - 100%).

Extra-Ordinary General Meeting (EGM)

In addition to the AGM, the Company also held an Extra Ordinary General Meeting (EGM) during the year. The EGM was also held on 29th of March 2011 following the AGM, at the Auditorium on Level 22 of "HNB Towers", at No: 479, T.B. Jayah Mawatha, Colombo 10. The main purpose of the EGM was to seek shareholder approval for the issue of new shares by way of a Capitalisation of Reserves and a Rights Issue. Resolutions passed at the EGM are;

- Issue of 6,250,000 new ordinary shares credited as fully paid by way of a Capitalisation of Reserves. (Percentage of votes - 100%)
- Issue of another 6,250,000 new ordinary shares by way of a Rights Issue of shares following the Capitalisation of Reserves and on the increased number of shares. (Percentage of votes - 100%)

Investor Forum

In addition to the AGM and the EGM, the Company also had an Investor Forum on 29th April 2011. All major

shareholders, Stockbrokers, Fund Managers and other major stakeholders were invited to the Forum. The main objective of the Investor Forum was to keep all stakeholders informed of the Company's performance, strategies and future plans. The Head of Finance and the Managing Director presented the Company's performance and future strategies during the Investor Forum which was followed by an active question and answer session.

Disclosures in the Annual Report

The share information section given on pages 267 to 271 set out a wide range of other information of particular interest to shareholders, including details of the profile of shareholders in the Company and aggregate shareholding. In addition, significant amount of specific information that is of interest to shareholders and potential investors is disclosed in the Sustainability Report in pages 154 to 156.

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. This will be attended to by the Board or the Management as appropriate. Please refer page 281 for the Investor Feedback Form.

Equitable Treatment to all Shareholders

The Company has at all times ensured that all shareholders are treated equitably. Both Sinhala and Tamil translations of the Chairman's Report, Managing Director's Report, Balance Sheet, Income Statement, Cash Flow Statement and Statement of Changes in Equity are available on request.

Submission of Information to Colombo Stock Exchange (CSE)/ 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. The Company ensures all relevant information is provided to shareholders beyond regulatory requirements. The table below gives the dates of releasing important information to CSE/shareholders during the year 2011. Additionally, important dates of shareholder meetings are also shown below.

Important Shareholder Communications

Nature of the Information	Date in 2011
Dividend announcement to CSE	31st January 2011
Submission of unaudited Interim Financial Statements for the year ended 31st December to CSE	3rd February 2011
Publication of unaudited Financial Statements for the year ended 31st December in the Print Media (Daily Financial Times)	7th February 2011
Circulation of unaudited Financial Statements for the year ended 31st December to shareholders	8th February 2011
Announcement of issue of shares by way of Capitalisation of Reserves and Rights Issue of Shares to CSE	24th February 2011
Submission of Audited Financial Statements (Annual Report) for the year ended 31st December to CSE	3rd March 2011
Circulation of Audited Financial Statements (Annual Report) for the year ended 31st December 2010 to shareholders	5th March 2011
Circulation of the Notice of Annual General Meeting to shareholders	5th March 2011
Circulation of the Notice of Extra-Ordinary General Meeting to shareholders	5th March 2011
Informing the resignation of Chairman (Mr. Rienzie T. Wijetilleke) to CSE	18th March 2011
Annual General Meeting (AGM)	29th March 2011
Extra-Ordinary General Meeting (EGM)	29th March 2011
Confirmation of Capitalisation of Reserves to Shareholders	29th March 2011
Submission of unaudited Interim Financial Statements for the 1st Quarter (31st March) to CSE	28th April 2011
Investor Forum	29th April 2011
Circulation of unaudited Interim Financial Statements for the 1st Quarter (31st March) to shareholders	4th May 2011
Publication of unaudited Interim Financial Statements for the 1st Quarter (31st March) in the print media (Daily Financial Times)	5th May 2011
Allocation of Rights Issue shares to Shareholders	30th May 2011
Submission of unaudited Interim Financial Statements for the 2nd Quarter (30th June) to CSE	3rd August 2011
Circulation of unaudited Interim Financial Statements for the 2nd Quarter (30th June) to shareholders	5th August 2011
Publication of unaudited Interim Financial Statements for the 2nd Quarter (30th June) in the print media (Daily Financial Times)	5th August 2011
Submission of unaudited Interim Financial Statements for the 3rd Quarter (30th September) to CSE	3rd November 2011
Circulation of unaudited Interim Financial Statements for the 3rd Quarter (30th September) to shareholders	8th November 2011
Publication of unaudited Interim Financial Statements for the 3rd Quarter (30th September) in the print media (Daily Financial Times)	8th November 2011

Corporate Governance

Management and Staff

Both the Management and Staff also play a major role in the Governance Structure in the Company. The primary task of the Management and Staff is the successful implementation of the strategy and direction determined by the Board. In doing so, they apply business principles and ethics which are consistent with those expected by the Board, the Company's shareholders and other stakeholders.

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. Adherence to the MOFA is strictly maintained throughout the year. The MOFA is under continuous review and appropriate amendments are made to the MOFA where necessary in order to facilitate quick decision making without violating controls in the operations of the Company. All such amendments to the MOFA are made through the Board.

During the year, a revision was made to the MOFA, which was approved by the Audit Committee and the Board of Directors.

Procurement Policy

The Company has also introduced a comprehensive Procurement Policy to be followed by staff members involved in procurement activities. The Procurement Policy is also approved by both the Audit Committee and the Board thereon. 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. The Procurement Policy was initially approved by the Board and subsequent amendments are routed through the Audit Committee.

Procedure Manuals

The Company has introduced comprehensive procedure manuals to cover all operational areas such as Underwriting, Claims Management, Investments and Branch Operations to ensure that all daily operational activities are carried out within an appropriate framework. These operational manuals are also regularly updated whenever a change is necessary.

Code of Conduct

All management and staff are subject to a formal Code of Conduct which places them under specific obligations as to the ethics and principles by which our business is conducted. This Code of Conduct is also set out in full on the Company's intranet and all new staff members are educated on the Code and its implications during the induction programme. A new section for the Code of Conduct, relating to staff involved in investment activities of the Company, was introduced during the year.

Non-compliance with the Code results in disciplinary action. Depending on the degree of violation, disciplinary measures are decided by the Executive Committee (EXCO) after carrying out an investigation and an inquiry on the violation, in order to ensure consistency and fairness of treatment.

Whistle Blowing Policy

The Company implemented a formal Whistle Blowing Policy during the year and the same was communicated to all members of the staff. Through this policy, the Company encourages any employee who suspects wrong doing at work - whether by his management, peer, or another employee - to raise his/her concern directly with the following nominated officers of the Company.

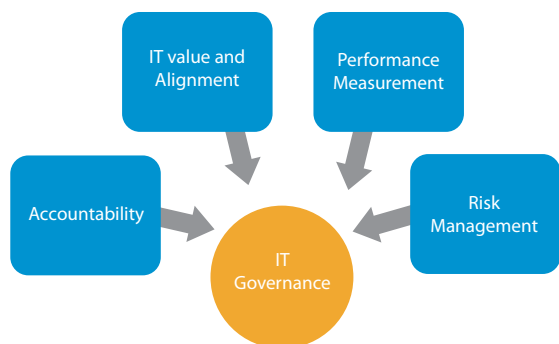
1. Manager Human Resources
2. Manager Internal Control and Compliance
3. Managing Director
4. Audit Committee Chairman
5. Board Chairman.

Concerns raised are investigated as per the policy and the identity of the person raising the concern is kept confidential.

IT Governance

IT Governance is considered an integral part of Corporate Governance in the modern world. IT Governance, in the context of the Company, refers to how our organisation aligns its IT strategy with the business strategy in ensuring that the Company stays on track to achieve strategies and goals, as well as implementing structured ways to measure IT performance. It guarantees that all stakeholders' interests are accounted for and that processes provide measurable results.

The Company follows a carefully planned IT governance system, where IT values and 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 as well as non-IT personnel to ensure 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

While continuous improvement to IT standards are carried out within the organisation, independent evaluations such as internal/external audits, regular reviews by internal committees and the Board Sub-Committees ensure adherence to key governance objectives in Operational and Service Level IT values. These in turn guarantee operational excellence, mitigating current and emerging

threats and further facilitate accountability and strict compliance, thereby enabling continued enrichment of the IT governance process.

Performance Governance

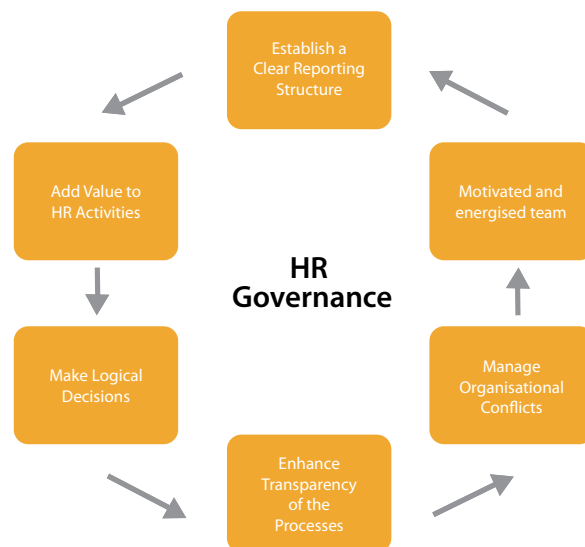
Performance Governance derives from the Company's strategic direction and corporate objectives, and aims at successfully managing the business risk. Based on the corporate strategy, the Board sets objectives for the year in consultation with the MD/CEO. The resultant Corporate Plan is the formal articulation of the Company's strategy and the Board with the MD/CEO provides leadership in achieving the stated objectives, which is then measured against Key Performance Indicators.

The Company maintains a target-driven performance culture. Employees are motivated to achieve set targets and the achievement of these targets is monitored closely at different levels throughout the year. Some such mechanisms are;

- Performance objectives are given to all executive staff and semi-annual performance appraisals are conducted to evaluate 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
- Monthly financial information on KPIs submitted to the Board and being compared with budgets and last years' information
- Periodic review by a Non-Executive Director of the achievement of objectives and implementation of action plans stated in the Corporate Plan

Corporate Governance

The following diagram illustrates the performance governance framework of HNBA.



HR Governance

HR Governance involves a systematic approach that enables the different functions of the Company to achieve their strategic and operational objectives as well as to maintain 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 organisation
- Logical decision making and sufficient controls to integrate with business priorities
- Management of organisational tolerance
- Enhancement of the transparency in processes to increase employee trust and commitment
- A motivated and energised team

All such activities would contribute towards reducing operational and legal risks while enhancing the ability to deliver stronger performance. The principles and details of the remuneration policy of the Company are given in the Remuneration Committee Report on pages 200 and 201 of this Annual Report.

Risk Management

The Company has a comprehensive risk management programme to identify risks which may adversely affect the achievement of business objectives and to develop appropriate mitigation strategies. Following the programme, the Risk Management report was updated twice during the year with the involvement of the Risk Management Team of the Company. The Risk Management Team comprises the top management and members of the management team from all operational areas of the Company. The Updated Risk Management Report was tabled at the Audit Committee for their review and approval.

Manager - Internal Control and Compliance has been given the responsibility of monitoring compliance with the Risk Management Report and to follow up on agreed actions to be implemented to further mitigate the risks where necessary.

In addition, the Company requested the Internal Auditors to align their Audit Plan with the Risk Management Report and to pay attention to high risk areas identified in the Report in their future audits.

A detailed report on the risk management initiatives of the Company appears on pages 118 to 131.

Internal Control

The Board is primarily responsible for the Company's system of internal controls and for reviewing its effectiveness. Internal Auditors and the management conduct frequent reviews of the effectiveness of the Company's system of internal controls. The Audit Committee reviews the findings of the Internal Auditors as well as the management on the effectiveness of the Company's system of internal controls at least once every quarter, and reports to the Board on such reviews. The effectiveness of the Audit Committee itself is reviewed annually through a self-evaluation process.

During the year under review, a new position of 'Manager - Internal Control and Compliance' was created with a view to strengthen the internal control activities of the Company.

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 such aspects
- Conducting comprehensive audits of the practices, procedures, expenditure and internal controls of all departments and branches on a regular basis with the support of Internal Auditors
- Conducting special reviews on areas of concern identified by the management or the Audit Committee
- Monitoring compliance with the Risk Management Report and to follow up on agreed actions to be implemented to further mitigate the risks, and
- 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.

A detailed report on Internal Control initiatives of the Company is provided on pages 132 and 133.

Financial Reporting

HNB Assurance PLC aims to present a clear and balanced assessment of its financial position and prospects. Financial results are announced as early as possible and accordingly the unaudited financial statements for the year ended 31st December 2010 were released on 3rd February 2011.

The audited Financial Statements for the year ended 31st December 2010 were released to CSE on 03rd March 2011, by virtue of which we became the first Insurance Company in the country to release its financial information for the relevant financial year. Quarterly statements were issued and communicated in numerous ways to keep shareholders informed of the performance and operations of the Company.

The table in the page 83 shows the dates on which the Company submitted relevant information to CSE and Shareholders.

Other Governance Initiatives

In order to strengthen the Governance structure of the Company, various committees have been appointed to overlook the management function. The following table shows the roles and responsibilities of these committees.

Corporate Governance

Investment Committee

The Investment Committee is chaired by a Non-Executive Director and includes three other members including the Managing Director. The Members of the Committee are;

- J D N Kekulawala *FCIB (London), FCA (England & Wales), MBA (Manchester)* – Chairman
Non-Executive Director
- Sarath Ratwatte *FCMA (UK)* – Member
Independent Non-Executive Director
- Manjula de Silva *BA Hons (Colombo), MBA (London), FCMA (UK)* – Member
Managing Director
- Rajive Dissanayake – *BBA (Colombo), ACMA (UK), CFA (USA)* – Member
Senior Manager - Strategic Planning (HNB)

The Committee meets quarterly to review asset allocation and performance of the key investment portfolios and provides guidance on investment strategy at a macro level. It also monitors compliance with Investment, Asset and Liability Management (ALM) and Liquidity policies that have been adopted by the Company.

The responsibilities of the Investment Committee are given on page 79.

Executive Committee (EXCO)

The EXCO has 7 Members.

- Managing Director
- General Manager – Marketing & Distribution
- General Manager – Life Insurance
- General Manager – General Insurance
- Head of Corporate Business Development
- Head of Information Technology
- Head of Finance

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 2011, it met on 16 occasions.

The EXCO together with other members of the management team also meet periodically with a designated Non-Executive Director to review 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 senior management teams from the respective divisions. Existing OPCOs are;

- Marketing and Distribution OPCO
- General Insurance OPCO
- Life Insurance OPCO
- Finance and Corporate Services OPCO
- Information Technology OPCO
- Corporate Business Development OPCO

The Objectives of OPCOs are to ensure the effective functioning of divisional responsibilities and the proper coordination 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 coordination among divisions.

The Managing Director also attends OPCO meetings at times, by invitation, to brief the OPCOs on important developments in the Company.

Claim Panels

Settlement of insurance claims is one of the most critical processes of the Company. According to the nature of the process, the company receives complaints or appeals from customers to reconsider the amount paid or change a repudiation decision.

In order to handle these cases, we have introduced claim panels which are tasked to consider these cases independently.

Members of the panel are:

- Managing Director
- Relevant Technical General Manager (General or Life Insurance depending on the case)
- Head of Finance

The Panel reviews the complaint or the appeal together with the opinion of technical claim managers and decides 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 with respect to claims.

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 on Fixed Assets and services.
- IT Hardware Procurement Committee
- IT Software Procurement Committee
- Marketing Communications Procurement Committee
- Other Distribution Procurement Committee

These Committees comprise members of the relevant function, Finance Division as well as other independent departments.

The procedures adopted by these committees are transparent and auditable. The Procurement Committee renders its recommendations to the relevant approving authority only after a unanimous decision is reached.

Other Committees

In addition, 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 also provides opportunities for employees to demonstrate talents outside their job scope.

Some of the committees that functioned effectively during the year are;

- Annual Report Committee headed by Head of Finance
- Complementary Items Committee headed by Manager- Marketing Communication
- Staff Conference Committee headed by Manager – Human Resources

As this practice has shown a lot of positives and transparency, we expect to introduce a few more committees in the year 2012 to handle various other aspects.

External Auditors

The Company's External Auditors are Messrs KPMG Ford, Rhodes, Thornton & Company. 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, there must be 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 2011
- Special Purpose Audit as at 30th June 2011
- Certification of Solvency Report for the purpose of dividend declaration
- Company valuation for the purpose of Rights Issue
- Certification of Insurance Solvency

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- Certification of Solvency for Capitalisation of Reserves
- Assisting the Implementation of LKAS and SLFRS

The audit partner rotation is applicable every 5 years.

Internal Auditors

The Company's Internal Audit function has been outsourced to Messrs Ernst & Young Advisory Audit Services (Pvt) Ltd. Internal Auditors play a major role in monitoring the internal governance of the Company.

During 2011, Internal Auditors issued 14 reports to the senior management and the Audit Committee covering various operational and financial units of the Company, including the operations of the branch network.

The annual audit plan, which is approved by the Audit Committee, is based on a risk assessment methodology and assists in determining business risks and establishing audit frequencies. Concerns which have been reported by Internal Auditors are monitored on a quarterly basis by the Management and the Audit Committee until corrective measures are implemented.

Other Stakeholders

Good governance requires due regard to the impact of business decisions both on shareholders and on other key stakeholders. The Sustainability Report given on pages 138 to 193 of this Annual Report explains how we discharge our responsibilities to our employees, customers, business partners, the community and the environment in which we operate.

Regulators

As discussed above, we have taken all possible actions to ensure compliance with laws and best practices on Corporate Governance. The Board and the Management recognise their responsibility and duty in ensuring that business is conducted in accordance with all applicable laws, rules and regulations. A compliance checklist is signed off on a quarterly basis by employees responsible for ensuring compliance with such requirements, and is reported to the Audit Committee on a quarterly basis.

The appointment of a Manager - Internal Control and Compliance with an accounting background has supplemented the compliance with all applicable laws, rules and regulations. He is assisted by the Board Secretary and the Manager – Legal in carrying out compliance activities.

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 is outlined below. We have also included a table which summarises the compliance status of the Company with the Rule No. 7.10 of the Listing Rules of the CSE on pages 113 to 115.

Compliance with the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC.

The above code was issued in 2008 with the objective of establishing good Corporate Governance practices in Sri Lanka. The code deals with six key areas which a Company should focus on when developing its Corporate Governance structure.

- | | | |
|--------------------------------|---|-----------------------------|
| A. Directors | } | Focuses on the Company |
| B. Directors' Remuneration | | |
| C. Relations with Shareholders | | |
| D. Accountability and Audit | | |
| E. Institutional Shareholders | } | Focuses on the Shareholders |
| F. Other Investors | | |

As discussed above, the Company is committed to full compliance with the code. Over the last few years, the Company has taken a number of initiatives to achieve this target and at present it is substantially complete. The Company's commitment to compliance with the code is discussed below in detail, under each of the criteria required by the code. We continually review our Corporate Governance principles and practices not only to improve our Corporate Governance framework but also to ensure that it remains relevant and up-to-date.

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 page 92 to 112.

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HNBA Compliance with the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC

Section Number	Principle	Compliance Status	Company's Commitment
1	THE COMPANY		
A	DIRECTORS		
A.1	THE BOARD		
	Every public company should be headed by an effective Board.	Compliant	<p>The Board comprises eight Directors including Executive, Non-Executive and Independent Non-Executive Directors. The Managing Director is the only Executive Director on the Board.</p> <p>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 14 to 17 of this Annual Report.</p> <p>The Board's main role is to provide entrepreneurial leadership to the Company within a prudent and effective process.</p> <p>The Board has delegated the responsibility and authority to achieve the corporate objectives to the Managing Director/CEO.</p> <p>The Board monitors the decisions and actions of the Managing Director/CEO and the performance of the business to gain assurance that progress is being made towards the achievement of corporate objectives.</p> <p>Key Performance Indicators are used to monitor the progress at Board meetings held every month.</p>
A.1.1	The Board should meet regularly (at least once every quarter).	Compliant	<p>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 as well as other stakeholders. It may hold additional meetings as and when necessary.</p> <p>During the year the Board met on 12 occasions.</p> <p>The following Sub-Committees also meet on a regular basis.</p> <ul style="list-style-type: none"> • Audit Committee (5 meetings) • Investment Committee (4 meetings) • Strategic Review Committee (2 meetings) • Remuneration Committee (1 meeting) <p>The number of Board meetings and sub-committee meetings held during 2011 together with individual attendance is given on page 205.</p>
A.1.2	The Board should, <ul style="list-style-type: none"> • Ensure formulation and implementation of a sound business strategy 	Compliant	<p>The Board assumes the primary responsibility for the overall success of the Company. The Board is involved in formulating the overall strategy and ensuring the same is implemented through the MD/CEO.</p> <p>MD/CEO together with the management team develops corporate strategies, annual budgets, and the business plan in line with the overall strategy for each year. The corporate plan is approved by the Board every year and achievement of the objectives set in the plan is monitored very closely by the Board.</p> <p>A Non-Executive Director sits with the management periodically and reviews the progress of implementing the set strategies.</p>

Section Number	Principle	Compliance Status	Company's Commitment
	<ul style="list-style-type: none"> Ensure that MD/CEO and the management team possess the necessary skills, experience and knowledge for effective implementation of the strategy 	Compliant	<p>The Board actively works to ensure that 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.</p> <p>The Board gets involved in the recruitment of the senior management, paying due attention to knowledge, skills and experience.</p> <p>The profiles of the MD/CEO, Executive Committee (EXCO) members and the Management Team are provided on pages 16 and 19 to 22 respectively.</p>
	<ul style="list-style-type: none"> Adopt effective CEO and senior management succession strategy 	Compliant	<p>Succession plans are in place for all members of the top management and are monitored continuously by the Remuneration Committee. The key aspect of succession plans is to develop people internally, so that there are adequate internal options available for replacements when required, ensuring a smooth transition and business continuity. The Company's culture is designed to identify and develop internal personnel to fill key positions whenever possible.</p>
	<ul style="list-style-type: none"> Ensure effective systems are in place to secure integrity of information, internal controls and risk management 	Compliant	<p>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 in relevant areas.</p> <p>During the year, the Company appointed Messrs Ernst & Young (EY) to carry out an audit on application controls of the Company's main information system (TCS Bancs) and on IT General Controls. EY performed a comprehensive audit and their findings were reported to the Management and the Audit Committee. Management is following up on the recommendations for improvement made by the EY and the Audit Committee is kept informed of the progress. The Company intends to conduct the IT Audit on a periodic basis in future.</p> <p>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 118 to 135 for further information.</p> <p>The Board monitors the Risk Management process closely through the Audit Committee and the Investment Committee.</p>
	<ul style="list-style-type: none"> Ensure that Company activities are conducted in compliance with laws, regulations and ethical standards 	Compliant	<p>The Board ensures that the Company adheres to the highest ethical standards in compliance with all statutory requirements.</p> <p>The Company has appointed a Manager – Internal Control and Compliance, reporting to the Audit Committee Chairman and the Managing Director for continuous monitoring of compliance with laws and regulations.</p> <p>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 on a regular basis.</p> <p>The Company has also issued a Code of Conduct applicable to all employees. Refer page 110 for details.</p>

Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
	<ul style="list-style-type: none"> Ensure that all stakeholder interests are considered in corporate decisions 	Compliant	<p>The Board ensures that the interests of all stakeholders are considered and safeguarded in making corporate decisions. Details are discussed under the Sustainability Report on pages 138 to 193.</p> <p>As a measure of the Company's success in this regard, the company was awarded second place in the small scale category at the ACCA Annual Sustainability Reporting Awards 2011.</p>
	<ul style="list-style-type: none"> Ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations. 	Compliant	<p>The Company's accounting policies are fully in line with Sri Lanka Accounting Standards. Accounting policies are reviewed annually to be in line with the changing business requirements, evolving international and local accounting standards and best practices in the industry.</p> <p>There were no changes in accounting policies during the year under review.</p> <p>The Institute of Chartered Accountants of Sri Lanka has issued a new Volume of Sri Lanka Accounting Standards (Sri Lanka Financial Reporting Standards - SLFRS) which will become applicable for financial periods beginning on or after 1st January 2012.</p> <p>Implementation of Sri Lanka Financial Reporting Standards (SLFRS) will cause significant changes in the Financial Statements of companies in Sri Lanka in future. Particularly, as a Company engaged in the Financial Services industry, HNB Assurance PLC will also experience a significant impact from the new accounting standards. Given the complexity of these new accounting standards, considerable expertise and knowledge will be required to implement these standards properly in the Company. Identifying this need in advance, the Company took a number of initiatives by itself 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. Additionally, the Company appointed Messrs. KPMG Ford, Rhodes, Thornton & Co., to assist the management and the Board to ensure proper implementation of these accounting standards.</p> <p>Please refer the Independent Auditor's Report which affirms that the Company's Financial Statements are in line with Sri Lanka Accounting Standards, given on page 215.</p> <p>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.</p>
	<ul style="list-style-type: none"> Fulfil other Board functions that are vital, given the scale, nature and complexity of the business concerned. 	Compliant	<p>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.</p>

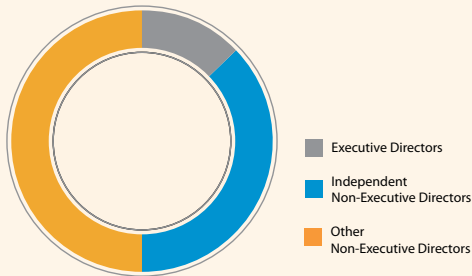
Section Number	Principle	Compliance Status	Company's Commitment
A.1.3	The Board collectively, and Directors individually, must act in accordance with the laws of the country. Also there should be a procedure for Directors to obtain independent professional advice where necessary.	Compliant	<p>As mentioned above, the Board is collectively and individually devoted to ensure full compliance with all laws and regulations applicable to the Company.</p> <p>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 coordinated through the Company Secretary.</p> <p>However, no such advice has been taken by any of the Directors during the period.</p>
A.1.4	All Directors should have access to the advice and services of the Company Secretary.	Compliant	<p>The Company Secretary, who is an Attorney-at-Law by profession, is accessible to any Director at any time.</p> <p>The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.</p>
A.1.5	All Directors should bring independent judgment to bear on issues of strategy, performance, resources and standards of business conduct.	Compliant	<p>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.</p> <p>All Directors are expected to make decisions objectively and in the best interest of the Company.</p> <p>All Non-Executive Directors, in particular, are expected to bring independent judgment upon and scrutinise the decisions taken by the Board on issues of strategy, performance, resources and business conduct.</p> <p>The Board of Directors is required to disclose all the transactions with the Company including those of their close family members as required by the Sri Lanka Accounting Standards - 30 and the Companies Act, No. 7 of 2007. This has been fully complied with and disclosed adequately in this Annual Report.</p> <p>Please refer pages 255 and 257 for information on Related Parties and Directors' Interests in Contracts respectively.</p>
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company	Compliant	<p>The Board met 12 times during the year in addition to the various Board Sub Committee meetings held. Please refer page 205 for the attendance of each Director at Board and Sub Committee meetings.</p> <p>The Board and Sub Committee meetings are conducted based on a formal agenda covering their main responsibilities and duties, which is prepared and circulated among all the Board or Sub Committee members with adequate time for perusal.</p> <p>In addition, the Board members have meetings and discussions with the management as and when required.</p>

Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
A.1.7	Every Director should receive appropriate training when first appointed to the Board and subsequently as necessary	Compliant	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. 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 constantly updated on the latest trends and issues facing the Company and the insurance industry. For instance, the Company facilitated the attendance of the Chairman of the Audit Committee at seminars on changes in Accounting Standards.
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 a balance of power and authority. The Chairman is responsible for providing effective leadership to the Board whilst the MD/CEO is responsible for ensuring the effective functioning of day to day operations and the achievement of financial and non-financial objectives agreed annually with the Board. Mr. Rienzie T. Wijetilleke was the Chairman of the Company until 29th March 2011. Following the resignation of Mr. Rienzie T. Wijetilleke from the Board, Mr. Rajendra Theagarajah was appointed as the Acting Chairman of the Board. Mr. Manjula de Silva functions as the MD/CEO of the Company.
A.2.1	If the positions of 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 Chairman is responsible for leading the Board and ensuring that it operates at the highest standards of governance. The Chairman 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 <ul style="list-style-type: none"> the effective participation of both Executive and Non-Executive Directors is secured 	Compliant	Mr. Rienzie T. Wijetilleke who was the Chairman of the Company up to his resignation on 29th March 2011 was a Non-Executive Director elected by the Board and had experience in performing the role of Chairman in other large corporate entities in the country including HNBA's parent company. Since his retirement, Mr. Rajendra Theagarajah overlook the functions as Acting Chairman of the Board. Mr. Rajendra Theagarajah, Managing Director of the parent company, Hatton National Bank PLC, also possesses vast experience and knowledge in banking, management and other related areas. He provides effective leadership to the Board by,

Section Number	Principle	Compliance Status	Company's Commitment
	<ul style="list-style-type: none"> • 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. 		<ul style="list-style-type: none"> • 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 discussion 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 public, and • ensuring that the Board is in complete control of the Company's affairs.
A.4	FINANCIAL ACUMEN		
	<p>The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.</p>	Compliant	<p>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.</p>
	<p>Members of our Board are:</p> <ul style="list-style-type: none"> - R Theagarajah <i>FCMA (UK), FCA (Sri Lanka), MBA (Cranfield), FIB (Hon) Sri Lanka</i> – Non-Executive Director (Chartered Financial and Management Accountant with over 27 years of experience in banking) - Manjula de Silva <i>BA Hons (Colombo), MBA (London), FCMA (UK)</i> - Managing Director (Chartered Management Accountant with over 20 years of experience in Fund Management and Insurance) - D M de S Wijeyeratne <i>ACA (Sri Lanka)</i> - Independent Non-Executive Director (Chartered Accountant and an experienced CFO) - Sarath Ratwatte <i>FCMA (UK)</i> - Independent Non-Executive Director (Chartered Management Accountant and an experienced Treasurer) - J D N Kekulawala <i>FCIB (London), FCA (England & Wales), MBA (Manchester)</i> - Non-Executive Director (Chartered Accountant, experienced CFO and a Banker with over 25 years of banking experience) - M U de Silva <i>FCIB (London)</i> – Non-Executive Director (Banker with over 49 years of experience) - Pratap Kumar de Silva <i>FICM (Sri Lanka), FICM (England)</i> – Independent Non-Executive Director (Fellow of the Institute of Credit Management with over 50 years of experience in finance sector) - J M J Perera <i>FCIB (London)</i> - Non-Executive Director (Banker with over 40 years of experience) <p>Brief profiles of each member of the Board can be found on pages 16 and 17.</p>		

Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
A.5	BOARD BALANCE		
	The Board should have a balance of Executive and Non-Executive Directors.	Compliant	The Board comprises seven Non-Executive Directors and one Executive Director who also functions as the Managing Director/CEO. Names of the Directors in each category are given on page 204.
A.5.1	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.	Compliant	The Board has seven Non-Executive Directors which is in excess of one third of the total number of Directors. Please refer page 17 for the profiles of these directors. <div style="text-align: center;">  <p> ■ Executive Directors ■ Independent Non-Executive Directors ■ Other Non-Executive Directors </p> </div>
A.5.2	Two or one-third of Non-Executive Directors appointed to the Board, should be 'Independent Non-Executive Directors'.	Compliant	Of the seven Non-Executive Directors of the Company, Mr. Pratapkumar de Silva, Mr. D M de S Wijeyeratne and Mr. Sarath Ratwatte 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 management and free of any business or other relationship that could materially interfere with the exercise of his/her unfettered and independent judgment.	Compliant	All three 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 of the independence or non-independence of 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 30th January 2012. The Annual Report of the Board of Directors is given on pages 202 to 209.

Section Number	Principle	Compliance Status	Company's Commitment
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 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	Please refer the comment above.
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 the need arises.
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 have arisen, the Company policy is to record them accordingly.
A.6	SUPPLY OF INFORMATION		
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 is 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, Corporate Governance on a need basis.
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	When appointing new Directors, the Board adopts a formal and transparent procedure through the Nomination Committee. However, no new Directors were appointed to the Board during the year.

Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
A.7.1	A Nomination Committee should be established to make recommendations to the Board.	Compliant	The Nomination Committee comprises three Directors including the Acting Chairman and the MD/CEO.
	<p>The members are;</p> <ul style="list-style-type: none"> - R Theagarajah - Chairman Non-Executive Director/Acting Chairman - Manjula de Silva - Member Managing Director - M U de Silva - Member Non-Executive Director <p>Responsibilities and other information of the Nomination Committee are disclosed on page 79.</p>		
A.7.2	An annual assessment of the Board composition should be conducted by the Nomination Committee	Compliant	<p>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.</p> <p>After the last review, the Board was satisfied about the current composition of the Board and therefore it remained unchanged during 2011 apart from the resignation of Mr Rienzie T. Wijetilleke with effect from 29th March.</p>
A.7.3	The Company should disclose information to the shareholders upon new appointment of Directors.	Compliant	<p>All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange.</p> <p>The Annual Report also carries details of new appointments of Directors together with a brief profile of each Director.</p> <p>No new appointment to the Board took place during the year under review.</p>
A.8	RE-ELECTION		
	All Directors should be required to submit themselves for re-election at regular intervals and at least once every three years.		
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election.	Compliant	<p>According to the Articles of Association of the Company, each Director other than the MD/CEO and any nominee Director, retires by rotation and is required to stand for re-election by the shareholders at the Annual General Meeting.</p> <p>The proposed re-election of Directors is subject to prior review by the full Board. Accordingly, Mr. D M de S Wijeyeratne retires by rotation at the AGM and offers himself for re-election under the Articles of Association of the Company.</p> <p>The Board has recommended his re-election.</p> <p>Please refer the Notice of Meeting on page 278 for more information in this regard.</p>

Section Number	Principle	Compliance Status	Company's Commitment
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	Directors, who have been appointed to the Board during the year, hold office until the next AGM. They are required to retire and be re-elected by the Shareholders. No new Directors were appointed to the Board during the year.
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.	To be fully implemented in year 2012	During the year, the Company developed a comprehensive checklist to appraise the performance of the Board covering all the responsibilities of the Board. The Board intends to commence the formal Board Appraisal Procedures using this checklist from the year 2012 onwards. The Audit Committee initiated a self-assessment process from the previous year to ensure it functions effectively and efficiently and discharges all its responsibilities as outlined in the Audit Committee Charter. This self-assessment was carried out using a formal questionnaire covering all the responsibilities of the Committee. In addition, the Management also assessed the performance of the Audit Committee using a checklist and the feedback was provided to the Audit Committee. Output of both the Self-Assessment by Audit Committee members and the Management's Assessment of the Audit Committee's Performance is tabled at a Board Meeting and used to further improve the effectiveness of the Audit Committee. The Company plans to expand this process to a 360 degree appraisal in 2012, involving both Internal and External Auditors in the Audit Committee Evaluation process.
A.9.2	The Board should undertake an annual self-evaluation of its own performance and that of its committees.	To be fully implemented in year 2012	As noted above, the Audit Committee started a self-assessment process in 2010. A formal appraisal procedure for the Board as well as for other Board Sub - Committees is expected to be implemented during the year 2012.
A.9.3	The Board should state in the Annual Report how such performance evaluations have been conducted.	To be fully implemented in year 2012	Performance of the Audit Committee was evaluated based on a questionnaire developed in accordance with the Audit Committee Charter. The main areas of focus were; <ul style="list-style-type: none"> • Objective, Composition, Meetings, etc. • Financial Reporting • Compliance and Litigation • External Audit • Risk Management, Internal Control and Internal Audit • Other Responsibilities <p>However, as discussed above, performance evaluations should be extended to the Board and other Sub-Committees, which is intended to be done in 2012.</p>

Corporate Governance

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. <ul style="list-style-type: none"> - The profiles of all Board members are provided on page 17. - Details of Directors' Interest in Contracts are provided on pages 210. - Details of Related Party Transactions are provided on pages 255 to 257. - The composition of Board Sub-Committees and attendance at Board meetings and Board Sub-Committee meetings by each Director are provided on pages 79 and 205 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 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 areas of focus of the Corporate Plan 2011 were; <ul style="list-style-type: none"> - Market Share - Gross Written Premium for Life and General Insurance - Profitability - Underwriting Results - Premium Persistency - Dividend Pay out - Remuneration to employees - Corporate Governance <p>The Board monitored the achievement of these targets throughout the year and provided guidance to the MD/CEO where necessary.</p>
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 <p>Remuneration to the MD/CEO is determined based on the achievement of targets set by the Company during the year.</p>

Section Number	Principle	Compliance Status	Company's Commitment
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.		
B.1.1	Board should set up a Remuneration Committee to make recommendations to the Board.	Compliant	<p>A Remuneration Committee has been appointed and functions within an agreed terms of reference.</p> <p>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 policy, no Director or employee should get involved in deciding his/her own remuneration.</p> <p>The MD/CEO and Manager – Human Resources participate in Remuneration Committee Meetings by invitation. Remuneration Committee met once during the year.</p> <p>Please refer pages 200 and 201 for the Remuneration Committee Report.</p>
B.1.2	The Remuneration Committee should consist of Non-Executive Directors, accompanied by a Chairman.	Compliant	<p>All three members of the Remuneration Committee are Non- Executive Directors out of whom two Directors are Independent Non-Executive Directors. Board appoints the Chairman of the Remuneration Committee.</p> <p>Mr. M U de Silva a Non-Executive Director, acts as the current Chairman of the Remuneration Committee.</p> <p>Please refer the Remuneration Committee Report on pages 200 and 201 for details on the functions of the Remuneration Committee.</p>
B.1.3	Members of the Remuneration committee should be listed in the Annual report.	Compliant	<p>Members of the Committee are;</p> <ul style="list-style-type: none"> - M U de Silva FCIB (London) - Chairman - Non-Executive Director <p>- D M de S Wijeyeratne ACA - Member Independent Non-Executive Director</p> <p>- Sarath Ratwatte FCMA (UK)- Member Independent Non-Executive Director</p> <p>Responsibilities and other information in respect of the Remuneration Committee are disclosed on page 79.</p>
B.1.4	Determination of Remuneration of Non-Executive Directors.	Compliant	<p>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.</p> <p>Other Non-Executive Directors are remunerated in line with market practices, based on attendance at Board and Sub-Committee meetings.</p>

Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
B.1.5	Remuneration Committee can consult MD/CEO or outside consultant regarding the remuneration of Executive Directors.	Compliant	The Committee consults the MD/CEO where necessary and has access to professional advice 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 Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.		
B.2.1	Remuneration Committee should provide attractive packages to retain Executive Directors.	Compliant	<p>The remuneration package of the MD/CEO who is the only Executive Director is linked to corporate and individual performance.</p> <p>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.</p> <p>Annual increments of Non-Executive employees will be dependent only on an assessment of their personal attributes.</p>
B.2.2	Remuneration Committee should set remuneration in line with industry standards and the Company performance.	Compliant	<p>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.</p> <p>It reviews reports of salary surveys periodically to get an assessment of comparable industry standards.</p>
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	<p>Remuneration Committee considers group remuneration levels when deciding HNBA's remuneration packages.</p> <p>However in most cases, HNBA's scales are not comparable with other companies in the Group as they operate in different industries.</p>
B.2.4	Performance related elements of remuneration of Executive Directors should be aligned with the interest 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	Remuneration Committee should design a performance related remuneration scheme, in line with the provisions set in the standard.	Compliant	<p>The MD/CEO and employees at all levels are eligible for annual performance linked bonuses based on the achievement of Life and General business targets and profitability targets.</p> <p>The Company does not have any long term incentive schemes, including Share Option Schemes.</p> <p>There are no pension schemes other than Gratuity. The consequences on Gratuity are considered when determining salary increases.</p> <p>Performance-related remuneration schemes are not applied retrospectively.</p> <p>Non-Executive Directors are not eligible for performance based remuneration schemes.</p>
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	<p>All Non-Executive Directors are paid only on their attendance at meetings.</p> <p>Non-Executive Directors who are nominees of the parent company are paid a nominal fee for their services.</p> <p>Other Non-Executive Directors are remunerated in line with market practice.</p>
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	<p>The aggregate remuneration paid to MD/CEO and Non- Executive Directors is disclosed on pages 205 to 206 of this report.</p> <p>The Remuneration Committee's report, which highlights the remuneration policy of the Company, is given on pages 200 and 201.</p>
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	<p>Each substantially separate issue is proposed as a separate resolution.</p> <p>The adoption of the Annual Report of the Board of Directors, along with the Financial Statements, is also proposed as a separate resolution.</p>

Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
C.1.3	The Board Sub Committees' Chairmen should be available at the AGM to answer questions of the shareholders.	Compliant	<p>The Chairman of the Board ensures that the Chairmen of Board Sub Committees, External Auditors, etc. are present at the AGM to answer any query by shareholders.</p> <p>No queries were raised by shareholders to the Chairmen of the Sub Committees at the last AGM held on 29th March 2011.</p>
C.1.4	Companies should arrange for circulation of notice of meeting and related documents to shareholders before the meeting.	Compliant	<p>The Annual Report together with notice of meeting and related documents and other resolutions, if any, are circulated to the shareholders at least fifteen (15) working days prior to the date of the AGM.</p> <p>2010 Annual Report was submitted to the Colombo Stock Exchange on 03rd March 2011 and was posted to all shareholders by 5th March 2011. The AGM was held on 29th March 2011.</p> <p>Please refer page 278 for the notice of meeting of the AGM 2011.</p> <p>The latest Annual Report and Interim Financial Statements are published in the Company's website for the benefit of other stakeholders.</p> <p>The Company's Financial Results are also published in a leading newspaper (Daily FT) on a quarterly basis as a demonstration of the Company's commitment to transparency.</p>
C.1.5	Summary of procedures governing voting at the AGM should be circulated with every notice of General Meeting.	Compliant	The proxy form, which includes a summary of the procedures governing voting at the AGM, is circulated to all shareholders as noted.
C.2	MAJOR TRANSACTIONS		
	All material transactions i.e. which if entered into, would materially alter/vary the net asset value of the Company should be disclosed.		
C.2.1	Directors should disclose all material facts of major transactions to the shareholders.	Compliant	<p>During the financial year under review, the Company issued new shares by way of a Capitalisation of Reserves and a Rights Issue.</p> <p>The Company initially issued 6,250,000 new fully paid Ordinary Shares in the proportion of 1 new Ordinary Share for every 6 existing Ordinary Shares by capitalising reserves amounting Rs. 406,250,000/-</p> <p>Following the Capitalisation of Reserves, the Company issued another 6,250,000 shares by way of a Rights Issue in order to raise additional funds of Rs. 390,625,000/-. These new Ordinary Shares were issued on the basis of 1 new Ordinary Share for every 7 Ordinary Shares held by shareholders post Capitalisation of Reserves at an issue price of Rs. 62.50.</p> <p>After both the Capitalisation of Reserves and Rights Issue discussed above, the stated capital of the Company as at 31st December 2011 has been increased to Rs. 1,171,875,000/- (2010 - Rs. 375,000,000/-). Number of shares of the Company was also increased to 50 Million which was at 37.5 Million at the end of the last year.</p>

Section Number	Principle	Compliance Status	Company's Commitment
	Both the above share issues were duly approved by shareholders at an Extra Ordinary General Meeting (EGM) held on 29th March 2011 and were duly informed to the Colombo Stock Exchange (CSE) in line with the regulatory requirements. No other 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.		
D	ACCOUNTABILITY AND AUDIT		
D.1	FINANCIAL REPORTING		
	The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.		
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 and other applicable laws and regulations. The Company strives to provide a detailed and transparent analysis of performance and future strategies to enable investors to make informed decisions in the Annual Report. The Interim Annual Financial Statements were also published on a timely basis during 2011. All Regulatory Reports were filed by the due dates. Price sensitive information was disclosed to the Colombo Stock Exchange (CSE) on a timely basis during the year 2011. Dates of releasing information to Colombo Stock Exchange (CSE) are disclosed in page 83. The Company's financial position and prospects have been discussed in detail in the following reports: <ul style="list-style-type: none"> • Chairman's Message on pages 6 to 8. • Managing Director's Review on pages 9 to 13. • Management Discussion and Analysis (MD&A) on pages 26 to 73.
D.1.2	Directors' Report should contain 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	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 211 contains the statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements. The Auditors' Report is provided on page 215.

Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
D.1.4	Annual Report should contain a Management Discussion and Analysis.	Compliant	The Management Discussion and Analysis, included in pages 26 to 73 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 inquiries, decided to apply the 'Going Concern' assumption in preparing the Company's Financial Statements for the year 2011. The declaration of the Company as a "Going Concern" is given in the Directors' Report on page 202.
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 Company's assets.		
D.2.1	The Board should review the effectiveness of the internal control system at least annually.	Compliant	The Board has overall responsibility for the system of internal control and has delegated some of these responsibilities to the Board Audit Committee and the Investment Committee.
	<p>The Audit Committee closely monitors the internal control system through various mechanisms. Some of these include;</p> <ul style="list-style-type: none"> - Review and agree on the Internal Audit Plan, External Audit Plan and their scope - Review the Company's Risk Management Report with the assistance of the management and discuss and agree on further actions to be taken to mitigate identified risks - Review all Internal Audit Reports/ Management Letters and discuss issues/ concerns with the management and auditors where necessary - Maintain an effective relationship with Internal/ External Auditors at all times - Meet separately with Internal and External Auditors to discuss matters relating to the Company where necessary <p>Investment Committee also monitors the internal controls in respect of Investments by review of various reports and compliance with internal and regulatory requirements for investments.</p>		
D.2.2	Need for internal audit function should be reviewed from time to time.	Compliant	The Company has appointed M/S Ernst & Young Advisory Services (Pvt) Ltd as the internal auditors for the Company. Ernst & Young has also been appointed as the IT Auditor to cover IT-related risks. All reports by Internal Auditors are filed with the Audit Committee in a timely manner.
	In addition, the Company established a new department, namely Internal Control and Compliance Department, in 2011 in order to strengthen this area further.		

Section Number	Principle	Compliance Status	Company's Commitment
D.3	AUDIT COMMITTEE		
	The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintain an appropriate relationship with the Company's Auditors.		
D.3.1	The Audit Committee should comprise Non-Executive Directors, majority of whom should be independent.	Compliant	<p>The Audit Committee comprises three Directors, all of whom are Non-Executive. Two Directors of the Committee are Independent Non-Executive Directors.</p> <p>Mr. D M de S Wijeyeratne (Independent Non-Executive Director), an Associate Member of the Institute of Chartered Accountants of Sri Lanka acts as the current Chairman of the Audit Committee.</p> <p>Please refer the Audit Committee Report on pages 196 to 199 for details on the functions of the Audit Committee.</p>
D.3.2	Effectiveness of the audit and independence and objectivity of auditors should be reviewed by the Audit Committee	Compliant	<p>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.</p> <p>The Audit Committee evaluates 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 lack of independence during the year.</p> <p>The Audit Committee has the primary responsibility for making recommendations on the appointment, reappointment or removal of the External Auditors in-line with professional standards and regulatory requirements.</p> <p>Further, the Company's External Auditor, Messrs KPMG Ford, Rhodes, Thornton & Co. has given a declaration of its independence to the Audit Committee as per the relevant rules.</p>
D.3.3	Audit committee should have a written Terms of Reference.	Compliant	<p>The Audit Committee operates with clearly defined terms of reference. Main areas of focus in the Audit Committee Charter are;</p> <ul style="list-style-type: none"> - Composition - Meetings - Financial Reporting - Risk Management and Internal Control - Other responsibilities <p>The summary of the duties of the Committee is provided on page 79.</p>

Corporate Governance

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	Members of the Audit Committee are; - D M de S Wijeyeratne ACA - Chairman <i>Independent Non-Executive Director</i> - Sarath Ratwatte FCMA (UK) - Member <i>Independent Non-Executive Director</i>
	- J D N Kekulawala FCIB (London), FCA (England & Wales), MBA (Manchester) - Member <i>Non-Executive Director</i>		
	The Audit Committee Report, which is given on pages 196 to 199, also highlights the names of the members, determination of independence of auditors and other relevant information.		
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 Directors and senior management	To be fully implemented in year 2012	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. The Company is planning to issue a Code of Business Conduct and Ethics for the Board in the year 2012.
	The code addresses areas such as		
	- avoiding conflict of interests		- fair dealings
	- confidentiality and privacy		- proper use of computer systems
	- protection and proper use of Company assets		- compliance with laws and regulations
	- communication with regulators and auditors		- insider information
	- ethical business standards and fraudulent conduct		- outside business activities
	- avoiding acceptance of expensive gifts, fees		- political activities
	- trading of Company shares by employees		- conduct in public
	- non-discrimination		
	- duty of loyalty and communication of any misconduct or unethical behaviour		
	There were no material violations of the Code of Business Conduct and Ethics during the year except for certain insignificant violations noted at the operational level, for which appropriate actions have been taken.		
D.4.2	The Board must affirm that there is no violation of provisions of the Code.	Compliant	Please refer Annual Report of the Board of Directors on page 208 which affirmed that there are no material violations of the Company's Code of Business Conduct and Ethics during 2011.

Section Number	Principle	Compliance Status	Company's Commitment
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 in which compliance is at a maximum level 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 section can be found from pages 76 to page 115 of this Annual Report.		
	In addition, Annual Report of the Board in page 202 to 209 also includes a section which highlights the Company's commitment to maintain an effective Corporate Governance structure and process 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. In addition significant shareholders and major institutional investors were invited to the inaugural Investor Forum that was held in April this year. The shareholders are always encouraged to participate and vote at the AGM. The Chairman 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 relevant governance arrangements.	Compliant	Adequate attention has been given to institutional investors. This 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 reports included in this Annual Report which provide an overall assessment of the Company's affairs during the financial year 2011:

Corporate Governance

Section Number	Principle	Compliance Status	Company's Commitment
	<ul style="list-style-type: none"> - Chairman's Message from pages 6 and 8. - Managing Director's Review from pages 9 to 13. - Management Discussion and Analysis from pages 26 to 73. - Sustainability Report from pages 138 to 193. - Corporate Governance Report from pages 76 to 115. - Annual Financial Statements from pages 216 to 265. <p>Both Sinhala and Tamil translations of the Chairman's Message, Managing Director's Review, Balance Sheet and Income Statement are available on request.</p>		
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 total number of Directors shall be Non-Executive Directors, whichever is higher	Compliant	Seven out of eight Directors at HNBA function as Non- Executive Directors.
7.10.2 (a)	Independent Directors	Two or one third of Non-Executive Directors appointed to the board, whichever is higher shall be Independent	Compliant	Three out of seven 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 2011.
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 Annual Report of the Board of Directors on page 204.
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 the Directors' brief resume in the Annual Report with their experience in relevant area	Compliant	Please refer Directors' profiles on page 17.
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Exchange for dissemination to the public	Compliant	No new appointments were made during 2011.
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee	Compliant	Details of the Remuneration Committee are given on Page 79.
7.10.5 (a)		The Remuneration Committee shall comprise Non-Executive Directors, a majority of whom shall be independent One Non-Executive Director shall be appointed as Chairman of the committee by the Board of directors	Compliant	The Remuneration Committee comprises two Independent Non-Executive Directors out of three Non-Executive Directors. Mr. M U de Silva (Non-Executive Director) functions as the Chairman of the Remuneration Committee.

Corporate Governance

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.5 (b)		The Remuneration Committee shall recommend the remuneration of Managing Director/Chief Executive Officer.	Compliant	Please refer the functions of the Remuneration Committee on page 79.
7.10.5 (c)		The Annual Report should set out: <ul style="list-style-type: none"> Names of the Directors serving in the Remuneration Committee Statement of Remuneration policy Aggregate remuneration paid to Executive and Non- Executive Directors 	Compliant	<ul style="list-style-type: none"> Please refer page 79 for composition of the Remuneration Committee Please refer the Remuneration Committee Report on pages 200 and 201 Please refer page 205 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 79
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 Chairman of the Committee by the Board of Directors	Compliant	Mr. D M de S Wijeyeratne (Independent Non-Executive Director) functions as the Chairman of the Committee
		Chief Executive Officer (CEO) and Chief Financial Officer (CFO) shall attend Audit Committee meetings	Compliant	MD/CEO attends meetings by invitation. Head of Finance also attends meetings in the capacity of Secretary to the Committee and as the CFO
		Chairman or one member of the Committee should be a member of a recognised professional accounting body.	Compliant	Chairman is an Associate Member of the Institute of Chartered Accountants of Sri Lanka (ICASL). Other two members are also members of recognised professional accounting bodies. Please refer page 196 for qualifications of members of the Audit Committee

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.6 (b)		The functions of the Audit Committee shall be as set out in the section 7.10 of the Listing Rules	Compliant	Please refer page 79 for a brief description of the functions of the Committee and pages 196 to 199 for the Report of the Audit Committee
7.10.6 (c)		<p>The Annual Report should set out,</p> <ul style="list-style-type: none"> - Names of the Directors serving in the Audit Committee - The Committee's determination of the independence of the Auditors and the basis of such determination - A report by the Audit Committee setting out the manner of compliance requirements set out in section 7.10 of the Listing Rules 	Compliant	<ul style="list-style-type: none"> -Please refer page 79 for the composition of the Audit Committee -Please refer page 197 for the Report of the Audit Committee -Please refer page 199 for the Report of the Audit Committee





Assurance

Risk management

“We face new challenges each day and preparedness is always important in our business. This is how we assure the trust you have in us ...”

Risk Management

Insurance Industry and Risk Management

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

Considering the macro economic environment, all industries today face dynamic factors that are beginning to transform the way business is conducted. The insurance industry however, is likely to be facing the most substantial of such changes. For example,

- Adverse weather conditions experienced in the country and the region
- Increasing road accidents resulting in high claims
- Low interest rates resulting in low Investment Income
- Weak performance of the Colombo Stock Exchange (CSE) resulting in unrealised financial losses
- Fierce competition, with over 20 players in the insurance market
- Requirement for all insurance companies to be listed in the Colombo Stock Exchange by 2016
- Life and General Insurance business segments of composite companies to be segregated as two separate companies by 2015
- Risk based capital (RBC) requirements to be implemented from 2015 onwards
- Implications of changing the Accounting Standards to be in line with International Financial Reporting Standards (IFRS) from the 01st of January 2012 onwards.
- Increasing other regulatory reporting requirements

All these developments are stimulating significant changes within an industry that has traditionally been considered rather stable. Thus, all insurance companies in particular are compelled to focus on the fundamentals of risk management.

Our Approach to Risk Management

Product development, pricing, underwriting, claims management, reinsurance management, investment management and financial and regulatory reporting

represent the core activities of 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 widely divided into seven main categories.

• Strategic Risk

Strategic risk refers to the non-achievement of set objectives and the risk of the Corporate Plan and Budgets becoming irrelevant or inappropriate due to unexpected changes in external and internal environments.

• Regulatory Risk

Regulatory Risk refers to the risk of non-compliance with regulatory requirements which may change from time to time.

• Insurance Risk

Insurance Risk refers to insurance business related risks such as Underwriting Risk, Reinsurance Risk, Claim Reserving Risk and Credit Risk faced by the Company which are discussed in detail in this report.

• Investment Risk

Investment Risk refers to the various types of risks associated with the significant portfolio of investments managed by the Company.

• Operational Risk

This refers to operational failures due to inadequate or failed internal processes, people and systems or on account of external events.

• Reputational Risk

Reputational Risk refers to the impairment of Company's goodwill due to a particular event of behaviour.

• Socio-Economic and Political Risk

This refers to the risks faced by the Company due to the unstable economical and political environment of the country.

These categories are discussed in detail throughout this report

HNB Assurance's Strategy on Risk Management

The Company has a sound strategy to manage risks arising from its core activities. Initially the risk tolerance level is determined taking into account the Company's business objectives and available resources. The actions necessary to manage risks or groups of risk which fall outside the tolerance limit is determined thereafter.

In formulating the Company's risk management strategy, the following has been considered;

- 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 its ability to identify, monitor and control risks in the market it operates; and
- The Company's mix of business risks underwritten and the resultant concentration risks which may lead to volatility in performance.

After agreeing on actions required to mitigate identified risks, the implementation responsibility is assigned to the relevant member of the management with target timelines. This process is subjected to close monitoring.

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 Policies and Procedures

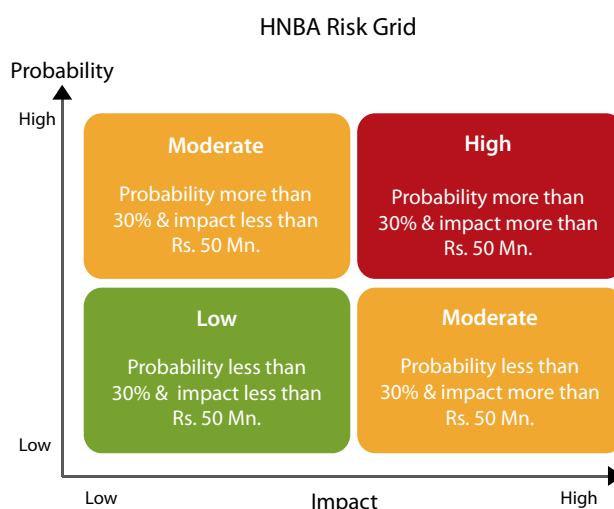
Risk Management policies of the Company set out conditions and guidelines for the identification, acceptance, monitoring and management of risks. In order to be effective, policies are communicated throughout the organisation and revised periodically taking into account changing internal and external circumstances.

The Company has established appropriate processes and procedures to implement its risk policies in the form of both preventive and detective controls, reviews and monitoring mechanisms. These have been documented and set out in sufficient detail to provide operational guidance to staff. The operational procedures are also reviewed periodically and updated as needed.

Risk management activities at HNB Assurance

The risk assessment report that was initially prepared in the year 2009 was twice updated this year 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 analysing risks in terms of the probability of occurrence and impact, a risk matrix which provides a quantitative background to formalise the process based on our prior experience is employed.

This year, the process led to a change in the weighting of 28 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 high potential financial impact were given higher priority in the risk management process.



The updated position was reported to the Audit Committee and necessary steps for improvements, as recommended by the Committee, were implemented.

Further, a follow up on the risk assessment report is carried out as a matter of routine by the Manager Internal Control and Compliance in order to ensure that all agreed actions have been implemented and to update the risk profile of the Company to suit the changing environment.

Significant risks identified in the said process together with controls in place to mitigate/ manage such risks are presented below in summary form.

Risk Management

Risk Management Structure

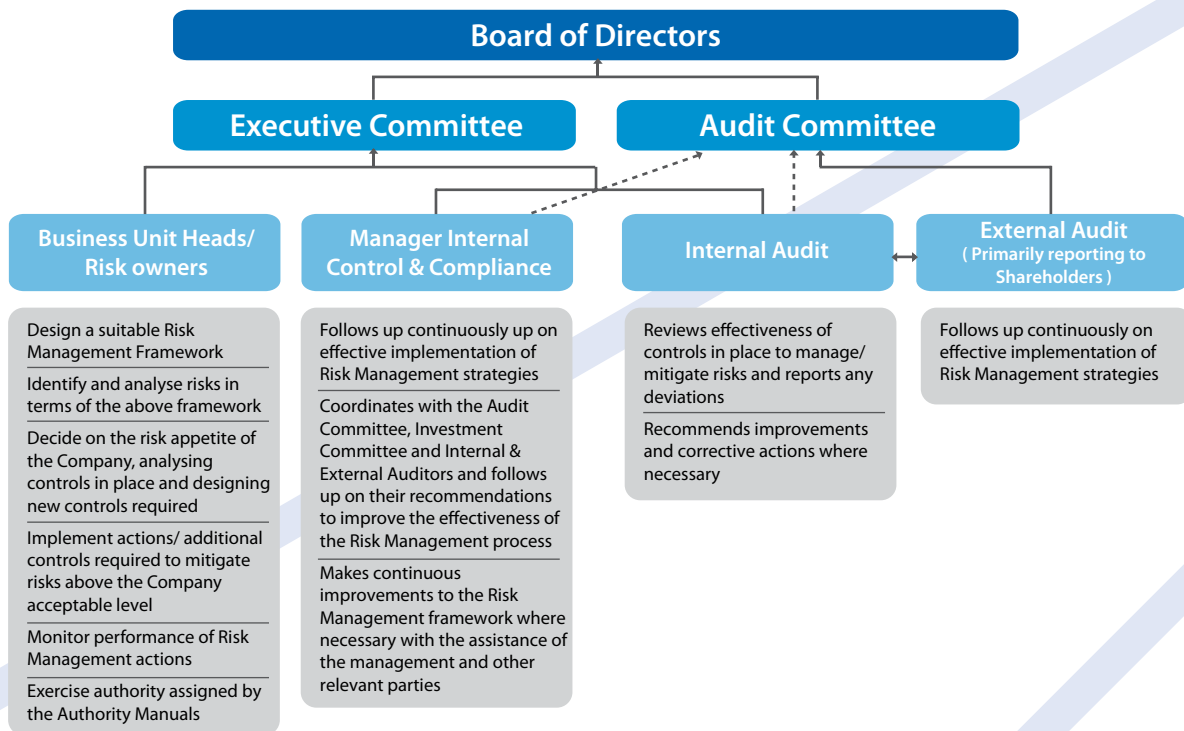
The Company adopts a risk management structure that is commensurate with its size and nature of activities. The Board of Directors is ultimately responsible for the sound and prudent management of the Company. The Board approves the risk management strategy and risk policies pertaining to all activities of the Company. Further, it 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 evaluation of the business processes, design and implementation of the risk strategy and risk policies, review and updating of risk profile, delegation of authority, monitoring risk mitigation activities, etc.

Further, the newly formed 'Internal Control and Compliance Department' has made the risk management function of the Company independent from the 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 Auditors of the Company. They report their findings to the management on a monthly basis and to the Audit Committee on a quarterly basis. Additionally, the Company appointed Messrs Ernst & Young as the IT Internal Auditors of the Company and they submitted a detailed review of the Company's IT related control environment during the year.

Messrs KPMG Ford Rhodes, Thornton & Co., the external auditor of the Company, reports on internal control weaknesses identified during the audit.



Reason 7

ROBUST RISK MANAGEMENT

Driven by responsibility and accountability, we have in place a robust risk management framework.

STRATEGIC RISK

Nature of the risk

Strategic or Business Risk is the risk associated with the Company's future business plans and strategies. This category includes failure of future business plans, unexpected threats from rivals or new entrants, inadequate expansion of service levels and infrastructure, for example information technology and 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 external and internal environments.

HNB Assurance's response to manage Strategic Risk

- A Corporate Plan is prepared every year by the planning team addressing potential risks and including plans for the next three years, and is subsequently approved by the Board after a detailed 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 achievement are reviewed against the set objectives on a monthly basis by the EXCO together with other members of the management and action is taken to rectify unfavourable deviations.
- A Non-Executive Director participates in the Corporate Plan review on a periodic basis to facilitate independent monitoring of the process.
- Monthly budget review meetings are held with relevant members of the management to address unfavourable variances.
- 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 the top management team and employees in the executive category are conducted primarily based on the achievement of the allocated objectives (performance appraisals are conducted twice a year).

Future challenges and the Way forward on Strategic Risk

The Company operated in a highly challenging environment during the year 2011. Investment Income continued to give low returns and this, coupled with the high claims experienced during the year, exerted pressure on the bottom line. Moreover, this development is expected to continue in the years ahead. Two new players entered the insurance market in 2011, which now consists of 22 players. This will definitely lead to sharper competition particularly in the General Insurance market mainly driven by price.

The Company has already taken initiatives to adjust to these developments. The pricing structure in General Insurance has already been revised and alternative investment opportunities are being explored. The Company is closely monitoring the changes in the business environment to grasp any opportunities that may arise.

In Life Insurance, expansion of the agency force which is its main business channel, remained a significant challenge for the overall industry. A booming tourism sector and related industries are attracting the youth and talent of the country due to which agent recruitment has been and will continue to be a significant challenge.

However the Company, having identified this challenge early, took steps to develop the Bancassurance channel as an alternative and thereby has reduced its dependence on the agency force.

Risk Management

REGULATORY RISK

Nature of the risk

Regulatory risk may arise if the Company is not able to comply with regulatory requirements which may change periodically.

HNB Assurance's response to manage Regulatory Risk

- All employees are encouraged to commit to the goal of 100% compliance to applicable laws and regulations.
- A compliance checklist covering all the laws and regulations applicable for 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 quarterly Audit Committee Meetings.
- A report is submitted by the Manager - Internal Control and Compliance to the Audit Committee, highlighting the Company's compliance with applicable laws and regulations on a quarterly basis.
- Financial reports, statutory returns to IBSL and information to 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 and attention is given when handling employee-related concerns, in order to preempt labour law related issues.
- Internal Auditors have been requested to review and report any non-compliance with laws and regulations, if any, to both the management and the Audit Committee.

Future challenges and the way forward on Regulatory Risk

The Regulation of Insurance Industry Act, No. 43 of 2000 was amended by the Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011 the main changes being the compulsory segregation of Life and General businesses into two business entities and the listing of all insurance companies in the Colombo Stock Exchange (CSE).

Furthermore, formats of certain IBSL returns were changed during the year, and accordingly more resources in terms of time and effort are now required for the completion of such returns.

A new department named 'Internal Control and Compliance' was established by the Company, headed by a Manager with an accounting background. This step is expected to strengthen the Company's response to regulatory risk, since a dedicated department is now available to manage regulatory compliance.

Perhaps the most significant impact on regulatory risk has arisen from changing the accounting standards to SLFRS, which will be effective from 01st January 2012. Implementation of SLFRS will cause significant changes in Financial Statements of companies in future. Particularly, as a Company in the Financial Services industry, HNB Assurance PLC will experience a significant impact from the new accounting standards in the form of classification, presentation and disclosures. Given the complexity of these new accounting standards, considerable expertise and knowledge is required for proper implementation of such standards. Having identified this need in advance, the Company took a number of initiatives by itself 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. Additionally, the Company appointed Messrs. KPMG Ford, Rhodes, Thornton & Co., to advise the management and the Board on the proper implementation of these accounting standards.

INSURANCE RISK

Insurance Risk can be specifically identified in the following categories in light of the operations of the Company.

Underwriting Risk

Nature of the risk

This refers to 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

Specific to General Insurance

- 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.
- 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" initiated during the previous year continued to target the improvement of technical knowledge on General Insurance across the Company.
- Underwriting is conducted selectively considering both the risk and return, instead of solely focusing on growth in the top line.
- 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 catastrophe / 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 was set up during the year to review Life Insurance business more closely and

guide the management to take more informed pricing decisions.

- Only registered laboratories are used when obtaining medical reports and regular visits are made by the management to such laboratories to monitor the quality of service.
- Focused training is provided on proper selling in Sinhala, Tamil and English to Insurance Advisors.
- A Customer Need Analysis Form is used to identify customer requirements and sell the most appropriate policy suiting them.

Reinsurance Risk

Nature of the risk

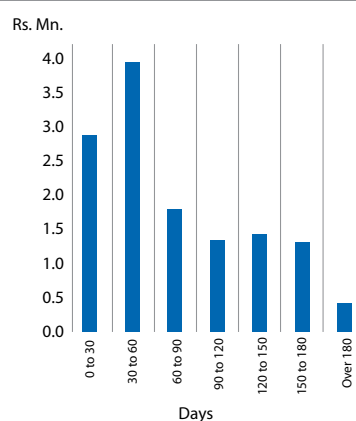
Reinsurance risk is;

- 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.

RI Receivables - General Insurance



Risk Management



- 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 & Pools or AM Best is used.

Reinsurer	Rating	Rating Agency
General Insurance Corporation of India	A-	AM Best
Trust International	A-	AM Best
BEST Re	A-	AM Best
Malaysian Re	A-	AM Best
Labuan Re	A-	AM Best
Munich Re	A+	AM Best
Toa Re	A+	Standard & Poor
Mitsui Sumitomo Re	AA	Standard & Poor
Korean Re	A-	Standard & Poor

- Reinsurer ratings are constantly reviewed.

Claim Reserving Risk

Nature of the risk

Claim reserving risk is the risk of not providing adequate reserves to meet future obligations arising from claims in the General Insurance business and claims as well as maturities in the Life Insurance business.

HNB Assurance's strategy to manage Claim Reserving Risk

General 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.

Life Insurance

- An Independent Actuary is engaged to carry out a valuation of the Life Fund twice a year.
- An in house Actuarial Department was set up during the year 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.
- Additional reserves are maintained to meet contingency needs in excess of statutory requirements as a measure of prudence, with the advice of the Consultant Actuary.

- The Claims Panel (comprising of 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.

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 General Insurance policies with payments outstanding for more than 60 days are cancelled.
- Follow up meetings on debt collection are conducted with the participation of finance, distribution and underwriting 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.
- Life Insurance business faces no credit risk as premiums are recorded only upon collection.

Future challenges and the way forward on Insurance Risk

An increasing number of claims experienced in General Insurance has compelled underwriters to re-look at the fundamentals of underwriting. However, fierce competition in the market puts pressure on underwriters to move away from stringent procedures and to focus more on low pricing. The years ahead will see a necessity to balance between these two extremes, which will be a challenge to all insurers.

The Company has taken a number of initiatives to face these challenges positively. The information system implemented earlier will move into the next phase of providing more helpful Business Intelligence (BI) which will help everyone to identify loss-making customers and business segments faster and more accurately. The Company will continue to identify profit-making business segments and focus on larger volumes from such segments. In addition, the Company will continue to monitor the underwriting functions by carrying out audits/reviews more frequently to ensure all underwriting guidelines are adhered to.

Natural disasters experienced in the country and the region during the year have already resulted in a change in the reinsurers' perspective of the regional insurance market. Accordingly, in the years ahead insurers will be faced with challenges such as increased reinsurance prices, stricter terms and conditions, shrinkage of reinsurance capacity, separate rates for natural/catastrophic perils demand for aggregated data and reduction in event limits.

With regard to Life Insurance, policy lapsation continued to be a significant challenge. The Company has taken a number of steps to face this challenge, including the effective follow-up on premiums due and greater screening of the insured on his/her paying capacity at the time of underwriting. The Company has improved the lapsation position of the portfolio significantly over the last few years and will continue to focus on this area as a key business challenge. Further, the Company has employed an in-house actuary who will consider such issues from the actuarial perspective and advise the management accordingly.

The pressure on prices, particularly on single premium products such as MRP, also remains as a challenge to the Company. The Company had several discussions during the year with reinsurers on this matter and was able to reduce the rates without affecting the margins. The Company expects to monitor its pricing structure in comparison to those of competitors and to take all possible steps to remain competitive in the market.

INVESTMENT RISK

The Company handles a significant portfolio of investments and is therefore exposed to a substantial risk relating to investments. We have identified a number of specific investment-related risk categories which are discussed below.

Risk Management

Concentration Risk

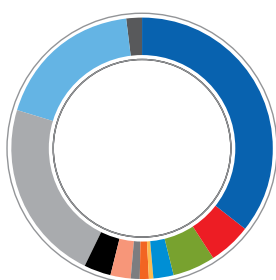
Nature of the risk

The risk of over-exposure to a particular company or sector due to lack of diversification in the investment portfolio is referred to as 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.

Sectoral Allocation of Equity Investments

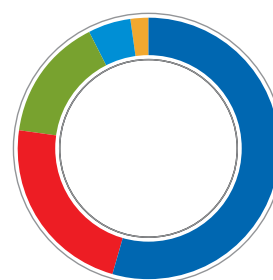


Banks, Finance and Insurance - 36%	Information Technology - 1%
Chemicals and Pharmaceuticals - 5%	Power and Energy - 3%
Hotels and Travels - 5%	Beverage Food and Tobacco - 3%
Health Care - 2%	Manufacturing - 22%
Telecommunications - 1%	Diversified Holdings - 19%
Investment Trusts - 1%	Footwear and Textiles - 2%

- Investment Policy guidelines and 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.

Asset Allocation of Consolidated Investments



Government Securities - 55.5%
Bank Deposits - 21.5%
Corporate Debt - 15.5%
Equity - 5.5%
Unit Trusts - 2%

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 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, which is a subsidiary of Acuity Partners (Pvt) Ltd (a joint venture of HNB and DFCC Bank).

Corporate Bond Rating - General



AA 7%	A 21%
AA- 20%	A- 30%
A+ 15%	BBB+ 7%

Corporate Bond Rating - Life



AA 19%	A 20%
AA- 20%	A- 20%
A+ 19%	BBB+ 2%

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 by the management and the Investment Committee on a regular basis.

Maturity Mix - Life



< 1 year 40%	3 - 4 years 14.5%
1 - 2 years 26%	4 - 5 years 10%
2 - 3 years 9%	> 5 years 0.5%

Risk Management

Maturity Mix - General



< 1 year	66%	3 - 4 years	13%
1 - 2 years	4%	> 4 years	12%
2 - 3 years	5%		

- 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.

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 will also be exposed to market risk due to volatility in interest rates from the year 2012 onwards after implementing Sri Lanka Financial Reporting Standards (SLFRS).

HNB Assurance's strategy to manage Market Risk in Investments

- Investments 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 Sri Lanka Financial Reporting Standards (SLFRS) 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 valuation 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.

Future challenges and the Way forward on Investment Risk

One of the most significant challenges for investments in the coming year is the shift towards Sri Lanka Financial Reporting Standards (SLFRS) from the existing accounting standards. As per SLFRS, some investments need to be marked to market based on the classification of such investments by the Company. Also, there are strict rules for classification of these investments. For instance the Company cannot re-classify any investment that comes under the 'Held to Maturity' category. If the Company has classified investments without a systematic process, there will be significant implications not only to the Company but to the group as a whole. The Company has already formed an SLFRS Implementation Committee with members from different divisions to ensure the implementation process is managed smoothly. Additionally, the Company appointed KPMG as an advisor to assist the management in the implementation process of SLFRS.

Other macro-economic factors such as low interest rates, volatility and illiquidity in the equity market and fluctuating exchange rates will also prove to be challenging in managing investment risk. Changing the With Holding Tax (WHT) rules to require WHT to be paid upfront is identified as a threat for longer term debenture investments as the effective rate declines. Further, illiquidity in the Corporate Bond market, coupled with the classification of Corporate Bonds under 'Held to Maturity' or 'Held for Trading' will also be a challenge for investments as the procedure for recognising the interest component will change accordingly.

In view of these developments the Company is exploring possibilities of moving to alternate investments such as Gold and Property, and also the use of derivatives such as interest rate swaps. It is also evaluating foreign investment opportunities that are now permitted up to a limited extent. The Company also aims to strengthen the investment front office and back office through the recruitment of skilled and qualified staff. An investment management system, which integrates the investment front office, back office and

the finance department, is expected to be implemented in the coming year, while the investment functions will be further strengthened through periodic training and development activities. Further, investment function will also be monitored more closely in future for compliance with rules and regulations, compliance with policies and guidelines, adherence to internal controls at various levels such as operational controls, by Manager Internal Control and Compliance in addition to and audits by both Internal and External Auditors.

OPERATIONAL RISK

This refers to operational failures due to inadequate or failed internal processes, people and systems or external events.

Business Continuity Risk

Nature of the risk

This is the risk of business operations being disrupted due to something unexpected.

HNB Assurance's strategy to manage Business Continuity Risk

- The continuous updating and effective implementation of the Business Continuity Plan (BCP) is the main response to counter this risk.
- IT infrastructure is made available to support the virtual operation of the Company in a situation where the Company Head Office or a branch office is not accessible.

Fraud Risk

Nature of the risk

This refers to the risk of fraud being perpetrated due to inadequate internal controls.

HNB Assurance's strategy to manage Fraud Risk

- Strict adherence to the Manual of Financial Authority (MOFA), which has been approved by the Board of Directors.
- The introduction of a stringent Procurement Policy to cover all procurement related activities of the Company and its strict implementation at various levels.
- The introduction of a comprehensive Whistle-Blowing Policy allowing employees at all levels to communicate any wrong doing, misappropriation or misconduct by

any employee to the top management and the Board confidentially.

- Proper delegation of responsibilities through a clearly defined organisational structure.
- Segregation of duties for all significant operations.
- The maintenance of a strong control environment, which is subjected to periodic monitoring by an independent internal audit team (M/S Ernst & Young Advisory Services (Pvt) Ltd).
- External Auditors have also been requested to perform a detailed internal control review in their Interim Audit and report any issues to the management and the Audit Committee.
- Monthly reports submitted by the internal auditors are reviewed by the Audit Committee of the Board of Directors, which monitors the implementation of all agreed follow-up actions.
- A Code of Best Practice and Ethics 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 a zero level tolerance of fraud.
- Many initiatives are promoted to minimise dependence on manual controls and documents, especially with the implementation of the new information system.

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 breakdown.

HNB Assurance's strategy to manage Information Security Risk

- Adequate investment has been made on IT infrastructure to improve both access and applications controls.
- IT Security Policy is strictly applied and is communicated to all employees.

Risk Management

- Fire walls and security initiatives for computer systems, 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.

HNB Assurance's strategy to manage Human Resources Risk

- The Company's HR policy is aimed at supporting 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. The Company participates actively in industry salary surveys and information gathered from such surveys is used effectively when designing remuneration packages. The Company performs salary surveys on a periodic basis through professional organisations and the Company's information is compared with the industry when remuneration decisions are taken
- 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 to report or discuss issues requiring their attention.

- Exit interviews are carried out when a member of the staff leaves in order to identify the causes for leaving.
- Employee surveys are carried out to assess satisfaction levels and to identify areas for improvement on a periodic basis.
- Investments are made on staff welfare through the Welfare Society and relevant divisional activities to motivate 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 to be executed in the year in progress.

Future challenges and the Way forward on Operational Risk

As explained above, the insurance industry as a whole is in a rapidly changing environment and is faced with several new challenges. Therefore an effective risk management process on operational areas is of higher importance today than at any other time. Accordingly, the Company took a number of initiatives during the year to face such operational risk. The Company introduced a 'Whistle Blowing Policy' enabling whistle blowers to raise issues with the management and the Board in order to identify possible risks faced by the Company at an early stage. The Company also reviewed its procedures, and amended the same as appropriate and communicated to relevant staff, with the aim of enabling the employees to carry out their duties in a more controlled environment.

Further, following the implementation of a new information system in the previous year, many functions conducted manually are now automated. Hence the Company is now faced with a greater risk of IT security than earlier. The Company conducted an IT security audit through Ernst & Young during the year, in order to identify possible weaknesses in the new system at its early stages so that

any weaknesses reported could be corrected before the employees adapt to the new system. Continued close monitoring of the IT security risk will be carried out in the years ahead due to its importance.

REPUTATIONAL RISK

Nature of the risk

This refers to the impairment of the corporate image and goodwill of the Company due to a particular event or behaviour.

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 misappropriations irrespective of their performance or designations.
- 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.
- 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.

SOCIO-ECONOMIC AND POLITICAL RISK

Nature of the risk

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 Risk

- 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 action taken to mitigate/manage potential risks.
- Pricing of insurance policies is reviewed in light of inflation, fluctuation in interest rates etc.
- Action is taken to minimise lapses in Life Insurance, which are likely to increase in unstable economic conditions.

Internal Control Process

Internal Control Process at HNB Assurance

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
- Reliability of financial reporting
- Effective risk management systems
- Safeguarding of Company's assets
- Compliance with applicable laws and regulations

The Company's internal control procedure keeps the Company on course toward its objectives and the achievement of its mission, by minimising 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 larger degree, everyone's responsibility.

Control Environment at HNB Assurance

The Company adopts certain policies which have been approved by the Board of Directors for prudent management of significant risks arising from its business activities and operations. To implement these policies, the Company has established procedures and processes which have been documented in procedural manuals. The manuals are periodically reviewed to ensure that they reflect current practices.

There are also adequate systems, such as Internal Audit, to monitor compliance with established policies and procedures. Deviations from such policies and procedures are addressed appropriately considering the importance of the violation.

Code of Ethics

It is in the interest of the Company to conduct its activities with prudence and integrity. In this regard, the Company has

established a Code of Ethics that is commensurate with the structure and the complexity of its operations.

The code of ethics states the ethical values of the Company and prescribes guidelines for employees to observe when discharging their duties. The code covers areas such as acceptance of gifts and entertainment, conflicts of interest, safeguarding of confidentiality of information, and the disclosure of and restrictions on personal investments.

In addition to general guidelines, the Company has also prescribed specific guidelines for operations in functional areas such as procurement and investment activities.

Delegation of Authority

The Company has clearly defined the responsibilities and levels of authority required for various types of activities and exposures. For example, approving limits assigned to personnel in the Financial Authority Manual is commensurate with their seniority and responsibilities. The Company also has adequate monitoring systems to ensure that activities are properly authorised. Departure from the approval limit structure is promptly reported to the senior management and corrective action is taken without exception.

Segregation of duties

The Company has ensured that there is adequate segregation of duties to guard against the risk of unauthorised transactions, fraudulent activities and manipulation of data for personal gain or for concealment of irregularities. Further, there are processes that restrict any single employee from being able to handle an entire transactional flow.

In addition, the Company periodically reviews the responsibilities of key personnel to minimise areas of potential conflict of interest, and ensures that there are independent checks for proper segregation of duties.

Control activities

Control activities are those that are supported by policies and procedures which, when carried out properly and in a timely manner, manage or reduce risks. Controls can be either preventive or detective. The intent of these controls is varied, as described below.

Preventive Controls

Preventive controls attempt to deter or prevent undesirable events from occurring. They are pro-active controls that help to prevent a loss. Examples of preventive controls are separation of duties, proper authorisation, adequate documentation and physical control over assets.

Detective controls

Detective controls attempt to detect undesirable acts. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliations, physical verifications of assets and audits.

Both types of controls are essential for an effective internal control system and they could be either manual or automated. The Company's strategy is to move to an automated preventive control environment wherever possible.

Information and Communication

Information and communication are essential for effective control; information about the Company's plans, control environment, risks, control activities, and performance are communicated up, down, and across the Company. The Company's operational committees representing each division, distribution management meetings and management meetings, serve as a tool for communication of the Company's information to the lower levels and to identify the issues at the bottom.

Monitoring

Monitoring is the assessment of internal control performance over time; it is accomplished through on-going monitoring activities and separate evaluations of internal controls such as self-assessments, peer reviews and internal audits. The purpose of monitoring is to determine whether internal controls are adequately designed, properly executed and effective.

To have an effective monitoring system, the Company has taken several steps;

- Manager – Internal Control and Compliance looks into the operations and co-ordinates with Internal Auditors on areas where attention needs to be paid.
 - Audit Committee meetings are carried out regularly. Key audit observations identified by the internal auditors, and the Management Letter issued by external auditors are discussed at these meetings.
-
- Messrs Ernst & Young Auditory Services (Pvt) Ltd, conducts monthly internal audits covering main areas of operations, including branch operations.

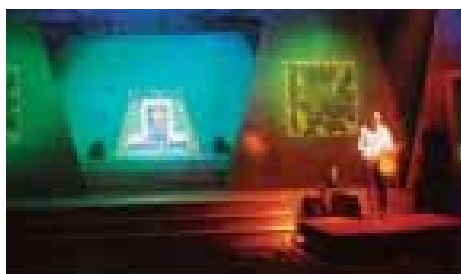
From Then To Now



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



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



Launching of HNB Assurance - beginning of a remarkable journey



2001

2002

2003

2004

2005

2006



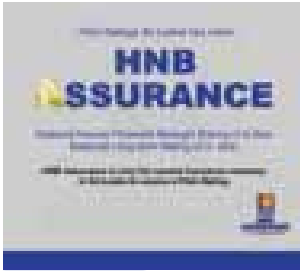
Commencement of operations as an innovative insurance solutions provider... at initial Head Office in Colpetty



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



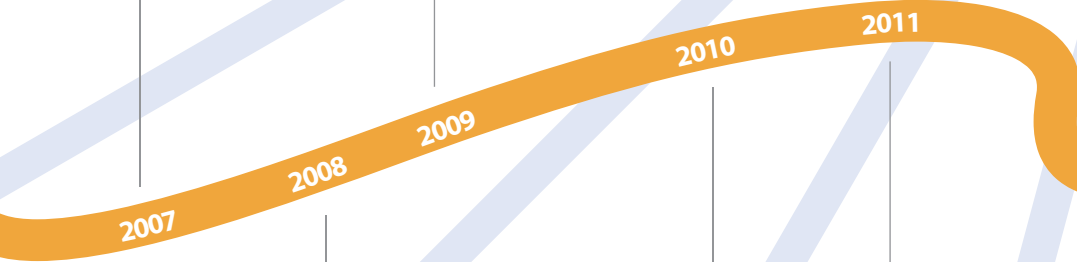
Celebrating the 5th Birthday as the 'First Insurer in Sri Lanka to achieve an annual turnover of Rs. 1 Billion within 5 years'.



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



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



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



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



'mylife' awarded for Excellence in its Branding at SLIM Brand Excellence Awards





Care

Sustainability Report

“We understand the importance of embedding sustainability initiatives in our business model and we take our responsibilities seriously. This is our strategy for long-term success.”

Managing Director's Statement

Dear Stakeholder,

I have much pleasure in placing before you the Sustainability Report for the financial year ending 31st December 2011.

Sustainability is defined as the capacity to endure. For humans, sustainability is the long-term maintenance of responsibility, which has environmental, economic, and social dimensions, and encompasses the concept of stewardship, the responsible management of resource use. In a business context, it is often described as managing the triple bottom line - a process by which firms manage their financial, social and environmental risks, obligations and opportunities giving due consideration to profits, people and planet.

HNB Assurance PLC takes pride in the fact that it has consistently addressed all three elements of the triple bottom line while adhering to very high standards of corporate disclosure. This has enabled the Company to become a recipient of ACCA Sustainability Reporting Awards for 3 consecutive years, being adjudged the Winner in the Small Scale category in 2009 and Runner Up in the following two including the year under review.

The sustainable development activities carried out by the Company during the year under review can be described in relation to each key dimension of responsibility. With regard to the environment, the Company partnered two giants in the field of environmental protection, one from the public sector and one from the Non-Governmental sector to increase public awareness on the rich natural diversity our country is endowed with. We supported the Central Environmental Authority to erect signboards around the environs of the Bolgoda Lake while we worked together with the Environmental Foundation Limited to publish a series of calendars and greeting cards to draw attention of the public to environmental concerns. In addition to these efforts which were more visible, numerous other initiatives were taken to minimise any negative impact to the environment from the Company's day to day operations. These are described in detail in this report.

On the economic dimension, the Company focused its attention on two aspects. On one hand, it worked closely with its parent company, Hatton National Bank PLC to extend the reach of its micro insurance operation. This drew an excellent response from the Bank's customers obtaining micro finance facilities from its well-established 'Gami Pubuduwa' scheme with the number of policies sold through this channel growing by 40% to reach 2,988



for the year. On the other hand, the Company assisted the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) to recognise and reward leading entrepreneurs from all parts of the country through its 'Sri Lankan Entrepreneur of the Year' Award Scheme as a Gold Sponsor. This was done for the second consecutive year by the Company recognising the critical role that needs to be played by local entrepreneurs in order to sustain a rapid pace of economic development.

As a country emerging from the horrors of a long drawn out battle against terrorism, we are only too well aware of the importance of the social dimension to ensure sustainability. Hence, the Company with the full commitment of its entire team of people, embarked on a number of initiatives to bring relief to various segments of the community who were in need of our support. These ranged from differently abled children and elders who needed basic amenities for the sustenance of life to leading artists who sought our support to offer high quality entertainment at an affordable price to the general public. The rich array of activities carried

Reason 8

SUSTAINABLE DEVELOPMENT

Sustainability's not a mere
buzzword at HNBA;
our entire business
philosophy is centred on
creating lasting value.

out by us during the year for the benefit of the community is covered in detail in this report.

In addition, recognising the value of stakeholder engagement, we have rewarded all our stakeholders by sharing the fruits of what we have sown with their unstinted support. How this was done in respect of each stakeholder is covered in this Report.

HNB Assurance PLC has just completed its first decade of operation as a socially responsible citizen always aiming to give back something to society for what it gets in abundance from the environment it operates in. As a young company, we are well aware that we may have received more than what we could give back especially in the early years of our existence. As the Company moves into its second decade, it looks forward with great enthusiasm and ambition like a young adult entering into the mainstream of economic activity to rectify this imbalance and become a significant net contributor to the process of sustainable development.



Manjula de Silva
Managing Director

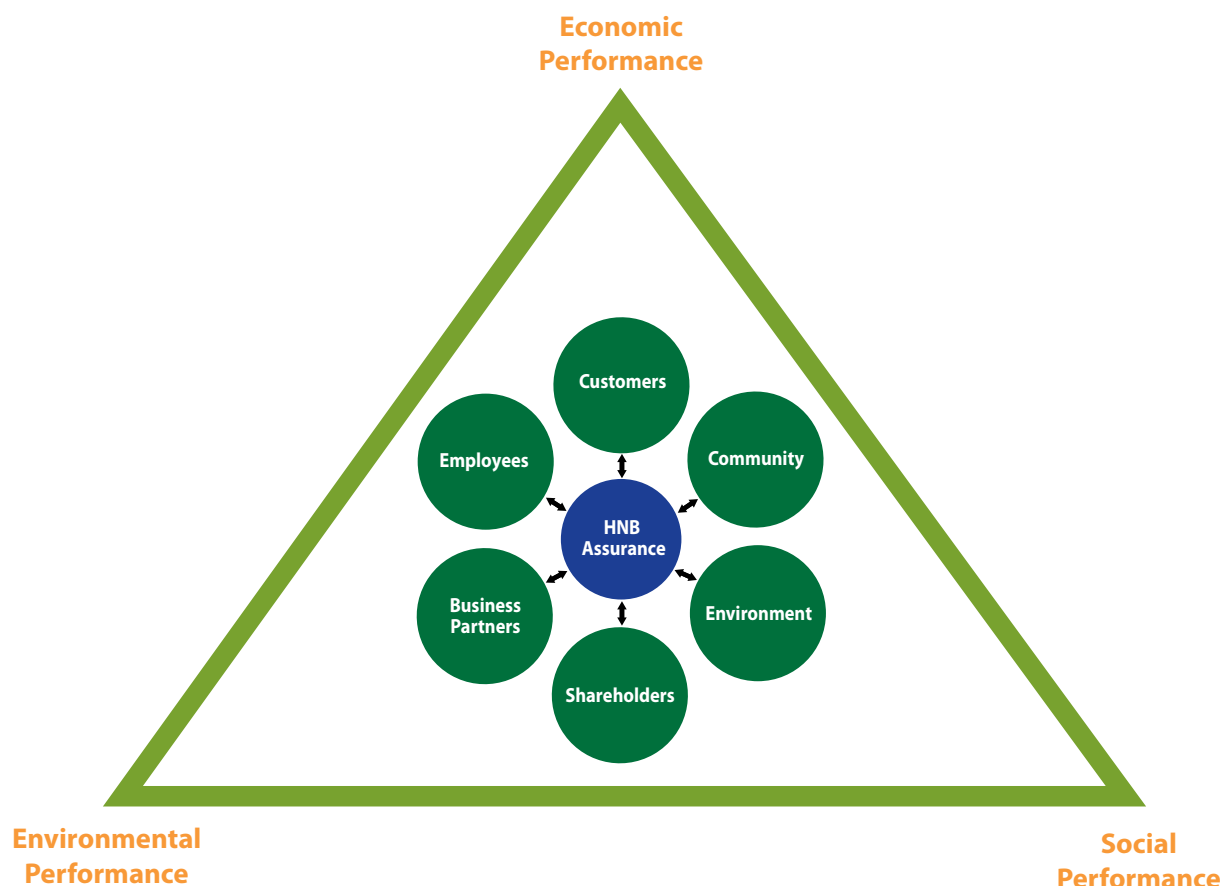
30th January, 2012

Sustainability Report

Sustenance: *For You*

“It is from numberless diverse acts of courage and belief that human history is shaped. Each time a man stands up for an ideal, or acts to improve the lot of others, he sends forth a tiny ripple of hope; and those ripples build a current which can sweep down the mightiest walls.”

Robert F. Kennedy



We acknowledge the potential of small individual steps in creating a marked difference in the world. We believe that each activity we engage in sends forth ripples of hope that can make a positive difference in the lives of thousands around us and thus, we commit ourselves to do only good, for you.

Sustainability, therefore, reaches the very core of our business. Our vision, 'to be Sri Lanka's most admired and trusted partner in meeting insurance needs professionally, with a spirit of caring,' symbolises our commitment to the sustenance of all, and is the guiding light in our journey. Our spirit of caring is at the forefront in our activities, ensuring that you, our stakeholders, receive the value with which you should be honoured.

We have departed from the narrow definition of sustainability as 'giving back to those who gave us'; no, we know it involves a broader scope. Our approach to sustainability is based on acknowledging that we bear an inherent responsibility towards all. The entirety of our business strategy is guided by the notion of sustainability while our systems supplement its achievement.

In short, we seek sustenance for you, whichever category of stakeholders you belong to, through all our activities. And as we record the 10th successful year in our annals, we are humbly proud of the tiny ripples of hope that emerged in your lives, because of us. In the coming years these tiny ripples will expand to build a current which affects the lives of all.

About Us

We, HNB Assurance PLC, are one of the fastest growing insurance companies in Sri Lanka, backed by the strong and consistent support received from our parent, Hatton National Bank PLC. Since our inception in 2001, we have surpassed

many a challenge and today, we proudly celebrate an impressive decade of making an innovative and exclusive imprint on the Sri Lankan insurance industry.

We have always committed ourselves towards generating healthy financial results, and the year 2011 was no exception. During the year under review, we recorded a turnover of Rs. 3 Billion (2010: Rs. 2.4 Billion) followed by a Net Profit After Tax of Rs. 275 Million (2010: Rs. 242 Million). A comprehensive understanding of our financial results and business operations could be derived through the Financial Review appearing in pages 37 to 49.

As at the year end, we had established ourselves in 51 branches around Sri Lanka, while our total assets were valued at Rs. 6 Billion. A total of 662 individuals were employed by us at the end of the year. Indicating strong appeal to investors, our market capitalisation as at the said date was Rs. 2.8 Billion.

During the year, we capitalised reserves worth Rs. 406.25 Million by way of issuing 6,250,000 shares and conducted a Rights Issue for a further 6,250,000 shares at Rs. 62.50 each, raising Rs. 391 Million. The total number of ordinary shares following the above developments was 50 Million while the stated capital of the Company increased to Rs. 1,172 Million. The list of our twenty largest shareholders appears on page 267.

Our commitment to excel in all aspects of our business activities was recognised by the following awards received during the reporting period.

- South Asian Federation of Accountants (SAFA) Best presented Accounts Award 2010 – Insurance Sector - 1st Runner Up



Sustainability Report

- Institute of Chartered Accountants of Sri Lanka Annual Report Awards 2011 – Insurance Companies Sector - Silver Award
- ACCA Sustainability Reporting Awards 2011 - Small Scale Category - Runner-Up
- National Sales Congress Awards 2011 organised by Sri Lanka Institute of Marketing
Gold Medal: Best Territory Manager
Silver Medal: Best Sales Executive
Bronze medal: Best Area Representative

About the Report

This report, which discloses our sustainability efforts and the opportunities and challenges faced thereto, aims to provide an insight into our commitment towards sustainability. The report follows the Global Reporting Initiative (G3) guidelines, which is the globally acknowledged framework for sustainability reporting. Accordingly, we endeavour to maintain compliance with the reporting principles, reporting guidance and indicator protocols for economic, environment, human rights, labour, product responsibility and societal performance endorsed by the G3 guidelines.

Report Profile

The following Sustainability Report is our third attempt at compiling a comprehensive account in line with GRI guidelines.

We abide by an annual reporting cycle and hence, this report covers the activities of the Company for the year ended 31st December 2011, and is published as a part of our Annual Report. The most recent report, also compiled under G3 guidelines, covered the year ended 31st December 2010.

This Report was submitted to GRI for a compliance test and was confirmed as fulfilling the requirements under Application Level B.

We would be pleased to answer any queries regarding this report and its contents. Any such inquiry could be directed to:

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

Report Scope and Boundary

HNB Assurance PLC, is a business entity conducting insurance activities within the boundaries of Sri Lanka and we do not have any subsidiaries.

While all our core activities take place in-house, certain non-core activities have been outsourced, such as

- Security services
- Payroll services
- Tea services
- Janitorial services
- Office equipment maintenance services
- Internal audit and tax consultancy

These areas have not been considered for the purposes of this report and are hence excluded from the report scope.

Financial data included in this report have been extracted from the Audited Financial Statements of the Company for the year ended 31st December 2011, prepared in compliance with Sri Lanka Accounting Standards and Companies Act, No. 07 of 2007. Non-financial data have been extracted from records maintained by the relevant divisions of the Company throughout the year. We have restated previous years' data, wherever applicable, to enable greater comparability amongst years.

The scope, boundary and measurement techniques included in this report have undergone no significant changes during the reporting period.

Every attempt has been taken to ensure that this Report presents an accurate and unbiased review of our performance, in both positive and negative aspects, thereby to allow for its rational assessment.

Determining Materiality

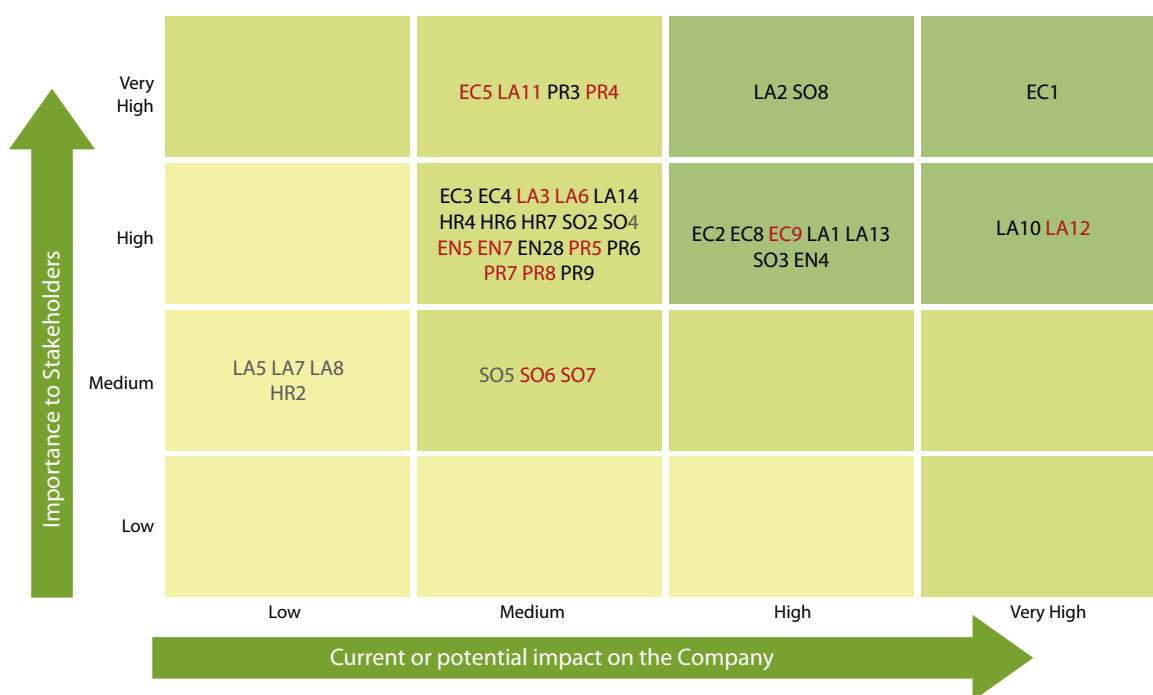
Determining materiality of issues to be covered proved to be a significant challenge in defining the content of this report. It is no easy task to incorporate comprehensively in to a single report, the sustainability impact of our activities on all our stakeholders.

To effectively surpass this challenge, we utilised a materiality test based on the GRI Framework. The test was, accordingly, a questionnaire where all the issues covered by the GRI indicators, both core and additional, were rated based on two aspects:

- (a) The importance of such indicators from the perspective of our stakeholders
- (b) The importance of such indicators from the perspective of the Company

We also made a comparison with the Materiality Matrix designed for 2010, so as to determine if any indicators have changed in terms of their significance either towards you or us.

The following figures depict the materiality of GRI indicators for 2010 and 2011 respectively, as applicable for our Company.



Note 1: Additional Indicators are marked in red.

Note 2: Indicators Deemed Inapplicable EC6, EC7, EN1- EN3, EN6, EN8- 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.

Sustainability Report

It is observed that during the year, following indicators improved their relative position in the materiality matrix.

- EN5
- LA13
- SO3

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

The GRI Content Index is presented at the end of this report and cross-references are made to areas covered, within this report or elsewhere in this Annual Report.

As a supplementary measure in the determination of materiality, we also afforded sufficient attention to issues raised by our stakeholders via the various stakeholder engagement processes conducted during the course of our activities. Accordingly, in instances where we found that certain areas important to you are not directly covered by the GRI indicators, we have made additional disclosures.

Stakeholder Engagement

Sustainability Reporting offers us a pathway to communicate and engage with a diverse range of stakeholders with varying needs. After considering these varied interests in light of materiality, a need was felt to strategically define the key groups of stakeholders, for such clear identification allows us to maintain a comprehensive relationship 'with a spirit of caring'. We therefore categorised our stakeholders into 6 broad categories; Investors, Customers, Employees, Business Partners, Environment and the Community.

The feelings are mutual...

Investors: You keep us going financially. Your confidence in us drives our performance and brings us recognition in the corporate world. In return, we strive to create sustainable wealth for you, to bring you pride for being a part of us.

Customers: You are our lifeline. Your loyalty ensures our survival in the industry and you bring us to the heights of our performance. Our efforts are to provide you with the most exclusive and innovative service in return.

Employees: You sustain us. You ensure the processes function smoothly and that all other stakeholder interests are safeguarded. We acknowledge your mighty worth; and we are committed to grant the best working conditions and remuneration that supplement the enhancement of your value.

Business Partners: You are our partners, striving with us to achieve our goals. Your efforts are reflected in our achievements. Our goal is to grant you maximum value for such efforts.

Community: We owe a duty to you, for we are a part of you, receiving life and nurturing ourselves from the inherent relations with other human beings. We, in turn, devote ourselves to promote sustainable living for you.

Environment: Your sustenance brings sustenance to all. We, as a responsible business entity, are conscious of our responsibility towards you and are dedicated to promote your sustainable preservation.

Engaging and Empowering You

Stakeholder	Engage: Maintaining a Dialogue with Our Stakeholders	Empower: Enabling you to Voice Your Concerns
Investors	Annual General Meeting is the primary location where we engage in an open dialogue with all our investors.	At the Annual General Meeting, Investors can question the Board of Directors and exercise their voting rights to reflect their decision towards the direction of the Company.
	Our Interim Financial Statements as well as the Annual Report are distributed among all existing Shareholders and are also made available to the public through media. Additionally, these reports can be downloaded from our web site too (www.hnbassurance.com)	We include an Investor Feedback Form in the Annual Report to get the views of the shareholders. Further, we always attempt to accommodate/include information requests from shareholders in the Annual Report
	In 2011 we conducted an Investor Forum where all existing and potential investors were made aware of our future growth and direction.	At the Investor Forum, all participants were allowed the opportunity to raise queries regarding any aspect of the Company
Employees	The Management Meetings and Distribution Management Meetings allow the Management Team of the Company to improve their awareness of its operations.	CEO's Forum, now extended to Assistant Managers and Senior Executives, allows them to express their concerns directly to MD/CEO
	Regular staff gatherings, including the Annual Staff Conference, are conducted to increase awareness of the employees.	A Suggestions Scheme is constantly in operation, allowing employees to voice their concerns and to make suggestions on current procedures and practices. All suggestions are reviewed by the EXCO and good suggestions are rewarded.
	10th Anniversary Celebrations in 2011 granted an opportunity for all employees to share this milestone achievement with each other and their families.	
	The Company's Intranet disseminates regular information for employees	Employees can voice their concerns at Exit Interviews which in turn will be considered in developing company's strategy.
	Divisional Operational Committees (OPCOs) allow management to discuss operational matters with employees representing the Division.	A Whistle Blowing Policy was introduced during the year, whereby any employee who observes corruption/ misconduct or wrongdoing is able to make a complaint to the designated members of the management and Board confidentially.
		Periodic employee surveys are conducted to see the employee satisfaction through independent parties. According to a survey performed in 2010 by MTI Consulting, an Independent Agency, 79% of employees have indicated their overall satisfaction with the Company

Sustainability Report

Stakeholder	Engage: Maintaining a Dialogue with Our Stakeholders	Empower: Enabling you to Voice Your Concerns
Business Partners	A constant dialogue is maintained with all Business Partners in conducting business operations and also in novel areas such as product development.	Sales Clinics are conducted for those who undergo trainings to allow them to further clarify knowledge issues.
	All Business partners are subjected to constant training, to increase their awareness of the operations of the Company.	Monthly reviews meetings are conducted for Bancassurance officers at regional and zonal levels, where they can bring up any issues faced in their day-to-day operations.
	Annual Sales Convention gives an opportunity for the Company to inform Business partners on the Company's performance and future plans.	
	Various other activities and fellowship events are held for Insurance Brokers and other intermediaries.	
Customers	Customer Newsletters contain information about the Company and its products, thereby increasing customer awareness.	2 customer feedback surveys were conducted during the year to identify customer needs
	Our Propaganda Vehicle visited 186 villages during the year and disseminated information about our products	Product Development Teams conducted extensive research prior to launching the three new products that were introduced during 2011.
	Our online helpdesk and 24 hour customer hotline are methods by which customers could receive personalised services, as and when they are needed.	We encourage customers to complain if they are dissatisfied with our services and immediate action is taken to rectify such instances.
	We maintain constant dialogue with customers using SMS based services, of which we currently possess 21 different services.	A Claim Panel, comprising the Top Management, has been established to review customer complaints and appeals on Claims.
Community and Environment	We maintain a good Public Relations strategy whereby stakeholders are kept informed of the CSR and environment preservation activities conducted by us.	Any individual/organisation with a pressing need can contact us through e-mail, and we will grant due consideration to such requests.
	We identify community and environmental needs through our interactions with various organisations.	We attempt to balance the distribution of our resources between different segments of the community and environment.

Your Concerns Addressed...

Stakeholder	Concerns Identified	Rectification Process
Investors	Maintaining share liquidity	HASU traded on 224 days of the total 239 market days for 2011 (94% of market days)
	Receiving high dividend returns	Dividend for 2011 Rs. 2.10 per share (2010: Rs. 1.80 per share), at an increase in dividend payment of 56% over the last year.
Employees	Training needs	Refer 'Nurturing High Calibre'
	Attractive remuneration	A salary survey conducted and salaries revised in line with industry standards
	Work-leisure balance	Refer 'Rewarding Employee Efforts'
Business Partners	Improved training and development	Refer 'Business Partners'
	Adequate rewards	Attractive rewards granted for all categories of Business Partners. Refer 'Key Performance Indicators'
Customers	High service levels	Improved efficiency levels with the use of latest technology and all employees given training on customer service
	Quick support during accidents	Our assessors are committed to provide quickest service with the best quality and are equipped with the latest technology
	Ease of claim settlement	Many premium payment methods in place, premium collection centres expanded by tying up with 2 more banks.
	Value added products	3 new products launched (<i>myfund, myfreedom, Motorguard Agro</i>)
Community and Environment	Safeguarding the environment	Refer 'Environment'
	Creating awareness on environmental preservation	Theme 'Natural Diversity' used for calendars and promotional articles, and sign boards on environmental preservation erected near the Bolgoda Lake
	Improving life quality of the community	Refer 'Community'

Approaching Sustainability

For us, sustainability is not just an ancillary part of the business process. In fact it is just the opposite. We attempt to run our overall business in a sustainable manner for you. We place great value on our stakeholders and are committed to provide the greatest possible value to them. Our processes are characterised by transparency and best practices, which are accorded high significance within the boundaries of HNB Assurance PLC.

The primary responsibility in ensuring that sustainability is upheld in our activities lies with the Board of Directors. The Board allows due consideration in this regard when

determining the strategic direction of the Company as well as in the decision making process. The Board further sets standards relating to sustainability and regularly monitors the performance of the Company in line with them.

Accordingly, our approach towards sustainability takes a top-down form, while being comprehensively absorbed at each level of the hierarchy. In summary, our commitment towards economic, social and environmental sustainability is the primary framework within which our business operates.

Our management has been delegated the task of formulating the business strategy, which is, in turn, closely linked with sustainability, as per the guidance received from

Sustainability Report

the Board of Directors. MD/CEO and the EXCO, along with the management team and the corporate planning team, grant due consideration to the triple bottom line parameters and interests of identified key stakeholders during this process.

In addition to these measures, a committee specifically designated for sustainability reporting is also in operation. The main assigned responsibility of the committee is the collection, measurement and reporting of data for the Sustainability Report. However, in practice their responsibilities are not limited to such a passive role per se; they are also assigned the task of identifying and communicating concerns of our stakeholders as well as raising sustainability related issues that have been noticed in the processes of the Company. Led by the Head of Finance and accountable to the EXCO, the committee consists of members from all divisions of the Company, thus supplementing our holistic approach to sustainability.

We also formed, during the year, a committee comprising the top management to explore, evaluate and implement specific activities targeting the Community and the Environment. This committee, chaired by the Managing Director includes General Manager – Marketing and Distribution, Head of Corporate Business Development and Head of Finance.

In conducting all our activities, we maintain strict adherence to the Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and SEC. We, being a public quoted entity, are also bound by the Listing Rules of CSE. More details on compliance could be found in the Corporate Governance Report on pages 76 to 115 of this Annual Report.

Additionally, our commitments extend to the following entities by virtue of membership.

- Insurance Association of Sri Lanka (IASL)
- Ceylon Chamber of Commerce (CCC)
- Federation of Afro-Asian Insurers and Reinsurers (FAIR)

What unfolds before you in the ensuing parts of this report is a portrayal of our determined endeavours to create ripples of positive change in your lives.

Key Opportunities, Risks and Impacts

Area	Opportunity and the Impact	Reponses	Risk and the Impact	Reponses
Economic	Low interest rate environment creating more insurance opportunities	Developing new products/ promoting existing products	Low interest rate lead to lower investment income	Explore new investment opportunities
	Projected higher economic growth & higher purchasing power	Developing the Company's brand, network to grab these opportunities	New competitors entering the market	Developing the Company's brand network
	Focused development in rural areas creating opportunities for new businesses	Expanding the distribution network to rural areas	Global economic downturn leading to slower economic growth	Conservative investment strategies
		Explore micro insurance opportunities by tying up with other organisations		

Key Opportunities, Risks and Impacts (Contd.)

Area	Opportunity and the Impact	Reponses	Risk and the Impact	Reponses
Social	Changes in the education structure encouraging education and then developing talent for the society	Supporting children's education by providing various facilities to under privileged schools	High unemployment/ under-employment rate in the country which leads to poverty	Providing employment opportunities by expanding the business island-wide
		Marketing insurance products to support educational needs	Low awareness on insurance among the rural community which leads to lower demand for insurance	Insurance awareness programs by the Company itself and as an industry
	Increase in middle income segment creating more business opportunities	Marketing the need for insurance in this segment	Lack of facilities to satisfy basic human needs in the rural areas preventing them enjoying the benefits of development	Providing basic facilities such as drinking water for identified segments in the society
		Introduce investment-cum -insurance products to cater to their investment and protection needs		
	Expanding new technology to all segments in the society	Use of technology for customer acquisition and customer servicing	Increase in technology driven frauds and misappropriations	Improve the control environment by an Integrated System and more Management Information
	Development expanding to the rural areas of the country	Marketing insurance/ micro insurance products in rural areas		
51 branches, 120 Bancassurance Officers and over 1,400 Insurance Advisors located island-wide				
Supporting regional development by providing facilities to schools, hospitals, etc. in rural areas				
Environment	Growing need for "green" focus in business	Expanding Corporate Social Responsibility activities to environment related areas	Global warming and other adverse environmental changes leading to negative outcomes from the environment to the society	Commencing the 5'S methodology implementation process, minimising waste
				Moving to a paperless environment in the workplace
				Conservation of resources through recycling and re-use
				Policy of buying only computers with LCD Monitors and Laptops which save energy consumption
				Protection of areas of bio - diversity by various awareness campaigns

Sustainability Report

Goals and Achievements

	Goals for 2011	Achievement	Status	Goals for 2012
Investors	Maintaining consistent growth in GWP and Profit	●	Growth in GWP for 2011 was 24% while growth in Net Profit After Tax was 14%	Generate greater returns for shareholders
				Explore alternative investment options to increase shareholder value
	Enhancing the Company value and improving returns	●	Market Capitalisation as at year end was Rs. 2.8 Billion and growth in dividend payment was 56%	Improve underwriting profitability
Employees	Offer remuneration packages in line with market rates	●	A salary survey was done in partnership with an external party and the salaries were reviewed keeping in line with the market rates.	Review designations at management level to be on par with industry
	Management skills development programmes to develop the newly promoted managerial and executive staff	●	Reviewed and strengthened the Management Development Pool, Executive Development Pool and the Distribution Managers Network.	Place more emphasis on academic and professional development of staff
	HRIS to be implemented to increase efficiency and effectiveness of managing employee information	●	Core HRIS modules were implemented to capture and manage employee information.	Identify and develop a second line for key managerial positions
	More opportunities for employees to work in cross-functional teams to develop their leadership and other skills	●	The process is in place and the opportunity has been given to the employees to develop their team work and interpersonal skills.	Implement a system driven Performance Appraisal Mechanism
Business Partners	Demonstrating the selling cycle to our advisor force through a video produced by the Company	●	Video completed will be used for training purposes beginning in 2012.	Decentralise training by locating trainers in zones/ regions
	Improved training, development, recognition and benefits	●	Training and development activities expanded during the year. Refer 'Business Partners'.	Reduce non-performers in the sales force by at least 20%
	Targeting to get atleast one member qualified for the MDRT programme	●	3 members of the Advisor force have met the threshold requirement for MDRT programme.	Increase activity ratio of Advisors (activity ratio = total no. of policies sold by Advisors in a month/ no. of Advisors)
				Extend Bancassurance to General insurance

Goals and Achievements (Contd.)

	Goals for 2011	Achievement	Status	Goals for 2012
Customers	Introducing a few more innovative products	●	3 new products were introduced during the year. (<i>myfreedom, myfund, Motorguard Agro</i>)	Enhance the features of existing products while introducing new products
	Enhancing customer service through new technology (eg: quick information, facilities for premium payment)	●	Customer service greatly enhanced through the use of SMS based services, online help desk and efficiency improvements via the use of technology.	Place high attention on strengthening our Corporate image
	Increasing the no. of premium collection centres by tying up with various parties	●	Tied up with 2 more banks during the year for this purpose.	Further expand premium collection centres
	Expanding the bancassurance channel by increasing the no. of Bancassurance officers stationed around the island	●	Bancassurance network increased from 98 HNB branches in 2010 to 120 in 2011.	Introduce a centralised quotations system
	Opening new branches and re-locating existing branches to enhance accessibility to customers	●	5 branch relocations were conducted during the year.	Promote alternate premium payment methods
	Completing the implementation of TCS Bancs system	●	All modules except for 1 have been implemented. Completion expected in early 2012.	Develop the use of social media as a customer service point
Community	Providing safe water facilities to a few more schools	●	2 more schools benefited from our water projects in 2011. (Total thus far – 16 schools)	Expand the community's access to water (6 projects to be completed in 2012)
	Supporting more events to promote Sri Lankan arts and culture	●	Many cultural events were sponsored by us during the year. Refer 'Community'.	Continue to support high quality arts and culture
	Contributing further towards the improvement of healthcare facilities	●	Many activities were conducted for promoting healthcare facilities. Refer 'Community'.	
	Expanding micro insurance to reach a greater no. of people	●	No of micro insurance policies rose to 2,988 from 2,141 in 2010 (40% growth).	
Environment	Expanding the use of e-documentation and energy saving initiatives	●	Many energy saving initiatives were begun during the year. e-documentation has been introduced in some departments.	Develop the use of e-documents and online training
	Carrying out one significant environmental protection programme	●	Provided pro-environmental sign boards for the preservation of the Bolgoda Lake.	Conduct more external environmental preservation projects

Sustainability Report

Value: Giving Back to You

Our Policy

We recognise that the primary value we add to our stakeholders is in the form of economic returns. Thus, we take measures to ensure that nothing inhibits the generation of economic value. As with previous years, we have been successful in generating healthy financial results, which indicates that our efforts have yielded success. Further understanding in this regard could be obtained via the Financial Statements appearing on pages 216 to 265 of this Annual Report.

However, we are aware that economic value per se is insufficient for sustainable living. With this awareness, our business processes are organised in such a way that economic returns are not targeted at the expense of other arenas of sustainable development. Our focus, therefore, is to generate the maximum possible value in total terms, incorporating both economic and non-economic panes.

Value Added Statement

	2011 Rs.'000	2010 Rs.'000	Growth %
Net Earned Premium	2,349,620	1,844,360	27.39
Investment and Other Income	477,250	516,880	(7.67)
	2,826,870	2,361,240	19.72
Net Claims & Benefits	(865,133)	(648,137)	33.48
Cost of External Services	(287,806)	(277,782)	3.61
Value Addition	1,673,931	1,435,321	16.62

Distribution of Value Added

	2011 Rs.'000	%	2010 Rs.'000	%
To Employees				
Salaries and Other Benefits	331,532	19.81	281,439	19.61
To Intermediaries				
Commission Cost	389,005	23.24	310,267	21.62
To Government				
Income Tax	25,772	1.54	27,786	1.94
To Life Policyholders				
Increase in Life Insurance Fund	605,752	36.19	531,733	37.05
To Shareholders				
Dividend Paid	67,500	4.03	56,250	3.92
To Society				
Donations and CSR Activities	2,058	0.13	2,020	0.14
For Expansion and Growth				
Retained as Depreciation and Amortisation	45,182	2.69	40,337	2.80
Retained in Reserve	207,130	12.37	185,489	12.92
	1,673,931	100.00	1,435,321	100.00

Distribution of Value Added 2011



■ To Employees	- 19.81%
■ To Intermediaries	- 23.24%
■ To Government	- 1.54%
■ To Life Policyholders	- 36.19%
■ To Shareholders	- 4.03%
■ To Society	- 0.13%
■ For Expansion and Growth	- 15.06%

Distribution of Value Added 2010



■ To Employees	- 19.61%
■ To Intermediaries	- 21.62%
■ To Government	- 1.94%
■ To Life Policyholders	- 37.05%
■ To Shareholders	- 3.92%
■ To Society	- 0.14%
■ For Expansion and Growth	- 15.72%

The total value we generated during the year amounted to Rs.1,674 Million, a 17% improvement from the value of Rs. 1,425 Million generated in 2010.

Of the total value generated, 4.03% (2010: 3.92%) was allocated to our shareholders in the form of dividends. To our employees we attributed 19.81% of the total value addition (2010: 19.61%) while our intermediaries received 23.24% of the total (2010: 21.62%). Our value addition towards the Government, in the form of income tax, stood at 1.54%. Our contribution towards the community increased in absolute terms to Rs.2.06 Million (2010: Rs.2.02 Million) although its share of the total value added declined marginally from 0.14% in 2010 to 0.13% in 2011.

Sustainability Report



For You: Our Investors

Our Policy

Investors have been our financial backbone since inception in 2001 and will remain so for as long as we exist. While 60% of our shares are held by our parent, the remaining shares are held by the public, and their keen interest in our activities drives us towards optimal performance.

Throughout the past decade, therefore, our efforts have been directed primarily to create maximised value for our investors sustainably. In all our activities, we have their interest at the forefront, for we acknowledge that we have a direct bearing on their wealth. In supplement, all the internal policies of the company have been designed to deliver exceptional value to all investors.

HASU in 2011

We recognise that the primary method through which our investors could be rewarded is the appreciation in our share price, which is in turn a result of the optimism with which the market perceives the Company and its future. Despite the delivery of outstanding financial results and promising future growth prospects our investors were however unable to benefit from a share price appreciation in 2011.

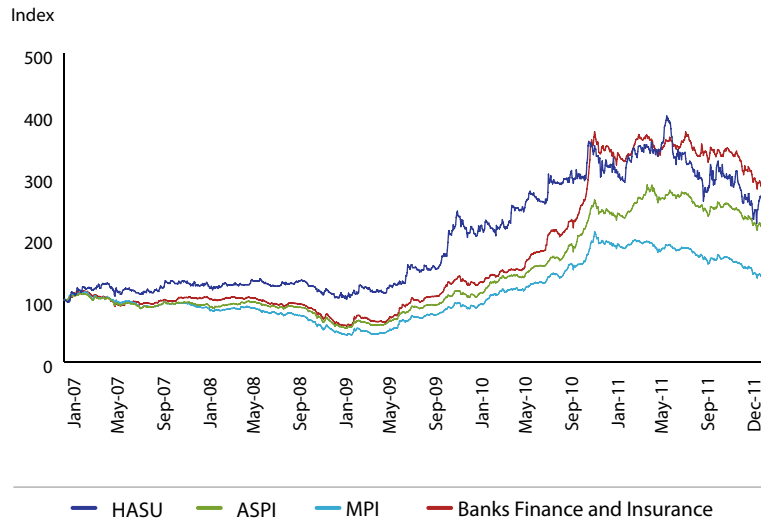
This is mainly attributable to the failed momentum of the CSE during 2011. In spite of gaining a reputation as the top performing Asian market and one of the best markets in the world during the period 2009 -10, the CSE indices experienced a considerable decline during the year under review.

By the end of 2010 the CSE had performed exceptionally, growing by 96% over the year. In continuation of this victorious trend, during mid-January the benchmark ASI reached the level of 7,000 and in February reached its all-time high level of 7,811. In April volatility stepped in to the market, and thus, despite the healthy earnings posted by most quoted companies, the Colombo bourse continued to dive, leading to the ASI ending the year at 6,074.42 and MPI falling to 5,229.16.

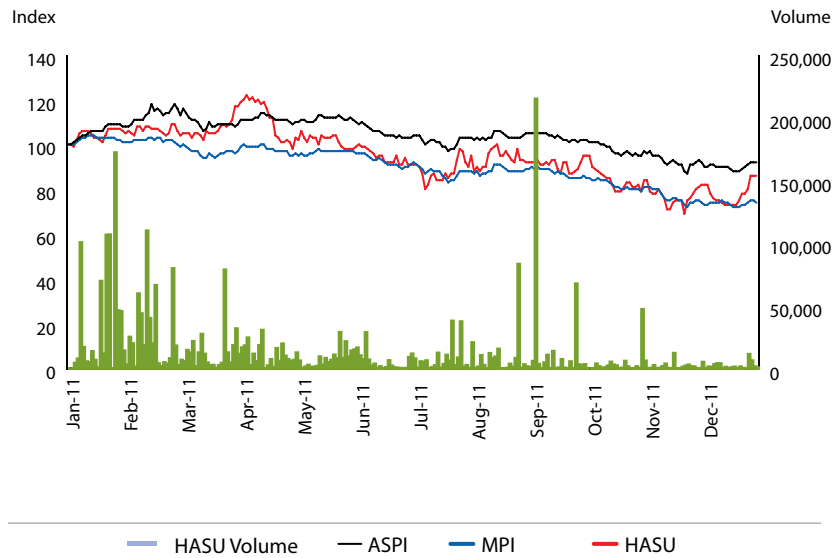
These figures, when compared with the indices at the beginning of the year, indicate that the ASI declined by 8% whilst the more liquid MPI dropped by 26%. Further, the Banking and Finance Sector Index (BFI) to which we belong, experienced a decline of 15% over the year.

Significantly influenced by such negative sentiments in the market, our shares, traded on the CSE under the ticker symbol HASU, closed the year at Rs. 56.90. This reflects a negative growth of 14% over the year, adjusted for the

HASU Performance vs Market (over 5 years)



HASU Share Volumes and Relative Performance vs Market



Sustainability Report

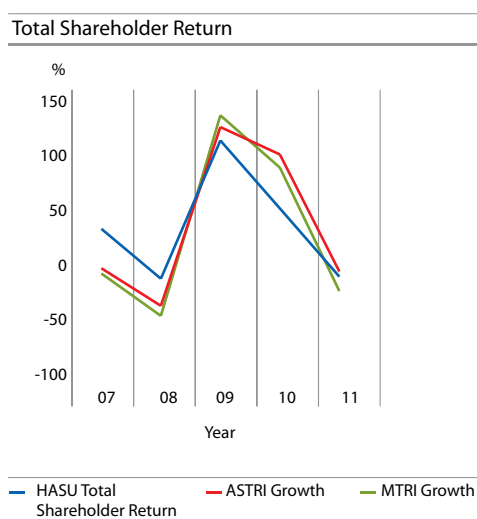
effects of the capitalisation of reserves, but it is pertinent to note that despite underperforming relative to ASI, our shares have outperformed both MPI and BFI.

On a further positive note, HASU, lived up to its reputation as one of the most liquid stocks among the 267 listed companies, and traded for 224 days of the total 239 market days for 2011 (94% of market days).

Total Return Indices

Total Return Indices (TRIs) track the capital gains of a group of stocks over a specific period of time, and assume that any cash distributions, such as dividends, are reinvested in the index. The analysis of TRIs provides a more accurate representation of the actual investment return of stocks, which is of ultimate interest to our investors.

During 2011, TRI calculated based on All Share Index (ASTRI) witnessed a 7% decline, while TRI derived from Milanka Price Index (MTRI) experienced a significant drop of 25%. The Total Shareholder Return of HASU recorded a decrease of 12%, mainly due to the decline of its share price by 14% over the year, but yet remained higher than the MTRI.



Capitalisation of Reserves, Rights Issue and Rewards through Dividends

In commemoration of our 10th year anniversary and in acknowledgement of the need to dispense true and accurate information to investors, we organised an Investor Forum in 2011, where information on us and our future were disseminated. Investors and market intermediaries were allowed to raise questions and get any issues clarified by our top management team. We also conducted a Capitalisation

of Reserves in the proportion of 1 share for every 6 shares held, resulting in the creation of an additional 6,250,000 ordinary shares in 2011. In addition, we conducted a Rights issue following such capitalisation in the proportion of 1 share for every 7 shares held, by virtue of which another 6,250,000 shares were issued to the public at Rs. 62.50 each. Funds received from the sale of fractional shares arising out of the Capitalisation of Reserves, were donated to HelpAge Sri Lanka to sponsor 4 cataract surgeries and the provision of 10 pairs of spectacles to needy elders.

Following the Capitalisation of Reserves and the Rights issue, the total number of ordinary shares became 50 Million while the stated capital stood at Rs. 1,171.875 Million. Our diluted EPS reported a growth of 7% to stand at Rs. 5.74 by the year end. The PE ratio for HASU as at the same date was reported at 9.91 times (2010: 12.33 times) while market PE levels dropped to 15.82 times from 25.2 times reported for (2010). The first and final dividend declared for 2011 was Rs.2.10 per share (2010: Rs. 1.80) and as such the dividend payout was recorded at 38.23% (2010: 28%). Due to the larger base of shares, the growth in dividend payment was as high as 56%.

Credit Ratings Affirmed

In another positive development, Fitch Ratings affirmed our National Long-Term rating and National Insurer Financial Strength (IFS) rating at 'A (lka)' with Stable Outlooks.

In its' report, Fitch Ratings attributed these ratings to our adequate risk-based capital position, conservative investment strategy and stable profitability progression, while also factoring in the continued support from our parent HNB. This positive perspective on our credit quality and claims paying ability is yet another step in our march to becoming the most trusted and admired insurer in Sri Lanka.



For You: Our Employees

Our Policy

As we joyously celebrate a decade of successful existence, we are conscious that this milestone would not have been realised without the immense contribution of our employees. The value of their efforts in escalating us to great heights of success is indisputable.

Our policy with regard to employees is comprehensively recorded in our Human Resources Manual. This Manual, covering areas such as recruitment and selection, training and development, performance management, leave and attendance, policies and procedures relating to remuneration, promotions, disciplinary and grievance procedure, severance and retirement, dress code and benefit schemes, is a comprehensive compilation of our approach with regard to all employee-related issues. Thus, employees use this policy for guidance with regard to any matters relating to them.

In addition to the approach of the Company towards its employees, we have also documented a policy to be adhered to by the employees. Accordingly, at the induction programme for new recruits, employees are made aware of the Employee Handbook and the Code of Ethics, to which strict obedience is required to be maintained by the

employees. For ease of access, these documents have been made available on the Company's intranet.

Implementing such comprehensive approaches has resulted in amicable dealings between the parties, thereby facilitating the smooth functioning of the Company, on terms favourable to both.

Further, we are committed towards maintaining our position as an equal opportunity provider in all areas of HR, from recruitment to compensation and benefits to training and development. No differentiation is allowed in any employee related areas based on gender, race or faith.

Our Workforce: Our Pride

As at 31st December 2011, 662 individuals were part of the HNB Assurance team (2010-597). These individuals fulfil various functions of the Company and constitute a dynamic and determined team.

Unity in Diversity

Our recruitment policy allows no discrimination based on gender, race or faith. This has allowed us to create a team where members find unity in diversity. 'Fostering diversity as a corporate strength' is one of our core values.

Sustainability Report

We attempt to achieve a reasonable balance between male and female representation in our workforce. For the year, the ratio of male to female employees improved to 60%: 40% from 64%: 36% in 2010 indicating the furtherance of our equal opportunity providence stance.

Year	Male	Female
2009	66%	34%
2010	64%	36%
2011	60%	40%

In terms of employment category, 572 individuals (86%) belonged to the permanent cadre while 90 (14%) were employed under fixed term contracts. The regional distribution of employees between the Western and other provinces stood 63% and 37%.

We possess a young and energetic cadre, with 83% of our employees being below the age of 35. However, we do not lack experience, for almost a half of our team has been with us for over 2 years, while a quarter has been with us for over 4 years.

Age Analysis of Employees

Age Range	2011		2010	
	No. of Employees	%	No. of Employees	%
19 ≥ 25	237	35.8%	161	27.0%
26 ≥ 35	315	47.6%	324	54.3%
36 ≥ 45	87	13.1%	87	14.6%
Above 45 Years	23	3.5%	25	4.1%
Total	662	100.0%	597	100.0%

Service Analysis of Employees

Service Range	2011		2010	
	No. of Employees	%	No. of Employees	%
0 ≥ 2 Years	347	52.5%	256	42.9%
2 ≥ 4 Years	134	20.2%	145	24.3%
4 ≥ 6 Years	81	12.2%	89	14.9%
6 ≥ 8 Years	60	9.1%	66	11.1%
Above 8 Years	40	6.0%	41	6.8%
Total	662	100.0%	597	100.0%

Age-wise Analysis



19 ≥ 25 Years - 36% 36 ≥ 45 Years - 13%
26 ≥ 35 Years - 48% Above 45 Years - 3%

Service-wise Analysis



0 ≥ 2 Years - 53% 4 ≥ 6 Years - 12%
2 ≥ 4 Years - 20% 6 ≥ 8 Years - 9%
Above 8 Years - 6%

Reason 9

VIBRANT TEAM

HNBA is home to a best-in-class team of talented professionals, with the single minded ambition to be the best.

Gender Representation

Staff Category	2011			2010			
	Male	Female	Total	Male %	Female %	Male %	Female %
EXCO	6	1	7	86%	14%	86%	14%
Management	54	12	66	82%	18%	82%	18%
Executives	75	37	112	67%	33%	67%	33%
Non-Executives	264	213	477	55%	45%	61%	39%
Total	399	263	662	60%	40%	64%	36%

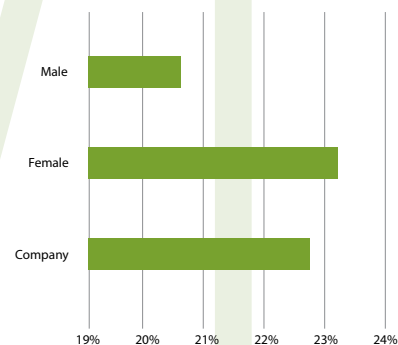
Staff Retention

We have been successful at improving the retention of our employees in the past year. Overall staff turnover for 2011 declined from 24% in 2010 to 23% in 2011.

Keeping in line with observations of the previous year, turnover is highest amongst employees between 19 - 25 years of age. On a gender basis, turnover for females declined to 23% (2010: 27%) while the same for males declined to 21% (2010: 22%) during the year.

Turnover by Gender		
Turnover	2011	2010
Male	21%	22%
Female	23%	27%
Total	23%	24%

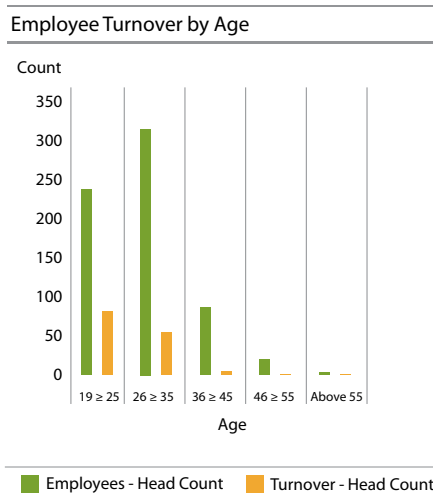
Employee Turnover by Gender



Employee Turnover by Age

Age Group	2011			2010		
	Employees - Head count	Turnover - Head count	Turnover %	Employees - Head count	Turnover - Head count	Turnover %
19 ≥ 25	237	81	34.2%	161	68	42.2%
26 ≥ 35	315	55	17.4%	324	64	19.8%
36 ≥ 45	87	5	5.8%	87	4	4.6%
46 ≥ 55	20	1	5.0%	22	0	0.0%
Above 55 Years	3	1	33.3%	3	0	0.0%
Total	662	143	22.7%	597	136	23.9%

Sustainability Report



Our employee turnover ratios have been significantly affected by the high turnover levels recorded in the bancassurance channel, for which we recruit school leavers, initially on a fixed term contract. Turnover excluding the bancassurance channel stood at a very healthy level of 13% (2010: 17%).

	2011	2010
Turnover including Bancassurance	23%	24%
Turnover excluding Bancassurance	13%	17%

We do recognise this as a weakness which should be addressed. A case study was conducted during the year with a view to provide recommendations for the improvement of retention ratios within this channel. Following this and other relevant recommendations, we have revised the remuneration scheme for Bancassurance officers from 2012 so that they will be entitled to a production bonus, in addition to receiving a competitive monthly remuneration package. Focused training and developmental programmes will be initiated with the aim of helping them develop their careers whilst enhancing skills and competencies. We have also established a succinct career path for Bancassurance officers to progress through, by allowing them to ascend through the corporate ladder along the same path available to other categories of employees. This is expected to improve motivational levels of Bancassurance officers and hence, their retention.

Rewarding Employee Efforts

Adequately rewarding our employees, who sustain the Company, is of high importance to us. We recognise that employees must be provided with motivation in terms of financial gain, as well as through other perks related to their careers and personal well-being.

The main benefit received by an employee is his remuneration. We acknowledge the necessity of providing lucrative remuneration packages to attract and retain employees of high calibre. Our focus therefore, is to provide competitive remuneration packages to all our employees, in line with industry rates while taking note of individual qualifications, experience and performance. Thus, we conducted a salary survey in partnership with an external party and the salaries were reviewed to be in line with the market rates. Our minimum wage and salary levels are above the Country's legal requirements. The ratio of our entry level wage to the local minimum wage level stands at 1.67:1. No discrimination based on gender, race, faith or any other distinction is entertained when it comes to remuneration.

While remuneration is their main reward, we also acknowledge that remuneration per se will not provide adequate incentives for employees. We have therefore created mechanisms through which they receive significant benefits in addition to monetary remuneration.

Accordingly, all our employees are eligible for a life insurance cover, the sum assured of which depends on their basic salary. In case of an accidental death, twice the sum assured will be paid.

As per regulatory requirements, a defined contribution plan is made available to all employees as part of their retirement provision. We contribute 12% of the basic salary of an employee to the Employee Provident Fund (EPF) and 3% of the basic salary to the Employee Trust Fund (ETF). The following contribution has been made by the Company in total for the year under review.

	2011 Rs. Mn.	2010 Rs. Mn.
EPF	23.84	20.27
ETF	5.96	5.07

In addition to the regulatory defined contribution plan, all permanent employees are also 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 in employment. The Company's gratuity liability is valued by a Consultant Actuary (Mr. Hugh Terry - Fellow of the Institute of Actuaries, U.K.) every year using the Projected Unit Credit (PUC) method.

	2011 Rs.'000	2010 Rs.'000
Employee benefit liability as at 31 December	34,129	25,076
Payments during the financial year	1,607	795
Additional Provision made for the year	10,660	7,691

We offer 84 days paid maternity leave for female employees in accordance with regulations applicable within the jurisdiction of Sri Lanka. Further, we have also enabled our permanent employees to raise loans for their personal necessities at subsidised interest rates. Through this scheme, senior grade employees are eligible for a vehicle loan while all permanent employees are eligible to apply for loans for weddings, educational needs and emergencies.

Being a responsible employer, we recognise that 'all work and no play' is not an optimal lifestyle for our employees. Hence, we encourage them to engage in recreational activities and maintain an ideal work-life balance. Accordingly, all our employees have been granted access to sports facilities including the usage of a gym, swimming pool and badminton courts. In addition, senior grade employees have also been given the opportunity to use the Company holiday bungalow in Digana to enjoy visits with family and friends. The year also saw us organising a cultural event in line with the Sinhala and Tamil New Year, which allowed all our employees to join in celebrating the New Year with high enthusiasm. We celebrated the Vesak Festival too by organising a religious ceremony at office premises, which was followed by Vesak lantern and 'bakthi gee' competitions and a 'dansala'.



The Company organises an annual trip for the employees, where they, together with their families, can experience a pleasurable time outside the office environment. This year too, the Employee Welfare Society organised the annual outing of the Company at which employees from all branches island-wide, together with their colleagues from Head Office, gathered at Cinnamon Grand Hotel, Colombo

for a weekend of enjoyment. The event also coincided with the 10th birthday celebrations of the Company and this was duly celebrated in a grand fashion.



We Acknowledge Your Worth...

- **lucrative remuneration packages**
- **life insurance cover**
- **defined contribution plan**
- **defined benefit plan**
- **paid maternity leave**
- **recreational activities**
- **sports facilities**
- **holiday bungalow**
- **annual outing**
- **loans at subsidised interest rates**
- **reimbursement of examination fees**
- **interest free loans for examinations**

Feedback on Performance: Employee Appraisal

We conduct bi-annual performance appraisals for all employees belonging to the permanent cadre, through which their career promotions, salary increments and performance based bonuses are determined. All probationary employees are also subjected to mid-probation appraisals. In total 505 employees were appraised during the year, which is 76% of total employees and 100% of confirmed employees, as at the year end. The distribution of performance grades obtained by the appraised staff was as follows.

Grade	% of Employees	
	2011	2010
A	10%	11%
B	20%	20%
C+	46%	47%
C	19%	17%
D	5%	5%

Sustainability Report

Recognising Commitment

We acknowledge that all top performers in our cadre deserve special recognition for their efforts. Thus, during 2011, 7 employees who performed extraordinarily for the benefit of the Company were honoured with the Chairman's Award for Excellence. Further, 60 employees who performed exceptionally were awarded commendations and gift vouchers by the senior management.

At the celebration of 10 years of existence, we also presented special awards to 5 employees who served the Company for all of these 10 years, and 49 employees who completed 5 successful years of service.

Award	No. of Employees	
	2011	2010
Chairman's Award	7	7
Commendation	60	72
5 Year Completion Award	49	29
10 Year Completion Award	5	-



Safeguarding a Healthy Cadre

A preventive health care facility is available for all employees whereby they are given the opportunity to meet a qualified doctor at the workplace. For the year under review, 9 preventive healthcare sessions were conducted at the head office, where 110 employees participated. An awareness programme was conducted during the year for all employees through a presentation on preventive healthcare. In addition, frequent health and safety tips are communicated to all employees through e-mail.

	2011	2010
Preventive Health Care Sessions:		
Employee Attendance	110 Employees	141 Employees

The Company maintains a full supply of first aid, with boxes stationed at each division, to assist any employee who is taken ill while at office. The first-aid committee consisting of representatives from all departments was formed in the previous year and continued to be active during 2011 as well, with a full day training programme being conducted for the committee. The Company also maintains a sick room for the use of its employees.

Facilitating Personal and Professional Development

Nurturing an environment of qualitative improvement of resources is considered by us to be very important. Thus, much effort is taken to enhance the qualitative worth of employees through many strategies.

All employees have been granted a clear career path which acts as a stimulant to their professional development. To encourage those pursuing professional qualifications, employees are granted paid duty leave to attend such examinations as well as interest free loans to pay for them. Upon successful completion of these examinations, employees have the opportunity of receiving a reimbursement of the examination fee, setting off the loans granted. We also upgraded our library, thereby granting our employees greater access to knowledge. Annual subscriptions are paid by the Company on behalf of employees who hold membership of professional bodies.

Members of staff in possession of university degrees and equivalent or higher qualifications are depicted in the table below.

Qualification	No. of Employees
University Degrees	50
Masters and other Post Graduate Qualifications	10
Professional Qualifications in Insurance	3
Professional Qualifications in Accountancy	10
Professional Qualifications in Marketing	1
Professional Qualifications in Law	2

We also acknowledge the necessity of developing a competent, vibrant and responsible second tier of management, to facilitate a smooth process of succession planning. With this purpose in mind, we re-launched the Management Development Pool. Accordingly, we identified employees with potential to climb the corporate ladder based on past performance and guided them through trainings on management and leadership. During the year

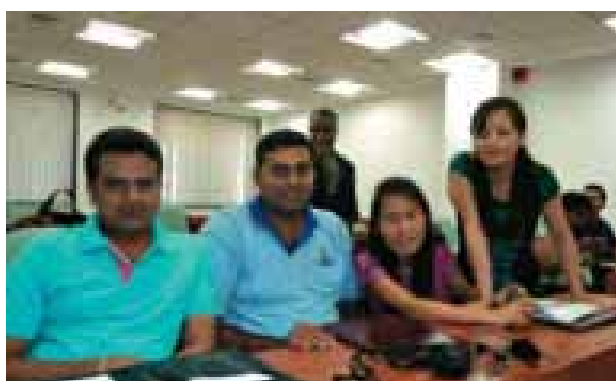
we also strengthened the Executive Development Pool, with the objective of developing the personalities and careers of our executives, and they were allowed the opportunity to participate in trainings conducted by renowned trainers.

With our expansion, we have been successful in attracting and retaining many qualified personnel within our cadre. We recognise the value of such individuals and have created an opportunity for all other employees to learn from their experiences and exposures, by organising Knowledge Sharing Sessions on a monthly basis in furtherance of this objective. In addition, the year also witnessed us expanding on our e-learning initiative, in order to further enhance the knowledge base of our employees by improving access to a variety of subject areas.

Nurturing High Calibre Employees

We pride ourselves for being an employer who provides significant value to our employees via training. Employees of various divisions and departments are frequently motivated to join training activities. While we take all possible efforts to provide high quality in-house training for our employees, we also facilitate ample opportunity for them to participate in external trainings for we feel it allows them to experience greater scope and an understanding of the bigger picture. The trainings cover a variety of specialised areas, all of which supplement the quality enhancement of our workforce.

Accordingly, during the year, our employees participated in 36 internal training programmes and 129 outdoor training programmes. Head count of total participants at these programmes was 2,178 employees were also granted the opportunity of receiving overseas training. The total hours of training granted to employees for the year was 14,746 which indicates that, on average, each employee of the Company received 23.4 hours of training during the year.



Programme Type	2011	2010
Internal Training	36	36
External Training	129	147
Overseas Training	8	9

Employee Category	Hours of Training per Employee
EXCO	32.86
Management	48.11
Executives	44.53
Non Executives	13.32

Key Training Programmes of the Year

- Induction programmes were conducted on a quarterly basis during the year for new recruits, with the faculty consisting of the Managing Director, members of the EXCO and other senior managers.
- Employees of the Life and General Divisions were given frequent training on underwriting, under the guidance of both external and internal resource personnel.
- With the implementation of the 5'S' method, a comprehensive training of the methodology and its applications was conducted for employees of the Head Office and selected branches.
- Division wise Outbound Training Programmes were conducted to develop unity and team work of employees.
- With the adoption of IFRS for financial reporting, members of the Finance and Investments Departments were allowed the opportunity to participate in external training programmes to enhance their knowledge on the area.
- Workshops on Life Insurance product development were conducted by Munich Re, our life reinsurer, for Managers and other selected staff involved with the Life Insurance business.
- Training sessions to improve service levels of employees were conducted with the participation of renowned external trainers as well as internal resource personnel.
- Training was conducted for selected staff members who were selected for the Management Development Pool and Executive Development Pool, to further improve their career potential.
- Our IT staff members participated in many external training programmes, enabling them to update their knowledge in line with latest developments in technology.

Sustainability Report

- The General Insurance Academy, which targets to enhance the insurance knowledge of our employees, continued operations through 2011. Two batches of employees have already completed the Basic level while one Intermediate batch has also been guided through this Academy. Through this venture, regular trainings on General Insurance are conducted for our employees while employees at branches are also allowed the opportunity to follow trainings conducted at regional level.
- Staff from all departments and branches was given the opportunity to participate in important external programmes linked to their careers.

Reducing Exposure to Corruption and Compliance with Laws

We have afforded all of our employees with training related to our policies and procedures on preventing corruption at the workplace. In reflection of our commitment to maintain stringent control mechanisms, this year we implemented a separate department for 'Internal Controls and Compliance'. This has created an additional mechanism through which adherence to laws and regulations and prevention of corruption are guaranteed. This year also witnessed us implementing a new set of guidelines for staff involved in investment activities, in order to ensure that the broader objectives of the Company are not compromised by personal interests.

While all our business units have been analysed for risks related to corruption, two minor incidents of misappropriation of funds were reported during the year. Despite being immaterial in terms of values involved, these incidents were inquired upon and the relevant employees terminated, following proof of wrongdoing. We expect to further strengthen our controls on corruption in the coming year to prevent such occurrences in the future. A Whistle Blowing policy is already in place to strengthen such controls, allowing employees to raise their concerns on corruption with guaranteed anonymity.

We also strive to maintain maximum adherence to all laws applicable within the jurisdiction of Sri Lanka. This objective is facilitated by our Legal Department and Internal Control and Compliance Department. No fines, monetary or otherwise, were levied on us for non-compliance with laws and regulations. Further, we avoid engaging in anti-competitive, ant-trust and monopoly practices and accordingly, no legal actions were maintained against us during the year for such reasons.

We 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. During the year, along with other insurers, we participated in an island-wide insurance awareness promotion campaign organised by the Insurance Association of Sri Lanka.

We have not made any contribution to political parties, politicians and related institutions, in cash or in kind.

Resolving Grievances and Upholding Human Rights

The Company has an established procedure for handling grievances of employees, which is comprehensively documented in the HR manual. All grievances are handled strictly in accordance with such policy, and are solved equitably.

We recognise the importance of upholding human rights in the workplace and are committed to ensure no violations of such rights occur. Thus, we ensure that only those above the age of 18 years are employed by us and that no forced or compulsory labour takes place. In reflection of our commitment towards upholding human rights, no incidents of discrimination or violation of human rights was recorded during the year.

For You: Our Business Partners

Our Policy

Following careful scrutiny of our business processes, we have identified the following categories of stakeholders as our key business partners.

- Insurance Advisors and field force
- Insurance Brokers
- HNB Group
- Reinsurers
- Suppliers

As a growing business entity, we are well aware that excelling in our business ventures depends on the support received from our business partners. Their efforts are as important as ours in achieving healthy financial results. We therefore consistently acknowledge that mutual co-operation with business partners is a primary strength in our processes.

As much as we are pursuant to our financial goals however, being a responsible corporate citizen, we also practice prudence with respect to our relationships with business partners. Thus, our policy is to ensure that we deal with partners who are financially sound and who pursue ethical practices. We also ensure, through methods discussed below, that our business partners receive the maximum financial return and highest level of motivation by working with us, such that they will be proud to declare themselves our partners.

In addition, we also abide by the criteria laid down by the regulatory bodies of the country when dealing with all our business partners. The specific criteria will be discussed under each ensuing segment of business partners.

Insurance Advisors

As at the year end of 2011, we had 1,451 members in our Insurance Advisor and Field Management cadre. Our policy in the recruitment of Insurance Advisors takes in to consideration the following requirements laid down by IBSL.

- A pass in Technical Competence Course in Life Insurance for Life Insurance Advisors
- A pass in Technical Competence Course in General Insurance for General Insurance Advisors

In addition, we always insist on a service letter from the previous company for recruitments made within the industry

Improving the Qualitative Worth of our Sales Force

We truly believe that the members of our sales force should be allowed the maximum opportunity to enhance their qualitative worth. In furthering this belief, all our Advisors undergo comprehensive training under the guidance of our Sales Training and Development Department.

The year 2011 saw a novel approach in improving the quality of our sales force, with our management naming it as the 'Knowledge Year' for our Advisors and the Field Force. This manifested our strong training orientation and served as a sturdy foundation upon which the training calendar for the year was constructed. True to its word, the year brought forth many opportunities for us in terms of qualitative enhancement.

The first of such opportunities arrived when we enabled our Advisors to back their experience with a recognised professional qualification, with financial assistance and tutorial support from the Company. This momentous initiative was the result of a Memorandum of Understanding signed between us and the Sri Lanka Institute of Marketing (SLIM), whereby our advisors were given the opportunity to follow the Preliminary Certificate in Marketing (PCM). This qualification empowers them to pursue a strong sales career by backing their experience with a widely respected paper qualification. It also serves as a gateway to a greater academic qualification, the Post Graduate Diploma in Marketing.



Thus far, in its first year of operation, more than 150 of our advisors have reaped the benefit of this historic opening by successfully completing the PCM. The Advisor who topped the first batch of achievers was the fortunate recipient of a full scholarship to follow the Post Graduate Diploma in Marketing. Not only our Advisors, but several of our Bancassurance officers and employees have also joined in obtaining this qualification.



Sustainability Report

In addition to this professional qualification, our advisors have also been encouraged to follow a 6 months Diploma in Professional Selling (DPS). Fifteen members of our sales force and 3 others from our staff were able to complete this diploma during 2011.

By initiating such meaningful opportunities, we commit ourselves to build a professionally competent sales force which conducts operations with 'a spirit of caring'.



In addition to these optimistic new ventures, we continued with the endeavours embarked upon in the previous years in 2011 as well. Accordingly, the National Advisor Quiz Competition, aimed at enhancing the knowledge of our advisors with a touch of competitiveness, was conducted in 2011 for the 3rd consecutive year. A total of 7 teams, each with 6 members, participated at this event. Facilitating the need to stimulate team effort, 43 members of our field management also participated in a 2 day Outbound Training Programme at Kithulgala, following which, a visible improvement was observed in their teamwork and it is expected to improve further as this programme continues in the future years.



With the diverse experience we have gained in our journey of a decade, we had identified the necessity to broaden our perspective on training. Thus, our focus on training shifted

during the year from mere 'training' as perceived traditionally to 'training and development', for we recognise that quality enhancement is not a single act but rather a continuous process that requires explicit dedication and determination. Accordingly, an officer attached to the Sales Training and Development Department was made responsible for development activities with regard to training. He has been assigned the task of reporting to the Manager – Sales Training and Development any identified development needs of the sales force and coordinating their fulfilment.

Quality Enhancement through Efforts of In-House Trainers

As at the year end, we had 5 full time trainers who focused especially on training activities for Insurance advisors and the Field Force. These trainers worked extensively throughout the year to upgrade the quality of our Advisors, resulting in 125 training programmes being conducted in the Sinhala Medium and 52 training programmes being conducted in the Tamil Medium, during the year. In cumulative terms, 177 training programmes were conducted for the year.

The persistent efforts of our trainers have manifested significant improvements in the value of our sales force. The year saw a welcome rise in the Sinhala medium pass rate for Life Insurance Technical Competence Test, which improved to 85% (2010-81%) and in the Tamil medium pass rate, which improved to 64% (2010-61%).

	2011	2010
Pass Rates for Life Insurance Technical Competence Test (SLII)		
Sinhala Medium	85%	81%
Tamil Medium	64%	61%
No. of Training Programmes		
Sinhala Medium	125	151
Tamil Medium	52	36

The job of the trainers however, is not limited to ensuring that Advisors pass their examinations. They are frequently in contact with the advisors to address any issues faced by them. Following trainings too, underperformers/non-performers are given the opportunity to attend sales clinics where they are granted further exposure from the trainers and their managers. It has been observed that approximately 30% of non-performers start performing after the clinic, a figure in which further improvement is expected in the future.

To allow our Advisors greater access to trainers, we have taken a decision to decentralise the operations of all our trainers from 2012. Accordingly, the trainers will be based in key regional locations allowing the sales force to reap maximum benefits of closer proximity and achieve greater efficiency.

Stimuli from External Training

In addition to the trainings conducted by our in-house trainers, we also allowed our Advisors to participate in training programmes conducted by external resource persons.

One of the highest calibre training programmes attended by 13 of our top sales professionals was 'Marketing 3.0' conducted by internationally renowned marketing guru Philip Kotler. Other significant training programmes conducted during the year for advisors included;

- Programme on 'Total Wealth Quadrant' conducted by Dr. Shantha Yahampath Director: Agape International based in Australia.
- Programme on 'How We Conquered the World of Marketing' by Mr. Rohan Somawansa, General Manager - Sales and Marketing, DSI Samson Group
- 2 hour motivational programme on 'Insights on Planning for Effectiveness' conducted by Mr. Samantha Rathnayake, Head of Education, SLIM

Efforts Rewarded

Our untiring efforts to improve the quality of our field force reaped for us rich dividends during the year, with recognitions flowing from widely respected insurance and training bodies, both international and local.

Having identified the importance of motivational trainings conducted by the Million Dollar Round Table (MDRT), the premier Life Insurance recognition organisation of the world, we had initially targeted for one of our advisors to qualify for such training, considering that it is only open for those satisfying a stringent threshold criterion. We are proud to announce that we succeeded in getting 3 of our members to meet the threshold criteria and they are expected to participate in the programmes 'MDRT Experience' and 'MDRT Meeting' in 2012. In addition, some of our advisors also participated in a MDRT affiliated training held in Thailand.

The quality of our sales force was further established at the National Sales Congress (NASCO) 2011 organised by SLIM. This year marked the first instance in our history where nominations were submitted for NASCO Awards, and our nominees received the following awards under the category 'Financial Services'.

- Gold Medal: Best Territory Manager (Mr. M. Puviraj, Zonal Manager, North East)
- Silver Medal: Best Sales Executive (Mr. Madusha Kulatunga, Branch Manager, Embilipitiya)
- Bronze medal: Best Area Representative (Mr. H I Najimudeen, Assistant Branch Services Manager, Colombo South)



It is with humble pride that we mark this as the first occasion where Gold/ Silver medals under the respective categories were won by an insurance company at this prestigious award ceremony.



Sustainability Report

We grant rich returns to those of our advisors who have rendered outstanding services. Accordingly at the Annual Sales Convention, star performers are recognised with Super Gold, Gold, Silver and Bronze awards. Eighty six of our top performing advisors were also allowed the opportunity to participate on a foreign trip, along with their families.

We further recognise that monetary reward is among the top rewards for our advisors and thus, we take maximum efforts to improve their returns in this area as well.

Insurance Brokers



The year 2011 witnessed us dealing with 38 brokers. Our policy with regard to Insurance Brokers is to deal only with those licensed under the IBSL and to abide by the stipulated commission percentages. In addition, we require them to be professional corporate entities that represent all registered insurers. Their support is sought by us in the negotiation of claims, maintenance of historical records of policies, submission of underwriting information and the follow-up of receivables. We also expect them to advise our mutual clients on how best to structure their insurance policies.

We attempt to maintain a very close relationship with our brokers, for we believe that the success of our relationship depends on the mutual understanding between the parties. For this purpose we organise frequent fellowship events and this year too, the Annual Beach Rugby Fiesta was held for our brokers with 6 teams participating, the event being followed by a fashion show and cocktails. We also conducted regular training programmes for our brokers, the most important of which was conducted on General Insurance for 6 top performing brokers, under the guidance of internal resource persons.

HNB Group

The support received from our parent in our business endeavours is immense. We are fully aware that their backing has been a critical factor in our success.

Our Bancassurance channel, in line with HNB's 'financial supermarket' concept, is one method through which our relationship was strengthened over the years. This channel has grown significantly since its initiation in 2008 and has further enabled us to improve our presence within the island by positioning ourselves at HNB branches.

As at the year end of 2011, we had stationed 120 Bancassurance officers at selected HNB branches island-wide, which indicates a coverage of about 50% of the total HNB Branches as at 2011. The coverage will expand further in the coming year as we continue with the stable and growing relationship with HNB.

	2011	2010	2009
Our staff located at HNB Branches	120	98	74
Growth of Network	22%	32%	
Bancassurance GWP Rs. Mn.	267	158	89
Growth in Bancassurance GWP	69%	78%	

In reaping healthy performance via Bancassurance, the support from HNB management and staff is indisputable. As an appreciation of these efforts, we organised a Mid-year Awards ceremony this year as well, to recognise key contributors.



In addition to stationing Bancassurance officers at HNB branches, we also engage in many business ventures with our parent. The bulk of our micro insurance policies are the result of a collaboration with the 'Gami Pubuduwa' micro lending scheme of the Bank. We have also engaged

in promotional activities by providing motor insurance at special rates where lease facilities are granted by HNB Leasing. We have also joined hands with HNB for many of their programmes, such as 'Yauwana Abhimana' and 'Adhishtana', further details of which appear under 'Customers' in page 173.

Reinsurers

Our relationship with reinsurers is a long-term affiliation which matures over time and across situations. The key policy criterion with regard to selecting a reinsurer has been their possession of a financial rating of A- and above from S&P or the equivalent from AM Best. In addition, we also consider their financial soundness, reputation and service standards in the selection process, which are essential factors in determining the credibility of a reinsurer. The panel of reinsurers we dealt with appears on page 124 of the Risk Management Report.

During the year 2011, we dealt with 10 reinsurers under both Proportional and Non Proportional Treaties. Our key reinsurer for General Insurance was Toa Re, while Munich Re was our sole reinsurer in Life Insurance.

Toa Re	A+ by S&P
Mitsui Sumitomo Re	AA by S&P
G.I.C of India	'A-' by AM Best
Trust International	'A-' by AM Best
B. E. S. T Re	'A-' by AM Best
Malaysian Re	'A-' by AM Best
Labuan Re	'A-' by AM Best
Munich Re	A+ by AM Best
NITF	Government Owned
Korean Re	A- by S&P

Our reinsurers frequently offer us the opportunity to participate in training programmes, both internationally and locally. One of our reinsurers, Munich Re, conducted three training sessions for our staff during the year; a product development workshop which was attended by the entire top management, and two technical training sessions for our staff.

We also maintain close relationships with leading reinsurance brokers such as Interlink and J. B. Boda through whom many of our treaty and facultative placements are made.

Suppliers

As with all our other business partners, suppliers too, contribute to our value enhancement. From our perspective, while acknowledging their importance, we maintain concise policy standards on their operations. Accordingly all our suppliers are required to comply with high quality and service standards determined by us and we conduct checks throughout the year to ensure that such standards are maintained.

Assessors being a key category of suppliers, we ensure that only qualified degree/ diploma holders are recruited to the panel. We also grant them comprehensive training and technological facilities which allow them to provide an efficient service to our customers. One such key feature is the availability of a photo upload facility, where assessors have been granted a camera phone through which they can upload photos of accidents instantly, thereby resulting in greater efficiency, while saving costs.

For Motor Insurance, we have a panel of recommended garages which has been selected by us following a careful inspection process to affirm their compliance with our quality standards.

With regard to provisioning of medical facilities and check-ups required for Life Insurance, we have appointed a number of recommended laboratories/hospitals island-wide after having scrutinised them under a selection procedure including inspection of certificates, review of charges and on-site inspection by our officials.

We work closely with these parties and support their development. We also frequently monitor and ensure that they maintain our quality standards continuously and failure to do so will result in cancelling their registration with us.

	2011	2010
No of Recommended Garages	56	52
No of Recommended Laboratories	117	92
No of Recommended Hospitals	24	22

During the year we also decided to register all suppliers working with us for the purpose of supplying operational material and services. Accordingly, we called for applications through a press notice and registered them following a stringent evaluation process. We considered factors such as the quality of products and services, organisation's ownership structure, past experience, ethical standards, price, after sales service and other terms and conditions during this evaluation process.

Sustainability Report

Accordingly, we now possess a set of registered suppliers for providing goods and services to the Company and we only deal with such registered suppliers unless there is an exceptional situation.

For You: Our Customers

Our Policy

Customers are our lifeline. We fully understand the value of our customers in sustaining ourselves. The relationship we share with our customers is unique, for we consider it of utmost importance to grant high value for customers such that their interest will be sustained in the long term. Our ideal, 'spirit of caring', brings exclusivity to our services, as the very purpose of our existence is to care for all.

Our policy with regard to customers reaches many aspects. First, we commit ourselves to develop products that are suited to the ever evolving complex needs of the 21st century. Our goal of innovation drives us to frequently review and upgrade our portfolio for this very purpose. However, we do not stop there. We ensure that our customers receive adequate information regarding our products so that they are able to select products that suit their needs best, fully aware of the relevant details. All our customers are treated with high levels of service with an extra bit of caring aimed at turning every interaction with the Company into a memorable experience. Our relationships are moulded into long term bonds that mature over time, bearing fruit for both parties in the long run.

Opportune Responses to Evolving Needs

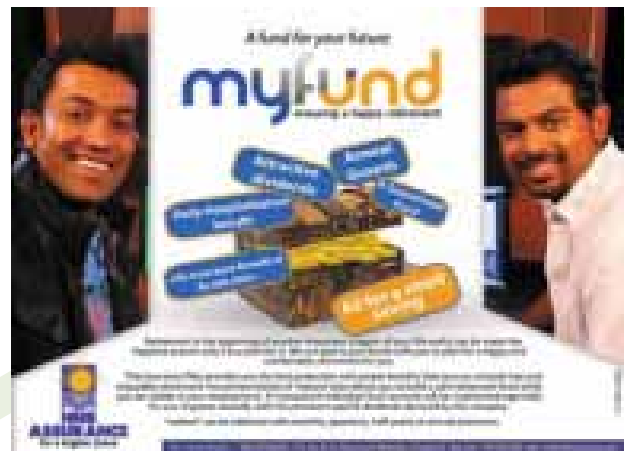
We pride ourselves for being committed to giving the customers exactly what they need. The needs however are sometimes not manifest, but extensive research conducted by our product development teams, with inputs from professionals engaged in a diverse range of functions, allow us to identify latent needs which need to be addressed.

Such research was carried out by our product development teams in 2011 as well, and their revelations enabled us to introduce three new products that generated a striking appearance in the domestic insurance industry. We also conducted two surveys on customer satisfaction during the year. While many positive comments were received from customers regarding our products and services, the suggestions forwarded were duly considered in the product development process. In addition, inputs were also generated for the product development process from the

workshops conducted by Munich Re, our Life Insurance reinsurer.

Accordingly, in 2011 we introduced 3 new products (2010:3) in total, two for Life Insurance and one for General Insurance.

The two new Life Insurance products, 'myfund' and 'myfreedom' have taken into consideration the shift in demand for insurance in favour of retirement planning, specifically amidst the increasingly aging population. Thus, 'myfund' provides for the accumulation of a fund that will culminate in a lump sum benefit at retirement while 'myfreedom' aims to provide a retirement benefit in terms of a stream of monthly payments spanning fifteen years following retirement. A complete solution to meet one's retirement needs could be designed through a combination of these two products. Thus far in the Sri Lankan insurance industry, limited initiatives have been embarked upon retirement planning, and we are proud to be led by our drive for innovation in serving evolving customer needs.



The new product introduced under General Insurance, 'Motorguard Agro', falls within our motor insurance segment, and provides insurance under a special rate for agricultural vehicles such as tractors, trailers and combined harvesters. This too is an exclusive need inadequately addressed, for which we have granted a comprehensive solution. Further, an extension of our Contractors' Plant and Machinery (CPM) policy was introduced during 2011 under the name 'CPM Agri', to extend our reach for those seeking agriculture as their livelihood.

Including these new products and extensions introduced during the year, we now possess a comprehensive portfolio of products that meet a variety of customer needs, for both Life and General Insurance. Our General Insurance

Reason 10

SUPERIOR CUSTOMER SERVICE

Our service ethic permeates to every single employee, who is passionate about delighting our beloved customers.

product portfolio spans many areas including motor, fire, engineering, liability, travel and marine insurance. For Life Insurance too we possess a portfolio targeted at diverse customer groups, based on age, profession, income, or need. Thus we provide a one-stop-shop for all insurance needs of the customer who also has the option of customising an insurance policy based on need. Further details on our products are available on pages 54 to 56 and 62 to 63 on Management Discussion and Analysis.

Despite possessing such an all-inclusive product range however, we do not restrict our research activities, for we believe that excellence is achieved only through continuous improvement. Keeping in line with our stringent quality standards, all steps are taken to ensure that our products are in total compliance with regulations relating to information labelling provision and use of services. Thus, no incidents of non-compliance or fines were recorded during the year.

Reaching Our Customers

We believe that proximity to customers is a key criteria in maintaining high service levels. Our island-wide network of 51 branches has enabled us to reach a considerable portion of the country. In addition, presence of our Bancassurance officers in 120 HNB branches has further enabled our customers to access us and our innovative products with minimum effort. To further enhance accessibility for our customers, we also conducted 5 branch relocations during the year, shifting our branches to more easily accessible locations.

We also improved the process of disseminating information to customers in order to improve their awareness levels on our products. We piloted a large scale advertising campaign, specifically targeting our new product 'myfund', whereby attractive advertisements were aired through the television, radio and print media. The success of this campaign is reflected in the response received for our new products which were at amazingly high levels. In addition we published brochures with comprehensive information regarding products, to be distributed amongst customers. The campaign stringently adhered to laws and standards related to marketing communications and no incidents of non-compliance with any such regulations were recorded during the year or during our entire history of 10 years.

In recording a milestone in our journey, in 2011 we re-launched our website, now accessible in Sinhala, English and Tamil. The re-launch as a tri-lingual site with many novel features was the result of extensive research and

development activities conducted all year long and now our customers, irrespective of the language they speak,

can gather ample information regarding us, our activities, products and financial information through our new website, reachable at www.hnbassuranc.com. Customers with any concern can raise them via web inquiries, and during the year we received 1,391 inquiries (2010: 787) indicating that our products are creating interest amongst the general public.



Customers around the country are granted the opportunity to gather more knowledge on our products through our propaganda vehicle which tours villages across the country. During 2011 the propaganda vehicle visited 186 (2010: 149) villages and disseminated such information. We also distributed amongst our customers a newsletter, which includes comprehensive details regarding us and our activities.

Sustainability Report

Servicing our Customers

Our Customer Relations Centre is another primary alley through which we reach our customers, by providing a reliable twenty-four hour service for all accident-related intimations, follow-up inquiries and product inquiries. The customer hotline and online helpdesk managed by the Customer Relations Centre have been vital in managing customer inquiries.

The services of the Customer Relations Centre assume high importance specifically when dealing with motor accidents. Whenever we are informed of such an unfortunate event, we maintain a constant dialogue with the customer through telephone. An Assessor is appointed immediately and the customer is thereupon informed of the Assessor's name and contact number. Contact is maintained by the Customer Relations Centre with the customer until his misfortune is cleared.



We have also taken steps to improve the procedure for making premium payments. A variety of payment methods are in place so that the customers could select the method best suited to his lifestyle. In addition, we tied up with two banks, namely Sampath Bank and Bank of Ceylon, to increase the number of premium collection centres. This will supplement the branch networks of HNB and ourselves which are already geared to accept payments from customers. Accordingly, as at the year-end we possessed 1,088 premium collection centres (2010: 443) and we expect to expand this network further in the coming year.

Our co-operation with HNB has also allowed us the opportunity to grant our valued customers with special rates for motor insurance, where the leasing facility is obtained from HNB Leasing. In addition, we also offer a free life insurance cover, at our own cost, to all our valued customers introduced through HNB Leasing.

Keeping up with our drive for innovation, we made extensive use of technological advancements during the year, to facilitate novel methods to improve services rendered to our customers.

Accordingly, we introduced a Mobile Receipting Instrument during the year to our top advisors, allowing them to service our customers with enhanced efficiency. Our advisors now have the facility of issuing a receipt to customers on-site, upon acceptance of insurance premiums from them. This venture was initiated as a pilot project during the year by providing the facility to 15 advisors and since it has created considerable interest, we intend to further increase the numbers in future.

The use of SMS technology to disseminate information to customers was also expanded during the year. Now, we apply this technology for a variety of instances including reminders on policy renewals, reminders of payments, acknowledging receipts of payments, approval of claim estimates, confirming deposits of claims in bank accounts and posting of Life Insurance policies. In total, we deliver 21 services via SMS (2010: 12).

Our commitment to drive our employees towards achieving great heights in terms of service levels has resulted in an increase in the number of active policies in terms of both Life and General Insurance. Total number of active policies under General Insurance was 115,171, while the same was 90,260 for Life Insurance. Further we have experienced a decline in the number of customer complaints from 365 in 2010 to 322 in 2011, despite the significant increase in the number of policies sold.

We have always attempted to maintain maximum levels of customer privacy and this year too, the same high standards were maintained which is reflected in no complaints being received on breaches of customer privacy and loss of customer data.

Keeping in line with our past trend of delivering a bonus to Life Insurance policyholders, this year too we declared a bonus at rates of upto Rs. 55 per Rs. 1,000 sum assured. In addition, in commemoration of our 10th anniversary we also declared a special loyalty bonus of 50% of the annual bonus declared in respect of 2011.

Enhanced Efficiency Paving the Way for Greater Value for Customers

Our experience spanning a decade has taught us that higher levels of efficiency invariably lead to the achievement of high levels of customer satisfaction. Our processes are therefore continuously being improved and upgraded to facilitate the achievement of higher levels of efficiency, for our primary purpose is to satisfy our loyal customers.

As an initial step, we have created a process whereby we retain scanned copies of documents with regard to policies and claims. This has significantly improved the efficiency levels due to ease of access and sharing of documents between departments while resulting in a lower usage of paper. We expect to complete this process for all documents, in 2012.

The accident assessment and picture upload facility has further strengthened the services provided to customers by our assessors, with 37% of assessors using the photo upload facility. Our assessors have also been strengthened by having access to accident locations via Google map.

The level of efficiency at the Customer Relations Centre, which directly deals with customers, has also undergone positive efficiency changes, with the use of technology. Accordingly, immediate policy history and payment history can be viewed by our employees at the time of intimations which has led to a decreased lead time for claims processing.

With a view to improve cleanliness, uniformity and accessibility at the workplace, our Head Office implemented the 5'S' method during the year. Accordingly, a 5'S' committee, consisting of representatives from each department was appointed and trained comprehensively on 5'S' methodology by an external resource person. Following such training, awareness programmes were conducted for all departments and on an agreed day, all Head Office employees voluntarily participated in the 'Big Seiri day' which marked the initiation of 5'S' at the Company. During 2012, we expect to conduct the next stages of this process and convert our workplace in to a fully 5'S' compliant environment.

We have also taken many effective steps to improve our employees' knowledge of our products, which in turn generates greater value for customers. Accordingly, product brochures with comprehensive information on all products, claims assessment procedure, and underwriting guidelines have been posted on the Company's intranet, providing



easy access to all employees. Our employees in the General and Life Divisions are also guided through regular trainings which allow them a chance to sharpen their knowledge and thereby serve our customers efficiently.

Promoting Social Benefit

In continuation of our partnership with HNB, during this year too we provided micro insurance policies for those obtaining micro loans from HNB's 'Gami Pubuduwa' project. The number of micro-insurance policies issued increased to 2,988 (2010: 2141), reflecting our commitment to touch the lives of the community.

Micro-insurance Performance	2011	2010	2009
No. of Micro-insurance Policies Issued during the Year	2,988	2,141	1,689
Growth in No. of Policies	40%	27%	
Micro-insurance GWP (Rs. Million)	6.3	4.9	2.4
Growth in Micro-insurance GWP	30%	100%	

This expansion in micro-insurance serves substantial community wellbeing since we, the insurer, grant benefits to both the client and the bank by settling the outstanding loan amount as well as providing the beneficiary with the basic sum assured, in case of death of the policy holder. Our partnership with HNB was further extended this year by us offering Life Insurance Policies for those receiving loans under HNB's 'Yauwana Abhimana' programme, as well as for those registering for its 'Adhishtana' savings account for migrant workers.

We also continued with our partnership 'Sathkara' with SEEDS to provide Life Insurance covers for their customers. In commemoration of the International Women's Day we conducted a unique offer where a free life cover for one year was granted to all female policyholders who obtained an insurance cover from us, and all female spouses of policyholders who bought policies, during March 2011.

Sustainability Report

These products are solely based on our intention to do good for others and thus, our motive reaches far beyond profit. In fact these products have been priced at very low rates and therefore operate as tools by virtue of which the community receives maximum benefits.

For You: Our Community

Our Policy

Throughout our decade's long journey, we have amply experienced the massive contribution made by the community around us towards our success. As a responsible corporate citizen, we have always journeyed hand in hand with the community, fully aware of the mutual benefits of this special relationship between us. Our policy with regard to our community is therefore simply to do our utmost to ensure the wellbeing of the community. It is this unfaltering dedication and enthusiasm towards accommodating societal needs and common progress that has enabled us to earn the respect of all social groups over the years.

Steadfast and passionate in our endeavours, this year too we undertook many ventures to extend our helping hand to brighten up the lives of those in need.

For the Blooming Flowers of the Morrow

We fully acknowledge the worth of education in building the future of the country. Unless quality education is provided for the blooming flowers of tomorrow, prospects for the entire nation are dreary. Moreover, a comfortable learning environment is necessary for preparing them physically and mentally to fruitfully gain from the education they receive.

Although the need has been identified, many schools in Sri Lanka suffer from deprivation of clean water suitable for drinking and fulfilment of other personal needs. It is with this awareness that we have come forward with the pledge to 'make clean water and sanitation accessible to under privileged schools in the country', which was set officially as our main CSR goal in 2008. We are humbly proud for being able to quench the thirst of thousands of students all over the island from our activities.

During the year under review, we established a proper supply of water in two remote schools increasing the number of schools covered under this scheme to 14.

Mu/ Kumulumunai Maha Vidyalaya is the education center for 650 students who strive to brighten up their lives after

being under the shelter of IDP camps for a year's period. No student in this school is fortunate to receive the love and protection from both the parents; the decades' long conflict has stolen many of their near and dear ones and they are existing below the poverty line. Despite being the main school in the area, it did not possess access to a proper water system with purified water suitable for drinking and we stepped forward to satisfy this basic human need.

Mahagoda Kanishta Vidyalaya, Karadeniya provides education to more than 600 students, who represent the families of middle and low income earners. They were faced with many sanitary difficulties with only two tap lines and an inadequate water system. We are unassumingly delighted to have contributed towards meeting this indispensable need by installing a proper water supply. We look forward to further extend our fullest co-operation to such worthy causes in the coming year as well and already three more projects are underway to bring relief to many more school children, their parents and teachers.



The 66th UN Day Celebration held in Colombo was sponsored by us for the 6th consecutive year. This event, which has now become an annual event in the HNB Assurance calendar, furthers our endeavour to enhance the enthusiasm to learn; it gives an equal opportunity to a large number of both urban and rural students representing all parts of the island to participate in oratorical, essay and quiz competitions. Our contentment lies in the happiness that emanates from faces of the many youngsters, for this is our spirit of caring. We greatly value this opportunity which permits us to bring happiness to students from all parts of the island.

In further extending our assistance to children, we offered a donation in the form of material to the Camilla School for the Differently Aabled Children, Mattegoda, an institution initiated in 1983 primarily focusing on the rehabilitation of differently-abled children. This school is an approved charity

operated by the Lions Club International where at present 57 inmates are cared for.

We also donated raw material to the Correction Centre for Youthful Offenders located in Dalupotha, Negombo to build a dining hall and a worship area for the use of young offenders. Currently, there are about 400 young offenders in the custody of this Centre, which is attached to the Department of Prisons. In addition, we installed a shelter at the entrance to the Medical Intensive Care Unit (MIC) of the Lady Ridgeway Hospital, Colombo, which is the country's premier Government hospital in the country for children. Funds used for this purpose were raised by our Staff Welfare Society by organising an evening of classical music – a clear demonstration of the commitment of our people to meet critical needs of the community.

For the Youth of Yesterday

We did not forget to extend our gratitude towards the senior citizens of the country; we believe that our contribution towards their betterment and happiness is a vital aspect. It is with this intention that we contributed to the "Elders' Day" celebrations, organised for the senior citizens of the Bolawalana Grama Niladhari's Division. We took every effort to turn it in to a day filled with happiness and entertainment, while gift packs were also distributed in order to ease the homely burdens of the destitute members.

At the important occasion of our 10th year celebration too, we remembered our duty towards the elders. Thus, we donated funds to HelpAge Sri Lanka in order to sponsor 4 cataract operations and provide 10 pairs of spectacles for the elderly.

For the Vibrant Business Persons of Today

Widening the scope of our CSR activities to varied segments in the society, we recognised 'entrepreneurs' as an important segment for which we have a greater responsibility since their role is vital in paving the way for the country to move forward. In line with this view, we extended our support, not only with financial assistance but also with active involvement, to the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) by sponsoring the Gold Awards category of the Sri Lankan Entrepreneur of the Year, 16th Annual Awards. Mr. Lal Keerthi Gunawardene President of the Lucky Lanka Group of Companies was crowned the Sri Lankan Entrepreneur of the Year 2011 while Mr. Sujeewa Palliyaguruge, Managing Director of Oakray Wood Carvings (Pvt) Ltd was recognised with the Gold Award for the Year. Regional Entrepreneurs were also recognised at four

provincial level award ceremonies held in Kandy, Badulla, Kurunegala and Matara in collaboration with Regional Chambers of Commerce. As a gold sponsor, the Company participated actively at all four regional award ceremonies as well as at the National Event held in Colombo.

For the Enhancement of the Quality of Life



Our annual blood donation campaign is an event through which we strive to provide hopes to the hopeless struggling for their own lives. This noble contribution towards the society was organised with great enthusiasm for the 6th consecutive occasion during 2011. This was another instance at which employee involvement out-weighed the financial expenses incurred by the Company in making a vital contribution to our society. To the more than 200 blood donors, we are immensely grateful, for you made our efforts fertile.

As a responsible corporate entity, we consider it our concern to look in to even the simplest matter if its impact is considerable. Sponsoring of direction boards for the Nuwara Eliya District Hospital was one such project through which we facilitated thousands of patients visiting the hospital daily. We are humbled by our ability to fulfil this necessity the hospital was lacking for years.



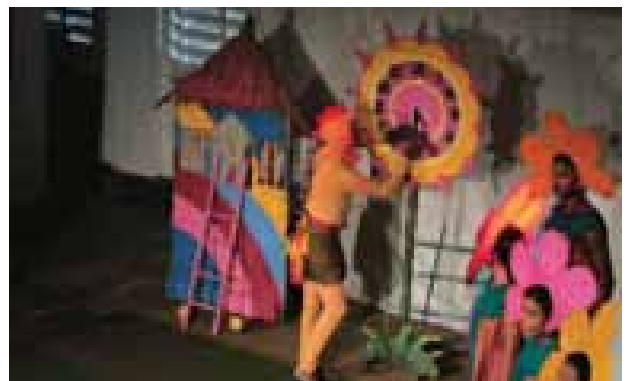
Sustainability Report



For the Arts and Culture

It is undisputed human knowledge that a civilised human society is invariably founded on a keen awareness of art and culture. It is with this understanding that we have dedicated ourselves to the worthy cause of promoting art and culture with a view of creating a community of people who would be capable of appreciating these disciplines, so that the society we live in would be a pleasanter place.

This year too we continued our generous support towards Lanka Children's and Youth Theatre Foundation (LCYTF) which strives to inculcate positive values in children and youth through creative arts. This year's drama festival featured two award winning stage dramas – Vikurthi and Walas Pawula, produced by Mrs. Somalatha Subasinghe and Dr. Chandana Aluthge respectively, and for the first time the opportunity was bestowed to two outstation towns, Anuradhapura and Galle.



Using the musical expertise of master sitarist Pradeep Ratnayake, HNB Assurance worked on the platform of creating appreciation of the region's music, partnering his famed "Pradeepanjalee" concert series. Pradeep Ratnayake is a Sitar virtuoso whose performances and compositions have drawn world-wide acclaim. He has performed classical and fusion music in distinguished venues across the world. Leading musicians from Sri Lanka including Karunaratne Bandara, Eshantha Joseph Peiris, Alston Joachim, Upul Madhushanka, Sumudu Suraweera, Chandralal Amarakoon, Surekha Amarasinghe and Meneka Singers took the stage with Pradeep Ratnayake to bring his new innovative music to an appreciative audience at the Lionel Wendt.

Extending our commitment to uphold cultural values even beyond country borders, we offered a media sponsorship to the Chennai Vesak Festival organised by the Sri Lanka Maha Bodhi Society in association with the Sri Lanka Deputy High Commissioner's office in South India, for the second consecutive year. We also extended our sincere support to four places of worship belonging to all four major religions in the country and this programme will continue to the coming year as well.

For You: Our Environment

Our Policy

We, as a responsible corporate citizen, recognise the value of sustaining our environs for the sustenance of all. We are fully aware of the mutual relationship between the humans and their environment, and are committed to fulfil our part of the bargain, knowing fully well that the environment will reciprocate. Thus, our policy is to maintain the highest possible standards of eco-friendliness in all our processes.

Although we are not an entity whose services have a direct bearing upon its surroundings, in our own way we maximise the positive impact on the environment while minimising the negatives. This is amply reflected by no penalties, monetary or otherwise, being imposed on us for non-compliance with environmental laws and regulations.

Towards an Energy-Efficient Workplace

Our initiative of reducing the usage of energy by replacing desktop computers with laptops on a systematic basis continued through the year. Accordingly, 21 new laptops were purchased for such replacements. For the furtherance of the same objective, 75 energy efficient LCD screens were purchased to replace monitors consuming higher levels of energy. Energy saving due to replacements via LCDs is estimated at 623 Kwh for the year. In addition, 25 servers were virtualised with a view to facilitate reduced energy consumption levels. Energy consumption at Head Office, which is our primary energy source, stood at 570,862 units for 2011 (2010: 535,154 units).

Energy Saving Initiatives	2011	2010	2009
No. of Laptop Computers Purchased	21	16	21
No. of Flat Screen Computers Purchased	75	68	57
No. of SMS Based Services	21	12	6
Server Virtualisations	25	17	10

Towards Paperless Processes

We have also identified an opportunity to improve our contribution to sustainability by minimising the usage of paper within our processes. Continuing with the satisfactory performance achieved in previous years, this year too we introduced 9 more SMS based services, increasing the total to 21, to facilitate less usage of paper. We also encourage our assessors to use the photo upload facility instead of printing photographs. This year, 37% of our assessors used this facility.

In addition to these ventures which were continued from the previous year, we also embarked on many new steps to promote paperless processes during 2011. Accordingly, we now possess facilities to conduct online video conferencing and training. All testing in this regard has already been conducted and a live demonstration was successfully completed. We expect to broaden the use of this facility in the coming year. Similarly, the work flow system in our core IS application TCS BaNCS facilitates the usage of less paper in processing claims. Further, we initiated a process of scanning all documents and capturing them in the system for future use. This initiative started in the Life Insurance division in 2011 and we intend to expand this to other divisions as well, in 2012.

With a view to reducing the usage of paper, we also decided to publish our Annual Report in a soft form without printing the same to be distributed to all our shareholders. Accordingly, we now send them a CD ROM comprising the Annual Report, and this in turn will contribute towards large savings in terms of paper, particularly since we have approximately 4,000 shareholders. Printed copies of the Report will be provided only on request.

In addition to introducing processes that require no paper work, we have also implemented procedures to sustainably re-use and recycle the paper used. Accordingly, the Company strictly maintains the use of both sides of paper and re-use of envelopes for all internal communications.

Paper dispensers and note pads made with recycled paper featured prominently among the year-end complementary items that were sent out.

Since 2010, we have maintained an agreement with Neptune Papers (Pvt) Limited enabling the recycling of paper. Through this initiative, the following savings were made in the current year.

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	2011	2010*
Fully Grown Trees	202	41
Liters of water	378,404	78,337
Kwh of Electricity	47,628	9,860
Liters of Oil	20,896	4,326
Cubic Meters of Land Fill	35	7
Reduced Green House Gas Emission by Carbon Equivalent of (Kg.)	11,907	-

*This venture was initiated during August 2010.

Waste arising from the implementation of the 5'S methodology was also disposed in this responsible manner, and we expect to continue with this rewarding venture in 2012 as well.

Small Steps to Make a Vast Difference

While large scale initiatives such as above are in operation, we have also taken smaller steps to promote the preservation of the environment at all levels of the Company. Accordingly, all our employees have been made aware of the necessity to save energy and conserve the environment. We promote a culture of prudence; all unnecessary lights and air conditioners are switched off after working hours. Staff transport after hours takes place

at standard times, with the objective of saving fuel. Further, employees have been made aware of the need to achieve a paperless state, as a result of which, emails and text messages are used for internal and external communication wherever possible.

Towards Promoting the Value of our Environs

As a responsible corporate citizen, we are fully aware of our responsibility in generating greater awareness amongst the public regarding the necessity of promoting the value of the environment. Our commitment in this regard was manifested by us using a theme of 'natural diversity' for our annual complimentary items. Thus, wall calendars, desk calendars, pocket calendars and greeting cards published by us in partnership with the Environmental Foundation Limited (EFL) bore images of picturesque natural sceneries. These together with paper dispensers and note pads made with recycled paper featured prominently among the year-end complementary items that were sent out and were aimed at promoting greater awareness and concern on our environment among our customers and business partners who received them.

During the year under review we also expanded our environmental protection initiatives beyond the boundaries of the Company. This was made effective through our



contribution to conserve the Bolgoda Lake which is cited as an Environmental Protection Area by the Central Environmental Authority (CEA). Upon a request made by the CEA during the latter part of 2010, we contributed towards the erection of signboards containing awareness messages around the periphery of the Lake, thereby improving awareness regarding the importance of conserving the ecosystem at Bolgoda.



On a Concluding Note

The above discussion presents you with a comprehensive view of our commitment towards furthering sustenance for all, whichever category of stakeholders you belong to. This however is certainly not the end. We will continue and expand our sustainability activities in the years to come, for we earnestly believe that sustainability promotes the survival of all. It is with humble pride we declare that we have already embarked upon the first step for sustenance in 2012, by making 'Sustainable Growth through Continuous Learning' our annual theme for this new beginning.

Sustainability Report

Key Performance Indicators

			2011	2010	2009
Customers	No. of Active Policies				
	General Insurance	●	115,171	76,680	71,918
	Life Insurance	●	90,260	79,321	70,485
	Value of Insurance Claims and Benefits-net (paid and outstanding)	●	Rs. 865 Mn	Rs. 648 Mn	Rs. 512 Mn
	No. of Branches	●	51	51	47
	No. of New Products	●	3	3	3
	Our staff located at HNB Branches	●	120	98	74
	No. of Customers who won Return Air Tickets	●	10	9	8
	Maximum Rate of Bonus to Life Policyholders (per Rs. 1000/- sum assured)	●	Rs. 55/-	Rs. 50/-	Rs. 45/-
	Percentage of Onsite Claim Inspections	●	98%	97%	96%
	No. of Employees Given Training on Customer Service	●	* Note	All	40
	No. of Villages/ Towns Visited by our Propaganda Vehicle	●	186	149	199
	No. of Customer Newsletters	●	1	1	1
	Customer Feedback Surveys	●	2	0	1
	No. of Web Inquiries	●	1,391	787	553
	No. of Customer Complaints Received	●	322	365	429
	No. of Customer Complaints Settled	●	286	284	319
No. of Third Party Cases Settled	●	18	23	4	
Employees	No. of Employees	●	662	597	540
	Employee Forums				
	CEO's Forum	●	8	6	9
	Management Meetings	●	3	4	3
	Distribution Management Meetings	●	5	5	5
	Employee Recognition				
	Chairman's Awards	●	7	7	7
	Five Year Completion Awards	●	49	29	22
	Ten Year Completion Awards	●	5	N/A	N/A
	Commendations	●	60	72	Not Reported
	No. Employees Granted Assistance for Insurance Examinations	●	109	42	68
	Employees Eligible for Insurance Covers	●	100%	100%	100%
	No. of Employees Appraised	●	505	430	395
	Percentage of confirmed employees appraised	●	100%	100%	100%
Employee Attendance at Annual Staff Conference	●	97%	97%	96%	

Key Performance Indicators (Contd.)

			2011	2010	2009
Employees	Employee Participation at In-House, Outbound, Local -External and Overseas Training Programmes		Page 53	Page 53	Not Reported
	Analysis of Employees by Age, Gender, and Service		Page 48	Page 48	Not Reported
	Employee Distribution				
	Western Province	●	63%	63%	65%
	Other Provinces		37%	37%	35%
	No. of Puwath Magazines	●	0	2	1
	Employee Turnover	●	23%	24%	16%
Business Partners					
Insurance Advisors and Field Management	No. of Training Programmes Offered to Insurance Advisors				
	Sinhala Medium	●	125	151	46
	Tamil Medium	●	52	36	15
	No. of Insurance Advisors and the Field Management	●	1,451	1,401	1,546
	No. of Full Time Trainers	●	5	6	4
	Pass Rates for Life Insurance Technical Competence Test (SLII)				
	Sinhala Medium	●	85%	81%	83%
Tamil Medium	●	64%	61%	53%	
	Commission Paid to Field Staff	●	Rs. 234 Mn	Rs. 190 Mn	Rs. 177 Mn
Insurance Brokers	No. of Training Programmes Conducted	●	1	1	5
	Commission Paid to Brokers	●	Rs. 55 Mn	Rs. 44 Mn	Rs. 39 Mn
	Teams at Beach Rugby Fiesta	●	6	10	9
Suppliers	Total Premium to Reinsurers	●	Rs. 511 Mn	Rs. 450 Mn	Rs. 454 Mn
	No. of Recommended Garages	●	56	52	53
	No. of Recommended Laboratories/ Hospitals	●	141	114	115
	No. of Assessors	●	91	97	90
	Fees Paid to Assessors	●	Rs. 14 Mn	Rs. 11 Mn	Rs. 10 Mn
	% of Assessors using the Photo Upload Facility	●	37%	30%	Initiated in 2010.
Community	Total Investment on Community	●	Rs. 2.06 Mn	Rs. 2.02 Mn	Rs. 2.56 Mn
	No. of Micro-insurance Policies Issued during the Year	●	2,988	2,141	1,689
	No. of School Water Projects	●	2	5	2

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Key Performance Indicators (Contd.)

			2011	2010	2009
Environment	Electricity Consumption at Head Office	●	570,862 units	535,154 units	429,541 units
	Further Initiatives				
	No. of Laptop Computers Purchased during the year	●	21	16	21
	No. of Flat Screen Computers Purchased during the year	●	75	68	57
	Cumulative no. of SMS Based Services	●	21	12	6
	Cumulative no. of Server Virtualisations	●	25	17	10
Shareholders	Earnings Per Share (Re-stated for 2010 and 2009)	●	Rs. 5.74	Rs. 5.38	Rs. 4.49
	Market Price Per Share (Adjusted for Scrip and Rights Issue)	●	Rs. 56.90	Rs. 66.31	Rs.44.94
	Dividend Per Share	●	Rs. 2.10	Rs. 1.80	Rs. 1.50
	Dividend Payment	●	Rs. 105 Mn	Rs. 67.5 Mn	Rs. 56.3 Mn
	Market Capitalisation	●	Rs. 2,845 Mn	Rs. 2,925 Mn	Rs. 1,856 Mn
	P/E Ratio	●	9.91 times	12.33 times	10.01 times

**Note- No specific customer service trainings were conducted during the year since we had a comprehensive series of customer service training programs in 2010. Improvements identified during the program were implemented during the year.*



Statement GRI Application Level Check

GRI hereby states that HNB Assurance PLC has presented its report "Sustainability Report - Sustenance for: You" (2011) to GRI's Report Services which have concluded that the report fulfils 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.

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

Amsterdam, the 16th of February 2012

A handwritten signature in blue ink, appearing to read "Nelmara Arbex", is written over a faint, large watermark of the GRI globe logo.

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 the 8th of February 2012. GRI explicitly excludes the statement being applied to any later changes to such material.

Sustainability Report

Global Reporting Initiative

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 138 - 139	
1.2	Description of key impacts, risks, and opportunities.	Fully	Page 148 - 149, 150 - 151	
2. Organizational Profile				
2.1	Name of the organisation.	Fully	Page 142	
2.2	Primary brands, products, and/or services.	Fully	Page 54 - 56, 62 - 63	
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	Fully	Page 77	
2.4	Location of organisation's headquarters.	Fully	Page 142	
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 142	
2.6	Nature of ownership and legal form.	Fully	Page 277	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Fully	Page 142	
2.8	Scale of the reporting organisation.	Fully	Page 147	
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Fully	Page 141	
2.10	Awards received in the reporting period.	Fully	Page 141 - 142	
3. Report Parameters				
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Fully	Page 142	
3.2	Date of most recent previous report (if any).	Fully	Page 142	
3.3	Reporting cycle (annual, biennial, etc.)	Fully	Page 142	
3.4	Contact point for questions regarding the report or its contents.	Fully	Page 142	
3.5	Process for defining report content.	Fully	Page 142	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	Fully	Page 142	
3.7	State any specific limitations on the scope or boundary of the report.	Fully	Page 142	

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 142	
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 142	
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 142	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	Page 142	
3.12	Table identifying the location of the Standard Disclosures in the report.	Fully	Page 184 - 193	
3.13	Policy and current practice with regard to seeking external assurance for the report.	Fully	No External Assurance Obtained	
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 77	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	Page 81	
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 91	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	Page 145 - 146	
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 81, 145 - 148	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.		Page 210	
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 93, 96 - 97	
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	

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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 147 - 148	
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Fully	Page 102	
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 148	
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 148	
4.14	List of stakeholder groups engaged by the organisation.	Fully	Page 144	
4.15	Basis for identification and selection of stakeholders with whom to engage.	Fully	Page 144	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Fully	Page 145 - 146	
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 147	

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	Fully	Page 152	
Aspects	Economic performance	Fully	Page 152 - 154	
	Market presence	Fully	Page 70	
	Indirect economic impacts	Fully	Page 174 - 177	
DMA EN	Disclosure on Management Approach EN	Fully	Page 177	
Aspects	Materials	Not	Not applicable	Level B report
	Energy	Fully	Page 177	
	Water	Not	Not applicable	Level B report
	Biodiversity	Not	Not applicable	Level B report
	Emissions, effluents and waste	Not	Not applicable	Level B report
	Products and services	Not	Not applicable	Level B report

G3 DMA	Description	Reported	Cross-reference/Direct answer	Further comments
	Compliance	Fully	We maintain strict adherence to all applicable laws and regulations	
	Transport	Not	Not applicable	Level B report
	Overall	Not	Not applicable	Level B report
DMA LA	Disclosure on Management Approach LA	Fully	Page 157	
Aspects	Employment	Fully	Page 157	
	Labour/management relations	Fully	No formal collective bargaining agreements in existence, however a number of employee forums are in place for effective employee engagement and involvement in Company decisions. Page 145	
	Occupational health and safety	Fully	Page 162	
	Training and education	Fully	Page 163	
	Diversity and equal opportunity	Fully	Page 157	
DMA HR	Disclosure on Management Approach HR	Fully	Page 157, 164	
Aspects	Investment and procurement practices	Not	Not applicable	Level B report
	Non-discrimination	Fully	Page 164	
	Freedom of association and collective bargaining	Not	Not applicable	Level B report
	Child labour	Fully	Page 164	
	Forced and compulsory labour	Fully	Page 164	
	Security practices	Not	Not applicable	Level B report
	Indigenous rights	Not	Not applicable	Level B report
DMA SO	Disclosure on Management Approach SO	Fully	Page 157, 164	
Aspects	Community	Fully	Page 174	
	Corruption	Fully	Page 164	
	Public policy	Fully	Page 164	
	Anti-competitive behaviour	Fully	Page 164	
	Compliance	Fully	Page 164	
DMA PR	Disclosure on Management Approach PR	Fully	Page 170	
Aspects	Customer health and safety	Not	Not applicable	Level B report
	Product and service labelling	Fully	We follow strict adherence to all laws and regulation in the Country relating to service labelling.	
	Marketing communications	Fully	All marketing campaigns strictly adhere to all laws and regulation in the Country relating to marketing communications.	
	Customer privacy	Fully	Page 162	
	Compliance	Fully	Page 164	

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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	Page 152 - 153
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Partially	Page 122
EC3	Coverage of the organisation's defined benefit plan obligations.	Fully	Page 161
EC4	Significant financial assistance received from Government.	Fully	None Received
Market presence			
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Fully	Page 160
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 176 - 176
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Fully	Page 163, 174 - 176
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.	Fully	Page 177
	Energy consumption at Head Office, which is our primary energy source, stood at 570,862 units for 2011. Energy is sourced from the National Grid of the Ceylon Electricity Board which is the Country's only electricity supplier. Mostly hydro power is used for generation of electricity while fuel is used for any excess requirement through the National Grid.		
EN5	Energy saved due to conservation and efficiency improvements.	Fully	Page 177
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 177 - 178

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.	Not	
EN19	Emissions of ozone-depleting substances by weight.	Not	
EN20	NO _x , SO _x , 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.	Not	
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 177

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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 157 - 159
LA2	Total number and rate of employee turnover by age group, gender, and region.	Partially	Page 159 - 160, 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 160
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 162, 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 163
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Partially	Page 162, Data on transition assistance programs not available.
LA12	Percentage of employees receiving regular performance and career development reviews.	Fully	Page 161

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 157 - 159, Data on minority groups not available.
LA14	Ratio of basic salary of men to women by employee category.	Fully	Page 160, No. discrimination based on gender/ race.
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 164
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 164
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 164
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	

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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 164, All business units have been analysed.
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	Fully	Page 164
SO4	Actions taken in response to incidents of corruption.	Fully	Page 164
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying.	Partially	Page 164
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	Fully	Page 164
Anti-competitive behaviour			
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	Fully	Page 164
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fully	Page 164
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 171, All
	Information relating to services are provided on product brochures and explained to customers at point of sale.		
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 171
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Fully	Page 170

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 171
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 171
Customer privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Fully	Page 172
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 171





Security

Financial Information

“We will continue to take advantage of the growth opportunities we see opening up across the island, towards which we will focus on the development of more innovative products.”

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 are;

Mr. D M de S Wijeyeratne ACA - *Chairman*
Independent Non- Executive Director

Mr. J D N Kekulawala FCIB (London), FCA (England & Wales), MBA (Manchester) - *Member*
Non-Executive Director

Mr. Sarath Ratwatte FCMA (UK) - *Member*
Independent Non- Executive Director.

All members of the Audit Committee are Accountants by profession. A brief profile of each member is given on pages 14 to 17 of this Annual Report.

The Head of Finance acts as the Secretary to the Audit Committee.

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 five times during the financial year under review. The attendance of each member is given on page 205. 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.

The Managing Director attends all meetings by invitation. The Head of Finance also attends all meetings in the capacity of Secretary to the Audit Committee as well as the Chief Financial Officer. 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, External Auditors, IT Internal Auditors and Consultant Actuary attended 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 these are prepared in accordance with Sri Lanka Accounting Standards (SLAS), 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, the Consultant Actuary, 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.

During the year, the members decided to segregate the 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 objectives of the Audit Committee, this would ensure that

each member focuses more on areas allocated to him. Such segregated areas are;

- Internal Control, Risk Management and Internal Audit
- Financial Reporting and External 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), the consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Accounting Standards, 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 Committee also reviewed with the management the interim and year-end Financial Statements and recommended the adoption of the same to the Board.

Compliance with Laws and Regulations:

The Committee reviewed the 4 compliance reports submitted by the Compliance Officer 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. In addition, the Committee also reviewed 4 Compliance Checklists signed off by the members of the Management Team to monitor the compliance with all applicable rules and regulations to the Company.

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, including coordination of the audit effort with the management and the internal auditors and

its audit quality control / assurance processes for the year.

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 Committee followed up on recommendations made in these reports. 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 Ford, Rhodes, Thornton & Co. be reappointed as Auditors for the financial year ending 31st December 2012 subject to the approval of Shareholders at the Annual General Meeting to be held on 29th March 2012.

The Audit Committee also recommends 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 that is assigned to the External Auditors, KPMG Ford, Rhodes, Thornton & Co, to ensure that provision of such services does not impair KPMG's 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 Ford, Rhodes, Thornton & Co, 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 meaning of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) and the Guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka (SEC).

In addition, the lead audit partner is also rotated every five years.

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, the Company appointed KPMG Ford, Rhodes, Thornton & Co as an independent reviewer

Audit Committee Report

to assist the Company in implementation of Sri Lanka Financial Reporting Standards (SLFRS) which are to be effective from 1st January 2012 onwards.

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 14 Internal Audit reports covering the operations of 42 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 regularly monitored 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 representations from the Life and General Independent External Actuaries and their observations and comments with regard to the work performed in valuing Life Insurance Policyholder Liabilities and General Insurance Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER).

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 External and Internal Auditors.

Finance, General and Life Divisions signoff monthly procedure checklists covering all the operational controls in respective divisions and report the same to both the Executive Committee and the Audit Committee. 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 two updates of the Risk Management 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.

The Company is in the process of developing comprehensive internal controls questionnaires based on the "What Could Go Wrong" model to review all processes to ensure there are adequate and effective internal controls to mitigate risks. This will be finalised during the first quarter 2012 and will be tested on a quarterly basis thereon. It will be shared with both the internal and external auditors also to be used in their periodic audits.

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. They performed the following reviews during the year:

- Review of IT General Controls
- Application Control Review of Life Insurance
- Application Control Review of General Insurance

The Auditors presented their finding to both the Management and the Audit Committee by way of presentations as well as reports. Significant findings were discussed with the management and the auditors and the actions recommended are being implemented.

The Committee also reviewed the comments in respect of general controls related to IT made by both Internal and External Auditors in their reports and discussed with the management appropriate actions required to mitigate identified risks.

Fraud Risk

There are a number of control procedures in place to mitigate the risk of fraud. The Manager - Internal Control and Compliance, and Internal Auditors and External Auditors review all processes of the Company continuously to identify and mitigate the risk of frauds. Members of the Audit Committee make a conscious effort to ensure the risk of fraud is minimised to the lowest possible levels.

Compliance with the Code of Best Practices 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. Please refer pages from 113 to 115 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 91 to 112 for the Compliance table.

Whistle Blowing

The Company implemented a formal Whistle Blowing Policy during the year and the same was 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 Chairman

Concerns raised are investigated as per the policy and the identity of the person raising the concern is kept confidential.

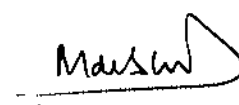
Performance Evaluation of the Committee

Based on the checklist approved by the Committee, an Audit Committee performance evaluation was carried out by the Committee for the year. An evaluation by the Management of the Committee's performance was also carried out. These checklists used in the performance evaluations process cover all the responsibilities of the Committee.

The Committee intends to discuss these evaluations with the Chairman of the Board and the Board of Directors. The final 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 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.



D M de S Wijeyeratne,
Chairman - Audit Committee

Colombo, Sri Lanka
30th January, 2012

Remuneration Committee Report

Composition and Charter of the Remuneration Committee;

The Remuneration Committee comprises the following Directors as at the year-end:

- Mr. M U de Silva – Chairman (Non-Executive Director)
- Mr. D M de S Wijeyeratne (Independent Non-Executive Director)
- Mr. Sarath Ratwatte (Independent Non-Executive Director)

The Managing Director attends all meetings by invitation. The Manager – Human Resources acts as the Secretary to the Committee and also assists 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 meets at least once a year at a minimum and the minutes of the meetings are circulated to the Board. All members of the Committee attended the Remuneration Committee Meeting held during the year.

Remuneration Principles

The remuneration policy of the Company;

- should be reasonable, attractive, competitive and linked to individual performance, and
- should be in line with both industry standards and the Company's performance

Remuneration Package

Employees

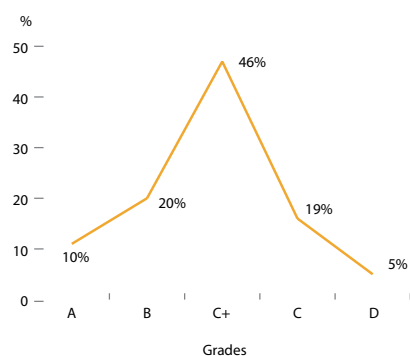
The remuneration packages of employees consist of a fixed component and a variable component. In addition, some other benefits are also available to employees as noted below.

Fixed Components	Variable Components	Other Benefits and Facilities
Basic Salary	Annual bonus for all staff	Vehicle Loans (selected categories of staff)
Reimbursement of Traveling Expenses	Production Bonus for Distribution Management Team, Other Marketing Personnel and Bancassurance Officers	Educational Loans and Education Assistance Other Loans (Emergency, Wedding etc) Insurance Benefits Holiday Bungalow (selected categories of staff) and recreational facilities

Fixed Components

Basic salary and the reimbursement of traveling expenses are the fixed components in the package which is based on the scope and complexity of the role and are reviewed annually. Semi-annual performance appraisals are conducted and increments and promotions are granted purely based on results of such exercises. Overall competence and performance are key factors that determine an individual's base pay. Distribution of performance grading in the year-end appraisal process is shown in the graph below.

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 checkups and doctor consultations through a reputed medical services provider.

Retirement Benefits

There are no retirement benefits to employees other than Gratuity, Employees Provident Fund (EPF) and Employees Trust Fund (ETF).

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 205. Non-Executive Directors are not entitled to retirement benefits. The Managing Director is entitled to Gratuity, EPF and ETF as all other employees.

Share Plans for Directors

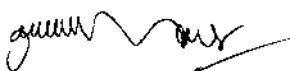
The Company does not have a share plan for Directors.

Directors' Shareholding

The shareholdings of Directors are provided on page 205.

Personal Loans for Directors

No Director is entitled to Company loans.



M U de Silva

Chairman - Remuneration Committee

Colombo, Sri Lanka

30th January 2012

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 their Report with the audited Financial Statements for the year ended 31st December 2011 and the Auditors' Report thereon. The Financial Statements were accepted and approved by the Board of Directors at its meeting held on 30th January 2012.

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

General 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 Acting Chairman's Message (pages 6 to 8), the Managing Director's Review (pages 9 to 13) and Management Discussion and Analysis (pages 26 to 73). 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

The Financial Statements of the Company are prepared in conformity with the Sri Lanka Accounting Standards (SLAS) laid down 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 and amendments thereto and other Rules and Regulations of the Insurance Board of Sri Lanka (IBSL). The formats and disclosures are also in accordance with the Statement of Recommended Practice (SoRP) for Insurance Contracts, adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL). The Financial Statements of the Company for the year ended 31st December 2011, duly signed by two Directors and Head of Finance of the Company are given on pages 216 to 265 and form an integral part of the Annual Report of the Board.

Significant Accounting Policies

The significant accounting policies adopted in preparation of these Financial Statements are given on pages 226 to 236. There

were no material changes in the accounting policies adopted with those of the previous year.

Implementation of Sri Lanka Financial Reporting Standards (SLFRS)

The Institute of Chartered Accountants of Sri Lanka (ICASL) has decided to implement Sri Lanka Financial Reporting Standards (SLFRS) which is in line with International Financial Reporting Standards (IFRS) with effect from financial years beginning on or after 1st January 2012.

Implementation of Sri Lanka Financial Reporting Standards (SLFRS) will effect significant changes in Financial Statements of companies in future. Particularly, as a Company in the Financial Services industry, HNB Assurance PLC will experience a significant impact from the new accounting standards in the form of classification, presentation & disclosures. Given the complexity of these new accounting standards, considerable expertise and knowledge is required for proper implementation of such standards. Having identified this need in advance, the Company took a number of initiatives by itself 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. Additionally, the Company appointed Messrs. KPMG Ford, Rhodes, Thornton & Co., to advise the management and the Board on the proper implementation of these accounting standards. Accordingly, the Company is confident that the implementation of new accounting standards can be managed smoothly without any significant disruption.

The significant areas which could have an impact on adoption of the new accounting standards are disclosed in pages 234 to 236.

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. 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 2011 have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Co., (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 215 of this Annual Report.

Reappointment of Auditors

The retiring Auditors, Messrs. KPMG Ford, Rhodes, Thornton & Co., has 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 authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Auditors Fees and Expenses

The fees paid/ payable to auditors Messrs. KPMG Ford, Rhodes, Thornton & Co., for the services provided to the Company during the year together with corresponding figures for the previous year are presented below.

	2011 Rs.'000	2010 Rs.'000
Audit Fees and Expenses	1,010	888
Audit Related Fees and Expenses	687	551
Non Audit Fees	680	Nil
Total	2,367	1,439

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 comprise the advice provided on implementation of Sri Lanka Financial Reporting Standards from the year 2012 and due diligence study carried out on share valuation for Capitalisation of Reserves 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 considers 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 manage 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.

The Company, being listed in the Colombo Stock Exchange (CSE), is fully compliant with the rules on Corporate Governance under the Listing Rules of the CSE with regard to the composition of the Board and its Sub Committees. 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 governance is given on pages 91 to 112.

Turnover / Gross Written Premium (GWP)

The total turnover as measured by the Gross Written Premium (GWP) of the Company for the financial year under review amounted to Rs. 3,003 Million (2010 - Rs. 2,428 Million). The above GWP is made up of General and Life Insurance premium income amounting to Rs. 1,712 Million (2010 - Rs. 1,344 Million) and Rs. 1,291 Million (2010 - Rs. 1,084 Million) respectively. A detailed analysis of the total GWP achieved by the Company is given in Note 20 to the Financial Statements on page 250.

Financial Results and Appropriations

The Income Statement of the Company is given on page 217. Transfers to/from reserves of the Company are shown in the Statement of Changes in Equity on page 218

Description	2011 Rs.'000	2010 Rs.'000
Profit Before Taxation (PBT)	300,402	269,525
Income Tax Expenses	(25,772)	(27,786)
Profit After Taxation (PAT)	274,630	241,739
Unappropriated Profit brought forward	641,340	455,851
Capitalisation of Reserves	(406,250)	-
Share Issue Expenses	(4,379)	-
Profits available for appropriation	505,341	697,590
<i>Appropriations</i>		
Dividends Paid	(67,500)	(56,250)
Unappropriated Profit carried forward	437,841	641,340

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 10th April 2012. The Statement of Solvency prepared by the Board was audited by Messrs. KPMG Ford, Rhodes, Thornton & Co.

The Board of Directors recommend a first and final dividend of Rs. 2.10 (2010 - Rs. 1.80) per share payable on 10th April 2012 to holders of issued and paid up Ordinary Shares of the Company as at the close of business on 29th March 2012. 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 eight Directors (2010 - nine 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 14 to 17 of the Annual Report.

Name of the Director	Status
Rienzie T. Wijetilleke	<i>Chairman Non-Executive Director (resigned w.e.f. 29th March 2011)</i>
R Theagarajah	<i>Acting Chairman Non-Executive Director</i>
Manjula de Silva	<i>Managing Director Executive Director</i>
M U de Silva	<i>Non-Executive Director</i>
J M J Perera	<i>Non-Executive Director</i>
J D N Kekulawala	<i>Non-Executive Director</i>
Pratap Kumar de Silva	<i>Independent Non-Executive Director</i>
D M de S Wijeyeratne	<i>Independent Non-Executive Director</i>
Sarath Ratwatte	<i>Independent Non-Executive Director</i>

Appointments of Directors

No new appointments were made to the Board during the year under review.

Retirement and re-election/ Re-appointment of Directors recommended

Mr. D M de Silva Wijeyeratne retires by rotation at the AGM and offers himself for re-election under 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 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. Also the Board appointed a Strategic Review Committee during the year comprising two Independent Non-Executive Directors together with the Managing Director to explore and evaluate opportunities of a strategic nature, to review the Corporate Plan and to advise the Board accordingly. The composition of each Board Sub Committee is given on page 205 which is a part of the Annual Report of the Board.

Name of the Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Investment Committee Meetings		Strategic Review Committee Meetings	
	A	B	A	B	B	B	A	B	A	B
Rienzie T. Wijetilleke (Chairman) (resigned w.e.f. 29th March 2011)	4	4	-	-	-	-	-	-	-	-
R Theagarajah (Acting Chairman)	12	12	-	-	-	-	-	-	-	-
Manjula de Silva (Managing Director)	12	12	-	-	-	-	4	4	2	2
M U de Silva	12	11	-	-	1	1	-	-	-	-
J M J Perera	12	12	-	-	-	-	-	-	-	-
J D N Kekulawala	12	10	5	5	-	-	4	4	-	-
Pratap Kumar de Silva	12	11	-	-	-	-	-	-	-	-
D M de S Wijeyeratne	12	12	5	4	1	1	-	-	2	1
Sarath Ratwatte	12	12	5	5	1	1	4	4	2	2

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

B = Number of meetings attended.

Directors' Meetings

The number of Directors' meetings which comprise Board meetings, Audit Committee meetings, Remuneration Committee meetings, Strategic Review Committee meetings and Investment Committee meetings together with the attendance of each Director at these meetings during the year are tabulated above. The Nomination Committee did not meet during the year since there were no new appointments considered for the Board.

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 211 and forms an integral part of the Annual Report of the Board of Directors.

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 210 of the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

a) Directors' Interest in Contracts

None of the Directors had direct or indirect interest in any contracts or proposed contracts with the Company other than those disclosed on page 151.

b) Directors' Interest in Shares as at the Balance Sheet date.

The following table discloses the Directors' interest in shares of the Company.

Name of the Director	As at 31st Dec 2011	As at 31st Dec 2010
Rienzie T. Wijetilleke (Resigned w.e.f 29th March 2011)	Nil	750
R Theagarajah	8,332	6,250
Manjula de Silva	38,332	25,000
M U de Silva	3,000	2,250
J M J Perera	7,000	5,250
J D N Kekulawala	49,998	30,000
Pratap Kumar de Silva	1,332	1,000
D M de S Wijeyeratne	583	500
Sarath Ratwatte	14,666	11,000

There has been no change in their interest in shares between 31st December 2011 and 30th January 2012, being the date of this Report.

c) Directors' Remuneration and Other Benefits

The totality of Directors' emoluments including post-

Annual Report of the Board of Directors on the Affairs of the Company

employment benefits to Directors for the financial year ended 31st December 2011 is Rs. 19.9 Million (2010 - 16.7 Million). 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 No. 30, Related Party Disclosures (revised 2005), which is adopted in the preparation of these Financial Statements. Those transactions disclosed by the Directors are given in Note 30 to the Financial Statements in pages 255 to 257 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 270. Information on share trading is also given on page 270 of the Annual Report.

Shareholding

The number of registered shareholders of the Company as at 31st December 2011 was 3,966 (2010 - 3,665). The distribution and analysis of shareholdings are given on page 269.

Equitable Treatment to all Shareholders

The Company has at all times ensured that all shareholders are treated equitably. Both Sinhala and Tamil translations of the Chairman's Report, Managing Director's Report, Balance Sheet, and Income Statement are available on request.

Major Shareholders

The twenty largest shareholders of the Company as at 31st December 2011, together with comparative shareholding as at 31st December 2010 are given on page 267. Hatton National Bank PLC (Mr. R. Theagarajah, Managing Director who is also a Director of the Company) owns 59.99% (2010 - 59.99%) shares of HNB Assurance PLC.

Corporate Donations

The Company made charitable donations amounting to Rs. 300,000/- (2010 - Rs. 300,000/-) during the year.

This includes the supply of fibre mattresses and ceiling fans to Camila School, a facility for differently-abled children located in Mattegoda. This School is an approved charity managed by Lions Club International. At present 57 inmates are looked after in this School.

The Company also donated asbestos sheets, floor tiles, table, chairs and other building material to the Correction Centre for Youthful Offenders located in Dalupotha, Negombo to build a dining hall and a worship area for the use of young offenders. Currently, there are around 400 young offenders in the custody of this Centre which is attached to the Department of Prisons.

The total cost of the above donations amounted to Rs. 200,000/-

Additionally, the Company donated a sum of Rs. 100,000/- to religious institutions belonging to 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 Balance Sheet date. The Income Tax rate applicable to the Company's operations is 28% (2010 - 35%). The income tax expense of the Company is given in Note 27 to the Financial Statements on page 252.

As further explained in Note 27.4 to the Financial Statements, no Deferred Tax asset is recognised since it is not probable that future taxable profits will be adequate to utilise 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 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.

Investments

The amount of investments (excluding cash and cash equivalents) held by the Company as at 31st December 2011 amounted to Rs. 4,655 Million (2010 - Rs. 3,404 Million). A detailed description of the Investments held is disclosed in Note 4 to the Financial Statements on pages 237 to 241.

Property, Plant and Equipment (PPE)

The capital expenditure on acquisition of Property, Plant and Equipment during the year amounted to Rs. 24.7 Million (2010 - Rs. 44.9 Million). Net book value of Property, Plant and Equipment as at the Balance Sheet date amounted to Rs. 122 Million (2010 - Rs. 131 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 6 to the Financial Statements on pages 242 and 243.

Market Value of Property, Plant and Equipment (PPE)

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.

Intangible Assets

The capital expenditure on acquisition of Intangible Assets during the year amounted to Rs. 8.4 Million (2010 - Rs. 31.6 Million) which is mainly the expenditure on acquisition of the new software, TCS Bancs. The Net Book Value of Intangible Assets as at the Balance Sheet date amounted to Rs. 49 Million (2010 - Rs. 52 Million).

A movement of Intangible Assets from the balance as at 1st January 2011 to the balance as at 31st December 2011 having additions and disposals made together with the amortisation charge for the year are set out in Note 5 to the Financial Statements on pages 241 and 242.

Capital Commitments

No significant capital expenditure commitments exist as at 31st December 2011 (2010 - Rs. Nil).

Liabilities 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 General Insurance. The Directors have also consulted an independent Actuary in the process of valuing IBNR and IBNER reserves and his report is given on page 213.

Moreover, the Directors have arranged a Consultant Actuary to value the Life Fund and the report of the Consultant Actuary is given on page 214.

Gratuity liability was also valued by an independent Actuary as required by the Sri Lanka Accounting Standards No 16 - Employee Benefits (revised 2006).

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 has been evaluated and adequate provisions have been made in these Financial Statements where necessary.

Stated Capital and Reserves

At an Extra-Ordinary General Meeting held on 29th March 2011, 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, the number of shares of the Company increased to 43,750,000.

In addition, members also approved a Rights Issue of Shares in order to raise additional funds of Rs. 390,625,000/-. Accordingly another 6,250,000 new Ordinary Shares were issued under this on the basis of 1 new Ordinary Share for every 7 Ordinary Shares held by shareholders post Capitalisation of Reserves at an issue price of Rs. 62.50.

Funds raised through the Rights Issue have been used for branding, new system implementation, upgrading the branches, etc as communicated to shareholders in the Circular on the new share issue. In addition, the Company's Solvency position was also improved significantly which was one main purpose of increasing the Stated Capital.

After both the Capitalisation of Reserves and Rights Issue discussed above, the stated capital of the Company as at 31st

Annual Report of the Board of Directors on the Affairs of the Company

December 2011 has been increased to Rs. 1,171,875,000/- (2010 - Rs. 375,000,000/-). Number of shares of the Company was also increased to 50 million which was at 37.5 Million at the end of the last year.

The total reserves of the Company as at 31st December 2011 amounted to Rs. 437.8 Million (2010 - Rs. 641.3 Million). The reduction in reserves is due to Capitalisation of Reserves as discussed above. The movement of reserves is shown in the Statement of Changes in Equity on page 218.

Minimum Capital Requirements to continue General 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 General and Life Insurance businesses. However, Insurance Board of Sri Lanka (IBSL) has indicated that it is planning to increase the Stated Capital per line of business (Life and General) to Rs. 500 Million each. 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 (2010 - Rs.375 Million) and therefore has already fulfilled this proposed statutory requirement. The Company has set aside Rs. 337.5 Million (2010 - Rs.100 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 minimise any such adverse effects by recycling resources as much as possible and creating awareness among its staff on current global environmental threats. The Company does its best to comply with the relevant environmental laws and regulations and has not engaged in any activity that is harmful or hazardous to the environment.

Activities carried out to protect the environment by the Company are described in detail in the Sustainability Report in pages 138 to 193.

Events occurring after the Balance Sheet Date

There have not been any material events that occurred subsequent to the Balance Sheet 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 31 to these Financial Statements.

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 is available for all employees of the Company irrespective of their 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 200 and 201.

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.

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 with the highest level 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 and the Remuneration Committee

The Audit Committee and the Remuneration Committee reports are given on pages 196 to 199 and 200 to 201 respectively of this Annual Report.

Annual General Meeting

The tenth Annual General Meeting of the Company will be held at the Auditorium on level 22 of "HNB Towers" at No. 479, T B Jayah Mawatha, Colombo 10 on Thursday, the 29th day of March 2012 at 10.00 in the forenoon. The Notice of the tenth Annual General Meeting is on page 278 of the Annual Report.

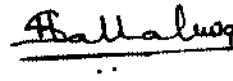
For and on behalf of the Board



R Theagarajah
Acting Chairman



Manjula de Silva
Managing Director



Shiromi Halloluwa
Board Secretary

Colombo, Sri Lanka
30th January, 2012

Directors' Interest in contracts with the Company

a) 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. 30 to the Financial Statements. The details of such entities are given below.

Company	Name of Director / Relationship
Hatton National Bank PLC	Rienzie T Wijetilleke – Chairman *
	R Theagarajah - Managing Director/ Chief Executive Officer
Sithma Development (Pvt) Ltd	Rienzie T Wijetilleke - Chairman *
	R Theagarajah - Director
	J D N Kekulawala - Director
Acuity Partners (Pvt) Ltd.	R Theagarajah - Chairman
	J M J Perera - Director
Acuity Securities Ltd	R Theagarajah - Chairman/Director
	J M J Perera - Director
Acuity Stockbrokers (Pvt) Ltd.	R Theagarajah – Chairman/Director
	J M J Perera - Director
Alliance Finance Co. PLC	Pratapkumar de Silva - Chairman & Jt. Managing Director
Alliance Tech Trading (Pvt) Ltd.	Pratapkumar de Silva - Chairman

* Resigned from the Board w.e.f. 29th March 2011

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 215 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 the balance sheet as at 31st December 2011, the Income Statement, 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 Balance Sheet date; and
2. the profit or loss of the Company for the financial year ended on the Balance Sheet date.

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, 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). In addition, the Financial Statements are in conformity with the formats and disclosures prescribed in the Statement of Recommended Practice (SoRP) for Insurance Companies issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

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 Ford, Rhodes, Thornton & Company, 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. 2.10 per share for this year, to be paid on 10th April 2012.

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 Balance Sheet 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
30th January 2012

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto. The formats and disclosures are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SoRP), adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL). 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 Ford, Rhodes, Thornton & Co., 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

Colombo, Sri Lanka
30th January 2012



Vipula Dharmapala
Head of Finance / Chief Financial Officer

Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserve

PARTNERS :

D. K. PANDIT
B.Sc., LL.B., A.I.A. (London), F.I.A.I. (00131)
APPROVED VALUER
REGD. NO. : CAT/X-3 OF 1988

AKSHAY PANDIT
B.Sc., A.I.A.I. (00300)

M. G. DIWAN
M.Sc., F.I.A. (London), F.I.I.I., F.I.A.I. (00053)

N. K. PARIKH
M.Com., LL.B., A.I.A. (London), F.I.A.I. (00132)

P. I. MAJMUDAR
B.Com., F. A. (London), F.C.I.I., F.I.I.I., F.I.A.I. (00109)



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M/S. K. A. PANDIT
CONSULTANTS & ACTUARIES
(ISO 9001:2008 CERTIFIED)

CERTIFICATE

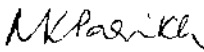
As Consulting Actuaries to the HNB Assurance PLC, Colombo- 3, Sri Lanka, we are required to estimate and certify the IBNR and IBNER Claims Reserves of the Company's General Insurance Division as on 31st December, 2011.

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 as well as the inward reinsurance 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 31-12-2011 to be provided by the HNB Assurance PLC in respect of its non-life business are estimated as Rs. 20,258,000 equal to 1.7434% of the Net Earned Premium of Rs.1,161,949,049 as on 31-12-2011. They seem adequate and may be provided accordingly.


(N. K. PARIKH)
(PARTNER)
Mumbai, India.
5th January, 2012.

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Ahmedabad : 509, Golden Triangle, Near Sardar Patel Stadium, Navrangpura, A'bad - 380 014. • Email : kapabd@vsnl.net

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Report of the Life Actuary



1st Floor, 434, R. A. De Mel Mawatha, Colombo 03, Sri Lanka. Telephone: (941) 575280/(94) 74 710 235 Fax: (94) 74 710 235

30 January 2012

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER, 2011

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2011. 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, 2011, 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, 2011 by Rs.563.502 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.135.204 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2011. This solvency margin is maintained in the Long Term Insurance Fund.



M POOPALANATHAN
ACTUARY

Independent Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

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Internet : www.lk.kpmg.com

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 balance sheet as at 31st December 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes exhibited on pages 216 to 265 of this 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 31st December 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December 2011 and its profit and cash flows 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.

Ford Rhodes Thornton & Co.

CHARTERED ACCOUNTANTS

Colombo

30th January 2012

KPMG Ford, Rhodes, Thornton & Co., a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

A.N. Fernando FCA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA

M.R. Mithular FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA

Ms. M.P. Perera FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA

Principals - S.R.L. Perera ACMA, LLB, Attorney-at-Law, P.S. Goonewardene ACA

Balance Sheet

As at 31st December,		2011	2010	
	Note	Page No.	Rs:'000	Rs:'000
Assets				
Investments	4	237	4,655,042	3,403,905
Intangible Assets	5	241	48,876	52,308
Property, Plant and Equipment	6	242	121,568	130,971
Loans to Life Policyholders	7	243	20,097	15,000
Reinsurance Receivables	8	243	131,210	122,431
Premium Receivables	9	244	231,385	231,929
Other Assets	10	245	638,273	510,306
Cash and Cash Equivalents	11	246	189,453	81,354
Total Assets			6,035,904	4,548,204
Liabilities and Equity				
Liabilities				
Insurance Provision - Life	12	246	2,990,998	2,385,246
Insurance Provision - General	13	247	924,262	730,658
Other Liabilities	14	248	366,536	308,901
Reinsurance Creditors	15	248	110,263	81,983
Employee Benefits	16	248	34,129	25,076
Total Liabilities			4,426,188	3,531,864
Equity				
Stated Capital	17	249	1,171,875	375,000
Revenue Reserves	18	249	437,841	641,340
Total Equity			1,609,716	1,016,340
Total Liabilities and Equity			6,035,904	4,548,204

The Notes to the Financial Statements as set out on pages 226 to 265 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.



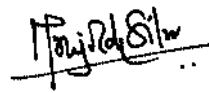
Vipula Dharmapala
Head of Finance / Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed and on behalf of the Board;



R. Theagarajah
Acting Chairman



Manjula de Silva
Managing Director / Chief Executive Officer

Colombo, Sri Lanka
30th January 2012

Statement of Income

<i>For the Year Ended 31st December,</i>			2011	2010	Change
	Note	Page No.	Rs.'000	Rs.'000	%
Revenue	19	250	2,826,870	2,361,240	20
Gross Written Premium	20	250	3,002,511	2,428,183	24
Premium Ceded to Reinsurers			(510,621)	(449,461)	14
Net Written Premium			2,491,890	1,978,722	26
Net Change in Reserves for Unearned Premium			(142,270)	(134,362)	6
Net Earned Premium			2,349,620	1,844,360	27
Benefits, Losses and Expenses					
Insurance Claims and Benefits (Net)	21	250	(865,133)	(648,137)	33
Increase in Life Insurance Fund	12	246	(605,752)	(531,733)	14
Underwriting and Net Acquisition Costs	22	250	(232,128)	(164,991)	41
Other Insurance Related Costs			(17,510)	(15,758)	11
Total Benefits, Losses and Expenses			(1,720,523)	(1,360,619)	26
Net Earned Premium less Benefits, Losses and Expenses			629,097	483,741	30
Other Revenue					
Income from Investments	23	251	474,557	517,198	(8)
Other Net Income / (Loss)	24	251	2,693	(318)	947
Expenses					
Other Operating, Investment Related and Administration Expenses	25	251	(805,945)	(731,096)	10
Profit Before Taxation	26	252	300,402	269,525	11
Income Tax Expenses	27	252	(25,772)	(27,786)	(7)
Profit for the Year			274,630	241,739	14
Basic Earnings Per Share (Rs.)	28.2	254	5.74	5.38	7
Dividend Per Share (Rs.)	29	254	2.10	1.80	17

The Notes to the Financial Statements as set out on pages 226 to 265 form an integral part of these Financial Statements.

Statement of Changes in Equity

For the Year Ended 31st December 2011,

	Number of Shares '000	Stated Capital Rs.'000	Revenue Reserves Rs.'000	Total Equity Rs.'000
Balance as at 31st December 2009	37,500	375,000	455,851	830,851
Profit for the Year	-	-	241,739	241,739
Dividend Paid for 2009	-	-	(56,250)	(56,250)
Balance as at 31st December 2010	37,500	375,000	641,340	1,016,340
Capitalisation of Reserves (Note 17.1)	6,250	406,250	(406,250)	-
Rights Issue (Note 17.2)	6,250	390,625	-	390,625
Share Issue Related Costs (Note 18.1)	-	-	(4,379)	(4,379)
Profit for the Year	-	-	274,630	274,630
Dividend Paid for 2010	-	-	(67,500)	(67,500)
Balance as at 31st December 2011	50,000	1,171,875	437,841	1,609,716

The Notes to the Financial Statements as set out on pages 226 to 265 form an integral part of these Financial Statements.

Cash Flow Statement

For the Year Ended 31st December,		2011	2010
	Note	Rs.'000	Rs.'000
Cash Flows from Operating Activities			
Premium Received from Customers		3,022,384	2,368,943
Reinsurance Premium Paid		(362,961)	(364,416)
Claims Paid		(915,580)	(739,086)
Reinsurance Receipts in Respect of Claims		102,590	85,215
Cash Paid to and on behalf of Employees		(316,923)	(267,169)
Interest Received		391,515	490,107
Dividend Received		8,886	7,609
Other Operating Cash Payments		(802,916)	(776,437)
Cash Inflow Generated from Operating Activities	(A)	1,126,995	804,766
Gratuity Paid		(1,607)	(795)
Economic Service Charges (ESC) Paid		(16,428)	(12,374)
Net Cash Generated from Operating Activities		1,108,960	791,597
Cash Flows from Investing Activities			
Purchase of Liquid Investments (Other than Cash Equivalents)		(71,243,053)	(45,623,529)
Purchase of Other Investments (Other than Cash Equivalents)		(743,669)	(496,835)
Sale of Liquid Investments (Other than Cash Equivalents)		70,546,744	45,246,960
Sale of Other Investments (Other than Cash Equivalents)		153,300	186,913
Purchase of Intangible Assets		(8,407)	(22,238)
Purchase of Property, Plant and Equipment		(24,703)	(39,734)
Proceeds on Sale of Property, Plant and Equipment		181	370
Net Cash used in Investing Activities		(1,319,607)	(748,093)
Net Cash Inflow / (Outflow) before Financing Activities		(210,647)	43,504
Cash Flows from Financing Activities			
Dividend Paid		(67,500)	(56,250)
Proceeds from Rights Issue of Shares		390,625	-
Share Issue related costs paid		(4,379)	-
Net Cash from / (used in) Financing Activities		318,746	(56,250)
Net Increase / (Decrease) in Cash and Cash Equivalents	(B)	108,099	(12,746)
Notes to the Cash Flow Statement			
A. Reconciliation of Profit Before Taxation with Cash Flow from Operating Activities			
Profit Before Taxation		300,402	269,525
Amortisation Charge		11,839	9,983
Depreciation Charge		33,344	30,354
Provision for Retiring Gratuity		10,660	7,691
Provision for Diminution in Value of Investments		35,541	-
Loss on Sale of Property, Plant and Equipment		582	318
Increase in Trade and Other Receivables		(141,638)	(204,761)
Increase in Life Insurance Fund		605,752	531,733
Increase in Unearned Premium		133,048	124,127
Increase in Claims Provisions		60,921	12,451
Increase in Creditors		76,544	23,345
Cash Inflow Generated from Operating Activities		1,126,995	804,766
B. Increase / (Decrease) in Cash and Cash Equivalents			
Net Cash and Cash Equivalents at the end of the Year	11	189,453	81,354
Net Cash and Cash Equivalents at the beginning of the Year	11	81,354	94,100
Net Increase / (Decrease) in Cash and Cash Equivalents		108,099	(12,746)

The Notes to the Financial Statements as set out on pages 226 to 265 form an integral part of these Financial Statements.

Balance Sheet

Segmental Review - 2011

As at 31st December 2011,

	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Assets			
Investments	1,899,778	2,755,264	4,655,042
Intangible Assets	26,673	22,203	48,876
Property, Plant and Equipment	117,292	4,276	121,568
Loans to Life Policyholders	-	20,097	20,097
Reinsurance Receivables	103,361	27,849	131,210
Premium Receivables	231,385	-	231,385
Other Assets	310,517	327,756	638,273
Cash and Cash Equivalents	127,259	62,194	189,453
Total Assets	2,816,265	3,219,639	6,035,904
Liabilities and Equity			
Liabilities			
Insurance Provision - Life	-	2,990,998	2,990,998
Insurance Provision - General	924,262	-	924,262
Other Liabilities	170,566	195,970	366,536
Reinsurance Creditors	82,157	28,106	110,263
Employee Benefits	29,564	4,565	34,129
Total Liabilities	1,206,549	3,219,639	4,426,188
Equity			
Stated Capital	1,171,875	-	1,171,875
Revenue Reserves	437,841	-	437,841
Total Equity	1,609,716	-	1,609,716
Total Liabilities and Equity	2,816,265	3,219,639	6,035,904

The Notes to the Financial Statements as set out on pages 226 to 265 form an integral part of these Financial Statements.

Balance Sheet

Segmental Review -2010

As at 31st December 2010,

	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Assets			
Investments	1,161,203	2,242,702	3,403,905
Intangible Assets	31,535	20,773	52,308
Property, Plant and Equipment	126,398	4,573	130,971
Loans to Life Policyholders	-	15,000	15,000
Reinsurance Receivables	103,814	18,617	122,431
Premium Receivables	231,929	-	231,929
Other Assets	265,995	244,311	510,306
Cash and Cash Equivalents	68,349	13,005	81,354
Total Assets	1,989,223	2,558,981	4,548,204
Liabilities and Equity			
Liabilities			
Insurance Provision - Life	-	2,385,246	2,385,246
Insurance Provision - General	730,658	-	730,658
Other Liabilities	163,913	144,988	308,901
Reinsurance Creditors	56,642	25,341	81,983
Employee Benefits	21,670	3,406	25,076
Total Liabilities	972,883	2,558,981	3,531,864
Equity			
Stated Capital	375,000	-	375,000
Revenue Reserves	641,340	-	641,340
Total Equity	1,016,340	-	1,016,340
Total Liabilities and Equity	1,989,223	2,558,981	4,548,204

The Notes to the Financial Statements as set out on pages 226 to 265 form an integral part of these Financial Statements.

Income Statement

Segmental Review - 2011

As at 31st December 2011,

	Note	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Revenue		1,323,410	1,503,460	2,826,870
Gross Written Premium	20	1,712,144	1,290,367	3,002,511
Premium Ceded to Reinsurers		(407,925)	(102,696)	(510,621)
Net Written Premium		1,304,219	1,187,671	2,491,890
Net Change in Reserves for Unearned Premium		(142,270)	-	(142,270)
Net Earned Premium		1,161,949	1,187,671	2,349,620
Benefits, Losses and Expenses				
Insurance Claims and Benefits (Net)		(802,372)	(62,761)	(865,133)
Increase in Life Insurance Fund		-	(605,752)	(605,752)
Underwriting and Net Acquisition Costs		(9,812)	(222,316)	(232,128)
Other Insurance Related Costs		(8,109)	(9,401)	(17,510)
Total Benefits, Losses and Expenses		(820,293)	(900,230)	(1,720,523)
Net Earned Premium less Benefits, Losses and Expenses		341,656	287,441	629,097
Other Revenue				
Income from Investments		158,754	315,803	474,557
Other Net Income / (Loss)		2,707	(14)	2,693
Expenses				
Other Operating, Investment Related and Administration Expenses		(374,715)	(431,230)	(805,945)
Profit Before Taxation		128,402	172,000	300,402
Income Tax Expenses		(25,772)	-	(25,772)
Profit for the Year		102,630	172,000	274,630

The Notes to the Financial Statements as set out on pages 226 to 265 form an integral part of these Financial Statements.

Income Statement

Segmental Review - 2010

As at 31st December 2010,

	Note	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Revenue		1,036,662	1,324,578	2,361,240
Gross Written Premium	20	1,343,703	1,084,480	2,428,183
Premium Ceded to Reinsurers		(350,264)	(99,197)	(449,461)
Net Written Premium		993,439	985,283	1,978,722
Net Change in Reserves for Unearned Premium		(134,362)	-	(134,362)
Net Earned Premium		859,077	985,283	1,844,360
Benefits, Losses and Expenses				
Insurance Claims and Benefits (Net)		(588,237)	(59,900)	(648,137)
Increase in Life Insurance Fund		-	(531,733)	(531,733)
Underwriting and Net Acquisition Costs		12,539	(177,530)	(164,991)
Other Insurance Related Costs		(8,264)	(7,494)	(15,758)
Total Benefits, Losses and Expenses		(583,962)	(776,657)	(1,360,619)
Net Earned Premium less Benefits, Losses and Expenses		275,115	208,626	483,741
Other Revenue				
Income from Investments		177,889	339,309	517,198
Other Net Income / (Loss)		(304)	(14)	(318)
Expenses				
Other Operating, Investment Related and Administration Expenses		(339,175)	(391,921)	(731,096)
Profit Before Taxation		113,525	156,000	269,525
Income Tax Expenses		(27,786)	-	(27,786)
Profit for the Year		85,739	156,000	241,739

The Notes to the Financial Statements as set out on pages 226 to 265 form an integral part of these Financial Statements.

Cash Flow Statement

Segmental Review - 2011

For the Year Ended 31st December 2011,

	Note	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Cash Flows from Operating Activities				
Premium Received from Customers		1,712,629	1,309,755	3,022,384
Reinsurance Premium Paid		(283,160)	(79,801)	(362,961)
Claims Paid		(823,026)	(92,554)	(915,580)
Reinsurance Receipts in Respect of Claims		81,664	20,926	102,590
Cash Paid to and on behalf of Employees		(263,366)	(53,557)	(316,923)
Interest Received		136,865	254,650	391,515
Dividend Received		5,586	3,300	8,886
Other Operating Cash Payments		(27,344)	(775,572)	(802,916)
Cash Inflow Generated from Operating Activities	(A)	539,848	587,147	1,126,995
Gratuity Paid		(1,083)	(524)	(1,607)
Economic Service Charges (ESC) Paid		(16,428)	-	(16,428)
Net Cash Generated from Operating Activities		522,337	586,623	1,108,960
Cash Flows from Investing Activities				
Purchase of Liquid Investments (Other than Cash Equivalents)		(36,309,369)	(34,933,684)	(71,243,053)
Purchase of Other Investments (Other than Cash Equivalents)		(435,834)	(307,835)	(743,669)
Sale of Liquid Investments (Other than Cash Equivalents)		35,862,251	34,684,493	70,546,744
Sale of Other Investments (Other than Cash Equivalents)		125,852	27,448	153,300
Purchase of Intangible Assets		(2,509)	(5,898)	(8,407)
Purchase of Property, Plant and Equipment		(22,722)	(1,981)	(24,703)
Proceeds on Sale of Property, Plant and Equipment		158	23	181
Net Cash used in Investing Activities		(782,173)	(537,434)	(1,319,607)
Net Cash Inflow / (Outflow) before Financing Activities		(259,836)	49,189	(210,647)
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	(B)	58,910	49,189	108,099
Notes to the Cash Flow Statement				
A. Reconciliation of Profit Before Taxation with Cash Flow from Operating Activities				
Profit Before Taxation		128,402	172,000	300,402
Transfer of Profit		172,000	(172,000)	-
Amortisation Charge		7,371	4,468	11,839
Depreciation Charge		31,103	2,241	33,344
Provision for Retiring Gratuity		8,977	1,683	10,660
Provision for Diminution in Value of Investments		18,525	17,016	35,541
Loss on Sale of Property, Plant and Equipment		568	14	582
Increase in Trade and Other Receivables		(44,505)	(97,133)	(141,638)
Increase in Life Insurance Fund		-	605,752	605,752
Increase in Unearned Premium		133,048	-	133,048
Increase in Claims Provisions		60,556	365	60,921
Increase in Creditors		23,803	52,741	76,544
Cash Inflow Generated from Operating Activities		539,848	587,147	1,126,995
B. Increase / (Decrease) in Cash and Cash Equivalents				
Net Cash and Cash Equivalents at the end of the Year		127,259	62,194	189,453
Net Cash and Cash Equivalents at the beginning of the Year		68,349	13,005	81,354
Net Increase in Cash and Cash Equivalents		58,910	49,189	108,099

The Notes to the Financial Statements as set out on pages 226 to 265 form an integral part of these Financial Statements.

Cash Flow Statement

Segmental Review - 2010

For the Year Ended 31st December 2010,

	Note	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Cash Flows from Operating Activities				
Premium Received from Customers		1,276,828	1,092,115	2,368,943
Reinsurance Premium Paid		(270,398)	(94,018)	(364,416)
Claims Paid		(692,652)	(46,434)	(739,086)
Reinsurance Receipts in Respect of Claims		65,155	20,060	85,215
Cash Paid to and on behalf of Employees		(224,117)	(43,052)	(267,169)
Interest Received		179,655	310,452	490,107
Dividend Received		6,102	1,507	7,609
Other Operating Cash Payments		(70,738)	(705,699)	(776,437)
Cash Inflow Generated from Operating Activities	(A)	269,835	534,931	804,766
Gratuity Paid		(534)	(261)	(795)
Economic Service Charges (ESC) Paid		(12,374)	-	(12,374)
Net Cash Generated from Operating Activities		256,927	534,670	791,597
Cash Flows from Investing Activities				
Purchase of Liquid Investments (Other than Cash Equivalents)		(17,627,530)	(27,995,999)	(45,623,529)
Purchase of Other Investments (Other than Cash Equivalents)		(207,593)	(289,242)	(496,835)
Sale of Liquid Investments (Other than Cash Equivalents)		17,575,505	27,671,455	45,246,960
Sale of Other Investments (Other than Cash Equivalents)		129,757	57,156	186,913
Purchase of Intangible Assets		(12,536)	(9,702)	(22,238)
Purchase of Property, Plant and Equipment		(39,126)	(608)	(39,734)
Proceeds on Sale of Property, Plant and Equipment		347	23	370
Net Cash used in Investing Activities		(181,176)	(566,917)	(748,093)
Net Cash Inflow / (Outflow) before Financing Activities		75,751	(32,247)	43,504
Cash Flows from Financing Activities				
Dividend Paid		(56,250)	-	(56,250)
Proceeds from Rights Issue of Shares		-	-	-
Share Issue related Costs Paid		-	-	-
Net Cash used in Financing Activities		(56,250)	-	(56,250)
Net Increase / (Decrease) in Cash and Cash Equivalents	(B)	19,501	(32,247)	(12,746)
Notes to the Cash Flow Statement				
A. Reconciliation of Profit Before Taxation with Cash Flow from Operating Activities				
Profit Before Taxation		113,525	156,000	269,525
Transfer of Profit		156,000	(156,000)	-
Amortisation Charge		6,531	3,452	9,983
Depreciation Charge		28,183	2,171	30,354
Provision for Retiring Gratuity		6,621	1,070	7,691
Loss on Sale of Property, Plant and Equipment		304	14	318
Increase in Trade and Other Receivables		(173,079)	(31,682)	(204,761)
Increase in Life Insurance Fund		-	531,733	531,733
Increase in Unearned Premium		124,127	-	124,127
Increase in Claims Provisions		7,167	5,284	12,451
Increase in Creditors		456	22,889	23,345
Cash Inflow Generated from Operating Activities		269,835	534,931	804,766
B. Increase / (Decrease) in Cash and Cash Equivalents				
Net Cash and Cash Equivalents at the end of the Year		68,349	13,005	81,354
Net Cash and Cash Equivalents at the beginning of the Year		48,848	45,252	94,100
Net Increase / (Decrease) in Cash and Cash Equivalents		19,501	(32,247)	(12,746)

The Notes to the Financial Statements as set out on pages 226 to 265 form an integral part of these Financial Statements.

Notes to the Financial Statements

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).

1.1 Principal Activities and Nature of Operations

The principal activity of the Company continued to be carrying on insurance business (both Life and General Insurance). There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.2 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.

1.3 Number of Employees

The staff strength of the Company as at 31st December 2011 is 662 (2010 - 597).

1.4 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statement together with notes have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS) laid down 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 and amendments thereto. The formats and disclosures are also in accordance with the Statement of Recommended Practice (SoRP) for Insurance Contracts, adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

Supplementary Statements - Balance Sheet of the Life Insurance Fund

Supplementary Balance Sheet of the Life insurance Fund together with the notes is disclosed in pages 259 to 265 as required by the Statement of Recommended Practice (SoRP) for Insurance Contracts, adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

2.2 Date of Authorisation for Issue

The Financial Statements of the Company for the year ended 31st December 2011 were authorised for issue by the Board of Directors in accordance with the resolution of the directors on 30th January 2012.

2.3 Basis of Measurement

The Financial Statements have been prepared on historical cost basis and applied consistently with no adjustments made for inflationary factors affecting the Financial Statements except for the following:

Investments in quoted securities are stated at the lower of cost and market value on a portfolio basis.

2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, 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 Judgments

The preparation of Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. 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 estimate is revised and in any future periods affected.

Information about significant areas of estimation and uncertainty that have the most significant effects on the amounts recognised in the Financial Statements are described below;

2.5.1 Assessment of Impairment

The Company assesses at each Balance Sheet date whether there is objective evidence that an asset or a portfolio of assets is impaired. The recoverable amount of an asset or a cash generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to present value using appropriate discount rates that reflect the current market assessments of the time value of money and risks specific to the asset.

2.5.2 Insurance Provision - Life

The valuation of the Long Term insurance business as at 31st December 2011 was made by the Consultant Actuary based on the assumptions set out in Note No. 12 to the Financial Statements in Page 246.

2.5.3 Unearned Premium Reserve and Deferred Acquisition Cost

The valuation of Unearned Premium Reserve and Deferred Acquisition Cost are measured in accordance with guidelines of the Regulation of Insurance Industry Act, No. 43 of 2000.

2.5.4 Reserve for Gross Outstanding Claims

Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as at the Balance Sheet date.

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims reserve has been actuarially computed as set out in Note No. 13.4 to the Financial Statements in Page 247.

2.5.5 Employee Benefits

The Liability as at the Balance Sheet date was actuarially valued based on the assumptions set out in Note No. 16.3 to the Financial Statements in Page 249.

2.5.6 Deferred Tax Assets

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 utilised.

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.
Assessment of Impairment	3.12	230
Insurance Provision - Life	12	246
Unearned Premium Reserve and Deferred Acquisition Cost	13	247
Reserve for Gross Outstanding Claims	13	247
Employee Benefits	16	248
Deferred Tax Assets	27.4	253

2.5 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

2.6 Comparative Information

Comparative information has been re-classified where necessary, to conform to the current year's presentations.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are consistent with those used in the previous year and have been consistently applied by the Company.

3.1 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 General Insurance and Life Insurance. Inter-segment transfers are based on fair market prices.

Notes to the Financial Statements

The Company's business activities are located in Sri Lanka. Consequently, assets and liabilities by geographic region are considered not material to be disclosed. Expenses directly identified to a particular segment are charged accordingly. Expenses that cannot be directly identified to a particular segment are allocated on a basis decided by the management and applied consistently throughout the year.

3.2 Foreign Currency Transactions

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Balance Sheet date. Foreign exchange differences arising on the settlement or reporting of the Company's monetary items at rates different from those which were initially recorded are dealt with in the Income Statement.

Non-monetary assets and liabilities denominated in foreign currency that are stated at historical cost at the Balance Sheet date are translated in to Sri Lankan Rupees at the foreign exchange rates ruling at the date of the initial transaction.

ASSETS AND BASES OF THEIR VALUATION

3.3 Investments

3.3.1 Investments in Government Securities

Investments in treasury bonds, treasury bills and repurchase agreements on government securities are stated at cost and interest is accrued up to the Balance Sheet date. The premium / discount arising from treasury bond is systematically amortised to / recognised in the statement of income throughout the period up to maturity.

3.3.2 Investments in Debt Instruments

Debt instruments are held on a long term basis and stated at cost. Provision for diminution in value is made when there is a permanent decline in the value of the investment together with the accrued interest.

3.3.3 Investment in Quoted Equities and Unit Trusts

Investments in Quoted Equities and Unit Trusts are carried at the lower of cost and market value. Managers' buying price determined on the basis of the aggregate portfolio. Unrealised losses and gains arising

from reduction in market value and reversals of such reduction required to state current investments at lower of cost and market value are included in the Income Statement.

3.3.4 Disposal of Investments

On disposal of an investment, the difference between net disposal proceeds and the carrying amount is recognised as an income or expense.

3.4 Intangible Assets

3.4.1 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. All computer software costs incurred, licensed for use by the Company, which are not integrally related to the associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the Balance Sheet under the category of intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

3.4.2 Subsequent Expenditure

Subsequent expenditure incurred on software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is considered as expenses in the Financial Statements.

3.4.3 Amortisation

Intangible assets are amortised on a straight line basis in the Income Statement from the date when the asset is available for use, over the best estimate of its useful economic life. The estimated useful life of computer software is six years. Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

3.4.4 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 Income Statement when the item is derecognised.

3.5 Property, Plant and Equipment

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.

3.5.1 Basis of Recognition

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.

3.5.2 Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

The Company applies the cost model to Property, Plant and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

3.5.3 Subsequent Costs

The cost of replacing a part of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The cost of day to day servicing of Property, Plant and Equipment is charged to the Income Statement as incurred.

3.5.4 Leasehold Assets

Leases in terms of which the Company assumes substantially all of the risks and rewards of ownership

are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other assets are classified as operating leases and are not recognised in the Balance Sheet of the Company.

3.5.5 Repairs and maintenance

Repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

3.5.6 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

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

3.5.7 De-recognition

The carrying amount of an item of Property, Plant and Equipment is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment is included in the Income Statement when the item is de-recognised. When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is

Notes to the Financial Statements

de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is de-recognised.

3.5.8 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in property, plant and equipment, awaiting capitalisation.

3.6 Reinsurance Receivables

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable on reinsurance and coinsurance are estimated in a manner consistent with the claim liability associated with the reinsurance policy. Reinsurance is recorded gross in the Balance Sheet unless a right to offset exists.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly to recognize a loss in the Income Statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after the initial recognition of the reinsurance asset, that the Company may not receive all or part of the amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amount that the Company will receive from the reinsurer.

3.7 Premium Receivables

Collectability of premiums is reviewed on an ongoing basis. However, according to the Premium Payment Warranty (PPW) directive issued by the Insurance Board of Sri Lanka (IBSL), all policies are issued subject to PPW and are cancelled upon the expiry of 60 days if not settled.

3.8 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.

3.9 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.

3.10 Inventories

Inventories include all consumable items which are stated at lower of cost and net realisable value.

3.11 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.

3.12 Impairment of Assets

The Company assesses at each reporting date whether there is an indication that a financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used.

In terms other assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

LIABILITIES AND PROVISIONS

All known liabilities have been accounted for in preparing these Financial Statements.

3.13 Insurance Provision - Life

The Directors make the provision for the Life Insurance business based on the recommendation of the Independent Consultant Actuary following his annual investigation of the Life Insurance business. The actuarial valuation takes into account all liabilities including contingent liabilities and is based on assumptions recommended by the Independent Consultant Actuary.

3.14 Insurance Provision – General Insurance

Insurance provision – General Insurance comprises reserve for the net unearned premium, reserve for the deferred acquisition cost (net), reserve for gross outstanding claims and the incurred but not reported (IBNR) provision.

The valuation of Unearned Premium Reserve and Deferred Acquisition Cost are measured in accordance with guidelines of the Regulation of Insurance Industry Act, No. 43 of 2000.

Reserves for claims outstanding are made based on the available information and by use of experience and judgment extensively by the relevant technical officers. Reserves are adjusted whenever additional information is available. External assessors and professional loss adjustors are employed wherever possible to assist the management to assess claims reserves.

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims reserves are actuarially computed as set out in Note No. 13.4 to the Financial Statements in Page 247.

3.15 Trade and Other Payables

Trade and other payables including Related Party Payables are stated at their cost.

3.16 Provisions (excluding Insurance Contracts)

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to

be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3.17 Employee Benefits

3.17.1 Defined Contribution Plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to defined contribution plans are recognised as an expense in the Income Statement as and when they are due.

a) Employees Provident Fund

All employees of the Company are members of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary to EPF.

b) 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.

3.17.2 Defined Benefit Plan - Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Gratuity is a defined benefit plan. The Company accounts for the provision for Defined Benefit Plan - Gratuity in conformity with SLAS 16 - Employee Benefits (revised 2006). However, under the Payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The Company measures the present value of promised retirement benefits of Gratuity using the actuarial valuation method as recommended by SLAS 16 - Employee Benefits (revised 2006), every year using the Projected Unit Credit method (PUC).

The Gratuity liability is not externally funded.

3.18 Income Tax Expense

Income tax expense comprises current tax and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Notes to the Financial Statements

3.18.1 Current Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the Balance Sheet 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.

3.18.2 Deferred Taxation

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount substantively enacted by the reporting date.

Deferred tax 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 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.

3.18.3 Withholding Tax on Dividend

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.

3.18.4 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 liability can be carried forward and set off against the income tax payable as per the relevant provisions in the Act.

3.19 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 Balance Sheet but are disclosed unless they are remote.

3.20 Events Occurring after the Balance Sheet Date

All material post Balance Sheet events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the Financial Statements.

3.21 Proposed Dividend

Dividend proposed by the Board of Directors after the Balance Sheet date is not recognised as a liability and is only disclosed as a Note to the Financial Statements (Note 29.2 in page 254). 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.

3.22 Earnings Per Share

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.

3.23 Cash Flow Statement

The Cash Flow Statement has been prepared using the Direct Method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (SLAS) 9, Cash Flow Statements. Interest and dividend received are classified as operating cash flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

INSURANCE SPECIFIC TRANSACTIONS AND BALANCES

3.24 General Insurance Business

3.24.1 Gross Written Premium

Gross Written Premium is generally recognised as written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage. 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.

3.24.2 Reinsurance Premium

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance services received. Reinsurance premiums are decided based on rates agreed with reinsurers.

3.24.3 Unearned Premium

The unearned premium reserve represents the portion of the premiums net of outward reinsurance premiums written in the current period in respect of risks related to subsequent periods. Unearned premiums are calculated on the 1/24th basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000.

3.24.4 Unexpired Risk

Provision is made where appropriate for the estimated amount required over and above unearned premiums to meet future claims and related expenses on the business in force as at end of the year.

3.24.5 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 two years of the policy given the higher probability of claims occurring in the first two years. From the 3rd 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 up to the 2nd year will be recognised in the 3rd year. Balance premiums are transferred to the Title Insurance reserve as set out in Note No. 13.3 in Page 247 to these Financial Statements.

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.

3.24.6 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.

3.24.7 Claims

Claims include provisions for the estimated cost of claims and related handling expenses in respect of incidents up to the year end, including those which have not yet been notified, net of salvage, anticipated reinsurance and other recoveries. 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 and the estimates made are reviewed regularly.

3.25 Life Insurance Business

3.25.1 Gross Written Premium

Premiums from traditional Life Insurance contracts, including participating contracts and annuity policies with life contingencies, are recognised as revenue when cash is received from the policyholder. However, any premiums received in advance is not recorded as revenue and recorded as a liability until the premium becomes due. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

Notes to the Financial Statements

3.25.2 Reinsurance Premium

Outward reinsurance premiums are recognised when payable. Reinsurance recoveries are credited to match the relevant gross claims.

3.25.3 Acquisition cost

Commission expense is charged to the period in which it is incurred.

3.25.4 Benefits, Losses and Expenses

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.

3.25.5 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.

INCOME STATEMENT

3.26 Income from Investments and Other Income

Investment income and Other Income is accounted for on the following basis:

Interest income - on accrual basis

Dividend income - when the right to receive is established

Capital gains / losses - as and when realised / incurred

Other Income - on accrual basis

3.27 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.

3.28 Expenses

3.28.1 Other Expenses

Other expenses are recognised on an accrual basis. All expenditure incurred in the running of the business and in maintaining property, plant and equipment in a state of efficiency has been charged to the income statement.

3.28.2 Finance Costs

Finance cost is recognised as expenditure in the period in which they are incurred.

3.28.3 Operating Leases

Payments made under operating leases are recognised in the Income Statement on a straight line basis over the term of the lease.

3.28.4 Commission and Fee Expenses

Commission and fee expenses are recognised on an accrual basis.

FUTURE CHANGES IN ACCOUNTING POLICIES

3.29 New Accounting Standards issued but not effective as at Balance Sheet date

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which have become applicable for financial periods beginning on or after 1st January 2012.

Accordingly these Standards have not been applied in preparing these Financial Statements as they were not effective for the year ended 31st December 2011. These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRS's.

The Company has carried out a preliminary assessment of the potential effects of these Standards.

The table on the next page sets out the new/revised Accounting Standards, which are most relevant to the Company's Financial Statements.

Accounting Standard	Key requirements in the Standard	Potential impact for HNBA
SLFRS 4 Insurance Contracts	SLFRS 4 requires insurance Companies to carry out a product classification exercise to see whether all insurance products are within the purview of the standard.	The Company carried out the product classification exercise required under SLFRS 4 and have concluded that all the existing Life products are Insurance Contracts as defined under SLFRS 4 except for two products. Those two products require minor adjustments to the product structure to be in line with the requirements of SLFRS - 4 and the Company is in the process of re-designing those two products in consultation with the Company's Actuary and External Consultant.
	Companies should continue their existing accounting policies for all products classified as Insurance Contracts as per the above exercise.	The Company will continue to account for all the other insurance products without any changes. No change in accounting for any General Insurance Products.
	A liability adequacy test is required to ensure that the measurement of an entity's insurance liabilities considers all contractual cash flows, using current estimates.	The Company intends to perform Liability Adequacy Tests as per SLFRS 4 from the 2nd Quarter 2012 onwards.
	Renewal Premium for Life Insurance contracts to be accounted on Accrual Basis which is currently recognised on cash basis	The Company intends to develop appropriate assumptions (for lapsation) to recognise Renewal Premiums on accrual basis in agreement with the Company's External Auditors.
LKAS 32 Financial Instrument –Presentation LKAS 39 Financial Instrument –Recognition and Measurement	The Company requires re-classifying all investments as required under these standards in to one of the buckets noted below. - Financial asset at fair value through profit or loss (FVTPL) - Held-to-maturity investments (HTM) - Loans and receivables (L&R) - Available-for-sale financial assets (AFS)	The Company has finalised the classification of its investments in to different categories as required by these standards and is currently in the process of re-validating the same and quantifying the potential impact with the assistance of external consultants.
	All Loans to Employees and Insurance Advisors at concessionary interest rates should be fair valued Difference between fair value and face value of the loan should be treated as Prepaid Employee Cost (in the case of Loans to Employees) or Prepaid Benefits to Insurance Advisors (in the case of Loans to Insurance Advisors), and amortised on a straight line basis through the Income Statement over the tenure of loan.	The Company is in the process of fair valuing the Loans given at concessionary interest rates as required by the standards and quantifying the potential impact. Prepaid Employee Cost/ Prepaid Benefits to Insurance Advisors up to 31st December 2011 will be charged to Equity. Prepaid Cost from 1st January 2012 will be charged to the Income Statement.
LKAS 17 Leases	Company requires to recognise all Operating Leases (Operating Leases on rented branches and Head Office) on a straight line basis over the primary lease period All Security Deposits paid to land lords on Operating Leases shall be required to be fair valued on initial recognition (since the lease agreements are cancellable)	The Company is in the process of quantifying the impact of this change to the Company's Financial Statements. Financial impact of these changes up to 31st December 2011 will be charged to Equity. Impact from 1st January 2012 will be charged to the Income Statement.

Notes to the Financial Statements

Accounting Standard	Key requirements in the Standard	Potential impact for HNBA
LKAS 16 Property, Plant and Equipment	The Company should evaluate the useful life of leasehold improvements in view of the primary lease period of related leasing arrangements and change the depreciation accounting accordingly.	The Company is in the process of quantifying the impact of this change to the Company's Financial Statements. Financial impact of these changes up to 31st December 2011 will be charged to Equity. Impact from 1 st January 2012 will be charged to the Income Statement.

In addition to the above, there could be impact from other new/revised accounting standards which have become effective from 1st January 2012, and the Company does not expect any material impact from such changes.

More importantly, the Company will experience a change in presentation and disclosure requirements under the new/revised accounting standards from the year 2012 onwards. Implementation of SLFRS requires expanded disclosure requirements in many areas.

The table below summarises new disclosure and presentation requirements which have become important to the Company under new/revised accounting standards.

Accounting Standard	Additional Disclosure and Presentation requirements
SLFRS 1 First Time Adoption	Comparative information on financial position for three years, Statement of Comprehensive Income and other information for two years.
SLFRS 4 Insurance Contracts	Accounting policies for insurance contracts and related assets, liabilities, income and expense. Assumptions used including effect of changes in assumptions used to measure insurance assets and insurance liabilities. Reconciliation of changes in insurance liabilities, reinsurance assets and related deferred acquisition costs. Nature and extent of risks arising from insurance contracts.
SLFRS 8 Operating Segments	Additional information to enable users to evaluate the nature and financial effects of the business activities in which the Company engages and the economic environment in which the Company operates. Additional segment disclosures to align with review of Management Information by the Chief Operating Decision Maker (CODM). Allocation of costs relating to various operating segments such as Finance, Administration, HR, Distribution, etc.
LKAS 1 Presentation of Financial Statements	A Statement of Comprehensive Income should be prepared and presented in Financial Statements.
SLFRS 7 Financial Instrument - Disclosures LKAS 32 Financial Instrument –Presentation LKAS 39 Financial Instrument –Recognition and Measurement	Nature and extent of risk arising from exposure to Financial Instruments i.e. Credit Risk, Liquidity Risk, Market Risk, etc. Qualitative and quantitative disclosures for Credit Risk, Liquidity Risk, Market Risk, etc. Fair value of Financial Instruments as per fair value hierarchy i.e. Level 1, Level 2 and Level 3. Reconciliation of allowance for credit losses. Net gains/losses on Financial Assets / Financial Liabilities.

As at 31st December,

		2011 Rs.'000	2010 Rs.'000
4. INVESTMENTS			
Government Securities		2,065,185	1,923,387
Repurchase Agreements on Government Securities		517,731	371,630
Quoted Shares	(Note 4.1)	256,003	174,136
Corporate Debt Securities	(Note 4.2)	719,971	391,760
Investment in Unit Trusts	(Note 4.3)	95,453	63,703
Term Deposits	(Note 4.4)	1,000,699	479,289
		4,655,042	3,403,905

4.1. Quoted Shares

	2011			2010		
	No. of Shares	Cost Rs.'000	Market Value Rs.'000	No. of Shares	Cost Rs.'000	Market Value Rs.'000
Banks, Finance and Insurance						
National Development Bank PLC	78,200	9,519	10,799	17,100	2,646	5,976
Commercial Bank of Ceylon PLC	144,598	17,921	14,460	67,050	17,046	17,426
Sampath Bank PLC	74,399	17,088	14,508	92,724	19,945	25,212
Nations Trust Bank PLC	275,000	18,229	15,675	180,000	11,767	15,012
DFCC Bank	43,000	5,390	4,855	43,000	5,390	8,609
Seylan Bank PLC	399,999	15,445	12,320	-	-	-
People's Leasing Company PLC	1,162,800	20,930	18,604	-	-	-
Singer Finance (Lanka) PLC	-	-	-	4,400	66	66
Sector Total		104,522	91,221		56,860	72,301
Diversified Holdings						
John Keells Holdings PLC	108,256	20,472	18,425	81,193	20,472	24,228
Richard Pieris and Company PLC	1,375,000	17,228	12,375	325,000	2,449	3,413
Hemas Holdings PLC	321,000	14,106	10,593	321,000	14,106	14,285
Expolanka Holdings PLC	221,700	3,104	1,995	-	-	-
Softlogic Holdings PLC	170,600	4,946	3,071	-	-	-
Browns Investments PLC	142,200	711	597	-	-	-
Hayleys PLC	-	-	-	22,000	7,258	7,590
Sector Total		60,567	47,056		44,285	49,516
Telecommunications						
Dialog Axiata PLC	217,500	5,243	1,697	217,500	5,243	2,567
Sector Total		5,243	1,697		5,243	2,567
Manufacturing						
Royal Ceramics Lanka PLC	183,000	26,095	25,895	12,000	633	3,659
Dipped Products PLC	19,500	1,829	2,077	19,500	1,829	2,334
Chevron Lubricants Lanka PLC	24,000	3,619	4,080	24,000	3,619	3,828
ACL Cables PLC	50,000	3,555	3,700	25,000	1,414	2,128
ACL Plastics PLC	3,600	372	450	3,600	372	576
Tokyo Cement Company (Lanka) PLC	402,912	19,402	17,728	304,512	12,764	16,748
Kelani Cables PLC	44,300	5,035	3,557	44,300	5,035	4,652
Sector Total		59,907	57,487		25,666	33,925

Notes to the Financial Statements

4. INVESTMENTS (Contd.)

4.1. Quoted Shares (Contd.)

	2011			2010		
	No. of Shares	Cost Rs.'000	Market Value Rs.'000	No. of Shares	Cost Rs.'000	Market Value Rs.'000
Hotels and Travels						
Dolphin Hotels PLC	149,900	5,506	6,446	149,900	5,506	9,174
Aitken Spence Hotel Holdings PLC	75	3	5	23,375	820	2,471
Riverina Hotels PLC	46,000	4,537	4,830	52,000	5,060	5,476
The Lighthouse Hotel PLC	21,400	1,433	1,145	21,400	1,433	1,348
John Keells Hotels PLC	92,700	1,564	1,251	-	-	-
Asian Hotels & Properties PLC	-	-	-	5,000	167	970
Sector Total		13,043	13,677		12,986	19,439
Chemicals and Pharmaceuticals						
CIC Holdings PLC	95,000	9,603	10,593	116,500	10,905	16,392
Haycarb PLC	20,500	3,547	3,178	20,500	3,547	3,454
Sector Total		13,150	13,771		14,452	19,846
Power and Energy						
Laugfs Gas PLC	175,000	7,927	6,650	26,700	614	692
Laugfs Gas PLC - (Non Voting)	-	-	-	19,200	288	355
Sector Total		7,927	6,650		902	1,047
Beverage, Food and Tobacco						
Distilleries Company of Sri Lanka PLC	60,000	10,648	8,826	-	-	-
Renuka Agri Foods PLC	-	-	-	309,100	815	2,071
Sector Total		10,648	8,826		815	2,071
Information Technology						
PC House PLC	178,800	1,967	2,485	178,800	1,967	2,020
Sector Total		1,967	2,485		1,967	2,020
Investment Trusts						
Renuka Holdings PLC	50,877	2,121	2,742	70,000	2,970	4,333
Sector Total		2,121	2,742		2,970	4,333
Health Care						
Asiri Hospital Holdings PLC	700,000	6,021	6,020	928,200	7,990	8,168
Sector Total		6,021	6,020		7,990	8,168
Footwear and Textiles						
Textured Jersey Lanka PLC	428,500	6,428	4,371	-	-	-
Sector Total		6,428	4,371		-	-
Portfolio Total		291,544	256,003		174,136	215,233
Less: Provision for Diminution in Value of Investment		(35,541)			-	
		(35,541)			-	
Carrying Value of total Investment in Quoted Shares		256,003			174,136	

4. INVESTMENTS (Contd.)

4.2 Corporate Debt Securities

	Note	2011 Rs.'000	2010 Rs.'000
Debentures - Quoted	(Note 4.2.1)	445,920	273,420
Debentures - Unquoted	(Note 4.2.2)	226,500	80,500
Commercial Paper	(Note 4.2.3)	36,550	27,840
Promissory Notes	(Note 4.2.4)	11,001	10,000
		719,971	391,760

	2011					2010			
	Redeemable Date	No. of Debentures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate (Per Annum)	No. of Debentures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate (Per Annum)
4.2.1 Debentures - Quoted									
Hatton National Bank PLC	31/3/2012	125,000	12,500	12,500	6 Month Net TB + 2.25%	125,000	12,500	12,500	6 Month Net TB + 2.25%
Hatton National Bank PLC	31/3/2021	75,000	7,500	7,500	11%	75,000	7,500	7,500	11%
DFCC Bank	-	-	-	-	-	5,000	5,000	5,000	6 Months Gross TB + 1%
DFCC Bank	26/9/2016	5,000	5,000	5,000	14%	5,000	5,000	5,000	14%
Seylan Bank PLC	29/5/2012	100,000	10,000	10,000	16.75%	100,000	10,000	10,000	16.75%
Sampath Bank PLC	30/8/2012	250,000	25,000	25,000	3 Month Gross TB + 1.50%	250,000	25,000	25,000	3 Month Gross TB + 1.50%
Singer Sri Lanka PLC	30/9/2012	240,000	24,000	24,000	1 Year Gross TB + 1.65%	240,000	24,000	24,000	1 Year Gross TB + 1.65%
Bank of Ceylon	24/11/2013	200,000	20,000	20,000	6 Month Gross TB + 0.75%	200,000	20,000	20,000	6 Month Gross TB + 0.75%
Bank of Ceylon	24/6/2015	200,000	20,000	20,000	11.50%	200,000	20,000	20,000	11.50%
Bank of Ceylon	28/6/2015	150,000	15,000	15,000	6 Month Gross TB + 0.75%	150,000	15,000	15,000	6 Month Gross TB + 0.75%
Bank of Ceylon	6/12/2016	50,000	5,000	5,000	11%	-	-	-	-
Bank of Ceylon	8/12/2016	100,000	10,000	10,000	11%	-	-	-	-
Nations Trust Bank PLC	30/4/2013	17,000	17,000	17,000	20.53%	17,000	17,000	17,000	20.53%
Urban Development Authority	5/10/2015	1,124,200	112,420	112,420	11%	1,124,200	112,420	112,420	11%
Lanka Orix Leasing Company PLC	5/8/2016	750,000	75,000	75,000	11.90%	-	-	-	-
Merchant Bank of Sri Lanka PLC	15/11/2015	675,000	67,500	67,500	11.80%	-	-	-	-
National Development Bank PLC	30/6/2016	20,000	20,000	20,000	3 Month Gross TB + 1%	-	-	-	-
Total Investment in Quoted Debentures			445,920	445,920			273,420	273,420	

Notes to the Financial Statements

4. INVESTMENTS (Contd.)

4.2 Corporate Debt Securities (Contd.)

	2011					2010			
	Redeemable Date	No. of Debentures	Cost Rs.'000	Directors' Valuation Rs.'000	Coupon Rate (Per Annum)	No. of Debentures	Cost Rs.'000	Directors' Valuation Rs.'000	Coupon Rate (Per Annum)
4.2.2 Debentures - Unquoted									
Senkadagala Finance PLC	21/9/2012	40,000	40,000	40,000	15.50%	40,000	40,000	40,000	15.50%
DSI Holdings Limited	31/12/2012	16,500	16,500	16,500	13.50%	25,500	25,500	25,500	13.50%
Abans (Pvt) Limited	6/6/2014	75,000	75,000	75,000	12%	-	-	-	-
National Development Bank PLC	30/6/2016	20,000	20,000	20,000	3 Month Gross TB + 1%	-	-	-	-
People's Leasing Company PLC	30/6/2015	750,000	75,000	75,000	11.70%	-	-	-	-
Seylan Bank PLC	-	-	-	-	-	150,000	15,000	15,000	15%
Total Investment in Unquoted Debentures			226,500	226,500			80,500	80,500	
4.2.3 Commercial Paper									
Abans (Pvt) Limited	5/6/2012		11,828	11,828	12.20%		27,840	27,840	11.90%
Central Finance Company PLC	30/11/2012		24,722	24,722	11.25%		-	-	-
Total Investment in Commercial Paper			36,550	36,550			27,840	27,840	
4.2.4 Promissory Notes									
People's Leasing Company PLC	21/6/2012		11,001	11,001	11.25%		10,000	10,000	12.50%
Total Investment in Promissory Notes			11,001	11,001			10,000	10,000	

4.3 Unit Trusts

	2011			2010		
	No. of Units	Cost Rs.'000	Market Value Rs.'000	No. of Units	Cost Rs.'000	Market Value Rs.'000
Quoted						
NAMAL Acuity Value Fund	114,400	7,203	7,699	114,400	7,203	10,296
Total Investment in Quoted Unit Trusts		7,203	7,699		7,203	10,296

	2011			2010		
	No. of Units	Cost Rs.'000	Managers' Buying Price Rs.'000	No. of Units	Cost Rs.'000	Managers' Buying Price Rs.'000
Unquoted						
Ceybank Gilt-Edged Fund	1,500,000	15,000	17,715	1,500,000	15,000	18,480
NAMAL Gilt-Edged Fund	1,000,000	10,000	12,680	1,000,000	10,000	12,870
Ceybank Savings Plus Money Market Fund	1,800,000	18,000	18,792	2,500,000	25,000	26,350
Ceylon Financial Sector Fund	1,195,729	13,500	11,561	664,622	6,500	6,267
Ceylon Income Fund	1,365,706	18,000	18,191	-	-	-
NAMAL IPO Fund	1,000,000	9,750	9,700	-	-	-
First Capital Wealth Fund	3,851	4,000	4,172	-	-	-
Total Investment in Unquoted Unit Trusts		88,250	92,811		56,500	63,967
Total Investment in Unit Trusts		95,453	100,510		63,703	74,263

4. INVESTMENTS (Contd.)

4.4 Term Deposits

	Note	2011 Rs.'000	2010 Rs.'000
Long term and medium term deposits with, Licensed Commercial Banks	(Note 4.4.1)	778,636	391,834
Licensed Specialised Banks		27,063	38,529
Registered Finance Companies		195,000	48,926
		1,000,699	479,289
4.4.1 Licensed Commercial Banks			
Term Deposits with Related Parties - Hatton National Bank PLC		242,259	36,723
Others		536,377	355,111
		778,636	391,834

4.5 Assets pledged as Securities

No investments have been pledged as securities as at 31st December 2011.

5. INTANGIBLE ASSETS

<i>For the Year ended 31st December,</i>	Computer Software Rs.'000	2011 Total Rs.'000	2010 Total Rs.'000
Cost			
Balance as at 01st January	95,150	95,150	63,484
Additions during the year	8,407	8,407	31,666
Disposals / Write off during the year	(146)	(146)	-
Balance as at 31st December	103,411	103,411	95,150
Amortisation			
Balance as at 01st January	42,842	42,842	32,859
Charge for the year	11,839	11,839	9,983
Amortisation on disposals / Write off	(146)	(146)	-
Balance as at 31st December	54,535	54,535	42,842
Carrying amount as at 31st December 2011	48,876	48,876	
Carrying amount as at 31st December 2010	52,308		52,308

Notes to the Financial Statements

5.1 Acquisition of Intangible Assets during the year

During the financial year, the Company acquired Intangible Assets (Computer Software) to the aggregate value of Rs. 8.4 Million (2010 - Rs. 31.7 Million). Cash payments amounting to Rs. 8.4 Million (2010 - Rs. 22.2 Million) were made during the year for purchase of Intangible Assets (Computer Software).

5.2 Fully amortised Intangible Assets in use

Intangible Assets includes fully amortised Computer software which are in the use of normal business activities having a cost of Rs. 28.7 Million (2010 - Rs. 21.2 Million).

5.3 Title restriction on Intangible Assets

There are no restrictions that existed on the title of the Intangible Assets of the Company as at the Balance Sheet date. There were no items pledged as securities for liabilities.

5.4 Assessment of impairment of Intangible Assets

The Board of Directors has assessed potential impairment loss of intangible assets as at 31st December 2011. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the Balance Sheet date in respect of intangible assets.

6. PROPERTY, PLANT AND EQUIPMENT (PPE)

	Computer Hardware Rs.'000	Motor Vehicles Rs.'000	Office Equipment Rs.'000	Furniture and Fittings Rs.'000	2011 Total Rs.'000	2010 Total Rs.'000
Cost						
Balance as at 01st January	109,203	17,409	44,362	73,676	244,650	202,254
Additions during the year	15,939	132	2,884	5,748	24,703	44,945
Disposals during the year	-	(74)	(483)	(1,827)	(2,384)	(2,549)
Balance as at 31st December	125,142	17,467	46,763	77,597	266,969	244,650
Depreciation						
Balance as at 01st January	56,290	9,275	24,931	23,183	113,679	85,184
Charge for the year	14,574	4,342	6,840	7,588	33,344	30,354
Depreciation on disposals	-	(74)	(483)	(1,065)	(1,622)	(1,859)
Balance as at 31st December	70,864	13,543	31,288	29,706	145,401	113,679
Carrying amount as at 31st December 2011	54,278	3,924	15,475	47,891	121,568	
Carrying amount as at 31st December 2010	52,913	8,134	19,431	50,493		130,971

6.1 Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs. 24.7 Million (2010 - Rs. 44.9 Million). Cash payments amounting to Rs. 24.7 Million (2010 - Rs. 39.7 Million) were made during the year for purchase of PPE.

6.2 Fully Depreciated Property, Plant and Equipment

The initial cost of fully depreciated property, plant and equipment which are still in use as at Balance Sheet date is as follows:

<i>As at 31st December,</i>	2011 Rs.'000	2010 Rs.'000
Computer Hardware	32,923	19,107
Office Equipment	13,431	9,572
Furniture and Fittings	1,399	1,258
	47,753	29,937

6.3 PPE pledged as security

None of the PPE have been pledged as securities as at the Balance Sheet date.

6.4 Permanent fall in value of PPE

There has been no permanent fall in the value of PPE which require a provision in the Financial Statements.

6.5 Title restriction on PPE

There are no restrictions that existed on the title of the PPE of the Company as at the Balance Sheet date.

6.6 Assessment of impairment

The Board of Directors has assessed the potential impairment loss of PPE as at 31st December 2011. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the Balance Sheet date in respect of PPE.

<i>As at 31st December,</i>	2011 Rs.'000	2010 Rs.'000
7. LOANS TO LIFE POLICYHOLDERS		
Balance as at 1st January	13,263	9,309
Loans Granted during the Year	10,595	8,583
Repayments during the year	(6,328)	(4,629)
	17,530	13,263
Interest Receivable	2,567	1,737
Balance as at 31st December	20,097	15,000
7.1 The surrender value of the policy loans granted amounted to Rs. 34.3 Million as at 31st December 2011. (2010: Rs. 23 Million)		
8. REINSURANCE RECEIVABLES		
Reinsurance Receivable on Outstanding Claims (Note 8.1)	106,406	86,309
Reinsurance Receivable on Settled Claims (Note 8.2)	24,804	36,122
	131,210	122,431
8.1 Since the claim has not been paid yet, the reinsurance portion of the receivable has not been materialised.		
8.2 The age analysis of the reinsurance receivable on settled claims is as follows:		
Up to 30 days	4,330	18,769
31 to 90 days	14,145	16,657
91 to 180 days	5,911	388
181 to 365 days	418	308
	24,804	36,122

All balances due from reinsurance is recoverable. Therefore no provision is required.

Notes to the Financial Statements

<i>As at 31st December,</i>		2011	2010
		Rs.'000	Rs.'000
9. PREMIUM RECEIVABLE			
Premium Receivable From;			
Policyholders		28,937	15,580
Related Parties (Note 9.1)		15,378	19,755
Agents, Brokers and Intermediaries		187,070	196,594
		<u>231,385</u>	<u>231,929</u>
9.1 Premium Receivable from Related Parties			
Hatton National Bank PLC		14,931	12,306
Sithma Development (Pvt) Limited		-	6,057
Others		447	1,392
		<u>15,378</u>	<u>19,755</u>

- 9.2 No allowance for bad and doubtful debts have been made in respect of the amount due from any party during the year. The age analysis of these premium receivables are as follows:

<i>As at 31st December,</i>		2011	2010
		Rs.'000	Rs.'000
Up to 30 days		155,285	147,755
31 to 60 days		72,809	79,161
61 to 90 days		3,291	5,013
		<u>231,385</u>	<u>231,929</u>

Premium receivable over 60 days has been received fully subsequent to the Balance Sheet date.

<i>As at 31st December,</i>		2011	2010
		Rs.'000	Rs.'000
10. OTHER ASSETS			
Staff Loans	(Note 10.1)	130,332	110,540
Agent / Advisor Loans	(Note 10.2)	21,476	21,391
Agent / Advisor related Receivables		4,148	3,878
Interest and Dividend Receivable	(Note 10.3)	232,874	163,049
Advance Payments		36,238	33,560
Advance paid for Software		26,022	14,691
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note 10.4)	165,773	145,275
Inventories		796	1,067
Amounts due from Related Parties	(Note 10.5)	18,017	14,288
Other receivables		2,597	2,567
		638,273	510,306
10.1 Staff Loans			
Balance as at 1st January		112,054	105,917
Loans granted during the year		86,403	58,101
		198,457	164,018
Repayments during the year		(66,607)	(51,964)
		131,850	112,054
Allowance for Bad and Doubtful Staff Loans		(1,518)	(1,514)
Balance as at 31st December		130,332	110,540
10.2 Agent / Advisor Loans			
Balance as at 1st January		21,863	24,528
Loans granted during the year		23,821	18,438
		45,684	42,966
Repayments during the year		(23,748)	(21,103)
		21,936	21,863
Allowance for Bad and Doubtful Agent/Advisor Loans		(460)	(472)
Balance as at 31st December		21,476	21,391
10.3	There was no long outstanding receivable with respect to interest and dividend.		
10.4 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)			
Withholding Tax Recoverable (WHT)		19,211	16,791
Economic Service Charge (ESC) and Other Taxes Recoverable		8,660	11,478
Notional Tax on Government Securities	(Note 10.4.1)	137,902	117,006
		165,773	145,275
10.4.1 Notional Tax on Government Securities			
Balance as at 1st January		117,006	99,469
Notional tax additions during the year		29,690	34,100
Notional tax utilised during the year		(8,794)	(16,563)
Balance as at 31st December		137,902	117,006

Notes to the Financial Statements

<i>As at 31st December,</i>		2011 Rs.'000	2010 Rs.'000
10.5	Amounts due from Related Parties		
	Hatton National Bank PLC	18,017	14,288
		18,017	14,288
11.	CASH AND CASH EQUIVALENTS		
	Cash in Hand and at Bank	107,778	64,318
	Other Cash Equivalents (Note 11.1)	81,675	17,036
		189,453	81,354
11.1	Other Cash Equivalents		
	Short term deposits with Licensed Commercial Banks,		
	Related Parties - Hatton National Bank PLC	-	10,414
	Others	81,675	6,622
		81,675	17,036
12.	INSURANCE PROVISION - LIFE		
	Balance as at 1st January	2,385,246	1,853,513
	<i>Increase in Life Insurance Fund</i>		
	Increase in Life Insurance Fund Before Surplus Distribution to Shareholders	777,752	687,733
	Surplus Distributed to Shareholders	(172,000)	(156,000)
	Increase in Life Insurance Fund	605,752	531,733
	Balance as at 31st December	2,990,998	2,385,246

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 2011 was made by Mr. M Poopalanathan, AIA, of M/S Actuarial and Management Consultants (Pvt.) Ltd. for and on behalf of HNB Assurance PLC. In accordance with the Consultant Actuary's report, the reserve for the year amounted to Rs. 2,599.5 Million (2010 - Rs. 2,108.5 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 2011 by Rs. 563.5 Million (2010 - Rs. 432.7 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.

Further the Actuary has estimated that the solvency margin required (including the solvency margin for the new reversionary bonus allotted as at 31st December 2011) under the Regulation of Insurance Industry Act, No. 43 of 2000 as Rs. 135.2 Million (2010 - Rs. 108.1 Million).

As at 31st December,

2011
Rs.'000

2010
Rs.'000

13. INSURANCE PROVISION - GENERAL

The General Insurance reserve as shown in the Balance Sheet represents the following:

Reserve for Unearned Premium - Gross		897,426	748,857
- Reinsurance		(212,098)	(196,675)
- Net	(Note 13.1)	685,328	552,182
Reserve for Deferred Acquisition Expenses	(Note 13.2)	(20,059)	(12,392)
Reserve for Title Insurance	(Note 13.3)	20,209	12,641
Reserve for Gross Outstanding Claims	(Note 13.4)	238,784	178,227
Total		924,262	730,658

13.1 Reserve for Net Unearned Premium

Balance as at 1st January		552,182	423,704
Transfer during the Year		133,146	128,478
Balance as at 31st December		685,328	552,182

13.2 Reserve for Deferred Acquisition Expenses

Balance as at 1st January		(12,392)	(4,644)
Transfer during the Year	(Note 22)	(7,667)	(7,748)
Balance as at 31st December		(20,059)	(12,392)

13.3 Reserve for Title Insurance

Balance as at 1st January		12,641	9,244
Net transfer during the Year		7,568	3,397
Balance as at 31st December		20,209	12,641

13.4 Reserve for Gross Outstanding Claims

Balance as at 1st January		154,175	151,825
Claims Incurred during the Year		880,375	695,002
Claims Paid during the Year		(823,026)	(692,652)
Balance as at 31st December		211,524	154,175

IBNR / IBNER balance as at 1st January		24,052	19,235
Increase / (Decrease) in IBNR / IBNER		3,208	4,817
IBNR / IBNER balance as at 31st December		27,260	24,052
Total Reserve for Gross Outstanding Claims		238,784	178,227

13.5 Reconciliation between Insurance Provision and Technical Reserve

Insurance Provision		924,262	730,658
Reinsurance on Claims Reserves		(90,236)	(71,759)
Technical Reserve		834,026	658,899

13.6 Gross Written Premium on Title Insurance is transferred 100% to the Title Reserve account to pay potential claims arising from the title insurance policies and during the year Company recognised Rs. 1.5 Million (2010: Rs. 2.7 Million) as profit from Title Insurance. (Please refer Note 3.24.5 for the Accounting Policy on Title Insurance).

13.7 Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which can not be known with certainty as of the balance sheet 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 reserve has been actuarially computed by Messrs K A Pandit, Consultants and Actuaries, Mumbai, India. The valuation is based on internationally accepted actuarial methods and is performed on a semi-annual basis.

Notes to the Financial Statements

As at 31st December,		2011	2010
		Rs.'000	Rs.'000
14. OTHER LIABILITIES			
Policyholders Advance Payments Payables		56,881	37,494
Acquisition Cost Payable		88,401	75,631
Government Levies		27,455	31,409
Income Taxes Payable	(Note 14.1)	25,998	28,618
Amounts due to Related Parties	(Note 14.2)	24,153	10,057
Others		143,648	125,692
		366,536	308,901
14.1 Income Taxes Payable			
Balance as at 1st January		28,618	29,074
Income tax for the year		26,012	28,208
		54,630	57,282
Tax set off during the year			
Economic service charge		(14,132)	(11,679)
Withholding Tax		(5,466)	-
Notional tax on Government securities		(8,794)	(16,563)
Over provision pertaining to previous year		(240)	(422)
Balance as at 31st December		25,998	28,618
14.2 Amounts due to Related Parties			
Hatton National Bank PLC		21,971	9,975
Others		2,182	82
		24,153	10,057
15. REINSURANCE CREDITORS			
Domestic Reinsurers / Coinsurers		38,450	34,161
Foreign Reinsurers		71,813	47,822
		110,263	81,983
		Payable to domestic reinsurers includes premium payable under coinsurance arrangements too.	
16. EMPLOYEE BENEFITS			
16.1 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		23,838	20,273
Employees' contribution		15,892	13,515
Employees' Trust Fund		5,959	5,068
16.2 Defined benefit plans - Provision for Retiring Gratuity			
Present value of unfunded obligation	(Note 16.2.1)	34,129	25,076
Present value of funded obligation		-	-
Total employee benefits		34,129	25,076
16.2.1 Movement in the present value of the employee benefits			
Balance as at 1st January		25,076	18,180
Expense recognised in the Statement of Income	(Note 16.2.1.a)	10,660	7,691
		35,736	25,871
Payments during the year		(1,607)	(795)
Balance as at 31st December		34,129	25,076

<i>As at 31st December,</i>	2011 Rs.'000	2010 Rs.'000
16.2.1a Expense recognised in the Statement of Income		
Current service cost	9,520	7,472
Interest on obligation	2,812	2,055
Actuarial gain during plan year	(1,672)	(1,836)
	10,660	7,691

As at 31st December 2011, 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 16 - Employee Benefits.

16.3 Principal assumptions used

(a) Discount Rate	9.50%	9.50%
(b) Future Salary Increase Rate	9%	9%
(c) Staff Turnover Rate	12%	10%
(d) Future Mortality	55 years	55 years

The Gratuity Liability is not externally funded.

17. STATED CAPITAL

17.1 At an Extra-Ordinary General Meeting held on 29th March 2011, 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, the number of shares of the Company increased to 43,750,000.

17.2 In addition, members also approved a Rights Issue of Shares in order to raise additional funds of Rs. 390,625,000/- at the same Extra-Ordinary General Meeting referred to in Note 17.1. Accordingly, additional 6,250,000 new Ordinary Shares were issued 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/-.

<i>As at 31st December,</i>	2011		2010	
	Number	Rs.'000	Number	Rs.'000
Balance as at 1st January	37,500,000	375,000	37,500,000	375,000
Capitalisation of Reserves	6,250,000	406,250	-	-
Rights Issue	6,250,000	390,625	-	-
Total Stated Capital	50,000,000	1,171,875	37,500,000	375,000

17.3 Rights of Ordinary Shareholders

The holders of Ordinary Shares are entitled to receive dividend as declared from time to time and are entitled to one vote per share at meetings of the Company.

17.4 During the year, 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. (Refer Note 18.1)

<i>As at 31st December,</i>	2011 Rs.'000	2010 Rs.'000
18. REVENUE RESERVES		
Balance as at 1st January	641,340	455,851
Profit for the year	274,630	241,739
Dividend Paid for previous year	(67,500)	(56,250)
Capitalisation of Reserves	(406,250)	-
Share Issue Transaction Costs	(Note 18.1) (4,379)	-
Balance as at 31st December	437,841	641,340
18.1 The share issue transaction costs includes the following:		
- Secretarial and other professional fees	2,226	-
- Stamp duty paid to Commissioner General of Inland Revenue	2,153	-
	4,379	-

Notes to the Financial Statements

<i>For the Year Ended 31st December,</i>		2011	2010
		Rs.'000	Rs.'000
19. REVENUE			
Gross Written Premium	(Note 20)	3,002,511	2,428,183
Premium Ceded to Reinsurers		(510,621)	(449,461)
Net Written Premium		2,491,890	1,978,722
Net Change in Reserves for Unearned Premium		(142,270)	(134,362)
Net Earned Premium		2,349,620	1,844,360
Income from Investments	(Note 23)	474,557	517,198
Other Net Income / (Loss)	(Note 24)	2,693	(318)
Total Revenue		2,826,870	2,361,240
20. GROSS WRITTEN PREMIUM			
General Insurance			
Fire		313,820	287,660
Motor		1,188,867	916,406
Marine		26,584	24,147
Miscellaneous		182,873	115,490
Gross Written Premium - General Insurance		1,712,144	1,343,703
Life Insurance			
Individual Policies		1,273,025	1,074,972
Corporate Policies		17,342	9,508
Gross Written Premium - Life Insurance		1,290,367	1,084,480
Total Gross Written Premium		3,002,511	2,428,183
21. INSURANCE CLAIMS AND BENEFITS (NET)			
General Insurance			
Gross Claims			
Fire		61,365	101,721
Motor		704,867	503,005
Marine		8,208	7,318
Miscellaneous		109,142	87,620
Total Gross Claims		883,582	699,664
Reinsurance Recoveries		(81,210)	(111,427)
General Insurance Net Claims and Benefits		802,372	588,237
Life Insurance			
Gross Claims - Death, Disability and Hospitalisation		62,273	51,718
Reinsurance Recoveries		(30,158)	(22,393)
Net Insurance Claims		32,115	29,325
Surrenders		20,363	14,129
Annuity Payments		119	-
Policy Maturities		10,164	16,446
Life Insurance Net Claims and Benefits		62,761	59,900
Net Insurance Claims and Benefits		865,133	648,137
22. UNDERWRITING AND NET ACQUISITION COSTS			
Net Underwriting and Policy Acquisition Costs		269,526	186,240
Decrease in Deferred Acquisition Expenses	(Note 13.2)	(7,667)	(7,748)
Policy fees		(29,731)	(13,501)
		232,128	164,991

<i>For the Year Ended 31st December,</i>		2011	2010
		Rs.'000	Rs.'000
23. INCOME FROM INVESTMENTS			
Interest Income	(Note 23.1)	457,313	450,226
Dividend Income		10,065	8,689
Realised Capital Gains - Government Securities		25,946	20,053
- Quoted Shares		16,774	38,230
Provision for Diminution in Value of Investments		(35,541)	-
		474,557	517,198
23.1 Interest Income			
Interest income from Government Securities			
- Treasury bonds	179,147	256,376	
- Treasury bills	85,161	65,823	
- Repurchase agreements	32,594	18,798	340,997
Interest income from Corporate Debt Securities			
- Debentures	58,898	33,933	
- Commercial Paper	2,403	5,686	
- Promissory Notes	1,244	62,545	41,191
Interest income from fixed deposits		85,977	55,959
Interest income from savings deposits		596	452
Interest income from staff, agent and policy loans		11,293	11,627
		457,313	450,226
24. OTHER NET INCOME / (LOSS)			
Loss on Sale of Property, Plant and Equipment		(582)	(318)
Others		3,275	-
		2,693	(318)
25. OTHER OPERATING, INVESTMENT RELATED AND ADMINISTRATION EXPENSES			
Staff Expenses	(Note 25.1)	331,532	281,439
Administration and Establishment Expenses		288,010	265,493
Selling Expenses		141,220	143,827
Amortisation of Intangible Assets		11,839	9,983
Depreciation of Property, Plant and Equipment		33,344	30,354
		805,945	731,096
25.1 Staff Expenses			
Staff Salaries		198,645	168,934
EPF		23,838	20,273
ETF		5,959	5,068
Provision for Retirement Benefit Obligation		10,660	7,691
Other Staff Costs (Travelling, Over-time, Bonus etc.)		92,430	79,473
		331,532	281,439

Notes to the Financial Statements

<i>For the Year Ended 31st December,</i>		2011	2010
		Rs.'000	Rs.'000
26. PROFIT BEFORE TAXATION			
Profit before taxation for the year is arrived at after charging all the expenses including the following:			
Auditor's Fees and expenses;			
Audit Fees and Expenses		1,010	888
Audit Related Fees		687	551
Non Audit Services		680	Nil
Directors' Emoluments and Post Employment Benefits		19,930	16,694
Employees Benefits including the following;			
Defined Benefit Plan Costs - Gratuity		10,660	7,691
Defined Contribution Plan Costs - EPF		23,838	20,273
Defined Contribution Plan Costs - ETF		5,959	5,068
Provision for Diminution in Value of Investments		35,541	Nil
Amortisation of Intangible Assets		11,839	9,983
Depreciation of Property, Plant and Equipment		33,344	30,354
Loss on Foreign Exchange		2,922	5,489
Loss on sale of Property, Plant and Equipment		582	318
Legal Fees		37	50
Donations		300	300
27. INCOME TAX EXPENSES			
The major components of income tax expense for the years ended 31st December are as follows :			
Current Income Tax			
Income Tax on Current Year's Profits		26,012	28,208
Over Provision of Current Taxes in respect of Prior Years		(240)	(422)
		25,772	27,786
Deferred Income Tax			
Deferred Taxation Charge / (Reversal) (Note 27.4)		-	-
Income Tax Expense reported in the Income Statement		25,772	27,786
		2011	2010
		Rs.'000	Rs.'000
27.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows :			
Profit After Taxation		274,630	241,739
Income Tax Expenses		25,772	27,786
Profit Before Taxation		300,402	269,525
At the statutory income tax rate of 28% (2010 :35%)	28.0%	84,113	35.0%
Income Exempt from Tax	(17.7%)	(53,146)	(24.5%)
Aggregate allowable expenses	(4.3%)	(12,830)	(5.7%)
Aggregate disallowed expenses	7.2%	21,704	11.2%
Recognition of previously unrecognised tax losses	(4.6%)	(13,829)	(5.6%)
Over Provision of Current Taxes in respect of Prior Years	(0.1%)	(240)	(0.2%)
Income Tax Expenses	8.6%	25,772	10.3%
		27,786	27,786

27. INCOME TAX (CONT.)

27.2 The Company is liable to pay income tax at the rate of 28% of its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto. The Company's applicable tax rate reduced from 35% in year of assessment 2010/2011 to 28% commencing from year of assessment 2011/2012 as per the amendments made to the Inland Revenue Act. Current year's income tax wholly consists of income tax charge on General Insurance business. However, 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 Notional Withholding Tax from Government Securities. The tax loss carried forward as at 31st December 2011 is Rs. 175.8 Million (2010: Rs. 225.2 Million) is made as follows:

	2011 Rs.'000	2010 Rs.'000
27.3 Tax loss analysis (General Insurance)		
Balance as at 1st January	225,172	268,074
Tax losses utilised during the year	(49,389)	(42,902)
Balance as at 31st December	175,783	225,172

As at the year end total carried forward loss from Life Insurance business is Rs. 1,242.2 Million (2010: Rs. 879.4 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.

27.4 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:

	2011 Rs.'000	2010 Rs.'000
Deferred tax assets (Note 27.4.a)	(16,635)	(13,911)
Deferred tax liabilities (Note 27.4.b)	16,635	13,911
Net deferred tax asset / liability	-	-

	Balance Sheet				Income Statement	
	2011		2010		2011	2010
	Temporary Difference Rs.'000	Tax Effect Rs.'000	Temporary Difference Rs.'000	Tax Effect Rs.'000	Rs.'000	Rs.'000
27.4.a Deferred Tax Liability						
Property, Plant and Equipment	59,410	16,635	49,682	13,911	2,724	(8,301)
27.4.b Deferred Tax Assets						
Defined Benefit Plans	(29,564)	(8,278)	(21,671)	(6,068)	(2,210)	(614)
Brought Forward Tax Losses	(29,846)	(8,357)	(28,011)	(7,843)	(514)	8,915
	(59,410)	(16,635)	(49,682)	(13,911)	(2,724)	8,301

27.4.c Unrecognised Deferred Tax Assets

As at the year end, total carried forward tax loss is Rs. 175.8 Million (2010 - Rs. 225.2 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 2011 amounted to Rs. 40.9 Million (2010 - Rs. 55.2 Million).

Notes to the Financial Statements

28. BASIC EARNINGS PER SHARE (EPS)

28.1 The Company's Earnings Per Share is based on the profit attributable to shareholders, and the weighted average number of ordinary shares which are deemed to be in issue for the year. The implications of the Capitalisation of Reserves and the Rights Issue have been taken into consideration for the computation of EPS. Details of the Capitalisation of Reserves and the Rights Issue are stated in Note 17 to these Financial Statements.

28.2 The following table shows the earnings and share data used in the basic Earnings Per Share computation.

	2011	2010 (Restated)
Amounts used as the numerator:		
Net Profit Attributable to Ordinary Shareholders ('000)	274,630	241,739
Number of Ordinary Shares used as the denominator:		
Number of shares as at 31st December ('000)		37,500
Capitalisation of Reserves ('000)		6,250
Impact on Rights Issue ('000)		1,144
Weighted average number of shares for 2010		44,894
Weighted average number of shares - upto 26th May 2011 ('000)	18,706	
- after 26th May 2011 ('000)	29,166	
Weighted average number of shares for 2011 ('000)	47,872	
Basic Earnings Per Share (Rs.)	5.74	5.38
28.3 Basic Earnings Per Share originally stated		
Number of Ordinary Shares used as the denominator:		
Number of shares as at 31st December ('000)		37,500
Basic Earnings Per Share (Rs.)		6.45

28.4 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.

29. DIVIDEND PER SHARE

	2011	2010
Dividend Per Share (Rs.)	2.10	1.80
29.1 Dividend declared		
Dividends to Shareholders (Rs.'000)	94,500	60,750
Tax deducted at source (Rs.'000)	10,500	6,750
	105,000	67,500

29.2 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. 2.10 per share for the year ended 31st December 2011 (2010 - Rs. 1.80/- per share) which is to be approved at the Annual General Meeting to be held on 29th March 2012. In accordance with Sri Lanka Accounting Standards No.12 - Events after the Balance Sheet Date (revised 2006), this proposed dividend has not been recognised as a liability as at 31st December 2011.

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.

29.3 Compliance with Section 56 and 57 of the Companies act No. 7 of 2007

As required by Section 56 of the Companies Act, No. 7 of 2007, the Board of Directors of the Company has satisfied the Solvency Test in accordance with the Section 57 of the said Act, prior to recommending the first and final dividend for the year ended 31st December 2011. A Statement of Solvency completed and duly signed by the Directors on 30th January 2012 has been audited by M/S KPMG Ford, Rhodes, Thornton & Co.

	2011 Rs.'000	2010 Rs.'000
29.4 Dividend paid during the year		
Final dividend for 2010: Rs. 1.80 per share (2009: Rs. 1.50 per share)	67,500	56,250

30. RELATED PARTY DISCLOSURES

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 - 30, Related Party Disclosures (revised 2005).

Transactions with related parties were made on the basis of the price lists in force with non-related parties, subject to approved discounts. Outstanding balances with related parties other than balances relating to investment related transactions as at the Balance Sheet date were unsecured and interest free. Settlement will take place in cash. Such outstanding balances have been included in the Balance Sheet under respective assets and liabilities together with balances arising from transactions with non-related parties.

Details of related party transactions are reported below.

30.1 Transaction with the parent and Ultimate Controlling Party Hatton National Bank PLC

	2011 Rs.'000	2010 Rs.'000
Nature of Transaction		
Insurance Premium		
General	41,275	19,628
Life	10,750	3,834
	52,025	23,462
Administration Expenses		
General	66,171	47,572
Life	29,551	21,502
	95,722	69,074
Claims Incurred		
General	8,156	7,099
Investments Balance as at 31 December (Includes Deposits and Debentures)		
General	134,510	74,090
Life	127,749	41,973
	262,259	116,063
Cash at Bank Balances as at 31 December		
General	40,830	33,979
Life	45,155	25,121
	85,985	59,100
Investment Income		
General	5,308	3,955
Life	7,556	5,289
	12,864	9,244
Rent Expenses	16,409	16,756
Dividend Paid	40,491	33,742

Also refer Note 9.1, 10.5, 11.1 and 14.2.

Notes to the Financial Statements

	2011 Rs.'000	2010 Rs.'000
30.2 Transaction with / between Related Companies of the Parent Company		
a). Sithma Development (Pvt) Limited (Subsidiary of the Parent Company)		
Nature of Transaction		
Insurance Premium		
General	3,994	5,853
Claims Incurred		
General	43	4,464
b). Splendor Media (Pvt) Limited (Associate Company of Sithma Development (Pvt) Limited)		
Nature of Transaction		
Insurance Premium		
General	122	-
Claims Incurred		
General	443	-
Media Placement Commission Fee	625	-

30.3 Transactions with Key Management Personnel of the Company or its parent

According to Sri Lanka Accounting Standard 30 (revised 2005) 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.

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 for 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.

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.

	2011 Rs.'000	2010 Rs.'000
a). Key Management Personnel Compensation		
Short-term employee benefits	16,114	13,814
Post employment benefits	3,816	2,880
	19,930	16,694

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 .

b). Other Transactions with Key Management Personnel

Insurance Premium - General	1,164	823
Insurance Premium - Life	208	5,685
Claims Paid - General	603	679

c). Mr. Rienzie T. Wijetilleke, Chairman of HNB Assurance PLC and its parent company Hatton National Bank PLC resigned from the Boards w.e.f. 29th March 2011 and 31st March 2011 respectively.

Mr. M V Theagarajah and Mr. R Seevaratnam, Directors of Hatton National Bank PLC resigned from the Board of the Bank w.e.f. 31st March 2011.

Mr. D.H.S. Jayawardena, Director of Hatton National Bank PLC ceased to be a Director of the Bank w.e.f. 31st December 2011. Mr. R K Obeyesekere, Director of Hatton National Bank PLC resigned from the Board of the Bank w.e.f. 30th December 2011.

Accordingly, all above personnel ceased to be Key Management Personnel of the Company w.e.f. those respective days mentioned above. However, transactions up to the dates of their resignation / cessation mentioned above have been included under Transactions with Key Management Personnel in Note 30.3.b above.

Dr. Raneey Jayamaha and Dr. W W Gamage were appointed to the Board of Hatton National Bank PLC, parent company, w.e.f. 31st March 2011. Dr. L R Karunaratne was appointed to the Board of the Bank w.e.f. 6th October 2011.

Accordingly, the above personnel have been considered as Key Management Personnel of the Company w.e.f. the dates of their appointments mentioned above.

30.4 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/Parent 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 Person. Further significant influence is also established if in the view of the respective Key Management Person, he 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	2011 Rs'000	2010 Rs'000
ACUITY Stock Brokers (Pvt) Limited	R Theagarajah and J M J Perera	Insurance Premium Claims Incurred Brokerage Fee	General	1,836	1309
			General	370	270
			General	343	724
			Life	517	958
ACUITY Securities Limited	R Theagarajah and J M J Perera	Insurance Premium Claims Incurred Investment in REPO* Investment Income from REPO*	General	304	353
			General	254	364
			General	173,570	46,483
			Life	68,587	98,894
			General	8,252	5,175
ACUITY Partners (Pvt) Limited	R Theagarajah and J M J Perera	Insurance Premium Claims Incurred	General	1,175	510
			Life	483	470
			General	162	-
Colours of Courage Trust (Guarantee) Limited	R Theagarajah	Sponsorship	General	-	112
Aitken Spence Garments Limited	D H S Jayawardena	Insurance Premium Claims Incurred	General	406	356
			General	30	-
Aitken Spence Cargo (Pvt) Limited	D H S Jayawardena	Insurance Premium	General	174	221
Alliance Finance Co. PLC	Pratapkumar de Silva	Insurance Premium Claims Incurred	General	4,100	5,187
			General	2,692	6,277
Alliance Tech Trading (Pvt) Limited	Pratapkumar de Silva	Purchase and Maintenance of Property, Plant and Equipment	General	21	143
			Life	11	13
Ceylon Garden Coir (Pvt) Limited	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	66	66
Milford Exports (Ceylon) Limited	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	39	39
Milford Developers (Pvt) Limited	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	514	460
Stassen Exports Limited	D H S Jayawardena and R K Obeyesekere	Insurance Premium Claims Incurred	General	16,302	11,922
			General	8,168	9,767
Stassen Natural Foods (Pvt) Limited	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	198	207
Stassen International Limited	D H S Jayawardena and R K Obeyesekere	Insurance Premium Claims Incurred	General	553	1,325
			General	253	-
Distilleries Company of Sri Lanka PLC.	D H S Jayawardena and R K Obeyesekere	Insurance Premium Claims Incurred	General	9	210
			General	-	2,758
Lanka Dairies (Pvt) Limited	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	19	-
Texpro Industries Limited	D H S Jayawardena	Insurance Premium Claims Incurred	General	858	613
			General	138	-
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	Coinsurance Premium Coinsurance Claims	General	241	687
			General	104	-

* Investments held in the form of Repurchase Agreements in Government Securities (REPO) as at 31st December.

Notes to the Financial Statements

31. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Board of Directors has recommended the payment of a first and final dividend of Rs. 2.10 per share for the year ended 31st December 2011 (2010 - Rs. 1.80/- per share) which is to be approved at the Annual General Meeting to be held on 29th March 2012. More information with respect to the dividend declaration is given on Note 29.

Except for the above mentioned post balance event there have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

32. COMMITMENTS

a). 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. (2010: Nil)

b). **Future commitments on operating leases**

	2011 Rs.'000	2010 Rs.'000
Less than one year	24,766	17,721
Between one and five years	24,937	10,351
More than five years	617	-
Total Operating Lease Commitments	50,320	28,072

33. 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.

34. COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year information.

	2010 Rs.'000
As reported previously (2010 Financial Statements):	
Intangible Assets (a)	66,999
Loans to Life Policyholders (b)	13,263
Other Assets (a) & (b)	497,352

	2011 Rs.'000	2010 Rs.'000
Current Presentation:		
Intangible Assets	48,876	52,308
Loans to Life Policyholders	20,097	15,000
Other Assets	638,273	510,306

Reason for change in the presentation and classifications

- a). Software under development was classified under Intangible Assets (both General and Life Insurance) previously. However, since the payments made on behalf of software development is in the nature of prepayment it has been re-classified under Other Assets.
- b). Interest Receivable from Loans given to Policyholders (Life Insurance) was classified under Other Assets previously. However, since this interest is receivable from Policyholders it has been re-classified under Loans to Life Policyholders.

35. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer to page 211 of the Statement of Directors' Responsibility for Financial Reporting.

Balance Sheet of the Life Insurance Fund - Supplemental

As at 31st December,		2011	2010
		Rs:'000	Rs:'000
Assets			
Investments	(A)	2,755,264	2,242,702
Intangible Assets	(B)	22,203	20,773
Property, Plant and Equipment	(C)	4,276	4,573
Loans to Life Policyholders		20,097	15,000
Reinsurance Receivables	(D)	27,849	18,617
Other Assets	(E)	327,756	244,311
Cash and Cash Equivalents	(F)	62,194	13,005
Total Assets		3,219,639	2,558,981
Liabilities			
Insurance Provision - Life	(G)	2,990,998	2,385,246
Other Liabilities	(H)	195,970	144,988
Reinsurance Creditors	(I)	28,106	25,341
Employee Benefits	(J)	4,565	3,406
Total Liabilities		3,219,639	2,558,981

The Notes to the Financial Statements as set out on pages 226 to 265 form an integral part of these Financial Statements.

Balance Sheet of the Life Insurance Fund - Supplemental

As at 31st December,		2011	2010
		Rs.'000	Rs.'000
A. INVESTMENTS			
Government Securities		1,483,708	1,406,591
Repurchase Agreements on Government Securities		138,955	176,429
Quoted Shares	(Note A.1)	175,088	118,901
Corporate Debts	(Note A.2)	341,543	199,210
Investment in Unit Trusts	(Note A.3)	43,870	27,020
Term Deposits	(Note A.4)	572,100	314,551
		2,755,264	2,242,702

A.1 Quoted Shares

	2011			2010		
	No. of Shares	Cost Rs.'000	Market Value Rs.'000	No. of Shares	Cost Rs.'000	Market Value Rs.'000
Banks, Finance and Insurance						
National Development Bank PLC	53,200	5,980	7,347	11,600	1,733	4,054
Commercial Bank of Ceylon PLC	96,506	11,854	9,651	44,750	11,270	11,631
Sampath Bank PLC	51,886	11,318	10,118	70,718	14,174	19,228
Nations Trust Bank PLC	190,000	12,444	10,830	120,000	7,843	10,008
DFCC Bank	38,000	4,353	4,290	38,000	4,353	7,608
Seylan Bank PLC	233,333	9,006	7,187	-	-	-
Peoples Leasing Company PLC	746,000	13,428	11,935	-	-	-
Singer Finance (Lanka) PLC	-	-	-	2,200	33	33
Sector Total		68,383	61,358		39,406	52,562
Diversified Holdings						
John Keells Holdings PLC	84,326	15,353	14,352	63,245	15,353	18,872
Richard Pieris and Company PLC	980,000	12,482	8,820	230,000	1,728	2,415
Hemas Holdings PLC	221,000	9,553	7,293	221,000	9,553	9,835
Expolanka Holdings PLC	128,100	1,793	1,153	-	-	-
Softlogic Holdings PLC	105,000	3,045	1,890	-	-	-
Browns Investments PLC	82,800	414	348	-	-	-
Hayleys PLC	-	-	-	17,000	5,617	5,865
Sector Total		42,640	33,856		32,251	36,987
Telecommunications						
Dialog Axiata PLC	80,000	1,663	624	80,000	1,663	944
Sector Total		1,663	624		1,663	944
Manufacturing						
Royal Ceramic Lanka PLC	118,000	16,143	16,697	9,000	475	2,744
Dipped Products PLC	11,000	1,030	1,172	11,000	1,031	1,317
Chevron Lubricants Lanka PLC	16,000	2,412	2,720	16,000	2,412	2,556
ACL Cables PLC	30,000	1,834	2,220	25,000	1,414	2,128
ACL Plastics PLC	3,600	372	450	3,600	372	576
Tokyo Cement Company (Lanka) PLC	285,725	13,143	12,572	212,325	8,775	11,678
Kelani Cables PLC	27,000	3,058	2,168	27,000	3,058	2,835
Sector Total		37,992	37,999		17,537	23,834

A. INVESTMENTS (Contd.)

A.1 Quoted Shares

	2011			2010		
	No. of Shares	Cost Rs.'000	Market Value Rs.'000	No. of Shares	Cost Rs.'000	Market Value Rs.'000
Hotels and Travels						
Dolphin Hotels PLC	117,600	4,161	5,057	117,600	4,161	7,197
Aitken Spence Hotel Holdings PLC	75	3	5	13,875	486	1,467
Riverina Hotels PLC	30,600	2,975	3,213	30,600	2,975	3,222
The Lighthouse Hotel PLC	11,400	763	610	11,400	763	718
John Keells Hotel PLC	77,700	1,320	1,049	-	-	-
Sector Total		9,222	9,934		8,385	12,604
Chemicals and Pharmaceuticals						
CIC Holdings PLC	75,000	6,820	8,363	87,500	7,555	12,311
Haycarb PLC	13,000	2,244	2,015	13,000	2,245	2,191
Sector Total		9,064	10,378		9,800	14,502
Power and Energy						
Laugfs Gas PLC	105,000	4,743	3,990	16,800	386	435
Laugfs Gas Limited - (Non Voting)	-	-	-	12,100	182	224
Sector Total		4,743	3,990		568	659
Beverage Food and Tobacco						
Distilleries Company of Sri Lanka PLC	40,000	7,099	5,884	-	-	-
Renuka Agri Foods PLC	-	-	-	309,100	815	2,071
Sector Total		7,099	5,884		815	2,071
Information Technology						
PC House PLC	110,200	1,212	1,532	110,200	1,212	1,245
Sector Total		1,212	1,532		1,212	1,245
Investment Trusts						
Renuka Holdings PLC	50,877	2,121	2,742	50,000	2,121	3,095
Sector Total		2,121	2,742		2,121	3,095
Health Care						
Asiri Hospital Holdings PLC	500,000	4,300	4,300	598,200	5,143	5,204
Sector Total		4,300	4,300		5,143	5,204
Footwear and Textiles						
Textured Jersey Lanka PLC	244,300	3,665	2,492	-	-	-
Sector Total		3,665	2,492		-	-
Portfolio Total		192,104	175,088		118,901	153,707
Less: Provision for Diminution in value of investments		(17,016)			-	
		(17,016)			-	
Total Carrying Value of Investments in Quoted Shares		175,088			118,901	

Balance Sheet of the Life Insurance Fund - Supplemental

A. INVESTMENTS (Contd.)

A.2 Corporate Debt

	2011					2010			
	Redeemable Date	No. of Debentures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate (Per Annum)	No. of Debentures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate (Per Annum)
a) Debentures - Quoted									
Hatton National Bank PLC	31/03/2021	75,000	7,500	7,500	11%	75,000	7,500	7,500	11%
DFCC Bank	26/09/2016	5,000	5,000	5,000	14%	5,000	5,000	5,000	14%
Seylan Bank PLC	29/05/2012	50,000	5,000	5,000	16.75%	50,000	5,000	5,000	16.75%
Sampath Bank PLC	30/08/2012	130,000	13,000	13,000	3 Month Gross TB + 1.50%	130,000	13,000	13,000	3 Month Gross TB + 1.50%
Singer Sri Lanka PLC	30/09/2012	120,000	12,000	12,000	1 Year Gross TB + 1.65%	120,000	12,000	12,000	1 Year Gross TB + 1.65%
Bank of Ceylon	24/11/2013	150,000	15,000	15,000	6 Month Gross TB + 0.75%	150,000	15,000	15,000	6 Month Gross TB + 0.75%
Bank of Ceylon	24/06/2015	200,000	20,000	20,000	11.50%	200,000	20,000	20,000	11.5%
Bank of Ceylon	08/12/2016	100,000	10,000	10,000	11%	-	-	-	-
Nations Trust Bank PLC	30/04/2013	10,000	10,000	10,000	20.53%	10,000	10,000	10,000	20.53%
Urban Development Authority	05/10/2015	867,100	86,710	86,710	11%	867,100	86,710	86,710	11%
Lanka Orix Leasing Company PLC	05/08/2016	250,000	25,000	25,000	11.90%	-	-	-	-
Merchant Bank of Ceylon PLC	15/11/2015	225,000	22,500	22,500	11.80%	-	-	-	-
National Development Bank PLC	30/06/2016	20,000	20,000	20,000	3 Month Gross TB + 1%	-	-	-	-
Total Investment in Quoted Debentures			251,710	251,710			174,210	174,210	

	2011					2010			
	Redeemable Date	No. of Debentures	Cost Rs.'000	Directors' Valuation Rs.'000	Coupon Rate (Per Annum)	No. of Debentures	Cost Rs.'000	Directors' Valuation Rs.'000	Coupon Rate (Per Annum)
b) Debentures - Unquoted									
Senkadagala Finance PLC	21/09/2012	25,000	25,000	25,000	15.50%	25,000	25,000	25,000	15.50%
Abans (Pvt) Limited	06/06/2014	25,000	25,000	25,000	12.00%	-	-	-	-
Peoples Leasing Company PLC	30/06/2015	250,000	25,000	25,000	11.70%	-	-	-	-
Total Investment in Unquoted Debentures			75,000	75,000		25,000	25,000		
c) Commercial Paper									
Central Finance Company PLC	30/11/2012	14,833	14,833	14,833	11.25%	-	-	-	-
Total Investment in Commercial Paper			14,833	14,833			-	-	
Total Investment in Corporate Debt			341,543	341,543			199,210	199,210	

A.3 Unit Trusts

	2011			2010		
	No. of Units	Cost Rs.'000	Managers' Buying price Rs.'000	No. of Units	Cost Rs.'000	Managers' Buying price Rs.'000
Quoted						
NAMAL Acuity Value Fund	80,000	5,020	5,384	80,000	5,020	7,200
Total Investment in quoted Unit Trusts		5,020	5,384		5,020	7,200
Unquoted						
Ceybank SavingsPlus Money Market Fund	1,800,000	18,000	18,972	1,800,000	18,000	18,972
Ceylon Financial Sector Fund	408,998	4,000	2,761	408,998	4,000	3,857
Ceylon Income Fund	531,108	7,000	7,074	-	-	-
First Capital Wealth Fund	3,851	4,000	4,172	-	-	-
NAMAL IPO Fund	600,000	5,850	5,820	-	-	-
Total Investment in unquoted Unit Trusts		38,850	38,799		22,000	22,829
Total Investment in Unit Trusts		43,870	44,183		27,020	30,029

A. INVESTMENTS (Contd.)

A.4 Term Deposits

		2011 Rs.'000	2010 Rs.'000
Long term and medium term deposits with, Licensed Commercial Banks	(Note A.4.1)	493,489	307,551
Licensed Specialised Banks		8,611	7,000
Registered Finance Companies		70,000	-
		572,100	314,551
A.4.1 Licensed Commercial Banks			
Term Deposits with Related Parties - Hatton National Bank PLC		120,249	34,473
Others		373,240	273,078
		493,489	307,551

B. INTANGIBLE ASSETS

	Computer Software Rs.'000	2011 Total Rs.'000	2010 Total Rs.'000
Cost			
Balance as at 01st January	26,785	26,785	17,083
Additions during the year	5,898	5,898	9,702
Disposals / Transfers during the year	-	-	-
Balance as at 31st December	32,683	32,683	26,785
Amortisation			
Balance as at 01st January	6,012	6,012	2,560
Charge for the year	4,468	4,468	3,452
Amortisation on disposals	-	-	-
Balance as at 31st December	10,480	10,480	6,012
Carrying amount as at 31st December 2011	22,203	22,203	
Carrying amount as at 31st December 2010	20,773		20,773

B.1 During the financial year, the Life fund acquired Intangible Assets (Computer Software) to the aggregate value of Rs. 5.9 Million (2010 - Rs. 12.6 Million). Cash payments amounting to Rs. 5.9 Million (2010 - Rs.9.7 Million) were made during the year for purchase of Intangible Assets (Computer Software).

B.2 Intangible Assets includes fully depreciated Computer software which is in the use of normal business activities having a cost of Rs.0.26 Million (2010 - Rs. 0.15 Million)

Balance Sheet of the Life Insurance Fund - Supplemental

C. PROPERTY, PLANT AND EQUIPMENT (PPE)

	Computer Hardware Rs.'000	Motor Vehicles Rs.'000	Office Equipment Rs.'000	Furniture and Fittings Rs.'000	2011 Total Rs.'000	2010 Total Rs.'000
Cost						
Balance as at 01st January	5,737	4,958	1,023	2,223	13,941	13,407
Additions during the year	1,819	-	25	137	1,981	608
Disposals during the year	-	-	-	(164)	(164)	(74)
Balance as at 31st December	7,556	4,958	1,048	2,196	15,758	13,941
Depreciation						
Balance as at 01st January	4,460	3,225	586	1,097	9,368	7,233
Charge for the year	585	1,239	202	215	2,241	2,171
Depreciation on disposals	-	-	-	(127)	(127)	(36)
Balance as at 31st December	5,045	4,464	788	1,185	11,482	9,368
Carrying amount as at 31st December 2011	2,511	494	260	1,011	4,276	
Carrying amount as at 31st December 2010	1,277	1,733	437	1,126		4,573

C.1 Acquisition of PPE during the year

During the financial year, the Life Fund acquired PPE to the aggregate value of Rs. 2 Million (2010 - Rs. 0.6 Million). Cash payments amounting to Rs. 2 Million (2010 - Rs. 0.6 Million) were made during the year for purchase of PPE.

C.2 Fully depreciated PPE in use

PPE includes fully depreciated assets which are in the use of normal business activities having a cost of Rs. 2.8 Million (2010 - Rs. 2.6 Million)

C.3 PPE pledged as security

None of the PPE were pledged as securities as at the Balance Sheet date.

C.4 Permanent fall in value of PPE

There has been no permanent fall in the value of PPE which require a provision in the Financial Statements.

C.5 Title restriction on PPE

There were no restrictions that existed on the title of the PPE of the Company as at the Balance Sheet date.

C.6 Assessment of impairment

The Board of Directors has assessed potential impairment loss as at 31st December 2011. Based on the assessment, no provision was required to be made in to the Financial Statements as at the Balance Sheet date.

	2011 Rs.'000	2010 Rs.'000
D. REINSURANCE RECEIVABLES		
Reinsurance Receivable on Outstanding Claims	16,170	14,550
Reinsurance Receivable on Settled Claims	(Note D.2) 11,679	4,067
	27,849	18,617
D.1 Since the claim has not been paid yet, the reinsurance portion of the receivable has not been materialised.		
D.2 The age analysis of the reinsurance receivable on settled claims is as follows:		
Up to 30 days	1,451	1,826
31 to 90 days	8,399	2,241
91 to 180 days	1,829	-
	11,679	4,067

		2011 Rs.'000	2010 Rs.'000
E. OTHER ASSETS			
Agent / Advisor related Receivables		4,090	3,751
Interest and Dividend Receivable	(Note E.1)	183,080	132,756
Advance Payments		5,098	5,317
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note E.2)	119,424	93,289
Amounts due from Related Parties	(Note E.3)	15,841	9,085
Other receivables		223	113
		327,756	244,311
E.1	There was no long outstanding receivable with respect to interest and dividend.		
E.2 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)			
Withholding Tax Recoverable		11,243	7,111
Notional Tax on Government Securities		108,181	86,178
		119,424	93,289
E.3 Amounts due from Related Parties			
Hatton National Bank PLC		15,841	9,085
		15,841	9,085
E.4	As at the year end total carried forward loss from life business is Rs. 1,242.2 Million (2010: Rs. 879.4 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.		
F. CASH AND CASH EQUIVALENTS			
Cash in Hand and at Bank		37,194	13,005
Other Cash Equivalents	(Note F.1)	25,000	-
		62,194	13,005
F.1 Other Cash Equivalents			
Short term deposits with Licensed Commercial Banks, Related Parties - Hatton National Bank PLC		-	-
Others		25,000	-
		25,000	-
G. INSURANCE PROVISION - LIFE	Please refer the Note 12 on Page 246.		
H. OTHER LIABILITIES			
Policyholders Advance Payments		56,881	37,494
Payables			
Acquisition Cost Payable		74,755	54,773
Government Levies		721	624
Amounts due to Related Parties		5,188	3,653
Others		58,425	48,444
		195,970	144,988
I. REINSURANCE CREDITORS			
Foreign Reinsurer		28,106	25,341
J. EMPLOYEE BENEFITS			
Provision for Retiring Gratuity			
As at 1st January		3,406	2,597
Expense recognised in the Statement of Income		1,683	1,070
		5,089	3,667
Payments during the year		(524)	(261)
Balance as at 31st December		4,565	3,406

As at 31st December 2011, 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 16 - Employee Benefits.

Principal assumptions used

	2011	2010
(a) Discount Rate	9.50%	9.50%
(b) Future Salary Increase Rate	9%	9%

The Liability is not externally funded.

Insurance Revenue Accounts

For the Year Ended 31st December,	2011 Rs.'000	2010 Rs.'000
General Insurance		
Gross Written Premium	1,712,144	1,343,703
Premium Ceded to Reinsurers	(407,925)	(350,264)
Net Written Premium	1,304,219	993,439
Net Change in Reserves for Unearned Premium	(142,270)	(134,362)
Net Earned Premium	1,161,949	859,077
Net Claims Incurred	(802,372)	(588,237)
Net Commission	(41,027)	(7,013)
Decrease in Deferred Acquisition Expenses	7,667	7,747
Expenses	(359,276)	(335,634)
Underwriting Deficit	(33,059)	(64,060)
Income from Investments	158,754	177,889
Other Net Income / (Loss)	2,707	(304)
Operating Profit from General Insurance Business	128,402	113,525
Life Insurance		
Gross Written Premium	1,290,367	1,084,480
Premium Ceded to Reinsurers	(102,696)	(99,197)
Net Written Premium	1,187,671	985,283
Net Benefits Expense	(62,761)	(59,900)
Net Commission	(222,316)	(177,530)
Expenses Attributable to Policyholders	(440,631)	(399,415)
Increase in Life Insurance Fund	(605,752)	(531,733)
Underwriting Deficit	(143,789)	(183,295)
Income from Investments	315,803	339,309
Other Net Income / (Loss)	(14)	(14)
Surplus from Life Insurance Business	172,000	156,000
Reconciliation of Statement of Income and Insurance Revenue Accounts		
Operating Profit from General Insurance Business	128,402	113,525
Surplus from Life Insurance Business	172,000	156,000
Profit Before Taxation	300,402	269,525
Finance Expenses	-	-
Profit Before Taxation	300,402	269,525
Income Tax Expenses	(25,772)	(27,786)
Profit After Taxation	274,630	241,739

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 2010 were submitted to the CSE on 03rd March 2011. The Interim Financial Statements of the 4th Quarter, for the year/quarter ended 31st December 2011, will be submitted to the CSE on 02nd February 2012. The audited Financial Statements for the year ended 31st December 2011 will be submitted to the CSE within three months of the Balance Sheet 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 204.

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 1.1 in Accounting Policies on pages 202 and 226 respectively.

5. Top 20 Shareholders (Rule number 7.6 (III))

The 20 largest shareholders as at 31st December 2011 together with their Shareholding as at 31st December 2010 are given below.

Name of the Shareholder	2011		2010	
	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	22,494,750	59.99
Mercantile Merchant Bank Ltd.	3,065,596	6.13	3,287,800	8.77
Ceylon Guardian Investment Trust PLC A/C No. 2	2,000,000	4.00	1,500,000	4.00
DFCC Vardhana Bank Ltd/ Mercantile Merchant Bank Ltd.	1,156,070	2.31	-	-
Mr. M. F. Hashim	521,186	1.04	303,350	0.81
Bank of Ceylon A/C Ceybank Century Growth Fund	444,066	0.89	288,100	0.77
Bank of Ceylon A/ C No.1	410,200	0.82	-	-
Employee Trust Fund Board	375,494	0.75	309,200	0.82
Union Assurance PLC A/C No.1	336,266	0.67	-	-
Corporate Holdings (Pvt.) Ltd.	242,700	0.49	-	-
Deutsche Bank AG - Comtrust Equity Fund	200,000	0.40	150,000	0.40
Mr. K.N.J. Balendra	189,732	0.38	142,300	0.38
Malship Ceylon Ltd.	186,345	0.37	93,500	0.25
Mr. M. H. V. U. Gunatilaka	180,360	0.36	120,075	0.32
National Development Bank PLC / R. Senathirajah	156,400	0.31	119,900	0.32
Mr. A. Sithampalam	137,666	0.28	101,000	0.27
Mrs. N. I. Hashim	136,820	0.27	96,650	0.26
Mr. A. P. Somasiri	134,166	0.27	115,000	0.31
Phoenix Ventures Ltd.	133,332	0.27	-	-
Mr. B. Selvanayagam / Mrs. L. Selvanayagam	120,000	0.24	90,000	0.24
	40,119,399	80.24		

Share Information

6. Public Shareholding (Rule number 7.6 (IV))

The details of the public shareholding are given as follows.

Name of the Shareholder	2011		2010	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Number of Shares	19,883,757	39.77	14,923,250	39.80

7. Directors' Shareholding (Rule number 7.6 (V))

The details of the Directors' shareholding during the year are given as follows

Name of the Director	No. of Shares as at 31st December 2011	No. of Shares as at 31st December 2010
Rienzie T. Wijetilleke* (Chairman up to 29th March 2011)	Nil	750
R Theagarajah (Acting Chairman)	8,332	6,250
Manjula de Silva (Managing Director)	38,332	25,000
M U de Silva	3,000	2,250
Pratap Kumar de Silva	1,332	1,000
J M J Perera	7,000	5,250
J D N Kekulawala	49,998	30,000
D M de S Wijeyeratne	583	500
Sarath Ratwatte	14,666	11,000

* Resigned from the Board with effect from 29th March 2011

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 118 to 133.

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 Balance Sheet date.

11. Stated Capital (Rule number 7.6 (IX))

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

Stated Capital	- Rs. 1,171,875,000/- 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 3,966 registered shareholders as at 31st December 2011 (2010 – 3,665). 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	%
1 - 1,000	2,279	762,779	1.53	15	5,423	0.01	2,294	768,202	1.54
1,001 - 10,000	1,477	5,096,548	10.19	17	55,927	0.11	1,494	5,152,475	10.30
10,001 - 100,000	145	3,242,719	6.49	9	294,141	0.59	154	3,536,860	7.08
100,001 - 1,000,000	20	4,327,797	8.66	-	-	-	20	4,327,797	8.66
Over - 1,000,000	4	36,214,666	72.42	-	-	-	4	36,214,666	72.42
Total	3,925	49,644,509	99.29	41	355,491	0.71	3,966	50,000,000	100.00

b) Analysis of Shareholders

I. Resident / Non-Resident

	31st December 2011			31st December 2010		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	3,925	49,644,509	99.29	3,643	37,306,400	99.48
Non-Resident	41	355,491	0.71	22	193,600	0.52
Total	3,966	50,000,000	100	3,665	37,500,000	100

II. Individual / Institutional

	31st December 2011			31st December 2010		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,872	10,460,469	20.92	3,592	7,866,833	20.98
Institutional	94	39,539,531	79.08	73	29,633,167	79.02
Total	3,966	50,000,000	100	3,665	37,500,000	100

Share Information

13. Share Performance (Rule number 7.6 (XI))

The details relating to the Share Performance are given below.

	2011	2010	2009	2008	2007
Number of Transactions	2,831	4,812	7,084	3,641	6,141
Number of Shares Traded	2,903,300	13,201,900	10,535,000	3,566,900	7,343,100
Value of Shares Traded (Rs.)	215,698,120	784,213,895	391,270,975	85,513,100	195,286,050
CSE Turnover (Rs. Bn.)	546.26	570.30	142.50	110.50	105.00
Market Capitalisation (Rs. Mn.)					
HNB Assurance PLC	2,845	2,925	1,856	694	919
CSE	2,213,873	2,210,452	1,092,138	488,813	820,652
Dividend Per Share (Rs.)	2.10	1.80	1.50	1.25	1.00
Dividend payment (Rs. Mn.)	105.0	67.5	56.3	46.9	37.5
Dividend payout (%)	38.23	27.92	27.93	28.52	30.41
Basic Earnings Per Share (Rs.)	5.74	5.38*	4.49*	3.66*	2.75*
Net Asset Value Per Share (Rs.)	32.19	27.10	22.16	18.03	14.64
Market Price Per Share (Rs.)					
Highest	90.00	90.00	57.00	27.00	37.00
Lowest	42.50	45.00	17.25	17.00	18.00
Year end (VWA)	56.90	78.00	49.50	18.25	24.50
P/E Ratio (Times)	9.91	12.33*	10.01*	5.87*	9.53*

* 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 6 to the Financial Statements in page 242.

15. Increase in the Stated Capital (Rule number 7.6 (XIII))

The details of increase in stated capital during the year is given below.

Capitalisation of Reserves

At an Extra-Ordinary General Meeting held on 29th March 2011, 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. Subsequent to the Capitalisation of Reserves, the number of shares of the Company increased to 43,750,000.

Rights Issue

In addition, members also approved a Rights Issue of Shares in order to raise additional funds of Rs. 390,625,000/-. Accordingly, another 6,250,000 new Ordinary Shares were issued under this on the basis of 1 new Ordinary Share for every 7 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 has increased to 50 Million and the Stated Capital thereon is Rs. 1,171,875,000.

Purpose of raising new capital

The Capitalisation of Reserves and the Rights Issue of shares were broadly focused on expanding the capital base of the Company due to following reasons;

- The Insurance Board of Sri Lanka (IBSL) has indicated that it is planning to increase the Stated Capital per line of business (Life and General) to Rs. 500 Million each. 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. After the above mentioned issue of new shares, the Company's stated capital has increased to Rs. 1.17 Billion which is above the IBSL's proposed requirements.

- b) IBSL is planning to introduce a Risk Based Capital (RBC) model in place of the current solvency rules and this may necessitate a higher capital requirement depending on each Company's scale of operation, product mix and portfolio of investments.
- c) The Company has been growing fast since its inception and is geared for an accelerated growth over the next few years too. Additional capital will be required to support its business growth. Accordingly, the Company needs to invest in the expansion of its branch network, upgrading systems and building its brand image, etc.

The Company has been utilising the money raised through the Rights Issue for the above purposes and has not deviated from the purpose set out at the time of raising new capital.

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 113 to 115.

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 30 to the Financial Statements.

Quarterly Analysis

2011 and 2010

Quarterly Analysis 2011

Company Statement of Income

	1st Quarter Jan-Mar 11 Rs. '000	2nd Quarter Apr-Jun 11 Rs. '000	3rd Quarter Jul-Sep 11 Rs. '000	4th Quarter Oct-Dec 11 Rs. '000	Total Jan-Dec 11 Rs. '000
Revenue	657,610	662,899	722,152	784,209	2,826,870
Gross Written Premium	684,016	714,519	773,746	830,230	3,002,511
Premiums Ceded to Reinsurers	(99,796)	(138,885)	(130,489)	(141,451)	(510,621)
Net Written Premium	584,220	575,634	643,257	688,779	2,491,890
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	675,452	2,349,620
Benefits, Losses and Expenses					
Insurance Claims and Benefits (Net)	(198,780)	(208,297)	(254,585)	(203,471)	(865,133)
Increase in Life Insurance Fund	(157,640)	(197,541)	(202,173)	(48,398)	(605,752)
Underwriting and Net Acquisition Costs	(67,584)	(37,352)	(56,114)	(71,078)	(232,128)
Other Insurance Related Costs	(3,511)	(3,958)	(4,303)	(5,738)	(17,510)
Total Benefits, Losses and Expenses	(427,515)	(447,148)	(517,175)	(328,685)	(1,720,523)
Net Earned Premium Less Benefits, Losses and Expenses	92,424	102,140	87,766	346,767	629,097
Other Revenue					
Income from Investments and Other Income	137,671	113,611	117,211	108,757	477,250
Expenses					
Other Operating, Investment Related and Administration Expenses	(200,771)	(184,541)	(187,179)	(233,454)	(805,945)
Profit Before Taxation	29,324	31,210	17,798	222,070	300,402
Income Tax Expense	(4,586)	(6,588)	(4,400)	(10,198)	(25,772)
Profit for the Period	24,738	24,622	13,398	211,872	274,630

Quarterly Analysis 2010

Company Statement of Income

	1st Quarter Jan-Mar 10 Rs. '000	2nd Quarter Apr-Jun 10 Rs. '000	3rd Quarter Jul-Sep 10 Rs. '000	4th Quarter Oct-Dec 10 Rs. '000	Total Jan-Dec 10 Rs. '000
Revenue	525,635	535,136	618,843	681,626	2,361,240
Gross Written Premium	538,028	526,173	661,408	702,574	2,428,183
Premiums Ceded to Reinsurers	(102,429)	(113,467)	(114,499)	(119,066)	(449,461)
Net Written Premium	435,599	412,706	546,909	583,508	1,978,722
Net Change in Reserves for Unearned Premium	(28,500)	476	(52,494)	(53,844)	(134,362)
Net Earned Premium	407,099	413,182	494,415	529,664	1,844,360
Benefits, Losses and Expenses					
Insurance Claims and Benefits (Net)	(142,147)	(150,914)	(177,863)	(177,213)	(648,137)
Increase in Life Insurance Fund	(140,169)	(135,712)	(195,426)	(60,426)	(531,733)
Underwriting and Net Acquisition Costs	(43,271)	(25,843)	(45,475)	(50,402)	(164,991)
Other Insurance Related Costs	(4,856)	(4,197)	(4,248)	(2,457)	(15,758)
Total Benefits, Losses and Expenses	(330,443)	(316,666)	(423,012)	(290,498)	(1,360,619)
Net Earned Premium Less Benefits, Losses and Expenses	76,656	96,516	71,403	239,166	483,741
Other Revenue					
Income from Investments and Other Income	118,536	121,954	124,428	151,962	516,880
Expenses					
Other Operating, Investment Related and Administration Expenses	(166,577)	(184,833)	(174,603)	(205,083)	(731,096)
Profit Before Taxation	28,615	33,637	21,228	186,045	269,525
Income Tax Expense	(8,506)	(9,468)	(4,557)	(5,255)	(27,786)
Profit for the Period	20,109	24,169	16,671	180,790	241,739

Decade at a Glance

Statement of Income for the year ended 31st December,	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
GENERAL INSURANCE										
Gross Written Premium	1,712,144	1,343,703	1,130,781	924,709	704,577	618,502	469,929	338,708	243,392	122,232
Net Earned Premium	1,161,949	859,077	675,939	541,463	468,595	362,540	270,059	199,777	134,654	26,328
Income from Investments and Other Income	161,461	177,585	157,308	126,784	85,880	56,164	38,506	31,088	28,377	32,165
Net Claims Incurred	(802,372)	(588,237)	(448,210)	(363,813)	(291,283)	(219,336)	(144,548)	(123,751)	(59,632)	(22,399)
Net Commission Incurred	(2,811)	12,539	1,887	(6,272)	1,546	(6,058)	(4,947)	(4,957)	(7,460)	(1,847)
Expenses	(389,825)	(347,439)	(285,843)	(228,288)	(186,406)	(130,609)	(107,061)	(85,038)	(61,502)	(28,272)
Profit Before Taxation	128,402	113,525	101,081	69,874	78,332	62,701	52,009	17,119	34,437	5,975
LIFE INSURANCE										
Gross Written Premium	1,290,367	1,084,480	984,866	914,170	767,576	503,321	354,181	205,885	104,436	35,297
Net Written Premium	1,187,671	985,283	891,808	834,218	698,048	451,920	318,684	188,980	95,009	32,755
Income from Investments and Other Income	320,264	339,295	311,730	217,223	114,920	53,497	26,483	12,208	6,172	1,140
Net Benefits Incurred	(62,761)	(59,900)	(63,701)	(44,669)	(25,595)	(14,924)	(12,183)	(7,673)	(1,478)	(129)
Net Commission Incurred	(221,041)	(177,530)	(151,995)	(161,894)	(154,212)	(115,132)	(88,675)	(58,785)	(20,960)	(1,427)
Expenses	(446,381)	(399,415)	(364,834)	(265,047)	(195,208)	(138,458)	(103,259)	(49,191)	(23,541)	(3,312)
Increase in Life Insurance Fund	(605,752)	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)	(85,539)	(55,202)	(29,027)
Profit Before Taxation	172,000	156,000	130,000	100,000	65,000	30,000	10,000	-	-	-
COMPANY										
Gross Written Premium	3,002,511	2,428,183	2,115,647	1,838,879	1,472,153	1,121,823	824,110	544,593	347,828	157,529
Net Earned Premium	2,349,620	1,844,360	1,567,747	1,375,681	1,166,643	814,460	588,743	388,757	229,663	59,083
Income from Investments and Other Income	481,725	516,880	469,038	344,007	200,800	109,661	64,989	43,296	34,549	33,305
Net Claims and Benefits (Net)	(865,133)	(648,137)	(511,911)	(408,482)	(316,878)	(234,260)	(156,731)	(131,424)	(61,110)	(22,528)
Net Commission Incurred	(223,852)	(164,991)	(150,108)	(168,166)	(152,666)	(121,190)	(93,622)	(63,742)	(28,420)	(3,274)
Expenses	(836,206)	(746,854)	(650,677)	(493,335)	(381,614)	(269,067)	(210,320)	(134,229)	(85,043)	(31,584)
Increase in Life Insurance Fund	(605,752)	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)	(85,539)	(55,202)	(29,027)
Profit Before Taxation	300,402	269,525	231,081	169,874	143,332	92,701	62,009	17,119	34,437	5,975
Income Tax Expense	(25,772)	(27,786)	(29,471)	(5,401)	(20,000)	(1,377)	(1,720)	(733)	1,374	(1,109)
Profit for the Year	274,630	241,739	201,610	164,473	123,332	91,324	60,289	16,386	35,811	4,866
Basic Earnings per Share (Rs.) (Restated)	5.74	5.38	4.49	3.66	2.75	2.03	1.34	0.36	0.80	0.11
Dividend per Share (Rs.)	2.10	1.80	1.50	1.25	1.00	1.00	0.50	-	-	-

Decade at a Glance

Balance Sheet as at 31 st December,	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
GENERAL INSURANCE										
Assets										
Investments	1,899,778	1,161,203	1,031,342	774,477	627,655	530,914	442,077	352,050	307,301	267,092
Intangible Assets	26,673	31,535	16,102	17,316	17,603	17,982	21,175	17,391	4,893	-
Property, Plant and Equipment	117,292	126,398	110,896	83,566	68,064	54,096	44,881	27,486	33,713	7,396
Reinsurance Receivable	103,361	103,814	57,541	59,289	24,683	7,620	14,268	1,558	1,499	-
Premium Receivable from Policyholders	231,385	231,929	157,029	120,922	86,721	95,572	67,538	67,536	48,350	36,130
Other Assets	310,517	265,995	251,675	184,361	121,267	105,320	98,798	68,777	16,929	9,834
Cash and Cash Equivalents	127,259	68,349	48,848	77,332	71,181	66,785	42,838	36,839	25,165	16,700
Total Assets	2,816,265	1,989,223	1,673,433	1,317,263	1,017,174	878,289	731,575	571,637	437,850	337,152
Liabilities and Equity										
Liabilities										
Insurance Provision - General	924,262	730,658	599,364	470,206	340,562	319,538	267,020	210,611	114,841	53,831
Other Liabilities	170,566	163,913	165,321	110,800	84,539	51,754	64,970	30,827	18,924	15,858
Reinsurance Creditors	82,157	56,642	62,314	50,504	36,375	52,661	24,961	17,022	8,017	7,802
Employee Benefits	29,564	21,670	15,583	9,637	6,555	3,525	2,637	1,479	756	160
Total Liabilities	1,206,549	972,883	842,582	641,147	468,031	427,478	359,588	259,939	142,538	77,651
Equity										
Stated Capital	1,171,875	375,000	375,000	375,000	375,000	250,000	250,000	250,000	250,000	250,000
Revenue Reserves	437,841	641,340	455,851	301,116	174,143	200,811	121,987	61,698	45,312	9,501
Total Equity	1,609,716	1,016,340	830,851	676,116	549,143	450,811	371,987	311,698	295,312	259,501
Total Liabilities and Equity	2,816,265	1,989,223	1,673,433	1,317,263	1,017,174	878,289	731,575	571,637	437,850	337,152

Balance Sheet as at 31 st December,	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
LIFE INSURANCE										
Assets										
Investments	2,755,264	2,242,702	1,686,073	1,263,166	852,943	513,475	335,222	177,987	89,207	27,878
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	-
Loans to Life Policyholders	20,097	15,000	10,338	4,908	1,674	1,286	993	-	-	-
Reinsurance Receivable	27,849	18,617	16,283	10,025	6,234	8,647	2,271	-	-	-
Other Assets	327,756	244,311	219,625	150,279	78,697	31,848	20,047	12,308	1,584	541
Cash and Cash Equivalents	62,194	13,005	45,252	39,939	44,890	36,981	13,102	19,028	14,707	5,522
Total Assets	3,219,639	2,558,981	1,998,268	1,482,210	991,707	597,195	374,833	212,076	107,977	33,941
Liabilities										
Insurance Provision - Life	2,990,998	2,385,246	1,853,513	1,360,505	880,674	507,721	300,818	169,768	84,229	29,027
Other Liabilities	195,970	144,988	117,221	87,489	68,059	53,152	64,009	32,577	18,247	3,603
Reinsurance Creditors	28,106	25,341	24,937	32,535	42,052	35,867	9,542	9,489	5,441	1,305
Employee Benefits	4,565	3,406	2,597	1,681	922	455	464	242	60	6
Total Liabilities	3,219,639	2,558,981	1,998,268	1,482,210	991,707	597,195	374,833	212,076	107,977	33,941

Balance Sheet as at 31st December,	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
COMPANY										
Assets										
Investments	4,655,042	3,403,905	2,717,415	2,037,643	1,480,598	1,044,389	777,299	530,037	396,508	294,970
Intangible Assets	48,876	52,308	30,755	23,058	20,539	20,402	21,379	17,507	4,943	-
Property, Plant and Equipment	121,568	130,971	117,070	91,717	72,397	57,182	47,875	30,123	36,142	7,396
Loans to Life Policyholders	20,097	15,000	10,338	4,908	1,674	1,286	993	-	-	-
Reinsurance Receivable	131,210	122,431	73,824	69,314	30,917	16,267	16,539	1,558	1,499	-
Premium Receivable	231,385	231,929	157,029	120,922	86,721	95,572	67,538	67,536	48,350	36,130
Other Assets	638,273	510,306	471,170	334,640	199,964	136,620	118,845	81,085	18,513	10,375
Cash and Cash Equivalents	189,453	81,354	94,100	117,271	116,071	103,766	55,940	55,867	39,872	22,222
Total Assets	6,035,904	4,548,204	3,671,701	2,799,473	2,008,881	1,475,484	1,106,408	783,713	545,827	371,093
Liabilities and Equity										
Liabilities										
Insurance Provision - Life	2,990,998	2,385,246	1,853,513	1,360,505	880,674	507,721	300,818	169,768	84,229	29,027
Insurance Provision - General	924,262	730,658	599,364	470,206	340,562	319,538	267,020	210,611	114,841	53,831
Other Liabilities	366,536	308,901	282,542	198,289	152,598	104,906	128,979	63,404	37,171	19,461
Reinsurance Creditors	110,263	81,983	87,251	83,039	78,427	88,528	34,503	26,511	13,458	9,107
Employee Benefits	34,129	25,076	18,180	11,318	7,477	3,980	3,101	1,721	816	166
Total Liabilities	4,426,188	3,531,864	2,840,850	2,123,357	1,459,738	1,024,673	734,421	472,015	250,515	111,592
Equity										
Stated Capital	1,171,875	375,000	375,000	375,000	375,000	250,000	250,000	250,000	250,000	250,000
Revenue Reserves	437,841	641,340	455,851	301,116	174,143	200,811	121,987	61,698	45,312	9,501
Total Equity	1,609,716	1,016,340	830,851	676,116	549,143	450,811	371,987	311,698	295,312	259,501
Total Liabilities and Equity	6,035,904	4,548,204	3,671,701	2,799,473	2,008,881	1,475,484	1,106,408	783,713	545,827	371,093

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Investor Information										
Return on Equity	17.06%	23.79%	24.27%	24.32%	22.46%	20.26%	16.21%	5.26%	12.13%	1.88%
Market Price per Share as at 31st Dec (VWA) (Rs.)	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 & Rights Issue	56.90	66.31	44.94	21.50	26.19	26.56	14.19	14.06	12.94	-
Price Earning Ratio (Times)	9.91	12.33	10.01	5.87	9.53	13.06	10.56	38.53	16.22	-
Earnings Yield	10.09%	8.11%	9.99%	17.02%	10.50%	7.64%	9.44%	2.56%	6.18%	-
Dividend Yield	3.69%	2.31%	3.03%	6.85%	4.08%	4.00%	3.92%	-	-	-
Market Capitalisation (Rs. Mn)	2,845	2,925	1,856	694	919	625	319	313	256	-
Employee Information										
Number of Employees	662	597	540	457	377	308	262	208	180	99
GWP per Employee (Rs. Mn)	4.54	4.07	3.92	4.02	3.90	3.64	3.15	2.62	1.93	1.59
Net Profit per Employee (Rs. '000)	414.85	404.92	373.35	359.90	327.14	296.51	230.11	78.78	198.95	49.15
General Insurance Operations										
Net Claims Ratio	69%	68%	66%	67%	62%	60%	54%	62%	44%	85%
Expense Ratio	34%	39%	42%	43%	39%	38%	41%	45%	51%	114%
Combined Ratio	103%	107%	108%	110%	102%	98%	95%	107%	95%	199%

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 - General Insurance Business

The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the Balance Sheet date, including Incurred But Not Reported (IBNR), Claims Incurred But Not Enough Reported (IBNER) claims and claims handling expenses, less amounts already paid in respect of those claims.

Deferred Acquisition Cost - General Insurance Business

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the Balance Sheet date which are carried from one accounting period to subsequent accounting periods.

Net Earned Premium - General Insurance Business

Gross written premium adjusted for reinsurance premium and for the increase or decrease in unearned premium.

Net Written Premium

The balance of the Gross Written Premium after deduction of any premium paid or payable by the insurer for reinsurance ceded. Commonly identifies as Net Premium.

Policy Loan

A loan from the insurer to a policyholder on the security of the surrender value of a long term insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

Premium Ceded to Reinsurers

The premium paid by the ceding company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

Reinsurance

An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (cedent – the primary insurer) against part or all of the liability assumed by the cedent under policy or policies of insurance.

Reinsurance Commission

Commission / discount received or receivable in respect of premiums paid or payable to a reinsurer.

Unearned Premium

It represents the portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the Balance Sheet date.

Unearned Premium Reserve

A fund kept by a general insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

Key Insurance Ratios

$$\text{Net Claims Ratio} = \frac{\text{Net claims incurred} \times 100}{\text{Net earned premium}}$$

$$\text{Expense Ratio} = \frac{\text{Net Expense incurred} \times 100}{\text{Net earned premium}}$$

$$\text{Combined Ratio} = \frac{(\text{Net claims incurred} + \text{Expenses}) \times 100}{\text{Net earned premium}}$$

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. 7 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 General 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

R Theagarajah - *Acting Chairman*

Manjula de Silva - *Managing Director*

M U de Silva

J M J Perera

J D N Kekulawala

Pratap Kumar de Silva

D M de S Wijeyeratne

Sarath Ratwatte

Board Secretary

Shiromi Halloluwa

Attorney-at-Law & Notary Public

Audit Committee

D M de S Wijeyeratne - *Chairman*

J D N Kekulawala

Sarath Ratwatte

Remuneration Committee

M U de Silva - *Chairman*

D M de S Wijeyeratne

Sarath Ratwatte

Investment Committee

J D N Kekulawala - *Chairman*

Sarath Ratwatte

Manjula de Silva

Rajive Dissanayake

Executive Committee

Manjula de Silva - *Managing Director*

Lalith Fernando - *General Manager - Marketing and Distribution*

Indrani Weerasinghe - *General Manager - Life*

Niranjana Manickam - *General Manager - General*

Namal Gunawardhane - *Head of IT*

Chandana L Aluthgama - *Head of Corporate Business Development*

Vipula Dharmapala - *Head of Finance*

Consultant Actuaries

Life Insurance

Actuarial and Management Consultants (Pvt) Ltd.,
1st Floor, 434, R A de Mel Mawatha, Colombo 03.

General 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 Ford, Rhodes, Thornton & Co.,

Chartered Accountants,

32 A, Sir Mohamed Macan Markar Mawatha, Colombo 03.

Credit Rating (Fitch)

National Long Term Rating A (Ika)

Financial Strength A (Ika)

Bankers

Hatton National Bank PLC

Commercial Bank of Ceylon PLC

Sampath Bank PLC

Bank of Ceylon

Notice of Meeting

Notice is hereby given that the Tenth (10th) Annual General Meeting of HNB Assurance PLC is convened on Thursday the Twenty Ninth (29th) day of March 2012, 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.

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 2011, the Auditors' Report thereon.

To declare a dividend of Rs. 2.10 per share for the year 2011, to the shareholders as recommended by the Directors.

To re-elect Mr D M de Siva Wijeyeratne who retires by rotation at the Annual General Meeting, a Director of the Company in terms of Article 86 of the Articles of Association of the Company.

To re-appoint Mr M U de Silva who retires at the Annual General Meeting, having attained the age of 70 years, 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 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".*

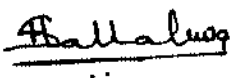
To re-appoint Mr J E P A de Silva who retires at the Annual General Meeting, having attained the age of 73 years, a Director of the Company and to adopt the following resolution :-

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 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".*

To re-appoint the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.

To authorise the Directors to determine payments for the year 2012 for charitable and other purposes.

By Order of the Board
HNB ASSURANCE PLC



Shiromi Halloluwa
Board Secretary

Colombo, Sri Lanka.
30th January, 2012.

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 Rajendra Theagarajah or failing him
Manjula Hiranya de Silva or failing him Madapathage Upali de Silva or failing him Joseph Eardley Pratapkumar Aditya de Silva
or failing him Deepal Manik de Silva Wijeyeratne or failing him Sarath Carlyle Ratwatte or failing him Joseph Michael Jayanth
Perera or failing him Joseph Dacius Nihal Kekulawala, 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 Tenth Annual Ordinary General Meeting of the Company
to be convened on Thursday the 29th day of March 2012 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. 2.10 per share	In favour	
	Against	
To re-elect Mr D M de Silva Wijeyeratne, a Director of the Company	In favour	
	Against	
To re-appoint Mr. M U de Silva, a Director of the Company	In favour	
	Against	
To re-appoint Mr J E P A de Silva, a Director of the Company	In favour	
	Against	
To re-appoint 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.....day2012.

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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