



Every Stage of Your Life.



Annual Report 2009



"We're there... At every stage of your life."

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

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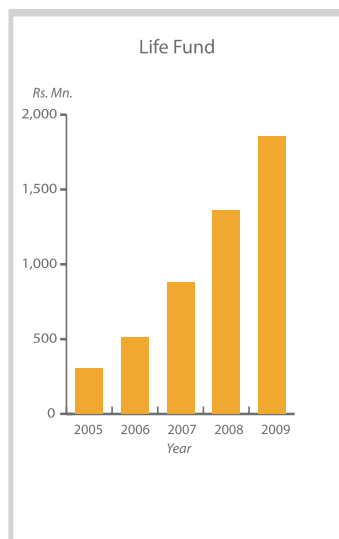
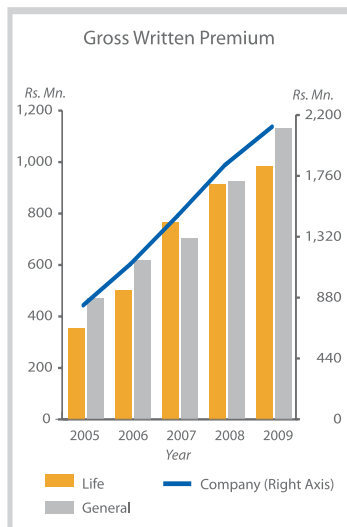
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Financial Highlights

Rs. **2.1** Billion Combined GWP

15% Growth in Turnover

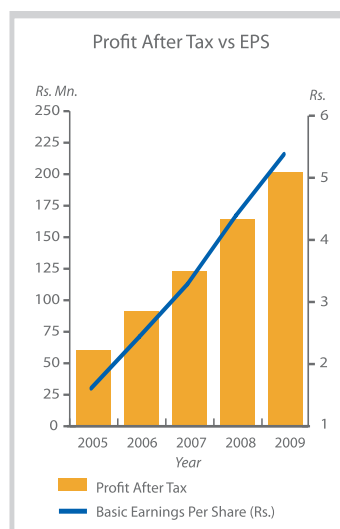
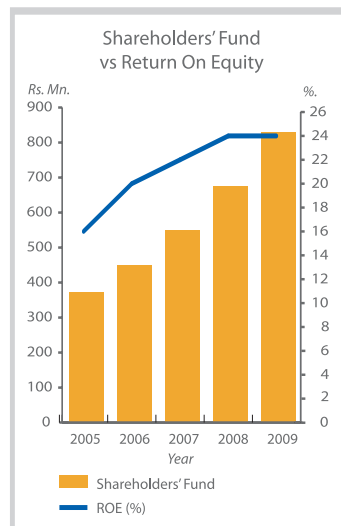
	2009	2008	%
Gross Written Premium			
- General (Rs. Mn.)	1,131	925	22
Gross Written Premium			
- Life (Rs. Mn.)	985	914	8
Gross Written Premium			
- Combined (Rs. Mn.)	2,116	1,839	15
Life Fund (Rs. Mn.)	1,854	1,361	36



Rs. **202** Million Profit After Tax

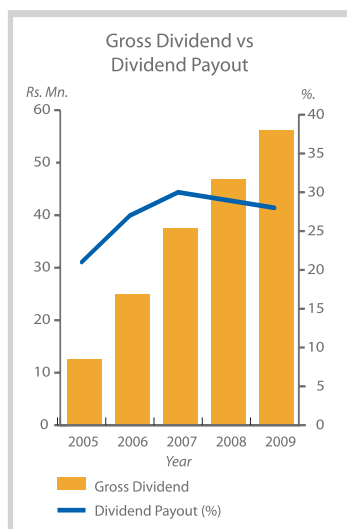
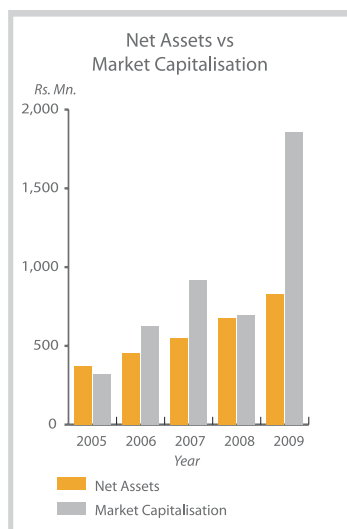
23% Growth in Profit After Tax

	2009	2008	%
Life Surplus (Rs. Mn.)	130	100	30
Profit Before Tax (Rs. Mn.)	231	170	36
Profit After Tax (Rs. Mn.)	202	164	23
Basic Earnings Per Share (Rs.)	5.38	4.39	23



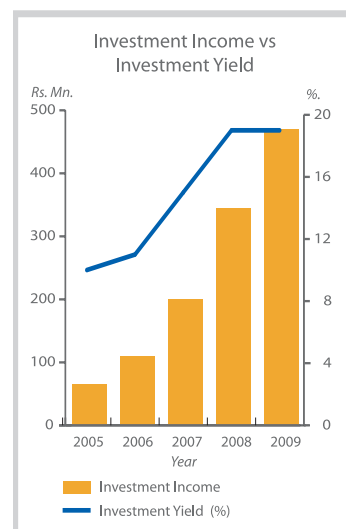
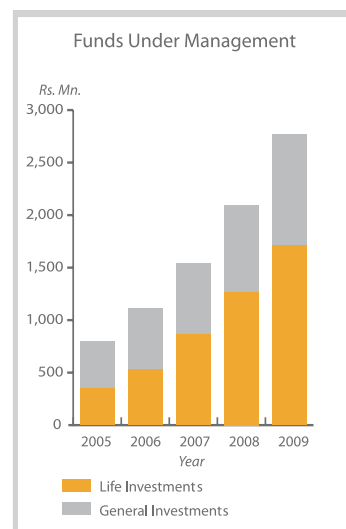
Rs. **1.86** Billion Market Capitalisation
167% Growth over the last year

	2009	2008	%
Market Capitalisation (Rs. Mn.)	1,856	694	167
Net Assets Per Share (Rs.)	22.16	18.03	23
Dividend Per Share (Rs.)	1.50	1.25	20
Market Price Per Share (Rs.) (Last Traded Price)	49.50	18.50	167



Rs. **2,768** Million in Investments
Funds Under Management grew by **32%**

	2009	2008	%
Investments - Life (Rs. Mn.)	1,709	1,269	35
Investments - General (Rs. Mn.)	1,059	824	29
Total Investments (Rs. Mn.)	2,768	2,093	32
Investment Income (Rs. Mn.)	468	342	37



"We're there... At every stage of your life."



'Dedunu' – total protection for your little ones...

Dedunu life insurance policy is the best way to secure your child against whatever the future brings

Corporate Reports

Chairman's Review



“The Company received several noteworthy recognitions during the year. First, it received an upgrading of its National Long Term Rating from 'A- (lka)' to 'A (lka)' by Fitch Rating Lanka Limited who also reaffirmed its Insurer Financial Strength Rating at 'A (lka)'. This remains the second-best rating received by a local insurance company to date.

Secondly, the Company received a number of awards for its recent Annual Report.”

Rienzie T. Wijetilleke
Chairman

On behalf of the Board of Directors, I am pleased to welcome you to the eighth Annual General Meeting of the Company and present to you the Annual Report and Financial Statements for the year ended 31st December 2009.

The Economy

During the year 2009, we all witnessed with much relief the final end to the very serious security situation that prevailed in the country for almost three decades. On behalf of all our stakeholders in the Company, I wish to place on record our congratulations to the Head of State as well as the security forces for accomplishing a most arduous task although at a very high cost to the country. The post conflict environment which we are now experiencing should result in the year 2010 being labelled as the year of real takeoff for the country. But for these hopes to become a reality, the whole country, particularly the political groups, business community and civil society leadership should seize this unprecedented opportunity with a sense of responsibility and positive outlook. Such a situation will result in the commencement of a new era.

The Presidential Election has given the Head of State a new mandate. This will be followed by a General Election where a new Government will be voted into power hopefully with a stable Parliament. By the time we reach the second quarter of this year, the country will have a Head of State and a Parliament with a new mandate.

In this scenario, it is reasonable for us to expect to see many changes in the country's development in every sector. For any plans to get executed successfully, there is a necessity for all to

collectively work as hard as possible maintaining basic governance, minimising waste and corruption free mechanisms, and ensuring we make best use of the resources that are available to us.

Due to the continuing impact of the global recession, the economy has not yet shown signs of a significant recovery from the downturn experienced since the second half of last year. Only a few sectors such as tourism have so far been able to reap the benefits of the conflict coming to an end and this too in a very limited extent considering the vast potential which still remains untapped. GDP growth for the year is expected to slow down to about 3.5%, but it is encouraging to note that the third quarter of the year has recorded much faster growth compared to the first two quarters.

One positive development which I greatly welcome is the significant reduction brought about in the rate of inflation over the previous year which caused many concerns. The point-to-point rate of inflation fell dramatically to reach a trough of 0.7% by September after which it edged up slightly to reach 4.8% by the year-end. The annual average rate of inflation recorded a healthy 3.4%. In line with the falling inflation rate, market interest rates also declined sharply with the yield on 3-month treasury bills dropping to 7.25% by November. By the year-end, it had moved up marginally to 7.67%. The low interest rates coupled with the positive post-war sentiments resulted in a strong performance by the Colombo Stock Exchange (CSE) which recorded a phenomenal growth of 125.25% during the year making it the second best performing market in the world in 2009.

As expected, the insurance industry experienced a slow-down with both General and Life Insurance markets experiencing a decline. Apart from the impact of the low level of economic activity, the industry also had to contend with several internal issues which seriously affected industry growth. The performance of your Company in the year 2009 needs to be viewed against this backdrop.

Regulatory Framework

The bill to amend the Regulation of Insurance Industry Act, No. 43 of 2000 was finally presented to Parliament during the year under review. It contains several far reaching amendments such as permitting insurers and brokers to appoint institutional agents. At the same time, I note with concern the inclusion of a provision to segregate the Life and General Insurance business carried on by an existing insurer into two separate companies. The industry has protested strongly against this proposal due to the additional burden it would impose on companies, especially the small to medium sized players. I understand that the Insurance Board of Sri Lanka (IBSL) has agreed to have this section removed before the bill is enacted and would urge the authorities to ensure this is done due to the adverse impact it could have on the industry.

Another noteworthy development that causes concern is the entry of the National Insurance Trust Fund (NITF) into the mainstream General Insurance market as a direct insurer. This causes two problems. On one hand, NITF performs several vital functions for the industry such as managing the Strike, Riot, Civil Commotion and Terrorism Fund and accepting the mandatory reinsurance ceded by all industry players. This provides it privileged access to vital information relating to other direct insurers operating in the market. On the other hand, it has been specifically exempted from the provisions of the Regulation of Insurance Industry Act and the purview of IBSL. Hence, it has been allowed to function as an unregulated player in a regulated market, disturbing the level-playing field that existed before.

Performance

Notwithstanding the difficult environment in which the Company had to operate, it was able to achieve commendable growth rates in both turnover and profit. Even in the midst of a stagnant market, the Company's turnover grew by 15% to record Rs. 2,116 Million crossing the Rs. 2 Billion mark for the first time in its history. It is significant to note that the Company crossed the Rs. 1 Billion mark in 2006 and has doubled it within 3 years.

As in previous years, the Company was able to deliver a healthy growth in its profit as well. The Profit Before Tax (PBT) grew by 36% to record Rs. 231 Million while the Profit After Tax (PAT) grew by 23% to reach Rs. 202 Million. This is the first year in which both profit measures crossed the Rs. 200 Million mark.

Social Responsibility

Fast emerging as a highly respected corporate citizen, the Company undertook numerous meaningful activities to add value to the community at large. The ambitious project started in the previous year to provide water to needy schools that lacked access to water was expanded to include two more schools, one from Jaffna and another from Galle. The total number of schools which gained access to water through this well executed programme now stands at nine.

Recognising the most pressing need in the immediate aftermath of the war, the Company came forward to finance the construction of several clusters of toilets in selected IDP camps in the North. Having identified prisoners and young offenders as another part of our community deserving attention, the Company donated several computers to the Pallekele Open Prison Camp and provided food and other personal needs to the Young Offenders Training Centre at Negombo. Taking cognizance of the growing needs of the public health care sector, the Company undertook to renovate a surgical ward of the Teaching Hospital in Jaffna while donating much needed medical supplies to the Neurology Unit of the General Hospital, Colombo.

Chairman's Review

The Company also lived up to its reputation as a promoter of the Arts by sponsoring a well-attended youth drama festival at the Lionel Wendt in association with the Lanka Children's and Youth Theatre Organisation (LCYTO) featuring two award-winning plays that focused on issues pertaining to youth. It also supported an event conducted by the 'Pehesara Sansadaya' to felicitate three outstanding local artistes - T.M. Jayaratne, Wasantha Obeysekera and Cyril Wickramage - who have excelled in their respective fields.

As a sponsor of major national events, the Company supported the prestigious SLIM Brand Excellence Awards conducted by the Sri Lanka Institute of Marketing (SLIM) as a strategic partner. The Company was also associated with the United Nations Day celebrations organised by the United Nations Association of Sri Lanka, as in previous years.

Recognitions

The Company received several noteworthy recognitions during the year. First, it received an upgrading of its National Long Term Rating from 'A- (Ika)' to 'A (Ika)' by Fitch Rating Lanka Limited who also reaffirmed its Insurer Financial Strength Rating at 'A (Ika)'. This remains the second best rating received by a local insurance company to date.

Secondly, the Company received a number of awards for its recent Annual Report. Among them was the first international award received by the Company, that from the South Asian Federation of Accountants (SAFA), the submission being placed second runner-up in the non-banking Financial Sector in the South Asian Region. At the Annual Report Awards conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL), the Company bagged a joint silver award in the Corporate Governance Disclosures category while in the Insurance sector, it won the bronze. The Company also clinched the first place in the Small Scale category at the Sustainability Awards conducted by ACCA Sri Lanka.

Thirdly, the Company's brand was featured yet again in the list of 'Top 100 Brands' compiled by Lanka Monthly Digest in association with Brand Finance.

Future Outlook

The Company is strongly positioned to move forward, taking advantage of the numerous opportunities that are available within a unified and peaceful Sri Lanka. As a Company which maintained a strong presence in the North and East even during the conflict years, it has earned the goodwill of the communities in those regions and therefore has a strong platform for an aggressive expansion in the immediate future. It has also developed the capability and network relationships needed to acquire and underwrite large risks that are likely to emerge in the area of infrastructure development. The extremely innovative advertising campaigns and promotional

activities carried out during 2009 have strengthened awareness of the Company brand among a retail customer base that is increasingly turning to the Company to fulfil their requirements for protection and investment. The stakeholders can therefore look forward to another steady and strong year of performance.

Appointments

During the year under review, one new appointment was made to the Board of Directors. I warmly welcome Mr. Sarath Ratwatte who joined the Board on the 30th January 2009. He falls into the category of independent directors in terms of Section 7.10 of the CSE Listing Rules and the Code of Best Practice on Corporate Governance issued jointly by the SEC and ICASL.

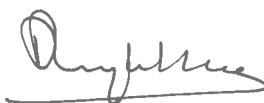
Appreciation

I take this opportunity to thank the Chairman, Director General and other officials of the Insurance Board of Sri Lanka for their guidance and continued support during the year under review.

I also thank my fellow Directors for their support and co-operation. The management and the staff have worked with great commitment to deliver satisfactory results under challenging conditions. I wish to commend them for a job well done.

Finally, I wish to convey my thanks to all our shareholders for the confidence and trust placed in us.

On behalf of the Board of Directors, I assure you that the Company will continue to steam ahead, overcoming whatever challenges faced through the execution of carefully formulated strategies while upholding the highest standards of Corporate Governance.



Rienzie T. Wijetilleke
Chairman

28th January, 2010

Managing Director's Review



It gives me great pleasure to present a review of our Company's performance during the year ended 31st December 2009, which has been a period of significant achievement.

Financial Results

The year 2009 has been extremely satisfying for the team at HNB Assurance as we achieved 3 important milestones in it. We crossed the 2 Billion rupee mark in turnover, generating a turnover of Rs. 2,116 Million for the year. Doubling our turnover within the space of 3 years is indeed a remarkable achievement considering that we crossed the 1 Billion rupee mark only in the year 2006. We also managed to cross the 200 Million rupee mark in respect of both Profit Before Tax (PBT) and Profit After Tax (PAT) with PBT reaching Rs. 231 Million and PAT recording Rs. 202 Million. Also, during the year under



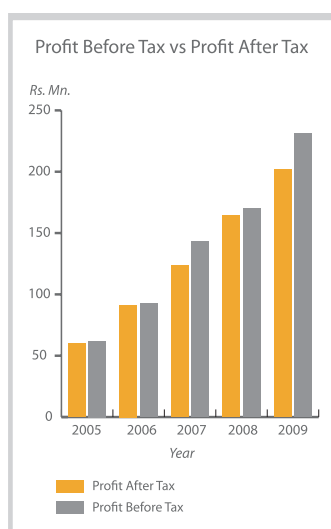
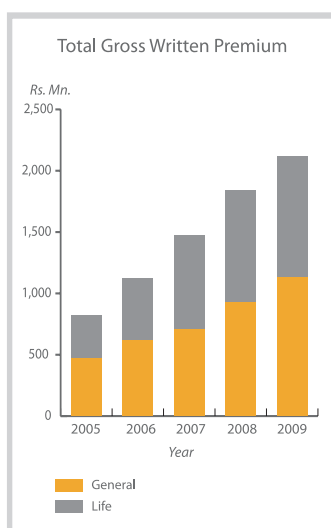
"We crossed the 2 Billion rupee mark in turnover, generating a turnover of Rs. 2,116 Million for the year. Doubling our turnover within the space of 3 years is indeed a remarkable achievement considering that we crossed the 1 Billion rupee mark only in the year 2006. We also managed to cross the 200 Million rupee mark in respect of both Profit Before Tax (PBT) and Profit After Tax (PAT) with PBT reaching Rs. 231 Million and PAT recording Rs. 202 Million."

Manjula de Silva
Managing Director

Managing Director's Review

review, our Market Capitalisation crossed the 2 Billion rupee mark in the month of October although it dipped slightly towards the end of the year to finish at Rs. 1.86 Billion.

The overall growth rate in turnover stood at 15% towards which the General Insurance business made a bigger contribution with a growth of 22%. Life Insurance business was only able to record a growth of 8% and this can be attributed to a great extent to the prevailing recession. These growth rates are nevertheless significant in a year in which many industry players experienced a decline in their premium income. The growth achieved in PBT and PAT was also commendable and stood at 36% and 23% respectively. The Company was also able to deliver a Return on Equity (ROE) of 24% in line with previous years.



Key Challenges

The year ended 31st December 2009 was one in which the insurance industry had to contend with numerous challenges. The global economic recession which started impacting Sri Lanka in the last quarter of 2008 gathered strength and began

to dampen the opportunities for growth in both the Life and General Insurance sectors. The low growth in lending and leasing activities by financial institutions due to low consumer demand had a negative effect on the flow of General Insurance business from these entities. But the greater effect was felt by the Life Insurance sector which saw a significant increase in policy lapsation across the industry. Adding to the impact of weak economic conditions, certain adverse developments that undermined the confidence people have in private sector financial institutions had a bearing on the insurance industry as well.

Key factors that contributed to satisfactory performance

In order to overcome the stagnant market conditions experienced during the year, the Company introduced several innovative new products especially in the area of Life Insurance. Taking advantage of the high interest rates that prevailed during the early part of the year, the Company offered a single premium investment policy with a high guaranteed return branded as 'Super 4'. This was a resounding success and generated a premium income in excess of Rs. 160 Million within a few months.

During the second half of the year, the Company introduced 'mylife', a unique Life Insurance policy exclusively targeting the youth and indeed the first of its kind introduced in Sri Lanka. With the support of its brand ambassadors, Bathiya and Santhush, the Company was able to conduct an innovative marketing campaign which generated a high level of interest throughout the country on a scale not previously experienced. Due to the success of the promotional campaign, which was backed up well by the distribution network and the field force, the Company was able to sell 2,445 'mylife' policies within a period of six months. The heightened brand awareness created by this campaign provided a boost to other products offered by the Company as well.

Apart from product innovation and brand building activities, the Company benefited from the greater diversification of distribution channels and this was especially evident in the area of General Insurance. While the volume of business generated by HNB declined due to the slow-down in lending activities, the excellent growth achieved by the broker and direct channels enabled the Company to record a satisfactory growth in General Insurance. The Company's success in capturing several large corporate accounts demonstrated its ability to handle large risks with the support of its strong network of reinsurance partners. Both corporate and retail clients as well as other financial institutions have begun to recognise the Company's financial stability and its commitment to high standards of Corporate Governance and this augurs very well for the future.

While the above factors contributed to top line growth, it was a challenge to manage claims and expenses within budgeted

levels to ensure a growth in bottom line from General Insurance. However, through the prudent management of both claims and expenses, the Company was able to restrict the Combined Ratio to 108% bringing it down from 110% recorded in 2008. Net Claims Ratio was reduced from 67% to 66% while the Expense Ratio was brought down from 43% to 42%. As a consequence, the underwriting deficit was contained at Rs. 56.2 Million.

The principal source of growth in profit from both Life and General Insurance was the phenomenal growth of 37% achieved in the investment income. The Company's investment management team was able to lock in a high proportion of funds belonging to both General and Life investment portfolios in high yielding fixed income securities that were available during the early part of the year. It was also possible to reverse provisions made previously in respect of the fall in value of equity investments due to the vastly improved performance of the stock market.

None of the above achievements would have been possible without the unstinted support of my dynamic team at HNB Assurance comprising General Managers, Heads of Divisions, Managers, members of staff, the Field Management and Insurance Advisors who worked tirelessly with a sense of purpose to deliver these results. I also wish to acknowledge the invaluable guidance and support received from the Chairman and the Board of Directors who set the direction to the team.

The Company received an outstanding level of support from managers and staff of all HNB branches, insurance brokers, other intermediaries, reinsurers, reinsurance brokers and other strategic partners to whom I wish to extend my sincere appreciation.

Key Issues to be addressed in 2010

There are several issues that need to be addressed in 2010 and all of them have been dealt with extensively in the Corporate Plan that has been formulated for the period 2010 - 12. A key challenge all local insurers will face in the coming year is the significant decline expected in investment income from fixed income securities due to the sharp reduction in interest rates. On one hand, HNB Assurance will try to mitigate the effect of falling yields by shifting a higher proportion of funds to other asset classes such as equities which are likely to offer a more attractive return, to the extent possible, subject to risk and solvency considerations. On the other hand, the Company will aim to reduce the Combined Ratio further and improve the profitability of the General Insurance business since a reduction in investment income to some extent is inevitable. The Company hopes to achieve this through the more effective management of both claims and expenses.

On the Life Insurance side, one significant challenge is to achieve a satisfactory growth in premium income without a significant contribution from high yielding single premium policies which fuelled growth in the last two years. The distribution management team will focus on acquisition and retention of mainstream endowment business with a renewed commitment to achieve this. A similar gap that needs to be covered on the General Insurance side will be the reduction in demand for terrorism covers. This too will have to be made up with the sale of other covers for which there is a demand.

The management team has identified the need for a greater customer focus that will help the Company differentiate its service from all its competitors. Accordingly, the theme for the year 2010 has been declared as 'Delighting Customers at Every Opportunity'. Numerous training and motivational programmes targeting the staff and the field force will be carried out on this theme to focus attention on delivering superior value to customers at every 'moment of truth' they experience with the Company. Recently upgraded IT capabilities will be put to greater use in order to offer an enhanced level of service to customers.

With regard to expansion of the distribution network, the Company has recognised that the North and East of the country offer the highest potential for growth in the immediate future, due to the end of the conflict. As such, while strengthening the existing network of branches already operating in these parts of the country, the Company plans to add two more branches in strategically important locations. The year 2010 will also witness an expansion in the level of marketing and training support being provided to these areas.

Future Outlook

The Company has built up an impressive track record of performance during the past eight years, that gives us the confidence to move forward, overcoming whatever challenges that we have to face from time to time. With the dawn of a new era devoid of the conflict which was holding back growth to a great extent, HNB Assurance looks forward to a period of accelerated growth, taking advantage of new and emerging opportunities. The formulation of sound strategies through a rigorous participatory process and their timely and effective execution supported by a strong monitoring and performance management process have been a critical force behind our success in the past. We strongly believe that it holds the key to our future success as well.



Manjula de Silva
Managing Director

Colombo, Sri Lanka
28th January, 2010

Board of Directors



RIENZIE T. WIJETILLEKE FCIB (London), FIB (Sri Lanka)
- *Chairman*

Non-Executive Director. Chairman since March 2004. He is also the Chairman of Hatton National Bank PLC, Sithma Development (Pvt) Ltd and Sunshine Holdings PLC, a Director of Nawaloka Hospitals PLC, Ceylon Biscuits Ltd and Mahaweli Reach Hotels PLC. He was Chairman of HNB Stockbrokers (Pvt) Ltd (up to 3rd November 2008) and HNB Securities Ltd (up to 4th November 2008). He was former Chairman of the Colombo Stock Exchange.

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. President of the Insurance Association of Sri Lanka. Committee Member of the Ceylon Chamber of Commerce. Former Director General - Public Enterprises Reform Commission of Sri Lanka. Also served at Eagle 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.

R THEAGARAJAH FCMA (UK), FCA (Sri Lanka), MBA (Cranfield), FIB (Hon) Sri Lanka
- *Director*

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 25 years experience in Banking including overseas assignments. Director of Acuity Partners (Private) Ltd,

Acuity Securities Ltd, Acuity Stockbrokers (Pvt) Ltd, Sithma Development (Pvt) Ltd, Chairman of Lanka Financial Services Bureau Ltd. He is also the Chairman of Sri Lanka Banks' Association (Guarantee) Ltd and Financial Ombudsman Sri Lanka (Guarantee) Ltd and Vice Chairman of the Asian Bankers Association.

M U DE SILVA FCIB (London)
- *Director*

Non-Executive Director. Retired Senior Deputy General Manager (Administration & Marketing), Hatton National Bank PLC. Counts over 43 years experience in Banking including 15 years at the Corporate Management level. Past President of Association of Professional Bankers. Past President of Chartered Institute of Bankers - Colombo Centre. Presently holds the position of Secretary General - Sri Lanka Banks' Association (Guarantee) Ltd. Director - Lanka Financial Services Bureau Ltd.

PRATAPKUMAR DE SILVA FICM (Sri Lanka), FICM (England)
- *Director*

Non-Executive Director. Chairman & Joint Managing Director 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. 54 years experience in the Finance Sector. 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 M DE S WIJEYERATNE ACA (Sri Lanka)

- Director

Non-Executive Director. He has 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. He was the 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 the CFO of the Pership Group of Companies.

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 38 years experience in Banking. Director of HNB Stockbrokers (Pvt) Ltd (up to 9th October 2009), Acuity Partners (Private) Ltd, Acuity Securities Ltd, Acuity Stockbrokers (Pvt) Ltd and Lanka Ventures PLC.

INDRANI GOONESEKERA Attorney-at-Law & Notary Public

- Board Secretary

Appointed Board Secretary in August 2001 at the incorporation of the Company. She is the Deputy General Manager (Legal) and the Board

Secretary of Hatton National Bank PLC and is a member of the Corporate Management of the Bank for over 13 years. She is also the Board Secretary of Acuity Securities Ltd (formerly known as HNB Securities Ltd) and Sithma Development (Pvt) Ltd.

SARATH RATWATTE FCMA (UK)

- Director

Non-Executive Director. Has 30 years of private sector experience in the fields of Accounting, Financial & Treasury management, Project Financing & Development, Investments and Risk Management. He has held senior positions in several multinational organisations and conglomerates in Sri Lanka and overseas. He 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.

J D N KEKULAWALA FCIB (London), FCA (England & Wales), MBA (Manchester)

- Director

Non-Executive Director. Chief Financial Officer of Hatton National Bank PLC. Counts over 25 years commercial banking experience including 16 years as a member of the Corporate Management of the Bank. Director of Sithma Development (Pvt) Ltd and Lanka Ventures PLC.

Operational Highlights

Company		2009		2008	
Gross Written Premium	(Rs. Mn.)	2,116		1,839	
Net Written Premium	(Rs. Mn.)	1,662		1,450	
Profit for the Year	(Rs. Mn.)	202		164	
Return on Equity (ROE)		24%		24%	
General Insurance					
Net claims ratio		66%		67%	
Expense ratio		42%		43%	
Combined ratio		108%		110%	
Life Insurance					
Net claims ratio		7%		5%	
Expense ratio		58%		51%	
Combined ratio		65%		56%	
Customers		2009		2008	
Number of Life Insurance policies		70,562		65,982	
Number of General Insurance policies		129,796		75,559	
Insurance claims and benefits (net) (Rs. Mn.)		512		408	
Number of new products		3		NIL	
Number of claims assessors		90		89	
Number of branches		47		43	
Employees		2009		2008	
Number of Staff		<i>Number</i>	<i>Percentage</i>	<i>Number</i>	<i>Percentage</i>
Sales staff		175	32%	130	28%
Non-sales staff		365	68%	327	72%
Total		540		457	
Staff turnover			16%		18%
Representation of Men and Women		2009		2008	
		<i>Male</i>	<i>Female</i>	<i>Male</i>	<i>Female</i>
Executive Committee		75%	25%	75%	25%
Management		84%	16%	86%	14%
Executives		67%	33%	71%	29%
Non - Executives		62%	38%	61%	39%
Career Development		2009		2008	
Number of training programmes		190		154	
Number of induction and familiarisation programmes		3		3	
Training cost per employee (Rs.)		15,217		12,531	
Field Staff		2009		2008	
Number of full time trainers		4		3	
Pass rate for Life Insurance technical competency test		72%		73%	
Number of field staff		1,546		2,200	
Commission paid to field staff (Rs. Mn.)		166		186	
Shareholders		2009		2008	
Market price per share as at 31st December (VWA) (Rs.)		49.50		18.25	
Basic Earnings per share (Rs.)		5.38		4.39	
Dividend per share (Rs.)		1.50		1.25	
Market capitalisation (Rs. Mn.)		1,856		694	
Price Earnings ratio (Times)		9.20		4.16	

Executive Committee



Left to Right

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

Lalith Fernando CMSLIM, EDDBA (Colombo), CII (Award) UK
- *General Manager - Marketing and Distribution*

Indrani Weerasinghe ACII (UK), BSc Hons (J'pura), PgDip Stat (J'pura), Chartered Insurer
- *General Manager - Life*

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

Management Team



1. Chandana L Aluthgama
BCom (Sp), FCMI, MBA (Colombo)
Head of Corporate Business Development

2. Namal Gunawardhane
BCom Hons (Delhi), BIT (India)
Head of IT

3. Vipula Dharmapala
BSC (Bus. Admin) Sp., ACA
Head of Finance

4. Donald Nandalal
BSc Eng (Hons), PG Dip B & Fin Ad (SL), AMIE (SL)
Manager - Engineering Services

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

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

7. Sajeewa Chandrasena
Regional Manager - Uva/Sabaragamuwa

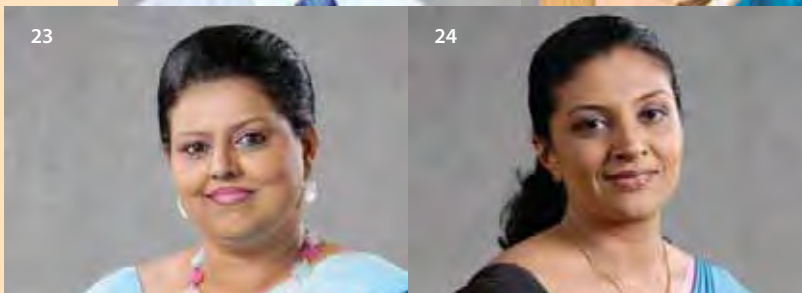
8. Asanka Unamboowe
LUTCF (USA)
Sales Manager - Bancassurance

9. Jehan Haniff
CII (Award) UK, Mgt. Diploma - CHS, AMSLIM
Manager - Training and Development

10. Hiran Fernandopulle
BCom (Special) Col
Zonal Manager - North Western

11. A R Bazlin Salih
Regional Manager - Southern

12. Saliya Dias
MSc, PhD, AllI
Manager - Life Underwriting



13. Manikavasakar Puviraj
BSc (Hons), Dip in HR
Zonal Manager - North and East

14. Vivekanandan Chitparan
Accountant

15. Hazana Caffoor
Dip-MGT
Manager -Motor

16. Dinesh Udawatta
BSc (Hons), AIII
Manager-Life Servicing

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

18. Sawan Rodrigo
Manager-Non Life Distribution

19. Ananda Kulasooriya
B.A., Diploma in Insurance
Regional Manager - Kurunegala

20. Salinda Perera
AMIM (SL), Dip in BM
Manager -Administration

21. Kamini Gunawardene
BA (Hons), Dip in Econ
Manager -Marketing Communication

22. Chrysantha Wijemanne
Manager -Non-Motor

23. Sanjeevani Pitadeniya
DICCUM (UK), DIP (SLII)
Manager-Customer Relations

24. Sitari Jayasundara
Attorney-at-Law & Notary Public
Manager - Legal and Compliance

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Management Discussion & Analysis

Management Discussion & Analysis

OVERVIEW

The Management Discussion and Analysis (MD&A) of HNB Assurance PLC for the year ended 31st December 2009 is presented below. The objective of this MD&A is to provide the opportunity for all readers to obtain information and an understanding about the Company's affairs through the eyes of the management. In this report, we try to integrate historical and prospective information useful to the readers and also include an analysis of the economy, industry and the Company.

HNB ASSURANCE AND ITS BUSINESS

HNB Assurance PLC is an insurance company registered with the Insurance Board of Sri Lanka (IBSL) carrying out both Life and General Insurance business in the country. The Company was incorporated on 23rd August 2001 and re-registered under the new Companies Act, No. 7 of 2007. HNB Assurance is a subsidiary of one of the largest private sector commercial banks in the country, Hatton National Bank PLC.

As noted above, we provide both Life and General Insurance services. According to the results of the last few years, there has been an almost equal contribution from Life and General Insurance businesses to the Company's performance and we intend to maintain this.

Our services are provided throughout the island by our network of 47 branches and around 1500 Professional Insurance Advisors attached to these branches. Further, our services are also offered through the branch network of the parent company, Hatton National Bank, insurance brokers and many other financial institutions spread across the country.

We use a combination of methods from one-to-one marketing, which is the primary medium, to mass scale advertising campaigns to promote our products and services.

OUR VISION, MISSION AND OBJECTIVES

Our vision is "to be Sri Lanka's most admired and trusted partner in meeting insurance needs professionally with a spirit of caring". Our vision goes beyond the position of a market leader and more importantly it emphasises the need to become the most admired and trusted partner providing insurance solutions. It also acknowledges the need to balance professionalism with a spirit of caring, a much-needed dimension in a people focused business. Please refer inner front cover for vision and mission statements.

Our staff, endowed with a passion for excellence, ensures a highly professional service to our customers at all levels by keeping this vision in mind. The rapidly growing and consistent track record of the Company from its inception is perhaps the best indicator of overall customer satisfaction. In particular, our customers' trust has made HNB Assurance the fastest growing insurance company in the industry.

Therefore we strongly believe that we have made the correct choices and used our best efforts to satisfy our customers. However, we have not forgotten the important fact that we are a commercial organisation which should maximise its shareholder value whilst keeping our customers happy. As a listed company, delivering consistent results to our shareholders is our core responsibility. We therefore place extra care on sound governance practices, transparency, integrity and compliance with laws and regulations of the country in all our activities. In addition, we acknowledge the responsibility as a significant corporate citizen in this country towards society at large and act accordingly.

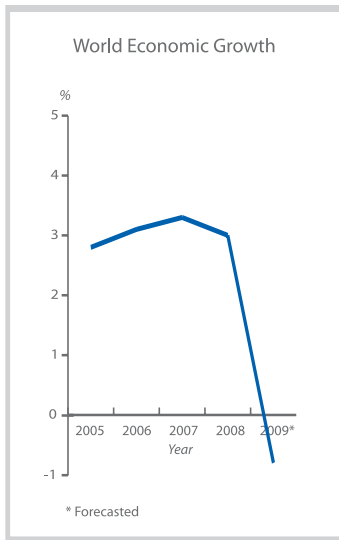
Our goals comprise aspects of both financial and non-financial targets.

- Turnover / Market Share
- Profitability
- Financial stability
- Quality of Financial Reporting
- Corporate Governance
- Brand awareness

Before discussing our success rates in terms of these goals, it is very important to outline the environment under which the Company operated during the year and how that environment would act in future. Therefore, we discuss below in summary the behaviour of the world economy and key economic indicators in the Sri Lankan context during the year 2009 together with our forecasts for the future based on those indicators. In addition, a brief description of the insurance industry in Sri Lanka, the regulatory environment and a comparison of the financial results of the Company and the industry are also presented herewith.

WORLD ECONOMY

The year 2009 started as one of the most challenging years to all individuals, corporates, governments and other organisations across the world due to the global economic recession which originated from the United States in the latter part of the year 2008. As a result, we experienced the bankruptcy of hundreds of very large global organisations, massive employee redundancy programs raising global unemployment to very high levels, curtailment of operations or expansions by companies and many other adverse consequences. All these factors directly and indirectly contributed to bringing down the growth in the world economy to a negative level of -0.8% (forecast according to the statistics of IMF World Economic Outlook Update, January 2010) from the 3% growth rate achieved in the year 2008. This was the lowest world economic growth rate since World War II.



Source - IMF World Economic Outlook Update, January 2010

SRI LANKAN CONTEXT

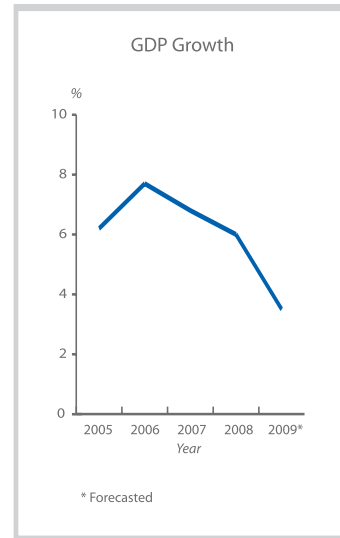
Whilst facing challenges arising from global economic issues, Sri Lanka marked the end of its 30 year old war against terrorism, bringing the country under one flag again. This is a remarkable landmark in the history of this country which everyone could be proud of. However, the economic benefits of combating terrorism are yet to materialise as significant infrastructure development is needed in the regained areas to uplift basic living standards. Further, the continuing effects of the economic meltdown, political instability and international pressure relating to humanitarian issues during the war period are also some reasons that prevent the country from reaping the post war benefits to a much greater extent. Particularly, the impact from the global economic recession has been significant due to our economy's high dependence on seriously affected countries such as the United States and the countries in the European Union. Nevertheless, we hold a very positive view of the future and it is our responsibility to ensure that opportunities offered by this terrorism free environment are exploited fully.

Gross Domestic Product (GDP)

As discussed above, 2009 was one of the most challenging years for the country. The Sri Lankan economy, which grew by 6% in 2008, is likely to record a growth of around 3.5% in 2009. This rate is actually better than what was expected in the first part of the year. The economy performed better in the 3rd quarter and it is expected that performance in the 4th quarter would be even better (particularly the service and industrial sectors), thereby increasing the cumulative GDP growth rate to around 3.5% from the 2.6% recorded so far.

The agricultural sector is also expected to grow, boosted by the produce from areas that were formerly conflict-ridden.

However, the tea industry which suffered a severe decline (19.2% decline up to the 3rd quarter) due to the low demand from our key markets in Europe as a result of the economic recession discussed above, has not yet recovered.



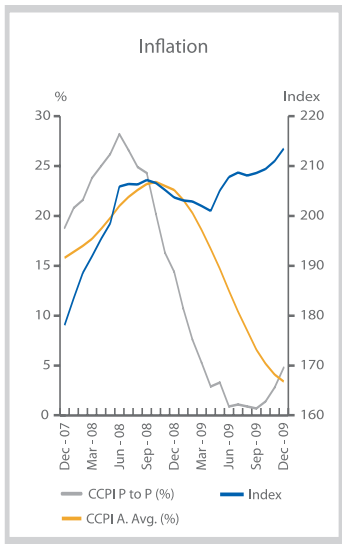
Source - Department of Census and Statistics

Inflation

A very positive development in the year welcomed by all of us was the sharp decline in the inflation rate. Inflation was substantially high in the year 2008 and reached its peak of 28.2% (as per the Colombo Consumer Price Index (CCPI) Point to Point) in June 2008. Thereafter, it started to decline and finally stood at 14.4% in December 2008. However, the CCPI Annual Average was above 20% except in the first few months of 2008 and ended the year at 22.6%. These considerable fluctuations in the inflation rate were mainly due to significant movements in oil prices and other related commodity prices.

However the inflation rate came down significantly in the year 2009 reaching its lowest level in terms of the CCPI Point to Point inflation rate in the month of September recording 0.7% (year end 4.8%). The lowest Annual Average in the same index recorded was 3.4% (in December). The graph below shows very clearly the extent to which the country's inflation rate fluctuated during the last two years. Having such a high and significantly fluctuating inflation rate is not healthy for an economy. Nevertheless, all current indicators are in a positive direction and therefore it is expected that inflation would remain steady in the year 2010 and in the immediate future, remaining in single digit levels.

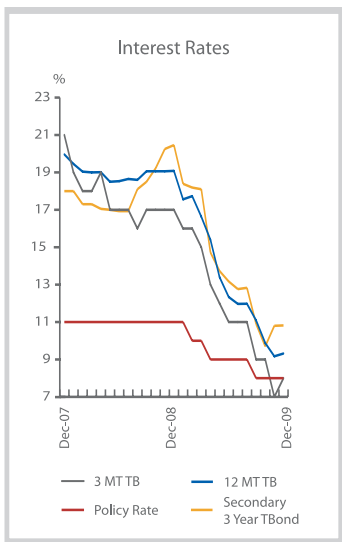
Management Discussion & Analysis



Source - Central Bank of Sri Lanka

Factors such as the decline in world commodity and energy prices due to the world economic crisis, appreciation of the exchange rate capping the expenditure on imports, slow down in economic growth, tight monetary policy and the high base effect have contributed to this considerable decline in the inflation rates.

Interest Rates



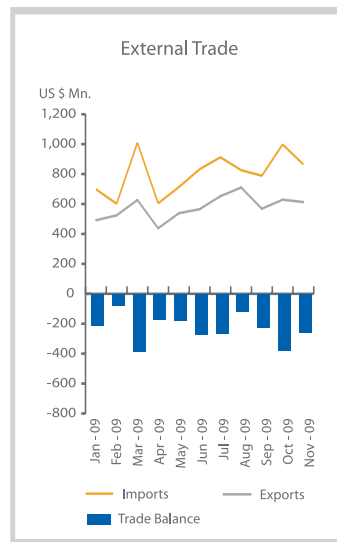
Source - Central Bank of Sri Lanka

Consistent with the declining inflation discussed above, interest rates also fell significantly compared to the year 2008 as shown above. This is also a very positive sign in terms of the expected development in the country in the post war environment. However, in the short run, the fall in interest rates has created a very difficult time to the insurance industry. The impact is very high on the General Insurance sector as it depended highly on income from investments earned at

higher interest rates since the margins from underwriting were very low or even negative. Nevertheless, we welcome the low interest rate environment which could add value to the economy significantly, notwithstanding the negative short-term effect on the industry.

External Trade

According to the Central Bank, the cumulative earnings from exports during the first ten months of the year 2009 declined by 15.6%. The main contributors to this drop were agricultural sector exports which declined by 15.1% and the industrial sector which recorded a drop of 15.4%. Similarly, the cumulative expenditure on imports during the first 10 months of the year 2009 declined by 33.5% compared to the corresponding period in the year 2008. When further analysing the decline in imports, significant drops were noted in consumer goods (declined by 28.4%), and intermediary goods (declined by 37.6%) mainly caused by the lower expenditure on petroleum and investment goods (declined by 27.2%). Accordingly, the trade deficit had contracted by 57.1% during the period discussed above. In addition, worker's remittances during the first ten months of 2009 increased by 12.9%, recording an excess of about 25% over the trade deficit.



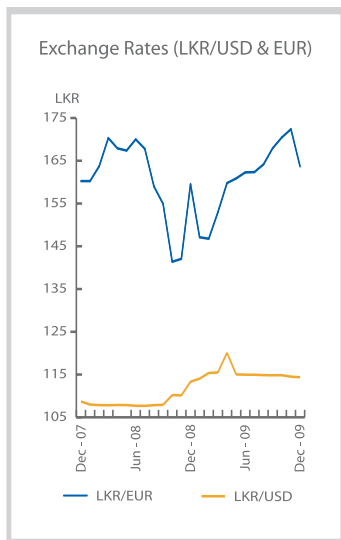
Source - Central Bank of Sri Lanka

The above mentioned significant drop in overall trading activity of the country seriously affected the insurance industry as well. Primarily the marine insurance business suffered a significant direct impact whilst all other classes of General Insurance and Life Insurance businesses were also affected in different ways.

Exchange Rates

During the year the LKR depreciated against the USD by 0.93% to 114.38 LKR/USD and it also depreciated against the EUR by 2.61% to 163.68 LKR/EUR. However by the end of April 2009,

LKR depreciation against the USD was 6% which brought the LKR/USD exchange rate to Rs. 120.09. Since April, the LKR has appreciated by 4.75% against the USD. The main reason for the change in the exchange rate environment was the significant improvement in the long term economic outlook and the economic stability of the country due to the end of the war and the approval of a USD 2.8 Billion standby facility from the IMF. Accordingly, the Central Bank which was previously selling dollars in the market to protect the LKR, was seen buying USD from the market to avoid a sharp appreciation of the LKR which would have adversely affected an export sector which was already struggling due to the world economic crisis and trying to build its reserves to a desirable level again.



Source - Central Bank of Sri Lanka

According to the Central Bank, the gross official reserves excluding Asian Clearing Union (ACU) funds were estimated to be around USD 5.2 Billion by mid December 2009. The significant growth in reserves was mainly due to the continuous absorption of foreign exchange by the Central Bank, whereby from end March 2009 to mid December, the CBSL has absorbed USD 2,816 Million from the foreign exchange market, followed by the receipt of USD 652 Million as the first and second tranches of the IMF standby facility. The attractive yields offered on government securities also induced a significant flow of investments from foreign investors.

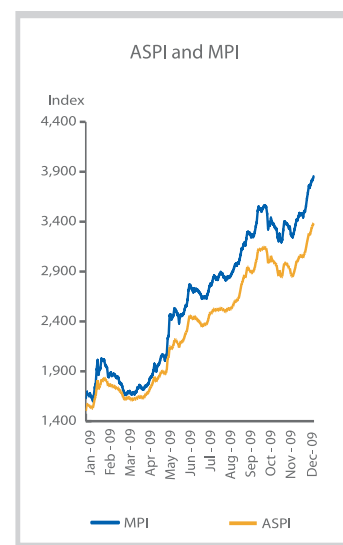
Equity Market

Riding on the wave of post-war optimism, the equity market performed exceptionally well in the 3rd and 4th quarters. Both the All Share Price Index (ASPI) and the Milanka Price Index (MPI) have grown at a rate exceeding 100% during the year as shown below, becoming one of the best performing markets in the world in 2009. One other contributing factor to this outstanding performance is the lower interest rates discussed

above. The equity market offers very attractive opportunities for investors such as insurance companies and we are monitoring the market performance very carefully and increasing our equity exposure gradually.

	ASPI	MPI
31-Dec-08	1,503.02	1,631.34
31-Dec-09	3,385.55	3,849.38
Growth	125.2%	136%

Graphical representation of the movement in the equity market over the last year is given below.



Source - Colombo Stock Exchange

In summary, the Sri Lankan economy has shown lots of positive signs for the future. The post war environment in particular has created many opportunities to the country, with the opening up of the North and East for business and the re-emergence of a peaceful environment for every one to live freely in any part of the country. Therefore, industries such as tourism, agriculture including fishing, construction, banking and finance, education, trading etc can be expected to show an outstanding performance in the coming years. Managing these opportunities properly, pushing them in the right direction and capturing the benefits is a responsibility of all of us in the country.

INSURANCE INDUSTRY

Competitors

The year 2009 brought a number of structural changes to the insurance industry. Sri Lanka Insurance Corporation which was privately owned was brought under Government control by a court order which reversed its privatisation carried out a few years ago.

Management Discussion & Analysis

ABC Insurance Ltd. was taken over by the Merchant Bank of Sri Lanka and was renamed as MBSL Insurance Ltd. becoming another entity with indirect ownership by the Government. Two more entities with state backing, National Insurance Trust Fund (NITF) and People's Insurance Co. Ltd. (a subsidiary of People's Leasing Co. Ltd.) entered the market increasing the number of Government owned Insurers to 4 from none at the beginning of the year. One more private sector entity, Continental Insurance Lanka Ltd., also obtained a license to carry out General Insurance Business.

With all these changes, the insurance industry in Sri Lanka now comprises 19 players when compared to 16 companies at the beginning of the year. All major players in the market are composite insurers operating in both Life and General Insurance markets. Therefore, the competition in the industry is exceedingly high and price competition has become a serious challenge to all the players, especially in the General Insurance sector. Even though the intense competition has become a challenge to all insurers, it has resulted in a high quality, cost effective service to the market which we greatly welcome.

Regulatory Background

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 thereafter by the Insurance Board of Sri Lanka (IBSL). During the year, there were no major changes to the regulations issued by IBSL. However, the Insurance Board of Sri Lanka is in the process of amending the existing Act and it is expected to be passed by Parliament soon. According to available information, the new Act would bring about a number of changes to the law to improve the market conditions whilst enhancing the supervisory role of IBSL too.

According to the Chairman's Statement in the 2008 Annual Report of the IBSL, they are in the process of introducing a risk based supervision regime in place of the existing compliance-based system following the worldwide trend. According to him, risk-based supervision supplements sound regulation with a focus on the volatile nature of the insurance business that can affect solvency and the ability to meet contingencies.

Further, he has stated that the paid up share capital for each class of insurance business will be raised from Rs. 100 Million to Rs. 250 Million immediately, and to Rs. 500 Million by the end of 2010 on a staggered basis. HNB Assurance has already fulfilled the Rs. 250 Million per class requirement in terms of share capital and reserves and expects to increase it to Rs. 500 Million per class by the end of the year 2010 with internally generated funds.

The Government increased the Nation Building Tax (NBT) which was introduced from the year 2009 from the initial rate of 1% to 3% with effect from 1st May 2009. Further, two-thirds

of the NBT paid during the year is disallowed for tax purposes according to the revised law placing an extra burden on companies.

HNB ASSURANCE IN THE INSURANCE INDUSTRY

HNB Assurance, commonly described as the fastest growing insurance company in the country, has acquired that recognition by consistently performing above the industry. As shown in tables below, the Company has always performed well above industry levels through the last few years. Thereby the Company has been improving its market share every year and this trend is expected to continue in respect of the year 2009, for which aggregate market information is not yet available. Growth in the overall GWP of the Company during the year 2009 was 15% which is believed to be significantly higher than the overall GWP growth rate for the industry.

<i>Rs. Mn.</i>				
Company GWP	2005	2006	2007	2008
GWP				
Company	824	1,122	1,472	1,839
Industry	37,224	43,035	51,885	58,166
Growth				
Company	51%	36%	31%	25%
Industry	26%	16%	21%	12%
HNB Assurance Market Share	2.21%	2.61%	2.84%	3.16%

General Insurance business of HNB Assurance grew by 22% during the year whereas the industry was expected to record a negative growth situation during the year. According to the information so far available through Insurance Association of Sri Lanka (IASL), the industry has experienced a negative growth of 3.45%. When analysing data over the past 4 years, the General Insurance market has grown faster than the Company only in the year 2007. However, with the outstanding performance in Life Insurance in that year (57%), the Company's total GWP growth (31%) surpassed the industry growth (21%).

<i>Rs. Mn.</i>				
General Insurance	2005	2006	2007	2008
GWP				
Company	470	619	704	925
Industry	22,410	25,931	31,156	34,553
Growth				
Company	39%	32%	14%	31%
Industry	32%	16%	20%	11%
HNB Assurance Market Share	2.10%	2.39%	2.26%	2.68%

Life Insurance business, despite being seriously affected by the economic recession, has nevertheless performed better than

the industry. During the year 2009, Life GWP has grown by 8% compared to the very low or possibly negative growth rate forecasted for the industry as a whole. As seen from the table below, the Company has consistently outperformed the industry in terms of GWP growth from Life Insurance business.

Rs. Mn.				
Life Insurance	2005	2006	2007	2008
GWP				
Company	354	503	768	914
Industry	14,814	17,104	20,729	23,613
Growth				
Company	72%	42%	53%	19%
Industry	18%	15%	21%	14%
HNB Assurance Market Share	2.39%	2.94%	3.70%	3.87%

FINANCIAL PERFORMANCE

Consistency and Stability in Times of Turmoil

As discussed above, the global economic crisis and the failure of many global and local corporate entities made for a year of uncertainty and turmoil. All businesses felt either direct or spin-off effects of these challenges and we were by no means immune to these forces. However, our performance has been consistent through the years and even in the face of such challenges we are proud to announce that we were able to maintain our unwavering track record.

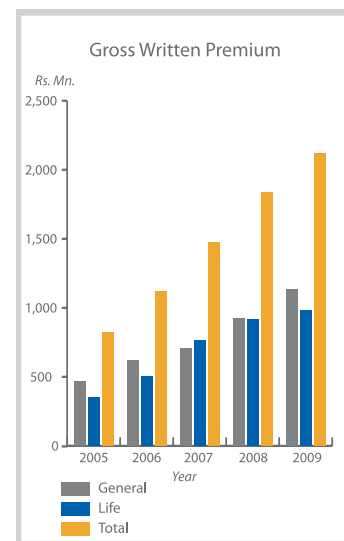
Growth in Gross Written Premium (GWP)

The year 2009 was another successful year for us with a number of remarkable achievements. One such significant achievement is crossing the Rs. 2 Billion mark in combined GWP during the year.

GWP (Rs. Mn.)	2005	2006	2007	2008	2009
General	470	619	704	925	1,131
Life	354	503	768	914	985
Total	824	1,122	1,472	1,839	2,116
Growth	51%	36%	31%	25%	15%

In 2006, we passed the Rs.1 Billion mark in combined GWP within 5 years of operations, becoming the Company that was fastest in reaching this figure. After just 3 more years HNB Assurance has recorded the Rs. 2 Billion mark which probably is the fastest in the industry so far.

The combined GWP growth rate of the Company is 15% for the year against the 25% growth in the year 2008. Even though this 15% growth rate is low compared to the results of previous years, this is still a very good rate as the industry growth rate for the year is likely to be zero or below according to available information. The General GWP recorded a growth rate of 22% while the Life GWP grew by 8%, its performance



being affected by current economic conditions to a greater extent. This consistency in growth maintained by us despite the challenges mentioned above is mainly attributable to the proactive management style we practice.

General vs. Life GWP (Rs. Mn.)	2005	2006	2007	2008	2009
General	470	619	704	925	1,131
Growth	39%	32%	14%	31%	22%
Life	354	503	768	914	985
Growth	72%	42%	53%	19%	8%

General Insurance sector made a contribution of 53% towards total GWP, surpassing the 47% contribution made by the Life Insurance sector this year and contrasts somewhat from the equal contributions made by the sectors in 2008. The difference in the ratios is largely accountable to the drop in sales in Life Insurance due to the decrease in disposable income of customers which resulted in a slower growth in the Life business.

GWP Mix	2005	2006	2007	2008	2009
General	57%	55%	48%	50%	53%
Life	43%	45%	52%	50%	47%

2009 (Rs. Mn.)	Q1	Q2	Q3	Q4	Total
General GWP	240	307	303	280	1,130
Life GWP	217	230	337	201	985
Total GWP	457	537	640	481	2,115

2008 (Rs. Mn.)	Q1	Q2	Q3	Q4	Total
General GWP	212	206	280	227	925
Life GWP	195	249	237	233	914
Total GWP	407	455	517	460	1,839

Management Discussion & Analysis

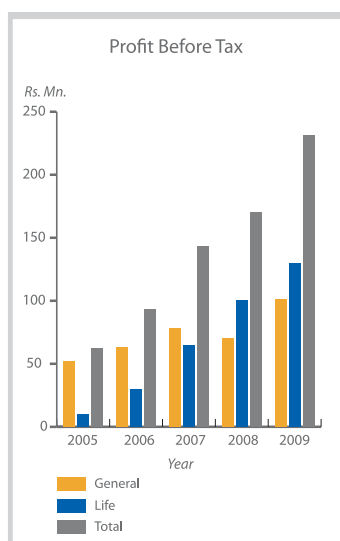
Growth	Q1	Q2	Q3	Q4	Total
General GWP	13%	49%	8%	23%	22%
Life GWP	11%	(8%)	42%	(14%)	8%
Total GWP	12%	18%	24%	5%	15%

As discussed above, 2009 was one of the most challenging years the Company has faced since its inception. Despite these severe challenges, we managed to maintain our GWP growth momentum in every quarter compared to the corresponding quarter of the previous year. This is again a commendable achievement although one sector (Life Insurance) experienced a dip in results compared to the corresponding quarter in some quarters as shown in the table above. We could always count on an outstanding performance in one sector when we were short in growth in the other. Particularly in the second quarter, the growth in General GWP was as high as 49% to offset the dip in results in Life. One of the main contributors to this growth is the business we secured from a large corporate account amounting to Rs. 48 Million approximately. On the other hand, we recorded a 42% growth in Life Insurance in the third quarter against the marginal growth from General Insurance. This was done by selling more than Rs. 150 Million worth of Single Premium Investment Policies by grabbing the opportunity presented by the sharply decreasing interest rate environment.

Profitability - A steady Rise

Profit Before Tax (PBT) and Profit After Tax (PAT)

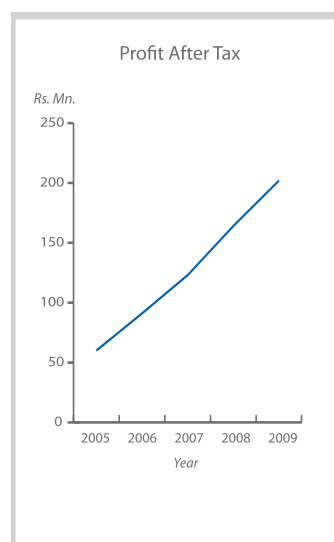
The Company was able to achieve a consolidated Profit Before Tax of Rs. 231 Million in 2009, recording a 36% growth over the Rs. 170 Million made in the previous year. The contribution of General Insurance to PBT was Rs. 101 Million, which is 44% higher than the Rs. 70 Million contributed in 2008. The contribution of Life Insurance to PBT also grew by 30% from Rs. 100 Million in 2008 to Rs. 130 Million in 2009.



Profits (Rs. Mn.)	2005	2006	2007	2008	2009
General - Profit Before Tax	52	63	78	70	101
Life - Profit Before Tax	10	30	65	100	130
Company - Profit Before Tax	62	93	143	170	231
Growth	265%	50%	54%	19%	36%
Company - Profit After Tax	60	91	123	164	202
Growth	275%	52%	35%	33%	23%

One other outstanding achievement by the Company is recording a PAT of over Rs. 200 Million with a growth rate of 23% over the previous year. This is also a landmark in the Company's history as very few companies would have recorded a PAT of Rs. 200 Million within a short life span of 8 years. It must be kept in mind that consistently recording such high growth rates in profitability whilst maintaining a considerable top line growth is a seriously challenging task in the insurance business, where one target is typically achieved at the expense of the other.

These profit figures have been arrived at after providing adequate reserves in respect of both Life and General business as recommended by the respective actuaries. We have also provided adequately to offer attractive bonus declarations to Life policy holders with the highest bonus rate being increased to Rs.45 per Rs.1,000 sum assured from Rs. 40 per Rs. 1,000 sum assured in last year.



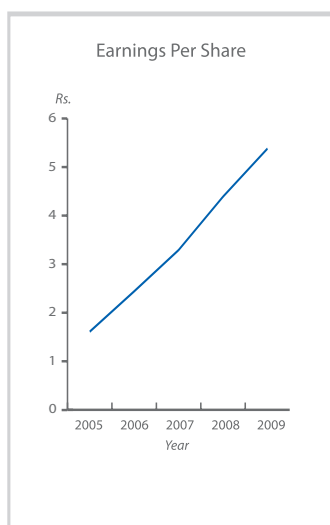
As shown in the above graph, the unique feature in the results of HNB Assurance is its consistency. Over the last few years, we have presented a consistent growth in profitability as well as in all other key performance indicators such as GWP, assets, fund liabilities, dividend payouts etc which is discussed throughout this report.

Higher yields earned from the well managed investment portfolios in both Life and General Insurance have contributed immensely to the high growth rates recorded in PBT & PAT. Absolute growth in investment income in Life and General Insurance was 45% and 23% respectively. The overall growth in the investment income of the Company was 37%. This is again a creditable achievement under a rapidly declining interest rate environment. In addition, our average yield was the highest in the industry over the last few years and it is expected that the current year's yield too would be among the highest in the industry. We were able to earn these high yields compared to rapidly falling market rates because the Company had locked in its funds at higher rates at the appropriate time. Details of the investment portfolio and income are discussed below separately.

On the other hand, the effective management of claims and expenses has resulted in reducing the Combined Ratio in General from 110% in the last year to 108% in the current year. We greatly welcome the improvement in the Combined Ratio and consider the above mentioned 2% improvement as a significant achievement under difficult conditions. However, we understand that the Combined Ratio needs to be further improved in the year 2010 to minimise the underwriting loss, as the growth in the investment income could be very low in future under the prevailing low interest rate environment. Details are discussed below under the General Insurance Review.

Earnings Per Share (EPS)

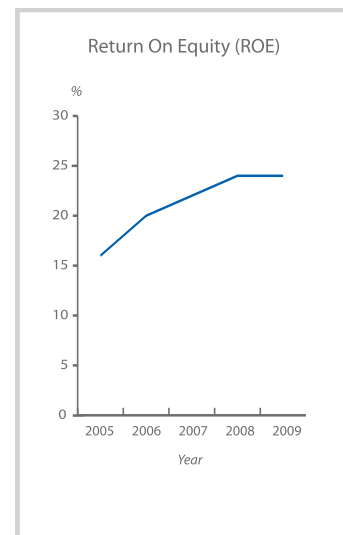
Earnings Per Share, usually referred to as EPS, refers to the portion of a company's profit allocated to each outstanding ordinary share. EPS serves as one of the key indicators of a company's profitability. In addition, EPS is also considered to be the single most important variable in determining the price of a share.



The Company's Earnings Per Share has also grown steadily over the years and has increased by 23% from Rs. 4.39 in 2008 to Rs. 5.38 in 2009. The graph above clearly shows the consistent growth achieved in EPS.

Return On Equity (ROE)

One other measure of a Company's profitability is Return On Equity (ROE). ROE is the amount of net income returned as a percentage of Shareholders' equity. ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage.



As shown in the graph, ROE of the Company has shown a consistent performance in the last few years and stood at 24% in 2009. The simple meaning is that HNB Assurance has earned a 24% return on the investment made by its Shareholders, comprising the stated capital and retained earnings. This is again a very attractive rate of return under the current economic environment, with the average risk free return recording about 10% (one year Treasury bill rate) for the year.

All key performance indicators (KPIs) discussed above with regard to profitability of the Company are positive in terms of growth and consistency. As the management of the Company, we are proud of what has been delivered to our stakeholders and are committed to delivering similar results in future.

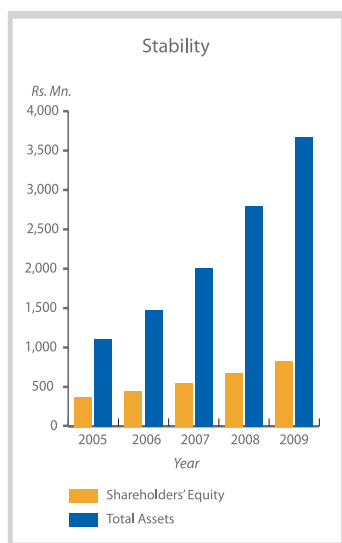
Stability - Strong Reserve and Asset Base

Total Assets and Shareholders' equity

As an insurer, a solid financial base is essential to support our customers in their times of need. Thus, HNB Assurance continues to build and maintain a strong balance sheet through growth in our total asset base, reserves and Shareholders' equity. It is this commitment to stability which gives us the ability to readily overcome the challenges posed by these difficult times.

Continuing the increasing trend in our asset base, the total assets of the Company have increased by 32%, from Rs. 2,799 Million in 2008 to Rs. 3,672 Million in 2009. The said increase in our asset base was funded through a 23% growth in

Management Discussion & Analysis

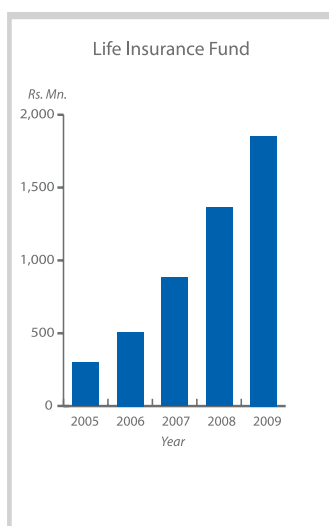


Shareholders' equity which amounted to Rs. 831 Million. One important factor to note is that this growth in equity during the year was made purely from internally generated funds, i.e. profits for the period. Our projections are to increase the total equity to over Rs. 1 Billion with internally generated funds by end 2010, to be in line with the proposed new minimum capital requirement for insurance companies, which is to be imposed by the Insurance Board of Sri Lanka (IBSL).

In addition to the shareholders' equity, the two other main reserves of the Company are the Life Insurance Fund and the General Insurance Fund (Technical Reserve).

Life Insurance Fund

The Life Insurance Fund also increased to Rs. 1,854 Million at the end of 2009 when compared to Rs. 1,361 Million at the end of 2008, which is a 36 % growth. As in previous years, the Company arranged for a Consultant Actuary to value the Life Fund and the report of the Consultant Actuary is given on page 113. Adequate provisions have been made in respect of

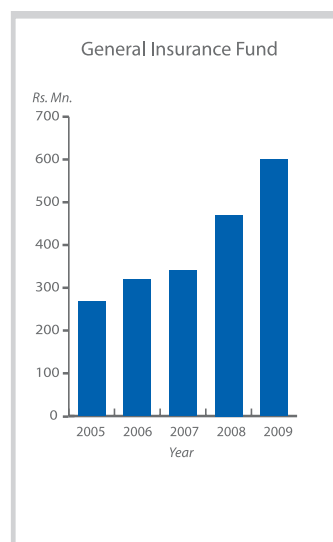


bonus to policyholders, Solvency and other contingencies out of the current year's surplus as per the Actuary's Report.

General Insurance Fund

The General Insurance Fund liability was also increased by Rs. 129 Million during the year to reach Rs. 599 Million by the end of 2009. Net Unearned Premium, Claims Outstanding, Reserves for Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims, Net Deferred Acquisition Costs are the components of the General Insurance Fund Liability.

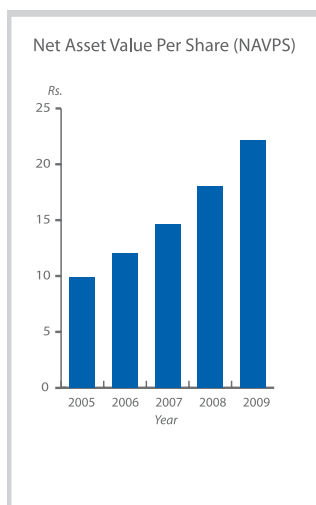
The Management has taken all reasonable steps to ensure adequate provisioning for Net Unearned Premium, Net Deferred Acquisition Costs and Claims Outstanding including provisions for IBNR and IBNER reserves. The Management has also consulted an Independent Actuary in the process of valuing IBNR and IBNER reserves and his report is given on page 112.



Both the Life and General Insurance Funds are valued based on best available information and in accordance with the provisions of 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).

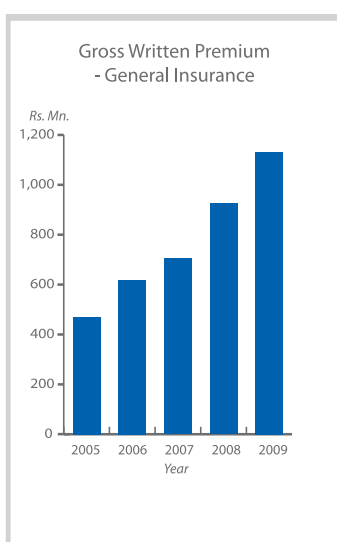
Net Assets Value per Share (NAVPS)

One other important indicator of the stability of the Company balance sheet is the net asset position. Net Asset Value Per Share (NAVPS) is one of the commonly used performance indicators in this regard. The net asset position of the Company over the last few years has been consistently growing at very fast rates. NAVPS as at 31st December 2009 was Rs. 22.16 recording a 23% growth over year 2008.



SEGMENTAL REVIEW - GENERAL INSURANCE

The growth momentum of the General Insurance business was maintained through 2009 as well, with a 22 % growth in GWP crossing the Rs. 1 Billion landmark in General GWP within just 8 years of operations. The GWP recorded for the year was Rs. 1,131 Million against Rs. 925 Million in 2008. According to the available information, this is well above the industry growth rate for 2009 in General Insurance, which is expected to be negative. The highly committed, motivated and passionate workforce at HNB Assurance has shown its capability again, by recording such a high growth in GWP in a relatively stagnant market.



We offer a wide range of insurance solutions to retail customers as well as to meet the requirements of entrepreneurs. These range from micro insurance solutions for small-scale businesses to comprehensive insurance packages for large-scale projects and companies. Whether it is a small grocery store or a large construction project such as the construction of ports (e.g. the Oluvil Port Project) or

construction of power plants (e.g. Northern Power in Chunnakam, Jaffna) our products are tailor-made to offer complete protection.

GWP in Classes

General Insurance business is traditionally divided into four classes, Fire, Motor, Marine and Miscellaneous. As shown in the table, the biggest contributor to General GWP is the Motor Class which accounted for about 65% in the year 2009 out of the total GWP. The contribution from the Fire Class to the General GWP was next, amounting to around 27%. Miscellaneous and Marine classes contributed to the General GWP by 6% and 2% respectively. No significant change in the class mix was evident compared to the previous year. However, the contribution from the Motor Class is relatively high in HNB Assurance compared to the industry (2008 - 54%) a situation we intend to change in the future, gradually.

	FIR	MTR	MRN	MIS	Total
2009	27%	65%	2%	6%	100%
2008	28%	64%	3%	5%	100%

In terms of growth, the Miscellaneous Class topped the other classes, recording a 27% growth. The Motor Class being the largest contributor to the General GWP has recorded a 25% growth whilst the Fire Class also grew reasonably at 18%.

With the overall decline in both import (declined by 33.5%) and export (declined by 25.6%) volumes of the country due to the economic recession we experienced during the year, the Marine Class was seriously affected. Thereby, the marine business has come down by 14% and it is likely that other companies in the industry too would have experienced a similar decline in this category of business.

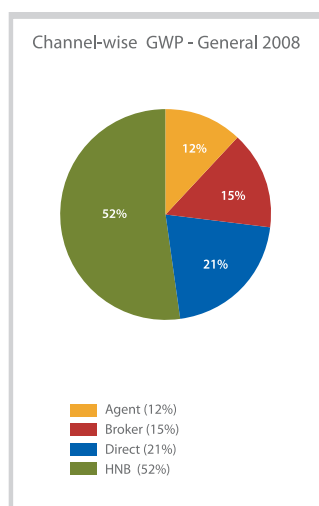
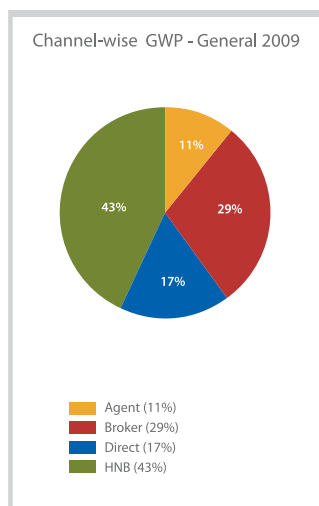
	FIR	MTR	MRN	MIS	Total
2009	304	741	23	63	1,131
2008	258	590	27	50	925
Growth	18%	25%	(15%)	26%	22%

GWP in Channels

A commendable change in this year's performance is the increase in contribution of the Broker Channel towards General GWP, thereby reducing our reliance on HNB to 42% of the total GWP in the year 2009. Whilst appreciating the significant contribution from the parent company, HNB, and providing the best possible service to its clientele, we strive to increase the contribution from other channels competing with other players in the industry. However, HNB still remains the main contributor towards our GWP and the senior management and staff of both companies liaise closely in order to improve the relationship and deliver improved results

Management Discussion & Analysis

every year through this channel. In this regard, annual competitions are held specifically to recognise the admirable role played by the HNB staff in promoting the products of HNB Assurance.



As a result of the special attention paid, GWP from the Broker Channel has increased by a staggering 141% from Rs. 138 Million in 2008 to Rs. 333 Million by 2009. Sales from the Direct Channel showed a drop in its share during 2009 in comparison with 2008 due to the sale of several high value policies through this channel in 2008. The contribution from the Advisor Channel has grown marginally by 1% compared to the previous year. We strictly followed the IBSL ruling of allowing only General Insurance advisors who have passed the SLII examinations to engage in business activities. This resulted in the termination of many of our advisors, creating an adverse impact on the contribution from this channel during the year.

Profitability in General Insurance

Profits from General Insurance have increased to Rs. 101 Million in 2009, a 44% growth from the Rs. 70 Million in 2008. This growth was recorded despite the company making an underwriting loss of Rs. 56 Million in comparison to Rs. 57 Million in the last year. Recording a lower underwriting loss compared to last year in a highly competitive and declining market is a creditable achievement.

During the year, we managed to reduce the Combined Ratio by 2%, from 110% recorded last year to 108%. Both, the Net Claim Ratio and the Net Expense Ratio contributed 1% each on this reduction in the Combined Ratio. This was possible due to the continuous attention paid by employees at all levels throughout the year to bring down these ratios.

General Insurance Ratios					
	2005	2006	2007	2008	2009
Net Claim Ratio	54%	60%	62%	67%	66%
Expense Ratio	41%	38%	39%	43%	42%
Combined Ratio	95%	98%	101%	110%	108%

However, we understand that 108% is not a satisfactory Combined Ratio, particularly in an environment in which interest rates have dropped considerably. One of the core objectives of the management is to reduce this rate further and bring it down to 104% by the end of the coming year. A number of proactive measures have already been taken to address this.

SEGMENTAL REVIEW - LIFE INSURANCE

Growth in Life Insurance in HNB Assurance has always been at very high levels from the inception of the Company. When comparing with such growth rates, the current year's growth rate is considerably low. However, we are very pleased to note that the 8% growth in Life Insurance this year is also a satisfactory growth rate when compared to overall industry growth which is expected to be almost zero or even lower.

GWP Growth in Life Insurance					
	2005	2006	2007	2008	2009
Life GWP (Rs. Mn)	354	503	768	914	985
Growth	72%	42%	53%	19%	8%

As discussed in detail under the economy section above, the year 2009 was one of the most challenging years to all economies across the world due to the global economic meltdown which commenced during the latter part of the year 2008 and continued throughout 2009 gathering intensity. The said economic downturn resulted in a drop in performance of almost all business units in the world, some of which became bankrupt. The insurance industry being a service sector to other industries, also experienced the effects of the recession in both Life and General Insurance. As far as HNB Assurance is concerned, we managed the General

Insurance sector without an issue whilst the Life Insurance sector was affected to some extent.

According to our experience, when disposable income declines, Life Insurance premium becomes one of the first payments to be deferred or dropped by an average individual. This is more common in new business than in renewals as shown in the table below. Renewal premium collections were still at high levels and have recorded a 23% growth. However, a significant number of new policies sold fell into lapsation within the first year itself due to the non-payment of premium within due dates. This is reflected in the decline in First Year Premium (FYP) compared to previous year.

<i>Rs. Mn.</i>			
	2009	2008	Growth
First Premium (FP)	76	80	(5%)
First Year Premium (FYP)	167	211	(21%)
Renewal Premium (RNW)	471	383	23%
Single Premium - MRP and Micro	51	92	(45%)
Single Premium - Investments	211	141	50%
Group Life Premium	9	7	29%
Total	985	914	8%

High policy lapsation is considered to be the most serious risk in Life Insurance and the management is working very hard to mitigate this risk to an acceptable level in the future, with the application of improved and innovative techniques.

MRP (Mortgage Reducing Policies) business also dropped significantly during the year, due to the low level of housing loans in the country which was due to conservative lending policies adopted by the banking sector under the current economic conditions. We intend to improve the MRP business in future, with the expected increase in housing loans under the new emerging environment, whilst offering competitive rates in relation to other companies.

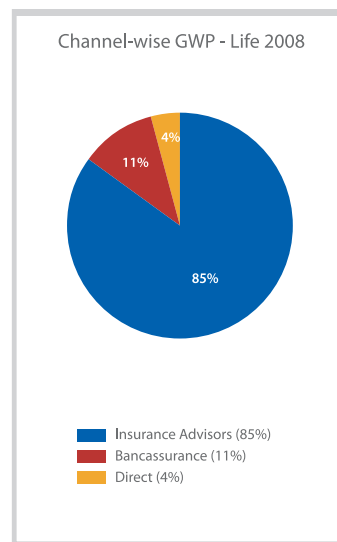
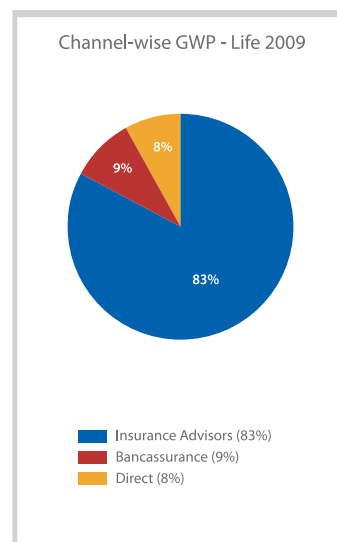
The main contributor to the growth in Life Insurance business during the year was Single Premium Investment policies. Utilizing the opportunity we had under the declining interest rate environment, we managed to sell over Rs. 211 Million worth of single premium policies, marking a 50% growth over last year.

In addition, the premium income from Group Life Insurance policies grew by 29% from Rs. 7 Million last year to Rs. 9 Million in the year 2009.

GWP in Channels

The primary contributor to the Life GWP is the Advisor Channel, the contribution to the total GWP amounting to 83% in the year 2009. There was a marginal drop in the contribution by this channel due to the sale of a few high value policies through the direct channel. However, this did not impair the

importance of the Advisor Channel which accounts for the highest volume of Life business of Rs. 813 Million GWP out of the total of Rs. 985 Million generated during the year. We are very proud of our highly motivated, committed and well trained team of about 1500 professional Insurance Advisors located islandwide, who constitute the live wire of the Life Insurance business of the Company. Please refer the Sustainability Report for more details on our Advisor force.



The Bancassurance Channel, being the fastest growing channel in Life Insurance also contributed to the Life GWP by 9% in the year. However, the contribution from the Bancassurance Channel has dropped from 11% in the year 2008 to 9% basically due to the sharp drop in MRP business as explained above. The new project that commenced last year where Company employees were stationed in selected HNB branches to sell Life Insurance policies has been very successful and has shown good results during the year. GWP

Management Discussion & Analysis

from this initiative has grown by 45% during the year from Rs. 27 Million to Rs. 38 Million. We have covered 74 HNB branches under the project as against 40 in the previous year. The target for the year 2010 is 100 and the Company is expecting a substantial growth through this channel in the coming year. This project is closely monitored by the senior management of both the Company and the HNB.

There was a substantial growth in direct sales during the year as a considerable portion of Single Premium Investment Policies were sold on direct basis due to the high demand.

Profitability in Life Insurance

Even though there was a drop in GWP growth during the year, profitability of the Life Insurance business was not impaired. In other words, we allocated adequate profits to both policyholders as well as to shareholders after making due reserves for future liabilities and contingencies.

Accordingly, we offered Rs. 39 Million as bonus to policyholders. The bonus rates varied according to the year of purchase of each policy with a maximum of Rs. 45 per Rs. 1,000 sum assured for policies purchased during 2002 and 2003. This is a growth of 60% over the previous year's bonus allocated to policyholders which stood at Rs. 24.5 Million.

The surplus released to shareholders also grew by 30%, from Rs. 100 Million last year to Rs. 130 Million in the year 2009.

The Company also received a profit commission of approximately Rs. 20 Million from its reinsurer, Munich Re, in recognition of the profitable business enjoyed by them during the last year.

SOLVENCY MARGINS

The Company continued to maintain Solvency Margins well above the statutory required minimum solvency margins in both General and Life Insurance. The Statement of Solvency and Approved Assets covering General and Life Insurance businesses is presented on page 94 of this Annual Report.

General Insurance - Solvency Margin

In General Insurance, the value of admissible assets amounted to Rs. 1,078 Million at the end of 2009 while the total liabilities amounted to Rs. 793 Million resulting in an Available Solvency Margin of Rs. 285 Million. As the Required Solvency Margin in General Insurance amounted to only Rs. 154 Million, the Company was well able to maintain a Solvency Ratio of 1.85 times.

Life Insurance - Solvency Margin

With regard to Life Insurance, the Required Solvency Margin was Rs. 81 Million while the Company maintained an Available Solvency Margin of Rs. 159 Million. For this purpose the

company maintained admissible assets amounting to Rs. 1,931 Million whereas the total liabilities stood at Rs. 1,772 Million at the end of 2009, resulting in the maintenance of a solvency ratio of 1.95 times.

INVESTMENTS

Investment strategy and framework

The key objective of the investment strategy of the Company is to maximise investment returns within an accepted risk return profile, considering the risk appetite of an insurance company subject to the regulatory framework while matching assets with known liabilities to the maximum extent possible. Accordingly, the Company's Investment Policy including the Asset and Liability Management (ALM) and Liquidity Management Policies is geared towards achieving the above objective.

The Company's investments are categorised under three different funds, namely the Life fund, General fund and the Life Shareholders fund (under General Insurance) and all three are managed in-house.

Regulatory environment

As mentioned above, the investments of the Company are carried out with due respect to the requirements dictated by the Regulation of Insurance Industry Act, No. 43 of 2000 and the rules and regulations promulgated by the Insurance Board of Sri Lanka (IBSL).

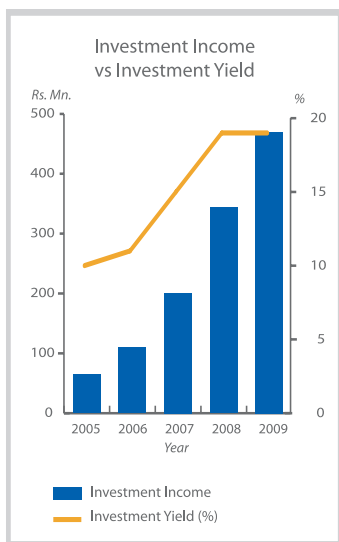
In ensuring that the respective rules and regulations are adhered to, the solvency margin of the Company is monitored regularly to ensure that the Company maintains the required margin in a consistent manner and immediate remedial action is taken if discrepancies are detected to maintain constant compliance. The solvency margin requirements of both General and Life business have been fulfilled throughout the year as per the regulations.

Investment Performance

The Company recorded a 36.7% growth in investment income compared to the previous year. The investment income for the year was Rs. 467.8 Million whereas it was Rs. 342.3 Million in the year 2008. The investment income from the Life Fund grew by 44.7% to reach Rs. 311.7 Million and from the General Fund, the income was Rs. 156.1 Million which was a 23.1% year-on-year growth on Rs. 126.8 Million achieved in 2008. Accordingly, the overall profitability of the Company during 2009 was boosted by the excellent performance of the Company's investment portfolios.

The cautious but active and dynamic investment management strategy adopted by the Company through a combination of prudent asset allocation, backed by effective analysis, timely reaction to market changes, comprehensive liquidity and

treasury management and win-win rate negotiations with financial intermediaries made it possible for the Company to achieve the commendable performance levels of a 19.4% average yield on the Life fund and a 18.3% average yield on the General fund.



The fact that the Company has been able to achieve very healthy yields during 2009 for both Life and General funds without taking undue and excessive risks is worthy of appreciation as it was done in the midst of a time in which both short term and long term interest rates came down drastically from the month of January onwards.

While the average total investment yield of the Company outperformed the other industry players in 2007 and 2008, we at HNB Assurance are positive that this year too we will stand out among the competition.

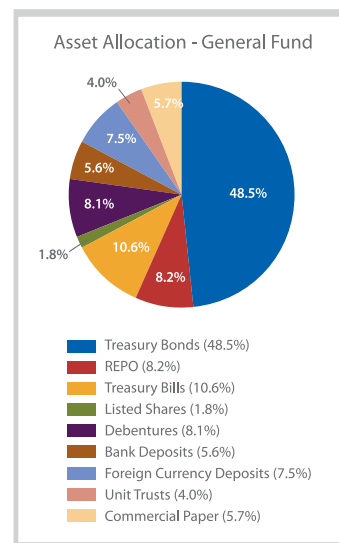
Funds under management

Funds under the Life Insurance business stood at Rs.1,709 Million as at 31st December 2009 recording a significant growth of 34.6% over the previous year. This amount at the beginning of the year was Rs. 1,269 Million. The General and Life Shareholder funds also recorded a growth of 28.6% for the year ended 31st December 2009. The sum of both funds, which stood at Rs. 824 Million at the beginning of the year, stood at Rs. 1,059 Million at the end of the year. The total funds under management as at the year end stood at Rs. 2,768 Million recording a growth of 32.2% over the balance at the end of the previous year.

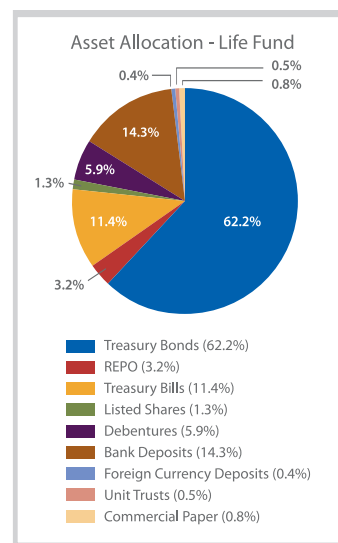
Investment portfolios

Government securities

With the government taking action to accelerate economic activity, the year 2009 saw a drastic drop in the interest rates offered for government securities with the 1 year Treasury Bill



rate dropping from 19.12% to 9.32% over a period of 12 months in the year 2009. Therefore, the pace of allocating funds to be invested in government securities was subdued compared with that of the year before. However, investments in the said instruments grew by 12.7% with regard to the General Fund and by 22.2% with regard to the Life Fund. As at the year end, the total investments in government debt instruments amounted to Rs. 2,028 Million (73.3% of the total fund) with Rs. 714 Million worth of investments being from the General Fund (amounting to 67.4% of the Fund) and Rs. 1,314 Million worth of investments being from the Life Fund (amounting to 76.9% of the Fund).



Corporate debt

As at the end of the year 2009, the investments in corporate debt amounted to Rs. 260 Million (9.4 % of the total fund) with the Life Fund contributing Rs.114 Million whilst the contribution from the General Fund amounted to Rs.146

Management Discussion & Analysis

Million approximately. We pay extra attention when selecting investment opportunities in corporate debt instruments. We always try to capitalise on good opportunities if attractive rates are offered at an acceptable risk. As at the year end, the Life fund had 6.7% of its funds in corporate debt, whilst the General fund had 13.7%.

Equity

With the end of the 30 year long conflict, investor confidence on the market changed to a positive outlook which led to a rise in share market indices. We at HNB Assurance, in exploiting this positive development and putting our money to optimum use, increased our interest in the share market with the proportion of the Life fund invested in equities being increased from 0.2% to 1.3% and the proportion of the General fund invested in equities from 0.2% to 1.8%. As at the year end, the equity portfolio of HNB Assurance PLC had diversified its investments across 9 industries. Both funds took part in the IPOs carried out by Renuka Agri Foods Ltd. and Hemas Power PLC.

Other Investments

During the year all the funds namely Life, General as well as Life Shareholders fund invested Rs. 25 Million in units of the Ceybank Money Market fund managed by The Unit Trust Management Co (Pvt) Ltd. and the General Fund further invested Rs. 3 Million in units of the Treasury Savings Fund managed by Ceylon Asset Management Company Ltd. Investments in Term Deposits (including foreign currency deposits of USD and Euro) by the General fund increased by 46% to Rs.138 Million and the same investments from the Life fund increased by 107% to Rs. 250 Million. All investments in foreign currency are done with reputed local banks and the company does not hold any investments overseas.

OUR DISTRIBUTION NETWORK

Even if HNB Assurance is a relatively young Company, our presence is marked throughout the country. We have covered the island with 47 branches all of which serve as composite branches which provide both Life and General Insurance solutions. In line with the policy of network expansion, we opened 4 new branches during the year in Mannar, Awissawella, Horana and Kuliyaipitiya.

We plan to expand the coverage further in the year 2010 especially in the North and East where we had a strong presence even in war time. We always analyse the feasibility of opening up a new branch in terms of the volume, servicing needs and future prospects before locating a branch. This has been a successful strategy so far. The strong branch network of the parent Company, Hatton National Bank, has also played

a key role in the expansion process by feeding substantial volumes of business to our branches.

The Sri Lanka map on page 37 portrays our islandwide distribution network, together with the GWP contribution from different regions.

We also have around 1500 professional insurance advisors attached to these 47 branches, who service our customers by going to their doorstep. We discuss the details of our advisor force under the Sustainability Report.

In addition, our services are provided through the HNB Branch network which comprises 186 branches. We initiated a project last year by stationing our employees at HNB branches to sell Life Insurance policies and this initiative has yielded successful results. Accordingly, we have located 74 employees in selected HNB branches by the year-end and intend to increase the coverage up to 100 HNB branches by the end of the year 2010.

OUR ACHIEVEMENTS

Our achievements during the year covered several facets including awards, rating upgrades, performance of the Company's share in the CSE as well as recognition of our brand image, besides our business and financial performance.



Despite the fact that we are still a relatively young company in the insurance industry, we were able to contribute to the recognition of our country internationally as our Annual Report 2008 was awarded the Second Runner Up Award for the Best Presented Accounts in the Non-Banking Financial Sector at the Annual Report Competition 2009 conducted by the South Asian Federation of Accountants (SAFA). Annual Reports chosen from the entire South Asian region are considered for this competition and being a medium sized company even in Sri Lanka, this was indeed a noteworthy achievement. Further, it will also be a memorable one for us as it is our first ever international award.

Our Annual Report 2008 was also well recognised locally, as it won the joint Silver Award for Corporate Governance Disclosure at the ICASL Annual Report Awards 2009. In addition, this report received the Bronze Award for Insurance Companies at the same competition, demonstrating our excellence in the area of financial reporting. It also won the first place in the Small Scale category at ACCA Sri Lanka Sustainability Reporting Awards 2009.

In recognition of our financial strength, our National Long Term Rating was upgraded to 'A (Ika)' from 'A- (Ika)' by Fitch Rating Lanka Limited. Furthermore, our Insurer Financial Strength Rating continues to remain at 'A (Ika)' which to date is the second-best rating received by a local insurance company.

The HNB Assurance brand continues to be ranked within the 'Top 100 Brands' as compiled by Lanka Monthly Digest (LMD) magazine in association with Brand Finance.

Achievements in business performance also added a few milestones to our history, with the overall Gross Written Premium crossing the Rs. 2 Billion mark during year 2009 and the Gross Written Premium of General insurance surpassing Rs. 1 Billion. Life Insurance business contributed Rs. 985 Million towards this overall achievement. Furthermore, we were able to record a PBT and a PAT of over Rs.200 Million which is an exceptional performance for a Company of our age.

In addition to the above, the performance of the HASU share in the equity market was outstanding during 2009. This made our market capitalisation cross the Rs. 2 Billion mark during the month of October 2009, for the first time in our history. The excellence in performance was further confirmed with HNB Assurance being included in the MBSL Midcap Index for 2010. This index is used to measure the aggregate price level and price movements of medium sized companies listed on the Colombo Stock Exchange and thus, HASU now constitutes a part of a benchmark index.

These achievements during 2009 add to the many accomplishments and milestones passed during our relatively short history.

OUR STRENGTHS AND OUR CHALLENGES

Our main strength is our people. HNB Assurance is honoured to have a young and vibrant team who work with a passion for excellence. In addition, our Islandwide distribution network of 47 branches and our advisor force of around 1500 also contribute to make HNB Assurance a powerful player in the industry. When analysing the overall success of HNB Assurance, a few key factors need to be mentioned. These are, the financial stability as confirmed by independent ratings from Fitch, continuous support and backing by Hatton National Bank, innovative products, full compliance with laws and regulations, positive culture, transparency and good governance which have been affirmed by awards and

recognitions by various external parties and finally the improved brand visibility.

Several innovative products that were introduced during the year made a substantial contribution to the Company. One such popular product introduced targeting the youth; 'mylife' touched the hearts and minds of its target market very well, generating a high volume of new policies compared to the past experience with new products. Another new product, Super 4 - Single Premium Investment Policy, which was quite similar to the previously introduced Super 5 - Single Premium Investment Policy, also earned a significant income utilizing the opportunities presented by a rapidly declining interest rate environment experienced in the middle of the year. Our strategy is to closely scan the needs of the market and utilize any opportunities that can be filled by us economically.

All these strengths have contributed to make HNB Assurance one of the key players in the local insurance industry. However, we have identified our challenges which should be addressed with the systematic execution of a well-planned strategy to maintain our existing position and to move forward. Our planning team identified the following as the key challenges for the year 2010.

- High Underwriting Deficit/High Combined Ratio in General Insurance
- Inadequate growth in Life Insurance endowment business
- Low premium retention/High lapsation of policies in Life Insurance
- Need to improve customer service standards to consistently meet industry benchmark standards

We are confident that these challenges can be overcome with our strengths and the methodical execution of strategies. These are challenges faced by almost all the companies in the industry to different degrees and therefore we must ensure the existence of a proper plan and a commitment to implement it within agreed time frames. As the management of the Company, we are all directed towards that.

RISKS AND CONCERNS

As explained above, our future is highly challenging and therefore risky as it has been in the past. We have so far been able to reasonably manage these risks and deliver the results expected by our stakeholders. In other words, risk is the uncertainty of outcomes that we are consistently subjected to.

Therefore, eliminating risk completely is clearly an impossible task and what is possible is managing/mitigating risks to an acceptable level. The success of an organisation depends considerably on how it accepts the risks appropriate to that entity.

Management Discussion & Analysis

Therefore, risk management is a process unique to individual organisations. All organisations should carefully analyse risks specific to them and decide on the risk appetite which they are comfortable with in making risk management decisions. In this process, benchmark risk management approaches could be used as guidelines.

HNB Assurance has a unique and systematic risk management process which was designed by a cross functional team comprising all levels of management. Details of our risk management process are elaborated under the Risk Management section on pages 86 to 93.

FUTURE OUTLOOK


We at HNB Assurance are very positive about the future. In particular, we expect the country to perform well in a stable political environment that can be expected to follow the conclusion of the war. It is further expected that industries such as tourism, agriculture & fisheries, construction, transport, housing etc would perform exceptionally well in the future.

The insurance industry, being a service sector supporting all such industries would benefit from the development of these industries immensely. It is our duty to exploit these opportunities to the maximum extent to create value to our stakeholders.

As discussed above, minimising the underwriting loss in General Insurance, improving the premium retention in Life Insurance and thereby maintaining an adequate growth and improving service standards are going to be key challenges in the immediate future. One other core responsibility the insurance industry has today is increasing Life Insurance penetration towards which all players should commit themselves with a consolidated plan of action.

In conclusion, we just completed a very successful year despite facing one of the most challenging periods encountered by all economies in the world. And we just started another year, 2010, which could pose even greater challenges. However, we at HNB Assurance are positive and confident about yet another successful year, extending our track record of consistent delivery of outstanding results.

Northern
 Jaffna
 Mannar
 Vavuniya



GWP Rs. 129.1 Mn

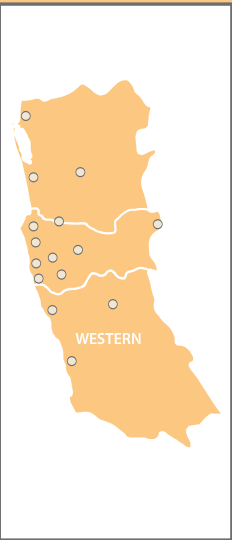


SABARAGAMUWA

Sabaragamuwa
 Embilipitiya
 Kegalle
 Ratnapura

GWP Rs. 130.9 Mn

Western
 Avissawella
 Colombo - North
 Colombo - South
 Colombo - West
 Gampaha
 Horana
 Ja-Ela
 Kalutara
 Kiribathgoda
 Maharagama
 Malabe
 Mount Lavinia
 Negombo
 Panadura
 Piliyandala



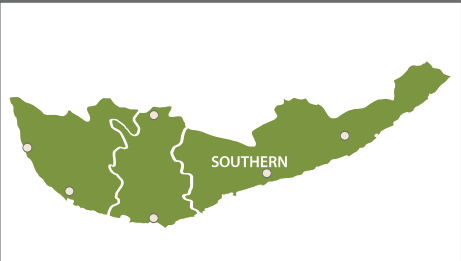
GWP Rs. 1,137.7 Mn

North Central
 Anuradhapura
 Polonnaruwa



GWP Rs. 57.8 Mn

Southern
 Ambalangoda
 Ambalantota
 Deniyaya
 Galle
 Matara
 Tissamaharama



GWP Rs. 169.5 Mn



EASTERN

Eastern
 Ampara
 Batticaloa
 Kalmunai
 Trincomalee

GWP Rs. 90.1 Mn



UVA

Uva
 Badulla
 Bandarawela
 Mahiyangana
 Monaragala


GWP Rs. 96.2 Mn



NORTH WESTERN

North Western
 Chilaw
 Kuliyaipitiya
 Kurunegala
 Puttalam

GWP Rs. 133.8 Mn

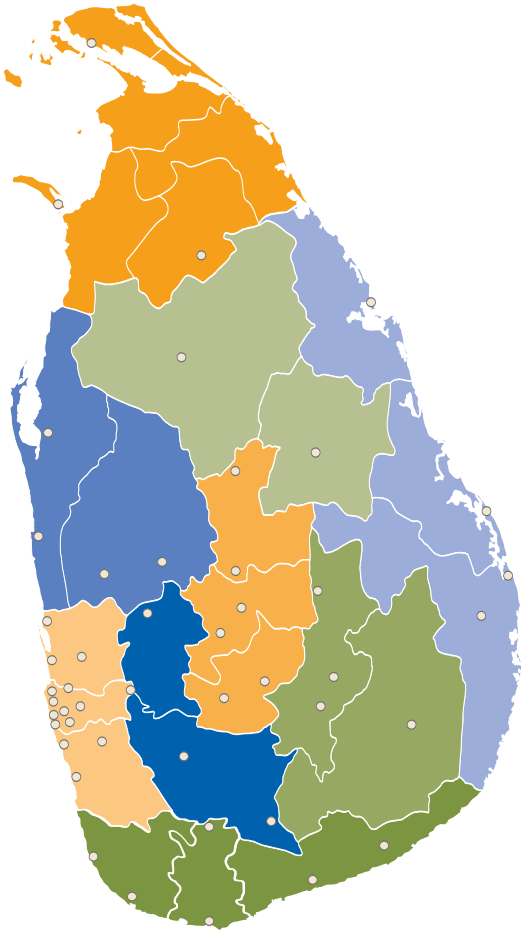


CENTRAL

Central
 Dambulla
 Gampola
 Hatton
 Kandy
 Matale
 Nuwara Eliya

GWP Rs. 170.5 Mn

Distribution Network



"We're there... At every stage of your life."



'mylife' – enriching young lives...

mylife is a special kind of insurance policy for youth that helps young people transform their dreams into reality

Sustainability Report

Managing Director's Statement

Dear Stakeholder,

I have much pleasure in placing before you the Sustainability Report for the financial year ending 31st December 2009.

Sustainability has been defined by former Norwegian Prime Minister Gro Harlem Brundtland as 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'. Applied in a business context, sustainability has four critical components, i.e. Social, Economic, Environmental and Cultural aspects according to Adam Werbach, Global CEO of Saatchi and Saatchi S.

At HNB Assurance, we have adopted a broad view of sustainability which encompasses all these elements. On the social front we have demonstrated our concern for all segments of our society ranging from internally displaced persons to prisoners serving out their sentences. On the economic front we have come forward to assist micro entrepreneurs to manage their risks at a very affordable cost. We have also made such avenues for risk transfer more accessible by extending our reach through our network partners, HNB and SEEDS.

Our concern for the environment has been best displayed through our continuous support towards the promotion of emission-free electric vehicles in this country. We have also been working hard to inculcate our staff with the value of environment-friendly practices in their day to day working lives. The cultural dimension has always received our highest attention as it constitutes activities through which communities manifest their identity and cultivate traditions passing them from generation to generation. Youth drama and

music have been two distinct fields of art that have received generous support from the Company during the year under review.

For us at HNB Assurance, sustainability is a way of life. Creating value for all our Stakeholders in a sustainable manner is what we strive for. The Sustainability Report that follows will give you more details of the extent to which we have succeeded in living up to these ideals.

It gives me great pride to inform you that our Company was placed first in the Small Scale category at the ACCA Sri Lanka Sustainability Reporting Awards 2009.

We will always aim to do at least a little better each year and step forward steadily as a sustainable business entity.



Manjula de Silva
Managing Director

28th January, 2010

Sustainability Report



“Quite simply, sustainability is meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

SUSTAINABILITY REPORTING

What is this all about?

There is no globally accepted single definition for sustainability reporting. Global Reporting Initiative's Sustainability Reporting Guidelines (GRI guidelines) defines sustainability reporting as *“the practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development”*. In other words, *sustainability reporting* aims at providing information on an entity's social, environmental, cultural and economic performance and impact, and the initiatives taken to improve its performance in these areas. A good sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organisation - including both positive and negative contributions.

Stakeholders are increasingly interested in understanding the approach and performance of their companies in managing sustainability (social, environmental, cultural and economic aspects of the activities of their companies). This report is an attempt to fulfil this need.

About this report

Our way of thinking on sustainability reporting and the framework for this report

Sustainability for us is keeping our customers happy whilst adding value to our other stakeholders. We believe providing insurance needs is a major contribution towards the sustainable development of the country's economy and its people. Whilst securing the trust and admiration of the

customer, all our actions and operations should be directed towards creating a positive impact on the economy, society and environment, thereby adding sustainable value to our stakeholders. We discuss our contribution towards that objective under our key Stakeholders in this report.

This Sustainability Report has been developed based on the Global Reporting Initiative (G3) guidelines for sustainability reporting. As this is our first report based on the GRI Guidelines, we have assessed our report as a level 'C'. We have planned a continuous improvement process in adopting the GRI guidelines and our target is to be in full compliance with these guidelines in the ensuing years. The GRI 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.

The following are the key stakeholders whom we have identified.

- Customers
- Employees
- Investors
- Business partners
- Community and Environment

Stakeholder Engagement

How do we meet objectives of our stakeholders?

We have identified Customers, Employees, Investors, Business Partners, Community and Environment as our key stakeholders. The following table depicts the manner in which we engage with them.

Sustainability Report

Stakeholder Engagement

Stakeholders	Stakeholder objectives	The way we engage and our commitment
Customers	<ul style="list-style-type: none"> Product attributes with more value to customers Improved service standards Faster claims handling Easy access Competitive pricing and other benefits Innovative ways of meeting needs 	<ul style="list-style-type: none"> Islandwide distribution network Customer surveys A 24 hour Customer Relations Centre SMS alerts on policy status Customer news letters Formal Customer complaints handling process Company web site - response within 24 hours to web inquiries Continuous development of new products to meet customer requirements (e.g. 'mylife', <i>Super 4 Investment Policy</i>) Fast claim settlement initiatives (e.g. <i>Fast Track Claims Settlement</i> process for motor claims below Rs. 25,000) System developments for improvement in service standards Customer service training to staff, advisors and assessors Bonus to Life policyholders No claim bonus to motor policyholders at highest possible levels
Employees	<ul style="list-style-type: none"> Job security Transparent methods for recruitment, confirmation, increments and promotions Compliance with all laws, regulations and ethical norms Access to all relevant information Training and Development Benefits, Rewards and Recognition Financial support for their needs Career advancement Safe and friendly work environment Balance between work and personal life 	<ul style="list-style-type: none"> Staff conference to share Company's future plans and past performance CEO's forum where executives and those below can express their views directly to the MD/CEO Management meetings for Senior Executives and those above to express their views and suggestions Distribution Managers' Meetings at which Branch Managers are able to express their views and suggestions Intranet with collaboration features and online suggestion forum Open-door culture which provides employees at all levels access to the top management Updating salary structures with information obtained through salary surveys Continuous and steady growth in the Company Including financial and other results in the Company's web soon after publication Loan facilities for education, marriage and other urgent needs Formation of cross- functional project teams consisting of employees in different departments Upgrading systems for easy job performance Full compliance with all laws and regulations and Corporate Governance practices Structured training programmes and opportunities to participate at local and overseas training events.
Shareholders/ Potential investors	<ul style="list-style-type: none"> Growth in top and bottom lines Consistency in results Better share performance Stability and Liquidity Compliance with all laws and regulations and ethical standards Acting with social responsibility 	<ul style="list-style-type: none"> Annual General Meeting where shareholders can review past year's performance and express their views Timely release of Annual and Quarterly Financial Statements Mailing printed Interim Reports to Shareholders although it is no longer a mandatory requirement Publishing Financial Statements in the national media on a quarterly basis Including Investor Feedback Form in this Annual Report Consistent growth in financial results over last few years Full compliance with all laws and regulations and Corporate Governance practices

Stakeholder Engagement (Contd.)

Stakeholders	Stakeholder objectives	The way we engage and our commitment
Business Partners (Advisors, Brokers, Reinsurers, Suppliers etc.)	<ul style="list-style-type: none"> • Keeping promises • Sound business relationships • Professionalism and Integrity • Continuous support in terms of training and development (particularly to advisors) • Financial support for their needs (advisors) 	<ul style="list-style-type: none"> • Regular dialogue with business partners • Sales convention and other motivational activities for sales force • Structured training programs (brokers and advisors) • Number of recognitions/ awards for achievers including overseas trips (brokers and advisors) • Help in improving productivity and efficiency (advisors) • Timely payout of commissions, reinsurance and other payments • Loan facilities for education, marriage and other urgent needs (advisors)
Community and Environment	<ul style="list-style-type: none"> • Contribution to Community Development • Taking into account social needs in decision making • Minimise adverse impact on environment 	<ul style="list-style-type: none"> • Community relations through propaganda vehicle • Extensive usage of distribution network to identify community needs • Issuing free insurance cover for green vehicles • Helping the needy in society by donations and other CSR projects, sponsorships etc. • Energy saving initiatives such as the use of energy saving computers, lights etc. • Movement towards e- documentation • Company web site • Email address provided for information requests - info@hnbassurance.com • Press releases on Company activities

VALUE ADDED STATEMENT

What value do we add to our stakeholders?

The Economic Value Added Statement which demonstrates the value added by the Company towards the economy and its key stakeholders, is presented on page 154 of this Annual Report.

OUR STAKEHOLDERS

Customers

Bringing you contentment at every opportunity

We work under the theme of seeking to delight all our customers at every opportunity, and we consider this as one of our prime responsibilities. Whilst thanking all our customers for selecting us as a trusted and loyal lifetime partner to meet their insurance needs, we reaffirm our commitment to serve them better and better every day.

Islandwide distribution network

We have a dedicated Field Force of about 1,500 Insurance Advisors and Field Management staff operating in over 47 branches islandwide to service you at your doorstep. During the year, we added four more branches to our distribution network in Mannar, Horana, Avissawella and Kuliyapitiya with a view to enhancing accessibility. Our presence was very strong in the North and East even in war time with seven branches in the region. With the end of the war, we intend to expand our presence further to provide you an even more convenient service.

Also, with our parent company Hatton National Bank, we have marked our presence in every corner of the country. In addition, we are ready to serve you through all insurance brokers, banks and financial institutions according to your wish. Moreover, our customers can call us on our 24 hour hotline (Customer Relations Center: 011-4 883 883) for any assistance particularly with regard to claims.

Improvements in 'Customer Relations Center' (CRC) - A better service for customers

CRC is our 24 hour Customer Relations Center. Every year, we improve the level of service provided through the CRC to our valued customers. During the year, service standards for web inquiries were improved and all inquiries are now responded to within 24 hours. This service has gained popularity among customers as the number of inquiries increased from 10 in 2008 to 553 in 2009. Further, we have focused on increasing onsite inspections for motor accidents, to offer a more efficient service. In 2008, only 73% of accidents recorded were inspected on site; by the end of 2009, we were able to conduct onsite inspections for 96% of the accidents notified. We plan to increase this further in 2010 to cover almost all the accidents.

In the year 2010, we plan to centralise the entire process of handling customer complaints through CRC in order to ensure all complaints are recorded and addressed to the total satisfaction of our customers.

Sustainability Report

Fast Track Claims Settlements

We believe that the time our customers need us most is the point of a claim. To make the claim process faster and easier, we introduced a hassle free speedy method called “Fast Track Claims Settlement” wherein the customer opts to choose this method if the damage assessed is below Rs. 25, 000/- in the case of motor cars. This new facility provides greater convenience to our customers by avoiding a complex claims settlement process that takes time.

Increasing bonuses to Life Policyholders

Sharing profits of Life Insurance with policyholders is another advantage enjoyed by our customers. We have been able to declare bonuses at increasing rates to our customers, confirming our continuous growth in profitability in Life Insurance. We started to declare bonuses in the year 2005 with a Rs. 10 bonus for every Rs. 1,000/- of sum assured and have increased the highest rate of bonus each year. Following is a table showing the Life Insurance bonus declarations over the last few years.

Policy commencement year	Bonus per year per Rs. 1,000/- of sum assured				
	2005 Rs.	2006 Rs.	2007 Rs.	2008 Rs.	2009 Rs.
2002	10	20	30	40	45
2003	10	20	30	40	45
2004		10	20	30	35
2005		10	20	30	35
2006			10	20	25
2007				20	25
2008					20

No-claim bonus to Motor Insurance Customers

“Motor Guard” our comprehensive motor insurance policy offers no-claim bonus upto 75%, which is among the highest rates in the industry. This aims to reduce the cost of insurance to vehicle owners who maintain an excellent track-record in avoiding accidents.

Customer Service training for our Ambassadors

We conducted a number of training programs using a renowned trainer, Mr. Dhammika Kalapuge, targeting those who deal with customers directly. They included staff, advisors and assessors who function as ambassadors of HNB Assurance to our customers.

Products to cater to all market segments

General Insurance - Our General Insurance portfolio offers a wide range of insurance solutions to retail customers as well as catering to the requirements of entrepreneurs, ranging from micro insurance for small-scale businesses to comprehensive

insurance packages for large-scale projects and companies. Whether it is a small grocery store or a large construction project such as the Oluvil Port Construction, our products are tailor-made to offer complete solutions.



The Company has already redesigned the products, 'Aruna' and 'Navoda' to provide greater benefits to General Insurance customers; these will be re-launched in the coming year.

Life Insurance - Identifying varying insurance needs of customers in different market segments is a key factor that drives us towards success in this line of business. Our focus is to satisfy our customers by providing them the exact protection they seek, with innovative and customised solutions. For example, in year 2009, we introduced products such as 'mylife' (a product catering to the needs of the youth) and Super 4 - Single Premium Investment Policy (a product to address investment needs in a high interest rate environment with an added life cover) to cater to different market segments.



A chance to be a winner

As a practice and in parallel with our anniversary celebrations, we saluted our valued customers by offering them a chance to win return air tickets. Keeping to the tradition, we celebrated our 8th anniversary, awarding return air tickets to 8 of our

lucky customers, belonging to both Life and General Insurance businesses. In addition a coupon draw was also held for life customers and fabulous gifts were offered to the winners, together with 100 consolation prizes.



A newsletter to keep our customers updated

We believe that our customers, being one of the most important groups of stakeholders, should get the opportunity to know what is happening in the Company. Hence, we began to deliver a periodic newsletter containing information that they would consider useful and interesting, in order to fulfil our duty as a responsible corporate citizen.

Technology for a superior service

Leveraging technology to provide superior customer service is yet another initiative taken during this year. We initiated a project to use sophisticated camera phones to take photographs of accidents on site and send them online to the Head Office instantly, to enable the provision of a faster service to our motor insurance customers.

Considering the popularity of mobile phones among customers, we have launched a system to communicate with our customers via SMS in instances of claims, renewals, notification of Life Insurance policy lapses etc.

Finally, we commenced a process to upgrade all our systems to make sure our customers receive a faster, more accurate and reliable service. We have already upgraded the Life Insurance module to the new version and the General Insurance and Finance related migration is currently in progress. We are planning to finish this task in the year 2010.

Enhanced promotion to villages

Our propaganda vehicle visits every part of the island to disseminate knowledge on insurance and its importance, giving the villagers an opportunity to unravel their hidden needs for protection. Thereby, customers even in the remotest villages have an opportunity to gain information and express their views and desires directly to our staff without having to step into any of our branches. We have covered almost 200

villages during the year 2009 compared to 120 villages in the previous year.



Employees

Our greatest asset

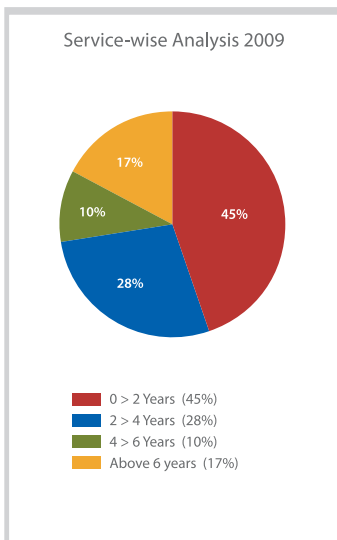
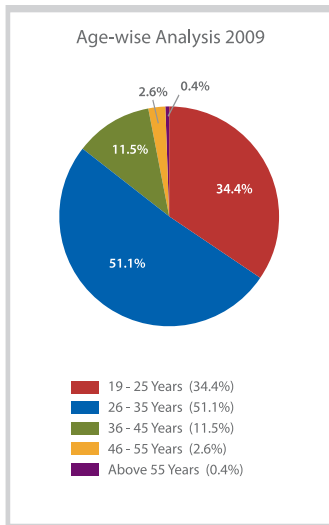
Our dynamic team that blends knowledge, talent and experience with a passion for excellence is one of our greatest assets that has made us record the fastest growth in the insurance industry. The respect we have and encouragement we give for innovative ideas together with a team spirit none can match have paved the way for us to cross conventional boundaries to serve our stakeholders. We recognise and appreciate greatly the value they add for the betterment of the Company.

Key employee indicators

We are an employer who believes strongly in developing attributes such as talents, skills, knowledge, commitment and positive thinking. All our decisions relating to recruitment, promotions, increments and recognition are based on such criteria and take place through a very transparent process. The HNB Assurance family does not consider gender, race, religion or any such factor in making such decisions.

We have a 34% female population in our workforce throughout the country at all levels from top management to the lowest level. There is no significant change in this ratio compared to the last year.

Staff Category	2009			2008			
	Male	Female	Total	Male %	Female %	Male %	Female %
General Managers	3	1	4	75%	25%	75%	25%
Heads of Divisions	3	Nil	3	100%	Nil	100%	Nil
Managers and Assistant Managers	48	10	58	83%	17%	86%	14%
Executives	59	29	88	67%	33%	71%	29%
Non Executives	241	146	387	62%	38%	61%	39%
Total	354	186	540	66%	34%	65%	35%



More than 85% of our total staff is below 35 years of age which confirms the availability of a dynamic, innovative and passionate team to run our Company towards a better future. Although we are one of the younger companies in the industry, a considerable percentage of our workforce are those who joined hands with us in the early years.

A brighter future for our stars

Continuous training and development is a part of our culture. We encourage all our employees to improve their knowledge to the highest possible levels. Reimbursement of costs for examinations upon successful completion, examination loans and study leave facilities are some of the incentives provided to our employees for selected examinations in different fields to support professional development.

In addition, we provide opportunities for employees at all levels to participate in training programs / seminars and events organised by the Company itself and external training programs including overseas training. Such training programs cover job related knowledge, computer skills (in particular the effective and efficient use of MS Excel) presentation skills, communication skills, personality development, customer service, etc. The following table provides some information on different training programs we had during the year with corresponding information for the last year.

In-house Training programmes

Programme	2009		2008	
	Number of Programmes	Number of Participants	Number of Programmes	Number of Participants
Induction and Familiarisation Programmes	3	124	3	128
Companywide Training Programmes	12	498	7	240
Divisional Training Programmes	38	853	41	669
Total in-house Training Programmes	53	1,475	51	1,037

Outbound Training Programmes

Programme	2009		2008	
	Number of Programmes	Number of Participants	Number of Programmes	Number of Participants
Outbound Training Programmes	6	237	5	161



External Training Programmes

Division/Department	2009		2008	
	Number of Programmes	Number of Participants	Number of Programmes	Number of Participants
MD's Office	3	5	7	7
Finance & Corporate Services	33	47	26	46
General	19	41	18	26
Investment	22	35	10	12
IT	8	11	2	2
Human Resources	4	5	8	10
Legal	7	7	Nil	Nil
Life	12	35	9	15
Marketing & Distribution	19	47	14	28
Total	127	233	94	146

Overseas training

Division/Department	Number of Participants 2009	Number of Participants 2008
MD's Office	1	Nil
General	2	3
Life	3	1
Marketing & Distribution	2	1
Finance & Corporate Services	Nil	3
Total	8	8

We have created an environment with equal opportunities for every person to reflect his/her capabilities and to rise in the career ladder. We organise and empower people to undertake special projects in order to identify and sharpen their hidden talents. Thereafter, the top management is made aware of the strengths and potential of the relevant employees. Better performance is also encouraged by rewarding successful teams with gift vouchers.



The Staff Conference is an important event in the HNB Assurance calendar since this is when HNB Assurance stars who have performed their functions beyond the call of duty are recognised with the Chairman's Award for Excellence before the entire HNB Assurance work force.



We have created a Management Development Pool and specific training is provided for its members so they can sharpen their management skills to build a solid foundation for the future management of the Company.

A formal and transparent performance appraisal system is in place at HNB Assurance whereby the employees of all levels are formally evaluated. All confirmed employees are appraised twice a year. 395 of our employees were formally appraised in 2009 while 345 were appraised in 2008. In line with our commitment to link rewards to performance in a transparent manner, all annual increments and bonus payments are based on the performance grades agreed at these appraisals. The management takes great care to ensure that these grades are distributed in a uniform manner across all divisions of the Company.

An 'Assurance' for our people

We provide a worker-friendly culture where the doors are always open for employees to communicate with all levels of management. The employees are free to express their grievances and in such instances they are adequately addressed.

Necessary steps were taken at the beginning of this year to adjust salaries of around 75% of the employees after conducting a salary survey to identify levels of remuneration applicable in our industry. We recognise the need to ensure the happiness of our people who strive to steer the Company towards its vision.

We have given the right protection to our people by offering them a personal accident cover, a staff health insurance scheme that includes spouse and children, along with a Group Life Cover. Thus, we not only assure the protection of our employees but also their loved ones.

Our people are eligible to benefit from the concessionary loans offered to purchase vehicles (for senior grades only), continue their higher education, for their weddings and to tide over emergencies they face from time to time. We are there for them in their times of need.

Sustainability Report

We have established a sick room and a better first aid facility to cater to the medical needs of employees that arise during working hours. We have also organised gym and swimming pool facilities for our employees, to guarantee that they remain physically and physiologically fit and healthy.

Moments to share the joy

All our employees were given the chance to share the joy and excitement together with their families at the most anxiously awaited welfare event at HNB Assurance - the Company's annual trip. Numerous interactive games and recreational activities were on offer during this occasion.

Sharing of knowledge

The HNB Assurance intranet has been developed with collaborating and social networking features to cater to the needs of employees. An e-learning program was launched at the end of the year, with the objective of enhancing the knowledge of our people. An internal library has been established to support and generate a passion for knowledge among our employees. A quiz competition was held among the employees with the participation of all interested, as a means to enhance and share knowledge.

The number of academically and professionally qualified employees has increased during this year and this naturally feeds the overall personal development of all.

We plan to display motivational quotes in the office premises in the coming year in order to develop confidence and enthusiasm which are musts in crossing conventional boundaries to achieve the dreams we share as individuals and as a team. These are already featured on our intranet.

The CEO's Forum is conducted on an annual basis to allow each and every employee below executive grade to voice their views directly to the Managing Director. 9 meetings were held during the year under review based on this concept, with the participation of 135 members of the staff. An online suggestions forum which directly reaches the HR department has been developed to give all the employees a chance to contribute towards the well being of the Company. All our employees are welcome to contribute to the internal magazine 'Puwath' which is circulated periodically.

Serving the needs of the nation

We have provided employment opportunities to people from all parts of the nation and at present we have a staff of 540 (2008-457). Further, identifying the emerging needs of the community in which we operate, we have recruited more Tamil speaking people in order to provide an effective and efficient service to all our customers, including those in the North and East.

Our unity

We introduced a Company anthem to encourage feelings of unity, loyalty, discipline and love towards the Company and its people. We all sing the Company song with due respect before starting the day.

Our business partners

Our strength

Due to the nature of our business, choosing the right business partners and maintaining a win - win relationship with them is vital to us. We have been able to build and maintain a strong rapport with many of our business partners including Hatton National Bank (our parent company), other strategic partners, our team of Insurance Advisors, Brokers, Reinsurers and Suppliers.

We acknowledge the immense contributions made by all our valued business partners during the year. The graphs on Channel-wise GWP on pages 30 and 31 of the Management Discussion and Analysis shows the contribution to our top line by each key business partner.



Field Force - the live wire of HNB Assurance

HNB Assurance was able to maintain a sustained growth over the years even in times of poor economic conditions, largely because of our dedicated and skilled team of professional Insurance Advisors, who is the live wire of our Company. Since it is the Field Force that comes into direct contact with a majority of our customers, their knowledge, skills and professionalism need to be of a very high standard. Hence we give emphasis to the recruitment of Advisors, their training and development, as well as rewards and recognition, in order to build mature insurance professionals catering to the insurance needs of the community.

Recruitment - Presently our Field Force, which includes Insurance Advisors and the Field Management is 1546 strong. When recruiting, we follow strict compliance with the IBSL regulation of allowing only Insurance Advisors who have passed the Technical Competency Course in Life Insurance to become Life Insurance Advisors and the Technical Competency

Course in General Insurance to become General Insurance Advisors to conduct our business activities. When recruitment is made from within the industry, a service letter from the previous company is a minimum eligibility criterion to join our Field Force.

Benefits - In return for the invaluable services rendered by our Insurance Advisors, HNB Assurance offers concessionary vehicle loans, distress loans as well as commission advances in times of emergencies. Hospitalisation and death benefit schemes are also in place for all our Insurance Advisors. In addition, a terminal benefit scheme which includes company contributions is also available for them. This year we extended the hospitalisation benefit cover and death benefits for Registered Applicants who are potential Insurance Advisors undergoing training.

Training and development - All our Advisors undergo an extensive training curriculum developed with the technical assistance of ICICI Prudential Life Insurance Company of India. The program consists of five modules, all driven by performance, and the successful participants are awarded Company certification at the end of each module. The series of training programmes commences with the initial Welcome Aboard and Soft Start and then moves on to Kick Start, Sprint and Race, High Flyers and Super Power laying the platform to create a highly professional field sales force on par with the best in the industry.



We also conducted training programs on our products, diary maintenance, listening skills and communication skills. Training programs were conducted throughout the country in both Sinhala and Tamil mediums and with the recruitment of a new Tamil trainer this year, we were able to increase the number of programs offered in Tamil. The success of our training programs is best demonstrated by the pass rate of those taking the Sinhala Life Insurance technical competency test, increasing to 83% this year from 78% in 2008. The pass rate for the Tamil Life Insurance technical competence test showed a slight decrease from 55% in 2008 to 53% in 2009 due to the sharp increase in the number of applicants taking the examinations.

	2009		2008	
	In Sinhala	In Tamil	In Sinhala	In Tamil
Success at Technical Competency Tests (Life)	83%	53%	78%	55%

Plan for the next year

- Launching the sixth module on Life Insurance
- Second and third modules for General Insurance
- Introduction of a Training Passport
- Recruiting another trainer based in the North and East to improve Tamil medium training programs in these regions



Rewards and recognition - We know the importance of appreciating a job done well. The agency ranking model is used to grade our Advisors and monthly medals are awarded based on their performance. A Sales Convention is held annually on a grand scale where outstanding performers among Insurance Advisors and the Field Management are recognised with Bronze, Silver, Gold and Super Gold Medals with opportunities to enjoy foreign vacations also on offer. Thus, 25 Advisors visited China while 23 visited Thailand, totalling 48 overseas tours offered in total to deserving individuals.

The first National Advisor quiz competition organised by HNB Assurance was a resounding success. The team that represented our Kandy branch won the competition. Activities such as cricket tournaments were organised especially for our Field Force at regional/zonal levels.

Brokers - key drivers

We have maintained a steady relationship with our Broker channel and this category remains a key driver in promoting our insurance products, especially General Insurance as shown in the table overleaf.

Sustainability Report

GWP Contribution from Brokers in Rs. Million

	2009	2008	2007	2006	2005
Motor	236	104	57	49	38
Fire	65	14	7	10	9
Marine	8	8	1	4	2
Miscellaneous	24	12	5	4	3
Total contribution from brokers	333	138	70	67	52
As a % of total General GWP	30%	15%	10%	11%	11%

The Beach Rugby Fiesta, which was initiated in 2008, was held for the second consecutive year with the participation of nine Broker teams. This event was organised to promote fellowship among HNB Assurance staff and Broker staff, in a non-work setting. Further, 5 training programs especially designed to cater to our Broker channel were conducted to educate Broker staff on our products and as a knowledge-sharing exercise for both parties.



Reinsurers - our security

The pillar of strength behind our acceptance of risk is undoubtedly the strength of our reinsurers. The criteria we use to select a reinsurer are many but sound financial strength, reputation, a financial rating above the minimum level stipulated by the Insurance Board of Sri Lanka (IBSL) and the relationship the reinsurer has maintained with us are some of the main factors that are considered. Page 90 shows our reinsurer panel with their credit ratings.

We believe that there are numerous lessons to be learnt from such experienced partners and we warmly welcome opportunities to gain knowledge from them. Staff participation in seminars and workshops organised by our reinsurers is greatly encouraged. This year, a staff member of HNB Assurance became the recipient of a valuable opportunity to participate in 'The Reinsurance seminar of the Toa', a training program organised by Toa Re in Japan. Our staff was also able to gain knowledge from two workshops conducted by Munich Re on Actuarial services and on Advanced Life Underwriting. These participants shared their learning experience among

other staff members upon completion of these programmes, thereby spreading the knowledge and know-how about international best practices throughout the Company.

Bancassurance

The contribution made by Hatton National Bank and its staff towards HNB Assurance is indeed praiseworthy. Even though the percentage contribution from HNB is declining as a percentage of our total GWP due to the increase in volumes from other channels as seen in the Channel Mix graphs on pages 30 and 31 of the Management Discussion and Analysis, we appreciate the immense support given by HNB to our success. The mid-year award ceremony for HNB branches was organised on a grand scale this year as well, as a gesture of appreciation of their invaluable support.



In addition, we join forces with HNB in their award winning sustainable development project "Gami Pubuduwa" through our Micro Insurance scheme discussed elsewhere in this report and in the "Pathum Vimana" Street Promotional campaigns. Our relationship with other members of the HNB family such as HNB Leasing has also flourished during the year, with the Company extending for a further period the tripartite relationships entered into with Indra Traders (Pvt) Ltd. and Sterling Automobiles Lanka (Pvt) Ltd.

The specific Bancassurance channel to sell our Life Insurance products established last year with the signing of a Memorandum of Understanding with HNB has prospered this year. This facility is offered exclusively to HNB account holders and HNB Assurance has supported the "Financial Supermarket" concept of HNB by becoming the insurance service provider to its customers at branch level. We have placed 74 (2008 - 29) of our staff at selected HNB branches throughout the country under this project, to offer Life Insurance products. A total of 1,585 policies were sold through this channel in 2009 generating a premium income of Rs. 39 Million. Another 30 employees are to be similarly positioned in the year 2010.

Our chain of Suppliers

We follow an open and transparent procedure in selecting all our Suppliers. There are several conditions that need to be met when selecting Suppliers who directly interact with our Customers such as Laboratories, Hospitals, Garages and Assessors.

In selecting laboratories, the Company branch in the region does the initial inspection and the Branch Manager recommends the laboratory after examining the relevant certificates, after which the rates are considered. Lab inspections are carried out randomly by Head Office to verify service levels.

Presently, we maintain relationships with 53 recommended vehicle garages islandwide. Garages are recommended only after inspection by our Engineering Services Department and facilities offered at the garages are also considered when selecting one as our supplier. We also provide these garages with our name boards to assist our Customers in identification.



The knowledge and skills of our Assessors is a fundamental component in our customer service levels. Upon recruitment, we ensure that all our Assessors are suitably qualified diploma or degree holders. Training programs were conducted to enhance their skills on how to improve assessments, the use of IT for speedy assessment and on customer handling. Further, HNB Assurance Assessors were provided with camera phones to photograph damages of motor vehicle accidents expediting the claims settlement process. All these measures equip our Assessors to offer a better service to Customers.

Community and Environment

Our responsibility towards community

We are proud yet humble to announce that throughout the short period of our operations, we have extended our fullest cooperation to alleviate the problems our society faces. Our endeavour is to deliver the maximum benefit to the communities we work in.

Thus, we identify emerging issues the community faces as a whole and extend our support for a positive change such as

supporting poverty alleviation and education by contributing to schools in need and promoting health and hygienic facilities which are essential human needs, not forgetting the vital areas of Arts and Culture. This year we focused on uplifting the lifestyles of the displaced in the North, showing our gratitude towards heroes of the nation and in caring for the wellbeing of those in rehabilitation facilities.

Alleviating poverty

HNB Assurance has a strong commitment to enriching the lives of people in the community, especially those in the low-income brackets who require our assistance in building their lives. We have taken several initiatives in this regard.

One such initiative is providing insurance covers for 'Gami Pubuduwa' loans granted by our parent Company HNB. 'Gami Pubuduwa' is an award winning CSR project launched by HNB, which aims to uplift the lives of small farmers and entrepreneurs in villages. Further, we work hand in hand with SEEDS, the micro-finance arm of the Sarvodaya Movement to uplift the living standards of low income earners with a co-branded product, "Sathkara". In addition, we introduced a new product called "Saviya" focusing on the low-income segment of the country. "Saviya" is a product affordable even to very low-income earners such as estate workers and daily pay workers.



Safe drinking water for our children

Access to safe drinking water is a fundamental right of every living creature. However, even in this twenty first century, children in some less privileged schools in the country are forced to satisfy their thirst using impure water, subjecting themselves to the risk of contracting diseases such as Cholera and Diarrhea. Having recognised this issue, 'making clean water and sanitation accessible to under privileged schools in the country', was set as a CSR goal at HNB Assurance last year and implemented in rural schools around the island. We continued this program in the current year by providing water facilities to two more schools, one in the North and the other in the South.

Sustainability Report



Uyarapulam Methodist Mission Tamil Mixed School with classes up to Ordinary Level is a less privileged school in Jaffna with a population of about 250 students. We helped renovate the well and build a safe drinking water system inclusive of pipelines and a water tank. Morawaka Primary School is a school in Morawaka, where the water supply lines within the school were in a dilapidated state, creating safe drinking water problems to the 1,500 students attending the school and their teachers. By renovating the water supply lines, repairing and fixing new taps and propping the water tank, we were able to help this large number of students gain access to cleaner and safer water. This project was dedicated to the memory of the late Mr. Pradeep Dahanayake, who served as the OIC of our Deniyaya branch.

Celebration of UN Day

HNB Assurance sponsored the sixty fourth United Nations Day Celebrations held in Colombo this year. This has become an important event in our calendar as we have been sponsoring the UN day celebrations from the year 2005 onwards continuously. A large number of children from all over the island participated in the event and awards for competitions held by the United Nations Association of Sri Lanka (UNASL) were presented to the winners at the ceremony. Through this sponsorship, we were able to make a large number of children happy, giving us immense satisfaction and a sense of fulfillment.

Spare a thought, a drop of blood...

Good health is said to be the greatest wealth. Those of us who are in better health can spare a thought or a drop of blood to ease the pain of our fellow human beings suffering from some sort of an ailment or disease. This has been one of our CSR goals through the years. In the current year also, we have embarked on several projects to turn these sentiments into action.

Through our Jaffna Branch, we were able to identify that Ward number 27 of the Teaching Hospital, the only tertiary hospital in Northern Sri Lanka, had not been renovated in five years. As a result, the people being admitted faced many difficulties and to help overcome these and as a fulfillment of duty towards our Northern customer base, we renovated the ward, supplied new electrical fittings and addressed sanitation needs by repairing the water pipes and fittings.



Providing medical items, water mattresses, normal mattresses and other items to the Neurological Unit of the Colombo National Hospital is another such project. We initiated this project to address the insufficiency of medical items in the Unit and in memory of our beloved colleague the late Mr. Chanaka Laksiri, who was treated at this Unit.



Our Finance Division organised a blood donation campaign as they did in previous years, since we strongly believe that every drop of blood spared can save the life of a fellow human being. We are indeed thankful to all the 150 donors for this most noble act of giving.

Humanitarian challenges in the North

As the thirty-year-old war ended, our country faced the challenge of ensuring the wellbeing of thousands of Internally Displaced Persons (IDPs) in the North and East, now clustered in IDP camps. We at HNB Assurance decided to help these fellow citizens not merely because it falls in line with our CSR philosophy of "making life better for our society" but because we consider it our duty to extend our fullest support in times of national need. In this regard, CSR projects targeting the children and the elderly were initiated, as they are the ones who suffer the most.

The elderly among the IDPs face great difficulties, due to infirmities of age and as life at an IDP camp is anything but

compatible with their physical strength. The Zonta Club III of Colombo brought to our notice an elders' home run by the Sisters of Charity in Mannar for around 175 aged IDPs. The frail condition of these inmates required suitable toilet facilities which the home was unable to provide on its own. Hence, we decided to provide financial assistance for the construction of two toilets for the home. We also addressed their nutritional needs through the provision of recommended food supplements. We contributed to yet another project to improve sanitation facilities of IDP camps in the North in collaboration with HNB, by constructing three clusters of five toilets each made to internationally accepted standards.

The district of Vavuniya is now home to a vast number of children of school going age, who are striving to enlighten their lives through education, despite having to live in IDP camps or in war-shattered villages. We stepped in to assist them by providing exercise books on two occasions. Initially, we were able to offer exercise books through the 611 Brigade of the Sri Lanka Army, who facilitated the distribution of books. More recently, we handed over a yet another stock of exercise books through the participation of the Pragna Pradeepa Foundation, a charitable organisation, to children in the same area.

Encouraging Arts and Culture

Throughout the years, we have demonstrated a strong interest in the progress of Arts and Culture. Sound Arts and Culture add rhythm to lives and inculcate sincerity and good qualities in the minds of people, to make them more complete human beings. Hence, this year too, we did not forget to make a sincere contribution to the betterment of Arts and Culture.



We sponsored "Pehesara Kala Ulela", an annual event in Thawalama, a remote area in Galle District. It is being organised by a voluntary team of villagers with the objective of encouraging the passion for arts and culture among less privileged students. Renowned artistes are invited to grace this simple ceremony and three of them are recognised by offering a very special award. This time three leading artistes in their respective fields, T. M. Jayaratne, Cyril Wickramage and

Wasantha Obesekera were offered due recognition for their invaluable contributions. Further, a youth drama festival featuring the two popular and award winning stage dramas 'Vikurthi' and 'Hari Apooru Dawasak' was also sponsored by us in association with the Lanka Children's and the Youth Theatre Organisation (LCYTO). This event, held at the Lionel Wendt, drew an enthusiastic crowd.



Another event which received the company's support was 'Sayura Ime Mal Pipila', a live concert presented by the students of St. Rita's College, Thaldeka featuring 'Weerayangeth Weeraya' an award winning drama at the State Festival of Children's Drama 2008.

We also extended our support to a musical event of two young stars who not only touched the hearts of local audiences but also made their mark internationally, our Brand Ambassadors, Bathiya and Santhush.

In tribute to our heroes...

We felt it important to express our heartfelt appreciation towards the soldiers who made sacrifices for the freedom of our nation. Hence, we decided to assist in the education of the children of disabled soldiers. In this regard, we gifted school bags and stationary items for these children at the 'Ranaviru Upahara Ceremony' organised by the Seva Vanitha Branch of the Military Intelligence Corps with the view of aiding them in their schooling. As a way to express our gratitude, we invited our heroes at 'Ranaviru Sevana' to enjoy the Youth Drama Festival mentioned above.

Caring for the wellbeing of offenders

We believe that prisoners and offenders are also humans requiring compassion and that they are a part of our society. Hence, it is our duty to care for their wellbeing. Further, we need to assist in their rehabilitation and thereby help turn them into lawful citizens. For this purpose, we donated five computers to the Open Prison Camp in Pallekele housing about 2000 inmates, all youth between the ages of 16 - 22, as a response to a proposal made by our Kandy Branch.

Sustainability Report

Our Life Division Staff also contributed to this cause by visiting the Young Offenders' Training Centre in Negombo as their ongoing CSR project for the year 2009. This center is home to young offenders, also between the ages of 16 - 22 and our staff provided them with basic requirements such as slippers, towels, books and a large mirror for the facility. Our team did not forget to entertain these inmates with lunch, games and sports, such as cricket, ending the day with an evening of music and dance.

HNB Assurance has a diverse staff subscribing to all four major religious faiths in the country. As in the previous years, we supported four different places of worship in the neighbourhood through monetary contributions.

Our concern for the environment

As a responsible corporate citizen, we recognise the need to conduct our business activities in an environment-friendly manner. There was greater focus on energy conservation, reduction of paper usage, moving towards Green IT and other eco-friendly initiatives.

Energy saving initiatives

A special project was implemented to assess electricity consumption at the HNB Assurance head office and to identify areas where energy saving measures could be introduced. The findings highlighted the need for efficient use of air conditioners, measures to conserve energy and proper wiring systems.

A companywide awareness program on energy conservation was also launched. The staff was adequately educated on simple but important energy saving measures such as switching off unnecessary lights after standard office hours, switching off monitors when computers are on standby mode, etc. Staff from the Administration Department were especially assigned to assist and monitor the implementation of such measures. Attention was also paid to reduce usage of primary energy by way of fixing standard times for staff transportation after late work and grouping of staff so that less fuel would be consumed.

Renovation of Head Office

The lack of a proper wiring system at our Head Office building has resulted in a waste of energy. As a solution to this, renovations to the Head Office building were undertaken and proper wiring and lighting of the first floor has been completed this year. The second and third floors will be completed in 2010, leading to further energy savings. By implementing the workstation model, we expect to save electricity via lighting while improving efficiency.

Save a tree, somewhere

Reusable envelopes were introduced in two sizes, each usable up to twenty times, and they are now used for internal communications, resulting in saving paper as well as cutting costs. Steps were taken to investigate the need for duplicates of official documents such as receipts, debit notes etc. and the

generation of unnecessary copies was eliminated thereafter. It is a company practice to use both sides of paper for day-to-day work and to recycle used paper. All these measures help to save a tree somewhere.

Towards Green IT

We firmly believe in leveraging on IT to transform our business operations to an eco-friendly platform. We are thus moving towards embracing the concept of Green IT, which is the efficient and effective use of information technology and communication systems with a minimum or no impact on the environment.

One such measure is reducing energy consumption of computers and servers. In this regard, we have adopted the use of virtual servers and automatic switching off of monitors to standby mode after a specified time. Further, we are in the process of introducing flat screen monitors and laptops to reduce energy consumption. In addition, we facilitate the efficient use of IT by refurbishing and reusing old computers and properly recycling unwanted computers and electronic equipment.

In addition, using business applications which have the capacity to maintain all business related documents in an electronic format along with external document management solutions, has drawn us a step closer to creating a "paperless office". This measure is greatly facilitated through the implementation of the TCS BaNCs system this year, which enables documents to be generated automatically. A viewing facility to monitor these documents is available to any department in our Head Office or any Branch, eliminating the need to maintain printed copies. We plan to introduce a workflow system next year which will lead to further reductions in paper usage.



Continued support in preventing environmental pollution

Continuing the initiative taken two years ago, we are providing free insurance cover for the two electric vehicles being used by the Urban Development Authority for testing and demonstration purposes thereby assisting in the promotion of environment-friendly vehicles.

Investors

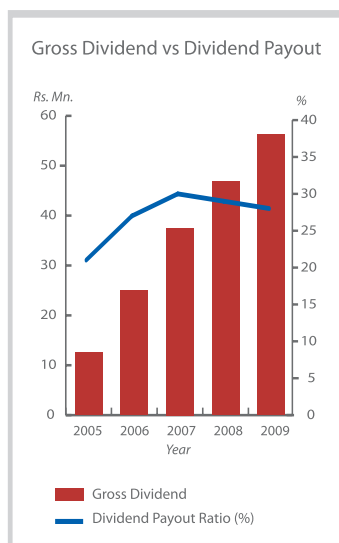
Creating sustainable value for our shareholders

The year 2009 was undoubtedly the most challenging year globally and locally to every one of us, due to the global economic meltdown. Particularly, in the Sri Lankan context, we were all experiencing an intense war situation in the first part of the year which severely affected all activities in the country. Being an insurance company, we observed the deteriorating disposable income of our customers throughout the year, which had a direct impact on our revenues particularly in Life Insurance. We believe very strongly that challenges of this nature are a part of the business and therefore finding appropriate strategies to overcome them is a must for sustainable development. Therefore, we took a number of steps during the year to meet all these challenges positively. Thus, we trust that our core promise and responsibility to our shareholders, creating sustainable value, was not curtailed during the year and the results discussed throughout this Annual Report clearly indicate this.

In summary, we succeeded in maintaining the growth momentum in revenue, assets, profits as well as in dividends (Please refer pages 2 and 3 in the Financial Highlights for growth information). Our growth direction was confirmed further by the outstanding performance of our share price, as discussed below.

Dividend Payout

A first and final dividend of Rs. 1.50 per share was declared by the Company, which would result in a 28% dividend payout ratio.



Share Price of HNB Assurance (HASU)

HNB Assurance (CSE code: HASU) has been trading on the Colombo Stock Exchange since 2003. Over the past 7 years HASU has a history of creating value to its investors.

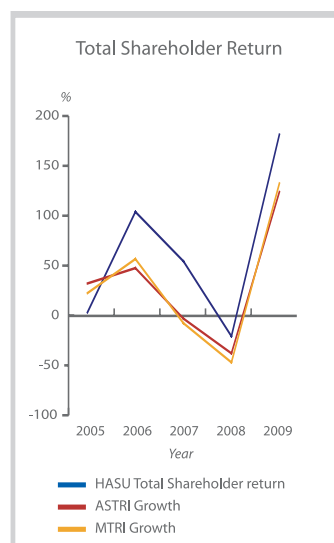
Market price of the HASU share ranged between Rs. 17.25 and Rs. 57.00 during the year and closed at Rs. 49.50 at the end of 2009. This reflects a growth in share price of 168% in 2009 which is well above the market indices such as ASPI and MPI. The above growth could be attributed to the performance of the Company as well as to the favourable conditions prevailing in the equity market with the end of the 30 - year long conflict.

The Colombo Stock Market soared after the end of the war in May last year. The All Share Price Index (ASPI), that captures the broad sentiments of the market best, rose by a 125% to reach its peak at 3,385.6 at the end of trading for 2009. This contrasts with a decline of 41% during 2008. The index was at only 1,503.0 at the beginning of 2009. The post-war growth of the ASPI was 78%. The Milanka Price Index (MPI), which measures the price movement of highly capitalised companies listed on the CSE, closed the year at 3,849.4 points, representing a growth of 136%. Further the Banks, Finance and Insurance sector index improved by 133% during the year under review.

A noteworthy development that took place at the end of the year was the inclusion of HASU in the MBSL Mid Cap Index for the first time.

Total Shareholder Return

Total Shareholder Return (TSR) is defined as the total return on investment a shareholder receives over a specified time. It combines the capital gain or loss of a listed share and dividends paid. The ASPI computed on total returns basis is known as the All Share Total Return Index (ASTRI) and the MPI computed on total returns is known as the Milanka Total Return Index (MTRI).



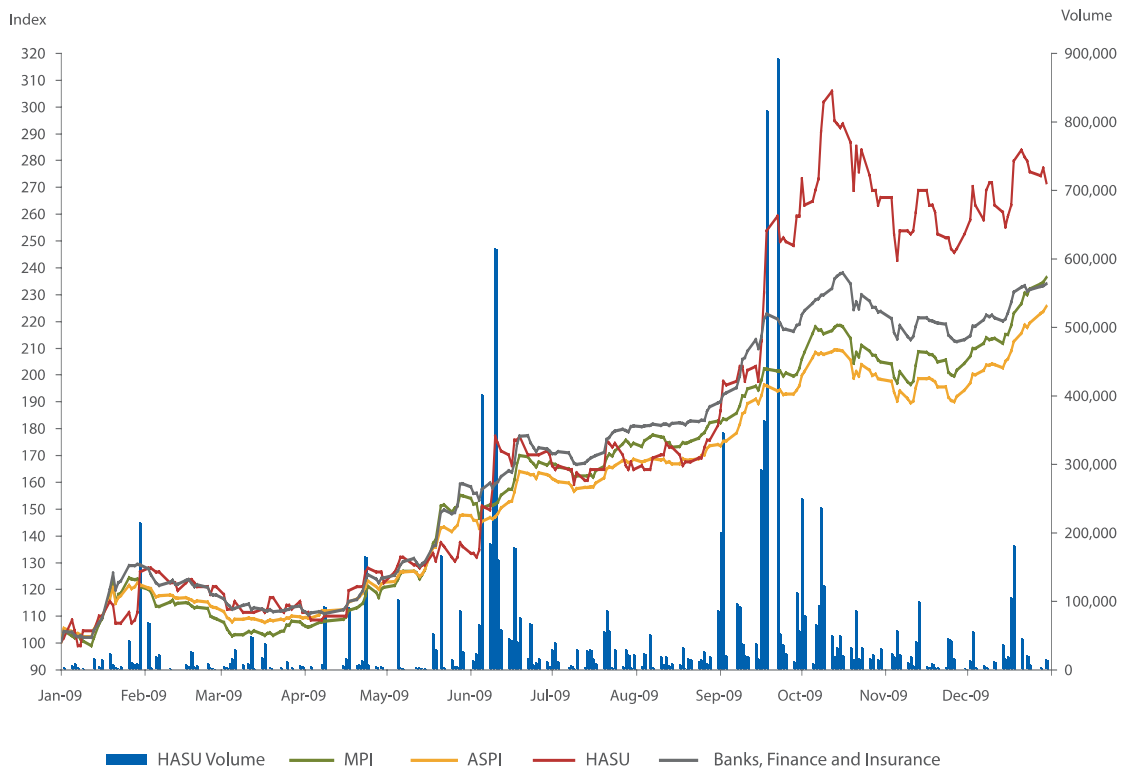
During the year 2009, HNB Assurance PLC paid a dividend of Rs. 1.25 per share which translates to a dividend yield of 6.9% for the year. HASU also made a capital gain of 171.2% at the end of the fiscal year 2009. Therefore, TSR on HASU was 178.1% for the year under review. Growth on ASTRI and MTRI

HASU Performance vs Market (over 5 years)



— HASU — ASPI — MPI — Banks, Finance and Insurance

HASU Share Volumes and Relative Performance vs Market



■ HASU Volume — MPI — ASPI — HASU — Banks, Finance and Insurance

for the year stood at 121.2% and 129.6% respectively. Once again these figures prove that HNB Assurance outperformed the market during the year 2009.

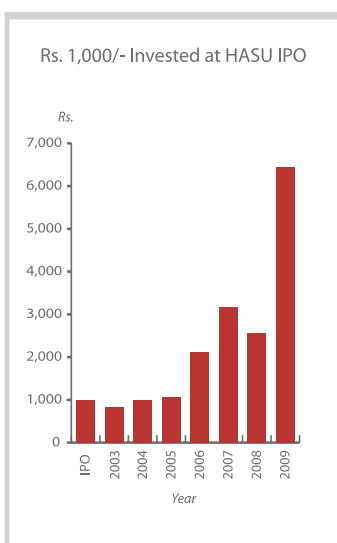
Market Capitalisation

The total market capitalisation stood at Rs. 1,856 Million as at 31st December 2009 and the significant event which occurred in 2009 is the market capitalisation crossing the Rs. 2 Billion mark during the month of October.



Rs. 1,000/- invested at HASU IPO

A sum of Rs. 1,000/- invested at the HNB Assurance IPO is now valued at Rs. 6,370/- (as at end - 2009), yielding a 537% return on investment to an investor who subscribed at the IPO considering the bonus issue and dividends paid over the years. This amounts to an annualised return of 36.15%.



Better Financial Strength

The growth in the financial strength of the company was well recognised by Fitch Ratings during the year: our national long-term financial strength rating was upgraded to 'A (lka)' from 'A - (lka)' during the year. Our Insurer Financial Strength Rating, which reflects our claims paying ability, continues to remain at 'A (lka)' and this signifies that we are able to maintain our financial strength at a very strong level.

Compliance with regulatory bodies

HNB Assurance meets all regulations, circulars and guidelines issued by the relevant regulatory authorities and submit regulatory requirements well within the stipulated deadlines (please refer the financial calendar on page 95).

Awards and recognition

The year 2009 proved to be a year of awards and recognition for HNB Assurance with four awards for our Annual Report 2008, one of which was our first international award. One



other important award we won for the last year's Annual Report is the first place in the Small Scale Category at the Sustainability Reporting Awards 2009 conducted by the Association of Chartered Certified Accountants (ACCA) Sri Lanka. This award is very important to us as it is the first time we won the first place in any competition. Further, the Company continues to be among the 'Top 100 brands' in the country as ranked by Lanka Monthly Digest in association with Brand Finance. Additional information about the awards received by the Company are presented on pages 34 and 35 of this Annual Report.

Sustainability Report

KEY PERFORMANCE INDICATORS

Stakeholder	Indicator	2009	2008
Customers	Number of active policies		
	General Insurance	129,796	75,559
	Life Insurance	70,562	65,982
	Value of Insurance Claims and Benefits - net (paid and outstanding)	Rs. 512 Mn.	Rs. 408 Mn.
	Number of branches	47	43
	Number of new products	3	Nil
	Our staff located at HNB branches	74	29
	Number of customers who won return air tickets	8	7
	Bonus to life policyholders (Maximum per Rs. 1,000 /- sum assured)	Rs.45/-	Rs.40/-
	Percentage of onsite claim inspections	96%	73%
	Number of Fast Track Claim settlements	1,992	Initiative taken in 2009
	Total Fast Track Claim payments (Approximately)	Rs. 20 Mn.	
	Number of employees given training on customer service	40	50
	Number of villages visited by our propaganda vehicle	199	120
	Number of customer news letters	1	2
	Customer feedback surveys	1	1
	Number of web inquiries	553	10
	Number of customer complaints received (in respect of Advisors)	429	284
	Number of customer complaints settled (in respect of Advisors)	319	229
	Number of motor third party cases as at the year end	137	99
Number of motor third party cases settled	4	2	
Employees	Number of employees	540	457
	Employee forums		
	CEO forums	9	4
	Management meetings	3	3
	Distribution Management meetings	5	6
	Employee recognitions		
	Chairman's awards for excellence	7	7
	Five year completion awards	22	51
	Number of employees who received assistance for insurance examinations	68	78
	Employees eligible for insurance cover	100%	100%
	Number of employees appraised (all confirmed employees are appraised twice a year)	395	345
	Fellowship events for employees (includes Annual Trip, Christmas Party, Sports day etc)	8	8
	Attendance of staff at Staff Conference	96%	96%
	Employees' participation at in-house, out bound, local - external and overseas training programs are available on	Page 46-47	Page 46-47
	Analysis of employees on age, gender and service are available on	Page 45-46	Page 45
	Employee Distribution		
	Western Province	65%	70%
	Other Provinces	35%	30%
	Number of "Puwath" Magazines (Staff Newsletter)	1	2
	Employee turnover	16%	18%

Stakeholder	Indicator	2009	2008
Business Partners			
Insurance Advisors and the Field Management	Number of training programs offered to Insurance Advisors		
	Sinhala Medium	46	66
	Tamil Medium	15	6
	Number of Insurance Advisors and the Field Management (Sharp decline is due to termination of advisors who have not passed the SLII Examination in line with the IBSL rule)	1,546	2,200
	Number of full time trainers	4	3
	Pass rate for Life Insurance Technical competence test (by SLII)		
	Sinhala Medium	83%	78%
Tamil Medium	53%	55%	
	Commission paid to Field staff	Rs. 166 Mn.	Rs. 186 Mn.
Insurance Brokers	Number of training programs conducted	5	3
	Commission paid to Brokers	Rs. 39 Mn.	Rs. 15 Mn.
Reinsurers	Total Premium to Reinsurers	Rs. 454 Mn.	Rs. 389 Mn.
Suppliers	Number of recommended garages	53	40
	Number of recommended Laboratories/ Hospitals	115	127
	Number of Assessors	90	89
	Fees Paid to Assessors	Rs. 10 Mn.	Rs. 7 Mn.
Community	Total investment on community Invested in areas such as School water projects IDP camps Donation of books and other stationery Arts and Culture Health related projects Sponsorship of public events	Rs. 2.6 Mn.	Rs. 2.3 Mn.
	Number of Micro insurance policies	1,689	3,227
Environment	Electricity Consumption at Head Office	429,541 units	479,528 units
	Further initiatives taken on Electricity Savings		
	Number of Laptop Computers purchased	21	17
	Number of Flat Screen Computers purchased	57	21
	Number of SMS based services	6	Nil
	Server Virtualisations	10	Nil
Investors	Earnings Per Share (EPS)	Rs. 5.38	Rs. 4.39
	Market Price Per Share (VWA)	Rs. 49.50	Rs. 18.25
	Dividend Per Share (DPS)	Rs. 1.50	Rs. 1.25
	Market Capitalisation	Rs. 1,856 Mn.	Rs. 694 Mn.
	PE Ratio	9.20 times	4.16 times

Sustainability Report

GLOBAL REPORTING INITIATIVE (GRI) G3 INDEX

	GRI INDICATOR	REPORT SECTION	PAGE No:
1.	Strategy and Analysis		
1.1	Statement of the Chairman and the MD/CEO	Chairman's Review Managing Director's Review	6-8 9-11
1.2	Description of key impacts, risks and opportunities	Chairman's Review Managing Director's Review Management Discussion & Analysis Risk Management	6-8 9-11 20-36 86-93
2.	Organisational Profile		
2.1	Name of the organisation	HNB Assurance PLC	
2.2	Primary brands, products and/or services	Life and General Insurance	
2.3	Operational structure of the organisation	Corporate Governance Report	67
2.4	Location of organisation's headquarters	No: 10, Sri Uttarananda Mawatha, Colombo 3	
2.5	Number and name of countries with operations	Only in Sri Lanka	
2.6	Nature of ownership and legal form	Corporate Information - Inner back cover	
2.7	Markets served	Management Discussion & Analysis	34, 37
2.8	Scale of the reporting organisation	<ul style="list-style-type: none"> • Number of employees • Income Statement • Total assets • Market capitalisation • Number of products <ul style="list-style-type: none"> Life Insurance 18 General Insurance 46 • Twenty largest shareholders 	14 116 115 3 156
2.9	Significant changes during the reporting period	No significant changes during the reporting period	
2.10	Awards received in the reporting period	Management Discussion & Analysis	34-35
3.	Report Parameters - Report Profile		
3.1	Reporting period	For the year ended 31st December 2009	
3.2	Date of most recent previous report	For the year ended 31st December 2008	
3.3	Reporting cycle	Annual	
3.4	Contact point	Corporate Information - Inner back cover	
	Report Parameters - Report Scope and Boundary		
3.5	Defining report content	Sustainability Report	41
3.6	Report scope and boundary	GRI 3 - Level C Sustainability report covers the operations of HNB Assurance PLC.	
3.7	Limitations on scope/boundary	No external Assurance report was taken	
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	Sustainability report covers the operations of HNB Assurance PLC. No subsidiaries or other operations in HNB Assurance.	
3.9	Data measurement techniques	Not applicable	
3.10	Explanation of the effect of any re-statements	No re-statements as this is the first report in this form	
3.11	Significant changes	First time application of GRI guidelines	
	Report Parameters - GRI Content Index		
3.12	Location of the Standard Disclosures in the report	Global Reporting Initiative (GRI) G3 Index	60-62
3.13	External assurance for the report	No external assurance report was taken	
4.	Governance and Commitments		
4.1	Governance structure of the organisation	Corporate Governance Report	66-85
4.2	Indicate whether the Chairman of the Board is also the Chief Executive Officer	No. Role of the Chairman and the Managing Director is clearly separated. Corporate Governance Report	72

GLOBAL REPORTING INITIATIVE (GRI) G3 INDEX (CONTD.)

	GRI INDICATOR	REPORT SECTION	PAGE No:
4.3	Independent and/or Non-Executive Directors	Annual Report of the Board of Directors	103
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the Board	Investor Feedback Form Annual General Meeting Employee Forums	169 166 58
4.5	Linkage between compensation for members of the Board, senior managers and executives, and the organisation's performance	Remuneration Committee Report	100-101
4.6	Processes in place for the Board to ensure conflicts of interest are avoided	Disclosure of Directors' Interest in Contracts	108-109
4.7	Process for determining the qualifications and expertise of the members of the Board for guiding the organisation's strategy	Corporate Governance Report Nomination Committee	74 85
4.8	Statements of mission or values	Mission and Values Statements - Inner Front Cover	
4.9	Review of Performance by the Board	Monthly Board Meetings Board Sub Committee Meetings (addressed in Corporate Governance Report)	104 104 68
4.10	Evaluating Board Performance	Currently, the Board performance is appraised informally and a formal procedure is to be implemented in the year 2010	
4.11	Precautionary approach or principle is addressed by the organisation	Risk Management Report	86-93
4.12	Externally developed principles or other initiatives	Not reported	
4.13	Memberships in associations	Member of the Insurance Association of Sri Lanka (IASL), Ceylon Chamber of Commerce, Federation of Afro-Asian Insurers and Reinsurers (FAIR)	
	Stakeholder Engagement		
4.14	List of stakeholder groups engaged by the organisation	Sustainability Report - Stakeholder engagement	41
4.15	Basis for identification and selection of stakeholders	Sustainability Report - Stakeholder engagement	41
4.16	Approaches to stakeholder engagement	Sustainability Report - Stakeholder engagement	42-43
4.17	Key topics and concerns that have been raised through stakeholder engagement	Sustainability Report	40-57
5.	Management Approach and Performance per Category		
	Economic Performance Indicators		
	Disclosure on Management Approach	Management Discussion & Analysis	20-36
EC1	Economic value generated and distributed	Statement of economic value added	154
EC2	Financial Implications on climate changes	Risk Management Report	89
EC3	Company's defined benefit plan obligations	Notes to Financial Statements	139
EC4	Significant financial assistance received from Government	HNB Assurance PLC does not receive any significant assistance from the government	
EC5	Standard entry level wage compared to local minimum wage (additional)	Company's minimum wages are above the legal requirements	
EC9	Significant indirect economic impacts (additional)	<ul style="list-style-type: none"> Employee and Insurance Advisor opportunities offered throughout the country Products designed to enhance living standard of low-income earners Providing access to insurance solutions islandwide including North and East 	
	Environmental Performance Indicators		
	Disclosure on Management Approach	Sustainability Report	54
EN4	Indirect energy consumption by primary source	Sustainability Report	59
EN7	Initiatives to reduce indirect energy consumption and reductions achieved (additional)	Sustainability Report - Initiatives taken are reported but data not available	54
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None reported during the year	

Sustainability Report

GLOBAL REPORTING INITIATIVE (GRI) G3 INDEX (CONTD.)

	GRI INDICATOR	REPORT SECTION	PAGE No:
	Social Performance Indicators : Labour Practices & Decent Work		
	Disclosure on Management Approach	Sustainability Report	45-48
LA1	Breakdown of total workforce	Sustainability Report - Employee Indicators	45
LA2	Employee turnover	Operational Highlights	14
LA10	Employee training	Sustainability Report - Employee Indicators (number of training programs are disclosed, hourly information not available)	46-47
LA11	Programs for Skill Management and lifelong learning	Sustainability Report - Employee Indicators	46-47
LA12	Employees receiving regular performance and career development reviews	100% of employees Sustainability Report - Employee Indicators	58
LA13	Employees according to diversity	Sustainability Report - Employee Indicators	45-46
LA14	Basic salary of men and women	No gender pay differentials at HNB Assurance PLC	
	Social Performance Indicators: Human Rights		
	Disclosure on Management Approach	Sustainability Report	45-48
HR4	Total number of incidents of discrimination and actions taken	None reported during the year	
HR6	Operations identified as having significant risk for incidents of child labour	Strictly no child labour in HNB Assurance PLC	
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour	Strictly no forced labour in HNB Assurance PLC	
	Society Performance Indicators		
	Disclosure on Management Approach	Sustainability Report	51-54
SO4	Actions taken in response to incidents of corruption	None reported during the year	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions	No contributions to political parties during the year	
SO7	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	None reported during the year	
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	None reported during the year	
	Product Responsibility Performance Indicators		
	Disclosure on Management Approach	Not reported	
PR8	Substantial complaints regarding breaches of customer privacy	None reported during the year. Access to customer data is restricted to authorised personnel.	
PR9	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	None reported during the year	

Following sections of the GRI Guidelines are not reported as some are not applicable to HNB Assurance PLC while others are not relevant as per C level reporting.

Economic Performance Indicators:	EC6 - EC8
Environmental Performance Indicators:	EN1 - EN3, EN6, EN8 - EN27, EN29 - EN30
Social Performance Indicators:	LA3 - LA9, HR1 - HR3, HR8 - HR9
Society Performance Indicators:	SO1 - SO3, SO5
Product Responsibility Performance Indicators:	PR2 - PR7

As this is our first Sustainability Report prepared according to the GRI Guidelines, we have assessed our report as a "C".

		C	C+	B	B+	A	A+
Mandatory	Self Declared	√					
Optional	Third Party checked						
	GRI checked						

Milestones

2001

Founded as a fully - owned Subsidiary of Hatton National Bank on 23rd August
Launch of operations by issuing first policy for Fire class

Enters Life Insurance business
First branch opens in Anuradhapura
Establishes presence in Central Province - opening of Kandy branch
Shifts Head Office to present location - HNB Building at R A de Mel Mawatha

2002

2003

Enters Southern province - Opens branch in Matara
Launch of Life Claims and Servicing Departments
Obtains listing on CSE through an IPO as HNB divests 40 % stake

Launches IIMS system acquired from TCS, India
Mr. Rienzie T. Wijetilleke appointed as Chairman
Mr. Manjula de Silva appointed as first CEO
Enters into a partnership with ICICI Prudential Life Insurance Company, India

2004

2005

HASU share upgraded to Main Board of CSE
Establishes a 24 Hour Call Centre
Holds first Staff Conference and mid-year Sales Conference
Wins certificate of Recognition for Annual Report 2004 in first year of entering the Annual Report competition
Declares first Bonus to Life Policyholders

Declares first ever dividend for Financial Year 2005
Mr. Manjula de Silva appointed as first Managing Director
Launch of Micro Insurance
Achieves a GWP of Rs. 1Billion as fastest in the industry to reach the milestone
Wins Merit Certificate at the Annual Report Awards
Distribution network expands, reaching 31 branches

2006

2007

Declares First Bonus Issue of shares
Fitch rating rates HNBA with 'A (Ika)' insurer financial strength rating and 'A - (Ika)' national long term rating
Wins Certificate of Recognition at Annual Report Awards 2007

Allocates Rs. 24.5 Million as bonus to life policyholders
Life Fund crosses Rs. 1 Billion mark
LMD ranks HNBA as 57th among " Top 100 Brands" in Sri Lanka
Receives Silver Award for the Insurance Sector at the Annual Report Awards 2008
Bathiya & Santhush appointed as brand ambassadors

2008

2009

Fitch Ratings upgrades the national long-term rating of HNBA to 'A (Ika)'
Receives first international award becoming 2nd runner-up in the Non-banking Sector at SAFA Annual Report Competition
Wins Joint Silver Award for Corporate Governance Disclosure and Bronze Award in the Insurance Sector at ICASL Annual Report Awards 2009
Turnover exceeds Rs. 2 Billion
Market capitalisation crosses Rs. 2 Billion in October

"We're there... At every stage of your life."



"Motor Guard" – highest no claim bonus (up to 75%) within the shortest period...

Gives you a wide range of benefits that cover every possible risk motorists face and is more than just a motor insurance

**Corporate Governance, Risk Management
and Other Reports**

Corporate Governance

What is Corporate Governance?

Mismanagement, lack of transparency and accountability and corporate fraud are some of the common criticisms one hears of the corporate world today. In fact, we all have witnessed the very survival of some local and global corporates being seriously compromised due to such issues. Could this happen if everyone followed the basic concepts of honesty, integrity, respecting others, accountability and transparency? The answer is no. Thus, it is clear that there should be a disciplined process to make sure that every corporate institution operates in accordance with these principles in the interest of all its stakeholders.

Generally, in the corporate world, only one or a few large investors accumulate a significant stake in a company and the balance is distributed among a large number of shareholders, which is the general public. In the case of financial institutions like ours, the responsibility is even greater since such institutions collect public money in different forms such as acceptance of deposits, selling insurance policies etc. If the people who have the right to sit on the Board and the management do not perform, or if they do not care about other stakeholders, the objectives of this vast number of stakeholders will not be met.

Corporate Governance in a sense is about making sure that the objectives of all stakeholders of a corporate entity are reasonably met. Technically, Corporate Governance refers to the set of processes, customs, policies, laws and institutions affecting the way a company is directed, administered or controlled. Corporate Governance also includes the relationships among the many stakeholders involved and the goals by which the Company is governed. The principal stakeholders are the Shareholders, Management, and the Board of Directors. Other stakeholders include Employees, Customers, Creditors, Suppliers, Regulators, and the Community at large.

Corporate Governance is a broad term that has to do with the manner in which rights and responsibilities are shared among the managers, directors and shareholders of a given company. In essence, the exact 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. Generally, the foundation for any system of Corporate Governance will be determined by several factors, all of which help define the final structure of governing the company.

There has been a renewed interest in the Corporate Governance practices of modern corporations since 2001, particularly after the collapse of high-profile US firms such as Enron Corporation and MCI Inc. (formerly WorldCom). In 2002, the U.S. federal government passed the Sarbanes-Oxley Act, intending to restore public confidence in corporate institutions through improved governance.

Sri Lankan context

The Institute of Chartered Accountants of Sri Lanka (ICASL) pioneered the introduction of Corporate Governance rules to Sri Lanka by way of a Code of Best Practice on matters related to the financial aspects of Corporate Governance in December 1997. This was a voluntary best practice code, guided by Corporate Governance publications then available. Thereafter, this was improved further and in 2008, the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) jointly issued the Code of Best Practice on Corporate Governance which is effective today on a voluntary basis.

Further, Listing Rules of the Colombo Stock Exchange (CSE) (this was revised in April 2009) also include a section on Corporate Governance to be adopted by Companies under their purview. Thus, at a minimum, a listed company in the country is governed by these two Corporate Governance codes. In addition, regulators such as the Central Bank of Sri Lanka (CBSL) have also issued directions on Corporate Governance to be complied with by banks and other financial institutions regulated by them. Basically, Sri Lanka has adequate laws and regulations to ensure that all corporates in the country strive to maintain standards of Corporate Governance as per the best practices outlined in these regulations.

Why Corporate Governance?

The objective of all these Corporate Governance rules and regulations is to ensure that the interests of all stakeholders of a company are reasonably safeguarded. Thus, it is very clear that all these rules and regulations are not just there to follow, but the compliance must make sure of the effective accomplishment of the objectives of Corporate Governance. Such objectives could be achieved through,

- Sound corporate practices
- Accountability
- Sustainability
- Disclosure and transparency
- Efficiency
- Monitoring

How do we at HNB Assurance view Corporate Governance?

We at HNB Assurance PLC are 100% committed to be compliant with rules and regulations on Corporate Governance and thereby to meet relevant objectives. Further, we believe that proper application of Corporate Governance principles leads to effective management of risks as well. In other words, Corporate Governance at HNB Assurance covers how the Board of Directors including its Committees and the Management run the business, monitor performance, disclose information, communicate and manage risks. The graph here

shows the interrelationship between these activities.

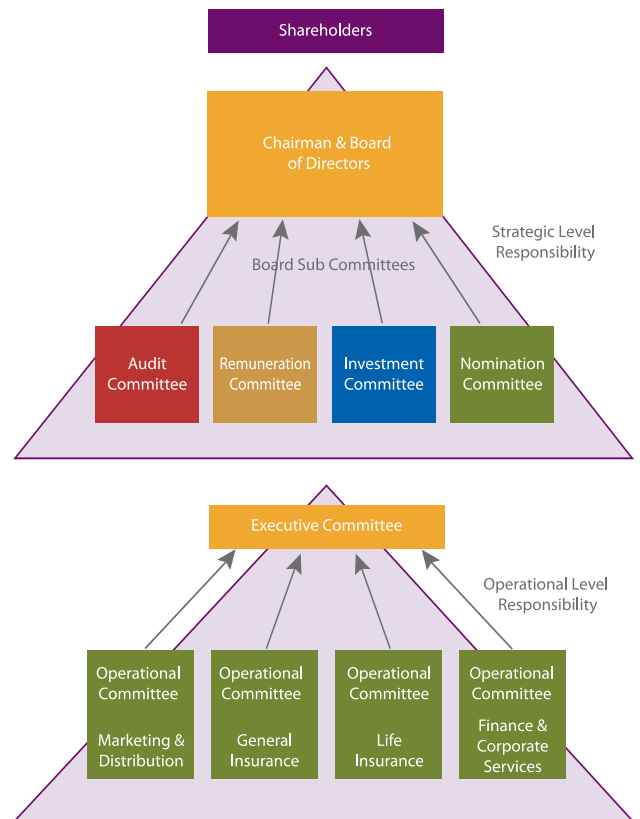


It is understood from the diagram that Corporate Governance at HNB Assurance is blended with the day-to-day activities of the Company. Our corporate culture embodies the principles of honesty and respect for others. 'Treasure integrity and ethical conduct' and 'show mutual respect in all our interactions' are two of our core values. Our ability to operate efficiently under highly competitive and dynamic industry conditions requires consistent and professional communication. We adhere, therefore, to the principles of transparency, accountability, ethical behaviour and honesty when interacting with all our stakeholders at every opportunity. For example, we have submitted all regulatory reports on time to the Insurance Board of Sri Lanka (IBSL) over the last few years without a single exception. Also, we continue to circulate our Interim Financial Statements to all our shareholders duly after the end of every quarter, whilst publishing the same in newspapers, even though both are not mandatory as per the new Listing Rules.

Our Company structure, shown below, also ensures that responsibilities of different levels of the Company are properly shared with each other to achieve desired objectives.

Our compliance with the laws and best practices on Corporate Governance

As discussed above, we strongly believe that the complete application of Corporate Governance rules and regulations adds value to our Company. Thus, we have taken all possible actions to ensure total compliance with the laws and the best practices on Corporate Governance.



We are very proud to note that HNB Assurance PLC is substantially in compliance with the Code of Best Practice on Corporate Governance issued jointly by the SEC and ICASL. In addition, we also confirm our full compliance with the applicable sections of the Listing Rules issued on Corporate Governance by the Colombo Stock Exchange (CSE), which became mandatory with effect from the 1st of April 2009.

Our status of compliance with each section of the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC is presented below. Also a table which summarises the compliance status of the Company with the Rule No. 7.10 of the Listing Rules of the Colombo Stock Exchange is given on pages 83 and 84.

Moreover, our commitment to compliance with Corporate Governance rules and best practices helped us win the Joint Silver Award for Corporate Governance Disclosure at the ICASL Annual Report Awards 2009. We also received the second runner up award for the Non-Banking Financial Sector at the Annual Report Awards conducted by the South Asian Federation of Accountants (SAFA). In addition, we were awarded the Bronze in the Insurance sector by the ICASL in its Annual Report Awards 2009.

Corporate Governance

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
I	THE COMPANY		
A	DIRECTORS		
A1	The Board Every public company should be headed by an effective Board, which should direct, lead and control the company.		
	The Board.	Compliant	<p>The Board comprises 9 Directors including Executive, Non-Executive and Independent Non- Executive Directors.</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 12 and 13 of this Annual Report. The Board possesses members who have adequate knowledge and skills to direct, lead and control the Company.</p> <p>The Board's main role is to provide entrepreneurial leadership to the Company within a prudent and effective process. The Board ensures the Company's plans are directed towards achievement of its short, medium and long term objectives which are regularly reviewed and updated through a rigorous planning process conducted annually. Key performance indicators are used to monitor progress at Board meetings held every month.</p>
A1.1	The Board should meet regularly (at least once in every quarter).	Compliant	<p>The Board meets every month mainly to review the Company's performance and to determine whether its strategies and business practices are in line with the expectations of the Board as well as other stakeholders, and may hold additional meetings as and when necessary.</p> <p>The number of Board meetings held during the year together with individual attendance by each member of the Board is given on page 104.</p> <p>The meetings convened by the following Board Sub-Committees are also provided on page 104.</p> <ul style="list-style-type: none"> • Audit Committee • Remuneration Committee • Nomination Committee • Investment Committee <p>Board and Sub-Committee meetings are conducted based on a formal agenda covering the main responsibilities, prepared and circulated among all the Board or sub-committee members with adequate time for perusal.</p>

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
A1.2	<p>The Board should be responsible for,</p> <ol style="list-style-type: none"> <li data-bbox="240 465 584 589">1. Formulating and implementing a sound business strategy and reviewing it periodically. <li data-bbox="240 853 584 1043">2. Ensuring that the MD/CEO and the management team possess the right skills, experience and knowledge for effective implementation of the strategy. <li data-bbox="240 1084 584 1207">3. Ensuring the adoption of effective MD/CEO and senior management succession strategy. <li data-bbox="240 1375 584 1532">4. Ensuring effective systems are in place to secure integrity of information; internal control and risk management. <li data-bbox="240 1733 584 1823">5. Ensuring compliance with laws and regulations and highest ethical standards. 	<p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p> <p>Compliant</p>	<p>The Board has delegated to the Management the responsibility of developing and implementing corporate strategies, annual budgets, Corporate Plan and managing day to day operations in line with the plan and budgets. The said plan is approved by the Board every year and achievement of the objectives set in the plan is monitored by the Board very closely by means of monthly meetings. This is supplemented by quarterly reviews carried out by the Executive Committee (EXCO) with the participation of a Non-Executive Director.</p> <p>The Board evaluates the performance of the MD/CEO regularly and members of the Board get involved in the recruitment of the senior management paying due attention to knowledge and experience. The qualifications of the MD/CEO and the Executive Committee members are provided on pages 12 and 15 respectively.</p> <p>Succession plans for all members of the senior management and their direct reports are in place. A key aspect of the succession plan is to develop internal people to ensure that there are adequate options available internally to replace key personnel. The Company culture is designed in such a way to identify and develop internal personnel to fill key positions whenever possible.</p> <p>An effective system is 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 expert consultants in relevant areas.</p> <p>Also, effective strategies are available to identify, assess and manage/mitigate risks faced by the Company. Please refer the Risk Management section on pages 86 to 93 for further information.</p> <p>The Company adheres to the highest ethical standards ensuring compliance with all statutory requirements. The Company has appointed a Manager - Legal and Compliance for continuous monitoring of the level of compliance with laws and regulations. The Manager - Legal and Compliance reports to the Audit Committee on a quarterly basis on the Company's state of compliance with applicable laws and regulations.</p> <p>The Company has also issued a Code of Ethics applicable to all employees. Refer pages 80 and 81 for details.</p>

Corporate Governance

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
	6. Ensuring all stakeholder interests are considered/ safeguarded in corporate decisions.	Compliant	All the stakeholder interests are considered when making decisions at all levels. Continuous improvements in dividend payouts and increase in the Company's share performance, salary increments and other benefits to employees, continuous customer service improvements and full compliance with laws and regulations are some of the factors which demonstrate the Company's commitment to its diverse stakeholders. Details are discussed under Sustainability Reporting in pages 41 to 43.
	7. Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations. Simply, the Company should have a proper financial reporting framework.	Compliant	The Company's accounting policies are fully in line with Sri Lanka Accounting Standards. Accounting policies are reviewed annually in light of changing business requirements, evolving international and local accounting standards and best practices in the industry. Please refer External Auditor's Opinion on page 114. In addition, significant emphasis is placed on compliance with applicable financial regulations such as IBSL rules and determinations, CSE & SEC rulings, CBSL rulings etc.
	8. Recommending the appointment/ reappointment of external auditors to shareholders.	Compliant	The Board based on the review process conducted by the Audit Committee and the direct and ongoing dialogue with the External Auditors, recommends the appointment/ reappointment of external auditors of the Company every year.
	9. Setting up social responsibility standards.	Compliant	The Board sets up the social responsibility standards for the Company bearing in mind the social, ethical and environmental impact of the Company's activities, and monitors compliance with such standards.
	10. Fulfilling other Board functions as are vital, given the scale, nature and complexity of the business concerned.	Compliant	The Board takes all its decisions paying due attention to interests of all stakeholders. Also the Board intervenes where necessary in any other functions that are vital, given the scale, nature and the complexity of the Company's business.
A1.3	The Board collectively, and Directors individually, must act in accordance with the laws of the country. And there should be a procedure for Directors to obtain independent professional advice where necessary.	Compliant	As discussed above, the Board is collectively and individually devoted to ensure full compliance with all laws and regulations applicable to the Company. All Directors are permitted to seek independent professional advice at the Company's expense if considered appropriate and necessary. The process has to be coordinated through the Company Secretary. However no such advice has been taken by any of the Directors during the period.

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

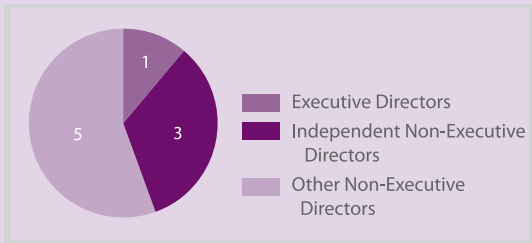
Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
A1.4	All Directors should have access to the advice and services of the Company Secretary.	Compliant	The advice and services of the Company/Board Secretary are made available to all Directors as necessary. Board Secretary ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. The Board Secretary, an Attorney-at-Law by profession possesses the required qualifications as set out in the Companies Act to act as a Board/ Company Secretary. The removal of the Company/Board Secretary, if necessary, has to be by a resolution involving the whole Board.
A1.5	All Directors should bring independent judgment to bear on issues of strategy, performance, resources and standards of business conduct.	Compliant	<p>Every Director brings independent judgment to bear on issues of strategy, performance, resources and standards of business conduct. The Board is conscious of its obligations to ensure that Directors avoid conflicts of interests (both real and apparent) between their duty to the Company and other interests.</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 relevant Sri Lanka Accounting Standards and the Companies Act, No. 7 of 2007. This has been properly complied with and disclosed adequately in this Annual Report.</p>
A1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	Compliant	<p>The Chairman and other members of the Board dedicate adequate time and effort towards affairs of the Company by attending Board meetings, Board sub-committee meetings or any other events of the Company where necessary. In addition, the Board members have meetings and discussions with the management when required. A table which shows the number of board meetings attended by each Director is presented on page 104.</p> <p>All material to the Board and its Sub-Committee meetings was provided with adequate time in advance of each meeting to discharge their duties and responsibilities.</p>
A1.7	Every Director should receive appropriate training when first appointed to the Board and subsequently as necessary.	Compliant	The Board acknowledges the need for continuous development and expansion of the 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 directorships and matters specific to the industry/Company, etc.

Corporate Governance

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
A2	Chairman and Chief Executive Officer (CEO) There are two key tasks at the top of every public company; conducting of the business of the Board and facilitating executive responsibility for the management of the Company's business.		
	There should be a clear division of responsibilities at the head (Chairman & the CEO) of the Company.	Compliant	The functions of the Chairman and Managing Director/CEO are clearly separated to ensure a balance of power and authority, such that no one individual has unfettered powers of decision.
A2.1	If the positions of Chairman and the CEO are combined, the fact needs to be disclosed.	Not Applicable	The Chairman is a Non-Executive Director while the Managing Director/CEO serves as the only Executive Director.
A3	Chairman's Role The Chairman's basic role is preserving order and facilitating the effective discharge of Board functions.		
A3.1	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 all Directors are encouraged to make an effective contribution a balance of power between Executive and Non- Executive Directors is maintained the views of Directors on issues under consideration are ascertained; and the Board is in complete control of the Company's affairs. 	Compliant	The Chairman providing effective leadership to the Board, <ul style="list-style-type: none"> maintains effective participation and contribution of both Executive and Non-Executive Directors develops the agenda for meetings with the support of the Company/Board Secretary keeps regular meetings ensures a proper balance of power between Executive and Non- Executive Directors ensures that Board Members undertake appropriate induction represents the views of the Board to the public and ensures that the Board is in complete control of the Company's affairs.
A4	Financial Acumen The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.		
	Availability of sufficient financial acumen and knowledge.	Compliant	The Board is equipped with sound financial knowledge and experience for guidance on matters of finance. The MD/CEO is a Fellow Member of the Chartered Institute of Management Accountants (FCMA-UK). Further the Board includes 4 other members who are Fellow or Associate members of the Institute of Chartered Accountants of Sri Lanka, Institute of Chartered Accountants of England & Wales and Chartered Institute of Management Accountants (UK). All other members of the Board have extensive experience in various aspects of financial management. Brief profiles of each member of the Board are given on pages 12 and 13.

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance								
A5	Board Balance The Board should have a balance of Executive and Non-Executive Directors.										
A5.1	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.	Compliant	<p>The Board comprises one Executive Director who is functioning as the Managing Director and eight Non-Executive Directors. Out of these eight Non-Executive Directors, there are three Independent Non-Executive Directors in line with Code of Best Practice and the Listing Rules. The Board balance is shown below graphically. Names of Directors in each category are given on page 103.</p>  <table border="1"> <caption>Board Balance</caption> <thead> <tr> <th>Category</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>Executive Directors</td> <td>1</td> </tr> <tr> <td>Independent Non-Executive Directors</td> <td>3</td> </tr> <tr> <td>Other Non-Executive Directors</td> <td>5</td> </tr> </tbody> </table>	Category	Count	Executive Directors	1	Independent Non-Executive Directors	3	Other Non-Executive Directors	5
Category	Count										
Executive Directors	1										
Independent Non-Executive Directors	3										
Other Non-Executive Directors	5										
A5.2	Two or one-third of Non-Executive Directors should be Independent Non-Executive Directors.	Compliant	As noted above, the Company has three Independent Non-Executive Directors out of the eight Non-Executive Directors. They are Mr. Pratapkumar de Silva, Mr. D M de S Wijeyeratne and Mr. Sarath Ratwatte.								
A5.3	Criteria to evaluate "independence" of Non-Executive Directors.	Compliant	All three Independent Non-Executive Directors meet the criteria for independence as per the Listing Rules and are deemed to be independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.								
A5.4	Submission of annual declaration by each Non-Executive Director regarding independence / 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.								
A5.5	The Board should make a determination of 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. The report is given on pages 102 to 107.								
A5.6 & A5.7	Where the Chairman & CEO is the same, the Board should appoint a Senior Independent Director and his duties if applicable.	Not Applicable									

Corporate Governance

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
A5.8	Board meetings only with Non-Executive Directors at least once a year.	Compliant	The Board meets every year without the MD/CEO to review the performance of the MD/CEO and agree on his remuneration package. Any other such meeting would be held on a need basis.
A5.9	Recording of Directors' concerns in the Board minutes particularly where there are matters on which there is no unanimous agreement.	Compliant	The Board Secretary keeps all minutes and gets all members' concurrence before confirming the same in the next meeting.
A6	Supply of information The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its responsibilities.		
A6.1	Management has an obligation to provide the Board with appropriate and timely information.	Compliant	As previously discussed and agreed, the Board receives a standard set of documents which are timely, accurate, relevant and comprehensive. In addition, the Board requests additional information from time to time in respect of the Company's operations, industry and competitors, risk management, laws and regulations, Corporate Governance etc.
A6.2	The minutes, agenda and papers required for a Board Meeting.	Compliant	All Board Papers are circulated one week (7 days) prior to Board meetings.
A7	Appointments to the Board There should be a formal and transparent procedure for appointment of new Directors to the board.		
A7.1	A Nomination Committee should be appointed to make recommendations to the Board.	Compliant	A Nomination Committee is appointed with four directors including the Chairman and the MD/CEO. The details of the Nomination Committee are disclosed on page 85.
A7.2	Assessment of the Board Composition.	Compliant	The Board is subject to continuous review by the Nomination Committee in terms of the strategic demands of the Company. It makes recommendations for new appointments where necessary. The composition of the Board was changed during the year with the appointment of Mr. Sarath Ratwatte as an Independent Non-Executive Director.
A7.3	Disclosure of information to the shareholders upon new appointments.	Compliant	Shareholders are informed of all new appointments of Directors with sufficient details via immediate notification to the CSE. The Annual Report also mentions new appointments of Directors together with a brief profile of each Director.
A8	Re-Election All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.		

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
A8.1	Non-Executive Directors should be appointed for specified terms & subject to re-election.	Compliant	Directors who have been longest in office since their last election or appointment are required to retire by rotation and are eligible for re-election at the Annual General Meeting.
A8.2	All Directors and Chairman should be subject to election by the shareholders at the first opportunity after the appointment and 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.
A9	Appraisal of Board Performance The Board should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.		
A9.1	The Board should annually appraise its own performance in the discharge of key responsibilities.	To be implemented in the year 2010	Currently no formal evaluations are conducted; but the Board evaluates its own performance regularly in terms of the achievement of Company objectives. Further, performance of the Board and its Committees are subject to evaluation by the Chairman. However, the Board is planning to introduce a process of appraisal of its own performance in the year 2010. This will also be carried out in respect of the key sub-committees of the Board.
A9.2	Annual self-evaluation of the Board and its Committees.		
A9.3	Disclosure of information as to how Board appraisals are done.		
A10	Disclosure of information in respect of Directors Shareholders should be kept advised of relevant details in respect of Directors.		
A10.1	Annual Report should contain details of all Directors.	Compliant	Required information in respect of Directors is disclosed in this Annual Report where appropriate. <ul style="list-style-type: none"> - The profiles of all Board members are provided on pages 12 and 13. - Details of Directors' Interests in Contracts are provided on pages 108 and 109. - The composition of Board sub committees and attendance at Board meetings and Board sub committee meetings by each Director are provided on pages 85 and 104 respectively.
A11	Appraisal of MD/CEO The Board should be required, at least annually, to assess the performance of the MD/CEO.		
A11.1	The Board should set, in consultation with the CEO, the financial and non-financial targets to be achieved by the CEO in each year.	Compliant	The Company's plan which includes financial and non-financial targets is reviewed and approved by the Board annually.
A11.2	The performance of the MD/CEO should be evaluated in light of the above criteria.	Compliant	The MD's/CEO's performance is subject to appraisal by the Board throughout the year so that the extent to which the targets and objectives set by the Board (financial and non financial) are being achieved can be monitored and guidance provided where necessary.

Corporate Governance

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
B	DIRECTORS' REMUNERATION		
B1.	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.		
B1.1	Board should set up a Remuneration Committee.	Compliant	A Remuneration Committee has been appointed and functions within agreed terms of reference. Please refer pages 100 and 101 for the report of the Remuneration Committee.
B1.2	Composition of the Remuneration Committee.	Compliant	All members of the Remuneration Committee are Non-Executive Directors. The Board appoints its Chairman.
B1.3	The Chairman and members of the Remuneration Committee.	Compliant	Mr. M U de Silva, Non-Executive Director acts as the Chairman of the Remuneration Committee. Please refer page 85 for the members of the Remuneration Committee.
B1.4	Determination of remuneration for Non-Executive Directors.	Compliant	Non-Executive Directors who are nominees of the parent company are paid a nominal fee for their services. Other Non-Executive Directors are remunerated in line with market practices.
B1.5	Consultation of Chairman, MD/CEO or outside consultant to decide on the remuneration of Executive Directors.	Compliant	The Committee consults the Chairman & MD/CEO where necessary and has access to professional advice from within and outside the Company.
B2	The level and make up of remuneration 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 Director's remuneration should be structured to link rewards to corporate and individual performance.		
B2.1	Should provide attractive packages to retain Directors/Employees.	Compliant	Remuneration of all levels including that of the MD/CEO consists of a fixed element and a variable element.
B2.2 & B2.3	Positioning Company's remuneration levels with other Companies and employment condition within the group.	Compliant	The Remuneration Committee compares the remuneration levels of the Company with such packages of comparable companies in the industry and is sensitive to the remuneration levels and employment conditions in the Group too.
B2.4	Performance related elements.	Compliant	Performance related elements of the remuneration package of MD/CEO and other employees are linked to corporate and individual performance.
B2.5	Executive Share Options.	Not Applicable	Executive share options are not offered at HNB Assurance.

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
B2.6	Designing schemes of performance-related remuneration.	Compliant	<ul style="list-style-type: none"> - The MD/CEO and employees at all levels are eligible for annual bonuses based on achievement of Life and General business targets and profitability targets. - The Company does not have any long term incentive schemes, including share option schemes. - There are no pension schemes other than gratuity. The consequences on gratuity are considered when determining salary increases. - Performance-related remuneration schemes are not applied retrospectively. - Non-Executive Directors are not eligible for performance based remuneration schemes.
B2.7 & B2.8	Compensation commitments on early termination.	Compliant	There are no terminal compensation commitments other than the gratuity in the Company's contracts of service.
B2.9	Levels of remuneration for Non-Executive Directors.	Compliant	All Non-Executive Directors are paid only on attendance at meetings by each director.
B3	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.		
B3.1	Remuneration policy and details of remuneration to the Board as a whole.	Compliant	The aggregate remuneration to MD/CEO and Non-Executive Directors is disclosed on page 144 of this report. The Remuneration Committee's report which highlights the remuneration policy of the Company is given on pages 100 and 101.
C	RELATIONS WITH SHAREHOLDERS		
C1	Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings		
	Board should use the AGM to communicate with Shareholders.	Compliant	The Board as a whole encourages attendance and effective participation of all shareholders at the AGM of the Company and all shareholders are invited to participate at the AGM.
C1.1	Consideration of all proxy votes.	Compliant	As a matter of practice, proxy votes together with the votes of shareholders present at the AGM are considered for each resolution.
C1.2	Separate resolution at the AGM on each substantially separate issue.	Compliant	Each substantially separate issue including the adoption of the Financial Statements for the period is proposed as a separate resolution. Please refer page 166 for the notice of meeting of the AGM.

Corporate Governance

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
C1.3	Availability of Board sub-committees' chairmen and members to answer queries.	Compliant	The Chairman of the Board makes sure of the participation of all chairmen of sub-committees and members to respond to shareholder queries.
C1.4	Circulation of notice of meeting and related documents to shareholders before the meeting per the relevant statute.	Compliant	The Annual Report, related documents and other resolutions if any, along with the notice of meeting are sent to all shareholders at least fifteen (15) working days prior to the AGM. The latest Annual Report and Interim Financial Statements are published in the Company's web site for the benefit of other stakeholders. The Company's Financial Results are also published in leading newspapers on a quarterly basis as a demonstration of the Company's commitment to transparency.
C1.5	Summary of procedures governing voting at the AGM.	Compliant	The proxy form includes a summary of the procedure governing voting at the AGM, which is circulated to shareholders with other documents mentioned above.
C2	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.		
C2.1	Disclosure of all major transactions.	Compliant	There were no such major transactions during the year. The Company policy is to disclose adequately such transaction if any in Interim and Annual Financial Statements in accordance with relevant Sri Lanka Accounting Standards and the Companies Act.
D	ACCOUNTABILITY AND AUDIT		
D1	Financial Reporting The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.		
	Balanced, understandable assessment of the Company's position and prospects.	Compliant	The Company presents its Financial Statements in line with Sri Lanka Accounting Standards and other laws and regulations applicable. The Company's financial position and prospects have been discussed in detail in the following reports: <ul style="list-style-type: none"> Chairman's Review on pages 6 to 8. MD's Review on pages 9 to 11. Management Discussion and Analysis (MD&A) on pages 20 to 36.
D1.1	Interim and other price sensitive public reports and reports to regulators of price sensitive information.	Compliant	Interim and Annual Financial Statements and other price sensitive information are disclosed to the CSE duly on a timely basis. All other regulatory reports are also submitted by due dates. The Company strives to provide a detailed and transparent analysis of performance and future strategies to enable investors to make informed decisions.

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
D1.2	Director's Reports with due attention to given criteria.	Compliant	Annual Report of the Board of Directors reveals the affairs of the Company and is given on pages 102 to 107 of this Annual Report.
D1.3	Responsibilities of the Board for the preparation and presentation of Financial Statements, together with the Auditors' Report.	Compliant	Page 110 contains the statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements. Auditor's Report is provided on page 114.
D1.4	Management Discussion & Analysis (MD&A).	Compliant	The Management Discussion & Analysis (MD&A) highlighting following topics are given on pages 20 to 36. <ul style="list-style-type: none"> • HNB Assurance and its business • World and Sri Lankan economy • Insurance industry • Financial performance • Our distribution network • Our achievements • Our strengths and challenges • Risks and concerns • Future outlook
D1.5	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. The declaration of the Company as a "Going Concern" is given on page 102.
D1.6	Summoning 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, should the situation arise, an EGM would be called by duly informing shareholders.
D2	Internal Control The Board should maintain a sound system of internal controls to safeguard shareholders' investments and Company's assets.		
	Maintain a sound system of internal controls.	Compliant	The Board is ultimately responsible for the Company's system of internal controls and for continuous review of their effectiveness. The Board has delegated the key role of maintaining a sound system of internal controls to Audit and Investment Committees.
D2.1	Review of effectiveness of the system of internal controls by the Board.	Compliant	As discussed above, Audit & Investment Committees together with the assistance of the management, internal and external auditors and other parties where necessary ensure that there is an effective system of internal controls and financial reporting process in the Company.
D2.2	Need for internal audit function.	Compliant	The Company has appointed M/S Ernst & Young Advisory Services (Pvt) Ltd as the internal auditors for the Company. Also, Ernst & Young has been appointed as the separate IT Auditor to cover IT-related risk areas. All reports by internal auditors are filed with the Audit Committee in a timely manner.

Corporate Governance

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
D3	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 maintaining an appropriate relationship with the Company's auditors.		
	Availability of an Audit Committee.	Compliant	The Board has delegated its responsibility with regard to financial reporting, internal controls and maintaining an appropriate relationship with the Company's Auditors to the Audit Committee.
D3.1	Composition of the Audit Committee.	Compliant	The Audit Committee comprises three Directors all of whom are Non-Executive. Also, two Directors of the Committee are Independent Non-Executive Directors. The detailed composition of the Committee is provided on page 85.
D3.2	Effectiveness of the audit and independence and objectivity of auditors.	Compliant	The Audit Committee monitors and reviews the effectiveness of the Company's Internal and External Audit function and ensures proper co-ordination between all the relevant parties exists so that the Company receives adequate services. Also, the Audit Committee conducted evaluations to ensure the integrity, competency and professionalism of auditors and concluded that no aspect of the auditors work was impaired due to lack of independence. Further, the Company's external auditor, M/S KPMG Ford, Rhodes, Thornton & Co. has given a declaration of its independence to the Audit Committee as per the relevant rules.
D3.3	Written Terms of Reference, dealing clearly with authority and duties.	Compliant	The Audit Committee operates with clearly defined terms of reference. The summary of the duties of the Committee is provided on page 85.
D3.4	Disclosure of Audit Committee Report.	Compliant	The Audit Committee Report highlighting names of the members, determination of independence of auditors and other areas required is given on pages 98 and 99.
D4	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.		
	Availability of a Code of Business Conduct and Ethics.	To be implemented in 2010 for the Board	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 2010.
D4.1	Adoption of a Code of Business Conduct and Ethics for employees.	Compliant	The code addresses areas such as , <ul style="list-style-type: none"> - avoiding conflict of interests - confidentiality and privacy - fair dealings

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
D4.1			<ul style="list-style-type: none"> - protection and proper use of Company assets - proper use of computer system - communication with regulators and auditors - compliance with laws and regulations - ethical business standards and fraudulent conduct - duty of loyalty and communication of any misconduct or unethical behaviour - insider information - avoiding acceptance of expensive gifts, fees - outside business activities - trading of Company shares by employees - political activities - non-discrimination - conduct in public, etc. <p>There was no material violation of the Code of Ethics during the year except for certain insignificant fraudulent activities noted at operational level for which appropriate actions have been taken.</p>
D4.2	Affirmation from the Board regarding not violating the provisions of the code .	Compliant	Please refer Annual Report of the Board of Directors which affirmed that there are no material violations of the Company's Code of Ethics during the year.
D5	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.		
	Practice of good Corporate Governance.	Compliant	The Board has implemented a systematic process and 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 rule No. 7.10 of Listing Rules issued on Corporate Governance by the CSE.
D5.1	Corporate Governance Report.	Compliant	This report set out the manner and extent to which the Company has complied with the principles and provisions of above mentioned Codes and rules. This report goes from page 66 to page 85.
II	SHAREHOLDERS		
E	INSTITUTIONAL INVESTORS		
E1	Shareholders Voting		
	Ensure institutional shareholders' voting intentions are translated into practice.	Compliant	All shareholders are encouraged to participate and vote at the AGM.
E1.1	Regular and structured dialogue with shareholders.	Compliant	Dialogue with shareholders at the AGM is regular and structured. The Chairman ensures the views of shareholders are communicated to the Board as a whole.

Corporate Governance

HNB Assurance Compliance status with each section of Code of Best Practice on Corporate Governance issued jointly by ICASL & SEC (Contd.)

Ref. No.	Requirement	Compliance Status	HNB Assurance Compliance
E2	Evaluation of Governance Disclosures		
	Encourage institutional investors to give due weight to relevant governance arrangements.	Compliant	Adequate attention to institutional investors has been given. This report highlights the governance structure of the Company.
F	OTHER INVESTORS		
F1	Investing/ Divesting Decisions		
	Encourage seeking of independent advice on investing or divesting decisions.	Compliant	The Annual Report and Interim Financial Statements are circulated to all shareholders in a timely manner and include adequate information to make such decisions.
F2	Shareholder Voting		
	Encourage individual shareholders to participate in general meetings and exercise voting rights.	Compliant	All shareholders are encouraged to participate and vote at the AGM.
	OTHER ASPECTS OF CORPORATE GOVERNANCE INITIATIVES		
	Investment Committee.	The Investment Committee is chaired by a Non-Executive Director and includes three other members including the Managing Director. The Committee meets quarterly to review the 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) as well as Liquidity policies that have been adopted by the Company. The composition and responsibilities of the Investment Committee is given on page 85.	
	Executive Committee (EXCO).	The EXCO which is responsible to the Board of Directors, consists of the Managing Director and the General Managers who constitute the top management team of the Company. The EXCO is chaired by the Managing Director and is responsible for the effective functioning of all operations of the Company. The Committee meets regularly in a timely manner. 22 meetings were held during the year under review. 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).	OPCOs, which are headed by General Managers or Heads of Divisions comprises the top management teams of the respective divisions. Objectives of the OPCOs are to ensure the effective functioning of divisional responsibilities and making sure of adequate co-ordination among all divisions. OPCOs meet regularly to discuss and resolve issues and key officers of other divisions are also invited where necessary which has proven to be a very effective strategy to improve communication and co-ordination among divisions. The Managing Director also attends OPCO meetings from time to time, by invitation, to brief the OPCOs on important developments in the Company.	

Corporate Governance Compliance Table - Section 7.10 of Listing Rules of the Colombo Stock Exchange.

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	Eight out of nine Directors are Non-Executive Directors
7.10.2 (a)	Independent Directors	Two or one third of Non-Executive Directors whichever is higher shall be Independent	Compliant	Three out of eight Non-Executive Directors are Independent
7.10.2 (b)		Each Non-Executive Director should submit a declaration of Independence/non- independence in the prescribed format	Compliant	Non-Executive Directors have submitted the declaration
7.10.3 (a)	Disclosures Relating to Directors	Names of the Independent Directors should be disclosed in the Annual Report	Compliant	Please refer Annual Report of the Board of Directors on page 103
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 of the determination in the Annual Report	Not Applicable	No such determination has been made
7.10.3 (c)		Directors' brief resume should be published in the Annual Report with the experience in relevant area	Compliant	Directors' profiles on pages 12 and 13
7.10.3 (d)		Brief resume of new Directors appointed should be provided to the Exchange for dissemination to the public	Compliant	Mr. Sarath Ratwatte has been appointed to the Board on 30th January 2009 and relevant information was disseminated to the Exchange as per the rule.
7.10.5	Remuneration Committee	A listed entity should have a Remuneration Committee	Compliant	Please refer page 100 for names of the members of the Remuneration Committee
7.10.5 (a)		The Committee should comprise of Non-Executive Directors, a majority of whom shall be independent.	Compliant	The Remuneration Committee comprise two Independent Directors out of three Non-Executive Directors
7.10.5 (b)		One Non-Executive Director shall be appointed as the Chairman by the Board	Compliant	Mr. M U de Silva (Non-Executive Director) functions as the Chairman
7.10.5 (c)		The Remuneration Committee shall recommend the remuneration of Managing Director/ Chief Executive Officer.	Compliant	Please refer the functions of the Remuneration Committee on page 85

Corporate Governance

Corporate Governance Compliance Table - Section 7.10 of Listing Rules of Colombo Stock Exchange.

Rule No.	Subject	Requirement	Compliance Status	Remarks
		<p>Disclosure in the Annual Report include,</p> <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 		<p>Please refer page 85 for composition of the Remuneration Committee</p> <p>Please refer Remuneration Committee Report on pages 100 and 101</p> <p>Please refer Notes to the Financial Statements on page 144</p>
7.10.6	Audit Committee	A listed entity should have an Audit Committee	Compliant	Please refer page 85 for the composition of the Committee
7.10.6 (a)		Audit Committee shall comprise of Non-Executive Directors, a majority of whom shall be independent	Compliant	The Audit Committee comprises two independent Directors out of three Non-Executive Directors
		One Non-Executive Director shall be appointed as the Chairman by the Board	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 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.
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 85 for a brief description of the functions of the Committee and page 98 and 99 for Report of the Audit Committee
7.10.6 (c)		The Annual Report should set out,		
		- Names of the Directors serving in the Audit Committee	Compliant	Please refer page 85 for the composition of the Audit Committee
		- The Committee shall make a determination of the independence of the Auditors and disclose the basis of such determination	Compliant	Please refer page 99 for the Report of the Audit Committee for the determination of Auditors' Independence by the Committee
		- A report by the Audit Committee setting out the manner of compliance with the requirements set out in section 7.10 of the Listing Rules	Compliant	This report constitutes the Company's manner of compliance with the section 7.10 of Listing Rules

Composition and main functions of Board Sub-Committees.

Committee	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee
Chairman	D M de S Wijeyeratne*	M U de Silva**	Rienze T. Wijetilleke**	J D N Kekulawala**
Members	Sarath Ratwatte* J D N Kekulawala**	Sarath Ratwatte* D M de S Wijeyeratne*	Manjula de Silva*** R Theagarajah** M U de Silva**	Sarath Ratwatte* Manjula de Silva*** Rajive Dissanayake
Meetings	Quarterly	Once a year	As required	Quarterly
Circulation of the Agenda & Papers	One week in advance	One week in advance	One week in advance	One week in advance
Secretary	Head of Finance	Assistant Manager-HR	Board Secretary	Head of Finance
Invitees	Managing Director General Managers Head of IT Compliance Officer Accountant External & Internal Auditors Consultant Actuary	Managing Director	None	Manager-Investments
Main functions of the Committee	<p>Overseeing the process of preparation and presentation of the Financial Statements (Interim and Annual).</p> <p>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</p> <p>Reviewing the Company's internal control and risk management process.</p> <p>Monitoring and reviewing the effectiveness of the internal audit function.</p> <p>Making recommendation to the Board remuneration, appointment, re-appointment and removal of the external auditors.</p> <p>Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process.</p>	<p>Reviewing and recommending to the Board on remuneration package for MD/CEO, top management and other employees of the Company.</p> <p>Reviewing and making recommendations to the Board on annual increments, bonuses, promotion etc.</p> <p>Reviewing and ensuring that the Company has a sound performance appraisal process for employees at all levels.</p> <p>Making recommendations to the Board regarding content to be included in the Annual Report on Directors Remuneration.</p>	<p>Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.</p> <p>Regularly reviewing and evaluating the structure, size, and composition, balance of skills, knowledge and experience of the Board and making recommendations for improvement.</p> <p>Making sure to fill the gap between current and the future requirement of skills and experience in accordance with the succession plan of the Company.</p> <p>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 marketplace.</p>	<p>Developing and setting guidelines and policies on investment portfolios of the Company.</p> <p>Making recommendations on investment strategies by evaluating and reviewing the performance of the investment portfolios.</p> <p>Monitoring compliance with laws and regulations relating to Investments.</p> <p>Monitoring the implementation of the Investment policy, Asset and Liability Management (ALM) policy and Liquidity policy of the Company</p>

* Independent Non-Executive Director

** Non-Executive Director

*** Executive Director

Risk Management

What is Risk?

Risk is an integral part of any business and being an insurance company our business itself is about managing risks faced by others. Technically, ISO 31000 - Risk Management Principles and Guidelines, defines risk as 'the effect of uncertainty on objectives'. Even though facing risks is a bitter task, it is necessary to accept a certain level of risk in order to add value to the organisation by achieving an appropriate trade-off between risk and returns. In other words, while the primary objective of any business organisation is to maximise its shareholder return, it is essential to accept risk at the appropriate level where necessary.

No organisation can avoid accepting some level of risk in its day to day operations. The remedy is to manage risks in order to minimise possible losses or utilise opportunities better. Therefore, a sound risk management strategy is required for any organisation to grow or even survive in the dynamic environment companies face today.

What is risk management?

Risk management refers to the identification, assessment and prioritisation of risks followed by coordinated and economical application of resources to monitor, minimise and control the probability and/or impact of unfortunate events or to maximise the realisation of opportunities. Risks can arise from uncertainty in financial markets, legal liabilities, credit related vulnerabilities, accidents, natural causes and disasters as well as deliberate attacks from an adversary. A sound risk-management system therefore is often key to the success of an organisation.

Why have companies failed to manage risks?

Despite most organisations having very sound risk management strategies, processes and procedures, even separate departments with well-qualified employees, audit committees, risk management committees, auditors, regulators etc, there is a criticism today that such 'safeguards' have not been able to save many companies worldwide from collapsing due to various reasons. We saw during the current year many global and local organisations failing even though they seem to have had all or most of the above mitigating factors at different levels.

What then is the reason for these organisations to collapse or face difficulties? In our view the reason is culture. In the organisational culture, risk management must be a component that everyone in the organisation pays serious attention to, irrespective of their designation or role. Each and every stakeholder in an organisation is supposed to make sure that nothing harmful is done or allowed to happen. Simply, all risk management strategies or policies should be blended into the culture of the organisation and need to be reviewed regularly.

What sorts of risks do we face?

As an insurance company, we face a large and diverse number of risks. Each of these risks has the potential to harm our financial performance or hinder the achievement of our strategic objectives.

We can group the type of risks we face into five main categories.

- Strategic Risk
- Regulatory Risk
- Insurance Risk
- Investment Risk
- Operational Risk

These categories are discussed in detail later in this report.

How do we manage risk at HNB Assurance?

Since it is impossible to analyse every single risk we encounter, we set limits to manage our material risks to ensure we stay within our risk appetite (the amount of risk we are willing to accept). To work out how "material" a risk is to our business, we assess its size and scale based on the likelihood of it occurring and what potential impact such an eventuality could have on our business and our stakeholders. Most importantly, when risks are outside the tolerance limits set by our appetite, we have to decide what actions need to be taken to manage the risks (or groups of risks).

Our Risk Management Framework provides the means for us to identify, assess, measure, manage and monitor all of these different types of risk to provide us with a single picture of the threats, uncertainties and opportunities we face. We are then able to make appropriate decisions to limit and control the impact that all of these risks may have on our strategic objectives.

Why should risks be managed?

If risks are not managed effectively, the chance of failure by way of incurring losses, missing potential opportunities etc. can be very high. Moreover, factors such as high turbulence on a global scale, fierce competition, interest rate fluctuations, emergence of Corporate Governance codes and complex regulatory requirements are forcing organisations to take Risk Management seriously and to regard it as an integral component of the overall business strategy. This is why a formal risk management framework is considered a requirement for every company and as discussed above should be appropriately blended with the culture of the particular company. Accordingly, we expect our risk management framework to;

- create value for the organisation
- be an integral part of organisational processes
- support the decision making process

- address uncertainty in the business processes
- be systematic and structured
- capture and use better available information
- be blended with the Company culture
- consider the human factors
- be clear to every one and be transparent
- be dynamic, iterative and responsive to change
- be capable of continual improvement and enhancement

Who is responsible for managing risks at HNB Assurance?

The Board of Directors is principally responsible for establishing risk tolerance level, approving related strategies and policies, monitoring and assessing the activities of management, overseeing policy compliance and the effectiveness of the risk framework to meet the requirements of applicable regulations and the interests of shareholders, customers and staff. However, as discussed above, each and every member of the organisation is a part of our risk management process and the importance of effectively managing risks is communicated formally and informally to all the members of the organisation.

In order to make sure an effective process is in place for managing risks, the Board has given the authority and responsibility to the Audit Committee and the Investment

Committee to oversee the Company's risk management process. The Executive Committee (EXCO) as the top management team of the Company together with Heads of Divisions and other representatives of all departments of the Company actively take part in the risk management process. The Manager - Legal and Compliance makes sure all actions planned to mitigate identified risks are effectively initiated and operated throughout the Company. Finally, M/S Ernst & Young Advisory Services (Pvt) Ltd. acts as the internal auditors and they report their findings to the management on a monthly basis and to the Audit Committee on a quarterly basis. Also, with effect from the current year, M/S Ernst & Young was appointed as the IT Internal Auditors to cover the IT related risk areas and their reports will also be taken up with both the Management and the Audit Committee. Moreover, M/S KPMG Ford Rhodes, Thornton & Co. the External Auditor for the Company who is reporting to shareholders also play a vital role in the risk management process of the Company.

Thus, these three lines of defense, the Business Unit Heads, Manager - Legal and Compliance and the Internal & External Auditors make sure risks faced by the Company are managed effectively. The following chart elaborates the above process.

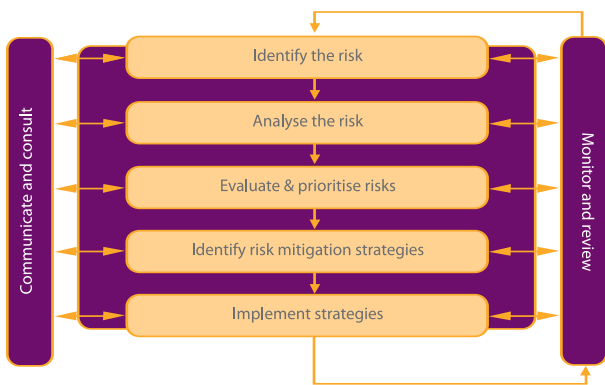


Risk Management

What kind of risk management activities take place at HNB Assurance?

During the year under review, we initiated a risk management workshop with the participation of representatives from all the functions of the Company headed by the Managing Director. In that workshop, we discussed in great detail the risks faced by the Company in terms of the main risk categories identified above. Afterwards, all identified risks were analysed in terms of the probability of occurrence and the potential financial impact if that risk is crystallised.

The risk management process is graphically presented below.

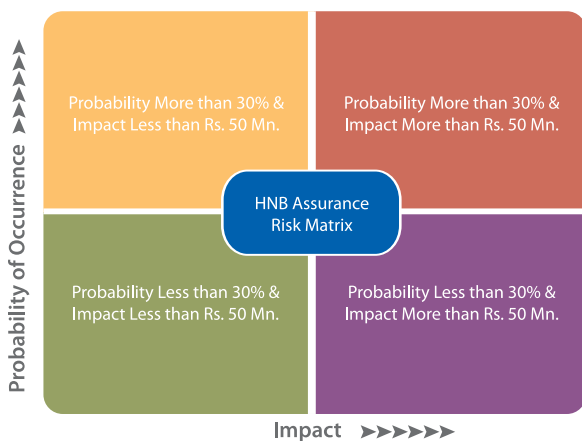


At each of the above stages, the team discussed risks in detail with each other to ensure the effective management of risks.

When analysing risks in terms of the probability of occurrence and impact, we employ a risk matrix which provides a quantitative background to formalise the process based on our prior experience.

Accordingly, risks identified with high probability of occurrence and high potential financial impact were given higher priority. Broadly, the following strategies were considered when designing controls to manage identified risks.

- **Avoid** - Eliminate the threat by eliminating the cause
- **Mitigate** - Identify ways to reduce the probability or the impact of the risk



- **Transfer** - Make another party responsible for the risk
- **Accept** - Nothing will be done as the risk is within acceptable levels

Finally, effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls are in place. Hence, risks identified at the workshop were reported to the Audit Committee and information was shared with internal and external auditors. The Management, in addition, continuously monitors the process and plans to meet regularly with the full team that participated in the workshop, both to monitor and improve the process where applicable.

Significant risks identified in each of the above main risk areas together with controls in place to mitigate/ manage such risks are presented below in summary form.

STRATEGIC RISK

Strategic risk or Business risk is the risk associated with the Company's future business plans and strategies. This risk category includes failure of future business plans, unexpected rivalry threats, inadequate expansion of service levels and infrastructure (e.g. information technology and networking). In other words, the strategic risk refers to the risk of not achieving set objectives and the risk of the Corporate Plan and budgets becoming irrelevant/inappropriate due to unanticipated changes in external and internal environments.

- The Company prepares a Corporate Plan every year addressing potential risks and future plans for the next three years with special emphasis on the immediate year ahead and Board Approval is obtained prior to implementation.
- Objectives are given to each division in accordance with the Corporate Plan. Performance appraisals of the members of the Management team are linked to achievement of such objectives. Performance appraisals are performed twice a year with the year-end appraisals forming the basis for deciding on salary increments, promotions and bonus payments.
- The EXCO, together with Heads of Divisions and other members of Management, reviews the achievement of set objectives of the Company periodically and actions are taken to manage unfavourable deviations. These review meetings are carried out with the participation of a Non-Executive Director to bring a certain level of independence to the process. This process also enables the Management to make alterations to agreed strategies and action plans to keep pace with changes taking place in the volatile external environment.
- In addition, the Company's Corporate Plan and budgets are reviewed twice a year to ensure that these are in line with the changes in the environment in which the Company operates.

REGULATORY RISK

Regulatory risk refers to earnings, capital and reputation associated with a failure to comply with the increasing array of regulatory requirements and expectations.

- The Company and its employees at all levels are committed to the goal of 100% compliance with the regulatory framework. This has been successfully achieved throughout the year by complying with all deadlines set by the Insurance Board of Sri Lanka (IBSL), Colombo Stock Exchange, Central Bank of Sri Lanka, Department of Inland Revenue and other authorities.
- The Audit Committee reviews all financial reports and statutory returns to IBSL. The Board also pays focused attention to the need to be in compliance with all laws and regulations applicable.
- The Company has engaged the services of a separate Compliance Officer, an Attorney at Law by Profession, who is responsible for the Company's compliance with applicable laws and regulations.
- A dedicated full-time Compliance Assistant with an accounting background is working with the Compliance Department to independently review and confirm all financial reports submitted to regulators.
- An e-learning module was launched recently with a significant investment in order to improve the knowledge level of employees at all levels on a variety of subjects. This would help minimise the risk of non-compliance due to lack of knowledge.
- Special care and attention is given when handling all employee related areas and thereby avoid labour law related issues.

INSURANCE RISK

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

Underwriting Risk

This refers to situations where premiums are not sufficient to cover future incurred losses and loss adjustment expenses. It refers to the risk of accepting insurance business that carries an unacceptably high exposure to the risk of claims and accepting risks at rates that do not contain an adequate risk premium.

As an insurer, this is a primary area of focus in the Company's risk management program.

Underwriting risk could also arise due to a lack of understanding of the changes in the environment, particularly the effect of climate change on today's environment due to global warming and other processes.

- The Company ensures adequate segregation of duties in respect of underwriters within formally documented limits of authority in the Manual of Financial Authority. The Authority Manual is reviewed and updated regularly to ensure that it caters to changes in the structures of the Company.

- Underwriting is done selectively considering both the risk and return, not just thinking about the growth in the top line. This is ensured by the underwriters carrying Key Performance Indicators (KPIs) relating to both turnover and profitability. The Company also maintains statistical databases on loss making clients and makes sure such clients are declined strategically.
- Post underwriting audits are carried out to ensure that underwriting has been done as per the set guidelines.
- The Company is in the process of upgrading its systems thereby resulting in more controls and streamlined procedures. The upgraded Life Insurance system is already in operation and the General Insurance system is currently under development.
- In the area of Life Insurance, the Company always gets the maximum input of its Consultant Actuary in deciding on the terms and conditions of its products, thereby ensuring that the products are adequately priced.
- Life Insurance business underwriting is based mostly on the medical reports and therefore the Company obtains this service only from Registered Laboratories. Also regular visits by the management to such laboratories are carried out throughout the year to monitor the quality of their service.
- The Company makes significant investments to conduct regular training for its underwriting and claims management staff including those attached to the distribution network.
- Focused training on proper selling is carried out extensively in all three languages (Sinhala, Tamil and English) targeting the Insurance Advisors.
- The Company makes sure no insurance cover is issued without placing adequate reinsurance and also reviews the adequacy of reinsurance support for catastrophe / extreme events on a regular basis.

Reinsurance Risk

This refers to the retaining of risks beyond the Company's net retention capacity without having adequate reinsurance and inability of reinsurers to meet their commitments due to insufficient financial strength.

- The Company maintains a very close and professional relationship with its reinsurers and makes sure that no cover is issued without a properly confirmed reinsurance in place for risks above treaty limits.
- The Company enjoys the support of a globally trusted and stable portfolio of reinsurance companies which has been developed since inception through professional relationships built on integrity and mutual understanding. We select only reinsurance companies with high ratings given by globally recognised rating agencies such as Standard & Poor (S&P), AM Best and Fitch. The Company has also introduced an ongoing process of constantly reviewing our reinsurer ratings in the wake of the current global turmoil. The following table shows

Risk Management

the existing reinsurer portfolio with their ratings and rating agencies.

Reinsurer	Security Rating	Rating Agency
Munich Re	A+	AM Best
Toa Re	A+	S & P
Mitsui Sumitomo	AA-	S & P
General Insurance Corporation of India	A-	AM Best
Trust International	A-	AM Best
Kuwait Re	BBB	S & P
Malaysian Re	A-	AM Best
BEST Re	A-	AM Best
Korean Re	A-	AM Best

- The Company reviews the outstanding reinsurance receivables in a timely manner and makes sure that all dues are collected on time, especially when reinsurance payables to the same party are not adequate to recover the same.

Claim Reserving Risk

This refers to the risk of not providing adequate reserves to meet future obligations arising from claims in the General Insurance business and claims and maturities in the Life Insurance business.

General Insurance

- The Company has adopted the practice of making a reserve on the intimation of claims through our 24 hour Customer Relations Center (CRC). All such intimated claims are assessed subsequently with inputs from professional loss adjusters and/or independent assessors and the reserves made are reviewed and revised accordingly.

- All major outstanding claims are reviewed monthly by the Management to ensure that proper reserves have been provided for the same.

- The Company also engages the services of a qualified Independent Actuary to assess the adequacy of reserves held in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims. These reserves are valued twice a year.

- All third party claim intimations are separately reviewed with the support of Manager - Legal and Compliance. Provisions are made where necessary based on the status of the case and past experience.

Life Insurance

- The Company engages an Independent Actuary to carry out valuations twice a year of the Life Fund and the provisioning of reserves to meet claims is reviewed by him as a part of this process.

- The Actuary also certifies the adequacy of amounts reserved to meet liabilities outstanding at the year end. On the recommendation of the Actuary, the Company has also set aside additional reserves to meet contingency needs in excess of statutory requirements as a measure of prudence.

Credit Risk

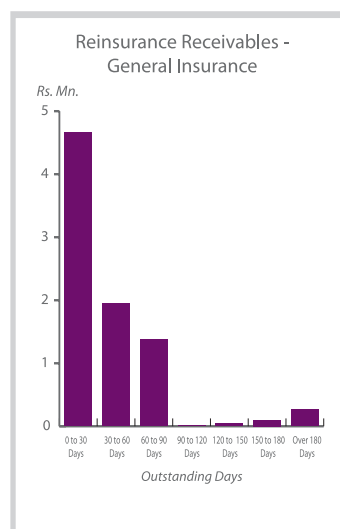
This refers to risks pertaining to uncertainty in the debtors' ability to meet obligations to the Company.

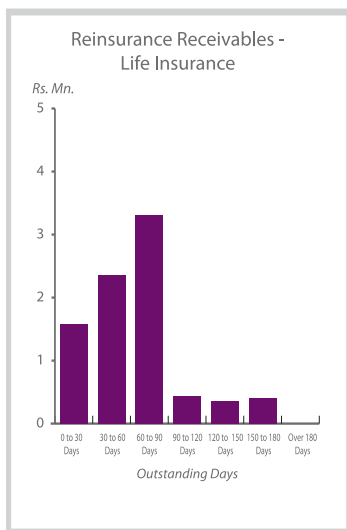
- Since the Company strictly implements the Premium Payment Warranty (PPW) and cancels all policies for which payment is outstanding for more than 60 days, the credit risk due to premium receivables is minimal. However, all outstanding premium receivables are followed up effectively in order to minimise policy cancellations. Claim settlements are done after reviewing the position of outstanding receivables.

- Regular meetings with the relevant distribution channels are carried out to minimise policy cancellations due to the application of the Premium Payment Warranty.

- All other receivables including reinsurance receivables are reviewed on a timely basis and appropriate actions taken. The following graph shows the aging of reinsurance related receivables.

These amounts are less than the amounts due to the reinsurers.





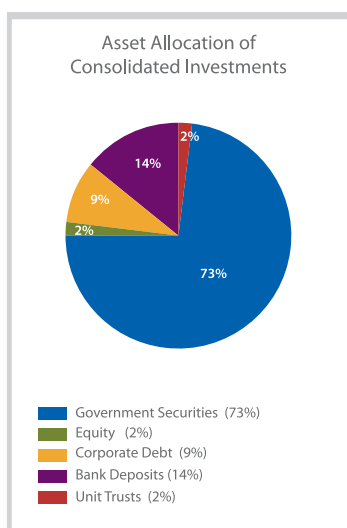
INVESTMENT RISK

Company handles a significant portfolio of investments and thereby is exposed to a substantial amount of risks relating to the investments held.

Concentration Risk

This refers to the risk of over exposure to a particular company or sector due to lack of diversification.

- The Managing Director and Head of Finance review investment portfolios on a monthly basis with the participation of both front office and back office investment staff.
- The Investment Committee reviews the investment portfolios on a quarterly basis. In addition, all new investments made by the Company are reviewed by the Board on a monthly basis.
- Single party exposure limits are decided based on the credit ratings and regulatory requirements and monitored closely at different levels.



- The Management is also highly conscious of the importance of asset allocation. A considerable portion of the assets are invested in risk-free Government Securities minimising the aggregate risk of the portfolio.

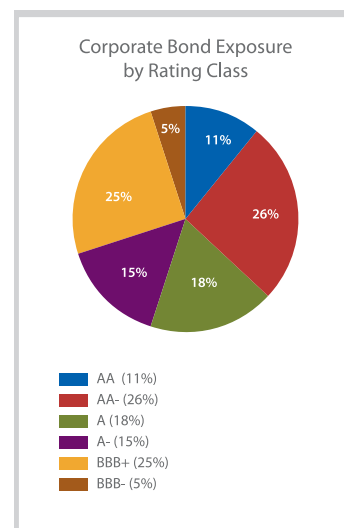
- Regular independent review of portfolios is also carried out by the Compliance Department.

- Internal Auditors also cover the investment processes and portfolios regularly.

Credit Risk in investments

This relates to the risk of not being able to recover the capital and/or interest relating to investments.

- Master Repo agreements are signed with all primary dealers we work with in order to ensure zero level of default risk in respect of Government securities bought through such parties even in the event of their bankruptcy.
- For investments other than Government Securities, the Investment Committee has adopted a list of approved entities which in the opinion of the Committee carries a minimal credit risk. Any investments made in any other entity is carried out only with the explicit approval of the Committee which will stipulate a limit up to which an exposure could be made in such an instance on an exceptional basis.



Interest Rate Risk

This refers to the risk of the Company's inability to earn promised returns to meet promised liabilities due to volatility in interest rates.

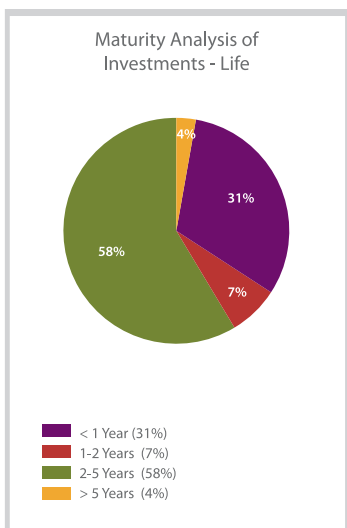
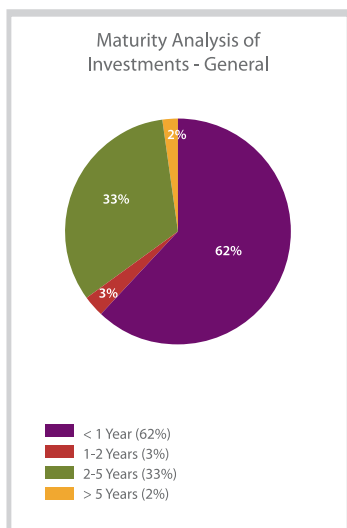
- The Management and the Investment Committee regularly monitors the fluctuations in the macro economic environment and recommends changes to the asset allocation from time to time in order to minimise the interest rate risk.
- Life Insurance policies sold with a promised return are fully backed by corresponding investments for a similar period.

Risk Management

Liquidity risk

This refers to the inability to meet contractual obligations such as claim settlements and payment to re-insurers due to the insufficient availability of cash and other liquid investments.

- This risk is mitigated by diversifying the maturities of the investment portfolio. Hence, the minimum amounts to be held as a percentage of each fund in instruments that mature within different time periods are decided by the Investment Committee in consultation with the Management. Accordingly, adequate funds are held in liquid, short-term instruments to meet liquidity needs.
- Compliance Department monitors the asset mix on a regular basis.

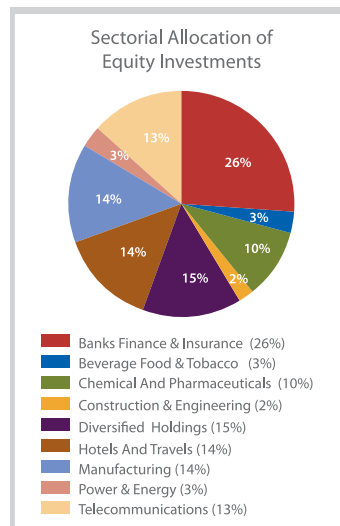


Market Risk

The risk of change in the value of investments due to volatility of stock prices.

- The Managing Director, Head of Finance and the Investment Committee regularly monitor the market and provide guidelines on investments in the stock market.

Very selective equity investments are made at the right time after carrying out in-depth research into identified stocks.



OPERATIONAL RISK

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Business Continuity Risk

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

- The Company has a Business Continuity Plan (BCP) and a separate committee to handle risks of this nature. Further, relevant IT infrastructure has been developed to support the implementation of the BCP.

Fraud Risk

This refers to the risk of fraudulent acts taking place due to inadequate internal controls.

- The Company has implemented a Code of Best Practice and Ethics to be adopted by employees at all levels without exception.
- A formal Manual of Financial Authority (MOFA) which is approved by the Board is in place with delegated authority to employees at each level.
- Proper segregation of duties has been established through a clearly defined organisation structure.
- Further, the Company has implemented a strong control environment which is subjected to periodic monitoring by an independent Internal Audit team (M/S Ernst & Young Advisory Services (Pvt) Ltd). Monthly reports submitted by the Internal Auditors are reviewed by the Audit Committee of the Board which monitors the implementation of all agreed follow-up actions.

- 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.
- Adequate disciplinary action is taken against staff members or advisors in the event they commit any fraud after clearly establishing their involvement through a due process.
- With the implementation of systems and systems controls, the Company has minimised the use of manual documents and further controls have been introduced for documents such as Temporary Cover Notes.

Socio-Economic and Political Risk

Socio-economic and political factors have a direct impact on insurance business as well as on the investment activities of the Company.

- The Company acknowledges the importance of these risks and they are reviewed closely during corporate planning sessions on an annual basis.
- Additionally, the Company seeks advice from independent specialists such as economists to identify trends and to understand their financial implication where necessary.

Information Security Risk

This refers to the risk of the Company incurring losses as a result of the improper use of information systems or as a result of a disaster or breakdown.

- The Company's IT security policy is communicated to all staff of the Company and operational managers are assigned the task of ensuring that all staff adhere to the Company's Information Security Policy.
- The Company has also set up a Business Continuity Plan (BCP) with adequate support of the IT infrastructure. IT Internal Audits (by M/S Ernst & Young) and Penetrations tests are carried out periodically to ensure the Company's systems are well secured and are not exposed to hacking.

Reputational Risk

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

- The Company has a sound system of internal controls which is regularly monitored by Internal Auditors and the Audit Committee.
- The Company is highly committed 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.
- The Company has adopted a Code of Business Conduct and Ethics to be followed by all employees and advisors without any exception.

- Additionally, the Staff Hand book carries out certain guidelines of behaviour and procedures of the Company, which the staff is strictly required to adhere to.
- The release of financial information to the public is subject to approval by the Audit Committee and the Board thereon.

Human Resource Risk

The main risk in this instance is the lack of professionally qualified personnel for the industry, which has resulted in relatively high staff turnover ratios.

- Opportunities are available to the staff for their continuous education and development by way of providing financial and other support. At every opportunity, employees are provided with in-house, external and other training at all levels to improve their knowledge levels. The Company invests significantly on staff training and development every year.

Training Programmes	No. of Programmes	No. of Participants
In-house Training		
Induction and familiarisation	3	124
Companywide training	12	498
Divisional Training	38	853
Outdoor Training		
Outbound Training	6	237
External Training	127	233
Overseas Training	7	8

- The Company always aims to have its remuneration packages in line with the industry to retain and attract qualified staff.
- The Company supports all industry initiatives to address the training and development needs of professionals engaged in the industry and those seeking to join it.
- Opportunities are given to the staff to meet the Managing Director and exchange ideas without the presence of their superiors through CEO's forums.
- Exit interviews are carried out when a member of the staff leaves in order to identify the causes for the person leaving the Company.
- The Company invests in staff welfare through the Welfare Society and relevant divisional activities to motivate the staff. Under the 'open-door' culture practiced in the Company, access is available to the highest levels of Management to bring any issues of concern to the notice of the Management immediately.
- Regular Management Meetings and Distribution Management Meetings are carried out to convey the key decisions taken at the top management level and the same is conveyed to all staff.

Statement of Solvency and Approved Assets

Statement of Solvency

The statement of solvency for General Insurance and Life Insurance has been prepared in accordance with the Solvency Margin (General Insurance) Rules – 2004 and Solvency Margin (Life Insurance) Rules – 2002 respectively and is in line with the formats stipulated by the Insurance Board of Sri Lanka (IBSL).

	2009 Rs. '000	2008 Rs. '000
General Insurance Business		
1. Value of Admissible Assets	1,078,546	851,614
2. Amount of Total Liabilities	793,455	591,875
3. Value of Admissible Assets minus Amount of Liabilities	285,091	259,739
4. Required Solvency Margin	154,064	123,150
5. Solvency Ratio [Line 3 divided by Line 4]	1.85	2.11
Life Insurance Business		
1. Value of Admissible Assets	1,931,240	1,442,391
2. Amount of Liabilities:		
2.1 Policy Liabilities	1,627,815	1,102,728
2.2 Other Liabilities	144,907	122,567
3. Value of Admissible Assets minus Amount of Liabilities	158,518	217,096
4. Factor	5%	5%
5. Required Solvency Margin	81,391	55,136
6. Solvency Ratio [Line 3 divided by Line 5]	1.95	3.94

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.

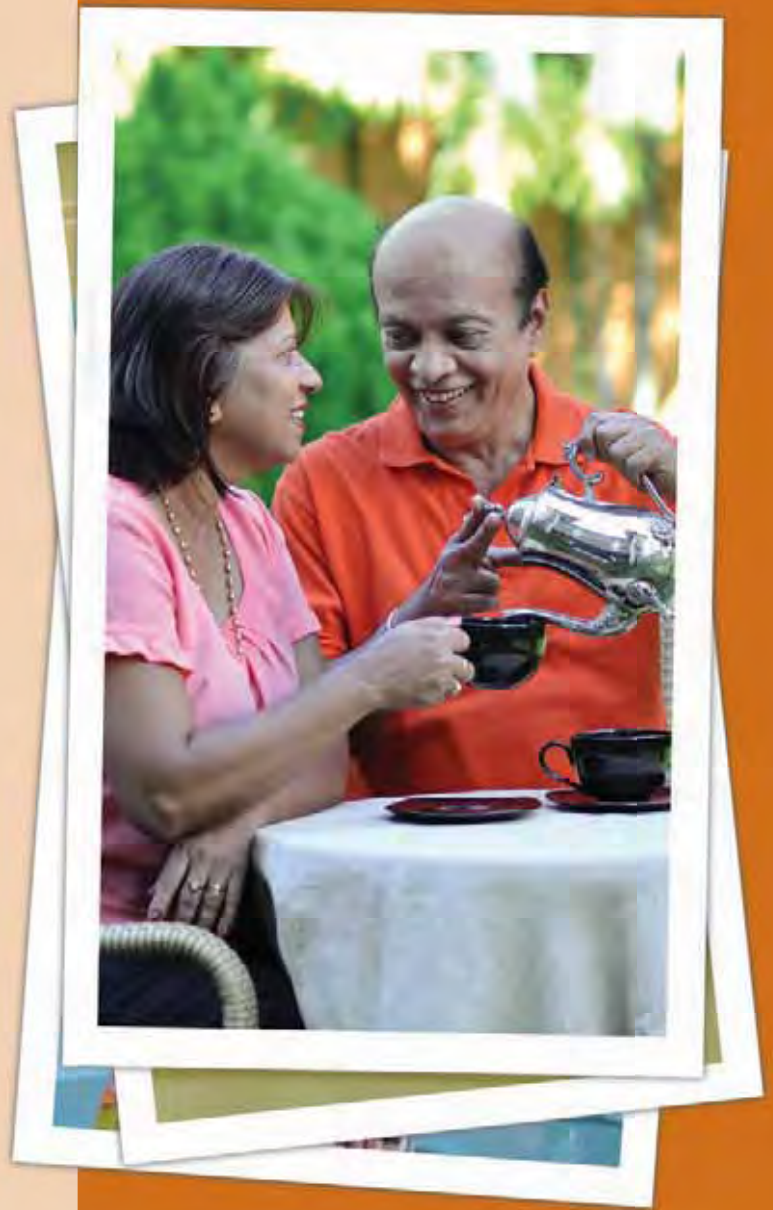
	2009 Rs. '000	2008 Rs. '000
General Insurance Business		
1. Approved Assets maintained in General Insurance Business	1,162,761	900,511
2. Technical reserve	550,237	420,934
3. Approved Assets in Excess of the Technical Reserve	612,524	479,577
4. Approved Assets as a % of the Technical Reserve	211.3%	213.9%
5. Required Ratio	100.0%	100.0%
Life Insurance Business		
1. Approved Assets maintained in Life Insurance Business	1,931,240	1,447,333
2. Life Insurance fund	1,853,513	1,360,505
3. Excess in Approved Assets over the Life Insurance fund	77,727	86,828
4. Approved Assets as a % of Life Insurance fund	104.2%	106.4%
5. Required Ratio	100.0%	100.0%

Financial Calendar

SUBMISSION OF STATUTORY RETURNS TO IBSL	Date of Submission	Deadlines set by IBSL
<ul style="list-style-type: none"> Annual Audited Financial Statement for year ended 31st December 2008 	25th February 2009	30th June 2009
<ul style="list-style-type: none"> Annual Statutory Returns for the year ended 31st December 2008 	25th June 2009	30th June 2009
<ul style="list-style-type: none"> Quarterly Returns for 2009 <ul style="list-style-type: none"> March June September December 	7th May 2009 14th August 2009 12th November 2009 11th February 2010	15th May 2009 15th August 2009 15th November 2009 15th February 2010
Biannual Compliance (Circular 18) Certificate <ul style="list-style-type: none"> 30th June 2009 31st December 2009 	11th August 2009 9th February 2010	15th August 2009 15th February 2010
<i>All IBSL statutory returns are submitted within the deadlines set</i>		

FINANCIAL CALENDAR	Targets set for 2010	Achievements in 2009
Interim Unaudited Reports 1st Quarter (ended 31st March) 2nd Quarter (ended 30th June) 3rd Quarter (ended 30th September) 4th Quarter (ended 31st December)	May 2010 August 2010 November 2010 February 2011	4th May 2009 3rd August 2009 3rd November 2009 1st February 2010
Annual Reports and Accounts 2008 2009	February 2010	February 2009
Dividend Payments First and Final Dividend for 2008 First and Final Dividend for 2009	April 2010	April 2009
Annual General Meeting Seventh Annual General Meeting Eighth Annual General Meeting	30th March 2010	30th March 2009

“We’re there... At every stage of your life.”



“Travel Max” – Travel Insurance Policy...

An insurance policy that extends cover to even travellers above 70 years of age with emergency medical benefits

Financial and Other Reports

Audit Committee Report

Composition

The Audit Committee, appointed by and responsible to the Board of Directors, comprises three Non-Executive Directors a majority of whom are independent. The Committee comprises members who bring their expertise and knowledge from various areas. Members of the Audit Committee comprised the following Directors during the year.

Mr. D M de S Wijeyeratne ACA - Chairman
Independent Non- Executive Director

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

Mr. Sarath Ratwatte FCMA (UK)
Independent Non- Executive Director (appointed w.e.f. 30th January 2009)

Mr. M U de Silva FCIB (London)
Non-Executive Director (resigned w.e.f. 30th January 2009)

A brief profile of each member is given on pages 12 and 13 of this Annual Report.

The Head of Finance acts as the Secretary to the Audit Committee.

The Audit Committee is governed by an Audit Committee Charter which is reviewed on an annual basis.

Meetings

The Committee met 5 times during the financial year under review. The attendance of each member is given on page 104. Some other meetings and communications among the Chairman and other Committee members, internal auditors and members of management also occurred during the year. Meeting agendas were prepared and provided sufficiently in advance to members, along with appropriate briefing materials.

The Managing Director attends all meetings by invitation. Head of Finance also attends all meetings in the capacity of the Secretary to the Audit Committee as well as the Chief Financial Officer. Other Executive Committee members, Head of IT, Compliance Officer and other members of management are also invited to attend these meetings where necessary.

The Audit Committee also meets the External and Internal Auditors to discuss matters related to their respective areas where necessary.

Objective and Authority

The key objectives of the Audit Committee are to assist the Board to fulfil its responsibilities with regard to;

- Ensuring good financial reporting systems which meets requirements of SLAS and other relevant laws and regulations
- Ensuring the effectiveness of the Company's risk management process to identify and mitigate risks
- Ensuring the proper design and implementation of the internal control system of the Company
- Monitoring process for compliance with laws and regulations
- Assessing the independence and monitoring the performance of Internal and External Auditors
- Assessing the Company's ability to continue as a going concern in 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 co-operate with the Committee's requests) or external parties, meet with the management and staff, External and Internal Auditors, Consultant Actuary, regulators or outside counsel, as necessary.

Activities and Responsibilities

The Committee carried out following activities during the year.

Financial Reporting:

The Committee reviewed with the consultation of the External Auditors and the management where necessary, significant accounting and reporting issues including complex or unusual transactions and highly judgmental areas, 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 Companies Act, No. 7 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000, etc. Matters of special interest in the current economic environment and the processes that support certifications of the financial statements by the Company's MD / CEO and CFO were also brought up for discussion.

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 quarterly 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.

Statutory Reporting to Insurance Board of Sri Lanka (IBSL):

The Committee reviewed and approved all Quarterly and Annual Returns submitted by the Company to the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act, No. 43 of 2000.

External Audit:

The Audit Committee met with the External Auditors to discuss the proposed audit scope and plan, including coordination of the audit effort with the internal audit, and its audit quality control/assurance processes for the year. The Committee also perused the Report of the Auditors and Management Letters issued by them. The Committee followed up on recommendations made in those reports. The External Auditors were given adequate access to the Audit Committee and all relevant information required.

The Committee has recommended to the Board of Directors that Messrs. KPMG Ford, Rhodes, Thornton & Co. be re-appointed as Auditors for the financial year ending 31st December 2010 subject to the approval of Shareholders at the Annual General Meeting to be held on 30th March 2010. Also the Audit Committee recommends the fees payable to the statutory auditors for approval by the Board.

Independence of External Auditors

As far as the Audit Committee is aware, Auditors do not have any relationship (other than that of the Auditor) with the Company. The Committee has also 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 in 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 and Securities and Exchange Commission of Sri Lanka and the Guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka. In addition, the lead audit partner is 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 the auditor independence is not impaired in such circumstances. However, no such non-audit services were provided by the External Auditors during the year under review.

Internal Audit:

The Internal Audit function has been out-sourced to Messrs. Ernst & Young Advisory Services (Pvt) Ltd.

The Committee reviewed and approved the Internal Audit plan, scope, report requirements etc. of the Company. The Committee also reviewed the Internal Audit findings and recommendations by the Internal Auditors together with the

Management responses and assessed the effectiveness of such findings and management responses. Progress on implementation of internal audit recommendations were also regularly followed up by the Committee in order to ensure operating of effective internal controls and enhancement of the overall control environment. Internal audit reports were also made available to the External Auditors.

Internal Control and Risk Management

During the year, the Committee reviewed the effectiveness of the Company's internal control system and has reviewed all reports published by the Internal and External Auditors. The Committee also received and reviewed the report on all significant risks identified by the Risk Management Committee of the Company. Thereby, the Committee reviewed the whole process for identification, evaluation and management of all significant risks throughout the Company.

IT Risk and Control Assessment

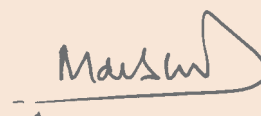
The Committee pays extensive attention on the risks of IT related processes of the Company. Thus, the Committee received a report from Messrs. MTI Consultants (Pvt) Ltd. on the Post Implementation Review (PIR) of the Company's IT Systems (Integrated Insurance Management Systems (IIMS)) which is in the process of being upgraded to its next version. Also, the Committee monitored the process of appointing Messrs. Ernst & Young to carry out a comprehensive IT Security Audit which is to be commenced soon.

Corporate Governance

The Company is fully compliant with the applicable rules on Corporate Governance under the Listing rules of the Colombo Stock Exchange (CSE). In addition, the Company is in 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).

Conclusion

The Committee is satisfied that the Company's internal controls are effectively implemented as designed, and the Company's assets are adequately safeguarded. Company's Internal and External Auditors have been effective and independent throughout the year. The Committee is also satisfied with the appropriateness of application of the accounting policies and thereby gives a reasonable assurance that the Financial Statements of the Company are reliable.



D M de S Wijeyeratne,
Chairman - Audit Committee

Colombo, Sri Lanka
28th January 2010

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 Assistant Manager-HumanResources 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, bonuses and changes in prerequisites and incentives.
- Ensuring that no Director is involved in setting his own remuneration package.

Remuneration Committee Meetings

The Committee meets at least once each year and the minutes of the meetings are circulated to the Board. Please refer page 104 for each Director's attendance.

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

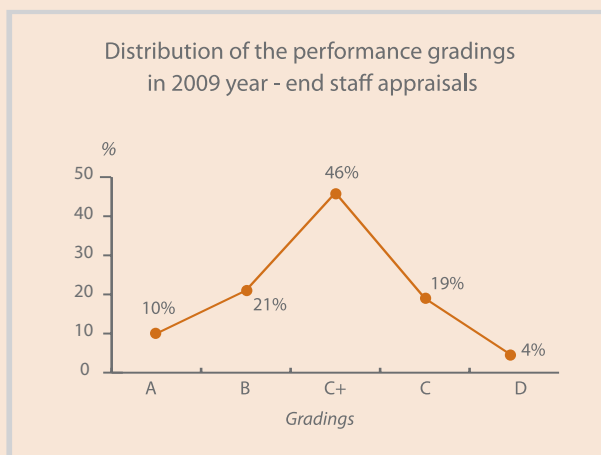
Employees

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
<ul style="list-style-type: none"> • Basic Salary • Travelling Allowance 	<ul style="list-style-type: none"> • Annual bonus for all staff • Production bonus for Distribution Management Team 	<ul style="list-style-type: none"> • Vehicle Loans (Selected categories of Staff) • Examinations Loans • Other Loans (Distress, Wedding etc) • Insurance Benefits

Fixed Components

Basic salary and travelling allowance are the fixed components in the package which is based on the scope and complexity of the role and is reviewed annually. Annual performance appraisals are conducted and increments and promotions are granted purely based on results of such appraisals. Distribution of performance gradings in the year-end appraisal process is shown in the graph below. Overall competence and performance are key factors that determine an individual's base pay.



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 is entitled for a production bonus scheme based on achievement of business targets under pre determined criteria.

Other Employee Benefits

Benefits provided to employees include vehicle loans, examination loans, other loans and various insurance benefits.

Retirement Benefits

There are no retirement benefits to employees other than gratuity.

Board of Directors

No remuneration is paid to Non-Executive Directors other than the nominal fees paid based on their participation at Board meetings. The Managing Director's remuneration is decided by the Board annually on the recommendation of the Remuneration Committee based on the achievement of Company objectives and individual performance. Total fees and remuneration paid to all Directors is disclosed on page 144. Non-Executive Directors are not entitled to retirement benefits. The Managing Director is entitled to gratuity as all other employees.

Share Plans for Directors

The Company does not have a share plan for Directors.

Directors' Shareholding

The shareholdings of Directors are provided on page 104.

Personal Loans for Directors

No Director is entitled for Company loans.



M U de Silva

Chairman - Remuneration Committee

Colombo, Sri Lanka
28th January 2010.

Annual Report of the Board of Directors on the Affairs of the Company

Preamble

The details set out herein provide pertinent information required by the Companies Act, No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange and are guided by recommended best practices on Corporate Governance. This report was approved by the Directors at a meeting held on 28th January 2010.

General

The Board of Directors is pleased to present their Report together with the audited Financial Statements for the year ended 31st December 2009 and the Auditors' Report thereon of HNB Assurance PLC. The Financial Statements were accepted and approved by the Board of Directors on 28th January 2010.

HNB Assurance PLC is a public limited liability Company incorporated in Sri Lanka on 23rd August 2001 under the Companies Act, No. 17 of 1982 and re-registered as per the new Companies Act, No. 7 of 2007 (Reg. No; PQ-108) and registered under Regulation of Insurance Industry Act, No.43 of 2000 to carry out Life and General Insurance Businesses. The Company which was listed on the Second Board of the Colombo Stock Exchange in October 2003 was upgraded to the Main Board in April 2005.

Principal Activities

The principal activity of the Company continued to be carrying on General Insurance and Life Insurance businesses. There were no significant changes in the nature of the principal activities of the Company 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 Chairman's Review (pages 6 to 8), Review of the Managing Director (pages 9 to 11) and Management Discussion and Analysis (pages 20 to 36). 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 other rules and regulations issued by 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 2009 duly signed by the Chairman, Managing Director and Head of Finance of the Company are given on pages 115 to 152 which form an integral part of the Annual Report of the Board.

Directors' responsibility for Financial Reporting

The Directors are responsible for the preparation and presentation of the Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Statement of Directors' Responsibility for Financial Reporting is given on page 110 which forms an integral part of the Annual Report of the Board of Directors.

Significant Accounting Policies

The significant accounting policies adopted in preparation of these Financial Statements are given on pages 125 to 132. There were no material changes in the accounting policies adopted with that of last year.

Going Concern

The Board has made necessary reviews and inquiries including review of the Company's budget and Corporate Plan for ensuing years, future prospects and risks, capital expenditure requirements, cash flows, etc. The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future and continues to adopt the going concern basis in preparing these Financial Statements.

Auditors

The Financial Statements for the year ended 31st December 2009 have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Co., (Chartered Accountants) and their report on those statements which forms an integral part of the Report of the Board of Directors, is given on page 114 of this Annual Report.

The retiring Auditors, Messrs. KPMG Ford, Rhodes, Thornton & Co., have expressed their willingness to continue in office as the Company auditor. In accordance with the Companies Act, No. 7 of 2007, a resolution relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

The fees paid/ payable to auditors Messrs. KPMG Ford, Rhodes, Thornton & Co., for the services provided to the Company together with corresponding last year's figures are presented below.

	2009	2008
	Rs.	Rs.
Audit Fees and Expenses	800,000	700,000
Audit Related Services	100,000	106,000
Total	900,000	806,000

Other Audit Services mainly consist of reports issued to Commissioner General of Inland Revenue (CGIR), Insurance Board of Sri Lanka (IBSL), etc. 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.

Turnover / Gross Written Premium (GWP)

The total turnover as measured by Gross Written Premium (GWP) of the Company for the financial year under review amounted to Rs. 2,116 Million (2008 - Rs. 1,839 Million). The above GWP is made up of General and Life Insurance premium income amounting to Rs. 1,131 Million (2008 - Rs. 925 Million) and Rs. 985 Million (2008 - Rs. 914 Million) respectively. A detailed analysis of the total GWP achieved by the Company is given in Note 20 to the Financial Statements on page 140.

Financial Results and Appropriations

Description	2009 Rs. '000	2008 Rs. '000
Profit Before Taxation (PBT)	231,081	169,874
Income Tax Expense	(29,471)	(5,401)
Profit After Taxation (PAT)	201,610	164,473
Unappropriated Profit brought forward	301,116	174,143
Profits available for appropriation	502,726	338,616
<i>Appropriations</i>		
Dividends Paid	(46,875)	(37,500)
Unappropriated Profit carried forward	455,851	301,116

The Income Statement of the Company is given on page 116. Transfers to / from reserves of the Company are shown in the Statement of Changes in Equity on page 117.

Dividends

The Board of Directors satisfied 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 9th April 2010. 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. 1.50 (2008 - Rs. 1.25) per share payable on 9th April 2010 to holders of issued and paid up Ordinary Shares of the Company as at the close of business on 30th March 2010.

The Board of Directors

The Board of Directors of the Company consists of 9 Directors with wide financial and commercial knowledge and experience. The following Directors held office as at the balance sheet date and their brief profiles are given on pages 12 and 13 of the Annual Report.

Name of the Director	Status
Rienzie T. Wijetilleke (Chairman)	Non-Executive Director
Manjula de Silva (Managing Director)	Executive Director
M U de Silva	Non-Executive Director
Pratapkumar de Silva	Independent Non-Executive Director
D M de S Wijeyeratne	Independent Non-Executive Director
Sarath Ratwatte	Independent Non-Executive Director
R Theagarajah	Non-Executive Director
J M J Perera	Non-Executive Director
J D N Kekulawala	Non-Executive Director

Appointments of Directors

Mr. Sarath Carlyle Ratwatte was appointed to the Board in terms of the Article 92 of the Articles of the Association of the Company w.e.f. 30th January 2009. The Director was re-elected by the membership at the Annual General Meeting held on 30th day of March 2009 conforming to the Articles of Association of the Company.

Re-appointment of Directors recommended

Mr. Rienzie T. Wijetilleke (Chairman) 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 reappointed by the membership annually. Accordingly, two separate resolutions will be proposed for the reappointment of Mr. Rienzie T. Wijetilleke and Mr. Pratapkumar de Silva, Directors of the Company, notwithstanding the age limit of 70 years stipulated by the Section 210 of the Companies Act, No. 7 of 2007.

Board Sub Committees

The Board while assuming the overall responsibility and accountability in the management of the Company, has also appointed Board 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.

The composition of each committee is given on page 85 which is a part of the Annual Report of the Board.

Annual Report of the Board of Directors on the Affairs of the Company

Directors' Meetings

The number of Directors' meetings which comprise Board meetings, Audit Committee meetings, Remuneration

Committee meetings, Nomination Committee meetings and Investment Committee meetings together with the attendance of each Director at these meetings during the year are tabulated below.

Name of the Director	Board Meetings		Audit Committee Meetings		Nomination Committee Meetings		Remuneration Committee Meetings		Investment Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
Rienzie T. Wijetilleke (Chairman)	12	11	-	-	1	1	-	-	-	-
Manjula de Silva (Managing Director)	12	12	-	-	1	1	-	-	4	4
M U de Silva	12	11	-	-	1	1	1	1	-	-
Pratapkumar de Silva	12	11	-	-	-	-	-	-	-	-
D M de S Wijeyeratne	12	11	5	5	-	-	-	-	-	-
Sarath Ratwatte	11*	10	5	5	-	-	-	-	3	3
R Theagarajah	12	11	-	-	1	1	1	1	-	-
J M J Perera	12	11	-	-	-	-	-	-	-	-
J D N Kekulawala	12	11	5	4	-	-	1	1	4	4

* The Director was appointed to the Board on 30th January 2009. There were 11 meetings after his appointment and he has attended 10 meetings.

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

B = Number of meetings attended

Directors' Interests 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 pages 108 and 109 of the Financial Statements which form an integral part of the Annual Report of the Board.

a) Directors' Interests in Contracts

None of the Directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed on pages 108 and 109.

b) Directors' Interests in Shares as at the Balance Sheet date.

Following table discloses the Directors' interest in shares of the Company.

Name of the Director	As at 31st Dec 2009	As at 31st Dec 2008
Rienzie T. Wijetilleke	750	750
Manjula de Silva	25,000	25,000
M U de Silva	2,250	2,250
Pratapkumar de Silva	-	-
D M de S Wijeyeratne	500	-
Sarath Ratwatte	11,000	Appointed to the Board on 30th January 2009
R Theagarajah	6,250	6,250
J M J Perera	5,250	5,250
J D N Kekulawala	26,000	9,000

There has been no change in their interests in shares between 31st December 2009 and 28th January 2010, being the date of this Report.

c) Directors' Remuneration and Other Benefits

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 to

the Managing Director. No remuneration is paid to Non-Executive Directors other than the nominal fees paid in line with the attendance of each Director to Board and Sub Committee meetings.

Total Directors' emoluments including post employment Benefits to Directors for the financial year ended 31st December 2009 is Rs. 12.8 Million (2008 - Rs. 9.3 Million).

Directors are not allowed to obtain loans of any kind from the Company.

Share Information

Information relating to earnings, dividend, net assets and market price per share is given on page 157. Information on share trading is also given on page 157 of the Annual Report.

Shareholding

The number of registered shareholders of the Company as at 31st December 2009 was 3,845 (2008 - 4,111). The distribution and analysis of shareholdings are given on pages 155 and 156.

Equitable Treatment to all Shareholders

The Company has at all times ensured that all shareholders are treated equitably.

Major Shareholders

The twenty largest shareholders of the Company as at 31st December 2009, together with comparative shareholding of them as at 31st December 2008 are given on page 156. Hatton National Bank PLC (Mr. Rienzie T. Wijetilleke, Chairman and Mr. R. Theagarajah, Managing Director who are also Directors of the Company) owns 59.99% (2008 - 59.99%) shares of HNB Assurance PLC. Alliance Finance Co. PLC (Mr. Pratapkumar de Silva - Chairman and Jt Managing Director who is also a Director of HNB Assurance PLC) owns 8.29% (2008 - 10.06%) shares of HNB Assurance PLC.

Related Party Transactions

The Directors have also disclosed the transactions with related parties in terms of Sri Lanka Accounting Standard 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 31 to the Financial Statements which form a part of the Annual Report of the Board.

Corporate Governance

The Board of Directors is committed to maintain an effective Corporate Governance structure and process and to be in compliance with all possible rules, regulations and best practices on Corporate Governance. The Company, being a listed Company of 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 compliant with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and Institute of Chartered Accountants of Sri Lanka (ICASL).

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 its activities. 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. There is 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 of Directors is satisfied with the effectiveness of the system of internal controls for the year under review and up to the date of approval of the Annual Report and the Financial Statements.

Corporate Donations

During the year, the Company made charitable donations amounting to Rs. 300,000 (2008 - Rs. 250,000). This includes the supply of medical and other needed items to a value of Rs. 200,000 to the Neurologist Unit of the Colombo National Hospital. Additionally, the Company donated a sum of Rs. 100,000 to four religious institutions, i.e. a Buddhist Temple, Church, Hindu Kovil and a Mosque. No donations were made to political parties or for politically influential activities.

Taxation

Income Taxes are computed on rates enacted or substantively enacted as at the Balance Sheet date. The Income Tax rate applicable to Company's operations is 35% (2008 - 35%). The income tax expense of the Company is given in Note 28 to the Financial Statements on page 142.

As further explained in Note 28.3 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 in time.

Annual Report of the Board of Directors on the Affairs of the Company

Investments

The amount of investments (excluding cash and cash equivalents) held by the Company as at 31st December 2009 amounted to Rs. 2,717 Million (2008 - Rs. 2,037 Million). A detailed description of the Investments held is disclosed in Note 4 to the Financial Statements on pages 133 and 134.

Property, Plant and Equipment (PPE)

The capital expenditure on acquisition of Property, Plant and Equipment during the year amounted to Rs. 53.2 Million (2008 - Rs. 39.5 Million) and as at the Balance Sheet date the net book value of Property, Plant and Equipment amounted to Rs. 117.1 Million (2008 - Rs. 91.7 Million). An analysis of the Property, Plant and Equipment of the Company, additions and disposals made during the year together with the depreciation charge for the year are set out in Note 6 to the Financial Statements on pages 135 and 136.

Market Value of Property, Plant and Equipment (PPE)

Company uses the cost method as the accounting policy for recording Property, Plant and Equipment and the market value of such assets is considered not materially different to the book values.

Intangible Assets

The capital expenditure on acquisition of Intangible Assets during the year amounted to Rs. 40 Million (2008 - Rs. 9.4 Million) and as at the Balance Sheet date the book value of Intangible Assets amounted to Rs. 54.7 Million (2008 - Rs. 23.1 Million). A movement of Intangible Assets from the balance as at 1st January 2009 to the balance as at 31st December 2009 having additions and disposals made during the year together with the amortisation charge for the year are set out in Note 5 to the Financial Statements on page 135.

Capital Commitments

No significant capital expenditure commitments exist as at 31st December 2009 (2008 - Rs. 10.5 Million).

Provisions

The Directors have taken all reasonable steps to ensure adequate provisioning 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 112.

Moreover, the Directors have arranged a Consultant Actuary to value the Life Fund and the report of the Consultant Actuary is given on page 113.

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.

Stated Capital and Reserves

The stated capital of the Company as at 31st December 2009 was Rs. 375 Million (2008 - Rs. 375 Million) comprising 37,500,000 ordinary shares. There were no changes in the stated capital during the year.

The total reserves of the Company as at 31st December 2009 amounted to Rs. 455.9 Million (2008 - Rs. 301.1 Million). The movement of reserves is shown in the Statement of Changes in Equity on page 117.

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. HNB Assurance has an issued and fully paid stated capital of Rs. 375 Million and therefore has fulfilled the above mentioned statutory requirement. The Company has set aside 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.

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 proposal of dividends for the year which is disclosed in Note 30 to these 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 litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

Human Resources

The employment strategies of the Company are framed to employ, train, develop and retain the best talent available. 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 internal promotions. The Company always respects the merits of the individual and provides career opportunities irrespective of

gender, race or religion. The Islandwide 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, expenditure ratio, level of automation of activities, productivity, work volumes, multiple skills etc. The number of employees as at 31st December 2009 was 540 (2008 - 457).

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 HR Department.

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 fraudulent activities noted at the operational level for which appropriate actions have been taken.

Environment

The Company's activities can have direct or indirect effects on the environment. It is the policy of the Company to minimise any 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. The Company supports those who take initiatives to popularise environment friendly technology such as the production and use of electric vehicles.

Compliance with Laws and Regulations

The Company has complied with the regulations set out by the Insurance Board of Sri Lanka (IBSL) and other regulations and have submitted all returns and other required details to the relevant parties on or before the due dates. In addition, we comply with Financial Transactions Reporting Act, No. 6 of 2006 and the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005, by sending a monthly report to the Financial Intelligence Unit (FIU) of Central Bank of Sri Lanka (CBSL). Compliance reports have also been submitted to the Audit Committee on a quarterly manner confirming the same.

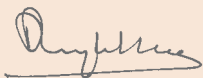
Reports of the Audit Committee and the Remuneration Committee

The Audit Committee and the Remuneration Committee reports are given on pages 98 to 99 and 100 to 101 respectively of this Annual Report.

Annual General Meeting

The eighth 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 Tuesday the 30th day of March 2010 at 10.00 in the forenoon. The Notice of the eighth Annual General Meeting is on page 166 of the Annual Report.

For and on behalf of the Board



Rienzie T. Wijetilleke
Chairman



Manjula de Silva
Managing Director



Indrani Goonesekera
Board Secretary

Colombo, Sri Lanka
28th January 2010

Directors' Interests 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. 31 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
Sithma Development (Pvt) Ltd	Rienzie T. Wijetilleke - Chairman R Theagarajah - Director J D N Kekulawala - Director
Acuity Partners (Pvt) Ltd	R Theagarajah - Director J M J Perera - Director
Acuity Securities Ltd	R Theagarajah - Director J M J Perera - Director
Acuity Stockbrokers (Pvt) Ltd	R Theagarajah - 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
Lanka Ventures Ltd	J M J Perera - Director J D N Kekulawala - Director
Majan Exchange LLC	R Theagarajah - Director
Delma Exchange UAE	R Theagarajah - Director
Sri Lanka Banks' Association (Guarantee) Ltd	R Theagarajah - Chairman
Lanka Financial Services Bureau	R Theagarajah - Chairman
Commercial Interlink Services Inc. Canada	R Theagarajah - Director
The Insurance Association of Sri Lanka	Manjula de Silva - President

- b) The entities where Directors of the Company neither have control nor exercise significant influence, but only hold directorship are disclosed below:

- b) i. Entities where Company had transaction during the year.

Company	Name of Director/Relationship	Nature of Transaction	Transaction Amount	
			2009 Rs. '000	2008 Rs. '000
Nawaloka Hospitals PLC	Rienzie T. Wijetilleke - Director	Insurance Premium General	23	64

b) ii. Entities where Company did not have any significant transaction during the year.

Company/Association	Name of Director / Relationship
Sunshine Holdings PLC	Rienzie T. Wijetilleke - Chairman
Ceylon Biscuits (Pvt) Ltd	Rienzie T. Wijetilleke - Director
Mahaweli Reach Hotels PLC	Rienzie T. Wijetilleke - Director
Alliance Management Services (Pvt) Ltd	Pratapkumar de Silva - Chairman & Managing Director
Alliance Travel Services Ltd	Pratapkumar de Silva - Chairman & Managing Director
Alliance Business Solutions (Pvt) Ltd	Pratapkumar de Silva - Director
Alliance Ventures (Pvt) Ltd	Pratapkumar de Silva - Chairman & Jt. Managing Director
Arpico Finance Co. PLC	Pratapkumar de Silva - Chairman
Ceylon Textile Manufacturers Ltd	Pratapkumar de Silva - Chairman
Mc Bolon Polymer (Pvt) Ltd	Pratapkumar de Silva - Director
Macbertan (Pvt) Ltd	Pratapkumar de Silva - Director
Orient Hotels Ltd	Pratapkumar de Silva - Director
Xesol (Pvt) Ltd	Pratapkumar de Silva - Chairman
Finance Houses Consortium (Pvt) Ltd	Pratapkumar de Silva - Director
The Finance House Association of Sri Lanka	Pratapkumar de Silva - Council Member
Credit Information Bureau of Sri Lanka	Pratapkumar de Silva - Director
Virtusa (Pvt) Ltd	Pratapkumar de Silva - Director

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Company prepared in accordance with the provisions of the Companies Act, No. 7 of 2007 is set out in the following statement. The responsibilities of the External Auditors in relation to the financial statements are set out in the Report of the Auditors given on page 114 of the Annual Report.

The provisions of the Companies Act, No. 7 of 2007 requires the Directors to prepare Financial Statements for each financial year and place before a general meeting. Accordingly, such Financial Statements comprise the balance sheet as at 31st December 2009, the Income Statement, Statement of Changes in Equity and cash flow statement for the year then ended and notes thereto.

The Financial Statements of the Company give a true and fair view of:

- the state of affairs of the Company as at the Balance Sheet date; and
- the profit and loss of the Company for the financial year then ended.

In preparing these Financial Statements, the Directors are responsible for;

- selecting appropriate accounting policies and applying them consistently ensuring that material departures, if any, have been disclosed and explained;
- making judgments and estimates that are reasonable and prudent
- ensuring that all applicable accounting standards have been followed.

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. Further, the Directors 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 accordance with Sri Lanka Accounting Standards are consistent with the underlying books of accounts and are in conformity with the requirements of the Companies Act, No. 7 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange. In addition, the Financial Statements are in conformity with the formats and disclosures prescribed in the Statement of Recommended Practice (SoRP) for Insurance contracts 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.

The Directors are responsible for providing the Auditors with every opportunity to carry out the necessary audit work in enabling them to form their independent Audit Report.

As required by the Section 56(2) of the Companies Act, No. 7 of 2007, the Board of Directors have confirmed that the Company, based on the information available, would satisfy the solvency test immediately after the distribution, in accordance with the Section 57 of the Companies Act, No. 7 of 2007, and has obtained a certificate from the Auditors, prior to proposing a final dividend of Rs. 1.50 per share for this year, to be paid on 9th April 2010.

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 sufficiently 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



Indrani Goonesekera
Board Secretary

Colombo, Sri Lanka
28th January 2010

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. 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, except 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 Independent 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 Independent Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

We confirm that the Company has complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the Company other than those arising in the normal course of conducting insurance business.



Manjula de Silva
*Managing Director /
Chief Executive Officer*



Vipula Dharmapala
*Head of Finance /
Chief Financial Officer*

Colombo, Sri Lanka
28th January 2010

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.
APPROVED VALUER
REGD. NO. : CAT/X-3 OF 1988

AKSHAY PANDIT

B.Sc., A.I.A.I.

M. G. DIWAN

M.Sc., F.I.A. (London), F.I.A.I., F.I.I.I.

N. K. PARIKH

M.Com., LL.B., A.I.A. (London), F.I.A.I.

P. I. MAJMUDAR

B.Com., F.I.A. (London), F.I.A.I., F.C.I.I., F.I.I.I.



Tel. : Fort (91-22) 2204 2231
Andheri (91-22) 6695 2119
A'bad : (91-79) 2646 0734
Website : www.ka-pandit.com

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, 2009.

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 31-12-2009 to be provided by the HNB Assurance PLC in respect of its non-life business are estimated as Rs.12,910,434 equal to 1.91% of the Net Earned Premium of Rs.675,938,955 as on 31-12-2009. They seem adequate and may be provided accordingly.

(N. K. PARIKH)
(PARTNER)
Mumbai, India,
5th January, 2010.

Churchgate : 2nd Flr., Churchgate House, V.N. Road, Fort, Mumbai - 400 001. • Tel.: 6631 8420, Fax : 2288 3155 • Email : kapandit@vsnl.com
Offices : Andheri : 201/C, Remi Bizcourt, Off. Veera Desai Road, Andheri (W), Mumbai -58. • Tel.: 2673 2006, Fax : 2673 3638 • Email : kapremi@kapandit.in
Ahmedabad : 509, Golden Triangle, Near Sardar Patel Stadium, Navrangpura, A'bad - 380 014. • Telefax : 26460734 • Email : kapabd@vsnl.net

Report of the Life Actuary



Actuarial & Management
Consultants (Pvt) Limited

1st Floor, 434, R. A. De Mel Mawatha, Colombo 03, Sri Lanka. Telephone: (94) 11 2575280/(94) 11 4628557 Fax: (94) 11 4628557

28 January 2010

To the Shareholders of HNB Assurance PLC.

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER, 2009

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2009. 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, 2009, 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, 2009 by Rs. 395.065 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 81.390 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2009. This solvency margin is maintained in the Long Term Insurance Fund.


M POOPALANATHAN
ACTUARY

Independent Auditor's Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 242 6426
+94 - 11 542 6426
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+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
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 ("Company"), which comprise the balance sheet as at 31st December 2009, 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 115 to 152 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 principles 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 2009 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December 2009 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,
28th January 2010*

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
Ms. M. P. Perera FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA

S. Sirikananathan FCA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA

M.R. Mihular FCA
C.P. Jayatilake FCA
Ms. S. Joseph ACA
S.T.D.L. Perera FCA

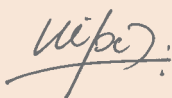
Balance Sheet

As at 31st December,

	Note	2009 Rs.'000	2008 Rs.'000
Assets			
Investments	4	2,717,415	2,037,643
Intangible Assets	5	54,744	23,058
Property, Plant and Equipment	6	117,070	91,717
Loans to Life Policyholders	7	9,309	4,666
Reinsurance Receivables	8	73,824	69,314
Premium Receivables	9	157,029	120,922
Other Assets	10	448,210	334,882
Cash and Cash Equivalents	11	94,100	117,271
Total Assets		3,671,701	2,799,473
Liabilities and Shareholders' Equity			
Liabilities			
Insurance Provision - Life	12	1,853,513	1,360,505
Insurance Provision - General	13	599,364	470,206
Other Liabilities	14	282,542	198,289
Reinsurance Creditors	15	87,251	83,039
Retirement Benefit Obligation	16	18,180	11,318
Total Liabilities		2,840,850	2,123,357
Shareholders' Equity			
Stated Capital	17	375,000	375,000
Revenue Reserves	18	455,851	301,116
Total Shareholders' Equity		830,851	676,116
Total Liabilities and Shareholders' Equity		3,671,701	2,799,473

The notes as set out on pages 125 to 152 form an integral part of these Financial Statements.

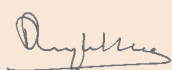
These Financial Statements are in compliance with the requirements of the Companies Act, No. 7 of 2007.



Vipula Dharmapala
Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

For and on behalf of the Board;



Rienzie T. Wijetilleke
Chairman



Manjula de Silva
Managing Director

Colombo, Sri Lanka
28th January 2010

Income Statement

For the Year ended 31st December,

	Note	2009 Rs.'000	2008 Rs.'000	Change %
Revenue	19	2,038,096	1,719,688	19
Gross Written Premium	20	2,115,647	1,838,879	15
Premium Ceded to Reinsurers		(453,517)	(388,913)	17
Net Written Premium		1,662,130	1,449,966	15
Net Change in Reserves for Unearned Premium		(94,383)	(74,285)	27
Net Earned Premium		1,567,747	1,375,681	14
Benefits, Losses and Expenses				
Insurance Claims and Benefits (Net)	21	(511,911)	(408,482)	25
Increase in Life Insurance Fund		(493,008)	(479,831)	3
Underwriting and Net Acquisition Costs	22	(154,870)	(168,166)	(8)
Other Insurance Related Costs		(9,865)	(7,952)	24
Total Benefits, Losses and Expenses		(1,169,654)	(1,064,431)	10
Net Earned Premium Less Benefits, Losses and Expenses		398,093	311,250	28
Other Revenue				
Income from Investments	23	467,823	342,265	37
Other Income	24	2,526	1,742	45
Expenses				
Other Operating, Investment Related and Administration Expenses	25	(637,317)	(485,229)	31
Profit from Operations	26	231,125	170,028	36
Finance Expenses	27	(44)	(154)	(71)
Profit Before Taxation		231,081	169,874	36
Income Tax Expense	28	(29,471)	(5,401)	446
Profit for the Year		201,610	164,473	23
Basic Earnings Per Share (Rs.)	29	5.38	4.39	23
Dividends Per Share (Rs.)	30	1.50	1.25	20

The notes as set out on pages 125 to 152 form an integral part of these Financial Statements.

Statement of Changes in Equity

For the Year ended 31st December 2009

	Number of Shares '000	Stated Capital Rs.'000	Revenue Reserves Rs.'000	Total Shareholders' Equity Rs.'000
Balance as at 31st December 2007	37,500	375,000	174,143	549,143
Profit for the Year	-	-	164,473	164,473
Dividend Paid for 2007	-	-	(37,500)	(37,500)
Balance as at 31st December 2008	37,500	375,000	301,116	676,116
Profit for the Year	-	-	201,610	201,610
Dividend Paid for 2008	-	-	(46,875)	(46,875)
Balance as at 31st December 2009	37,500	375,000	455,851	830,851

The notes as set out on pages 125 to 152 form an integral part of these Financial Statements.

Cash Flow Statement

For the Year ended 31st December,

	Note	2009 Rs.'000	2008 Rs.'000
Cash Flows from Operating Activities			
Premium Received from Customers		2,079,023	1,813,927
Reinsurance Premium Paid		(362,623)	(321,044)
Claims Paid		(498,057)	(418,521)
Reinsurance Receipts in Respect of Claims		53,680	56,662
Cash Paid to and on behalf of Employees		(220,603)	(164,577)
Interest Received		429,806	282,591
Dividend Received		3,873	1,629
Other Operating Cash Payments		(707,233)	(591,336)
Cash Inflow Generated from Operating Activities	(A)	777,866	659,331
Gratuity Paid		(648)	(1,447)
Economic Service Charges (ESC) Paid		(14,247)	(7,052)
Net Cash Generated from Operating Activities		762,971	650,832
Cash Flows from Investing Activities			
Purchase of Liquid Investments (Other than Cash Equivalents)		(21,037,765)	(18,617,469)
Purchase of Other Investments (Other than Cash Equivalents)		(380,888)	(71,840)
Sale of Liquid Investments (Other than Cash Equivalents)		20,546,911	18,129,743
Sale of Other Investments (Other than Cash Equivalents)		200,217	20,800
Purchase of Intangible Assets		(19,781)	(9,375)
Purchase of Property, Plant and Equipment		(49,026)	(39,528)
Proceeds on Sale of Property, Plant and Equipment		2,096	101
Net Cash used in Investing Activities		(738,236)	(587,568)
Net Cash Inflow before Financing Activities		24,735	63,264
Cash Flows from Financing Activities			
Lease Installments Paid		(1,031)	(589)
Dividend Paid		(46,875)	(37,500)
Cash used in Financing Activities		(47,906)	(38,089)
Net Increase / (Decrease) in Cash and Cash Equivalents	(B)	(23,171)	25,175

Notes to the Cash Flow Statement

A. Reconciliation of Profit Before Taxation with Cash Flow from Operating Activities

Profit Before Taxation		231,081	169,874
Amortisation Charge		8,279	6,856
Depreciation Charge		26,933	20,123
Provision for Retiring Gratuity		7,510	5,288
Provision for Diminution in Value of Investments		(8,245)	5,695
(Profit)/ Loss on Sale of Property, Plant and Equipment		(1,215)	(16)
Lease Interest Paid		44	154
Increase in Trade and Other Receivables		(162,815)	(208,523)
Increase in Life Insurance Fund		493,008	479,831
Increase in Unearned Premium		96,421	71,770
Increase in Claims Provisions		38,364	63,311
Increase in Creditors		48,501	44,968
Cash Inflow Generated from Operating Activities		777,866	659,331

B. Increase / (Decrease) in Cash and Cash Equivalents

Net Cash and Cash Equivalents at the end of the Year	11	94,100	117,271
Net Cash and Cash Equivalents at the beginning of the Year	11	117,271	92,096
Net Increase / (Decrease) in Cash and Cash Equivalents		(23,171)	25,175

The notes as set out on pages 125 to 152 form an integral part of these Financial Statements.

Balance Sheet - Segmental Review-2009

As at 31st December 2009

	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Assets			
Investments	1,031,342	1,686,073	2,717,415
Intangible Assets	40,091	14,653	54,744
Property, Plant and Equipment	110,896	6,174	117,070
Loans to Life Policyholders	-	9,309	9,309
Reinsurance Receivables	57,541	16,283	73,824
Premium Receivables	157,029	-	157,029
Other Assets	227,686	220,524	448,210
Cash and Cash Equivalents	48,848	45,252	94,100
Total Assets	1,673,433	1,998,268	3,671,701
Liabilities and Shareholders' Equity			
Liabilities			
Insurance Provision - Life	-	1,853,513	1,853,513
Insurance Provision - General	599,364	-	599,364
Other Liabilities	165,321	117,221	282,542
Reinsurance Creditors	62,314	24,937	87,251
Retirement Benefit Obligation	15,583	2,597	18,180
Total Liabilities	842,582	1,998,268	2,840,850
Shareholders' Equity			
Stated Capital	375,000	-	375,000
Revenue Reserves	455,851	-	455,851
Total Shareholders' Equity	830,851	-	830,851
Total Liabilities and Shareholders' Equity	1,673,433	1,998,268	3,671,701

The notes as set out on pages 125 to 152 form an integral part of these Financial Statements.

Balance Sheet - Segmental Review-2008

As at 31st December 2008

	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Assets			
Investments	774,477	1,263,166	2,037,643
Intangible Assets	17,316	5,742	23,058
Property, Plant and Equipment	83,566	8,151	91,717
Loans to Life Policyholders	-	4,666	4,666
Reinsurance Receivables	59,289	10,025	69,314
Premium Receivables	120,922	-	120,922
Other Assets	184,361	150,521	334,882
Cash and Cash Equivalents	77,332	39,939	117,271
Total Assets	1,317,263	1,482,210	2,799,473
Liabilities and Shareholders' Equity			
Liabilities			
Insurance Provision - Life	-	1,360,505	1,360,505
Insurance Provision - General	470,206	-	470,206
Other Liabilities	110,800	87,489	198,289
Reinsurance Creditors	50,504	32,535	83,039
Retirement Benefit Obligation	9,637	1,681	11,318
Total Liabilities	641,147	1,482,210	2,123,357
Shareholders' Equity			
Stated Capital	375,000	-	375,000
Revenue Reserves	301,116	-	301,116
Total Shareholders' Equity	676,116	-	676,116
Total Liabilities and Shareholders' Equity	1,317,263	1,482,210	2,799,473

The notes as set out on pages 125 to 152 form an integral part of these Financial Statements.

Income Statement - Segmental Review-2009

For the Year ended 31st December 2009

	Note	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Gross Written Premium	20	1,130,781	984,866	2,115,647
Premium Ceded to Reinsurers		(360,459)	(93,058)	(453,517)
Net Written Premium		770,322	891,808	1,662,130
Net Change in Reserves for Unearned Premium		(94,383)	-	(94,383)
Net Earned Premium		675,939	891,808	1,567,747
Benefits, Losses and Expenses				
Insurance Claims and Benefits (Net)		(448,210)	(63,701)	(511,911)
Increase in Life Insurance Fund		-	(493,008)	(493,008)
Underwriting and Net Acquisition Costs		(1,564)	(153,306)	(154,870)
Other Insurance Related Costs		(2,561)	(7,304)	(9,865)
Total Benefits, Losses and Expenses		(452,335)	(717,319)	(1,169,654)
Net Earned Premium Less Benefits, Losses and Expenses		223,604	174,489	398,093
Other Revenue				
Income from Investments		156,091	311,732	467,823
Other Income		1,217	1,309	2,526
Expenses				
Other Operating, Investment Related and Administration Expenses		(279,787)	(357,530)	(637,317)
Profit from Operations		101,125	130,000	231,125
Finance Expenses		(44)	-	(44)
Profit Before Taxation		101,081	130,000	231,081
Income Tax Expense		(29,471)	-	(29,471)
Profit for the Year		71,610	130,000	201,610

The notes as set out on pages 125 to 152 form an integral part of these Financial Statements.

Income Statement - Segmental Review-2008

For the Year ended 31st December 2008

	Note	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Gross Written Premium	20	924,709	914,170	1,838,879
Premium Ceded to Reinsurers		(308,961)	(79,952)	(388,913)
Net Written Premium		615,748	834,218	1,449,966
Net Change in Reserves for Unearned Premium		(74,285)	-	(74,285)
Net Earned Premium		541,463	834,218	1,375,681
Benefits, Losses and Expenses				
Insurance Claims and Benefits (Net)		(363,813)	(44,669)	(408,482)
Increase in Life Insurance Fund		-	(479,831)	(479,831)
Underwriting and Net Acquisition Costs		(6,272)	(161,894)	(168,166)
Other Insurance Related Costs		(208)	(7,744)	(7,952)
Total Benefits, Losses and Expenses		(370,293)	(694,138)	(1,064,431)
Net Earned Premium Less Benefits, Losses and Expenses		171,170	140,080	311,250
Other Revenue				
Income from Investments		126,797	215,468	342,265
Other Income		(13)	1,755	1,742
Expenses				
Other Operating, Investment Related and Administration Expenses		(227,926)	(257,303)	(485,229)
Profit from Operations		70,028	100,000	170,028
Finance Expenses		(154)	-	(154)
Profit Before Taxation		69,874	100,000	169,874
Income Tax Expense		(5,401)	-	(5,401)
Profit for the Year		64,473	100,000	164,473

The notes as set out on pages 125 to 152 form an integral part of these Financial Statements.

Cash Flow Statement - Segmental Review-2009

For the Year ended 31st December 2009

	Note	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Cash Flows from Operating Activities				
Premium Received from Customers		1,095,726	983,297	2,079,023
Reinsurance Premium Paid		(265,305)	(97,318)	(362,623)
Claims Paid		(451,947)	(46,110)	(498,057)
Reinsurance Receipts in Respect of Claims		38,264	15,416	53,680
Cash Paid to and on behalf of Employees		(186,455)	(34,148)	(220,603)
Interest Received		158,430	271,376	429,806
Dividend Received		3,708	165	3,873
Other Operating Cash Payments		(49,788)	(657,445)	(707,233)
Cash Inflow Generated from Operating Activities	(A)	342,633	435,233	777,866
Gratuity Paid		(568)	(80)	(648)
Economic Service Charges (ESC) Paid		(14,247)	-	(14,247)
Net Cash Generated from Operating Activities		327,818	435,153	762,971
Cash Flows from Investing Activities				
Purchase of Liquid Investments (Other than Cash Equivalents)		(9,692,626)	(11,345,139)	(21,037,765)
Purchase of Other Investments (Other than Cash Equivalents)		(325,658)	(55,230)	(380,888)
Sale of Liquid Investments (Other than Cash Equivalents)		9,612,314	10,934,597	20,546,911
Sale of Other Investments (Other than Cash Equivalents)		153,748	46,469	200,217
Purchase of Intangible Assets		(9,685)	(10,096)	(19,781)
Purchase of Property, Plant and Equipment		(48,584)	(442)	(49,026)
Proceeds on Sale of Property, Plant and Equipment		2,095	1	2,096
Net Cash used in Investing Activities		(308,396)	(429,840)	(738,236)
Net Cash Inflow before Financing Activities		19,422	5,313	24,735
Cash Flows from Financing Activities				
Lease Installments Paid		(1,031)	-	(1,031)
Dividend Paid		(46,875)	-	(46,875)
Cash used in Financing Activities		(47,906)	-	(47,906)
Net Increase / (Decrease) in Cash and Cash Equivalents	(B)	(28,484)	5,313	(23,171)
Notes to the Cash Flow Statement				
A. Reconciliation of Profit Before Taxation with Cash Flow from Operating Activities				
Profit Before Taxation		101,081	130,000	231,081
Transfer of Profit		130,000	(130,000)	-
Amortisation Charge		7,094	1,185	8,279
Depreciation Charge		24,518	2,415	26,933
Provision for Retiring Gratuity		6,514	996	7,510
Provision for Diminution in Value of Investments		(4,643)	(3,602)	(8,245)
(Profit)/ Loss on Sale of Property, Plant and Equipment		(1,217)	2	(1,215)
Lease Interest Paid		44	-	44
Increase in Trade and Other Receivables		(81,911)	(80,904)	(162,815)
Increase in Life Insurance Fund		-	493,008	493,008
Increase in Unearned Premium		96,421	-	96,421
Increase in Claims Provisions		32,737	5,627	38,364
Increase in Creditors		31,995	16,506	48,501
Cash Inflow Generated from Operating Activities		342,633	435,233	777,866
B. Increase / (Decrease) in Cash and Cash Equivalents				
Net Cash and Cash Equivalents at the end of the Year		48,848	45,252	94,100
Net Cash and Cash Equivalents at the beginning of the Year		77,332	39,939	117,271
Net Increase / (Decrease) in Cash and Cash Equivalents		(28,484)	5,313	(23,171)

The notes as set out on pages 125 to 152 form an integral part of these Financial Statements.

Cash Flow Statement - Segmental Review-2008

For the Year ended 31st December 2008

	Note	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Cash Flows from Operating Activities				
Premium Received from Customers		894,970	918,957	1,813,927
Reinsurance Premium Paid		(236,219)	(84,825)	(321,044)
Claims Paid		(388,959)	(29,562)	(418,521)
Reinsurance Receipts in Respect of Claims		47,979	8,683	56,662
Cash Paid to and on behalf of Employees		(142,122)	(22,455)	(164,577)
Interest Received		104,202	178,389	282,591
Dividend Received		1,402	227	1,629
Other Operating Cash Payments		(40,098)	(551,238)	(591,336)
Cash Inflow Generated from Operating Activities	(A)	241,155	418,176	659,331
Gratuity Paid		(1,447)	-	(1,447)
Economic Service Charges (ESC) Paid		(7,052)	-	(7,052)
Net Cash Generated from Operating Activities		232,656	418,176	650,832
Cash Flows from Investing Activities				
Purchase of Liquid Investments (Other than Cash Equivalents)		(7,847,870)	(10,769,599)	(18,617,469)
Purchase of Other Investments (Other than Cash Equivalents)		(59,840)	(12,000)	(71,840)
Sale of Liquid Investments (Other than Cash Equivalents)		7,752,346	10,377,397	18,129,743
Sale of Other Investments (Other than Cash Equivalents)		18,700	2,100	20,800
Purchase of Intangible Assets		(5,797)	(3,578)	(9,375)
Purchase of Property, Plant and Equipment		(33,771)	(5,757)	(39,528)
Proceeds on Sale of Property, Plant and Equipment		66	35	101
Net Cash used in Investing Activities		(176,166)	(411,402)	(587,568)
Net Cash Inflow before Financing Activities		56,490	6,774	63,264
Cash Flows from Financing Activities				
Lease Installments Paid		(589)	-	(589)
Dividend Paid		(37,500)	-	(37,500)
Cash used in Financing Activities		(38,089)	-	(38,089)
Net Increase in Cash and Cash Equivalents	(B)	18,401	6,774	25,175
Notes to the Cash Flow Statement				
A. Reconciliation of Profit Before Taxation with Cash Flow from Operating Activities				
Profit Before Taxation		69,874	100,000	169,874
Transfer of Profit		100,000	(100,000)	-
Amortisation Charge		6,084	772	6,856
Depreciation Charge		18,191	1,932	20,123
Provision for Retiring Gratuity		4,529	759	5,288
Provision for Diminution in Value of Investments		2,093	3,602	5,695
(Profit)/ Loss on Sale of Property, Plant and Equipment		13	(29)	(16)
Lease Interest Paid		154	-	154
Increase in Trade and Other Receivables		(129,915)	(78,608)	(208,523)
Increase in Life Insurance Fund		-	479,831	479,831
Increase in Unearned Premium		71,770	-	71,770
Increase in Claims Provisions		57,874	5,437	63,311
Increase in Creditors		40,488	4,480	44,968
Cash Inflow Generated from Operating Activities		241,155	418,176	659,331
B. Increase in Cash and Cash Equivalents				
Net Cash and Cash Equivalents at the end of the Year		77,332	39,939	117,271
Net Cash and Cash Equivalents at the beginning of the Year		58,931	33,165	92,096
Net Increase in Cash and Cash Equivalents		18,401	6,774	25,175

The notes as set out on pages 125 to 152 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 shares of the Company have a primary listing 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 Date of Authorisation for Issue

The Financial Statements of the Company for the year ended 31st December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 28th January 2010.

1.4 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements.

1.5 Number of Employees

The staff strength of the Company as at 31st December 2009 is 540 (2008 - 457).

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.

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.

Supplementary Statements - Balance Sheet of the Life Insurance Fund

Supplementary Balance Sheet of the Life insurance Fund together with the notes is disclosed in page numbers 147 to 152 as required by the Statement of Recommended Practice (SoRP) for Insurance Contracts, adopted by the Institute of Chartered Accountants of Sri Lanka.

2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for investments in quoted securities which are stated at the lower of cost and market value on a portfolio basis, and applied consistently.

2.3 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.

2.4 Use of Estimates and Judgements

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The 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;

2.4.1 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.

Notes to the Financial Statements

2.4.2 Insurance Provision - Life

The valuation of the Long Term insurance business as at 31st December 2009 was made by the Consultant Actuary based on the assumptions set out in Note No. 12.

2.4.3 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.

2.4.4 Reserve for Gross Outstanding Claims

Significant delays occur in the notification of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of 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.

2.4.5 Retirement Benefit Obligations

The Liability as at the Balance Sheet date was actuarially valued based on the assumptions set out in Note No. 16.

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

Segmental information reflects General Insurance and Life Insurance. Inter-segment transfers are based on fair market prices.

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 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 are stated at cost and interest is accrued up to the year end.

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 other than temporary.

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 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 expensed as incurred.

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 Derecognition

An Intangible Asset is derecognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the derecognition 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 is 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 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 are charged to the Income Statement as incurred.

3.5.4 Leasehold Assets

Leases in terms of which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at their cash price less accumulated depreciation and the resulting lease obligation is included in interest bearing borrowings net of finance charges. Lease payments are treated as consisting of capital and interest elements and the interest is recognised in the Income Statement.

Assets held under finance leases are depreciated over the estimated useful lives unless ownership is not transferred at the end of the lease period. In such cases the assets are depreciated over the shorter of lease term or their useful lives.

Rentals on operating leases are recognised in the Income Statement in the year to which they relate.

Notes to the Financial Statements

3.5.5 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.

	% Per Annum
Office equipment	20
Computer hardware	16.7
Furniture and fittings	10
Motor vehicles	25

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

3.5.6 Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in the Income Statement when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is derecognised.

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 from reinsurance 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 recognise 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 and other debts are 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.

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 Inventories

Inventories include all consumable items which are stated at lower of cost and net realisable value.

3.10 Cash and Cash Equivalents

Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Bank overdrafts, if any, which form an integral part of cash management, are included as a component of cash and cash equivalents for the purposes of the Statement of Cash Flows. In the Balance Sheet, bank overdrafts are included under liabilities.

3.11 Impairment of Assets

The Company assesses at each reporting date whether there is an indication that an 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.

For 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.

3.12 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.

3.13 Trade and Other Payables

Trade and other payables are stated at their cost.

3.14 Proposed Dividends

Dividend proposed by the Board of Directors after the Balance Sheet date is not recognised as a liability and is only disclosed as a note to the Financial Statements (Note 30). 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.

3.15 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.

3.16 Employee Benefits

3.16.1 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 measured the present value of promised retirement benefits of Gratuity using the actuarial valuation method as recommended by SLAS 16 - Employee Benefits (revised 2006), with the advice of a Consultant Actuary (Mr. Hugh Terry - Fellow of the Institute of Actuaries, U.K.) in every year using the Projected Unit Credit method (PUC).

The Gratuity liability is not externally funded.

3.16.2 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 basic 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 basic salary of each employee to ETF.

3.17 Income Tax Expense

Income tax expense comprises of 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.

3.17.1 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.

Notes to the Financial Statements

3.17.2 Deferred Tax

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or 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.

3.17.3 Withholding Tax on Dividends

Withholding tax that arises from the distribution of dividends by the Company is recognised at the same time as the liability to pay the related dividend is recognised.

3.17.4 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.

3.17.5 Social Responsibility Levy (SRL)

As per the provisions of the Finance Act, No. 5 of 2005, as amended by the Finance Act, No. 8 of 2008, a Social Responsibility Levy (SRL) was introduced with effect from 1st January 2005. SRL is payable at the rate of 1.5% on all taxes and levies chargeable as specified in the First Schedule of the Act.

3.18 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.

3.19 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.

3.20 Earnings Per Share

The Company presents basic 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.

3.21 Cash Flow Statement

The Cash Flow Statement has been prepared using the Direct Method of preparing of 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

3.22 General Insurance Business

3.22.1 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.

3.22.2 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.

3.22.3 Unearned Premium

The unearned premium reserve represents the portion of the premiums net of outward reinsurance premiums written in the current year 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.

3.22.4 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.

3.22.5 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. Company currently transfers the total Title insurance Gross Written Premium to the Title Insurance reserve as set out in Note No. 13.3 to these Financial Statements.

3.22.6 Net Deferred Acquisition Expenses

Acquisition expenses, representing commissions, which vary with and 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.

3.22.7 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 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.

3.23 Life Insurance Business

3.23.1 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. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

3.23.2 Reinsurance Premium

Outward reinsurance premiums are recognised when payable. Reinsurance recoveries are credited to match the relevant gross claims.

3.23.3 Benefits, Losses and Expenses

Expenses on the Life Insurance revenue account relate to the acquisition and maintenance of Life Insurance business and include investment expenses not treated as a part of the capital cost of investment. 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.

3.23.4 Actuarial Valuation for 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

3.24 Income from Investments and Other Income

Investment income and Other Income is accounted for on the following basis:

Interest income	- on accrual basis
Dividends	- when the right to receive is established
Capital gains / losses	- as and when realised / incurred
Other Income	- on accrual basis

3.25 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.

Notes to the Financial Statements

3.26 Expenses

3.26.1 Interest and Other Expenses

Interest and other expenses are recognised on an accrual basis.

3.26.2 Operating Leases

Payments made under operating leases are recognised in the Income Statement on a straight line basis over the term of the lease.

3.26.3 Commission and Fee Expenses

Commission and fee expenses are recognised on an accrual basis.

FUTURE CHANGES IN ACCOUNTING POLICIES

3.27 New Accounting Standards issued but not effective as at Balance Sheet date

The Institute of Chartered Accountants of Sri Lanka has issued the two new standards given below, which become effective for annual periods beginning on or after 1st January 2011. Accordingly these standards have not been applied in preparing these Financial Statements as they are not effective for the year ended 31st December 2009.

- Sri Lanka Accounting Standard 44 - Financial Instruments: Presentation (SLAS 44)
- Sri Lanka Accounting Standard 45 - Financial Instruments: Recognition and Measurement (SLAS 45)

These Standards require application of fair value measurement techniques for financial instruments.

Sri Lanka Accounting Standard 44 - Financial Instruments: Presentation provides for the following,

- Guidance regarding the classification of Financial Instruments as equity or Debt, and for the accounting for compound instruments with characteristics of both equity and debt instruments based on the substance of the contractual arrangements.
- Criteria are specified for the netting of financial assets and financial liabilities. Netting requires a legal right of set off as well as the intention to offset the assets and liabilities or settle simultaneously.

Sri Lanka Accounting Standard 45 - Financial Instruments: Recognition and Measurement provides the principles for recognising and measuring financial assets and financial liabilities.

The requirements are summarised below.

Recognition

All financial assets and financial liabilities should be recognised in the Balance Sheet. Previously certain instruments, in particular derivatives, were held by enterprises without being reflected in the Balance Sheet.

Measurement

Financial Assets

- For the purpose of measuring a financial asset SLAS 45 requires the financial asset to be classified in to the following four categories; fair value through profits and loss (trading), Originated loans and receivables (at amortised cost using effective interest method), Available - for - sale (at fair value) and held to maturity (at amortised cost). The categorisation determines whether and where the re-measurement is recognised in the Company's Financial Statements.

Derivative Financial Instruments and Hedging

- Derivatives are always categorised as trading and therefore measured at fair value with changes recorded in the Income Statement, unless the enterprise can establish that an effective hedging relationship exists.
- There are three types of hedging relationships under SLAS 45. These are the fair value hedge, the cash flow hedge and the hedge of a net investment in a foreign operation.

Financial Liabilities

- All financial liabilities are measured at amortised cost except certain financial liabilities which are at fair value.

SLAS 45 excludes the rights and the obligations arising under Insurance Contracts

The Company is currently in the process of evaluating the potential effect of these Standards on its Financial Statements. However, the impact of the above requirements has not been quantified as at Balance Sheet date.

4. INVESTMENTS

	2009 Rs.'000	2008 Rs.'000
Government Securities	1,885,572	1,179,102
Repurchase Agreements on Government Securities	142,591	529,866
Quoted Shares (Note 4.1)	40,821	4,179
Corporate Debt (Note 4.2)	259,837	138,885
Unit Trusts (Note 4.3)	50,000	25,000
Term Deposits*	338,594	160,611
	2,717,415	2,037,643

* Refer Note 35 for reclassification

4.1 Quoted Shares

	No. of Shares	2009 Cost Rs.'000	Market Value Rs.'000	No. of Shares	2008 Cost Rs.'000	Market Value Rs.'000
<i>Diversified Holdings</i>						
Hemas Holdings PLC	4,200	447	516	4,200	447	232
John Keells Holdings PLC	40,393	5,310	6,927	39,593	5,221	1,979
Sector Total		5,757	7,443		5,668	2,211
<i>Telecommunications</i>						
Dialog Telekom PLC	217,500	5,243	1,577	247,500	5,866	1,485
Sector Total		5,243	1,577		5,866	1,485
<i>Banks, Finance and Insurance</i>						
National Development Bank PLC	36,100	4,489	7,437	-	-	-
Commercial Bank of Ceylon PLC	19,500	2,535	3,695	-	-	-
DFCC Bank	24,700	3,649	4,125	-	-	-
Sector Total		10,673	15,257		-	-
<i>Manufacturing</i>						
Royal Ceramics Lanka PLC	46,000	2,000	3,059	-	-	-
Dipped Products PLC	19,500	1,829	1,677	-	-	-
ACL Cables PLC	36,700	2,055	2,817	-	-	-
Sector Total		5,884	7,553		-	-
<i>Hotels and Travels</i>						
Asian Hotels & Properties PLC	35,500	1,426	3,355	19,500	890	483
Stafford Hotels PLC	123,500	3,181	3,396	-	-	-
Aitken Spence Hotel Holdings PLC	4,500	1,073	1,212	-	-	-
Sector Total		5,680	7,963		890	483
<i>Chemical and Pharmaceuticals</i>						
Chemical Industries (Colombo) PLC	63,600	3,882	4,007	-	-	-
Sector Total		3,882	4,007		-	-
<i>Construction and Engineering</i>						
Colombo Dockyard PLC	6,000	974	1,469	-	-	-
Sector Total		974	1,469		-	-
<i>Power and Engineering</i>						
Hemas Power PLC	65,000	1,300	1,268	-	-	-
Sector Total		1,300	1,268		-	-
<i>Beverage, Food and Tobacco</i>						
Cargills (Ceylon) PLC	12,000	712	783	-	-	-
Renuka Agri Foods Limited	318,300	716	716	-	-	-
Sector Total		1,428	1,499		-	-
Portfolio Total		40,821	48,036		12,424	4,179
Less. Provision for Diminution in Market Value Brought Forward		(8,245)			(2,550)	
(Provision)/Reversal Made During the Year		8,245			(5,695)	
Provision for Diminution in Market Value Carried Forward		-			(8,245)	
Carrying Value of total Investment in Quoted Shares		40,821			4,179	

Notes to the Financial Statements

4. INVESTMENTS (Contd.)

4.2 Corporate Debt

	2009				2008			
	No. of Debentures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate	No. of Debentures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate
Debentures								
Quoted								
Hatton National Bank PLC	125,000	12,500	12,500	6 Month Net TB +2.25% p.a.	125,000	12,500	12,500	6 Month Net TB +2.25% p.a.
Hatton National Bank PLC	75,000	7,500	7,500	11% p.a.	75,000	7,500	7,500	11% p.a.
DFCC Bank	5,000	5,000	5,000	14% p.a.	5,000	5,000	5,000	14% p.a.
DFCC Bank	5,000	5,000	5,000	6 Months Gross TB + 1% p.a.	5,000	5,000	5,000	6 Months Gross TB + 1% p.a.
Seylan Bank PLC	100,000	10,000	10,000	16.75% p.a.	100,000	10,000	10,000	16.75% p.a.
Sampath Bank PLC	250,000	25,000	25,000	3 Month Gross TB +1.5% p.a.	250,000	25,000	25,000	3 Month Gross TB +1.5% p.a.
Singer Sri Lanka PLC	240,000	24,000	24,000	1 Year Gross TB +1.65% p.a.	240,000	24,000	24,000	1 Year Gross TB +1.65% p.a.
Bank of Ceylon	200,000	20,000	20,000	6 Month Gross TB +0.75% p.a.	200,000	20,000	20,000	6 Month Gross TB +0.75% p.a.
Nations Trust Bank PLC	17,000	17,000	17,000	20.53% p.a.	-	-	-	-
Total Investment in Quoted Debentures		126,000	126,000			109,000	109,000	
	No. of Debentures	Cost Rs.'000	Directors' Valuation Rs.'000	Coupon Rate	No. of Debentures	Cost Rs.'000	Directors' Valuation Rs.'000	Coupon Rate
Unquoted								
Singer Sri Lanka PLC	50,000	5,000	5,000	14% p.a.	50,000	5,000	5,000	14% p.a.
Senkadagala Finance Ltd.	40,000	40,000	40,000	15.5% p.a.	-	-	-	-
Seylan Bank PLC	150,000	15,000	15,000	15% p.a.	150,000	15,000	15,000	15% p.a.
Total Investment in Unquoted Debentures		60,000	60,000			20,000	20,000	
Commercial Paper								
People's Merchant Bank PLC		12,018	12,018	15.25% p.a.		9,885	9,885	23.5% p.a.
Sampath Leasing and Factoring Ltd.		22,023	22,023	21.66% p.a.		-	-	-
Abans (Pvt) Ltd.		29,796	29,796	13.7% p.a.		-	-	-
Total Investment in Commercial Paper		63,837	63,837			9,885	9,885	
Promissory Notes								
People's Leasing Co. Ltd.		10,000	10,000	19.25% p.a.		-	-	-
Total Investment in Promissory Notes		10,000	10,000			-	-	
Total Investment in Corporate Debt		259,837	259,837			138,885	138,885	

4.3 Unit Trusts

	2009			2008		
	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	18,705	1,500,000	15,000	15,465
NAMAL Gilt-Edged Fund	1,000,000	10,000	12,840	1,000,000	10,000	10,390
Ceybank Savings Plus - Money Market Fund	2,500,000	25,000	26,250	-	-	-
Total Investments in Unit Trusts		50,000	57,795		25,000	25,855

5. INTANGIBLE ASSETS

	Balance As at 01.01.2009 Rs.'000	Additions /Transfers Rs.'000	Disposals/ Transfers Rs.'000	Balance As at 31.12.2009 Rs.'000
5.1 Gross Carrying Amount At Cost				
Computer Software	47,638	15,846	-	63,484
5.2 Amortisation At Cost				
Computer Software	24,580	8,279	-	32,859
5.3 Capital Work In Progress At Cost				
Software under Development	-	34,267	10,148	24,119
5.4 Net Book Values At Cost				
Computer Software	23,058			30,625
Software Under Development	-			24,119
Total Carrying Amount of Intangible Assets	23,058			54,744

5.5 Capital work in progress represents the capital expenditure incurred for upgrading the Computer Software, which is in progress as at the year end.

5.6 During the financial year, the Company acquired Intangible Assets (Computer Software) to the aggregate value of Rs. 40 Million - (2008 - Rs. 9.4 Million). Cash payments amounting to Rs. 19.8 Million (2008 - Rs. 9.4 Million) were made during the year for purchase of Intangible Assets (Computer Software).

5.7 Intangible Assets includes fully depreciated assets which are in the use of normal business activities having a gross carrying amount of Rs. 5.2 Million (2008 - Rs. 0.1 Million)

6. PROPERTY, PLANT AND EQUIPMENT

	Balance As at 01.01.2009 Rs.'000	Additions /Transfers Rs.'000	Disposals/ Transfers Rs.'000	Balance As at 31.12.2009 Rs.'000
6.1 Gross Carrying Amount At Cost				
Computer Hardware	64,813	23,276	124	87,965
Motor Vehicles	8,377	12,150	3,384	17,143
Office Equipment	32,095	5,947	1,640	36,402
Furniture and Fittings	50,214	11,794	1,264	60,744
	155,499	53,167	6,412	202,254
Assets on Finance Leases				
Motor Vehicles	2,277	-	2,277	-
Total Value of Depreciable Assets	157,776	53,167	8,689	202,254
6.2 Depreciation At Cost				
Computer Hardware	31,872	11,505	58	43,319
Motor Vehicles	4,295	4,115	3,384	5,026
Office Equipment	15,739	5,589	1,505	19,823
Furniture and Fittings	12,112	5,488	584	17,016
	64,018	26,697	5,531	85,184
Assets on Finance Leases				
Motor Vehicles	2,041	236	2,277	-
Total Depreciation	66,059	26,933	7,808	85,184

Notes to the Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT (Contd.)

6.3 Net Book Values

	As at 01.01.2009 Rs.'000	As at 31.12.2009 Rs.'000
At Cost		
Computer Hardware	32,941	44,646
Motor Vehicles	4,082	12,117
Office Equipment	16,356	16,579
Furniture and Fittings	38,102	43,728
	91,481	117,070
Assets on Finance Leases		
Motor Vehicles	236	-
Total Carrying Amount of Property, Plant and Equipment	91,717	117,070

6.4 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 53.1 Million (2008 - Rs. 39.5 Million). Cash payments amounting to Rs. 49 Million (2008 - Rs. 39.5 Million) were made during the year for purchase of Property, Plant and Equipment.

6.5 Property, Plant and Equipment includes fully depreciated assets which are in the use of normal business activities having a gross carrying amount of Rs. 22 Million (2008 - Rs. 11.7 Million)

7. LOANS TO LIFE INSURANCE POLICYHOLDERS

	2009 Rs.'000	2008 Rs.'000
Balance as at 1st January	4,666	1,588
Loans granted during the Year	6,354	4,721
Repayments	(1,711)	(1,643)
Balance as at 31st December	9,309	4,666

8. REINSURANCE RECEIVABLES

Reinsurance Receivable on Outstanding Claims	56,963	55,443
Reinsurance Receivable on Settled Claims	16,861	13,871
	73,824	69,314

9. PREMIUM RECEIVABLES

Premium Receivable from; Policyholders	54,001	24,273
Agents, Brokers and Intermediaries	103,028	96,649
	157,029	120,922

9.1 Premium receivable from Related Parties as at 31st December 2009 amounts to Rs. 38.5 Million (2008 - Rs. 21.5 Million). No allowance for bad and doubtful debts has been made in respect of the amount due from related parties during the year.

10. OTHER ASSETS

	2009 Rs.'000	2008 Rs.'000
Staff Loans (Note 10.1)	104,452	66,266
Advisor Related Receivables	26,151	23,438
Interest and Dividend Receivables	159,548	125,403
Advance Payments	23,177	18,904
Notional Tax, Economic Service Charge (ESC) and Other Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	125,919	94,120
Others	8,963	6,751
	448,210	334,882

10.1 Staff Loans

Balance as at 1st January	67,278	46,551
Loans granted during the year	75,127	51,157
	142,405	97,708
Repayments during the year	(36,488)	(30,430)
	105,917	67,278
Allowance for Bad and Doubtful Staff Loans	(1,465)	(1,012)
Balance as at 31st December	104,452	66,266

11. CASH AND CASH EQUIVALENTS

Cash in Hand and at Bank	43,987	62,173
Other Cash Equivalents *	50,113	55,098
	94,100	117,271

* Refer Note 35 for reclassification

12. INSURANCE PROVISION - LIFE

Balance as at 1st January	1,360,505	880,674
<i>Increase in Life Insurance Fund</i>		
Increase in Life Insurance Fund Before Distribution	623,008	579,831
Surplus Distributed	(130,000)	(100,000)
Increase in Life Insurance Fund	493,008	479,831
Balance as at 31st December	1,853,513	1,360,505

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 (IBSL).
- mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the Insurance Board of Sri Lanka (IBSL).
- surrender rates based upon actual experience.

The valuation of the Life Insurance business as at 31st December 2009 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 amounts to Rs.1,588.4 Million (2008 - Rs. 1,080.7 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 2009 by Rs. 395.1 Million (2008 - Rs. 379.8 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 2009) under the Regulation of Insurance Industry Act, No. 43 of 2000 as Rs. 81.4 Million (2008 - Rs. 55.1 Million)

This solvency margin is maintained in the Long Term Insurance Fund.

Notes to the Financial Statements

13. INSURANCE PROVISION - GENERAL

	2009 Rs.'000	2008 Rs.'000
The General insurance reserve as shown in the Balance Sheet represents the following:		
Reserve for Unearned Premium - Gross	626,056	502,351
- Reinsurance	(202,352)	(171,203)
- Net (Note 13.1)	423,704	331,148
Reserve for Deferred Acquisition Expenses (Note 13.2)	(4,644)	(6,735)
Reserve for Title Insurance (Note 13.3)	9,244	7,470
Reserve for Gross Outstanding Claims (Note 13.4)	171,060	138,323
Total	599,364	470,206
13.1 Reserve for Net Unearned Premium		
Balance as at 1st January	331,148	258,114
Transfer during the Year	92,556	73,034
Balance as at 31st December	423,704	331,148
13.2 Reserve for Deferred Acquisition Expenses		
Balance as at 1st January	(6,735)	(4,137)
Transfer during the Year	2,091	(2,598)
Balance as at 31st December	(4,644)	(6,735)
13.3 Reserve for Title Insurance		
Balance as at 1st January	7,470	6,135
Transfer during the Year	1,774	1,335
Balance as at 31st December	9,244	7,470
13.4 Reserve for Gross Outstanding Claims		
Balance as at 1st January	124,678	70,022
Claims Incurred during the Year	489,713	455,116
Claims Paid during the Year	(462,566)	(400,460)
Balance as at 31st December	151,825	124,678
IBNR / IBNER balance as at 1st January	13,645	10,428
Increase / (Decrease) in IBNR / IBNER	5,590	3,217
IBNR / IBNER balance as at 31st December	19,235	13,645
Total Reserve for Gross Outstanding Claims	171,060	138,323
13.5 Reconciliation between Insurance Provision and Technical Reserve		
Insurance Provision	599,364	470,206
Reinsurance on Claims Reserves	(49,127)	(49,271)
	550,237	420,935

13.6 Gross Written Premium on Title Insurance is transferred 100% to the Title Insurance Reserve account and thereby no profit has been recognised from Title Insurance during the year.

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 cannot 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, Mumbai, India. The valuation is based on internationally accepted actuarial methods and is performed on a semi annual basis.

14. OTHER LIABILITIES

	2009 Rs.'000	2008 Rs.'000
Policyholders Advance Payments	29,860	31,428
Payables		
Acquisition Cost Payable	58,783	41,580
Government Levies	23,413	17,883
Income Taxes Payable	35,000	24,001
Creditors		
Finance Leases *	-	988
Others	135,486	82,409
	282,542	198,289

Amount due to Related Parties as at 31st December 2009 was Rs. 3.5 Million (2008 Rs. 2.7 Million)

* Refer Note 35 for reclassification

15. REINSURANCE CREDITORS

Local Reinsurers	39,105	33,995
Foreign Reinsurers	48,146	49,044
	87,251	83,039

16. RETIREMENT BENEFIT OBLIGATION

Provision for Retiring Gratuity		
As at 1st January	11,318	7,477
Provision during the year	7,510	5,288
	18,828	12,765
Payments during the year	(648)	(1,447)
Balance as at 31st December	18,180	11,318

16.1 As at 31st December 2009, 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.).

	2009	2008
16.2 Principal assumptions used		
(a) Discount Rate (%)	10.5	18
(b) Salary Increase (%)	10	17
The Liability is not externally funded.		

17. STATED CAPITAL

	2009		2008	
	Number	Rs.'000	Number	Rs.'000
Fully Paid Ordinary Shares	37,500,000	375,000	37,500,000	375,000

17.1 Rights of Ordinary Shareholders

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

18. REVENUE RESERVES

	2009 Rs.'000	2008 Rs.'000
Balance as at 1st January	301,116	174,143
Profit for the year	201,610	164,473
Dividend Paid for previous year	(46,875)	(37,500)
Balance as at 31st December	455,851	301,116

Notes to the Financial Statements

	2009 Rs.'000	2008 Rs.'000
19. REVENUE		
Gross Written Premium (Note 20)	2,115,647	1,838,879
Premium Ceded to Reinsurers	(453,517)	(388,913)
Net Written Premium	1,662,130	1,449,966
Net Change in Reserves for Unearned Premium	(94,383)	(74,285)
Net Earned Premium	1,567,747	1,375,681
Income from Investments (Note 23)	467,823	342,265
Other Income (Note 24)	2,526	1,742
Total Revenue	2,038,096	1,719,688
20. GROSS WRITTEN PREMIUM		
General Insurance		
Fire	304,151	257,408
Motor	740,274	589,837
Marine	23,086	27,425
Miscellaneous	63,270	50,039
General Insurance Gross Written Premium	1,130,781	924,709
Life Insurance		
Individual Policies	975,537	907,326
Corporate Policies	9,329	6,844
Life Insurance Gross Written Premium	984,866	914,170
Total Gross Written Premium	2,115,647	1,838,879
21. INSURANCE CLAIMS AND BENEFITS (NET)		
General Insurance		
Gross Claims		
Fire	30,457	83,053
Motor	409,456	337,218
Marine	2,081	2,057
Miscellaneous	42,732	24,070
Total Gross Claims	484,726	446,398
Reinsurance Recoveries	(36,516)	(82,585)
General Insurance Net Claims and Benefits	448,210	363,813
Life Insurance		
Gross Claims - Death, Disability and Hospitalisation	51,737	34,999
Reinsurance Recoveries	(21,674)	(12,475)
Net Insurance Claims	30,063	22,524
Surrenders	26,022	16,089
Policy Maturities	7,616	6,056
Life Insurance Net Claims and Benefits	63,701	44,669
Insurance Claims and Benefits (Net)	511,911	408,482
22. UNDERWRITING AND NET ACQUISITION COSTS		
Net Underwriting and Policy Acquisition Costs	152,779	170,764
Increase / (Decrease) in Deferred Acquisition Expenses	2,091	(2,598)
	154,870	168,166

23. INCOME FROM INVESTMENTS

	2009 Rs.'000	2008 Rs.'000
Interest Income	463,631	338,767
Dividend Income	3,873	1,629
Realised Capital Gains	319	1,869
	467,823	342,265

24. OTHER INCOME

Profit on Sale of Property, Plant and Equipment	1,215	16
Policy Related Income	1,311	1,726
	2,526	1,742

25. OTHER OPERATING, INVESTMENT RELATED AND ADMINISTRATION EXPENSES

Staff Expenses (Note 25.1)	246,728	181,716
Administration and Establishment Expenses	229,813	199,790
Selling Expenses	125,564	76,744
Amortisation of Intangible Assets	8,279	6,856
Depreciation of Property, Plant and Equipment	26,933	20,123
	637,317	485,229

25.1 Staff Expenses

Staff Salaries	142,853	106,757
EPF and ETF	21,428	16,014
Provision for Retirement Benefit Obligation	7,510	5,288
Other Staff Costs (Over Time, Bonus, etc)	74,937	53,657
	246,728	181,716

26. PROFIT FROM OPERATIONS

Profit from Operations for the year is arrived at after charging all the expenses including the following.

Auditor's Fees and expenses;

Audit Fees and Expenses	800	700
Audit Related Fees	100	106
Non Audit Services	Nil	Nil
Directors' Emoluments and Post Employment Benefits	12,836	9,328

Employees Benefits including the following;

Defined Benefit Plan Costs - Gratuity	7,510	5,288
Defined Contribution Plan Costs - EPF and ETF	21,428	16,014
(Provision)/Reversal for Diminution in Value of Investments	8,245	(5,695)
Amortisation of Intangible Assets	8,279	6,856
Depreciation of Property, Plant and Equipment	26,933	20,123
Loss / (Gain) on Foreign Exchange	94	(1,973)
Loss/(Profit) on sale of Property, Plant and Equipment	(1,215)	(16)
Legal Fees	170	446
Donations	300	250

27. FINANCE EXPENSES

Interest on Finance Leases	44	154
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Notes to the Financial Statements

28. INCOME TAX EXPENSE

	2009 Rs.'000	2008 Rs.'000
The major components of income tax expense for the years ended 31st December are as follows :		
Current Income Tax		
Income Tax on Current Year's Profits	29,074	19,477
Under/(Over) Provision of Current Taxes in respect of Prior Years	397	(14,076)
	29,471	5,401
Deferred Income Tax		
Deferred Taxation Charge/(Reversal) (Note 28.2)	-	-
Income Tax Expense reported in the Income Statement	29,471	5,401

28.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows :

Accounting Profit Before Taxation	231,081	169,874
At the Statutory Income Tax Rate of 35% (2008 :35%)	80,878	59,456
Adjustments to Current Income Tax in respect of Previous Year	397	(14,076)
Income Exempt from Tax	(47,360)	(35,600)
Non-Deductible Expenses	11,036	5,954
Statutory Income Set-off Against Tax Losses Brought Forward	(15,480)	(10,333)
Income Tax Expenses	29,471	5,401

28.2 Deferred Tax Assets and Liabilities

	Balance Sheet		Income Statement	
	2009 Rs.'000	2008 Rs.'000	2009 Rs.'000	2008 Rs.'000
Deferred Tax Liability				
Capital allowances for tax purposes	22,212	12,923	9,289	538
	22,212	12,923	9,289	538
Deferred Tax Assets				
Defined Benefit Plans	(5,454)	(3,373)	(2,081)	(757)
Brought Forward Tax Losses	(16,758)	(9,550)	(7,208)	219
Deferred income tax income / (expense)			-	-
Net Deferred Tax Liability/Asset	-	-		

28.3 The Company is liable to pay income tax at the rate of 35% of its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto.

As at the year end, total carried forward tax loss is Rs. 267 Million (2008 - Rs. 312 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 2009 amounted to Rs. 77 Million (2008- Rs. 100 Million).

29. BASIC EARNINGS PER SHARE

29.1 Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

29.2 The following reflects the profit and share data used in the basic Earnings Per Share computation.

	2009	2008
Net Profit Attributable to Ordinary Shareholders (Rs. '000)	201,610	164,473
Weighted Average Number of Ordinary Shares ('000)	37,500	37,500
Basic Earnings Per Share (Rs.)	5.38	4.39

30. DIVIDEND PAID AND PROPOSED

	2009 Rs.'000	2008 Rs.'000
30.1 Dividend Declared and Paid during the Year		
Final dividend for 2008 : Rs 1.25 per share (2007 : Re 1.00 per share)	46,875	37,500

30.2 Proposed dividend for the year 2009 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. 1.50 per share for the year ended 31st December 2009 (2008 - Rs. 1.25/- per share) which is to be approved at the Annual General Meeting to be held on 30th March 2010. 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 2009.

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.

30.3 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, prior to recommending the first and final dividend for the year ended 31st December 2009. A statement of solvency completed and duly signed by the Directors on 28th January 2010 has been audited by M/S KPMG Ford, Rhodes, Thornton & Co.

31. 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, but subject to approved discounts. Outstanding balances with related parties other than balances relating to investment related transactions as at the Balance Sheet date are unsecured and interest free. Settlement will take place in cash. Such outstanding balances have been included under respective assets and liabilities together with balances arising from transactions with non-related parties.

Details of related party transactions are reported below.

31.1 Transaction with the Parent and Ultimate Controlling Party

Hatton National Bank PLC

	2009 Rs.'000	2008 Rs.'000
Nature of Transaction		
Insurance Premium		
Life	4,098	3,312
General	29,995	27,125
Administration Expenses		
Life	9,706	5,706
General	42,289	42,358
Claims Incurred		
General	7,288	11,072
Investments Balance as at 31st December (Includes Deposits and Debentures)		
Life	38,549	13,241
General	67,516	96,428
Current Account Balances as at 31st December		
Life	22,554	33,451
General	13,732	17,139
Investment Income		
Life	2,069	1,196
General	8,084	7,842
Rent Expenses	13,581	13,451
Dividends Paid	28,118	22,495

Notes to the Financial Statements

31. RELATED PARTY DISCLOSURES (Contd.)

	2009 Rs.'000	2008 Rs.'000
31.2 Transaction with / between Subsidiary Company of the Parent Company		
Sithma Development (Pvt) Ltd		
Nature of Transaction		
Insurance Premium		
General	8,785	398
Claims Incurred - General	7,236	-

31.3 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.

Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective Director for his/her financial needs.

As the Hatton National Bank PLC is the ultimate parent of the Company, and the Board of Directors of the Bank have the authority and responsibility of planning, directing and controlling the activities of the Company, the Directors of the Bank and their immediate family members have also been identified as Key Management Personnel of the Company.

a). Key Management Personnel Compensation	2009 Rs.'000	2008 Rs.'000
Short-term employee benefits	10,595	7,714
Post Employment Benefits	2,241	1,614

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	2009 Rs.'000	2008 Rs.'000
Insurance Premium - General	189	234
Insurance Premium - Life	2,139	-

c). Other Related Party disclosures :

Other related entities are those which are controlled or significantly influenced, directly or indirectly by Key Management Personnel of the Company. Significant influence is presumed to be established if a Key Management Person of the Company has more than 20% shareholding in an entity, unless otherwise reported by the Key Management Personnel . Further significant influence is also established if in the view of the respective Key Management Person, he has the ability to influence the operating and financial policies of an entity even in the absence of a 20% shareholding.

31. RELATED PARTY DISCLOSURES (Contd.)

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2009 Rs.'000	2008 Rs.'000
Acuity Stockbrokers (Pvt) Ltd	R Theagarajah and J M J Perera	Insurance Premium	General	370	445
		Claims Incurred	General	433	251
Acuity Securities Ltd	R Theagarajah and J M J Perera	Insurance Premium	General	195	190
		Claims Incurred	General	188	176
		Investment in REPO*	General	59,207	1,460
			Life	67,428	12,188
		Investments income from REPO	General	4,099	5,697
			Life	4,296	6,542
Aitken Spence (Garments) Ltd	D H S Jayawardena	Insurance Premium	General	438	522
Alliance Finance Co. PLC	Pratapkumar de Silva	Insurance Premium	General	3,137	1,068
		Claims Incurred	General	1,210	471
Alliance Tech Trading (Pvt) Ltd	Pratapkumar de Silva	Purchase and maintenance of Property, Plant and Equipment	General / Life	240	270
Ceylon Garden Coir (Pvt) Ltd	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	104	132
Elpitiya Plantations PLC	D H S Jayawardena	Insurance Premium	General	291	300
		Claims Incurred	General	15	23
Milford Exports (Ceylon) Ltd	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	25	617
Stassen Exports Ltd	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	12,170	15,835
		Claims Incurred	General	9,839	4,666
Stassen Natural Foods (Pvt) Ltd	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	251	339
Sri Lanka Insurance Corporation Ltd (till 4th June 2009)**	D H S Jayawardena and R K Obeyesekere	Co-Insurance Premium	General	1,860	32
		Co-Insurance Claims	General	1,551	225
Stassen International Ltd	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	885	1,263
		Claims Incurred	General	276	-
Ambewela Livestock Company Ltd.	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	25	-
Ambewela Products (Pvt.) Ltd.	D H S Jayawardena	Insurance Premium	General	52	-
Beruwala Distillery (Pvt.) Ltd.	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	164	-
Distilleries Company of Sri Lanka PLC	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	18,554	-
		Claims Incurred	General	1,303	-
Lanka Bell (Pvt.) Ltd.	D H S Jayawardena	Insurance Premium	General	737	-
		Claims Incurred	General	225	-
Periceyl (Pvt.) Ltd.	D H S Jayawardena and R K Obeyesekere	Insurance Premium	General	187	-
Texpro Industries Ltd.	D H S Jayawardena	Insurance Premium	General	582	308

* Investments held in the form of Repurchase Agreements on Government Securities (REPO) as at 31st December.

** The Company ceased to be a related party w.e.f. 5th June 2009.

Notes to the Financial Statements

32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements, other than those disclosed in Note 30.

33. 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 accounts (2008 - Rs.10.5 Million).
- b). Future monthly commitments on operating leases

	2009 Rs.'000	2008 Rs.'000
Less than one year	15,994	15,057
Between one and five years	7,612	23,606
Total Operating Lease Commitments	23,606	38,663

34. 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.

35. COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year information.

		2008 Rs.'000
As reported previously (2008 Financial Statements):		
Investments (a)		1,999,032
Cash and Cash Equivalents (a)		155,882
Other Liabilities (b)		280,340
Interest Bearing Borrowings (b)		988
	2009 Rs.'000	2008 Rs.'000
Current Presentation:		
Investments (a)	2,717,415	2,037,643
Cash and Cash Equivalents (a)	94,100	117,271
Other Liabilities (b)	282,542	198,289
Reinsurance Creditors (b)	87,251	83,039

Reason for change in the presentation and classifications

- a). All short term deposits (with maturities less than one year) were previously classified under cash and cash equivalents. However, such deposits can also be considered as short term investments. Thus, short term deposits with maturities more than three months from the date of acquisition together with interest accrued to the Balance Sheet date have been classified under Investments in the current year.
- b) Reinsurance Creditors were previously classified under other liabilities. However, as amounts are building upto be significant and due to the nature of the industry, it was decided to disclose Reinsurance Payables separately from the current year. In addition, Interest Bearing Borrowing which represents the finance lease was presented separately in the Balance Sheet previously. Since the finance lease is settled fully by the year end and the balance is immaterial, last year's balance of Interest Bearing Borrowing have been classified under Other Liabilities (finance lease).

36. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer to page 110 for the Statement of Directors' Responsibility for Financial Reporting.

Balance Sheet of the Life Insurance Fund - Supplemental

As at 31st December,

	Note	2009 Rs.'000	2008 Rs.'000
Assets			
Investments	(A)	1,686,073	1,263,166
Intangible Assets	(B)	14,653	5,742
Property, Plant and Equipment	(C)	6,174	8,151
Loans to Life Policyholders		9,309	4,666
Reinsurance Receivables	(D)	16,283	10,025
Other Assets	(E)	220,524	150,521
Cash and Cash Equivalents	(F)	45,252	39,939
Total Assets		1,998,268	1,482,210
Liabilities			
Insurance Provision - Life	(G)	1,853,513	1,360,505
Other Liabilities	(H)	117,221	87,489
Reinsurance Creditors	(I)	24,937	32,535
Retirement Benefit Obligation	(J)	2,597	1,681
Total Liabilities		1,998,268	1,482,210

The notes as set out on pages 125 to 152 form an integral part of these Financial Statements.

Notes to the Balance Sheet of the Life Insurance Fund - Supplemental

	2009 Rs.'000	2008 Rs.'000
A. INVESTMENTS		
Government Securities	1,258,989	761,811
Repurchase Agreements on Government Securities	55,428	313,724
Quoted Shares (Note A.1)	21,821	2,189
Corporate Debt (Note A.2)	114,203	70,442
Unit Trusts (Note A.3)	8,000	-
Term Deposits	227,632	115,000
	1,686,073	1,263,166

A.1 Quoted Shares	2009			2008		
	No. of Shares	Cost Rs.'000	Market Value Rs.'000	No. of Shares	Cost Rs.'000	Market Value Rs.'000
<i>Diversified Holdings</i>						
Hemas Holdings PLC	4,200	447	516	4,200	447	232
John Keells Holdings PLC	22,745	2,534	3,901	25,945	3,059	1,297
Sector Total		2,981	4,417		3,506	1,529
<i>Telecommunications</i>						
Dialog Telekom PLC	80,000	1,663	580	110,000	2,285	660
Sector Total		1,663	580		2,285	660
<i>Banks, Finance and Insurance</i>						
National Development Bank PLC	19,600	2,510	4,038	-	-	-
Commercial Bank of Ceylon PLC	10,500	1,403	1,990	-	-	-
DFCC Bank	17,700	2,614	2,956	-	-	-
Sector Total		6,527	8,984	-	-	-
<i>Manufacturing</i>						
Royal Ceramics Lanka PLC	24,000	1,053	1,596	-	-	-
Dipped Products PLC	11,000	1,031	946	-	-	-
ACL Cables PLC	25,000	1,414	1,919	-	-	-
Sector Total		3,498	4,461	-	-	-
<i>Hotels and Travels</i>						
Asian Hotels & Properties PLC	8,000	268	756	-	-	-
Stafford Hotels PLC	68,000	1,758	1,870	-	-	-
Aitken Spence Hotel Holdings PLC	2,500	596	673	-	-	-
Sector Total		2,622	3,299	-	-	-
<i>Chemical and Pharmaceuticals</i>						
Chemical Industries (Colombo) PLC	37,500	2,284	2,363	-	-	-
Sector Total		2,284	2,363	-	-	-
<i>Construction and Engineering</i>						
Colombo Dockyard PLC	3,500	568	857	-	-	-
Sector Total		568	857	-	-	-
<i>Power and Engineering</i>						
Hemas Power PLC	38,900	778	759	-	-	-
Sector Total		778	759	-	-	-
<i>Beverage, Food and Tobacco</i>						
Cargills (Ceylon) PLC	8,000	475	522	-	-	-
Renuka Agri Foods Limited	189,100	425	425	-	-	-
Sector Total		900	947	-	-	-
Portfolio Total		21,821	26,667		5,791	2,189
Less: Provision for Diminution in Market Value Brought Forward (Provision)/Reversal Made During the Year		(3,602)			-	
Provision for Diminution in Market Value Carried Forward		3,602			(3,602)	
		-			(3,602)	
Total Carrying Value of Investments in Quoted Shares		21,821			2,189	

A. INVESTMENTS (Contd.)

A.2 Corporate Debt	2009				2008			
	No. of Debentures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate	No. of Debentures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate
Debentures								
Quoted								
Hatton National Bank PLC	75,000	7,500	7,500	11% p.a.	75,000	7,500	7,500	11% p.a.
DFCC Bank	5,000	5,000	5,000	14% p.a.	5,000	5,000	5,000	14% p.a.
Seylan Bank PLC	50,000	5,000	5,000	16.75% p.a.	50,000	5,000	5,000	16.75% p.a.
Sampath Bank PLC	130,000	13,000	13,000	3 Month Gross TB +1.5% p.a.	130,000	13,000	13,000	3 Month Gross TB +1.5% p.a.
Singer Sri Lanka PLC	120,000	12,000	12,000	1 Year Gross TB +1.65% p.a.	120,000	12,000	12,000	1 Year Gross TB +1.65% p.a.
Bank of Ceylon	150,000	15,000	15,000	6 Month Gross TB +0.75% p.a.	150,000	15,000	15,000	6 Month Gross TB+0.75% p.a.
Nations Trust Bank PLC	10,000	10,000	10,000	20.53% p.a.	-	-	-	-
Total Investment in Quoted Debentures		67,500	67,500			57,500	57,500	
Unquoted								
Seylan Bank PLC	80,000	8,000	8,000	15% p.a.	80,000	8,000	8,000	15% p.a.
Senkadagala Finance Ltd.	25,000	25,000	25,000	15.5% p.a.	-	-	-	-
Total Investment in Unquoted Debentures		33,000	33,000			8,000	8,000	
Commercial Paper								
People's Merchant Bank PLC	-	-	-	-	4,942	4,942	4,942	23.5% p.a.
Sampath Leasing and Factoring Ltd.	13,703	13,703	13,703	21.66% p.a.	-	-	-	-
Total Investment in Commercial Paper		13,703	13,703			4,942	4,942	
Total Investment in Corporate Debt		114,203	114,203			70,442	70,442	
A.3 Unit Trusts								
	2009			2008				
	No. of Units	Cost Rs.'000	Managers' Buying price Rs.'000	No. of Units	Cost Rs.'000	Managers' Buying price Rs.'000		
Unquoted								
Ceybank Savings Plus - Money Market Fund	800,000	8,000	8,400	-	-	-		
Total Investment in Unit Trusts		8,000	8,400					

Notes to the Balance Sheet of the Life Insurance Fund - Supplemental

B. INTANGIBLE ASSETS

	Balance As at 01.01.2009 Rs.'000	Additions /Transfers Rs.'000	Disposals/ Transfers Rs.'000	Balance As at 31.12.2009 Rs.'000
B.1 Gross Carrying Amount				
At Cost				
Computer Software	7,117	9,966	-	17,083
B.2 Amortisation				
At Cost				
Computer Software	1,375	1,185	-	2,560
B.3 Capital work in progress				
At Cost				
Software under Development	-	408	278	130
B.4 Net Book Values				
At Cost				
Computer Software	5,742			14,523
Software under development	-			130
Total Carrying Amount of Intangible Assets	5,742			14,653

B.5 Capital work in progress represents the capital expenditure incurred for upgrading of computer software, which is in progress as at the year end.

B.6 During the financial year, the Life Insurance Business acquired Intangible Assets (Computer Software) to the aggregate value of Rs. 10.1 Million (2008 - Rs. 3.6 Million). Cash payments amounting to Rs.10.1 Million (2008 - Rs. 3.6 Million) were made during the year for purchase of Intangible Assets (Computer Software).

B.7 Intangible Assets includes fully depreciated Computer software which is in the use of normal business activities having a gross carrying amount of Rs. 0.06 Million (2008 - Nil)

C. PROPERTY, PLANT AND EQUIPMENT

	Balance As at 01.01.2009 Rs.'000	Additions /Transfers Rs.'000	Disposals/ Transfers Rs.'000	Balance As at 31.12.2009 Rs.'000
C.1 Gross Carrying Amount				
At Cost				
Computer Hardware	5,010	405	-	5,415
Motor Vehicles	4,874	-	-	4,874
Office Equipment	927	18	23	922
Furniture and Fittings	2,177	19	-	2,196
Total Value of Depreciable Assets	12,988	442	23	13,407
C.2 Depreciation				
At Cost				
Computer Hardware	3,145	769	-	3,914
Motor Vehicles	817	1,217	-	2,034
Office Equipment	223	184	19	388
Furniture and Fittings	652	245	-	897
Total Depreciation	4,837	2,415	19	7,233

	As at 01.01.2009 Rs.'000	As at 31.12.2009 Rs.'000
C.3 Net Book Values		
At Cost		
Computer Hardware	1,865	1,501
Motor Vehicles	4,057	2,839
Office Equipment	704	535
Furniture and Fittings	1,525	1,299
Total Carrying Amount of Property, Plant and Equipment	8,151	6,174

C.4 During the financial year, the Life Insurance Business acquired Property, Plant and Equipment to the aggregate value of Rs. 0.4 Million (2008 - Rs. 5.8 Million). Cash payments amounting to Rs. 0.4 Million (2008 - Rs. 5.8 Million) were made during the year for purchase of Property, Plant and Equipment.

C.5 Property, Plant and Equipment includes fully depreciated assets which are in the use of normal business activities having a gross carrying amount of Rs. 2.1 Million (2008 - Rs. .05 Million).

	2009 Rs.'000	2008 Rs.'000
D. REINSURANCE RECEIVABLES		
Reinsurance Receivables on Outstanding Claims	7,836	6,172
Reinsurance Receivables on Settled Claims	8,447	3,853
	16,283	10,025

E. OTHER ASSETS

Staff Loans (Note E.1)	8,690	8,563
Advisor related Receivables	25,146	23,266
Interest and Dividend Receivable	116,227	76,035
Advance Payments	4,139	3,361
Notional Tax, Receivable from Commissioner General of Inland Revenue	66,250	39,285
Others	72	11
	220,524	150,521

E.1 Staff Loans

Balance as at 1st January	8,563	6,438
Loans granted during the year	4,926	5,443
	13,489	11,881
Repayments during the year	(4,799)	(3,318)
Balance as at 31st December	8,690	8,563

F. CASH AND CASH EQUIVALENTS

Cash in Hand and at Bank	22,835	34,198
Other Cash Equivalents	22,417	5,741
	45,252	39,939

G. INSURANCE PROVISION - LIFE

Please refer Note 12 on page 137

Notes to the Balance Sheet of the Life Insurance Fund - Supplemental

	2009 Rs.'000	2008 Rs.'000
H. OTHER LIABILITIES		
Policyholders Advance Payments	29,860	31,428
<i>Payables</i>		
Acquisition Cost Payable	40,901	25,934
Government Levies	370	451
<i>Creditors</i>		
Others	46,090	29,676
	117,221	87,489
I. REINSURANCE CREDITORS		
Foreign Reinsurers	24,937	32,535
J. RETIREMENT BENEFIT OBLIGATION		
Provision for Retiring Gratuity		
As at 1st January	1,681	922
Provision during the year	996	759
	2,677	1,681
Payments during the year	(80)	-
Balance as at 31st December	2,597	1,681

J.1 As at 31st December 2009 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.).

J.2 Principal assumptions used

	2009	2008
(a) Discount Rate (%)	10.5	18
(b) Salary Increase (%)	10	17

The Liability is not externally funded.

Insurance Revenue Accounts

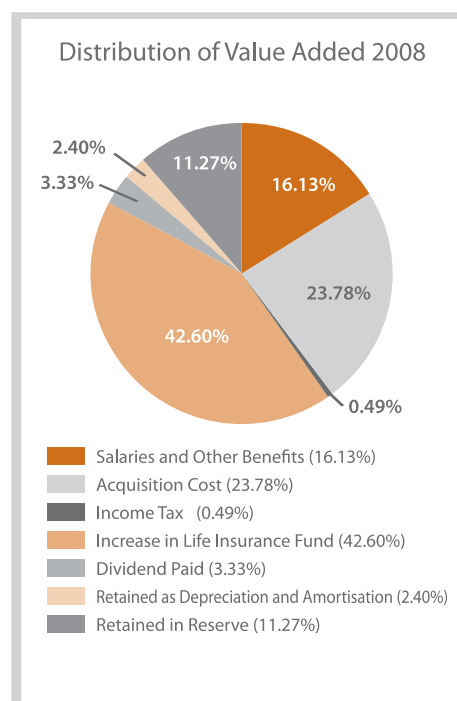
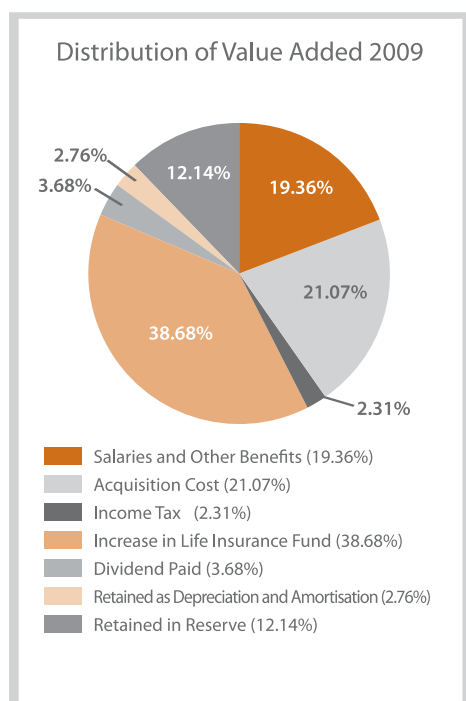
For the Year ended 31st December,

	2009 Rs.'000	2008 Rs.'000
General Insurance		
Gross Written Premium	1,130,781	924,709
Premium Ceded to Reinsurers	(360,459)	(308,961)
Net Written Premium	770,322	615,748
Net Change in Reserves for Unearned Premium	(94,383)	(74,285)
Net Earned Premium	675,939	541,463
Net Claims Incurred	(448,210)	(363,813)
Net Commission	527	(8,870)
(Increase) / Decrease in Deferred Acquisition Expenses	(2,091)	2,598
Expenses	(282,348)	(228,134)
Underwriting Surplus / (Deficit)	(56,183)	(56,756)
Income from Investments	156,091	126,797
Other Income	1,217	(13)
Operating Profit from General Insurance Business	101,125	70,028
Life Insurance		
Gross Written Premium	984,866	914,170
Premium Ceded to Reinsurers	(93,058)	(79,952)
Net Written Premium	891,808	834,218
Net Benefits Expense	(63,701)	(44,669)
Net Commission	(153,306)	(161,894)
Expenses Attributable to Policyholders	(364,834)	(265,047)
Income from Investments	311,732	215,468
Other Income	1,309	1,755
Increase in Life Insurance Fund	(493,008)	(479,831)
Surplus from Life Insurance Business	130,000	100,000
Reconciliation of Statement of Income and Insurance Revenue Accounts		
Operating Profit from General Insurance Business	101,125	70,028
Surplus from Life Insurance Business	130,000	100,000
Profit from Operations	231,125	170,028
Finance Expenses	(44)	(154)
Profit Before Taxation	231,081	169,874
Income Tax Expense	(29,471)	(5,401)
Profit for the Year	201,610	164,473

Value Added Statement - Company

	2009 Rs. '000	2008 Rs. '000
Net Earned Premium	1,567,747	1,375,681
Investment and Other Income	470,349	344,007
	2,038,096	1,719,688
Net Claims and Benefits	(511,911)	(408,482)
Cost of External Services	(251,447)	(184,951)
Value Addition	1,274,738	1,126,255

	2009 Rs. '000	%	2008 Rs. '000	%
Distribution of Value Added				
To Employees				
Salaries and Other Benefits	246,728	19.36	181,716	16.13
To Intermediaries				
Acquisition Cost	268,709	21.07	267,855	23.78
To Government				
Income Tax	29,471	2.31	5,401	0.49
To Life Policyholders				
Increase in Life Insurance Fund	493,008	38.68	479,831	42.60
To Shareholders				
Dividend Paid	46,875	3.68	37,500	3.33
For Expansion and Growth				
Retained as Depreciation and Amortisation	35,212	2.76	26,979	2.40
Retained in Reserve	154,735	12.14	126,973	11.27
	1,274,738	100.00	1,126,255	100.00



Share Information

1. Stock Exchange Listing

The issued ordinary shares of HNB Assurance PLC are listed with the Colombo Stock Exchange. Stock Exchange code for HNB Assurance PLC share is HASU.

2. The Share

Issued and Fully Paid	- Rs. 375,000,000/- i.e. 37,500,000 shares
Class of Share	- Ordinary Shares
Voting Rights	- One vote per Ordinary Share
Shares held by the public	- 39.81% (as at 31st December 2009)

3. Shareholdings

There were 3,845 registered shareholders as at 31st December 2009 (2008 - 4,111) and were distributed 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	2,213	778,479	2.08	12	7,250	0.02	2,225	785,729	2.10
1,001 - 10,000	1,474	4,724,600	12.60	15	47,150	0.13	1,489	4,771,750	12.73
10,001 - 100,000	111	2,383,876	6.36	4	54,050	0.14	115	2,437,926	6.50
100,001 - 1,000,000	13	3,764,195	10.04	1	135,300	0.36	14	3,899,495	10.40
Over - 1,000,000	2	25,605,100	68.27	-	-	-	2	25,605,100	68.27
Total	3,813	37,256,250	99.35	32	243,750	0.65	3,845	37,500,000	100.00

4. Analysis of Shareholders

a) Resident / Non-Resident

	31st December 2009			31st December 2008		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	3,813	37,256,250	99.35	4,081	37,122,500	99.00
Non-Resident	32	243,750	0.65	30	377,500	1.00
Total	3,845	37,500,000	100	4,111	37,500,000	100.00

b) Individual / Institutional

	31st December 2009			31st December 2008		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,788	8,973,583	23.93	4,056	10,258,684	27.36
Institutional	57	28,526,417	76.07	55	27,241,316	72.64
Total	3,845	37,500,000	100.00	4,111	37,500,000	100.00

Share Information

5. Directors' Shareholdings

Name of the Director	No. of Shares as at 31st December 2009	No. of Shares as at 31st December 2008
Rienzie T. Wijetilleke	750	750
Manjula de Silva	25,000	25,000
M U de Silva	2,250	2,250
Pratap Kumar de Silva	-	-
D M de S Wijeyeratne	500	-
Sarath Ratwatte	11,000	-
R Theagarajah	6,250	6,250
J M J Perera	5,250	5,250
J D N Kekulawala	26,000	9,000

6. Top 20 Shareholders

The 20 largest shareholders as at 31st December 2009 together with their Shareholding as at 31st December 2008 are given below.

Name of the Shareholder	2009		2008	
	Shareholding	% on Total No. of Shares	Shareholding	% on Total No. of Shares
Hatton National Bank PLC	22,494,750	59.99	22,494,750	59.99
Alliance Finance Company PLC	3,110,350	8.29	3,774,350	10.06
Associated Electrical Corporation Limited	1,000,000	2.67	-	-
Arpico Finance Company PLC	630,000	1.68	-	-
Employees Trust Fund Board	465,700	1.24	-	-
Mrs. Kurukulasuriya Weerasinghe Shirani Helen Fernando & Mr. Weerhennedige Kingsley Valentine Fernando	336,950	0.90	474,850	1.26
Mr. Mohamed Faizer Hashim	264,000	0.70	252,100	0.67
Miss. Shanika Antoinette Fernando	219,300	0.58	279,300	0.74
Deutsche Bank AG-Namal Growth Fund	190,000	0.51	-	-
Miss. Weerhennedige Niroshika Celestine Fernando	182,700	0.49	232,500	0.62
Mr. Kunjithapatham Laveendrakumar	142,000	0.38	128,000	0.34
Mr. Michael Keith De Vos & Mrs. Debbie Jane De Vos	135,300	0.36	132,000	0.35
Mr. Madduma Hetti Vidanelage Upali Gunatilaka	117,545	0.31	125,000	0.33
Mr. Addara Pathirana Somasiri	115,000	0.31	100,000	0.27
Mr. Sithampalam Abishek	101,000	0.27	-	-
Mr. Bede Selvanayagam & Mrs. Lidwine Selvanayagam	100,000	0.27	100,000	0.27
Malship Ceylon Ltd.	93,500	0.25	93,500	0.25
Mrs. Noorul Imthiyaz Hashim	91,650	0.24	91,650	0.24
Union Investments Limited	75,000	0.20	75,000	0.20
Mr. Rajaratnam Senathirajah	60,000	0.16	-	-
	29,924,745	79.80		

7. Public Shareholding

	2009		2008	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Number of Shares	14,928,250	39.81	14,956,750	39.88

8. Share Performance

	2009	2008	2007	2006
Number of Transactions	7,084	3,641	6,141	4,080
Number of Shares Traded	10,535,000	3,566,900	7,343,100	8,135,700
Value of Shares Traded (Rs.)	391,270,975	85,513,100	195,286,050	155,070,400
CSE Turnover (Rs. Mn.)	142,463	110,454	104,985	105,154
Market Capitalisation (Rs. Mn.)				
HNB Assurance PLC	1,856	694	919	625
CSE	1,092,138	488,813	820,652	834,760
Dividends Per Share (Rs.)	1.50	1.25	1.00	1.00
Basic Earnings Per Share (Rs.)	5.38	4.39	3.29	2.44
Net Assets Per Share (Rs.)	22.16	18.03	14.64	12.02
Market Price Per Share (Rs.)				
Highest	57.00	27.00	37.00	25.00
Lowest	17.25	17.00	18.00	12.50
Year end (VWA)	49.50	18.25	24.50	25.00
P/E Ratio (Times)	9.20	4.16	7.45	10.25

Quarterly Analysis 2009 and 2008

Quarterly Analysis 2009 Company Statement of Income

	1st Quarter Jan-Mar 09 Rs. '000	2nd Quarter Apr-Jun 09 Rs. '000	3rd Quarter Jul-Sep 09 Rs. '000	4th Quarter Oct-Dec 09 Rs. '000	Total Jan-Dec 09 Rs. '000
Revenue	456,086	488,528	608,663	484,819	2,038,096
Gross Written Premium	457,287	537,110	640,272	480,978	2,115,647
Premiums Ceded to Reinsurers	(93,100)	(148,379)	(96,794)	(115,244)	(453,517)
Net Written Premium	364,187	388,731	543,478	365,734	1,662,130
Net Change in Reserves for Unearned Premium	(17,484)	(19,690)	(55,899)	(1,310)	(94,383)
Net Earned Premium	346,703	369,041	487,579	364,424	1,567,747
Benefit and Losses					
Insurance Claims and Benefits (Net)	(123,592)	(116,119)	(129,916)	(142,284)	(511,911)
Increase in Life Insurance Fund	(131,772)	(166,670)	(224,926)	30,360	(493,008)
Underwriting and Net Acquisition Costs	(42,390)	(25,262)	(47,184)	(40,034)	(154,870)
Other Insurance Related Costs	(1,862)	(2,085)	(3,688)	(2,230)	(9,865)
Total Benefits, Losses and Expenses	(299,616)	(310,136)	(405,714)	(154,188)	(1,169,654)
Net Earned Premium Less Benefits, Losses and Expenses	47,087	58,905	81,865	210,236	398,093
Other Revenue					
Income from Investments and Other Income	109,383	119,487	121,084	120,395	470,349
Expenses					
Other Operating, Investment Related and Administration Expenses	(134,566)	(153,887)	(173,866)	(174,998)	(637,317)
Profit from Operations	21,904	24,505	29,083	155,633	231,125
Finance Expenses	(28)	(15)	-	(1)	(44)
Profit Before Taxation	21,876	24,490	29,083	155,632	231,081
Income Tax Expense	(6,009)	(6,453)	(7,666)	(9,343)	(29,471)
Profit for the Period	15,867	18,037	21,417	146,289	201,610

Quarterly Analysis 2008 Company Statement of Income

	1st Quarter Jan-Mar 08 Rs. '000	2nd Quarter Apr-Jun 08 Rs. '000	3rd Quarter Jul-Sep 08 Rs. '000	4th Quarter Oct-Dec 08 Rs. '000	Total Jan-Dec 08 Rs. '000
Revenue	378,641	437,999	443,459	459,589	1,719,688
Gross Written Premium	406,527	454,793	517,545	460,014	1,838,879
Premiums Ceded to Reinsurers	(78,557)	(80,998)	(138,374)	(90,984)	(388,913)
Net Written Premium	327,970	373,795	379,171	369,030	1,449,966
Net Change in Reserves for Unearned Premium	(25,802)	(13,751)	(23,926)	(10,806)	(74,285)
Net Earned Premium	302,168	360,044	355,245	358,224	1,375,681
Benefit and Losses					
Insurance Claims and Benefits (Net)	(93,488)	(96,199)	(108,801)	(109,994)	(408,482)
Increase in Life Insurance Fund	(108,362)	(187,374)	(136,841)	(47,254)	(479,831)
Underwriting and Net Acquisition Costs	(44,502)	(23,484)	(52,832)	(47,348)	(168,166)
Other Insurance Related Costs	(3,119)	(2,074)	(2,329)	(430)	(7,952)
Total Benefits, Losses and Expenses	(249,471)	(309,131)	(300,803)	(205,026)	(1,064,431)
Net Earned Premium Less Benefits, Losses and Expenses	52,697	50,913	54,442	153,198	311,250
Other Revenue					
Income from Investments and Other Income	76,473	77,955	88,214	101,365	344,007
Expenses					
Other Operating, Investment Related and Administration Expenses	(109,495)	(113,899)	(128,760)	(133,075)	(485,229)
Profit from Operations	19,675	14,969	13,896	121,488	170,028
Finance Expenses	(45)	(41)	(36)	(32)	(154)
Profit Before Taxation	19,630	14,928	13,860	121,456	169,874
Income Tax Expense	(5,518)	(4,412)	9,768	(5,239)	(5,401)
Profit for the Period	14,112	10,516	23,628	116,217	164,473

Nine Year Summary

Statement of Income for the year ended 31st December,

	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
GENERAL INSURANCE									(*)
Gross Written Premium	1,130,781	924,709	704,577	618,502	469,929	338,708	243,392	122,232	11,785
Net Earned Premium	675,939	541,463	468,595	362,540	270,059	199,777	134,654	26,328	123
Income from Investments and Other Income	157,308	126,784	85,880	56,164	38,506	31,088	28,377	32,165	12,890
Net Claims Incurred	(448,210)	(363,813)	(291,283)	(219,336)	(144,548)	(123,751)	(59,632)	(22,399)	(85)
Net Commission Incurred	(1,564)	(6,272)	1,546	(6,058)	(4,947)	(4,957)	(7,460)	(1,847)	136
Expenses	(282,392)	(228,288)	(186,406)	(130,609)	(107,061)	(85,038)	(61,502)	(28,272)	(4,793)
Profit Before Taxation	101,081	69,874	78,332	62,701	52,009	17,119	34,437	5,975	8,271

(*) General Insurance business commenced on 22.11.2001

LIFE INSURANCE									(**)
Gross Written Premium	984,866	914,170	767,576	503,321	354,181	205,885	104,436	35,297	-
Net Written Premium	891,808	834,218	698,048	451,920	318,684	188,980	95,009	32,755	-
Income from Investments and Other Income	313,041	217,223	114,920	53,497	26,483	12,208	6,172	1,140	-
Net Benefits Incurred	(63,701)	(44,669)	(25,595)	(14,924)	(12,183)	(7,673)	(1,478)	(129)	-
Net Commission Incurred	(153,306)	(161,894)	(154,212)	(115,132)	(88,675)	(58,785)	(20,960)	(1,427)	-
Expenses	(364,834)	(265,047)	(195,208)	(138,458)	(103,259)	(49,191)	(23,541)	(3,312)	-
Increase in Life Insurance Fund	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)	(85,539)	(55,202)	(29,027)	-
Profit Before Taxation	130,000	100,000	65,000	30,000	10,000	-	-	-	-

(**) Life Insurance business commenced on 01.01.2002

COMPANY									
Gross Written Premium	2,115,647	1,838,879	1,472,153	1,121,823	824,110	544,593	347,828	157,529	11,785
Net Earned Premium	1,567,747	1,375,681	1,166,643	814,460	588,743	388,757	229,663	59,083	123
Income from Investments and Other Income	470,349	344,007	200,800	109,661	64,989	43,296	34,549	33,305	12,890
Net Claims and Benefits (Net)	(511,911)	(408,482)	(316,878)	(234,260)	(156,731)	(131,424)	(61,110)	(22,528)	(85)
Net Commission Incurred	(154,870)	(168,166)	(152,666)	(121,190)	(93,622)	(63,742)	(28,420)	(3,274)	136
Expenses	(647,226)	(493,335)	(381,614)	(269,067)	(210,320)	(134,229)	(85,043)	(31,584)	(4,793)
Increase in Life Insurance Fund	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)	(85,539)	(55,202)	(29,027)	-
Profit Before Taxation	231,081	169,874	143,332	92,701	62,009	17,119	34,437	5,975	8,271
Income Tax Expense	(29,471)	(5,401)	(20,000)	(1,377)	(1,720)	(733)	1,374	(1,109)	(3,636)
Profit for the Year	201,610	164,473	123,332	91,324	60,289	16,386	35,811	4,866	4,635
Basic Earnings per Share (Rs.)	5.38	4.39	3.29	2.44	1.61	0.44	0.95	0.13	0.12
Dividend per Share (Rs.)	1.50	1.25	1.00	1.00	0.50	-	-	-	-

Nine Year Summary

Balance Sheet as at 31st December,

	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
GENERAL INSURANCE									
Assets									
Investments	1,031,342	774,477	627,655	530,914	442,077	352,050	307,301	267,092	251,900
Intangible Assets	40,091	17,316	17,603	18,530	21,175	17,391	4,893	-	-
Property, Plant and Equipment	110,896	83,566	68,064	54,096	44,881	27,486	33,713	7,396	2,492
Reinsurance Receivable	57,541	59,289	24,683	7,620	14,268	1,558	1,499	-	-
Premium Receivable from Policyholders	157,029	120,922	86,721	95,572	67,538	67,536	48,350	36,130	11,399
Other Assets	227,686	184,361	121,267	104,772	98,798	68,777	16,929	9,834	6,939
Cash and Cash Equivalents	48,848	77,332	71,181	66,785	42,838	36,839	25,165	16,700	317
Total Assets	1,673,433	1,317,263	1,017,174	878,289	731,575	571,637	437,850	337,152	273,047
Liabilities and Shareholders' Equity									
Liabilities									
Insurance Provision - General	599,364	470,206	340,562	319,538	267,020	210,611	114,841	53,831	2,905
Other Liabilities	165,321	110,800	84,539	51,754	64,970	30,827	18,924	15,858	15,507
Reinsurance Creditors	62,314	50,504	36,375	52,661	24,961	17,022	8,017	7,802	-
Retirement Benefit Obligation	15,583	9,637	6,555	3,525	2,637	1,479	756	160	-
Total Liabilities	842,582	641,147	468,031	427,478	359,588	259,939	142,538	77,651	18,412
Shareholders' Equity									
Stated Capital	375,000	375,000	375,000	250,000	250,000	250,000	250,000	250,000	250,000
Revenue Reserves	455,851	301,116	174,143	200,811	121,987	61,698	45,312	9,501	4,635
Total Shareholders' Equity	830,851	676,116	549,143	450,811	371,987	311,698	295,312	259,501	254,635
Total Liabilities and Shareholders' Equity	1,673,433	1,317,263	1,017,174	878,289	731,575	571,637	437,850	337,152	273,047

Balance Sheet as at 31st December,

	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
LIFE INSURANCE									
**									
Assets									
Investments	1,686,073	1,263,166	852,943	513,475	335,222	177,987	89,207	27,878	-
Intangible Assets	14,653	5,742	2,936	1,872	204	116	50	-	-
Property, Plant and Equipment	6,174	8,151	4,333	3,086	2,994	2,637	2,429	-	-
Loans to Life Policyholders	9,309	4,666	1,588	1,277	982	-	-	-	-
Reinsurance Receivable	16,283	10,025	6,234	8,647	2,271	-	-	-	-
Other Assets	220,524	150,521	78,783	31,857	20,058	12,308	1,584	541	-
Cash and Cash Equivalents	45,252	39,939	44,890	36,981	13,102	19,028	14,707	5,522	-
Total Assets	1,998,268	1,482,210	991,707	597,195	374,833	212,076	107,977	33,941	-
Liabilities									
Insurance Provision - Life	1,853,513	1,360,505	880,674	507,721	300,818	169,768	84,229	29,027	-
Other Liabilities	117,221	87,489	68,059	53,152	64,009	32,577	18,247	3,603	-
Reinsurance Creditors	24,937	32,535	42,052	35,867	9,542	9,489	5,441	1,305	-
Retirement Benefit Obligation	2,597	1,681	922	455	464	242	60	6	-
Total Liabilities	1,998,268	1,482,210	991,707	597,195	374,833	212,076	107,977	33,941	-

(**) Life Business commenced on 1st January 2002

Nine Year Summary

Balance Sheet as at 31st December,

	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000

COMBINED

Assets

Investments	2,717,415	2,037,643	1,480,598	1,044,389	777,299	530,037	396,508	294,970	251,900
Intangible Assets	54,744	23,058	20,539	20,402	21,379	17,507	4,943	-	-
Property, Plant and Equipment	117,070	91,717	72,397	57,182	47,875	30,123	36,142	7,396	2,492
Loans to Life Policyholders	9,309	4,666	1,588	1,277	982	-	-	-	-
Reinsurance Receivable	73,824	69,314	30,917	16,267	16,539	1,558	1,499	-	-
Premium Receivables	157,029	120,922	86,721	95,572	67,538	67,536	48,350	36,130	11,399
Other Assets	448,210	334,882	200,050	136,629	118,856	81,085	18,513	10,375	6,939
Cash and Cash Equivalents	94,100	117,271	116,071	103,766	55,940	55,867	39,872	22,222	317
Total Assets	3,671,701	2,799,473	2,008,881	1,475,484	1,106,408	783,713	545,827	371,093	273,047

Liabilities and Shareholders' Equity

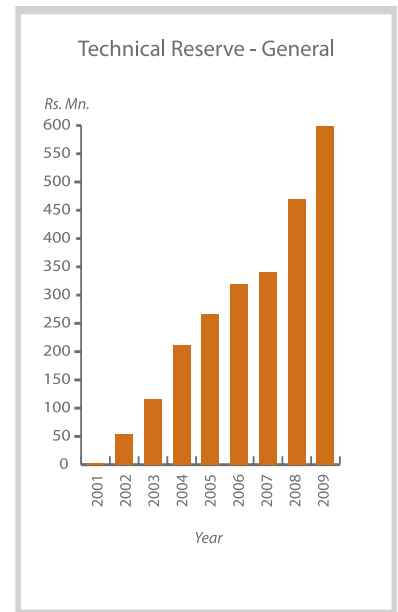
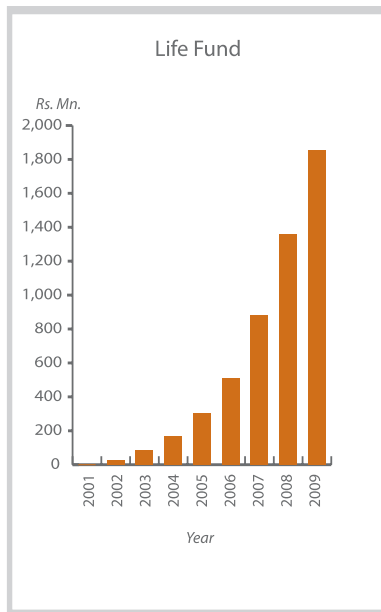
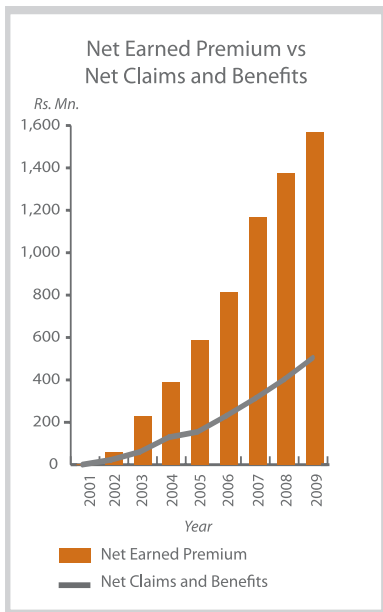
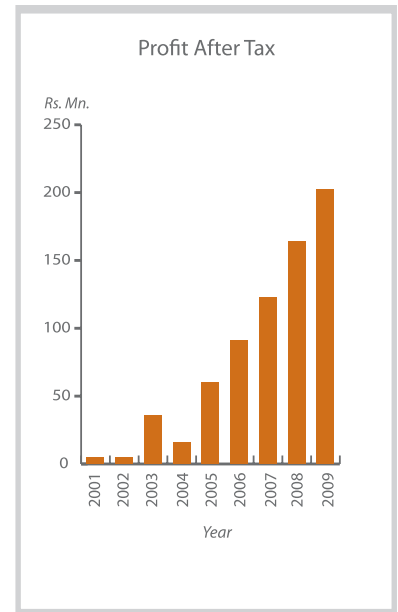
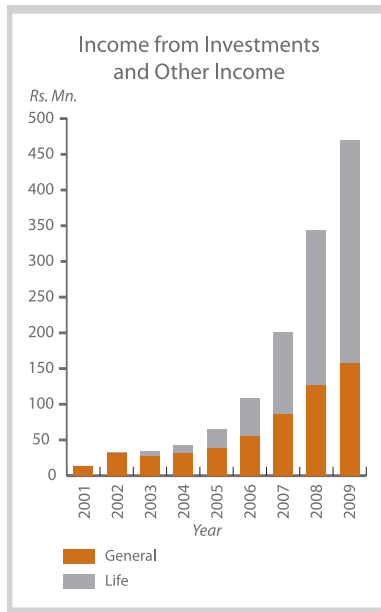
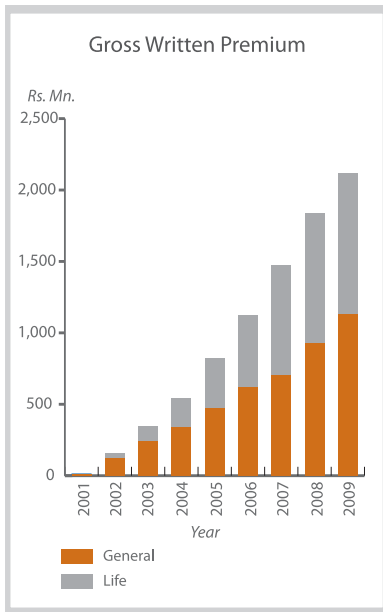
Liabilities

Insurance Provision - Life	1,853,513	1,360,505	880,674	507,721	300,818	169,768	84,229	29,027	-
Insurance Provision - General	599,364	470,206	340,562	319,538	267,020	210,611	114,841	53,831	2,905
Other Liabilities	282,542	198,289	152,598	104,906	128,979	63,404	37,171	19,461	15,507
Reinsurance Creditors	87,251	83,039	78,427	88,528	34,503	26,511	13,458	9,107	-
Retirement Benefit Obligation	18,180	11,318	7,477	3,980	3,101	1,721	816	166	-
Total Liabilities	2,840,850	2,123,357	1,459,738	1,024,673	734,421	472,015	250,515	111,592	18,412

Shareholders' Equity

Stated Capital	375,000	375,000	375,000	250,000	250,000	250,000	250,000	250,000	250,000
Revenue Reserves	455,851	301,116	174,143	200,811	121,987	61,698	45,312	9,501	4,635
Total Shareholders' Equity	830,851	676,116	549,143	450,811	371,987	311,698	295,312	259,501	254,635
Total Liabilities and Shareholders' Equity	3,671,701	2,799,473	2,008,881	1,475,484	1,106,408	783,713	545,827	371,093	273,047

	2009	2008	2007	2006	2005	2004	2003	2002	2001
Investor Information									
Return on Equity	24.27%	24.32%	22.46%	20.26%	16.21%	5.26%	12.13%	1.88%	1.82%
Market Price per Share as at 31st Dec (VWA) (Rs.)	49.50	18.25	24.50	25.00	12.75	12.50	10.25	-	-
Market Price per Share as at 31st Dec (VWA) (Rs.) - Adjusted for Bonus Issue	49.50	18.25	24.50	16.67	8.50	8.33	6.83	-	-
Price Earning Ratio (Times)	9.20	4.16	7.45	10.25	7.92	28.41	10.79	-	-
Market Capitalisation (Rs. Mn)	1,856	694	919	625	319	313	256	-	-
Employee Information									
Number of Employees	540	457	377	308	262	208	180	99	23
GWP per Employee (Rs. Mn)	3.92	4.02	3.90	3.64	3.15	2.62	1.93	1.59	0.51
Net Profit per Employee (Rs. '000)	373.35	359.90	327.14	296.51	230.11	78.78	198.95	49.15	201.52
General Insurance Operations									
Net Claims Ratio	66%	67%	62%	60%	54%	62%	44%	85%	69%
Expense Ratio	42%	43%	39%	38%	41%	45%	51%	114%	3786%
Combined Ratio	108%	110%	102%	98%	95%	107%	95%	199%	3855%



Glossary

Acquisition Expenses

All expenses which vary with, are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts. E.g. Commissions

Actuary

An Expert concerned with the application of probability and statistical theories to problems of insurance, investment, financial management and demography.

Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act, No. 43 of 2000.

Approved Assets

Assets that represent the technical reserve and the Long- term insurance fund as per the Determinations made under the Regulation of Insurance Industry Act, No. 43 of 2000.

Bancassurance

An arrangement whereby banks sell insurance products to their customers on behalf of insurance companies.

Beneficiary

A person or financial institution named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

Claims

The amount payable under a contract of insurance arising from the occurrence of an insured event.

Claims Incurred

A claim is incurred when the event giving rise to the claim occurs. Claims incurred include the paid claims and movements in outstanding claims.

Claims Incurred But Not Reported (IBNR)

Claims arising out of events which have occurred by the Balance Sheet date but have not been reported to the insurer as at that date.

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 ultimate cost of settling claims arising out of events which have occurred by the Balance Sheet date, including IBNR and IBNER claims and claims handling expenses, less amounts already paid in respect of those claims.

Claims Outstanding Reserve (Life Insurance Business)

The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have been notified by the Balance Sheet date being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

Co-Insurance

An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportions at a specified premium.

Commission

A payment made to an insurance broker or a sales advisor in return for selling and servicing an insurer's products.

Deferred Acquisition Expenses (General Insurance Business)

Acquisition Expenses relating to the unexpired period of risk of contracts in force at the Balance Sheet date which are carried forward from one accounting period to subsequent accounting periods.

Earned Premiums

Written premiums adjusted by the unearned premium provisions at the beginning and at the end of the accounting period.

Fair Value

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Gross/net

The terms gross and net mean before and after deduction of the portion attributable to reinsurance.

Gross Written Premium - General Insurance

Premium which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance, before any reinsurance is taken into account.

Gross Written Premium - Life Insurance

Premium to which the insurer is contractually entitled and received during the accounting period.

Insurance Provision - General

Include net unearned premium, gross claims outstanding, reserve for claims incurred but not reported (IBNR) and reserve for claims incurred but not enough reported (IBNER) net of any deferred acquisition expenses.

Insurance Provision - Life

The funds to be maintained by an insurer in respect of its Long Term Insurance business in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000.

Key Insurance Ratios

$$\text{Net Claims Ratio} = \frac{\text{Net Claims Incurred}}{\text{Net Earned Premium}}$$

$$\text{Expense Ratio} = \frac{\text{Expenses other than Net Claims Incurred}}{\text{Net Earned Premium}}$$

$$\text{Combined Ratio} = \frac{\text{Net Claims Incurred} + \text{Expenses}}{\text{Net Earned Premium}}$$

Market Capitalisation

Number of shares in issue multiplied by the market value of each share as at a given date.

Net Earned Premium

Net Earned Premium is the proportion of written premiums attributable to the risks borne, net of premiums ceded to reinsurance.

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 too.

Non-Participating Business

Life Insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

Participating Business

Life insurance business where the policyholders are contractually entitled to share in the surplus of the relevant life fund.

Primary Insurers

Insurance Companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy.

Reinsurance

Transfer of all or part of the risk assumed by a primary insurer under one or more insurance to another insurer, called the re-insurer.

Reinsurance Commission / Discount

Commission / discount received or receivable in respect of premiums paid to any reinsurer.

Retention

The part of the risk assumed which the insurer / reinsurer does not reinsure, i.e. retained net for own account.

Solvency Margin - Life Insurance

The difference between the value of admissible assets and the value of liabilities, required to be maintained by the insurer who carries on Long Term Insurance business as defined in Solvency Margin rules 2002, made under the Section 26 of the Regulation of Insurance Industry Act, No. 43 of 2000.

Solvency Margin - General Insurance

The difference between the value of the admissible assets and the value of the liabilities, required to be maintained by any insurer who carries on General Insurance business as defined in Solvency Margin rules 2004, made under the Section 26 of the Regulation of Insurance Industry Act, No. 43 of 2000.

Surrender value

The amount payable by an insurer to a policyholder on termination of an insurance policy before the expiry of its term (more common in Life Insurance).

Underwriting

The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned.

Underwriting Profit

The underwriting results generated by transacting in General Insurance business, without taking into account the investment income.

Unearned Premium

Amount set aside as at end of a financial year of an insurer, out of premiums in respect of risks to be borne by such insurer after the end of such financial year, under a contract of insurance entered into, prior to the end of that financial year.

Yield

Rate of return on an investment in percentage terms, taking into account annual income and any change in capital value. Also the dividend payable on a share expressed as a percentage of the market price.

Notice of Meeting

Notice is hereby given that the Eighth (8th) Annual General Meeting of HNB Assurance PLC is convened on Tuesday the Thirtieth (30th) day of March 2010, 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 2009, and the Auditors' Report thereon.

To declare a dividend of Rs. 1.50 per share for the year 2009, to the shareholders as recommended by the Directors.

To re-appoint Mr. R T Wijetilleke 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 Rienzie Theobald Wijetilleke who has attained the age of 70 years on 10th November 2009, 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 de Silva who retires at the Annual General Meeting, having attained the age of 71 years, a Director of the Company and to adopt the following resolution :-

Resolution - "That Mr Joseph Eardley Pratapkumar 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 2010 for charitable and other purposes.

By Order of the Board
HNB ASSURANCE PLC



Indrani Goonesekera
Board Secretary

Colombo, Sri Lanka.
28th January, 2010.

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 19, 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 HNB Assurance PLC hereby appoint Rienzie Theobald Wijetilleke 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 Rajendra Theagarajah or failing him Joseph Michael Jayanth Perera or failing him Joseph Dacius Nihal Kekulawala or failing him,ofas *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 Eighth Annual Ordinary General Meeting of the Company to be convened on Tuesday the 30th day of March 2010 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. 1.50 per share	In favour	
	Against	
To re-appoint Mr. R T Wijetilleke, 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 day 2010.

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**

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 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.
Email : 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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Corporate Information

Name of the Company

HNB Assurance PLC

Legal Form

- A Listed Company with limited liability.
- Incorporated in Sri Lanka on 23rd August 2001 under the Companies Act, No. 17 of 1982.
- Re-registered under the Companies Act, No. 7 of 2007.
- A composite insurance Company licensed by the Insurance Board of Sri Lanka (IBSL).
- The shares of the Company are listed on the Main Board of the Colombo Stock Exchange. Stock Exchange code for the Company shares is "HASU".

Company Registration No.

PQ 108

Tax Payer Identification No.

TIN-134009373

VAT Registration No.

134009373-7000

Fiscal Year – End

31st December

Principal Activities

Carrying on General and Life Insurance business.

Registered Office

479, T B Jayah Mawatha, Colombo 10, Sri Lanka.

Head Office

10, Sri Uttaranda Mawatha,
Colombo 03, Sri Lanka.

Telephone - +94 11 2421885 - 7

Facsimile - +94 11 4724512

E-mail - info@hnbassurance.com

Web - www.hnbassurance.com

Directorate

Rienzie T. Wijetilleke - *(Chairman)*

Manjula de Silva - *(Managing Director)*

M U de Silva

Pratap Kumar de Silva

D M de S Wijeyeratne

Sarath Ratwatte (appointed w.e.f. 30th January 2009)

R Theagarajah

J M J Perera

J D N Kekulawala

Board Secretary

Indrani Goonesekera

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)

Niranjan Manickam

(General Manager – General)

(appointed w.e.f. 1st April 2009)

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 Ratings (Fitch)

National Long-Term Rating A (lka)

Financial Strength A (lka)

Bankers

Hatton National Bank PLC

Commercial Bank of Ceylon PLC

