

ANNUAL REPORT  
**2008**



## “Secured Growth”

Over the years HNB Assurance has grown financially and in every other aspect. This natural development has been nurtured through robust financial management and proactive business development. The solid security of one of Sri Lanka’s largest financial icons has anchored the success of this growth trend. In turn, our state of stability has lent us the ability to reach out and develop the lives of others.

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## 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.

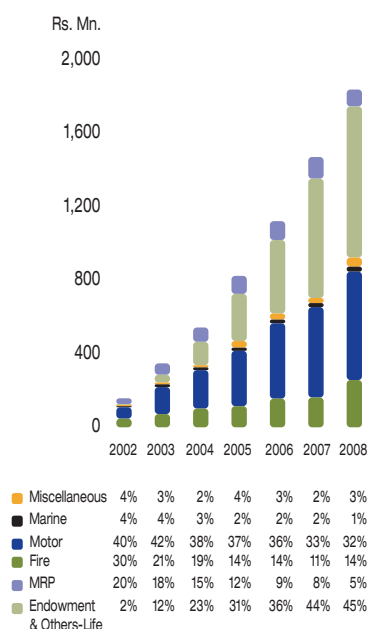
## Values

- 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

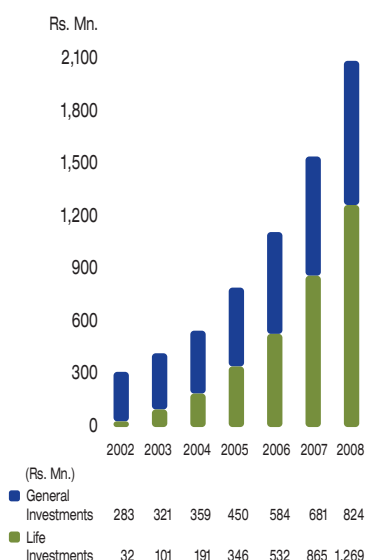
## Financial Highlights

		2008	2007	Change %
Total Gross Written Premium	Rs. Mn.	<b>1,838.88</b>	1,472.15	25
Profit Before Taxation	Rs. Mn.	<b>169.87</b>	143.33	19
Profit After Taxation	Rs. Mn.	<b>164.47</b>	123.33	33
Basic Earnings Per Share	Rs.	<b>4.39</b>	3.29	33
Dividend Per Share	Rs.	<b>1.25</b>	1.00	25
Funds Under Management	Rs. Mn.	<b>2,092.74</b>	1,545.97	35
Net Assets Per Share	Rs.	<b>18.03</b>	14.64	23
Return on Equity	%	<b>24</b>	22	9

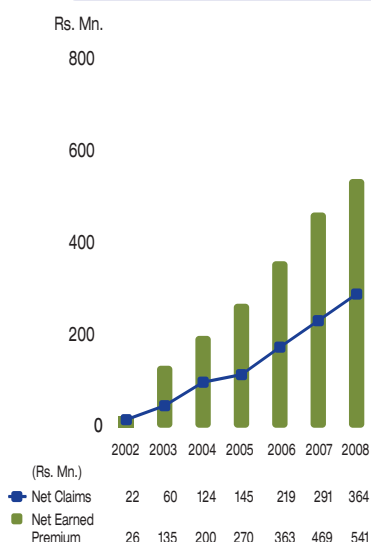
TOTAL GROSS WRITTEN PREMIUM



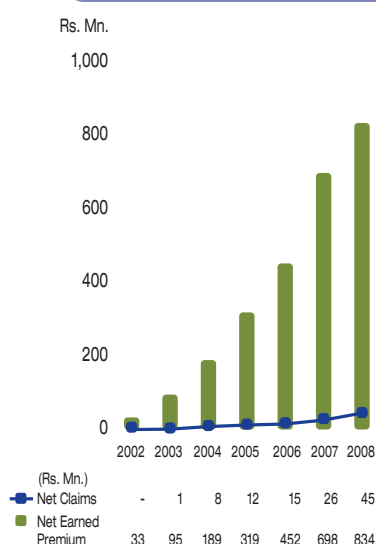
FUNDS UNDER MANAGEMENT



NET EARNED PREMIUM VS NET CLAIMS  
General Insurance



NET EARNED PREMIUM VS NET CLAIMS  
Life Insurance



## Chairman's Review

On behalf of the Board of Directors, I am pleased to welcome you to the seventh Annual General Meeting of the Company and present to you the Annual Report and Accounts for the year ended 31st of December 2008.

### The Economy

The global economy appears to be heading into a period of prolonged recession affecting both developed and emerging economies alike. It is not likely that the Sri Lankan economy will be spared due to the highly globalised environment in which all countries operate today. Sri Lanka is already facing a significant reduction in demand for its main exports such as apparel, tea and rubber, a situation which is compounded further by the lack of competitiveness caused by an overvalued currency. Sri Lanka will also have to face a reduction in the growth of remittances from expatriates. Attracting foreign investments and borrowings to finance widening deficits in the budget and the balance of payments will also be a major constraint in the current environment.

However, during the year under review, the GDP is expected to have grown by about 6% mainly due to the high growth rates in the first two quarters. Agriculture, forestry and fishing; Mining and quarrying; Transport and communication and Construction were the key sectors that contributed to this growth. While achievements on the growth front were encouraging, lack of controls on inflation was a matter for concern. The point to point rate of inflation as measured by the Colombo Consumer Price Index rose to a peak of 28.2% before falling to 14.4% by end of the year under a new inflation index introduced by the authorities. Even this level is unhealthily high and has seriously curtailed the policy options left to the Government to successfully respond to the challenges posed by the current global crisis.

As mentioned earlier, maintaining the Sri Lankan Rupee at a highly overvalued level by providing dollars to the system through high cost borrowing has seriously eroded the competitiveness of our fledgling export sector. If this issue is not addressed soon by allowing the Sri Lanka Rupee to depreciate gradually towards a more realistic level, the medium term damage to export industries could be irreversible, especially in the context of a fall in demand resulting from the global recession.

Although the insurance industry has so far not been seriously affected by these factors, it is only a matter of



## Chairman's Review

time before the industry begins to feel the impact due to negative effects on the purchasing power of its clients of all categories. The industry, I believe, will need to prepare itself to face a very challenging 2009.

### Regulatory Framework

The Insurance Board of Sri Lanka (IBSL) has shown its willingness to consider the concerns of the industry on the proposed reforms that were seen as detrimental to industry growth. It is our fervent hope that these issues will be satisfactorily resolved in the light of the closer dialogue that is now taking place between the regulator and industry players. I also hope that some of the long outstanding amendments to insurance regulations such as the proposed changes to permit institutional agents and the proposed changes to the limits relating to the investment of insurance funds will be carried through without delay as agreed by the concerned parties.

I welcome the recent initiatives taken by the IBSL to introduce several new competency development programmes for industry participants in collaboration with the Uva Wellassa University of Sri Lanka and the National Institute of Business Management (NIBM). Since the development of the pool of human resources available to the industry is imperative for industry growth, all measures taken to address this need will get the fullest support of all.

### Performance

In spite of the turbulent environment in which the Company had to operate especially in the last quarter of the year, it was able to sustain the growth momentum established in previous years. During the year under review, the Company's turnover as measured by the Gross Written Premium (GWP) grew by 25% to reach Rs. 1,839 Million. The turnover from General Insurance stood at Rs. 925 Million recording a growth of 31% while the Life Insurance turnover grew by 19% to reach Rs. 914 Million.

Even more importantly, the Company delivered a Profit Before Tax (PBT) of Rs. 169.9 Million and a Profit After Tax (PAT) of Rs. 164.5 Million for the year ended 31st of December 2008. The growth in PAT was 33%, a very impressive achievement in the current business climate.

### Social Responsibility

In keeping with its growing stature and public image, the Company embarked on several far-reaching initiatives to provide meaningful assistance to the community at

large. The main project undertaken in this regard was the provision of water to seven schools which did not have access to water for drinking and the fulfillment of basic sanitary needs. These schools were selected from different districts in an attempt to reach out to different geographical areas of the country. The Company also donated books to needy children from border villages in areas affected by the war and provided financial assistance to the 'Narada Savana Foundation' to support the development of children with hearing impairments.

As in previous years, the Company stepped forward to promote high quality arts by sponsoring the 'Pradeepanjalee' concert performed by sitar virtuoso Pradeep Ratnayake and other acclaimed musicians. It also sponsored the children's drama festival conducted by the Lanka Children's and Youth Theatre Organisation (LCYTO) under the direction of well-known dramatist Somalatha Subasinghe for the third successive time. Recognising the need to support the publication of good quality books to promote the reading habit, the Company ventured out to finance the publication of two books - a children's story book by Somalatha Subasinghe and a book on fire prevention by S. Kariyawasam, a fire and safety consultant.

For the first time since its inception, HNB Assurance undertook a major sponsorship of a national event by becoming a strategic partner of the SLIM-Nielsen Peoples Awards Ceremony held in October 2008. The Company also continued its relationship with the United Nations Association of Sri Lanka by sponsoring the UN Day Celebrations conducted in Kandy.

Having established a close relationship with the Department of Railways by renovating the Bambalapitiya Railway Station last year, the Company embarked on another innovative project in collaboration with the Department to install mirrors at selected unprotected level crossings to reduce the risk of accidents. Depending on the success of the pilot project currently in progress, the Company intends to implement this initiative in a number of locations across the country.

### Recognitions

The Company received two noteworthy recognitions during the year. First, it was ranked 57th among the 'Top 100 Brands' in Sri Lanka by the Lanka Monthly Digest (LMD) in association with Brand Finance. Secondly, it won a Silver Award by emerging the Runner-up in the



Insurance Sector at the Annual Report Awards Ceremony conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

#### Future Outlook

Despite the negative global and local economic outlook, the Company is confident in moving forward strongly in pursuit of its vision to become the most admired and trusted insurance service provider in the country. It is seeking to invest significant resources in the coming year to build its brand image and to develop its IT capability. With the benefit of these investments and the steady support received from its parent, HNB, the Company is well poised to record another year of steady and sustained growth.

#### Acknowledgements

Mr. C Benjamin who rejoined the Board of Directors for a second spell with effect from the 28th of September 2007, resigned on the 25th of June 2008 due to personal reasons. He had earlier served as a Director from the inception of the Company till the 31st of October 2004. I take this opportunity to convey my sincere appreciation to Mr. Benjamin for the valuable contribution made by him during his two terms of office.

#### Appointments

During the year under review, two new appointments were made to the Board of Directors. I warmly welcome Mr. Pratapkumar de Silva who joined the Board on the 31st of March 2008 and Mr. Manik de Silva Wijeyeratne who joined the Board on the 28th of April 2008. Both appointees fall into the category of Independent Directors in terms of Section 6 of the CSE Listing Rules and the Code of Best Practice on Corporate Governance issued jointly by the SEC and ICASL.



#### Appreciation

I wish to convey my sincere appreciation to 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 passion and dedication to deliver satisfactory results amidst an unsettled environment. 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 in spite of unfavourable market conditions.

On behalf of the Board of Directors, I assure you that the Company is steadily progressing towards becoming a major player in the local insurance industry through the formulation and methodical execution of well thought-out strategies.

**Rienzie T. Wijetilleke**  
*Chairman*

Colombo, Sri Lanka  
30th January 2009

## In Dialogue with the Managing Director



### **What have been the key highlights of the Company's performance in 2008 ?**

We were able to achieve a growth in PAT of 33% at a time when many companies experienced a dip in profits or a slowdown in profit growth. Our PBT also grew by 19%. At the same time, we also recorded a growth of 25% in our combined turnover, measured by the Gross Written Premium (GWP). Our GWP from Life Insurance business grew by 19% to reach Rs. 914 Million while the GWP from General Insurance business grew by 31% to reach Rs. 925 Million. The combined turnover added up to Rs. 1,839 Million. It gives us great satisfaction to note that we have been able to achieve a significant growth in both our top line and bottom line for yet another year.

### **What are the key challenges that you have faced from the external environment ?**

The year 2008 has been a particularly challenging one for the insurance industry. Premium rates continued to fall in General Insurance business, eroding margins to an unacceptable level. Competitive market conditions exerted a great deal of pressure on claims-settlement, insurers often having to stretch themselves beyond policy conditions. The high rate of inflation and the high fuel cost in particular caused significant increases in utility and transport costs. As a consequence of having to protect our market share under the above scenario, the combined ratio increased to 110%. This translated to an underwriting loss of Rs. 57 Million. However, due to the sharp increase in our investment income, we were able to generate a Profit Before Tax of Rs. 69.9 Million from General Insurance business.

The industry also began to feel the impact of the global economic meltdown in the last quarter of the year. There was a noticeable reduction particularly in the growth of Life Insurance business compared to the first three quarters of the year. A slight reduction in premium persistency was also observed during this period. However, this did not prevent the Company from achieving above average growth rates in both turnover and profit as in all previous years in the recent past.

● **Manjula de Silva** - *Managing Director*



**In your opinion, what factors have contributed to maintain the Company's forward thrust even in the midst of unfavourable market conditions ?**

In spite of the difficult conditions experienced, we adopted a positive approach. We continued to invest in expanding our distribution network by adding 8 more branches, introducing a new bancassurance model for Life Insurance by stationing our staff members at selected branches of HNB and committing significant resources for advertising and promotions to enhance our brand image. We also took advantage of the high interest rates available in the market to launch a new series of single premium Life Insurance policies with an attractive investment yield. It proved to be a resounding success generating Rs. 141 Million in premium income.

On the General Insurance side, we demonstrated our capability to handle large risks by underwriting a few substantially large risks with facultative reinsurance support. These initiatives helped us to maintain a steady growth in turnover in both Life and General.

We also managed our expenses well to maintain our expense ratio within 43% in General Insurance and 51% in Life Insurance despite the inflationary pressures described above. We adopted a very cautious investment strategy by deploying 77% of the General Insurance portfolio and 85% of the Life Insurance portfolio in high yielding Government Securities as at the year end. This combination of sustained business expansion coupled with prudent management of expenses and investments helped us achieve a pleasing growth in our bottom line.

In achieving the above, I must record with much appreciation the guidance and support received from the Chairman and the Board of Directors. My team at HNB Assurance, comprising the General Managers, Managers, members of staff, field management and insurance advisors have worked with great enthusiasm and commitment to deliver these results and I am greatly indebted to them for their valuable inputs. I must also convey my appreciation to our insurance brokers, managers and staff of all HNB branches, other intermediaries, re-insurers, re-insurance brokers and other strategic partners for the unstinted support they extended to us.

**What do you see as the key issues that need to be addressed in the coming year ?**

We have identified two critical areas that merit our attention in the year 2009. First, we need to strengthen

our brand further if we are to effectively challenge the well-established players in the market who enjoy higher levels of brand awareness. Hence, a series of innovative advertising campaigns and promotional activities will be launched to create a distinct brand identity for the Company independent of the HNB brand. We will also pay special attention to the need to carry the message of Life Insurance to the younger segments of the population who have hitherto not paid adequate attention to this important aspect of financial planning.

Secondly, we have identified our IT systems as an area that needs further upgrading to meet the increasing demands of our customers. A significant deployment of resources will be made to strengthen the IT capability of the Company with the objective of enhancing the quality of our customer service while improving the productivity of our workforce at the same time. We will be upgrading our core insurance system to the latest available version offered by the current vendor while implementing additional modules to handle finance, claims and reinsurance functions. Further, we will be implementing a business intelligence solution that will provide the entire management team easy access to management information to facilitate more informed decision making at all levels.

**How confident are you about the Company's future outlook ?**

The Company has built a very solid foundation during the past seven years, a factor that gives us the ability to keep moving forward even in the midst of a turbulent economic environment. With the strong multi-channel distribution network and the sound technical capability already in place being boosted by the investments that will be made into brand building and IT systems, I am confident the Company will be able to continue its forward thrust delivering superior value to all our stakeholders as it has done always.



**Manjula de Silva**  
*Managing Director*

Colombo, Sri Lanka  
30th January 2009

## Board of Directors



**RIENZIE T. WIJETILLEKE**  
*Chairman*

**MANJULA DE SILVA**  
*Managing Director*

**R THEAGARAJAH**  
*Director*

**M U DE SILVA**  
*Director*



**J M J PERERA**  
*Director*

**J D N KEKULAWALA**  
*Director*

**PRATAPKUMAR DE SILVA**  
*Director*

**D MANIK DE SILVA WIJEYERATNE**  
*Director*

**INDRANI GOONESEKERA**  
*Board Secretary*

## Board of Directors

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

Non-Executive Director. Chairman since March 2004. Chairman of Hatton National Bank PLC, HNB Stockbrokers (Pvt) Ltd (up to 3rd November 2008), HNB Securities Ltd (up to 4th November 2008), Sithma Development (Pvt) Ltd and Sunshine Holdings PLC, Director of Nawaloka Hospitals PLC, Ceylon Biscuits Ltd and Mahaweli Reach Hotels PLC. Former Chairman and Director of 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. Vice President of the Insurance Association of Sri Lanka. Member of several sub-committees 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 24 years experience in Banking including overseas assignments. Director of HNB Stockbrokers (Pvt) Ltd, HNB Securities Ltd, Sithma Development (Pvt) Ltd, Acuity Partners (Private) Ltd, Lanka Financial Services Bureau Ltd, Chairman - Sri Lanka Banks' Association (Guarantee) Ltd, Vice Chairman - 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.

**J M J PERERA** FCIB (London)  
*Director*

Non-Executive Director. Senior Deputy General Manager (Business Development & International) of Hatton National Bank PLC. Counts over 37 years experience in Banking. Director - HNB Stockbrokers (Pvt) Ltd (Chairman with effect from 3rd November 2008), HNB Securities Ltd (Chairman with effect from 4th November 2008), Acuity Partners (Private) Ltd and Lanka Ventures 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 15 years as a member of the Corporate Management. Director of Sithma Development (Pvt) Ltd, HNB Stockbrokers (Pvt) Ltd (up to 3rd November 2008), HNB Securities Ltd (up to 4th November 2008) and Lanka Ventures Ltd.

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

Non-Executive Director. Senior Chairman, Alliance Group of Companies, Director of several other companies and institutions. Counts over 53 years experience in the finance sector. First Sri Lankan to be honoured as a Fellow of the Institute of Credit Management, England. 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. Chairman & Joint Managing Director of Alliance Finance Co PLC. Honorary Consul of the Republic of Peru in Sri Lanka.

**D MANIK DE SILVA WIJEYERATNE** ACA (Sri Lanka)  
*Director*

Non-Executive Director. 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. 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 - ILICN Pakistan Country Office (one of the biggest NGOs in the field of environment) and the CFO of the Pership Group of Companies.

**INDRANI GOONESEKERA** Attorney-at-Law & Notary Public  
*Board Secretary*

## Executive Committee



Left to Right

- **GERRY GUNADASA** ACII (UK)  
*General Manager - General*
- **MANJULA DE SILVA** BA Hons (Colombo), MBA (London),  
FCMA (UK)  
*Managing Director*
- **INDRANI WEERASINGHE** ACII (UK), BSc Hons (J'pura),  
PgDip Stat (J'pura)  
*General Manager - Life*
- **LALITH FERNANDO** EDBA (Colombo), CII (Award) (UK)  
*General Manager - Marketing and Distribution*

## Management Team



Left to Right

- **BAZLIN SALIH**  
*Regional Manager - Southern*
- **NILESH AMARASINGHE** BSc Hons (Lon), M. BUS (Fin) (Syd)  
*Manager - Investments*
- **CHANDANA L ALUTHGAMA** BCom (Sp), MCMI, MBA (Colombo)  
*Business Development Manager - Corporate*
- **HAZANA CAFFOOR** Dip-MGT  
*Manager - Motor*
- **VIVEKANANDAN CHITPARAN**  
*Accountant*
- **NAMAL GUNAWARDHANE** BCom Hons (India), BIT (India)  
*Head of IT*
- **DONALD NANDALAL** BSc Eng (Hons), PG Dip B & Fin Ad (SL), AMIE (SL)  
*Manager - Engineering Services*
- **JEHAN HANIFF** CII (Award) UK, Mgt. Diploma - CHS  
*Manager - Training and Development*
- **DINESH UDAWATTA** BSc (Hons)  
*Manager - Life Servicing*
- **MANIKAVASAKAR PUVIRAJ** BSc (Hon), Dip HR,  
*Regional Manager - Northern*



● **JUDE WEERAKOON** AMInstCM (UK), ASSM (UK)  
*Manager - Broker Development and Field Promotions*

● **VIPULA DHARMAPALA** B.Sc (Bus. Admin) SP., ACA  
*Finance Manager*

● **SALIYA DIAS** M.Sc, Ph.D  
*Manager - Life Underwriting*

● **MADIRA AMERASINGHE** LLB, Attorney-at-Law  
*Manager - Legal, Compliance and Title Insurance*

● **NISHANTHA BANDARA** BA (Hon) Econ Special  
*Regional Manager - Central*

● **GEETHANI SARAM** MBCS, MBA (Australia), Cert. PM.  
*Manager - IT Projects*

● **HIRAN FERNANDOPULLE** BCom (Special) Col  
*Regional Manager - North Western*

● **SAJEEWA CHANDRASENA**  
*Regional Manager - Uva/Eastern*

● **ASANKA UNAMBOOWE** LUTCF (USA)  
*Sales Manager - Bancassurance*

## Operational Highlights

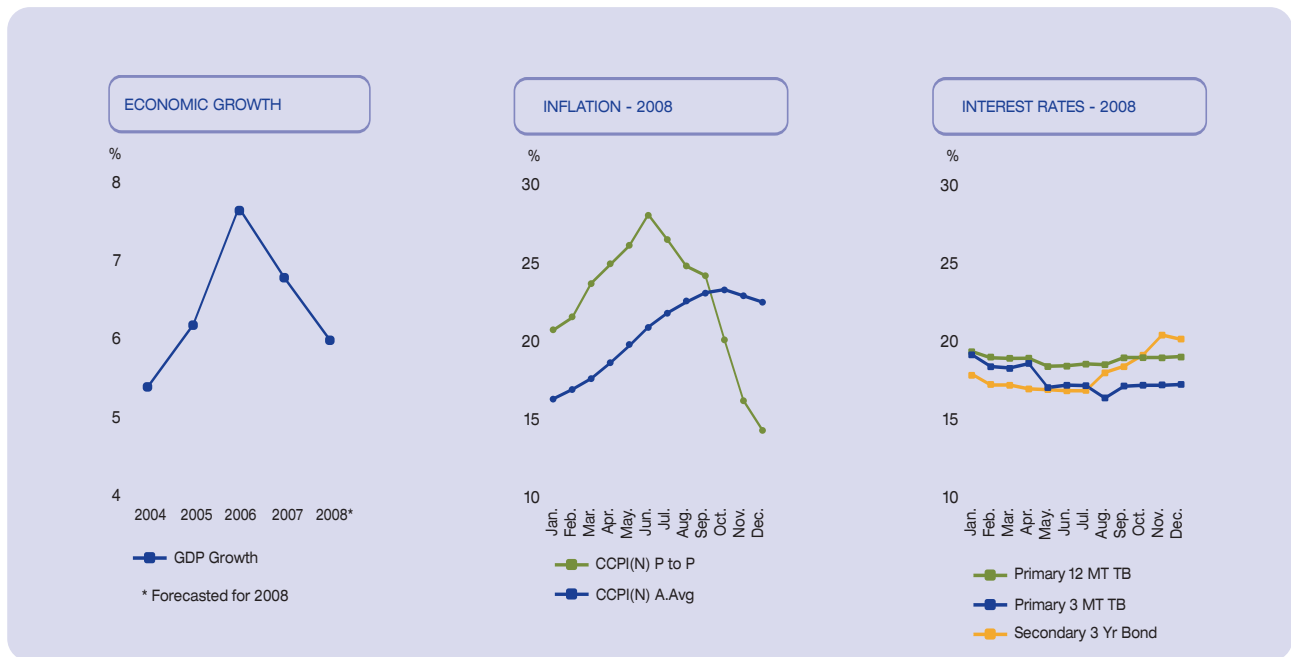
<b>Company</b>	<b>2008</b>	<b>2007</b>		
Gross Written Premium (Rs. Mn.)	<b>1,839</b>	1,472		
Net Written Premium (Rs. Mn.)	<b>1,450</b>	1,200		
Net Profit (Rs. Mn.)	<b>165</b>	123		
Return on Net Assets	<b>24%</b>	22%		
<b>General Insurance</b>				
Net claims ratio	<b>68.18%</b>	62.16%		
Expense ratio	<b>43.31%</b>	39.45%		
Combined ratio	<b>110.49%</b>	101.61%		
<b>Life Insurance</b>				
Net claims ratio	<b>5.35%</b>	3.67%		
Expense ratio	<b>51.18%</b>	50.06%		
Combined ratio	<b>56.53%</b>	53.73%		
<b>Customers</b>				
	<b>2008</b>	2007		
Number of Life Insurance policies	<b>63,222</b>	57,698		
Number of General Insurance policies	<b>75,559</b>	42,645		
Insurance claims and benefits (net) (Rs. Mn.)	<b>408</b>	317		
Number of claims assessors	<b>89</b>	74		
Number of branches	<b>43</b>	35		
<b>Employees</b>				
	<b>2008</b>		<b>2007</b>	
<b>Number of Staff</b>	<b>Number</b>	<b>Percentage</b>	<b>Number</b>	<b>Percentage</b>
Sales staff	<b>130</b>	<b>28%</b>	75	20%
Non-sales staff	<b>327</b>	<b>72%</b>	302	80%
Total	<b>457</b>		377	
Staff turnover		<b>18%</b>		17%
<b>Representation of Male and Female</b>				
	<b>2008</b>		<b>2007</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
Executive committee	<b>75%</b>	<b>25%</b>	80%	20%
Management	<b>86%</b>	<b>14%</b>	79%	21%
Executives	<b>71%</b>	<b>29%</b>	70%	30%
Non-Executives	<b>61%</b>	<b>39%</b>	58%	42%
<b>Career Development</b>			<b>2008</b>	<b>2007</b>
Number of training programmes		<b>84</b>		88
Number of induction and familiarisation programmes		<b>7</b>		13
<b>Field Staff</b>			<b>2008</b>	<b>2007</b>
Number of full time trainers		<b>3</b>		3
Pass rate for Life Insurance technical competency test		<b>73%</b>		70%
Number of field staff		<b>2,200</b>		1,527
Commission paid to field staff (Rs. Mn.)		<b>186</b>		146
<b>Shareholders</b>			<b>2008</b>	<b>2007</b>
Market price per share as at 31st December (Rs.)		<b>18.25</b>		24.50
Basic Earnings per share (Rs.)		<b>4.39</b>		3.29
Dividend per share (Rs.)		<b>1.25</b>		1.00
Market capitalisation (Rs. Mn.)		<b>694</b>		919
Basic Price earnings ratio (Times)		<b>4.16</b>		7.45





# Management Discussion & Analysis

## Management Discussion & Analysis



### THE ECONOMY

#### Gross Domestic Product (GDP)

The Sri Lankan economy, which grew by 6.8% in 2007, is likely to record a growth of around 6% in 2008. It is expected to slowdown further in 2009. Up to the 3rd quarter of 2008, the Sri Lankan economy grew at a rate of approximately 6.5% continuing the trend in the year 2007. This increase in GDP is primarily attributed to the positive contribution from the agricultural sector, mainly due to high commodity prices in the international markets, and the industrial sector.

Annual GDP growth for the year would slow down particularly due to the adverse effects of the global economic recession. Its impact would be much higher in 2009. One other main drag on the economy has been the security situation in the country which however is showing signs of improving. Should the security situation improve further the Sri Lankan economy no doubt will benefit considerably.

#### Inflation

Inflation in the year 2008 was substantially high and touched a high end of 28.2% (CCPI (N) Point to Point) in June 2008, then began to decline and finally stood at 14.4% in December 2008. However the CCPI (N) Annual Average was above 20% except in the first few months of the year. It ended the year at 22.6%. These considerable fluctuations in inflation rates were due to movements in oil prices and other related commodity

prices. With the decline in economic growth, energy and commodity prices will tend to come down further which would then have a positive impact on local inflation rates.

#### Interest Rates

Interest rates during the year were higher than in the year 2007 and stood within a range of 16% to 21%. In our opinion, interest rates are likely to remain at the same levels or may come down marginally in the year 2009 with the expected fall in inflation.

#### Exchange Rates

During the year 2008, exchange rates (particularly the LKR/USD) were relatively stable mainly due to continuous intervention by the Central Bank of Sri Lanka in the foreign exchange market. As a result of the Rupee being pegged to the USD for the greater part of the year, the former appreciated against most other currencies including the Euro due to the strong performance of the USD. Nevertheless, in the latter part of the year, the Sri Lankan Rupee depreciated substantially against the USD and marginally against the EURO. We also believe that the present exchange rates are not sustainable in the long run and it is expected that the USD will further appreciate against the SL Rupee by the end of 2009. The export sector, which has been badly affected by over valued exchange rates would in particular, continuously lobby for depreciation in the LKR and it is likely that such efforts will draw a positive response from the relevant authorities.



**Equity Market**

It is likely that the downward trend in the equity market will not change in the short to medium term. Both the ASPI and MPI have substantially declined during 2007 and 2008 and are expected to stay around these levels in the short run. There would be a positive impact on the equity market from the improvement in the security situation in the country which, however, will be negated to some extent by the effect of the global economic meltdown.

**THE INDUSTRY**

**Competitors**

The insurance industry in Sri Lanka which comprises 16 Insurance Companies is a major contributor to the financial service sector in the country. All major players in the market are composite insurers operating in both the Life and General Insurance businesses. 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 and cost effective service to the market. On the other hand, most of the companies in the market place, despite the severe competition and other difficulties, have secured a growth in revenue and profitability which is a key strength in the industry.

**Regulations**

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 the IBSL.

However, the Central Bank of Sri Lanka urged the insurance industry to be in strict compliance with the Financial Transactions Reporting Act, No. 6 of 2006 and the Prevention of Money Laundering Act, No. 5 of 2006. HNB Assurance, with the support of its parent company, has taken all possible steps to ensure proper compliance with these laws.

In addition, with the 2009 budget proposal, the Government proposed to change the standard VAT rate from 15% to 12% whilst introducing a new tax, the Nation Building Tax (NBT), which the General Insurance business has been made liable to pay at the rate of 1% of GWP.

**Growth**

Industry growth in the last few years was above 20% except in 2006 which recorded a growth of 16% due to the drop in premium growth from General Insurance. The contribution from Life Insurance to the industry growth is greater than that of General Insurance in the recent past.

## Management Discussion & Analysis



### FINANCIAL PERFORMANCE

#### Gross Written Premium (GWP)

The Company achieved an overall GWP of Rs. 1,839 Million during the year against the Rs. 1,472 Million recorded in the previous year securing a growth of 25%. The year on year growth shows a decline which is natural for any Company moving from the early growth stage to a more mature level. However, the GWP growth in the Company is still above the industry average which is estimated to be around 20%.

Company GWP	2004	2005	2006	2007	2008
Value (Rs. Mn.)	545	824	1,122	1,472	1,839
Growth	57%	51%	36%	31%	25%

The General Insurance sector again superseded the Life Insurance sector, especially during the latter part of the year. However, since the difference was marginal, both sectors contributed equally towards the overall GWP achievement.

Life Vs General GWP	2004	2005	2006	2007	2008
(Rs. Mn.)					
Life	206	354	503	768	914
Growth	97%	72%	42%	53%	19%
General	339	470	619	704	925
Growth	39%	39%	32%	14%	31%

A negative growth in Life Insurance can be noticed in the last quarter of 2008 whereas the growth in the first two

quarters is exceptionally high. This can be attributed to the general slowdown experienced in the economy as a result of the global recession. Similarly, the growth in General Insurance in the last two quarters was remarkable compared to the moderate growth recorded in the first two quarters. This is due to the Company securing a few large policies including the Contractor's All Risk (CAR) policy for the construction of the Oluwil Port project on the Eastern Coast of Sri Lanka.

#### Quarterly Company

	Q1	Q2	Q3	Q4	Total
<b>2008 (Rs. Mn.)</b>					
Life	195	249	237	233	914
General	212	206	280	227	925

#### 2007 (Rs. Mn.)

Life	140	154	224	249	768
General	184	168	190	163	704

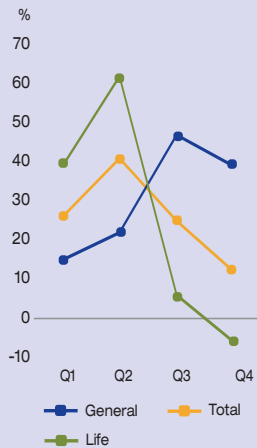
#### Growth

Life	39%	62%	6%	(6%)	19%
General	15%	22%	47%	39%	31%
Total	26%	41%	25%	12%	25%

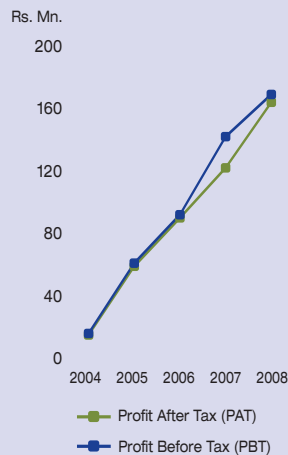
#### Profitability

The consolidated Profit Before Tax for the year increased to Rs. 170 Million from Rs. 143 Million which is a growth of 19% over the previous year. Profit After Tax also showed a growth of 33% from Rs. 123 Million in 2007 to Rs. 164 Million in 2008. The tax charge for the year declined considerably as a result of a reversal of an over provision in respect of last year.

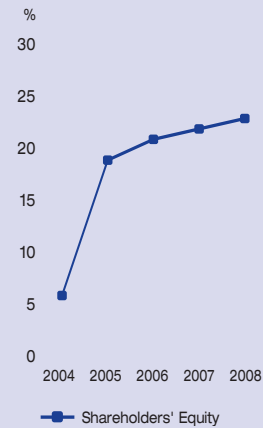
QUARTERLY GWP GROWTH 2008



PROFITABILITY



GROWTH IN SHAREHOLDERS' EQUITY

**PBT and PAT**

(Rs. Mn.)	2004	2005	2006	2007	2008
Profit Before Tax (PBT)	17	62	93	143	170
Profit After Tax (PAT)	16	60	91	123	164

The rate of growth in PBT has come down from last year. This is due to the substantially high claims expenses in General Insurance which is a challenge faced by all players in the industry, as well as the overall increase in management expenses which is attributed to the high rate of inflation experienced during the year.

The contribution from General Insurance business to PBT was Rs. 70 Million, a decrease of Rs. 8 Million over the last year due to the reasons mentioned above. The Life Insurance contribution grew from Rs. 65 Million in 2007 to Rs. 100 Million in the year 2008 which is a substantial growth of 54%.

**Contribution to**

PBT (Rs. Mn.)	2004	2005	2006	2007	2008
General Insurance	17	52	63	78	70
Life Insurance	-	10	30	65	100
Total	17	62	93	143	170

**Stability**

Even though we have been in operation for a relatively short period of time, the Company has experienced a continuous increase in total assets and liabilities.

**Total Assets, Liabilities and Shareholders' Equity**

(Rs. Mn.)	2004	2005	2006	2007	2008
Total Assets	784	1,106	1,475	2,009	2,799
Total Liabilities	472	734	1,025	1,460	2,123
Shareholders' Equity	312	372	450	549	676

Shareholder's equity which is equal to net assets also shows a steady growth over the last 5 years confirming the stability of the Company.

**LIFE INSURANCE****GWP Growth**

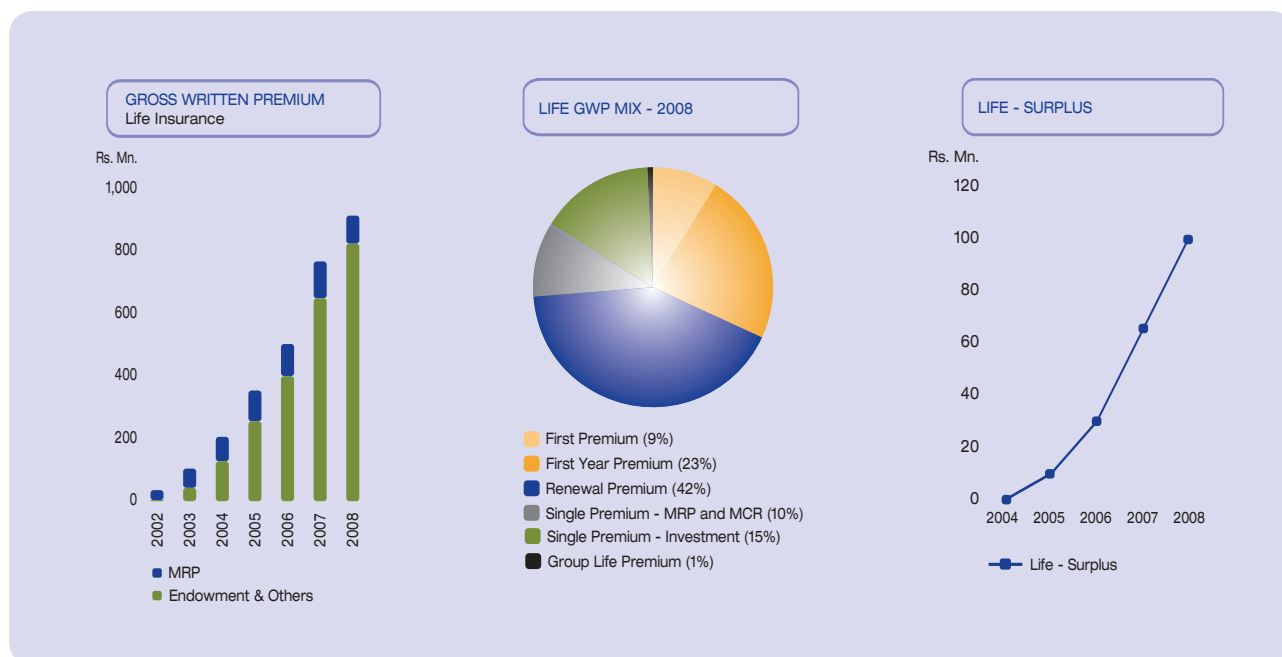
Life insurance business grew at a considerably high rate in the last 5 years.

Life GWP	2004	2005	2006	2007	2008
Life (Rs. Mn.)	206	354	503	768	914
Growth	97%	72%	42%	53%	19%

However, the growth momentum in Life Insurance came down in 2008 especially during the latter part of the year. This decline is considered to be a consequence of the current economic downturn which is impacting negatively on the people's capacity to save.

Traditional endowment policies contributed Rs. 674 Million (2007 - Rs. 548 Million) to the GWP showing a growth of 23% over last year. The "Super 5" policy which is a single premium investment plan also provided a considerable contribution to the GWP in 2008 as was

## Management Discussion & Analysis



the case in 2007. GWP generated from the “Super 5” policy was Rs. 141 Million (2007 - Rs. 97 Million).

Life GWP	2008	2007
	Rs. Mn.	Rs. Mn.
First Premium	80	80
First Year Premium	211	196
Renewal Premium	383	272
Single Premium - MRP and MCR	92	119
Single Premium - Investment	141	97
Group Life Premium	7	4
<b>Total</b>	<b>914</b>	<b>768</b>

### Profitability

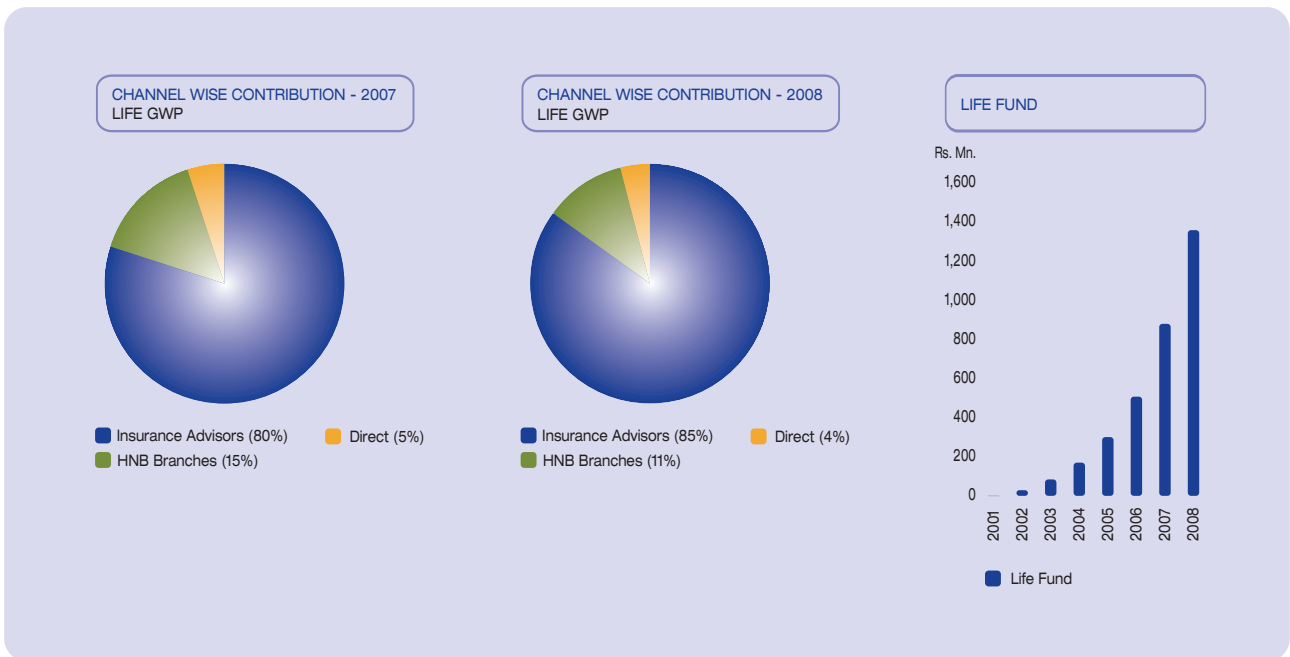
During the year the Company managed to allocate Rs. 24.5 Million as bonus to policyholders. The bonus rates varied according to the number of years with a maximum of Rs. 40 per Rs. 1,000 Sum Assured, for policies purchased during 2002 and 2003. The surplus released to shareholders also grew by 54%, from Rs. 65 Million last year to Rs. 100 Million in the year 2008. The overall surplus in Life Insurance was such that the Company could comfortably meet the solvency requirements after the bonus declarations to policyholders, surplus transfer to shareholders and making due provisions for contingencies.

The Company also received a profit commission of approximately Rs. 27 Million from its reinsurer in recognition of the profitable business enjoyed by them in recent years.

### Business Channels

The advisor channel, being the primary contributor to the Life GWP, contributed 85% to the GWP, a figure that stood at 80% in 2007. HNB Assurance has the benefit of a strong, highly trained, performance driven and self motivated team of professionals numbering over 1,900 operating as Life Insurance advisors. During the year, the Company paid a high level of attention to the quality improvement of advisors by making it compulsory for them to get through the examinations conducted by the Sri Lanka Insurance Institute (SLII) as required by IBSL rules. A detailed discussion of the advisor channel is included in pages 35 and 36 under the Sustainability Report.

The bancassurance channel also offered a healthy contribution to the Life GWP during the year. The Company commenced a new programme with HNB to streamline the bancassurance channel and to exploit the advantage of being a subsidiary of one of the largest private sector banks in the country. Under this new initiative, the Company has the facility of stationing an officer of the Company in the premises of selected branches of the Bank. This project has got off to a successful start and during the year 40 such officers were employed in 40 HNB branches with plans to increase the number to 70 during the year 2009. This project is closely monitored by the senior management of both the Company and the Bank and is expected to generate a significant contribution to the Company's GWP.



**Life Fund**

The Company's Life Fund crossed the important milestone of Rs. 1 Billion during the year which is a remarkable achievement for a company of this age. The Life Fund at the year end stood at Rs. 1,361 Million as against the Rs. 881 Million in 2007.

**Solvency Margins**

The Company achieved the solvency requirements of Life Insurance comfortably throughout the year as in previous years. As at the year end, the Company held admissible assets to the value of Rs. 1,442 Million while the liabilities stood at Rs. 1,225 Million. The Available Solvency Margin (ASM) for Life Insurance was Rs. 217.1 Million while the Required Solvency Margin (RSM) was only Rs. 55.1 Million. Therefore, the solvency ratio recorded a very strong level of 3.94.

**GENERAL INSURANCE**

**Growth**

The total GWP in General Insurance for the year grew at 31% compared to 14% in the previous year, returning to the growth momentum experienced before 2007. This is a remarkable achievement again in the highly competitive General Insurance market whilst strictly implementing the Premium Payment Warranty (PPW) continued from last year.

**Class Wise GWP**

The key contributors to the impressive growth in General Insurance GWP are the fire and miscellaneous classes whilst the motor and marine classes have also contributed adequately. During the year, the Company managed to underwrite a Contractors All Risk Policy for the construction of the Oluwil Port Project which generated a substantial premium to the Company and was the key contributing factor to the growth in the fire class. A couple of other large policies related to the construction of a power plant and a hostel in the Northern Province also contributed positively to the overall performance.

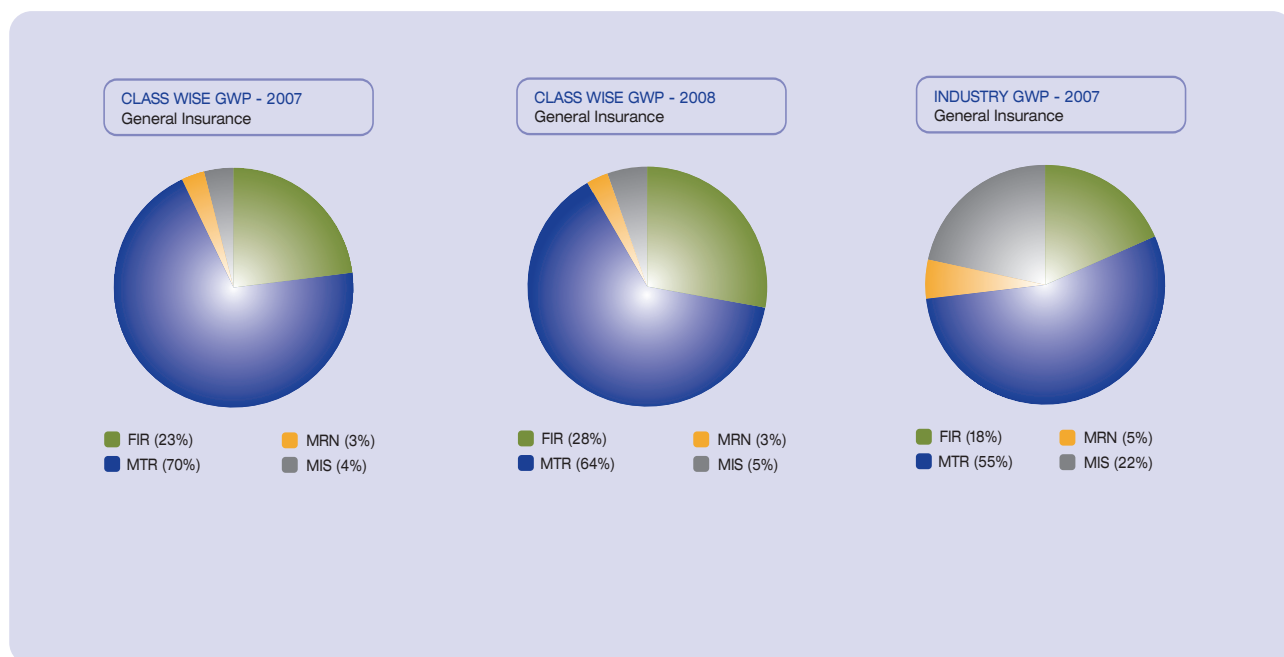
GWP growth in the miscellaneous class was also very impressive even though the relative contribution to GWP was comparatively low. The main contributors to the sharp increase in the GWP in this class are medical and travel insurance policies sold during the period.

**GWP - General**

(Rs. Mn.)	FIR	MTR	MRN	MIS	Total
2008	258	590	27	50	925
2007	162	492	22	28	704
Growth	59%	20%	23%	79%	31%

One other notable achievement during the year is the decrease in the excessive reliance the Company had on the motor class with the expansion of the contribution from other classes. Accordingly, the contribution from

## Management Discussion & Analysis



motor class to the total GWP has come down from 70% in 2007 to 64% in the year 2008, which is a result of a carefully planned and executed strategic move of the Company.

However, the contribution from the motor class to the Company GWP is still higher than the industry percentage which was around 55% in 2007 and the management will endeavour to improve the contribution of other classes further.

### Profitability

High claims and expense ratios are an emerging challenge to most of the players in the General Insurance industry. In 2007, the combined ratio of the Company was marginally above 100%. The combined ratio further increased to 110% this year due to intense price competition, rapidly escalating claims and the exceptionally high inflation rate that prevailed in the country during the period.

The Net Claims Ratio (NCR) increased from 62% to 67%. The highest NCR is in the miscellaneous class which is mainly attributed to the high amount of medical claims which is a common phenomenon in the industry. NCR in the motor class, which experiences the highest numbers of claims, has also increased from 61% to 66%.

### Net Claims Ratios - General

	2008	2007	2006	2005	2004
Fire	57%	80%	40%	36%	84%
Motor	66%	61%	61%	53%	57%
Marine	19%	31%	3%	68%	12%
Miscellaneous	118%	100%	135%	98%	172%
Total	67%	62%	60%	54%	62%

The expense ratio also increased to 43% from the 39% recorded last year. There was a considerable increase in administrative, traveling and other utility expenses mainly due to high inflation and this resulted in the said unfavourable movement in expenses. However, when taken together, the expenses were maintained at budgeted levels.

### Expense Ratio - General

Year	2008	2007	2006	2005	2004
%	43	39	38	41	45

Accordingly, the General Insurance business generated a deficit of Rs. 57 Million at underwriting level, against the Rs. 7.5 Million deficit experienced last year, mainly due to high claims and expense ratios.

### Business Channels

HNB branches have been the main contributor to the General Insurance GWP since the inception of the Company and the same trend was seen in the year under review as well. However, there is a notable decrease in the extent of reliance on the GWP





generated through HNB branches, which is also a commendable factor in the Company's overall performance. The Company recognises the importance of the HNB branch network and therefore all possible steps are being taken to capitalise on any opportunity generated from this network. The senior management of both companies together with their respective teams are highly committed to this goal and are working together to achieve a high growth in GWP as well as profitability through this channel. The Company has introduced various competitions and events in order to make sure that the HNB staff is highly motivated in this regard. The Company's branches too play a major role in liaising with the relevant branches of the HNB.

On the other hand, the Company also understands the importance of other distribution channels such as brokers and insurance advisors. Therefore various activities and training programmes were carried out targeting insurance brokers in order to improve business generation together with profitability.

According to the IBSL regulations, all advisors must fulfill the requirement of getting through examinations conducted by Sri Lanka Insurance Institute (SLII) with effect from the 1st of January 2009 in order to act as General Insurance advisors. HNB Assurance, as a professional insurance service provider, accepts the importance of this requirement and has already taken appropriate measures to be in compliance.

**Solvency Margins**

The Company achieved the solvency requirements of General Insurance comfortably throughout the year as in previous years. As at the year end, the Company held admissible assets to the value of Rs. 851.6 Million while the liabilities stood at Rs. 591.9 Million. The Available Solvency Margin (ASM) for General Insurance was Rs. 259.7 Million while the Required Solvency Margin (RSM) was only Rs. 123.1 Million. Therefore, the solvency ratio recorded a very strong level of 2.11.

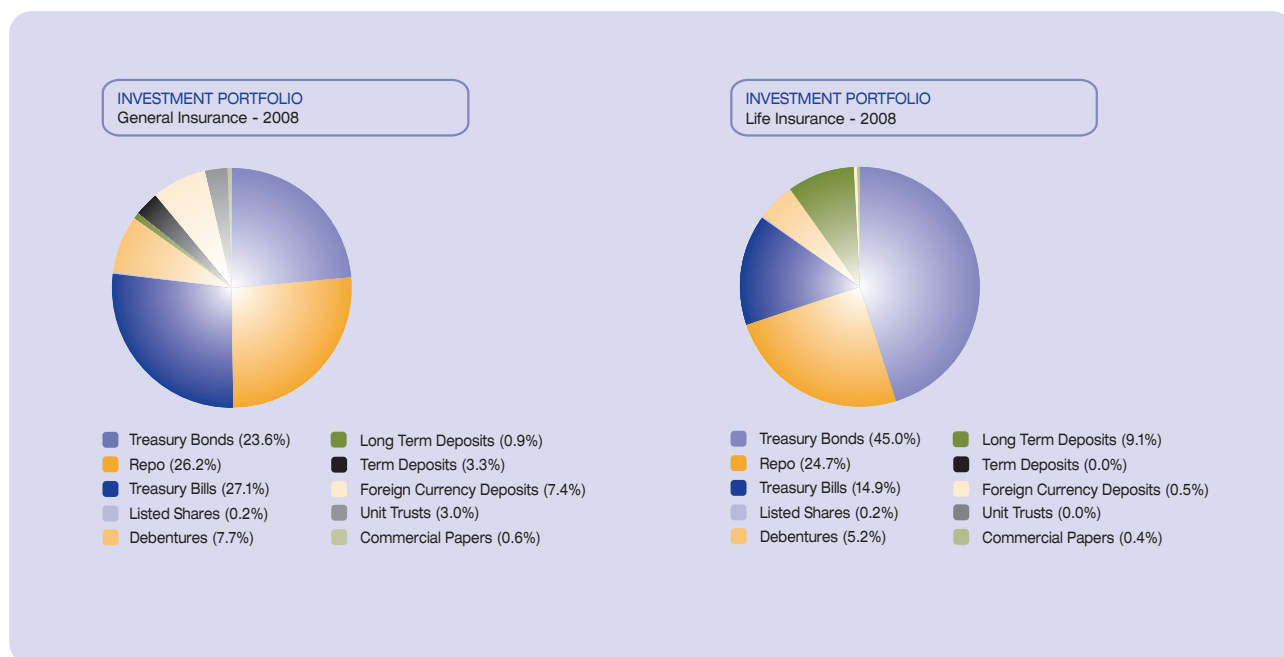
**INVESTMENTS**

**Investment Strategy and Framework**

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

The Company's investments are categorised under 3 different funds; General (Non - life) Fund, Life Fund and Life Shareholders' Fund. The Company manages all these investments in house and does not use an external Fund Manager.

## Management Discussion & Analysis



### Regulatory Environment

As mentioned above, investment strategies of the Company are geared to the regulatory requirements contained in the Regulation of Insurance Industry Act, No. 43 of 2000 and other rules and regulations made thereon by the Insurance Board of Sri Lanka (IBSL).

The solvency margin is monitored regularly to ensure that the Company maintains the stipulated solvency levels in a consistent manner and to take swift remedial action if and when required to ensure compliance. The solvency margin requirements of both Non - life and Life business have been fulfilled throughout the year as per the regulations.

### Investment Performance

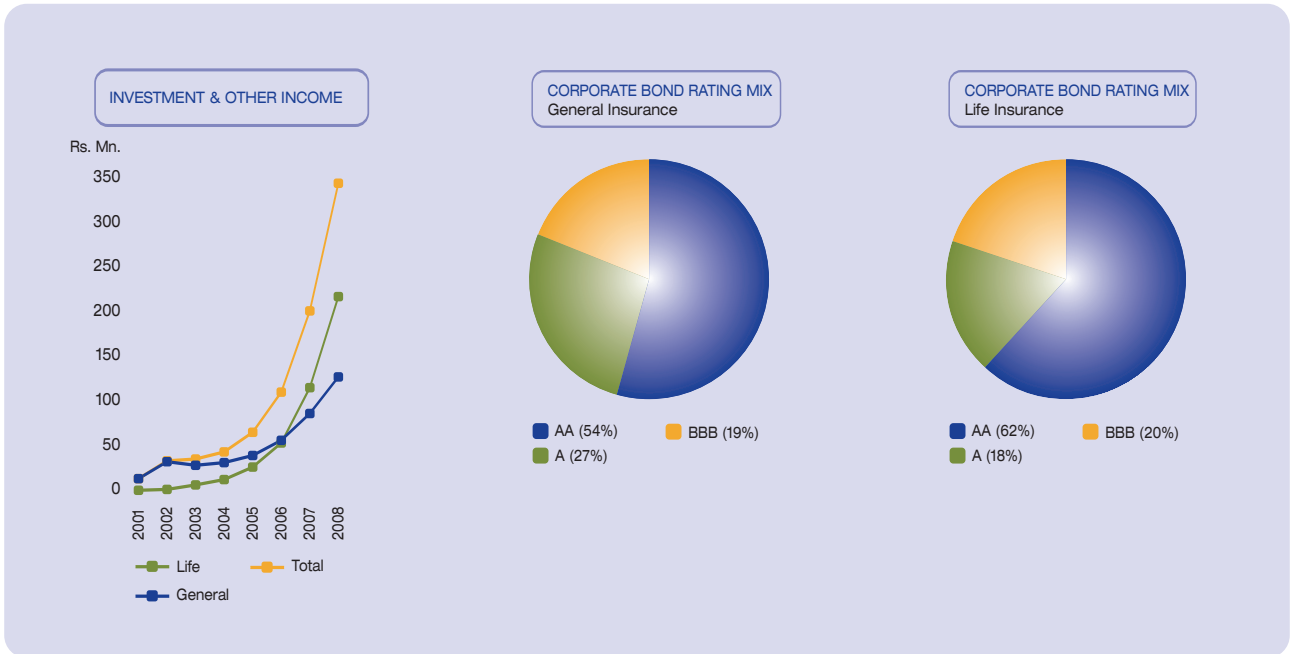
Overall profitability was greatly boosted by the excellent performance of the Company's General and Life investment portfolios during the year 2008. The Life Fund recorded an investment income of Rs. 215 Million which is a remarkable growth of 89% over the previous year. The General Fund also recorded an investment income of Rs.127 Million, a 47% growth over the previous year.

This impressive increase in investment income was possible due to the cautious but active and dynamic fund management strategy adopted by the Company through a combination of prudent asset allocation, efficient and effective treasury and liquidity management, market timing and effective negotiation with market

intermediaries. These results have been achieved in spite of the disadvantages due to the relatively small size of the fund compared to large capital market players. This helped to achieve healthy average investment yields of 18.5% and 19.5% on the General and Life funds respectively, without taking undue and excessive risks, while capitalising to the maximum extent on the prevailing market conditions especially the high interest rates available on Government Securities. While the average total investment yield of the Company outperformed the other industry players in 2007, we believe that investment yields achieved during 2008 to also be comparatively high against other industry players according to our estimates.

### Funds under Management

Funds under the Life Insurance portfolio totalled to Rs. 1,269 Million at the end of 2008 (2007 - Rs. 865 Million) including cash equivalents. This indicates a remarkable growth of 47% over the previous year. Meanwhile, assets under the General Insurance portfolio also increased up to Rs. 824 Million from Rs. 681 Million in the previous year by a rate of 21%. Accordingly, the total assets under management crossed the important milestone of Rs. 2 billion during the year under review and stood at Rs. 2,093 Million at the year end. The corresponding amount in the previous year was Rs. 1,546 Million. Thus, the overall growth in total assets under management stood at 35%.



**Investment Portfolio**

**Government Securities**

Due to the prevailing market conditions and regulatory restrictions, the majority of our General and Life Fund investments were held in Government Securities. As a percentage of the total investment portfolio of General and Life Funds, Government Securities amounted to 77% and 85% respectively. Investments in Government Securities by General and Life Funds amounted to Rs. 633 Million and Rs. 1,076 Million respectively.

**Corporate Debt**

The total Corporate Debt portfolio in General and Life Funds amounted to Rs. 68 Million and Rs. 70 Million respectively which contributed 8% and 5% to the General and Life insurance portfolios respectively. During the latter part of the year both General and Life Funds subscribed to the listed debenture issues of Singer Sri Lanka PLC and Bank of Ceylon to capitalise on the attractive interest rates they offered at an acceptable risk. All the investments of the Company in corporate debt instruments are rated.

**Equity**

The Company held a very small exposure to the equity market due to the poor performance of the market. No new investments were made in the equity market and the Company disposed of certain holdings. Further, we accepted the 1:25 share-buyback option offered by

John Keells Holdings PLC in November 2008. However, we are monitoring the market carefully and intend to capitalise on any opportunity which may present itself depending on the market environment. In order to improve our state of readiness to respond to such an opportunity, we have embarked on the identification of a model equity portfolio.

**Other**

During the year, we widened our scope of investments by investing in the Ceybank Gilt Edged Fund and NAMAL Gilt Edged Fund. The General Fund's exposure to foreign currency investments which are held in both US dollars and Euros rose to Rs. 61 Million which is a 47% increase over the previous year while the Life fund exposure stood at Rs. 6 Million. All the foreign currency investments are invested within Sri Lanka with reputed banks and we do not have any investments overseas.

**INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)**

ICT in today's context plays an important role in any business organisation and should be addressed adequately and consciously. As a rapidly emerging player in the insurance industry, HNB Assurance in particular has identified the importance of having a proper ICT framework which would further strengthen the capabilities of the Company.

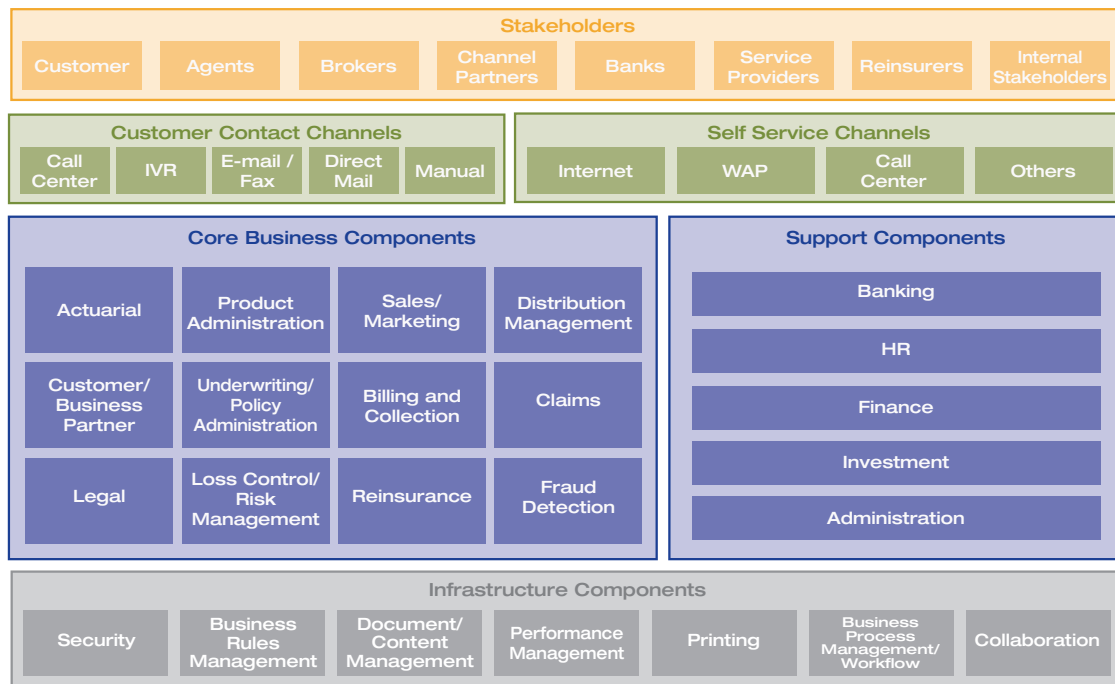
## Management Discussion & Analysis

Accordingly, the Management has identified the task of improving the Company's systems and processes as a vital need at this juncture to improve customer service, enhance profitability by facilitating better targeting with the use of superior management information and manage the growth in staff numbers by improving productivity. The Company's IT Division has launched many initiatives to support the business by becoming a strategic partner in providing information services to the management and staff engaged in operating and driving the business. Thus, the vision of the IT division has been aligned with the Company vision as outlined.

In line with Company's 2009 strategic direction, the IT Division has identified the requirement of leveraging many areas in the business architecture of an insurance organisation. Areas of focus for the year 2009 are as follows.

Leveraging core business components will be the main area of concentration during 2009. This will streamline and improve the core business processes of the Company. In addition providing integrated applications for servicing divisions such as finance and HR will enhance the business process.

### Business Architecture in an Insurance Organisation



Provision of Information Technology support “to be Sri Lanka’s most admired and trusted partner in meeting insurance needs professionally with a spirit of caring.”

To realise the vision, IT Division concentrates on the following key areas.

- Sharing common commercial goals of the Company
- Formulating the IT strategy that best facilitates implementation of the business strategy
- Supporting the Company to optimise its competitive advantage

The business architecture of HNBA provides guidance for the IT division to operate as a strategic partner in the company.

Since we already have the core insurance application from the proprietary world, IT Division plans to implement open source solutions in the areas of Business Intelligence, Customer Relationship Management (CRM), HR, Workflow Management Systems, Content Management Systems, Collaboration Suite and Document Management System which would bring about significant cost savings while delivering state of the art solutions that are on par or better than proprietary ones.

Further improvement of IT infrastructure such as collaboration, business process management work-flow and document management will be implemented by 2009, along with infrastructure deployment.

During the second phase towards the year 2010, external service providers and business partners such as banks, brokers, hospitals etc. will be integrated with the application systems in order to improve and enhance interoperability. A proper system of Business Intelligence (BI) application will be introduced with a view to enhancing the overall business performance of the Company. Although, BI is an expensive solution, a cost effective methodology will be adopted using open source concept to minimise the scale of investment. Customer contact components and self service components will also be improved simultaneously.



## ACHIEVEMENTS

Even though HNB Assurance is comparatively young, the Company's short history is full of success stories and achievements. HNBA is recognised as the fastest growing insurance company in the country which is a reflection of the consistently high rates of growth achieved by the Company, every year since inception.

In addition to financial and such other indicators, the Company received two notable recognitions during the year.

- First, the Company was ranked as the 57th among the "Top 100 Brands" in Sri Lanka by the Lanka Monthly Digest (LMD) in association with Brand Finance. Also, considering the Company's financial strength among several other factors, LMD extended a B + rating to the HNB Assurance brand. It is in deed a remarkable achievement for a company of our age and size to be ranked as a top brand in the country.
- Secondly, the Company won a Silver Award by emerging the Runner-up in the Insurance Sector at the Annual Report Awards 2008 conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL) for its 2007 Annual Report.

In addition, the Company holds a national insurer financial strength rating of 'A (lka)' and a national long term rating of 'A-(lka)' with stable outlooks received from Fitch Ratings Sri Lanka.

## "HNBA" BRAND AND BRAND BUILDING

As mentioned above, the Company was ranked as the 57th among the top 100 brands in the country during the year 2008 by LMD in association with Brand Finance. Accordingly, the brand value was estimated to be Rs. 138 Million. This is all the more noteworthy considering that brand-building advertising has been minimal over the past few years. In particular, the Company has not carried out any mass scale advertising campaign on TV, Radio etc. but has yet been recognised as a top brand. The strength of the brand was further confirmed in a market research carried out by LMRB which indicated a total awareness rate of 82% for the Company brand.



The Company carried out various activities during the year from street promotions to national level sponsorships as a part of its cost effective brand building strategy. The Company introduced its own propaganda vehicle which is on par with the best available in the country and made maximum use of it. For instance, the Company propaganda team in collaboration with "SIRASA FM" visited 100 villages throughout the country as a part of the "SIRASA SATHARA MAHA NIDANAYA" programme which gave the Company a lot of visibility in the rural areas of the country. One other important event that took place in the year was the re-launching of "Motor Guard" with new and improved features and buttressed by a street campaign carried out with the active participation of employees at all levels including the Managing Director onwards.

The Company was also the main sponsor of two national level events during the year, the "SLIM Nielsen Peoples

## Management Discussion & Analysis

Award” and the “UN Day”. The UN Day in particular organised by the United Nations Association of Sri Lanka has become a key event of the Company calendar since we have been sponsoring the event for three years consecutively. Even though these are single events, the Company is of the view that participation in events of this nature would add significant value and image since we can directly engage with the audience at these occasions.

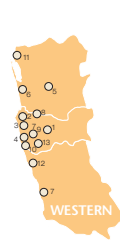
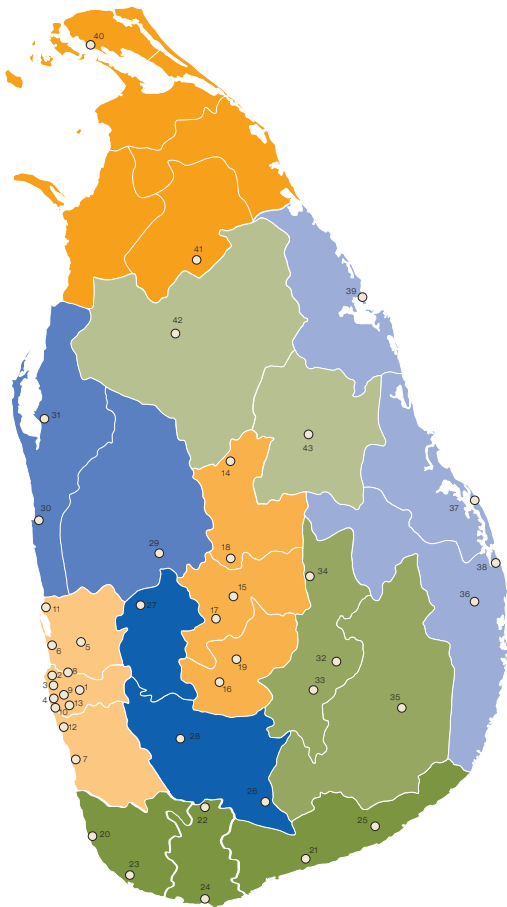


However, in spite of the numerous steps taken to date, the level of awareness on the 'HNB Assurance' brand is not yet adequate in our view to support a significant expansion of business volumes, particularly from non-HNB sources. Therefore, the Company intends to conduct a lot more activities in the year 2009 in order to bring more value and greater visibility to the Company brand. In fact, the Company initiated the process by appointing two outstanding personalities in the field of music, Bathiya and Santhush (“BnS”) as brand ambassadors of the Company for a period of 3 years to promote Life Insurance. The duo are widely considered youth icons and are expected to enhance awareness of Life Insurance among the youth. The Company strongly believes that Life Insurance penetration of the country is at an unacceptably low level and that it is the responsibility of the Company to correct this to the benefit of the people, the industry and the country as a whole.

### DISTRIBUTION NETWORK

The last few years have seen HNB Assurance expand rapidly in terms of the number of branches, number of employees, number of advisors etc. living up to its reputation as the fastest growing Company in the industry. We added eight new branches to the distribution network during the year 2008 thereby enhancing company visibility islandwide, including the North and East. Accordingly, our extensive distribution network now consists of forty three branches and all these branches provide both Life and General Insurance services to our customers. We at HNB Assurance acknowledge the necessity of islandwide coverage with the presence of our own distribution network which in turn allows us to expand services to our rapidly growing customer base. 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.

## Distribution Network



GWP Rs. 909.1 Mn.



GWP Rs. 150 Mn.



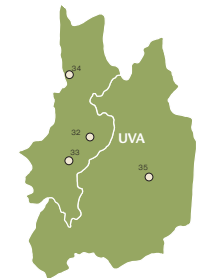
GWP Rs. 167.5 Mn.



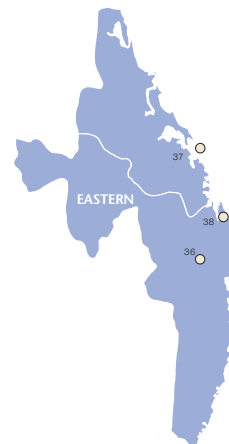
GWP Rs. 115 Mn.



GWP Rs. 123.6 Mn.



GWP Rs. 87.5 Mn.



GWP Rs. 79.2 Mn.



GWP Rs. 160.5 Mn.



GWP Rs. 46.6 Mn.

### WESTERN

- 1 Malabe
- 2 Colombo - North
- 3 Colombo - South
- 4 Colombo - West
- 5 Gampaha
- 6 Ja-Ela
- 7 Kalutara
- 8 Kiribathgoda
- 9 Maharagama
- 10 Mount Lavinia
- 11 Negombo
- 12 Panadura
- 13 Piliyandala

### CENTRAL

- 14 Dambulla
- 15 Kandy
- 16 Hatton
- 17 Gampola
- 18 Matale
- 19 Nuwara Eliya

### SOUTHERN

- 20 Ambalangoda
- 21 Ambalantota
- 22 Deniyaya
- 23 Galle
- 24 Matara
- 25 Tissamaharama

### SABARAGAMUWA

- 26 Embilipitiya
- 27 Kegalle
- 28 Ratnapura

### NORTH WESTERN

- 29 Kurunegala
- 30 Chilaw
- 31 Puttalam

### UVA

- 32 Badulla
- 33 Bandarawela
- 34 Mahiyanganaya
- 35 Monaragala

### EASTERN

- 36 Ampara
- 37 Batticaloa
- 38 Kalmunai
- 39 Trincomalee

### NORTHERN

- 40 Jaffna
- 41 Vavuniya

### NORTH CENTRAL

- 42 Anuradhapura
- 43 Polonnaruwa



**GENERAL**

**MOTOR GUARD - Vehicle Insurance**

Motor Guard from HNB Assurance adds the dynamism of youth to experience and expertise to give you a wider range of benefits that cover every possible risk motorists need to be ready for and is more than just a motor insurance.

**NAVODA - Business Insurance plan**

HNB Assurance, constant provider of insurance solutions to the Sri Lankan insurance industry has re-introduced the Navoda insurance scheme with added benefits to further strengthen your business establishments. This policy will specially cover building and or contents of Shops, Hotels/Restaurants, Hair dressing salons, Dispensaries etc.

**ARUNA - Home Insurance**

Aruna Home Insurance Policy, is designed to provide essential insurance cover for your home/ family in a single policy. Your home is probably your largest financial investment. Therefore you should make certain that the buildings and contents are properly insured.

**TRAVEL MAX - Travel Insurance**

An insurance policy that extends the cover to even travellers over seventy years with emergency medical benefits. Travel Max policy is backed by Munich Re and claims are settled at the point of emergency through its global network of service providers. The option to seek reimbursement of bills after conclusion of the trip is also available.



## Key Products



### LIFE

#### RANMAGA - Investment Plan for Life

Here is a unique Life Policy that is both an insurance and an investment. As a Life Policy the sum assured increases by 5% every year but the premium payments remain the same. The added financial benefits make it a solid investment plan too.

#### RAN ASWANU - A policy that never lapses

Innovative insurance solution provider, HNB Assurance has added further value to its product range, with the introduction of Ran Aswanu. This insurance policy is designed to cover seasonal income earners. Ran Aswanu never burdens the customer as the premium payments can be made at one's leisure. Even if the premium payment is delayed the policy does not lapse.

#### DEDUNU - Children's Policy

Your DEDUNU Policy from HNB Assurance. The best way to secure your child against whatever the future brings. It is a policy that provides life cover for the parent up to 8 years after the maturity period and premium payments also cease. As for your child, he or she will start receiving the benefits after premium payments stop.

#### ARAKSHA - Mortgage Reducing Policy (MRP)

MRP is for people who wish to buy a house, renovate a house or buy a land on a loan from a bank or a financial institution. In the event of the unfortunate death or total permanent disability of the insured, the balance loan due will be settled by this policy. The sum assured reduces gradually during the policy term in line with the outstanding loan balance.





# Sustainability Report

## Sustainability Report

Our business model is formulated on creating, nurturing and growing symbiotic relationships with all our stakeholders. Our sustained existence in business depends largely and sometimes solely on their input. We recognise and acknowledge this and resultant to this, work on a firm foundation of nurturing long term relationships with all our stakeholders, because they remain firmly entrenched in our future and are a vital facet in our future journey.

### Customers

Our industry is undoubtedly competitive, in fact intensely competitive with customers given innumerable choices that meet or exceed their expectations and aspirations. However, it must be noted that choices and delivery promise must be in perfect sync, with no gaps in between.

Working through an extensive network of 43 branches and utilising the synergies of our parent Hatton National Bank whose presence is country wide, our products serve the needs of every income level. Our products are new, innovative and always away from the norm, presenting solutions to fulfill expectations. The idea is that our products must conform to standards, aspirations and needs and are delivered through a network of service excellence, which does not then allow a gap in delivering promises.



The Company continued to reward the existing customers of both Life and General Insurance business. This year too in commemoration of the Company's 7th anniversary, seven return air tickets to Bangkok and India were awarded to customers who were chosen from a competition. The awards were handed over to the winners at the year end sales conference 2008.

Also the newly established Customer Relations Centre which caters to both Life and General Insurance was

specially formed to give an improved service to all HNB Assurance customers. The Company expects to give a prompt service to its customers from this centre, located conveniently at Dharmapala Mawatha, Colombo 7.



### Valued Business Partners

Our growth curve which has remained consistent emphasises our positive points and the portfolio we have grown since inception, is impressive. These factors, coupled with our governance standards, ethics, values, integrity and standing in the industry have given us the advantage to seek the best partners in our pursuit of excellence and hence, HNB Assurance's principles in relationships are forged on choosing our suppliers with care, those who will add value to our stakeholder promises and those who are ethical, honest and accountable for their actions.

#### Re-insurers

The relationship we have nurtured with our primary valued business partner segment, Toa Re which is rated A+ by Standard & Poor and Mitsui Sumitomo Re whose rating by Standard & Poor denotes AA, two of the largest and most penetrative re-insurers in the Asian market are the two main trusses in our impressive General Insurance portfolio. Working on a win-win strategy, these valued business partners have been with us for six years, a period in which, they have observed our journey, which though competitive, has proven beyond doubt that we have the mettle to succeed in an intensely competitive environment. Munich Re, rated AA- by Fitch Ratings and positioned as one of the leading re-insurers in the global insurance industry is the springboard for our Life Insurance portfolio, having nurtured a solid partnership since our inception. More recently, we partnered yet another reputed re-insurer, General Insurance Corporation, India, rated A by AM Best, in the area of

non-proportional treaties. It is these reinsurance partnerships that have been the *raison d'être* in giving HNB Assurance an edge over competition.

We continue to nurture the partnerships we have with our re-insurers and gain a competitive advantage from their standing in the global insurance industry, while positioning ourselves as a winner in an industry that continues to post challenges that will only grow more intense in an environment where an economic slowdown is now firmly entrenched at least in the short term.

### Insurance Advisors

The key driver and central focal point in sustaining a growing business are our Insurance Advisors. A highly professional team, whose talents, knowledge and marketing skills are undoubtedly constituted from the *crème de la crème* of the insurance fraternity, these Advisors are the foundation upon which our business is built. Working under the aegis of our branch network, this 2,100 strong team we firmly believe have a unique service style, which has ensured a consistent growth in our business portfolio, despite the industry experiencing a slowdown this year. They have also been instrumental in keeping the HNB Assurance brand at a high level of recall and in giving us some pioneering platforms to work on and milestones to achieve.



Hence, the incentives which include prestigious honours within the Company and recognition of high achievers at gala events continue to heighten the team's dynamism. Fully paid overseas vacations to Malaysia, Thailand, Singapore and India, a grand sales convention and awards ceremony for high achievers, various financial facilities and other benefit schemes are some of the Recognitions and Rewards (R&R) introduced. Further, given the two way nature of this partnership we have nurtured with our Insurance Advisors, we have also observed a marked increase in self esteem, in work life

balance, in dignity of work ethic, higher goal setting and ultimately, an improvement in lifestyles and professional aspirations among this fraternity.



The integral role played by Insurance Advisors however needs to be recognised and similarly, it is imperative that their skills and knowledge horizons are improved upon. Given the global transformations that take place within the industry, the innovations that come about and the local competitiveness that emerges constantly, HNB Assurance has infused a highly concentrated and penetrative training curriculum that includes a five module training programme detailed below. This benchmark training curriculum, which has been developed with technical assistance from ICICI Prudential Life Insurance Company of India, the largest private sector life insurer in India, works on a performance driven curriculum aimed at motivating high achievers to gain more than their potential. At the same time, HNB Assurance remains acutely cognizant of the IBSL regulation, which permits only licensed Advisors to operate in the business. The Company ensures 100% compliance with this requirement and makes it mandatory for all potential advisors to sit for the relevant examinations conducted by the Sri Lanka Insurance Institute (SLII).

#### *Module 1 - Welcome Aboard*

A three day training program aimed at educating new Advisor entrants on the SLII Life Competency Course (LCC), with training conducted in Colombo and five regions in all three languages. The examination is conducted by the SLII in Colombo and the outstations. This module has seen an impressive pass rate of 73% this year.

#### *Module 2 - Kickstart*

A three day module that covers the Company profile and three of the six sales steps, five life products, basic underwriting and service imperatives. The module culminates in a competition titled "Sprint and Race" and

## Sustainability Report

on success, will go onto Module 4. A 99% qualifier rate was seen this year in this module.

### *Module 3 - Back to Basics*

Aimed at inducting non-performers back into the fold, this is a half-day-programme conducted under the leadership of the Sales T&D Manager for those Advisors who may not have qualified in the “Sprint and Race” criteria. The module concludes with “Operation Double Up” another performance based competition.

### *Module 4 - High Flyers*

A three day programme on the final three steps of the selling cycle, five more life policies, advanced underwriting and servicing. At this stage, the T&D Department also monitors the Advisors' sales performance which becomes a vital criterion for inclusion into the final module.

### *Module 5 - Super Power*

The final of an intense training process, this could be considered the Sri Lankan version of the Chartered Insurance Institute's Financial Advisors' International Qualification (FAIQ). We had 33 achievers reach the qualifying standards.

In addition, HNB Assurance also conducted training programmes for 63 participants in field management, infusing skills of driving teams, leadership skills and creating an enabling business environment for them to achieve their targets.

The Company also commenced training of insurance advisors engaged in the General Insurance business to sit for the SLII General Competency course which was recently introduced.

### **Brokers**

Brokers continue to service our business portfolio with added vigor given that the Company is committed to nurture the valued business partnership we recognise as being a vital component to our sustained business success. Training and development programmes are conducted both in Colombo and in the main outstation areas and include periodic training and development on new products and services as well as relationship building initiatives that include an annual broker cocktail and a Beach Rugby tournament to promote fellowship.



In addition, we also introduced co-branded products and one such launched this year, was Health Guardian, an insurance policy partnering Lanka Orix Insurance Brokers Ltd. (LOIB). Building on the success of this co-branding initiative, the next year will see us launch more such products on these lines using the good relationships we have built with our broker channel.

### **Bancassurance**

HNB Branches whose support has been immense since the inception of the Company continues to be a momentous source of business. An awards ceremony was organised during the year in recognition of the extraordinary contributions made by HNB Branches towards HNB Assurance. The Company had a number of get-together functions with the HNB branch network to foster mutually beneficial relationships. During the year the Company joined hands with the HNB Leasing and HNB “Pathum Vimana” street promotional campaigns to promote the Company's insurance products; which took place in various parts of the country. The Company also formalised its bancassurance partnership with HNB by entering into a Memorandum of Understanding.



## Community

Our community initiatives are driven on a sustainable platform and given stewardship by our Managing Director, who sets the focus of our community relations drivers at the beginning of each year. The projects chosen however must remain centric to our CSR philosophy of 'Making life better' whether its individuals or communities. We are primarily focused on the geographical areas and communities that we work with because we strongly believe that our ethos as a responsible corporate citizen must be felt and impacted by those who are around us. With our business mix balanced on a 70:30 ratio in the outstations and Colombo, we strive to keep our community initiatives on a similar mix to ensure that our impact in whatever we do is strong.

Our primary community relations focus areas are in development of community infrastructure, child and youth empowerment, culture and the arts and health. What is also significant in our projects is that the Company has the input of the branch teams who identify the projects and get actively involved until fruition to ensure that our projects are done the right way, for the right person by the right person. Thus, it also creates a sense of ownership of the project among all stakeholders.

### Developing Community Infrastructure

#### *Water and Sanitation*

Having laid the framework for this focus area last year, our primary goal is to make clean water and sanitation accessible to the more underprivileged schools in the country. Clean water continues to be a bugbear for many rural schools and due to students drinking unsafe drinking water, the habit permeates to health problems that sometimes signal epidemics. To prevent these problems and also considering that water and sanitation is a basic



human right and a part of the Millennium Development Goals as laid down by the United Nations, we began our pilot projects in water and sanitation this year.

HNB Assurance provided safe drinking water to a total of seven schools beginning from April 2008. The schools are based in Kandy, Gampaha, Kurunegala, Moneragala, Ratnapura, Bibile and Puttalam.

HNB Assurance also undertook a project of renovating the sanitary system of the Diyatalawa Defence Academy, which was a greatly felt need of this key defence establishment.

#### *Developing Railways*

Having observed the need for more private sector input into the railways as it serves thousands of commuters each day, HNB Assurance entered into a three year maintenance agreement with the Railway Department during 2006-7. This included a complete refurbishment of the Bambalapitiya Railway Station which was completed on time at an investment of Rs. 1 Million.



Taking forward the relationship built with the Railway authorities, we have now extended the development initiative to installing protective mirrors at unprotected level crossings. About 758 unprotected level crossings exist around the country and these have been responsible for a number of fatal accidents. HNB Assurance is now systematically installing mirrors in a few of those that are most dangerous. We have already completed the installations at a railway crossing adjacent to the Welikada Prison and at Edirisinghe road off Old Kesbewa Road, Nugegoda.

### Child and Youth Empowerment

#### *Enabling the differently able*

Our philosophy of community inclusion encompasses all segments of society and this includes the differently

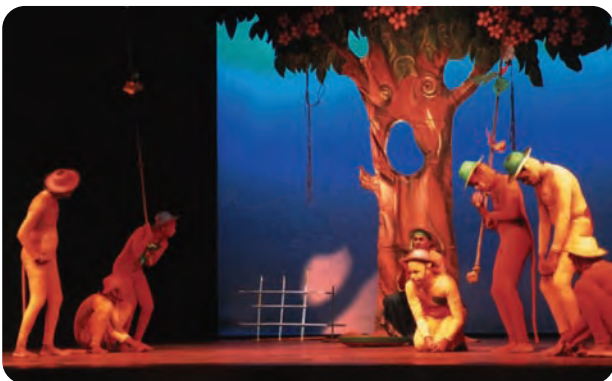
## Sustainability Report

abled. We were very honoured to have partnered the 'Narada Savana Foundation' which helps integrate the hearing impaired into regular daily life. The Foundation, which has the services of a trained Audiologist who volunteers services every Sunday, required a full time Audiologist for a more inclusive approach. The Company sponsored the training of an audiologist who will soon help integrate more young children into the community.



### Creating holistic citizens

On a continuing initiative, HNB Assurance launched in 2005, focusing on empowering young children to become holistic citizens, the Company continued its support of the Lanka Children and Youth Theatre Organisation (LCYTO) spearheaded by renowned dramatist and playwright Somalatha Subasinghe. During the year, the Company released the children's book, "Walas Pavula" - an adaptation of the Goldilocks and Three Bears by Somalatha Subasinghe, which was published under the Company's sponsorship. Copies of this book are being offered to our insurance advisors at a concessionary price to be distributed freely among their customers.



This year's children's drama festival again sponsored by the Company, comprised two Sinhala dramas - adaptations of Goldilocks and the Three Bears and Hat Seller and had in the audience 400 orphaned children as well, who would otherwise not have had the opportunity of enjoying such an event.

### Continuing education

The Company donated 10,000 exercise books to border villages in Vavuniya under the aegis of the Vavuniya branch where students find it extremely challenging to find the necessary tools for education. The border villages undergo severe hardships due to terrorist activity. Believing strongly that every child has a right to education, HNB Assurance continues its support to students who yearn to gain an education, despite the challenges they are faced with on a daily basis.



### Creating world citizens

For the first time outside Colombo, the Company made it possible for students in Kandy to celebrate United Nations Day, held at Dharmarajah College Kandy. There were about 1,000 students participating in the event which included a cultural show and served to create a platform of discussion on the challenges faced by the UN and the global community.

### Empowering an athlete

National athlete, P B Dinesha, who is also a student of Makadura Maha Vidyalaya, Matara was supported by HNB Assurance to obtain electricity to her home. The gesture will now help her train and continue her studies once her routine is finished in the late evening, enabling her to be proficient in both her chosen extracurricular field and in her academic areas. The Company came forward to assist her in response to a news story carried in the national media.





**Culture and the Arts**

*Partnering Sitar Maestro Pradeep Ratnayake*

Using the musical prowess of master sitarist Pradeep Ratnayake, HNB Assurance worked on the platform of creating appreciation of the region's music, partnering the famed "Pradeepanjalee" concert series. A proponent of blending east with west and creating a unique blend of fusion music, the maestro was joined on stage by leading Sri Lankan musicians including Lakshman Joseph de Saram on violin, Kumara Liyanawatte on flute, Karunaratne Bandara on eastern drums and Alston Joachim on bass guitar, playing an entire repertoire of fusion, classical, folk, jazz and new age music. The partnership also signalled the release of a DVD of Pradeep Ratnayake in concert, the first music DVD to be produced using Dolby Digital 5.1 technology in Sri Lanka.



*Super Stars recognised*

HNB Assurance co-sponsored the Sirasa Super Stars Show held at the Ananda College Kularatne Hall this year as a measure of identifying up and coming talent and ensuring these skills are honoured. Amila Nadeeshani who was one of the Sirasa Super stars showing promise is now assisted by the Company in furthering her talents. She also performs a vital role in taking the Company's brand to the masses in the capacity of a Public Relations

Representative. Sudharshani Sivalingam attached to the Colombo West Branch was also a finalist at the recently concluded Shakthi Super Star Contest.



*Imbuing culture into everyday life*

HNB Assurance sponsored a cultural programme in Neluwa, Pehesara for the second year in succession to instill a sense of belonging to the community's culture among the public. We also felicitated three renowned artists, Amarasiri Peiris, Suminda Sirisena and Weerasena Gunathilaka who deserve recognition at the national level due to the talents and skills they have displayed in providing high quality entertainment, over the years.

**Health**

*Blood Donation Campaign*

In partnership with the Sri Lanka Police and the Negombo Municipal Council, HNB Assurance Regional office in Negombo organised a blood donation campaign which brought together our team, customers and well wishers. In addition Head Office staff also arranged a Blood donation campaign which saw a response from over 100 donors.



## Sustainability Report

### Grappling with Environmental Pollution

Given our stakeholder driven philosophy in promoting best practices for environmental conservation, HNB Assurance, on an initiative driven last year insured two electric vehicles being used by the Urban Development Authority on a pilot project, free of charge. Globally, there is a rapid promotion of electric vehicles with incentives granted across the board to those willing to invest in such a vehicle. HNB Assurance strongly believes that in Sri Lanka too such incentives should be presented and hence, made a concerted effort to promote electric vehicles by supporting this timely initiative launched by the Lanka Electric Vehicles Association (LEVA).

### Permeating awareness among stakeholders

Driven by the Environmental Committee, we have continued to introduce green practices within the everyday operations of the Company. Proper disposal and recycling of plastic, better paper management and environmental conservation notices and messages communicated across the branch network has brought in awareness and better practices. These are now communicated to customers and suppliers too who are also being made aware of the need for good environmental practices at home and office.

### Preventing Air Pollution

Having undertaken the task of promoting the use of electric vehicles, next year HNB Assurance plans on creating intense awareness of the effects of air pollution, especially from vehicles. With the framework now in place, an intense communication campaign in all three languages will detail how vehicles damage the air we breathe, improving the efficiency of vehicles by maintaining them and seeing tangible benefits as a result, as well as tips to reducing air pollution.

### Prevention of Fires

HNB Assurance is honoured to have partnered Fire and Safety Consultant S Kariyawasam in his publication of 'Gini Abhiyogaya Jayaganimu' conquering the challenges posed by Fire. The book examines the causes of various types of fires, methods of prevention, tools and implements to be used in the case of fire, standards that should be maintained for fire equipment, safety rules and regulations, fire detection systems and what should be done to manage different types of fires. A handy book and an ideal educational and awareness tool for any member of the public, the book systematically details everything that is necessary to ensure safety, prevention



and awareness. Already, many copies of this book have been distributed freely among our valued clients. To coincide with the launch of this book, a seminar on fire prevention was also held in October at the SSC Auditorium for the benefit of our clients. Apart from a very informative and useful presentation by Mr. Kariyawasam, the participants also had the rare opportunity of witnessing a 'live' demonstration of how to deal with different types of fires.

## Our People, Our Stars

The year has not been an easy one for our team given the numerous challenges we faced within the industry which transformed into a highly competitive one with shrinking margins and also a global economic downturn permeating to the country's economy cascading to a depletion of disposable income, exerting pressure on our bottom line. But our results curve continued uncontained and this we attribute primarily to our dynamic team, people to whom growing our business profitably has become a way of life. Appreciating their dynamism and zeal in unwaveringly achieving the goals and targets set undaunted by challenges, our amazing team continued to notch milestones and achievements along the way.



## Training and Development

Our team is empowered through comprehensive Training and Development (T&D), designed to fulfill the needs of a constantly changing business and industry environment. T&D thrives on both internal and external facets, with in house training at Company and divisional levels being the primary features. While highly skilled in-house trainers undertake the majority of these training programmes, external resource persons are also engaged to conduct the necessary training programmes whenever the need arises. Out Bound Training and brainstorming sessions outside the metropolis have also been introduced as this gives newer perspectives to the Company's decision making process.



During the year, the Company facilitated several employees to attend foreign training in Singapore, Japan, Hong Kong and India on various subjects including technical aspects of Life and General Insurance, Marketing, Facility Management, Finance and Investments. Further, the Company engaged the services of foreign trainers to conduct training on special subjects such as Bancassurance, and the technical aspects of General Insurance. The Company was able to get the services of Mr. Ghyanendra Nath Bajpai, who is a distinguished leader in Indian business, and a former Chairman of the Securities and Exchange Board of India (SEBI) and Mr. S Lakshmanan, a former Chief of Information Technology at Life Insurance Corporation of India to conduct a training on Bancassurance. The Company also organised a one week training programme which was conducted by two experienced Indian trainers covering the technical aspects of General Insurance.

## Recruitment, Selection and Evaluation

Given our rapid expansion and with our branch network being added on to, the need for competent personnel also continues to grow. We do have a two way process for recruitment, internal and external. While some

candidates undergo a rigorous recruitment and selection process internally before being posted for the job, some postings may require the infusion of new blood and is hence done through external headhunting or through the media including websites that are dedicated to this purpose. Introducing new team members from other competencies and disciplines has been one of the positive advantages in maintaining the diversity and passion that permeates our team.

Another avenue of infusing new blood into the organisation is through our presence in career fairs, which we participated in for the first time this year. It gave the Company an opportunity to position its strengths and also create awareness about the Company and the industry among potential team members.

The standardised evaluation process we have introduced tie together increments, promotions and performance, to ensure a very transparent equitable process founded on meritocracy. Performance evaluation which was earlier conducted annually is now performed half-yearly, giving team members a chance of righting their negative or lower productive areas before it's time for their final performance evaluation.

## Chairman's Award for Excellence

The Chairman's Award for Excellence this year too was presented at the annual staff conference to seven staff members; Team members being honoured for their contribution to the Company. The criteria included not only work performance but also the contribution the individuals have made beyond the call of duty. Long standing service awards were also presented during the sports day held to coincide with the seventh anniversary of the Company's launch.



## Sustainability Report

### Open dialogue and communication

We encourage open discussion, new ideas and suggestions which fuel an environment of innovation, creativity and good decision making. This year we introduced an e-mail suggestion platform which allows team members at any level to forward suggestions and ideas that could be implemented to better the organisation. These suggestions are all reviewed by the Executive Committee (EXCO) which meets weekly and implemented, whenever possible.

Another mechanism of communication is through the OPCO meetings, which brings together heads of various departments monthly to make decisions with regard to their respective divisions, with those decisions finally being sanctioned by the EXCO. Cross-functional teams that bring together executives from different divisions to implement selected projects and organise events have become a major tool for the development of interpersonal skills and networking. In addition, the CEO's Forum enables staff members at all levels to have one to one discussions with the CEO, impart suggestions and gain advice on issues that concern their areas of purview.

### Enhancing knowledge

While HNB Assurance encourages team members to continue their academic and professional knowledge development through examinations and other avenues, the knowledge gaining culture we espouse is further imbued with our newly established Company Library. Equipped with books to guide career furtherance, management techniques and other job related areas, team members are encouraged to put forward suggestions for books of their choice, which if appropriate are purchased for the library.

### Instilling camaraderie

With unity among the team spearheading good team working skills and cohesive team spirit, the Company and the Staff Welfare Society organised a series of fellowship and togetherness events during the year. These also serve to showcase the talents of our team, while giving their families an opportunity to meet the rest of the HNB Assurance family. This year, we organised the following events:

- The HR Conference, a forum that allows the entire team from Head Office and branches not only to get to know each other better but also to be entertained with high quality cultural items. This is also a platform where the entire team meets the Board of Directors and is appraised of the Company's vision, goals, objectives and targets by the Directors and General Managers. The Chairman's Awards for Excellence were also presented by the Chairman at this conference.



- A sports day that encompassed the entire team culminating with a Karaoke Competition judged by well known artists in the local arena. The sports day featured an unique drill display as well as a wide range of sports activities such as soccer, volleyball and cricket.



- A two day family trip to Sigiriya Village which brought together all families of our team members was a great platform of instilling further unity.



- Religious and cultural festivals were also celebrated, with the HNB Assurance “Bakmaha Ulela” where the team participated in cultural events and sports and the Christmas party having the participation of over 50 children of our team members being the highlights during the year.

## Investors

HNB Assurance (CSE Code: HASU) was able to consistently deliver commendable returns to its shareholders during the year under review and thereby protect the value of shareholder's equity by way of steady growth in earnings and dividends while enhancing the financial strength of the Company despite all adverse economic conditions that occurred throughout the year.

The market price of HASU closed at Rs. 18.25 by the year end compared to Rs. 24.50 at the end of the previous year while the share price ranged between Rs. 17.00 and Rs. 27.00 Above price computes to a 25.51% negative growth which was mainly due to the adverse equity market environment experienced in the Colombo Stock Exchange (CSE) during the year. However this compares well with the overall decline in both the All Share Price Index and the Milanka Price Index which recorded a negative growth of 40.85% and 50.44% respectively. Furthermore, Banks, Finance and Insurance sector index also declined by 44.74% during the year under review.

The Company retained its insurer financial strength rating of 'A (lka)' and a national long term rating of 'A- (lka)' assigned by Fitch Ratings, which signifies the financial strength of the Company despite the adverse economic conditions.

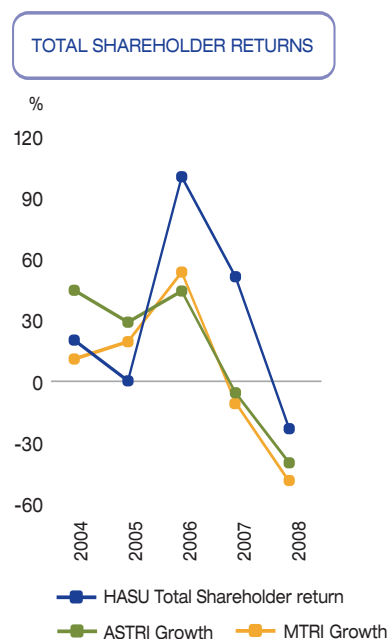
HASU reported an increase in the Earnings Per Share (EPS) to Rs.4.39 during the year under review. The

Company declared a final dividend of Rs. 1.25 per share for the year 2008 which amounted to a 29% Dividend Payout. Net Asset Value of Rs. 18/- per share reflected a growth of 23% as compared to the financial year 2007. Return on Equity (ROE) was 24% as opposed to 22% in the last year. Shareholder's funds also reflected a growth of 23% compared to last year.

The audited Statement of Income for the year ended 31st December 2008 and the audited Balance Sheet of the Company as at that date were submitted to the Colombo Stock Exchange within three months of the Balance Sheet date. Further all the financial regulatory requirements stipulated by various regulatory bodies were met within the deadlines.

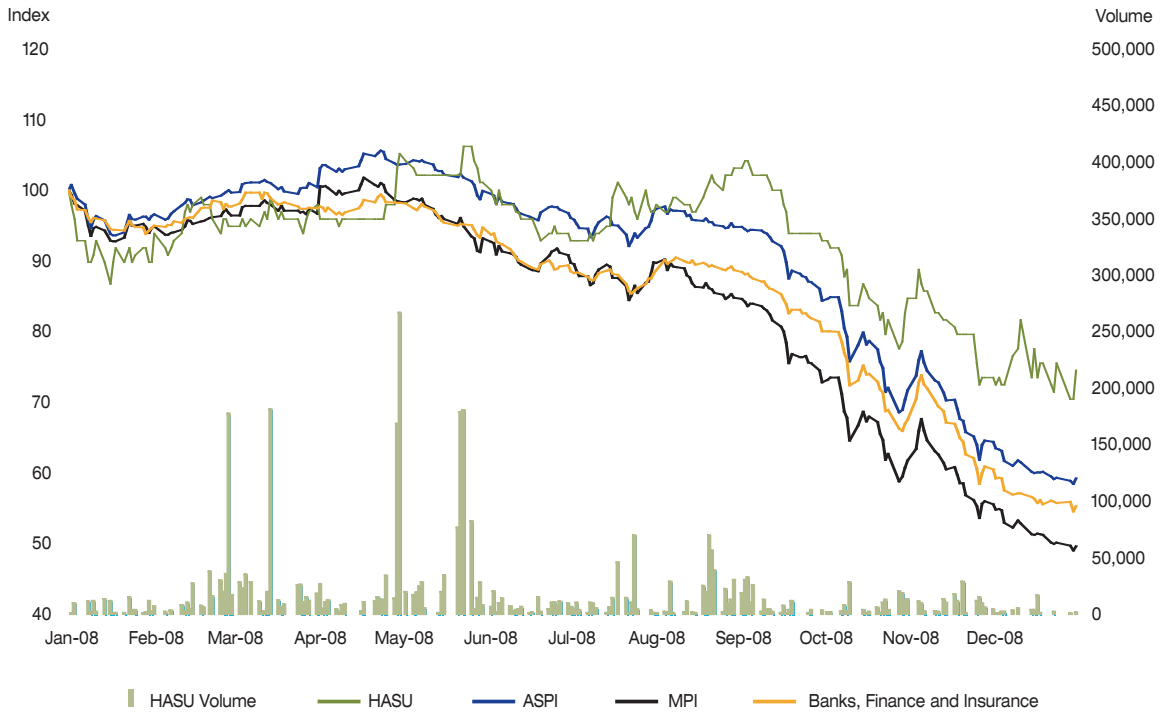
### Total Shareholder Return (TSR)

Total Shareholder Return (TSR) is defined as the total return of a stock to an investor which includes capital gains plus dividends. In other words, TSR is a mechanism of measuring growth in share price plus dividends paid to shareholders during a period, where the All Share Price Index (ASI) 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, with a dividend yield of 4.08% coupled with capital loss of 25.51%, TSR on HASU was - 21.43%. However this negative growth compares well with the decline in ASTRI and MTRI by - 38.15% and 47.34% respectively in 2008.

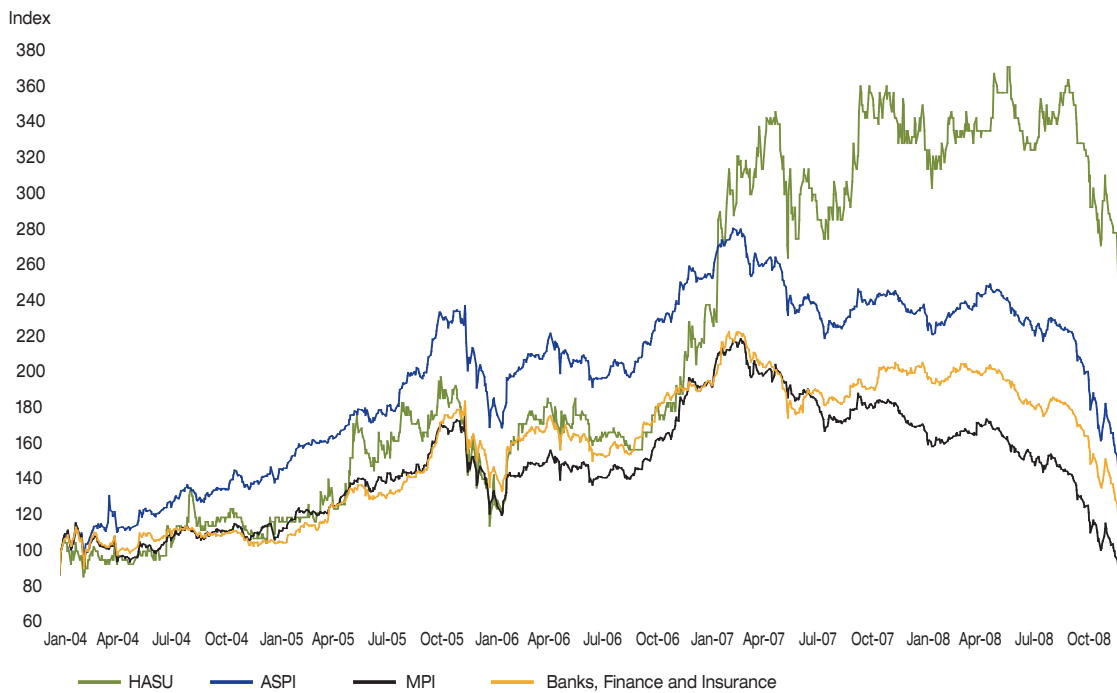


## Sustainability Report

HASU SHARE VOLUMES AND RELATIVE PERFORMANCE VS MARKET



HASU PERFORMANCE VS MARKET (OVER 5 YEARS)



# Corporate Governance

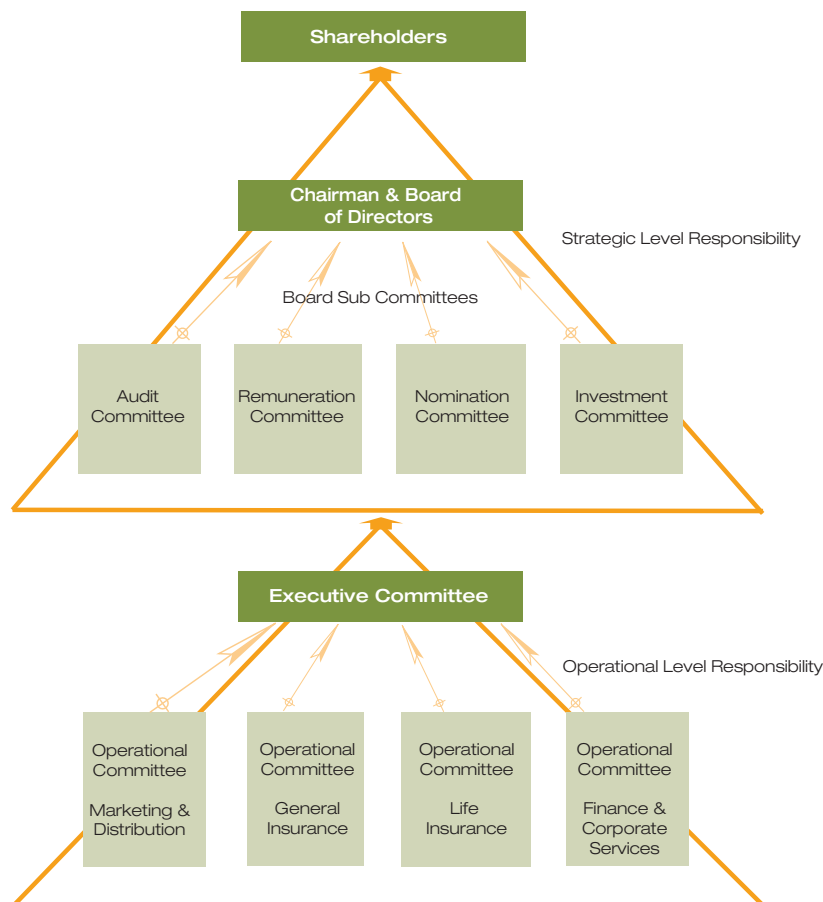
Corporate Governance consists of but not limited to concerns like Board Structures, Roles and Responsibilities, Performance, Internal Controls and Audit. Also Corporate Governance focuses on areas such as strategy formulation and implementation, management structure and value creation. Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities and Exchange Commission (SEC) of Sri Lanka and the Rule number 06 of Listing Rules issued on Corporate Governance by the Colombo Stock Exchange (CSE) discuss about the best practices on Corporate Governance to be followed by a corporate entity.

We at HNB Assurance PLC are committed not just to comply with such Corporate Governance requirements but to use Corporate Governance as an effective risk management tool. We strongly believe that the Company is equipped with a sound Corporate Governance system. The Corporate Governance structure at HNB Assurance can be graphically presented as below.

We strongly believe in the importance of the identification of roles and responsibilities of each level and consider it as a key factor determining organisational success.

Salient features of the Corporate Governance structure of the Company is summarised below which is also substantially in line with the Code of Best Practice on Corporate Governance issued jointly by the SEC and ICASL. In addition, the Company is fully in Compliance with the Rule number 06 of Listing Rules issued on Corporate Governance by the Colombo Stock Exchange (CSE), (with the appointment of new independent Director Mr. Sarath Ratwatte to the Board w.e.f. 30th January 2009) which will become mandatory with effect from financial year commencing on or after 1st April 2008.

A table which summarises the compliance status of the Company with the Rule No. 06 of said Listing Rules is given on pages 57 and 58.



## Corporate Governance

PRINCIPLE	LEVEL OF COMPLIANCE BY HNB ASSURANCE
<b>DIRECTORS</b>	
<b>The Board of Directors</b>	
Composition	<p>As at the year end, the Board consisted of eight Directors. With the appointment of a new independent Non-Executive Director, Mr. Sarath Ratwatte, the number of Directors increased to nine w.e.f. 30th January 2009.</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 in pages 8 to 10 to this Annual Report.</p>
Board Meetings	<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 are given on page 76.</p>
Availability of a formal schedule of matters for Board discussion	Board meetings are conducted based on a formal agenda, prepared and circulated among all the Board members with an adequate time covering the main responsibilities.
Key Responsibilities of the Board - Strategy	Ensure a sound business strategy is formulated and implemented properly and monitor performance against the strategy in a periodic manner. The Board has delegated to the Management the responsibility of developing and implementing corporate strategies, developing annual budgets and the Corporate Plan and managing day to day operations in line with the plan and budgets. Achievement of the objectives set in the Corporate Plan is monitored by the Board in a timely manner.
- CEO and the Management Team	Ensure that the MD/CEO and the management team possess adequate skills, experience and knowledge to implement the strategy and further to make sure that a proper succession plan is in place. Ensuring that the adequate remuneration is paid to the MD/CEO and the management team whilst evaluating their performance and providing directions where necessary is also a part of the Board's responsibilities.
- Internal Controls and Information Security	Ensure that an effective system is in place to make sure the integrity of information, internal controls and information Security and continues monitoring of such systems with the consultation of Internal and External Auditors or any other party where necessary.
- Risk Management	Ensure that effective strategies are available to identify, analyse and manage risks the Company faces and monitor continuous existence of such processes.
- Laws and Regulations	Ensure all statutory and regulatory requirements are complied with and that the Company adheres to the highest ethical standards.



PRINCIPLE	LEVEL OF COMPLIANCE BY HNB ASSURANCE
- Other Stakeholders	Ensure that the rights of all stakeholders are properly safeguarded and are considered in making corporate decisions.
- Financial Reporting	Ensure that proper process, controls and procedures are in place to maintain accounting and financial records with integrity to meet highest professional standards.
- Relationship with IBSL, CSE and other Regulators and Continuous Disclosure	Maintenance of direct and ongoing dialogue with the IBSL, CSE and other regulators in order to ensure proper awareness of the shareholders, regulators, market and other stakeholders on material developments and/or changes of the Company.
- Audit	Recommending to Shareholders the appointment of the External Auditor based on the review process conducted by the Audit Committee and the direct and ongoing dialogue with the External Auditor.
- Social Responsibility	Setting of social responsibility standards for the Company bearing in mind the social, ethical and environmental impact of the Company's activities, and monitoring compliance with such standards.
- Others	Identifying and intervening where necessary in any other functions are vital, given the scale, nature and the complexity of the Company's business.
Procedure for Directors to obtain independent professional advice	The Directors are permitted to seek independent professional advice from External or Internal Auditors or any other party at the Company's expense, if considered appropriate. The process has to be coordinated through the Company Secretary. However, no such advise has been taken by any of the Directors during the period.
Board Secretary	All the Directors have access to the advice and services of the Company/Board Secretary, who is an Attorney-at-Law by profession. The Company/Board Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. Any question or the removal of the Company/Board Secretary, if necessary, has to be by a resolution involving the whole Board
Independent Judgment	<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>
Dedication of adequate time and effort to matters of the Board and the Company	The Chairman and other members of the Board dedicate adequate time for the affairs of the Company by attending Board meetings, Board Sub Committee Meetings or any other events of the Company where necessary discharging their duties and responsibilities.

## Corporate Governance

PRINCIPLE	LEVEL OF COMPLIANCE BY HNB ASSURANCE
Training for Directors	The Board acknowledges the need for continuous development and expansion of the knowledge and skills to perform their duties as Directors. Thereby, adequate knowledge sharing opportunities are provided to both new and existing Directors on a continuous basis in respect of matters relating to the general aspects of directorships and matters specific to the industry/Company etc.
Chairman and the Chief Executive Officer (CEO)	The functions of the Chairman and the Managing Director/CEO are clearly separated.
Chairman's Role	The Chairman is mainly responsible for providing effective leadership to the Board, maintaining effective participation and contribution of both Executive and Non-Executive Directors, developing the agenda for meetings with the Company/Board Secretary, having regular meetings, ensuring a proper balance of power between Executive and Non-Executive Directors, ensuring that Board Members undertake appropriate induction, representing the views of the Board to the public and ensuring that the Board is in complete control of the Company's affairs.
MD/CEO's Role	The MD/CEO is generally responsible for ensuring the effective functioning of day to day operations and achievement of financial and non-financial objectives agreed annually with the Board and contained within the Company Plan.
Financial Acumen  Availability of sufficient financial acumen and knowledge	The MD/CEO is a Fellow Member of the Chartered Institute of Management Accountants (CIMA), UK. Further, the Board includes a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL), an Associate Member of the Institute of Chartered Accountants of Sri Lanka (ICASL) and a Fellow Member of the Institute of Chartered Accountants, England & Wales. In addition, all other members of the Board have extensive experience in various aspects of financial management.
Board Balance	After the appointment of independent Non-Executive Director Mr. Sarath Ratwatte w.e.f. 30th January 2009 the Board comprises nine Directors out of whom eight are Non-Executive Directors and one Executive Director who also functions as the Managing Director/CEO.
Independence of Directors	<p>Out of eight Non-Executive Directors, three Directors are Independent Non-Executive Directors in line with the Code of Best Practice and the Listing Rules mentioned earlier. They are Mr. Pratapkumar de Silva, Mr. D M de S Wijeyeratne and Mr. Sarath Ratwatte</p> <p>All Board members possess considerable knowledge and experience in various sectors including the financial services sector.</p>
Supply of Information  Submission of relevant information in a timely manner	As previously discussed and agreed, the Board receives a standard set of documents which are timely, accurate, relevant and

PRINCIPLE	LEVEL OF COMPLIANCE BY HNB ASSURANCE
	<p>comprehensive, one week before each Board Meeting. In addition, the Board requests additional information from time to time in respect of the Company's operations, industry and competitors, laws and regulations, Corporate Governance etc. which are also circulated to the Board with adequate time before the meeting.</p> <p>The Chairman ensures that all members of the Board are adequately briefed on matters arising from Board Meetings.</p>
<p><b>Appointments to the Board</b></p> <p>Availability of formal and transparent procedure for new appointments</p>	<p>The Board has appointed a sub committee, the Nomination Committee to follow a formal and transparent procedure for appointment of Directors to the Board. The Nomination Committee comprises of four Directors, who are listed on page 55.</p> <p>The Chairman of the Committee is appointed by the Board. The Composition of the Board is subject to continuous review by the Nomination Committee, especially with regard to changes in environment, and regulations.</p>
<p><b>Disclosure of details of new Directors to shareholders</b></p>	<p>All new appointments are informed to the shareholders with sufficient details of the new Director via immediate notification to the Colombo Stock Exchange. The Annual Report also contains new appointments of Directors together with a brief profile of each Director.</p>
<p><b>Re-Election of Directors</b></p>	<p>Directors who have been appointed to the Board during the year, hold office until the next AGM, and are required to retire and be re-elected by the shareholders.</p>
<p><b>Appraisal of the Board Performance</b></p>	<p>Even though, no formal evaluations are conducted, the Board evaluates its own performance regularly in terms of the achievement of the Company objectives. Further, performance of the Board and its Committees are subject to evaluation by the Chairman.</p>
<p><b>Appraisal of the MD/CEO</b></p>	<p>In consultation with the MD/CEO, the Board sets reasonable financial and non-financial targets to be achieved by the MD/CEO every year which are in line with short, medium and long term objectives of the Company. The Board monitors the achievement of such targets throughout the year and provides guidance to the MD/CEO where necessary.</p> <p>Further, the performance of the MD/CEO is reviewed annually by the Board to ascertain whether the set targets have been achieved. If not achieved, it also considers whether there are reasonable grounds for such departures and takes relevant actions.</p>
<p><b>Disclosure of Information in respect of Directors</b></p>	<p>Information such as name, qualifications, nature of expertise and experience, material business relationships or immediate family relationships with other Directors of the Company, names of other listed companies if any he serves as a Director, number of meetings attended during the year etc. are disclosed in respect of each Director in this Annual Report where appropriate.</p>

## Corporate Governance

PRINCIPLE	LEVEL OF COMPLIANCE BY HNB ASSURANCE
<b>DIRECTORS REMUNERATION</b>	
Formal and transparent procedure for developing policy on remuneration	The Board has set up a Remuneration Committee to assist the Board in respect of the Company's Remuneration procedure which is a formal and transparent process. The Remuneration Committee which works with a written Terms of Reference determines and agrees with the Board, the policy to be adopted with regard to the remuneration of Non-Executive Directors, MD/CEO as well as the employees and makes recommendations to the Board. The Composition and summary of responsibilities of the Remuneration Committee is given on pages 55 and 56
Level and make up of Remuneration	<p>The remuneration package of the MD/CEO and employees is structured to link rewards to corporate and individual performance. No remuneration is paid to Non-Executive Directors other than the Director's fees.</p> <p>The Remuneration Committee compares the remuneration levels of the Company with such packages of comparable Companies in the industry and are sensitive to the remuneration levels and employment conditions in the Group too.</p> <p>Accordingly, the Company appointed M/S Ernst &amp; Young during the year to perform a salary survey in the industry and to submit their findings to the Remuneration Committee. Scale adjustments have been carried out at the year end to address the gaps identified through this survey.</p>
Executive share options	The Company does not have any type of share option scheme for the executives, at present.
Compensation commitments on early termination	There are no terminal compensation commitments other than the gratuity in the Company's contracts of service.
Disclosure of remuneration	The aggregate remuneration of the MD/CEO and Non-Executive Directors is disclosed on page 120 of this report.
The Remuneration Committee Report	The report of the Remuneration Committee is given on page 72.
<b>RELATIONSHIP WITH SHAREHOLDERS</b>	
Constructive use of the Annual General Meeting (AGM)	The Board of Directors as a whole encourages attendance and effective participation of all shareholders at the AGM of the Company. The Chairman of the Board makes sure that the Chairmen of Board Sub Committees, External Auditors, etc. are present at the meeting to answer any query by shareholders.
Separate resolutions for each substantially separate issue	<p>Each substantially separate issue is proposed as a separate resolution. The adoption of the Annual Report of the Board of Directors along with the Financial Statements is also proposed as a separate resolution.</p> <p>The Annual Report together with notice of meeting and related documents and other resolutions, if any, are circulated to the shareholders at least fifteen (15) working days prior to the date of the AGM.</p>

PRINCIPLE	LEVEL OF COMPLIANCE BY HNB ASSURANCE
Summary of procedures governing voting at the AGM	The proxy form includes a summary of the procedures governing voting at the AGM, which is circulated to shareholders with other documents mentioned above.
Major Transactions	During the financial year under review, there were no major transactions which materially affected/alterd the Company's net asset position. However, if there were such transactions, the Company policy is to disclose them in quarterly and annual Financial Statements in accordance with relevant Sri Lanka Accounting Standards and the Companies Act.
ACCOUNTABILITY AND AUDIT	
<p>Financial Reporting</p> <p>Balanced, understandable assessment of the Company's position, performance and prospects</p>	The Company has presented a balanced, understandable assessment of the Company's position, performance and prospects under the Chairman's Review, In Dialouge with the Managing Director and the Management Discussions & Analysis to this Annual Report.
Statutory and Regulatory Reporting	<p>The Annual Report and Interim Financial Statements which are the main communication tools between the Company and shareholders were prepared and presented in strict compliance with Sri Lanka Accounting Standards (SLAS), Companies Act, No. 7 of 2007, Insurance Industry Act, No. 43 of 2000 and other rules and regulations of Insurance Board of Sri Lanka (IBSL) and other applicable rules and regulations of the country. Further, the formats and disclosure of such Financial Statements are in accordance with Statement of Recommended Practice for Insurance Contracts (SoRP), adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL). Also the Company has complied with reporting requirements of the regulatory authorities such as Insurance Board of Sri Lanka (IBSL) and Securities and Exchange Commission of Sri Lanka (SEC).</p> <p>The Company circulated Annual and Interim Financial Statements to shareholders far in advance of deadlines stipulated by regulators.</p> <p>Copies of the latest Annual Report and Interim Financial Statements are published on the Company web site for the benefit of all stakeholders. In addition, the Company's financial results are also published in leading newspapers on a quarterly basis as a further demonstration of the Company's commitment to transparency.</p>
Other price sensitive public reports, reports to regulators and information required by statute	Price sensitive information is disclosed to the Colombo Stock Exchange on a timely basis. Further all other regulatory reports are also filed before due dates. The Company strives to provide a detailed and transparent analysis of performance and future strategies, to enable investors to make an informed decision.
Directors' Report	The Annual Report of the Board of Directors on the affairs of the Company is given on pages 73 to 78 in the Annual Report.

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PRINCIPLE	LEVEL OF COMPLIANCE BY HNB ASSURANCE
Responsibilities of the Board for preparation and presentation of Financial Statements	The statement of Directors' responsibility for the preparation and presentation of Financial Statements is given on page 81.
Statement of External Auditors on their reporting responsibilities	The Auditor's Report presented on page 85 of the Annual Report states the scope of the audit work, their responsibility and the opinion on the Company Financial Statements for the year ended 31st December 2008.
Management Discussions & Analysis in the Annual Report	The Management Discussion & Analysis Report is presented in pages 16 to 29.
Declaration by the Board that the Company is a going concern	Declaration by the Board that the Company is a going concern is given in the Directors' Report in page 76.
Summoning an EGM to notify shareholders if net assets fall below one half of the shareholder's funds	Although the likelihood of such situation is remote, should the situation arise, an EGM would be called by duly informing shareholders.
Internal Control  Maintaining a sound system of internal control	The Board is ultimately responsible for the Company's system of internal controls and for continuous review of their effectiveness. On behalf of the Board, the Audit Committee together with the assistance of the management, Internal and External Auditors and other parties where necessary ensures that there is an effective system of internal controls and financial reporting process in the Company.
Need for Internal Audit function	The Company has outsourced its Internal Audit function to M/S Ernst & Young Advisory Services (Pvt) Ltd. The Board is of the opinion that this would provide a more independent view on the Company's systems of internal controls and also get access to knowledge of global best practices in order to improve the Company's systems and controls.
Internal Controls over IT Processes	The Internal Auditors regularly review the effectiveness of the internal control systems. Further, the External Auditors also look at the system of internal controls as a part of their annual audit. Additionally, the Company with the purview of the Audit Committee intends to employ a separate IT Audit function in order to make sure that IT related internal controls are properly established and enforced.
Audit Committee  Availability of an audit committee with a written terms of reference	The Audit Committee which is appointed by and responsible to the Board of Directors consists of three members of the Board, all of whom are Non-Executive Directors. The details of the composition and duties of the Committee is provided on pages 55 and 56. The Committee operates with a clearly defined terms of reference.

PRINCIPLE	LEVEL OF COMPLIANCE BY HNB ASSURANCE
Maintaining appropriate relationship with the External Auditors to ensure their objectivity and independence	The Audit Committee maintains an appropriate relationship with the external auditors M/S KPMG Ford, Rhodes, Thornton & Co. The fees paid to external auditors is disclosed in the Annual Report of the Board of Directors on the affairs of the Company in page 73.
Monitor the effectiveness of the Internal and External Audit function.	The Audit Committee monitors and reviews the effectiveness of the Company's Internal and External Audit functions and makes sure of the proper coordination between all the relevant parties in order to ensure the receipt of adequate service to the Company.
Audit Committee Report	The Audit Committee Report is given on pages 70 and 71.
Corporate Governance Disclosure on the adherence to the principles and best practices of Corporate Governance	The Directors are of the opinion that, the Company is substantially in compliance with the provisions of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities and Exchange Commission of Sri Lanka (SEC) and rule No. 6 of the Listing Rules issued on Corporate Governance by the CSE. The Company is in fully Compliance with the said Rule No. 06 with the appointment of new independent Director Mr. Sarath Ratwatte
Corporate Governance Report	This report sets out the manner and extent to which the Company has complied with the provisions of the Code of Best Practice on Corporate Governance in accordance with the applicable rules mentioned above.
COMPLIANCE	
Regulatory Compliance:	<p>The Company has established effective policies and procedures to make sure that all activities of the Company are conducted in accordance with applicable laws and regulations. Therefore, the Company has appointed a Compliance Officer to continuously monitor the Company's compliance with applicable laws and regulations. The Compliance Officer submits a quarterly report for review by the Audit Committee, which in turn makes its observations to the Board of Directors. The Audit Committee also reviews the Interim and year end Financial Statements prior to publishing them.</p> <p>The Company has submitted all the required information to regulators throughout the year, well in advance of the stipulated deadlines.</p>
Code of Business Conduct and Ethics	The Company has established a proper Code of Business Conduct and Ethics for all its employees which has to be followed without any exception. During the year, all the employees were strictly in compliance with the Code except in a few cases where some areas of non-compliance have been noted, which have been addressed and resolved by the management and the Board by taking appropriate action. The code addresses areas such as communication with regulators and auditors, ethical business standards, fraudulent conduct, duty of loyalty, insider information, avoid accepting gifts, fees etc., outside business activities, confidentiality and privacy, avoiding conflict of interests,

## Corporate Governance

PRINCIPLE	LEVEL OF COMPLIANCE BY HNB ASSURANCE
	<p>compliance with laws and regulations, trading of company shares by employees, protection and proper use of Company assets, use of computer systems, political activities, non-discrimination, conduct in public, public statements and ethical decision making.</p>
<p><b>Controlled Entities</b></p>	<p>The Company does not own any subsidiary or associate companies and does not have any joint venture arrangements with any parties.</p>
<p><b>OTHER ASPECTS OF CORPORATE GOVERNANCE INITIATIVES</b></p>	
<p><b>Investment Committee</b></p>	<p>The Investment Committee is chaired by a Non-Executive Director and includes two 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 the compliance with Investment, Asset and Liability Management (ALM) as well as Liquidity policies that have been adopted by the Company.</p> <p>The composition and responsibilities of the Investment Committee is given on pages 55 and 56.</p>
<p><b>Executive Committee (EXCO)</b></p>	<p>The Executive Committee 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 on a timely manner. 27 meetings were held during the year under review.</p> <p>It also meets periodically with a designated Non-Executive Director to review progress of the implementation of strategies and action plans contained in the Corporate Plan.</p>
<p><b>Operational Committee (OPCO)</b></p>	<p>Operational Committees, which are headed by General Managers or Heads of Division comprises the top management teams of the respective divisions. Objectives of OPCOs are to ensure the effective functioning of divisional responsibilities and making sure of adequate coordination among all divisions. Operational Committees 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 coordination 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.</p>



**Composition of Board Sub Committees**

Committee	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee
<b>Chairman</b>	D M de S Wijeyeratne*	R Theagarajah** <i>(resigned w.e.f. 30th January 2009)</i>	Rienzie T. Wijetilleke**	J D N Kekulawala**
<b>Members</b>	M U de Silva** <i>(resigned w.e.f. 30th January 2009)</i> J D N Kekulawala* * Sarath Ratwatte* <i>(appointed w.e.f. 30th January 2009)</i>	M U de Silva** <i>(Chairman w.e.f. 30th January 2009)</i> J D N Kekulawala** <i>(resigned w.e.f. 30th January 2009)</i> Sarath Ratwatte* <i>(appointed w.e.f. 30th January 2009)</i> D M de S Wijeyeratne* <i>(appointed w.e.f. 30th January 2009)</i>	Manjula de Silva*** R Theagarajah** M U de Silva**	Manjula de Silva*** G Ramanan
<b>Invitees</b>	Managing Director General Managers Head of IT Compliance Officer Accountant External Auditors Internal Auditors Consultant Actuary	Managing Director		Manager Investment
<b>Secretary</b>	Finance Manager	Assistant Manager - Human Resources	No such designated Secretary	Finance Manager
<b>Meetings</b>	Quarterly	2 meetings per year	Where necessary	Quarterly
<b>Circulation of the agenda and papers</b>	One week in advance	One week in advance	As needed	One week in advance

\* Independent Non-Executive Director

\*\* Non-Executive Director

\*\*\* Executive Director

External Auditors, Internal Auditors and Consultant Actuary participates when invited, 1-2 times a year.

Mr. G Ramanan is not a Director of the Company. However, he functions as a member of the Investment Committee.

## Corporate Governance

### Main Functions of the Board Sub Committees

Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee
<ul style="list-style-type: none"> <li>• Review &amp; recommend to the Board on the adoption of Annual &amp; Interim Financial Statements including other related information.</li> <li>• Review the Compliance with financial reporting requirements such as Sri Lanka Accounting Standards, compliance with the requirements of the Companies Act and Regulation of Insurance Industry Act and other regulations of the Insurance Board of Sri Lanka.</li> <li>• Review the effectiveness of the risk management and internal control processes and make recommendations for improvement.</li> <li>• Review and approve the Internal &amp; External Audit Plan.</li> <li>• Review Internal and External Audit Reports and follow up on recommendations.</li> <li>• Ensure that all applicable laws and regulations have been complied with.</li> <li>• Evaluate the performance of internal and external auditors.</li> <li>• Ensure that no issues are in place in respect of the objectivity and independence of External Auditors.</li> <li>• Review and recommend to the Board on the levels of remuneration to External Auditors and recommend the re-appointemnt of Auditors to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>• Review and recommend to the Board a compensation package for the MD/CEO, top management and other employees of the Company in line with the industry benchmarks.</li> <li>• Review and recommend to the Board about annual increments, bonuses, promotions, etc.</li> <li>• Review and ensure that the Company has a sound performance appraisal system for employees at all levels.</li> <li>• Make recommendations to the Board regarding the content to be included in the Annual Report on Director's Remuneration.</li> </ul>	<ul style="list-style-type: none"> <li>• Consider and recommend to the Board about the requirements of any appointment or re-appointment to the Board.</li> <li>• Continuously review the structure, size, composition and competencies such as skills, knowledge, experience etc. of the Board and make recommendations to the Board with regard to any changes required.</li> <li>• Review the compliance of the Board composition with relevant legal and other requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Set policy guidelines for the management of the investment portfolios of the Company.</li> <li>• Monitor performance of the investment portfolios against agreed benchmarks and recommend changes to the investment strategy, where necessary.</li> <li>• Monitor the compliance with laws and regulations relating to investments.</li> <li>• Monitor the implementation of the Investment Policy, Asset and Liability Management (ALM) Policy and the Liability Policy of the Company.</li> </ul>

**Corporate Governance Compliance Table - Section 6 of the Listing Rules of Colombo Stock Exchange**

This Compliance Table is prepared after considering the appointment of new independent Director Mr. Sarath Ratwatte to the Board, and reconstitution of Board sub committees w.e.f. 30th January 2009.

Rule No.	Subject	Requirement	Compliance Status	Remarks
6.1	Non-Executive Directors	Two or one third of the total number of Directors shall be Non-Executive Directors, whichever is higher	Compliant	Eight out of nine Directors are Non-Executive Directors
6.2	Independent Directors	Two or one third of Non-Executive Directors which ever is higher shall be independent	Compliant	Three out of the eight Non-Executive Directors are independent
		Each Non-Executive Director should submit a declaration of independence/ non-independence in the prescribed format	Compliant	Non-Executive Directors have submitted the declaration
6.3	Disclosure relating to Directors	Names of independent Directors should be disclosed in the Annual Report	Compliant	Please refer page 48
		A brief resume of each Director should be included in the Annual Report including the area of Expertise	Compliant	Please refer page 10 and 75
		Company should send a brief resume upon appointment of each new Director to the Exchange for dissemination to the public	Compliant	Company Complied with the rule on each new appointments
6.5	Remuneration Committee	A Listed Company shall have a Remuneration Committee	Compliant	Names of the members of the Remuneration Committee are given on page 55
	Composition of the Remuneration Committee	Shall comprise of Non-Executive Directors majority of whom shall be independent	Compliant	Remuneration Committee consists of three Non-Executive Directors of whom two are independent.
	Functions of the Remuneration Committee	The Remuneration Committee shall recommend the remuneration of Managing Director/ Chief Executive Officer	Compliant	The Remuneration Committee recommends the remuneration of MD/GEO. Please refer page 56 for a brief description of the functions of the Committee and page 72 for the Report of the Committee
	Disclosure in the Annual Report	Annual Report should set out; - Names of Directors comprising the Remuneration Committee	Compliant	Please refer page 55

## Corporate Governance

Rule No.	Subject	Requirement	Compliance Status	Remarks
		- Statement of Remuneration Policy	Compliant	Please refer page 72, Report of the Remuneration Remuneration Committee for a brief description of the Remuneration Policy
		- Aggregate remuneration to Executive and Non-Executive Directors	Compliant	Please refer page 120
6.6	Audit Committee	A Listed Company shall have a Audit Committee	Compliant	Audit Committee consists of three Non-Executive Directors of whom two are independent.
	Composition of the Audit Committee	Shall comprise of Non-Executive Directors majority of whom shall be independent	Compliant	Audit Committee consists of three Non-Executive Directors of whom two are independent. Chairman of the Audit Committee is an independent Non-Executive Director.
		Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings	Compliant	MD/CEO attends Meetings by invitation. Finance Manager (CFO) who also functions as the Secretary to the Committee also attends meetings
		The Chairman or one member of the Committee should be a Member of a recognised professional accounting body	Compliant	Chairman of the Audit Committee, Mr. D M de S Wijeyeratne is an associate member of the Institute of Chartered Accountants of Sri Lanka (ICASL)
	Functions of the Audit Committee	Should be as outlined in the rule	Compliant	Audit Committee functions with an Audit Committee Charter Please refer page 56 for a brief description of the functions of the Committee and pages 70 and 71 for the Report of the Committee
	Disclosure in the Annual Report	Annual Report should set out; - Names of Directors comprising the Audit Committee	Compliant	Please refer page 55
		- The Audit Committee shall make a determination of the independence of the Auditors and shall disclose the basis for such determination	Compliant	Please refer page 73 for the Report of the Audit Committee
		- The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance by the Company in relating to the above	Compliant	Please refer pages 70 for the Report of the Audit Committee

## Statement of Solvency and Approved Assets

### Solvency

The Statement of Solvency for Non-Life Insurance (General Insurance) and Long - Term insurance (Life Insurance) has been prepared in accordance with the Solvency Margin (General Insurance) Rules - 2004 and Solvency Margin (Long - Term Insurance) Rules - 2002 respectively and is in line with the formats stipulated by the Insurance Board of Sri Lanka (IBSL).

### Statement of Solvency

	2008 Rs. '000	2007 Rs. '000
<b>Non-Life Insurance Business</b>		
1. Value of Admissible Assets	<b>851,614</b>	669,285
2. Amount of Total Liabilities	<b>591,875</b>	457,021
3. Available Solvency Margin ( <i>Line 1 minus Line 2</i> )	<b>259,739</b>	212,264
4. Required Solvency Margin	<b>123,150</b>	100,449
5. Solvency Ratio ( <i>Line 3 divided by Line 4</i> )	<b>2.11</b>	2.11
<b>Long-Term Insurance Business</b>		
1. Value of Admissible Assets	<b>1,442,391</b>	1,030,494
2. Amount of Liabilities:		
2.1 Policy Liabilities	<b>1,102,728</b>	728,527
2.2 Other Liabilities	<b>122,567</b>	111,030
3. Available Solvency Margin ( <i>Line 1 minus Line 2.1 and 2.2</i> )	<b>217,096</b>	190,937
4. Factor	<b>5%</b>	5%
5. Required Solvency Margin	<b>55,136</b>	36,426
6. Solvency Ratio ( <i>Line 3 divided by Line 5</i> )	<b>3.94</b>	5.24

### 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.

	2008 Rs. '000	2007 Rs. '000
<b>Non-Life Insurance Business</b>		
1. Approved Assets maintained in Non-Life Insurance Business	<b>900,511</b>	715,405
2. Technical Reserve	<b>420,934</b>	329,550
3. Approved Assets in Excess of the Technical Reserve	<b>479,577</b>	385,855
4. Approved Assets as a % of the Technical Reserve	<b>213.9%</b>	217.1%
5. Required Ratio	<b>100.0%</b>	100.0%
<b>Long-Term Insurance Business</b>		
1. Approved Assets maintained in Long-Term Insurance Business	<b>1,447,333</b>	1,036,450
2. Long Term Insurance Fund	<b>1,360,505</b>	880,674
3. Approved Assets in excess of the Long Term Insurance Fund	<b>86,828</b>	155,776
4. Approved Assets as a % of Long Term Insurance Fund	<b>106.4%</b>	117.7%
5. Required Ratio	<b>100.0%</b>	100.0%

Note: The Statement of Solvency and Approved Assets have been certified by the External Auditors of the Company as per the Recommended Rules of the IBSL.

## Risk Management

In the Insurance industry, selective acceptance of risks is a primary objective which is at the core of our business model. i.e. we are in the business of risk management of ours and thereby our customers. Whilst emphasising that we are in a position to adequately assess risk situations, the growing complexity and dynamism of the environment in which we operate also impose certain limitations. Risk is an inherent feature of any environment with uncertainty and it is generally accepted that all risks can never be fully avoided or mitigated. Thus, it is understandable that risk is something every one has to accept and find strategies to reach desired states. Therefore, risk management is simply a practice of systematically selecting effective and efficient approaches for minimising the effect of threat realisation to the organisation. More over, risk management is a procedure to minimise the adverse effect of a possible financial loss by: (1) identifying potential sources of loss; (2) measuring the financial consequences of a loss occurring; and (3) using controls to minimise actual losses or their financial consequences.

Dynamic market environments, particularly in the current global circumstances, calls for superior, focused risk management processes and has become a vital task which has never been greater than in today's context. Intense competition, escalating claims, investment losses and enormous regulatory pressures are all challenging insurers to compete efficiently and effectively to manage uncertainty and protect shareholder value in the present environment.

Risk management also faces difficulties of allocating resources. This is the idea of opportunity cost. Resources spent on risk management could have been spent on more profitable activities. Thus, the risk management process has to minimise spending while maximising the reduction of the negative effects of risks.

Therefore, in ideal risk management, a prioritisation process is followed whereby the risks with the greatest potential loss and the greatest probability of occurring are handled first, and risks with lower probability of occurrence and lower potential loss are handled in descending order. In practice the process can be very difficult; balancing between risks with a high probability of occurrence but a lower impact versus risks with a high impact but lower probability of occurrence can often be complex. The Company ensures such issues are handled sensibly and minimises the opportunity cost when allocating resources for risk management.

### Objectives of Risk Management

In HNB Assurance, we believe that a sound risk management process should;

- Create value
- Be an integral part of organisational processes
- Be a part of decision making
- Explicitly address uncertainty
- Be systematic and structured
- Be based on the best available information
- Be tailored
- Take into account human factors
- Be transparent and inclusive
- Be dynamic, iterative and responsive to change
- Be capable of continual improvement and enhancement

### Risk Management Process

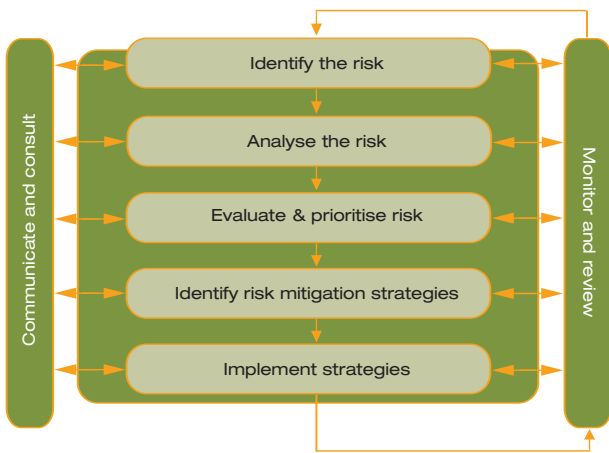
At HNB Assurance, we follow a risk management process which includes strategies and techniques for recognising and confronting the threats, with the objective of reducing the impact of different risks. Further, in HNB Assurance, the objective of risk management is not just the responsibility of one or two individuals or a division, but everyone in the organisation is highly conscious of the risks they face in day to day operations and find strategies to overcome or mitigate such risks.

However, in a formal manner, risk management is a part of the corporate planning process where the management team of the Company together with the Managing Director discuss and agree on possible risks the Company may be exposed to and develop strategies to prevent or minimise the impact of such risks.

The Company's risk management process can be graphically presented as shown in the following page.

Accordingly, the team establishes the framework by identifying the risks of selected domains with constraints, and use a number of criteria for analysing risks in terms of potential impact and probably of occurrence in order to prioritise risks to be addressed first. Strategies are set thereon to mitigate those identified risks with more attention being given to those with a high potential impact and a high probability of occurrence. The management enjoys the effective and immense support and the direction given by the Board of Directors with its

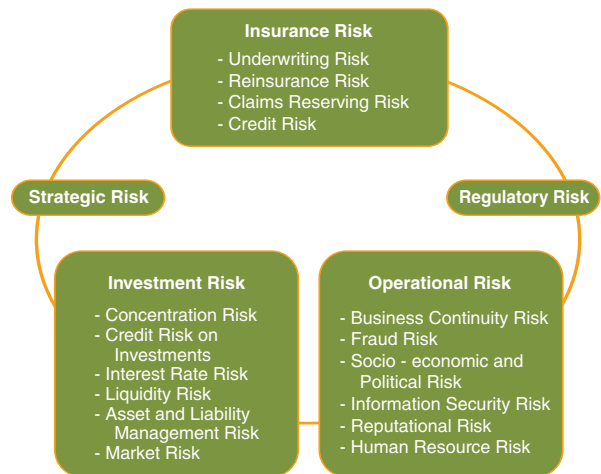
vast experience and knowledge throughout this process. After deciding on strategies, the management with the consultation of the Board, implements strategies with an effective monitoring process in order to make sure the achievement of desired objectives. This is an ongoing process at HNB Assurance throughout the year and particularly the Management, is conscious and proactive of the changes in the environment and the need to assess the validity of previous assumptions and strategies and are always ready to change any of them to suit the emerging new environment.



Additionally, in day-to-day business, our management teams within different operating divisions are also responsible for systematically handling individual risks in all the areas they relate to. They identify, analyse, manage and monitor the risks on an ongoing basis with support from the top management team.

Whilst we are in a position to adequately assess the known risks in our portfolio, the growing complexity and dynamism of the environment in which we operate means that we must also remain vigilant with respect to the detection and representation of new or emerging risks. For example, climate change represents one of the greatest risks of change for the insurance industry, but it also opens up many business opportunities.

The following graph depicts some of the key risks identified by the Company which require effective management on a continuous basis.



The relevance and applicability of each risk category to HNBA and the process in place to mitigate such risks is summarised below.

## Risk Management

Risk Category	Process in Place in HNBA
<p><b>Strategic Risk</b></p> <p>Strategic risk is the risk associated with the Company's future business plans and strategies. This risk category includes plans for entering new business lines, expanding existing services, and enhancing infrastructure (e.g., information technology and networking). In other words, the strategic risk comprises the risk of not achieving set objectives.</p>	<p>The Executive Committee carries out a quarterly review with the participation of a Non-Executive Director to identify areas in which action needs to be expedited in order to mitigate this risk. 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.</p>
<p><b>Regulatory Risk</b></p> <p>Regulatory risk is the risk to earnings, capital and reputation associated with a failure to comply with an increasing array of regulatory requirements and expectations.</p>	<p>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 major IBSL and CSE deadlines well in advance.</p> <p>The Audit Committee and the Board also pay focused attention to the need to be in compliance with all laws and regulations applicable.</p> <p>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</p> <p>The management with the consultation of the Audit Committee is in the process of developing a comprehensive checklist to be adopted from the year 2009 to make sure the compliance with all laws and regulations applicable.</p>
<p><b>Insurance Risk</b></p> <p>Insurance Risk can be specifically identified in the following categories in the light of the operations of the Company.</p>	
<p><b>Underwriting Risk</b></p> <p>Risk that premiums will not be 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.</p>	<p>The Company has formulated and implemented a Manual of Financial Authority under which the sections on underwriting and claims settlement clearly spell out the limits of authority applicable in making decisions relating to underwriting of risks and settlement of claims.</p> <p>The Company conducts regular training for its underwriting and claims management staff including those attached to the distribution network.</p>



Risk Category	Process in Place in HNBA
<p><b>Underwriting Risk</b></p> <p>As an insurer, this is a primary area of focus in the Company's risk management programme. Adequate reserves to meet future obligations arising from claims in the General Insurance business and claims and maturities in the Life Insurance business is a must.</p> <p>Underwriting risk could also arise due to lack of understanding of the changes in the environment particularly climate change in today's environment due to global warming and other issues.</p>	<p>Underwriting is done selectively considering both the risk and return, not just thinking about the growth in top line. This is ensured by the underwriters carrying key performance indicators (KPIs) relating to both turnover and profitability.</p> <p>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.</p>
<p><b>Reinsurance Risk</b></p> <p>The Reinsurance risk is the retaining of risks beyond the Company's net retention capacity and not having adequate reinsurance and inability of re-insurers to meet their commitments due to insufficient financial strength.</p>	<p>The Company maintains a very close and professional relationship with its re-insurers and makes sure that no cover is issued without a properly confirmed reinsurance in place for risks above treaty limits.</p> <p>HNBA enjoys the support of a globally trusted and stable portfolio of re-insurance companies which has been developed since inception through professional relationships built on integrity and mutual understanding. Our reinsurance portfolio is rated by globally recognised rating agencies such as Standard &amp; Poor, AM Best and Fitch. The Company has also introduced an ongoing process of constantly reviewing our re-insurer rating in the wake of the current global turmoil.</p> <p>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 same.</p>
<p><b>Claim Reserving Risk</b></p> <p>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.</p>	<p><b>General Insurance</b></p> <p>The Company adopts the practice of making a reserve on the intimation of claims to our 24 hour Customer Relation 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.</p> <p>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) risks.</p>

## Risk Management

Risk Category	Process in Place in HNBA
	<p><b>Life Insurance</b></p> <p>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.</p> <p>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.</p>
<b>Credit Risk</b>	
<p>Credit risk is the risk due to uncertainty in the debtors' ability to meet obligations to the Company.</p>	<p>Since the Company strictly implements the Premium Payment Warranty (PPW), the credit risk in terms of premium receivables is minimal. However, all outstanding premium receivables are followed up effectively in order to minimise Policy cancellations.</p> <p>Claim settlements are done after reviewing the position of outstanding receivables .</p> <p>All other receivables including reinsurance receivables are reviewed on a timely basis and appropriate actions are being taken.</p>
<b>Investment Risk</b>	
<p>Being an Insurance Company, HNBA handles a significant portfolio of investments and thereby is exposed to a substantial amount of risk relating to the investments held.</p>	
<b>Concentration Risk</b>	
<p>This refers to the risk of over exposure to a particular Company or sector due to lack of diversification.</p>	<p>The Investment Committee reviews the asset allocation of the investment portfolio on a quarterly basis.</p> <p>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, due to the lack of liquidity in other markets.</p>
<b>Credit Risk on Investments</b>	
<p>Credit Risk in investments exists when the investment portfolio includes investments in Corporate Debts, Bank Deposits etc. and relates to the risk of not being able to recover the capital and/or interest relating to such investments.</p>	<p>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.</p>

Risk Category	Process in Place in HNBA
<p><b>Interest Rate Risk</b></p> <p>This refers to the risk of the Company's inability to earn promised returns to meet promised liabilities due to the volatility in interest rates.</p>	<p>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.</p> <p>Life Insurance policies sold with a promised return are fully backed by corresponding investments for a similar period.</p>
<p><b>Liquidity risk</b></p> <p>This refers to the inability to meet contractual obligations such as claim settlements and payments to re-insurers due to the insufficient availability of cash and other liquid investments.</p>	<p>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.</p>
<p><b>Asset and Liability Management Risk</b></p> <p>This risk refers to the mismatch of durations between assets and liabilities. Being an insurance company, HNBA is highly mindful of the need for proper matching of the duration of assets and liabilities.</p>	<p>The Company has stipulated minimum levels of investments as a percentage of each fund in investment that mature within different time periods. The asset mix of each portfolio is monitored by the Investments Committee regularly to ensure adherence to these guidelines.</p> <p>The Company avoids offering any guaranteed returns unless such guarantees are backed by equivalent investments for a similar period.</p>
<p><b>Market Risk</b></p> <p>The risk of change in value of investments due to volatility in of stock prices.</p>	<p>The Company has invested only a small percentage of its funds in equities due to the poor performance of the stock market in the recent past.</p> <p>However, the Company monitors the movements of the market very closely in order to capitalise on good opportunities if the circumstances change.</p>
<p><b>Operational Risk</b></p> <p>Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.</p>	
<p><b>Business Continuity Risk</b></p> <p>This is the risk of business operation being disrupted due to an unexpected eventuality.</p>	<p>The Company has a Business Continuity Plan (BCP) and a separate committee to handle risks of this nature. Further, the IT infrastructure has also been developed to support the implementation of the BCP.</p>

## Risk Management

Risk Category	Process in Place in HNBA
	<p>During the period of the SAARC Summit, access to the Company was limited due to security reasons and the Company was able to carry out all its day to day activities from other locations without any failure confirming the effectiveness of its BCP.</p>
<b>Fraud Risk</b>	
<p>This refers to the risk of fraudulent acts taking place due to inadequate internal controls.</p>	<p>The Company has implemented a Code of Best Practice and Ethics to be adopted by employees at all levels without any exception.</p> <p>A formal Manual of Financial Authority (MOFA) which is approved by the Board is in place with delegated authority to employees at each level.</p> <p>Proper segregation of duties has been established through a clearly defined organisation structure.</p> <p>Further, the Company implemented a strong control environment which is subjected to periodic monitoring by an independent Internal Audit team (M/S Ernst &amp; 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.</p> <p>Any complaints or indications what so ever regarding possible frauds or misappropriations by employees or members of the agency force are investigated immediately and appropriate actions are taken promptly.</p> <p>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.</p>
<b>Socio-economic and Political Risk</b>	
<p>Socio-economic and political factors have a direct impact on insurance business as well as on investment activities of the Company.</p>	<p>The Company acknowledges the importance of these risks and it is reviewed closely during corporate planning sessions.</p> <p>Additionally, the Company seeks advise from independent specialists such as economists to identify trends and to understand their financial implication.</p> <p>Moreover the Company also initiates discussions with such independent specialists about changes in these areas in order to enhance the knowledge of our employees. For instance, the Company recently arranged a presentation on the "Global Financial Meltdown and its impact" by an independent specialist for the benefit of its staff, key customers and intermediaries.</p>

Risk Category	Process in Place in HNBA
<b>Information Security Risk</b>	
<p>Information security risk is defined as 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.</p>	<p>The Company adopted a formal Information Security Policy (IS Policy) during the year, which the employees at all levels must adhere to.</p>
	<p>The Company has also set up a Business Continuity Plan (BCP) with the adequate support of the IT infrastructure.</p>
<b>Reputational Risk</b>	
<p>Refers to the impairment of the goodwill of the Company due to a particular event or behavior.</p>	<p>The Company has a sound system of internal controls which are regularly monitored by Internal Auditors and the Audit Committee thereon.</p>
	<p>The Company is highly committed to be in full compliance with all laws and regulations applicable to the Company's operations.</p>
	<p>All the employees of the Company are required to show a high level of integrity and professionalism at all times.</p>
	<p>The Company has adopted a code of Business Conduct and Ethics to be followed by all employees without any exceptions.</p>
	<p>The release of financial information to the public is subject to approval by the Audit Committee and the Board thereon.</p>
<b>Human Resource Risk</b>	
<p>Main risk is the lack of professionally qualified personnel for the industry and thereby experiencing high staff turnover ratios.</p>	<p>Making opportunities available to the staff for their continuous education and development by way of providing financial and other support.</p>
	<p>The Company always aims to have its remuneration packages in line with the industry to retain and attract qualified staff.</p>
	<p>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.</p>





# Financial Reports

## Financial Calendar 2008

### Interim Unaudited Reports for 2008

1st Quarter 2008	5th May 2008 *
2nd Quarter 2008	4th August 2008 *
3rd Quarter 2008	3rd November 2008 *
4th Quarter 2008	2nd February 2009 *

### Annual Reports and Accounts

2003	22nd June 2004*
2004	4th March 2005*
2005	1st March 2006*
2006	28th February 2007*
2007	28th February 2008*

### Dividends

Final Dividend - 2005	paid on 6th April 2006
Final Dividend - 2006	paid on 10th April 2007
Final Dividend - 2007	paid on 7th April 2008
Final Dividend - 2008	will be paid on 6th April 2009 **

### Annual General Meetings

First	- 18th June 2003
Second	- 28th May 2004
Third	- 29th March 2005
Fourth	- 30th March 2006
Fifth	- 30th March 2007
Sixth	- 31st March 2008
Seventh	- 30th March 2009

\* Date submitted to Colombo Stock Exchange (CSE)

\*\* Subject to approval by the Shareholders

## Audit Committee Report

### Composition

The Audit Committee, appointed by and responsible to the Board of Directors, comprises three Non-Executive Directors with the Finance Manager acting as its Secretary. The Committee comprises members who bring their expertise and knowledge from various areas. The members of the Audit Committee who held office during the year are given in page 55. The Managing Director attends all meetings by invitation. Other Executive Committee members, Head of IT, Compliance Officer and other members of the management are also invited to attend these meetings where necessary. The Audit Committee meets the External Auditors, the Internal Auditors and the Life Actuary to discuss matters related to their respective areas.

Mr. C Benjamin was the Chairman of the Audit Committee up to his retirement from the Board. Thereafter, Mr. D M de S Wijeyeratne, independent non-executive director, who is an associate member of the Institute of Chartered Accountants of Sri Lanka, was elected as the Chairman. A brief profile of each member is given on page 10 of this Annual Report.

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

### Objective and Authority

The key objectives of the Audit Committee are to assist the Board to fulfil its responsibility with regard to financial reporting and the audit process, the system of internal control and risk management and the monitoring process for compliance with laws and regulations.

The Audit Committee is empowered to seek any information it requires from the management and staff (all of whom are directed to cooperate with the Committee's requests) or external parties, meet with the management and staff, External & Internal Auditors, Consultant Actuary, regulators or outside counsel, as necessary.

### Meetings

The Committee met four times during the financial year under review. The attendance of each member is given on page 76. Meeting agendas were prepared and provided sufficiently in advance to members, along with appropriate briefing materials.

### Activities and Responsibilities

The Audit Committee carried out the 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.

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.

As far as the Audit Committee is aware, the Auditors do not have any relationship (other than that of the auditor) with the Company. The Auditors have provided a declaration confirming their independence.

The lead audit partner is rotated every five years.

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 2009 subject to the approval of Shareholders at the Annual General Meeting to be held on 30th January 2009.

#### *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 and approved the same. The Committee 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 make sure 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*

The Committee exercised oversight over the processes to ensure that the Company's internal controls and risk management process was adequate.

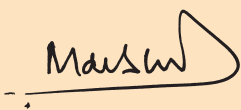
**IT Risk and Control Assessment**

The Committee received a report based on the work performed as part of the statutory audit, in respect of the above from Messrs. KPMG Ford, Rhodes, Thornton & Co. Special attention was paid by the Committee on findings & recommendations of the report together with the management responses and actions to resolve the same.

**Conclusion**

The Committee is satisfied that the Company's internal controls are effectively implemented as designed, and the company's assets are adequately safeguarded. The 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.

During the course of the year, Mr. Vipula Dharmapala replaced Mr. Ajantha de Vas Gunasekara as the Secretary to the Audit Committee. The Contribution given by Mr. C. Benjamin and Mr. Ajantha de Vas Gunasekara as the Chairman and the Secretary to the Committee is acknowledged.



**D M de S Wijeyeratne,**  
*Chairman - Audit Committee*

Colombo, Sri Lanka  
30th January 2009

## Remuneration Committee Report

The Remuneration Committee, appointed by and responsible to the Board of Directors, comprises three Non-Executive Directors. The Managing Director attends all meetings by invitation. The Assistant Manager Human Resources acts as the Secretary to the Committee and also assists the Committee by providing information required in its decision making process. The Committee meets at least twice each year.

The Committee is responsible for setting the remuneration policy of the Company and determining remuneration packages of the Executives and other managerial staff.

The primary objective of the Committee is to advise on structuring remuneration packages that enables the Company to attract, retain and motivate high calibre individuals with the skills and abilities required to lead HNB Assurance. In doing so, the Committee seeks to remunerate individuals fairly for individual responsibility, expertise and contribution, bearing in mind the business' performance and long term shareholder returns. The Committee has authority to seek external independent professional advice on matters within the purview of the Committee.

From time to time the Committee will review the Company's compensation structure to ensure that it is in line with strategic priorities and competitive with packages offered by competing companies.



**R Theagarajah**

*Chairman - Remuneration Committee*

Colombo, Sri Lanka

30th January 2009

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

The details set out herein provide pertinent information required by the Companies Act, No. 7 of 2007, the Colombo Stock Exchange Listing Rules and are guided by recommended best accounting practices. This was approved by the Directors at a meeting held on 30th January 2009.

## General

The Board of Directors is pleased to present their Report and the Audited Financial Statements for the year ended 31st December 2008 and the Auditors' Report thereon of HNB Assurance PLC. 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 Business. The Company which was quoted 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 Non-life (General) Insurance and Life Insurance business. There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

## Review of Performance for the year ended 31st December 2008 and Future Developments

A review of the Company's performance during the year, with comments on financial results for the year ended 31st December 2008 and future developments is contained in the Chairman's Review (pages 3 to 5), In Dialogue with the Managing Director (pages 6 and 7) and Management Discussion and Analysis (pages 16 to 29). 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 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 (ICASL).

## Significant Accounting Policies

The significant accounting policies adopted in preparation of these Financial Statements are given on pages 99 to 105. There were no material changes in the accounting policies adopted with that of last year.

## Auditors

The Financial Statements for the year ended 31st December 2008 have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Co., (Chartered Accountants), who express their willingness to continue in office. 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 Auditors' report on Financial Statements is given on page 85.

The Auditors Messrs. KPMG Ford, Rhodes, Thornton & Co., were paid Rs. 700,000/= (2007 - Rs. 587,737/=) as Statutory Audit fees and expenses by the Company. In addition they were paid Rs. 106,000/= (2007 - Rs. 88,000/=) by the Company for other audit services, which consists mainly of certifications 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

The total turnover as measured by Gross Written Premium (GWP) of the Company for the financial year under review amounted to Rs. 1,839 Million (2007 - Rs. 1,472 Million). The above GWP is made up of Non-life (General) and Life Insurance premium income amounting to Rs. 925 Million (2007 - Rs. 704 Million) and Rs. 914 Million (2007 - Rs. 768 Million) respectively. A detailed analysis of the total GWP achieved by the Company is given in Note 20 to the Financial Statements on page 114.

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

### Financial Results

	2008 Rs. '000	2007 Rs. '000
Profit Before Income Tax	169,874	143,332
Income Tax Expense	(5,401)	(20,000)
Profit After Income Tax	164,473	123,332
Unappropriated Profit brought forward	174,143	200,811
Funds available for appropriation	338,616	324,143
Appropriations		
Issue of Bonus Shares	-	(125,000)
Dividends	(37,500)	(25,000)
Unappropriated Profit carried forward	301,116	174,143

The Income Statement of the Company is given on page 87. Transfers to / from reserves of the Company are shown in the Statement of Changes in Equity on page 88.

### Interest Register

An Interest Register in terms of the Companies Act, No. 7 of 2007 has been maintained by the Company. All Directors have disclosed their interest with the Company and they are duly recorded in the Interest Register conforming to the provisions of the Companies Act.

#### 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 79 and 80.

#### 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 December 2008	As at 31st December 2007
Rienzie T. Wijetilleke	750	750
Manjula de Silva	25,000	15,000
R Theagarajah	6,250	3,750
J M J Perera	5,250	5,250
J D N Kekulawala	9,000	9,000
M U de Silva	2,250	2,250
Pratap Kumar de Silva	-	-
D M de S Wijeyeratne	-	-

#### c) Directors' Remuneration and Other Benefits

Directors' remuneration for the financial year ended 31st December 2008 is Rs. 7,714,000 (2007 - Rs. 5,675,000).

### The Board of Directors

The Board of Directors consists of eight Directors with wide knowledge and experience. The following Directors held office as at the Balance Sheet date and their brief profile are given on page 10 of this Annual Report.

<b>Name of the Director</b>	<b>Status</b>
Rienzie T. Wijetilleke (Chairman)	Non-Executive Director
Manjula de Silva (Managing Director)	Executive Director
R Theagarajah	Non-Executive Director
J M J Perera	Non-Executive Director
J D N Kekulawala	Non-Executive Director
M U de Silva	Non-Executive Director
Pratap Kumar de Silva	Non-Executive Director
D M de S Wijeyeratne	Non-Executive Director

#### **Resignation of Directors**

Mr. C Benjamin resigned from the Board w.e.f. 25th June 2008.

#### **Appointment of Directors**

Mr. Prathap Kumar de Silva and Mr. D M de S Wijeyeratne were appointed to the Board during the year 2008 in terms of Article 92 of the Articles of Association of the Company. Mr. Pratap Kumar de Silva was appointed on 31st March 2008 and Mr. D M de S Wijeyeratne was appointed on 28th April 2008.

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.

Mr. Sarath Carlyle Ratwatte, a Fellow of the Chartered Institute of Management Accountants (CIMA) UK is a Financial Consultant. He has nearly 30 years working experience in the fields of financial and treasury management, project evaluation and development, investments, financing and risk management and joint ventures. He has worked in several multinational organisations and conglomerates overseas and in Sri Lanka including the Aitken Spence Group of Companies. He has been Director/Group Treasurer in Aitken Spence Corporate Finance (Pvt) Ltd., a Director (Non-Executive) of Ace Power Embilipitiya (Pvt) Ltd. and Director Finance and Administration of Aitken Spence (Garments) Ltd.

#### **Re-election of Directors recommended**

In accordance with the provisions of the Companies Act and Article 92 of the Articles of Association of the Company, Mr. Prathap Kumar de Silva, Mr. D M de S Wijeyeratne and Mr. Sarath Carlyle Ratwatte offer themselves for re-election with the unanimous support of the Board.

#### **Board Sub Committees**

The Board while assuming the overall responsibility and accountability in the management of the Company has also appointed Board Sub Committees to insure oversight control over certain affairs of the Company conforming to the Listing Rules of Colombo Stock Exchange (CSE), adopting best practices and complying to the Companies Act. Accordingly following Committees have been constituted by the Board.

¥ Audit Committee

¥ Remuneration Committee

¥ Nomination Committee

The composition of each committee is given on page 55 which is a part of the Annual Report of the Board.

#### **Directors' Meetings**

The number of Directors' meetings which comprise Board meetings, Audit Committee meetings, Investment Committee meetings, Remuneration Committee meetings and Nomination Committee meetings and the attendance of Directors at these meetings during the year are tabulated below.

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

Name of the Director	Board Meetings		Audit Committee Meetings		Investment Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
Rienzie T. Wijetilleke (Chairman)	11	10	-	-	-	-	-	-	2	2
Manjula de Silva (Managing Director)	11	11	-	-	4	4	-	-	2	2
R Theagarajah	11	10	-	-	-	-	2	2	2	2
J M J Perera	11	10	-	-	-	-	-	-	-	-
J D N Kekulawala	11	10	4	4	4	4	2	2	-	-
M U de Silva	11	11	4	4	-	-	2	2	2	2
C Benjamin	5	4	1	1	-	-	1	1	-	-
Pratap Kumar de Silva	7	7	-	-	-	-	-	-	-	-
D M de S Wijeyeratne	7	6	3	3	-	-	-	-	-	-

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

B = Number of meetings attended

### Share Information

Information relating to earnings, dividend, net assets and market price per share is given on pages 124 to 126. Information on share trading is given on page 126.

### Shareholding

The number of registered shareholders of the Company as at 31st December 2008 was 4,111 (2007 - 4,093). The distribution and analysis of shareholdings are given on page 124.

### Major Shareholders

The twenty largest shareholders of the Company as at 31st December 2008, together with comparatives as at 31 December 2007 are given on page 125. Hatton National Bank PLC (Mr. Rienzie T. Wijetilleke, Chairman and Mr. R Theagarajah, Managing Directors who are Directors of the Company) owns 59.99% (No. of shares 2008 - 22,494,750 and 2007 - 22,494,750) shares of HNB Assurance PLC. Alliance Finance PLC (Mr. Pratap Kumar de Silva - Chairman who is also a Director of HNB Assurance PLC) owns 10.6% (No. of shares 2008 - 3,774,350 and 2007 - 3,662,700) shares of HNB Assurance PLC.

### Going Concern

The Board has made necessary reviews and inquiries including reviews 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.

### Corporate Governance

The Board of Directors is committed towards maintaining an effective Corporate Governance structure and process. Pages 45 to 58 of this Annual Report gives the main Corporate Governance practices of the Company.

### Risk Management

An ongoing process is in place to identify, evaluate and manage risks that are faced by the Company. The Directors review this process through the Audit Committee. Specific risks faced by the Company and processes in place in the Company to mitigate such risks are given under Risk Management on pages 60 to 67.

### Internal Control

The Board has overall responsibility for the Company's system of internal controls. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's internal control systems have been designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions authorised and properly recorded and material errors and irregularities either prevented or detected within a reasonable period of time. The Board is satisfied with the effectiveness of the system of internal control for the period up to the date of signature of the Financial Statements.

### Corporate Donations

During the year, the Company made charitable donations amounting to Rs. 250,000/= (2007-Rs. 250,000). This includes a sum of Rs. 156,000/= donated to a government approved charity, Narada Savana Foundation sponsoring them to employ an audiologist to support the development of children with hearing impairments. Additionally, the Company donated a sum of Rs. 94,000/- to four religious institutions, i.e. a Buddhist Temple, Church, Hindu Kovil, and a Mosque.

No donations were made for political parties or for politically influential activities.

#### Dividends

The Board of Directors satisfied the Solvency test in terms of the provisions of the Companies Act, No. 7 of 2007, immediately after the first and final dividends proposed and to be paid on 6th April 2009. The Statement of Solvency prepared by the Board was audited by Messrs. KPMG Ford, Rhodes, Thornton & Co. The Directors recommend a first and final dividend of Rs. 1.25 (2007 - Rs. 1/=) per share payable on 6th April 2009 to holders of issued and paid up Ordinary Shares of the Company as at the close of business on 6th April 2009.

#### Investments

Amount of investments held by the Company as at 31 December 2008 amounted to Rs. 1,999 Million. Detailed description of the Investments held is disclosed in Note 5 to the Financial Statements on page 106.

#### Intangible Assets

The capital expenditure on Intangible Assets during the year amounted to Rs. 9.4 Million and as at the Balance Sheet date the book value of Intangible Assets amounted to Rs. 23 Million. A movement of Intangible Assets from the balance as at 1st January 2008 to 31st December 2008 having additions and disposals made during the year together with the amortisation charge for the year are set out in Note 6 to the Financial Statements on page 108.

#### Property, Plant and Equipment

The capital expenditure on acquisition of Property, Plant and Equipments during the year amounted to Rs. 39.5 Million and as at the Balance Sheet date the net book value of Property, Plant and Equipment amounted to 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 7 to the Financial Statements on pages 108 and 109.

#### Market Value of properties

The Market value of Property, Plant and Equipment is considered not materially different to the book values.

#### Capital Commitments

Capital expenditure contracted for as at 31st December 2008 for which no provision has been made in the accounts amounted to Rs. 10.5 Million (2007 - Rs. 4.6 Million).

#### Provisions

The Directors have taken all reasonable steps to ensure adequate provisioning for unearned premiums, unexpired risk and claims including provisions for Claims Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) in General Insurance. The Directors consulted an independent Actuary in the process of valuing IBNR and IBNER reserves and their report is given on page 83.

Moreover, the Directors have arranged a Consultant Actuary to value the Life Fund and the report of the consultant Actuary is given on page 84.

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 2008 was Rs. 375 Million (2007 - Rs. 375 Million) comprising of 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 2008 amounted to Rs. 301 Million (2007 - Rs. 174 Million). The movement of reserves is shown in the Statement of Changes in Equity on page 88.

#### Minimum Capital Requirements to continue Non-life and Life Insurance Businesses

Section 13 (b) of the Regulation of Insurance Industry Act, No. 43 of 2000 requires a minimum stated capital of Rs. 100,000,000/= each to carry on Non-life 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 Life Shareholder's Fund which are dedicated to the solvency requirements of the Life Insurance.

#### Income Tax

Income Taxes are computed on rates enacted or substantively enacted as at the Balance Sheet date. The income tax expense of the Company is given in Note 28 to the Financial Statements on pages 117 and 118.

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

### Events Occurring after the Balance Sheet Date

There have not been any material event that occurred subsequent to the Balance Sheet date that requires adjustments to or disclosure in the Financial Statements.

### Contingencies

In the opinion of the Directors, and in consultation with the Company Lawyers, litigation currently pending against the Company would not have a material impact on the reported financial results of the Company.

All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

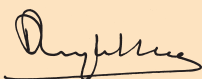
### Employment Policy

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 requirement forecast, which is updated every year. The annual staff requirement forecast is prepared by considering the projected growth and expansion of the distribution network, profitability, expenditure ratio, level of computerisation of activities, productivity, work volumes, multiple skills etc. The number of employees as at 31st December 2008 was 457 (2007 - 377).

Medical and Life Insurance under group cover is available for all employees of the Company irrespective of their period of service. The Company encourages sports and recreational activities by supporting the Staff Welfare Society, which organises such activities, in addition to those organised by the Company's HR Department.

For and on behalf of the Board



**Rienzie T. Wijetilleke**  
Chairman



**Manjula de Silva**  
Managing Director



**Indrani Goonesekera**  
Board Secretary

Colombo, Sri Lanka  
30th January 2009

### 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.

### 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. Compliance reports have been submitted to each Audit committee confirming the same.

### Environmental Protection

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 supports those who take initiatives to popularise environment friendly technology such as the production and use of electric vehicles.

### Reports of the Audit Committee and the Remuneration Committee

The Audit Committee and the Remuneration Committee reports are given on pages 70 - 71 and 72 respectively of this Annual Report.

### Annual General Meeting

The seventh 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 Monday the 30th day of March 2009 at 10.00 in the forenoon. The Notice of the seventh Annual General Meeting is on page 138 of the Annual Report.



## 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 of such entities. The transactions with entities where a Director of the Bank either has control or exercises significant influence, have been classified as related party transactions and disclosed in Note No. 31 to the Financial Statements.

Company	Name of Director / Relationship
Hatton National Bank PLC	Rienzie T. Wijetilleke - <i>Chairman</i> R Theagarajah - <i>Managing Director</i>
HNB Stock Brokers (Pvt) Ltd.	Rienzie T. Wijetilleke - <i>Chairman</i> (up to 3rd November 2008) J M J Perera - <i>Director</i> (Chairman w.e.f. 3rd November 2008) R Theagarajah - <i>Director</i> J D N Kekulawala - <i>Director</i> (up to 3rd November 2008)
HNB Securities Ltd.	Rienzie T. Wijetilleke - <i>Chairman</i> (up to 4th November 2008) J M J Perera - <i>Director</i> (Chairman w.e.f. 4th November 2008) R Theagarajah - <i>Director</i> J D N Kekulawala - <i>Director</i> (up to 4th November 2008)
Sithma Development (Pvt) Ltd.	Rienzie T. Wijetilleke - <i>Chairman</i> R Theagarajah - <i>Director</i> J D N Kekulawala - <i>Director</i>
Alliance Finance Co. PLC	Pratap Kumar De Silva - <i>Chairman and Jt. Managing Director</i>
Arpico Finance Co. PLC	Pratap Kumar De Silva - <i>Chairman</i>
Alliance Tech Trading (Pvt) Ltd.	Pratap Kumar De Silva - <i>Chairman</i>

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

- b) i.

Company	Name of Director / Relationship	Nature of Transaction	Transaction Amount	
			2008 Rs. '000	2007 Rs. '000
Nawaloka Hospitals PLC	Rienzie T. Wijetilleke - <i>Director</i>	<i>Insurance Premium (Received/Receivable)</i> Non-life	64	46

## Directors' Interests in Contracts with the Company

b) ii. In addition, the Chairman and/or Directors of the Company are also Chairman and/or Directors of following Companies with which the Company has had no significant transactions during the year.

Company	Name of Director / Relationship
Ceylon Biscuits Ltd.	Rienzie T. Wijetilleke - <i>Director</i>
Mahaweli Reach Hotels PLC	Rienzie T. Wijetilleke - <i>Director</i>
Sunshine Holdings PLC	Rienzie T. Wijetilleke - <i>Chairman</i>
Acuity Partners (Pvt) Ltd.	R Theagarajah - <i>Director</i> J M J Perera - <i>Director</i>
Lanka Financial Services Bureau	R Theagarajah - <i>Director</i>
Lanka Ventures Ltd.	J M J Perera - <i>Director</i> J D N Kekulawala
Sri Lanka Banks' Association (Guarantee) Ltd.	R Theagarajah - <i>Chairman</i>
Alliance Venture (Pvt) Ltd.	Pratap Kumar De Silva - <i>Chairman and Jt. Managing Director</i>
Ceylon Textile Manufacturers Ltd.	Pratap Kumar De Silva - <i>Chairman</i>
Macbertan Ltd.	Pratap Kumar De Silva - <i>Director</i>
Xesol (Pvt) Ltd.	Pratap Kumar De Silva - <i>Chairman</i>
Finance Houses Consortium (Pvt) Ltd.	Pratap Kumar De Silva - <i>Executive Director</i>
Mc Bolon Polymer (Pvt) Ltd.	Pratap Kumar De Silva - <i>Director</i>
Credit Information Bureau of Sri Lanka	Pratap Kumar De Silva - <i>Director</i>
Virtusa (Pvt) Ltd.	Pratap Kumar De Silva - <i>Director</i>
Alliance Management Services (Pvt) Ltd.	Pratap Kumar De Silva - <i>Chairman and Managing Director</i>
Alliance Travel Services Ltd.	Pratap Kumar De Silva - <i>Chairman and Managing Director</i>
Alliance Business Solutions (Pvt) Ltd.	Pratap Kumar De Silva - <i>Director</i>
Majan Exchange LLC	R Theagarajah - <i>Director</i>
GLIDE (Pvt) Ltd.	D M De S Wijeyeratne - <i>Director</i>

## Directors' Responsibility for Financial Reporting

This statement sets out the responsibilities of the Directors in relation to the Financial Statements of the Company. The responsibilities of the auditors in relation to the Financial Statements are set out in the Report of the Auditors on page 85 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, Financial Statements which comprise;

- ¥ An Income Statement, which presents a true and fair view of the profit and loss of the Company for the financial year, and
- ¥ A Balance Sheet, which represents a true and fair view of the state of affairs of the Company as at the Balance Sheet date, and which complies with the requirements of the Act.

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

- ¥ Selecting appropriate accounting policies and apply them consistently (subject to material departures, if any, have been disclosed and explained);
- ¥ Making judgements 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 Financial Statements presented comply 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 Company is in conformity with the formats and disclosures prescribed in the Statement of Recommended Practice (SoRP) for Insurance Companies issued by the Institute of Chartered Accountants of Sri Lanka.

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. They have also ensured that proper records are maintained and that the information generated is reliable.

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

As required by 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 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. 1.25 per share for this year, to be paid on 6th April 2009.

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  
30th January 2009

## 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. 07 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 provide 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**  
*Finance Manager / Chief Financial Officer*

Colombo, Sri Lanka  
30th January 2009

## 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**  
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### M/S. K. A. PANDIT

**CONSULTANTS & ACTUARIES**

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MUMBAI - 400 001. INDIA.

## 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 31<sup>st</sup> December, 2008.

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 calculation 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 31-12-2008 to be provided by the HNB Assurance PLC in respect of its non-life business are estimated as Rs.9,476,000 equal to 1.75% of the Net Earned Premium of Rs.541,462,601 as on 31-12-2008. They seem adequate and may be provided accordingly.

(N. K. PARIKH)

(PARTNER)

Mumbai, India,

7<sup>th</sup> January, 2009.

## Report of the Life Actuary



Actuarial & Management  
Consultants (Pvt) Limited

1st Floor, 434, R.A, De Mel Mawatha, Colombo 03, Sri Lanka. Telephone: (941) 575 280/(94) (1230) 029 Fax: (94) (1230) 079

30 January 2009

To the Shareholders of HNB Assurance PLC.

### ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER, 2008

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2008. 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, 2008, 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 account exceed the required actuarial reserves as at 31 December, 2008 by Rs. 379.789 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 55.136 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2008. 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,  
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### TO THE SHAREHOLDERS OF HNB ASSURANCE PLC

#### Report on the Financial Statements

We have audited the accompanying financial statements of HNB Assurance PLC, which comprise the balance sheet as at 31st December 2008, 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 as set out on pages 86 to 121 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 2008 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151 (2) of the companies Act No. 07 of 2007. Pursuant to Regulation of Insurance Industry Act, No. 43 of 2000 Section 47 (2), we also report, so far as appear from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

*Ford Rhodes Thornton & Co.*

Chartered Accountants,  
Colombo,  
30th January 2009

## Balance Sheet

As at 31st December

	Note	2008 Rs.'000	2007 Rs.'000
<b>Assets</b>			
Investments	5	1,999,032	1,480,598
Intangible Assets	6	23,058	20,539
Property, Plant and Equipment	7	91,717	72,397
Loans to Life Policyholders	8	4,666	1,588
Reinsurance Receivables	9	69,314	30,917
Premium Receivables	10	120,922	86,721
Other Assets	11	334,882	200,050
Cash and Cash Equivalents	12	155,882	116,071
<b>Total Assets</b>		<b>2,799,473</b>	<b>2,008,881</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Insurance Provision - Life	13	1,360,505	880,674
Insurance Provision - Non-life	14	470,206	340,562
Other Liabilities	15	280,340	229,602
Interest Bearing Borrowings	16	988	1,423
Retirement Benefit Obligation	17	11,318	7,477
<b>Total Liabilities</b>		<b>2,123,357</b>	<b>1,459,738</b>
<b>Shareholders' Equity</b>			
Stated Capital	18	375,000	375,000
Revenue Reserves	19	301,116	174,143
<b>Total Shareholders' Equity</b>		<b>676,116</b>	<b>549,143</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>2,799,473</b>	<b>2,008,881</b>

The Financial Statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.



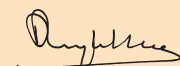
**Vipula Dharmapala**

Finance Manager

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

The accounting policies and notes as set out on pages 99 to 121 form an integral part of the Financial Statements.

For and on behalf of the Board;



**Rienzie T. Wijetilleke**

Chairman



**Manjula de Silva**

Managing Director

Colombo, Sri Lanka  
30th January 2009



## Statement of Income

For the Year ended 31st December

	Note	2008 Rs.'000	2007 Rs.'000	Change %
<b>Revenue</b>	4	<b>1,719,688</b>	1,367,443	26
Gross Written Premium	20	<b>1,838,879</b>	1,472,153	25
Premium Ceded to Reinsurers		<b>(388,913)</b>	(271,859)	43
Net Written Premium		<b>1,449,966</b>	1,200,294	21
Net Change in Reserves for Unearned Premium and Unexpired Risk		<b>(74,285)</b>	(33,651)	121
Net Earned Premium		<b>1,375,681</b>	1,166,643	18
<b>Benefits Losses and Expenses</b>				
Insurance Claims and Benefits (Net)	21	<b>(408,482)</b>	(316,878)	29
Increase in Life Insurance Fund		<b>(479,831)</b>	(372,953)	29
Underwriting and Net Acquisition Costs	22	<b>(168,166)</b>	(152,666)	10
Other Insurance Related Costs		<b>(7,952)</b>	(14,662)	(46)
Total Benefits, Losses and Expenses		<b>(1,064,431)</b>	(857,159)	24
Net Earned Premium Less Benefits, Losses and Expenses		<b>311,250</b>	309,484	1
<b>Other Revenue</b>				
Income from Investments	23	<b>342,265</b>	200,004	71
Other Income	24	<b>1,742</b>	796	119
<b>Expenses</b>				
Other Operating, Investment Related and Administration Expenses	25	<b>(485,229)</b>	(366,728)	32
Profit from Operations	26	<b>170,028</b>	143,556	18
Interest Expense	27	<b>(154)</b>	(224)	(31)
Profit before Income Tax		<b>169,874</b>	143,332	19
Income Tax Expenses	28	<b>(5,401)</b>	(20,000)	(73)
Profit for the Year		<b>164,473</b>	123,332	33
Basic Earnings per Share (Rs.)	29	<b>4.39</b>	3.29	33
Dividend per Share (Rs.)	30	<b>1.25</b>	1.00	25

The accounting policies and notes as set out on pages 99 to 121 form an integral part of the Financial Statements.

## Statement of Changes in Equity

For the Year Ended 31st December 2008

	Number of Shares '000	Stated Capital Rs.'000	Retained Earnings Rs.'000	Total Equity Rs.'000
<b>Balance as at 31st December 2006</b>	25,000	250,000	200,811	450,811
Profit for the Year	-	-	123,332	123,332
Bonus Issue	12,500	125,000	(125,000)	-
Dividend Paid	-	-	(25,000)	(25,000)
<b>Balance as at 31st December 2007</b>	37,500	375,000	174,143	549,143
Profit for the Year	-	-	164,473	164,473
Dividend Paid	-	-	(37,500)	(37,500)
<b>Balance as at 31st December 2008</b>	<b>37,500</b>	<b>375,000</b>	<b>301,116</b>	<b>676,116</b>

The accounting policies and notes as set out on pages 99 to 121 form an integral part of the Financial Statements.

## Cash Flow Statement

For the Year ended 31st December

	Note	2008 Rs.'000	2007 Rs.'000
<b>Cash Flows from Operating Activities</b>			
Premium Received from Customers		1,813,927	1,476,750
Reinsurance Premium Paid		(321,044)	(224,517)
Claims Paid		(418,521)	(377,212)
Reinsurance Receipts in Respect of Claims		56,662	77,458
Cash Paid to and on behalf of Employees		(164,577)	(125,341)
Interest Received		282,591	158,154
Dividend Received		1,629	1,144
Other Operating Cash Payments		(591,336)	(466,410)
Cash Inflow Generated from Operating Activities	(A)	659,331	520,026
Gratuity Paid		(1,447)	(423)
Dividend Paid		(37,500)	(25,000)
Income Tax Paid		(7,052)	(6,421)
Net Cash Generated from Operating Activities		613,332	488,182
<b>Cash Flows from Investing Activities</b>			
Purchase of Investments (Other than Cash Equivalents)		(18,646,411)	(21,300,442)
Sale of Investments (Other than Cash Equivalents)		18,122,281	20,862,229
Purchase of Intangible Assets		(9,375)	(5,648)
Purchase of Property, Plant and Equipment		(39,528)	(31,566)
Proceeds on Sale of Property, Plant and Equipment		101	160
Net Cash used in Investing Activities		(572,932)	(475,267)
Net Cash Inflow before Financing		40,400	12,915
<b>Cash Flows from Financing Activities</b>			
Lease Installments Paid		(589)	(610)
Cash used in Financing Activities		(589)	(610)
Net Increase in Cash and Cash Equivalents	(B)	39,811	12,305

### Notes to the Cash Flow Statement

#### A. Reconciliation of Profit before Tax with Cash Flow from Operating Activities

Profit Before Income Tax		169,874	143,332
Amortisation Charge		6,856	5,511
Depreciation Charge		20,123	15,907
Provision for Retiring Gratuity		5,288	3,920
Provision for Diminution in Value of Investments		5,695	2,006
(Profit)/ Loss on Sale of Property, Plant and Equipment		(16)	284
Lease Interest Paid		154	224
Increase in Trade and Other Receivables		(208,523)	(62,912)
Increase in Amount owed by Long Term Insurance Fund		479,831	372,953
Increase in Unearned Premium		71,770	29,899
Increase /(Decrease) in Claims Provisions		63,311	(1,055)
Increase in Creditors		44,968	9,957
Cash Inflow Generated from Operating Activities		659,331	520,026

#### B. Increase in Cash and Cash Equivalents

Net Cash and Cash Equivalents at the end of the Year	12	155,882	116,071
Net Cash and Cash Equivalents at the beginning of the Year	12	116,071	103,766
Increase		39,811	12,305

The accounting policies and notes as set out on pages 99 to 121 form an integral part of the Financial Statements.

## Balance Sheet - Segmental Review - 2008

As at 31st December 2008

	Company Rs.'000	Life Insurance Rs.'000	Combined Rs.'000
<b>Assets</b>			
Investments	735,866	1,263,166	1,999,032
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	115,943	39,939	155,882
<b>Total Assets</b>	<b>1,317,263</b>	<b>1,482,210</b>	<b>2,799,473</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Insurance Provision - Life	-	1,360,505	1,360,505
Insurance Provision - Non-life	470,206	-	470,206
Other Liabilities	160,316	120,024	280,340
Interest Bearing Borrowings	988	-	988
Retirement Benefit Obligation	9,637	1,681	11,318
<b>Total Liabilities</b>	<b>641,147</b>	<b>1,482,210</b>	<b>2,123,357</b>
<b>Shareholders' Equity</b>			
Stated Capital	375,000	-	375,000
Revenue Reserves	301,116	-	301,116
<b>Total Shareholders' Equity</b>	<b>676,116</b>	<b>-</b>	<b>676,116</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,317,263</b>	<b>1,482,210</b>	<b>2,799,473</b>

The accounting policies and notes as set out on pages 99 to 121 form an integral part of the Financial Statements.

## Balance Sheet - Segmental Review - 2007

As at 31st December 2007

	Company Rs.'000	Life Insurance Rs.'000	Combined Rs.'000
<b>Assets</b>			
Investments	627,655	852,943	1,480,598
Intangible Assets	17,603	2,936	20,539
Property, Plant and Equipment	68,064	4,333	72,397
Loans to Life Policyholders	-	1,588	1,588
Reinsurance Receivables	24,683	6,234	30,917
Premium Receivables	86,721	-	86,721
Other Assets	121,267	78,783	200,050
Cash and Cash Equivalents	71,181	44,890	116,071
<b>Total Assets</b>	<b>1,017,174</b>	<b>991,707</b>	<b>2,008,881</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Insurance Provision - Life	-	880,674	880,674
Insurance Provision - Non-life	340,562	-	340,562
Other Liabilities	119,491	110,111	229,602
Interest Bearing Borrowings	1,423	-	1,423
Retirement Benefit Obligation	6,555	922	7,477
<b>Total Liabilities</b>	<b>468,031</b>	<b>991,707</b>	<b>1,459,738</b>
<b>Shareholders' Equity</b>			
Stated Capital	375,000	-	375,000
Revenue Reserves	174,143	-	174,143
<b>Total Shareholders' Equity</b>	<b>549,143</b>	<b>-</b>	<b>549,143</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,017,174</b>	<b>991,707</b>	<b>2,008,881</b>

The accounting policies and notes as set out on pages 99 to 121 form an integral part of the Financial Statements.

## Income Statement - Segmental Review - 2008

For the Year Ended 31st December 2008

	Note	Non-life 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 and Unexpired Risk		(74,285)	-	(74,285)
Net Earned Premium		541,463	834,218	1,375,681
<b>Benefits, Losses and Expenses</b>				
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
<b>Other Revenue</b>				
Income from Investments		126,797	215,468	342,265
Other Income		(13)	1,755	1,742
<b>Expenses</b>				
Other Operating, Investment Related and Administration Expenses		(227,926)	(257,303)	(485,229)
Profit from Operations		70,028	100,000	170,028
Interest Expenses		(154)	-	(154)
Profit Before Income Tax		69,874	100,000	169,874
Income Tax Expenses		(5,401)	-	(5,401)
Profit for the Year		64,473	100,000	164,473

The accounting policies and notes as set out on pages 99 to 121 form an integral part of the Financial Statements.

## Income Statement - Segmental Review - 2007

For the Year Ended 31st December 2007

	Note	Non-life Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Gross Written Premium	20	704,577	767,576	1,472,153
Premium Ceded to Reinsurers		(202,331)	(69,528)	(271,859)
Net Written Premium		502,246	698,048	1,200,294
Net Change in Reserves for Unearned Premium and Unexpired Risk		(33,651)	-	(33,651)
Net Earned Premium		468,595	698,048	1,166,643
<b>Benefits, Losses and Expenses</b>				
Non-life Insurance Losses and Loss Adjustment Expenses		(291,283)	(25,595)	(316,878)
Increase in Life Insurance Fund		-	(372,953)	(372,953)
Underwriting and Net Acquisition Costs		1,546	(154,212)	(152,666)
Other Insurance Related Costs		(7,503)	(7,159)	(14,662)
Total Benefits, Losses and Expenses		(297,240)	(559,919)	(857,159)
Net Earned Premium less Benefits, Losses and Expenses		171,355	138,129	309,484
<b>Other Revenue</b>				
Income from Investments		86,164	113,840	200,004
Other Income		(284)	1,080	796
<b>Expenses</b>				
Other Operating, Investment Related and Administration Expenses		(178,679)	(188,049)	(366,728)
Profit from Operations		78,556	65,000	143,556
Interest Expenses		(224)	-	(224)
Profit Before Income Tax		78,332	65,000	143,332
Income Tax Expenses		(20,000)	-	(20,000)
Profit for the Year		58,332	65,000	123,332

The accounting policies and notes as set out on pages 99 to 121 form an integral part of the Financial Statements.

## Cash Flow Statement - Segmental Review - 2008

For the Year ended 31st December 2008

	Company Rs.'000	Life Insurance Rs.'000	Total Rs.'000
<b>Cash Flows from Operating Activities</b>			
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)
Dividend Paid	(37,500)	-	(37,500)
Income Tax Paid	(7,052)	-	(7,052)
Net Cash Generated from Operating Activities	195,156	418,176	613,332
<b>Cash Flows from Investing Activities</b>			
Purchase of Investments (Other than Cash Equivalents)	(7,864,812)	(10,781,599)	(18,646,411)
Sale of Investments (Other than Cash Equivalents)	7,754,509	10,367,772	18,122,281
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	(149,805)	(423,127)	(572,932)
Net Cash Inflow before Financing	45,351	(4,951)	40,400
<b>Cash Flows from Financing Activities</b>			
Lease Installments Paid	(589)	-	(589)
Cash used in Financing Activities	(589)	-	(589)
Net Increase/(decrease) in Cash and Cash Equivalents (B)	44,762	(4,951)	39,811

### Notes to the Cash Flow Statement

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

Profit Before Income Tax	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 Amount owed by Long Term 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	115,943	39,939	155,882
Net Cash and Cash Equivalents at the beginning of the Year	71,181	44,890	116,071
Increase/(Decrease)	44,762	(4,951)	39,811

The accounting policies and notes as set out on pages 99 to 121 form an integral part of the Financial Statements.



## Cash Flow Statement - Segmental Review - 2007

For the Year ended 31st December 2007

	Company Rs.'000	Life Insurance Rs.'000	Total Rs.'000
<b>Cash Flows from Operating Activities</b>			
Premium Received from Customers	714,340	762,410	1,476,750
Reinsurance Premium Paid	(167,663)	(56,854)	(224,517)
Claims Paid	(357,466)	(19,746)	(377,212)
Reinsurance Receipts in Respect of Claims	64,428	13,030	77,458
Cash Paid to and on behalf of Employees	(109,433)	(15,908)	(125,341)
Interest Received	71,978	86,176	158,154
Dividend Received	915	229	1,144
Other Operating Cash Payments	(48,100)	(418,310)	(466,410)
Cash Inflow Generated from Operating Activities (A)	168,999	351,027	520,026
Gratuity Paid	(423)	-	(423)
Dividend Paid	(25,000)	-	(25,000)
Income Tax Paid	(6,421)	-	(6,421)
Net Cash Generated from Operating Activities	137,155	351,027	488,182
<b>Cash Flows from Investing Activities</b>			
Purchase of Investments (Other than Cash Equivalents)	(9,114,825)	(12,185,617)	(21,300,442)
Sale of Investments (Other than Cash Equivalents)	9,016,079	11,846,150	20,862,229
Purchase of Intangible Assets	(4,172)	(1,476)	(5,648)
Purchase of Property, Plant and Equipment	(29,391)	(2,175)	(31,566)
Proceeds on Sale of Property, Plant and Equipment	160	-	160
Net Cash used in Investing Activities	(132,149)	(343,118)	(475,267)
Net Cash Inflow before Financing	5,006	7,909	12,915
<b>Cash Flows from Financing Activities</b>			
Lease Installments Paid	(610)	-	(610)
Cash used in Financing Activities	(610)	-	(610)
Net Increase in Cash and Cash Equivalents (B)	4,396	7,909	12,305
<b>Notes to the Cash Flow Statement</b>			
<b>A. Reconciliation of Profit Before Tax with Cash Flow from Operating Activities</b>			
Profit Before Income Tax	78,332	65,000	143,332
Transfer of Profit	65,000	(65,000)	-
Amortisation Charge	5,098	413	5,511
Depreciation Charge	14,980	927	15,907
Provision for Retiring Gratuity	3,452	468	3,920
Provision for Diminution in Value of Investments	2,006	-	2,006
(Profit)/ Loss on Sale of Property, Plant and Equipment	284	-	284
Lease Interest Paid	224	-	224
Increase in Trade and Other Receivables	(18,089)	(44,823)	(62,912)
Increase in Amount owed by Long Term Insurance Fund	-	372,953	372,953
Increase in Unearned Premium	29,899	-	29,899
Increase/(Decrease) in Claims Provisions	(8,875)	7,820	(1,055)
Increase/(Decrease) in Creditors	(3,312)	13,269	9,957
Cash Inflow Generated from Operating Activities	168,999	351,027	520,026
<b>B. Increase in Cash and Cash Equivalents</b>			
Net Cash and Cash Equivalents at the end of the Year	71,181	44,890	116,071
Net Cash and Cash Equivalents at the beginning of the Year	66,785	36,981	103,766
Increase	4,396	7,909	12,305

The accounting policies and notes as set out on pages 99 to 121 form an integral part of the Financial Statements.

## Balance Sheet of the Life Insurance Fund - Supplemental

<i>As at 31st December</i>		2008	2007
	Note	Rs.'000	Rs.'000
<b>Assets</b>			
Investments	(A)	1,263,166	852,943
Intangible Assets		5,742	2,936
Property, Plant and Equipment		8,151	4,333
Loans to Life Policyholders		4,666	1,588
Reinsurance Receivables		10,025	6,234
Other Assets		150,521	78,783
Cash and Cash Equivalents		39,939	44,890
<b>Total Assets</b>		<b>1,482,210</b>	<b>991,707</b>
<b>Liabilities</b>			
Insurance Provision - Life		1,360,505	880,674
Other Liabilities		120,024	110,111
Retirement Benefit Obligation		1,681	922
<b>Total Liabilities</b>		<b>1,482,210</b>	<b>991,707</b>

The above Balance Sheet of the Life Insurance Fund is to be read in conjunction with the Balance Sheet on page 86, accounting policies and Notes to the Financial Statements on pages 97 to 121.

## Notes to the Balance Sheet of the Life Insurance Fund - Supplemental

For the Year ended 31st December

A. INVESTMENTS		2008	2007
		Rs.'000	Rs.'000
Government Securities		761,811	626,062
Repurchase Agreements on Government Securities		313,724	135,316
Quoted Shares	A.1	2,189	8,065
Corporate Debts	A.2	70,442	38,500
Term Deposits		115,000	45,000
		<b>1,263,166</b>	<b>852,943</b>

### A.1 Quoted Shares

	No. of Shares	2008		2007		
		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	232	4,200	447	399
John Keels Holdings PLC	25,945	3,059	1,297	27,428	3,232	3,490
Sector Total		<b>3,506</b>	<b>1,529</b>		<b>3,679</b>	<b>3,889</b>
<i>Telecommunications</i>						
Dialog Telekom PLC	110,000	2,285	660	110,000	2,286	2,200
Sri Lanka Telecom PLC		-	-	100,000	2,100	3,150
Sector Total		<b>2,285</b>	<b>660</b>		<b>4,386</b>	<b>5,350</b>
Portfolio Total		<b>5,791</b>	<b>2,189</b>		<b>8,065</b>	<b>9,239</b>
Less. Provision for Diminution in Market Value Brought Forward			-			
Provision Made During the Year		<b>3,602</b>				
Total		<b>3,602</b>				-
Balance Sheet Value		<b>2,189</b>			<b>8,065</b>	

## Notes to the Balance Sheet of the Life Insurance Fund - Supplemental

For the Year ended 31st December

### A.2 Corporate Debts

	2008				2007			
	No. of Debentures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate	No. of Debentures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate
<b>Debentures</b>								
<b>Quoted</b>								
Hatton National Bank PLC	75,000	7,500	7,500	11% p.a.	75,000	7,500	7,500	11% p.a.
DFCC Bank PLC	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.	5,000	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.	-	-	-	-
Bank of Ceylon	150,000	15,000	15,000	6 Month Gross TB +0.75% p.a.	-	-	-	-
<b>Total Investments in</b>								
<b>Quoted Debentures</b>		<b>57,500</b>	<b>57,500</b>			<b>30,500</b>	<b>30,500</b>	
<b>Unquoted</b>								
Seylan Bank PLC	80,000	8,000	8,000	15% p.a.	80,000	8,000	8,000	15% p.a.
<b>Total Investments in</b>								
<b>Unquoted Debentures</b>		<b>8,000</b>	<b>8,000</b>			<b>8,000</b>	<b>8,000</b>	
<b>Commercial Papers</b>								
People's Merchant Bank PLC		4,942	4,942	23.5% p.a.		-	-	
<b>Total Investment in</b>								
<b>Commercial Papers</b>		<b>4,942</b>	<b>4,942</b>			<b>-</b>	<b>-</b>	
<b>Total Investments in</b>								
<b>Corporate Debts</b>		<b>70,442</b>	<b>70,442</b>			<b>38,500</b>	<b>38,500</b>	

# Accounting Policies

## 1. CORPORATE INFORMATION

### 1.1 Reporting Entity

HNB Assurance PLC (“the Company”) is a Listed Company incorporated on 23rd August 2001 with limited liability and domiciled in Sri Lanka. The registered office of the Company is situated at No. 479, T B Jayah Mawatha, Colombo 10 and the principal place of business is situated at No. 10, Sri Uttarananda Mawatha, Colombo 03. The shares of the Company have a primary listing on the Colombo Stock Exchange.

### 1.2 Principal Activities and Nature of Operations

The principal activity of the Company continued to be carrying on insurance business. There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

### 1.3 Parent Entity and Ultimate Parent Entity

The Company’s parent entity is Hatton National Bank PLC. In the opinion of the Directors, the Company’s ultimate parent undertaking and controlling party is Hatton National Bank PLC which is incorporated in Sri Lanka.

### 1.4 Number of Employees

The staff strength of the Company as at 31st December 2008 is 457 (2007 - 377).

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow 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 (ICASL).

### 2.2 Approval of Financial Statements by Directors

The Financial Statements of HNB Assurance PLC for the year ended 31st December 2008 were authorised for issue in accordance with a resolution of the Board of Directors on 30th January 2009.

### 2.3 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 with no adjustments being made for inflationary factors affecting the Financial Statements.

### 2.4 Functional and Presentation Currency

The financial statements are presented in Sri Lankan Rupees, which is the Company’s functional currency. Except as indicated, financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

### 2.5 Use of Estimates and 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, the results of which from the basis of making judgements about the carrying amounts assets and liabilities that are not readily apparent from other sources. 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 effect on the amounts recognised in the Financial Statements are described below;

#### 2.5.1 Assessment of impairment

The Company assesses at each Balance Sheet date whether there is objective evidence that an asset or a portfolio of assets is impaired. The recoverable amount of an asset or a cash generating unit is the greater of its value in use and its fair value less cost to sell or its value in use. In assessing value in use, the estimated future cash flows are discounted to present value using appropriate discount rates that reflects the current market assessments of the time value of money and risks

## Accounting Policies

specific to the asset. However no such evidence of impairment existed as at the Balance Sheet date.

### 2.5.2 Insurance Provision - Life

The valuation of the Long Term insurance business as at 31st December 2008 was made by Consultant Actuary based on the assumptions set out in Note No. 13.

### 2.5.3 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. 14.4.

### 2.5.4 Retirement Benefit Obligations

The Liability as at Balance sheet date was actuarially valued based on the assumptions set out in Note No. 17.

### 2.6 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

### 2.7 Comparative Information

Comparative information has been re-classified where necessary, to confirm to the current year presentations.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

### 3.1 Segment Reporting

Segmental information reflects the 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 bases 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 bills, treasury bonds 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 other than temporary.

#### 3.3.3 Investment in Quoted Equities and Units Trusts

Investments in Quoted Equities and Units Trusts are carried at the lower of cost and market value, determined on the basis of aggregate portfolio. Unrealised losses arising from reduction to market value and reversals of such reduction required to state current investments at the lower of cost and market value are included in income statement.

### 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**

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, except for goodwill, 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 change in 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.

**3.5 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, replace 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 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 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 amortised over the estimated useful lives unless ownership is not transferred at the end of the lease period. In such cases the assets are amortised 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.

**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.

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

The asset's 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

## Accounting Policies

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 off set 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 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) ruling 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 unless firm evidence is available on the subsequent collectability.

### 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 market 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 the cash management, are included as a component of cash and cash equivalents for the purposes of 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. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at re-valued amount, in which case the reversal is treated as a revaluation increase.

### LIABILITIES AND PROVISIONS

All known liabilities have been accounted for in preparing the Financial Statements.



**3.12 Insurance Provision - Life**

The Directors make the provision for the Life Insurance business based on the recommendation of the 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 Consultant Actuary.

**3.13 Trade and Other Payables**

Trade and other payables are stated at their cost.

**3.14 Proposed Dividends**

Dividend proposed / declared 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. Provision for dividends is recognised only at the time the dividend recommended and declared by the Board of Directors is approved by the shareholders.

**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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

**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 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 member of the Institute of Actuaries) in every year using the Projected Unit Credit method (PUC).

The Gratuity liability is not externally funded.

Since the financial year 2006, the Company has been applying the Benchmark treatment (Actuarial Valuation) under Sri Lanka Accounting Standard 16 - Retirement Benefit Costs that was replaced by Sri Lanka Accounting Standard 16 - Employee Benefits (revised 2006) which became effective for all annual financial periods beginning on or after 1st July 2007, there is no change in the accounting policy for Defined Benefit Plan - Gratuity compared to the last year. And therefore, there has been no deficit or surplus which had to be adjusted on adoption of the revised SLAS 16 on 1st January 2008.

**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.

## Accounting Policies

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and the amendments thereto.

### 3.17.2 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 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. 11 of 2006, 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 Non-Life Insurance Business

#### 3.20.1 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.

#### 3.20.2 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.

#### 3.20.3 Unearned Premium

The unearned premium reserve represents the portion of the premiums and 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.

#### 3.20.4 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.

#### 3.20.5 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.

**3.20.6 Claims**

Claims incurred include provisions for the estimated cost of claims and related handling expenses in respect of Incidents up to the year end, including those which had 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 an annual basis.

Whilst the Directors consider that the provision 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.

**3.21 Life Insurance Business****3.21.1 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.

**3.21.2 Reinsurance Premium**

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

**3.21.3 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.

**3.21.4 Actuarial Valuation for Long Term Insurance Provision**

The Directors agree to the long term insurance provision for the Company at the year end on the recommendations of the 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 Consultant Actuary.

**INCOME STATEMENT****3.22 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

**3.23. 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 as other income.

**3.24 Disposal of Investments**

On disposal of an investment, the difference between net disposals and proceeds and the carrying amounts is recognised as income or expense.

**3.25 Expenses****3.25.1 Interest and Other Expenses**

Interest and other expenses are recognised on an accrual basis.

**3.25.2 Operating Leases**

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

**3.25.3 Commission and Fee Expenses**

Commission and fee expenses are recognised on an accrual basis.

**3.26 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.

**3.27 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 9, Cash Flow Statements. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in-hand, balances with banks and short term deposits with banks.

## Notes to the Financial Statements

### 4. REVENUE

	2008 Rs.'000	2007 Rs.'000
Gross Written Premium	1,838,879	1,472,153
Premium Ceded to Reinsurers	(388,913)	(271,859)
Net Written Premium	1,449,966	1,200,294
Net Change in Reserve for Unearned Premium and Unexpired Risk	(74,285)	(33,651)
Net Earned Premium	1,375,681	1,166,643
Income from Investments	342,265	200,004
Other Income	1,742	796
Total Revenue	1,719,688	1,367,443

### 5. INVESTMENTS

Government Securities		1,179,102	1,061,692
Repurchase Agreements on Government Securities		529,866	237,968
Quoted Shares	5.1	4,179	21,688
Corporate Debts	5.2	138,885	107,250
Unit Trusts	5.3	25,000	-
Term Deposits		122,000	52,000
		1,999,032	1,480,598

#### 5.1. Quoted Shares

	No. of Shares	2008		2007		
		Cost Rs.'000	Market Value Rs.'000	No. of Shares	Cost Rs.'000	Market Value Rs.'000
<i>Banks, Finance and Insurance</i>						
Commercial Bank of Ceylon PLC -						
Cumulative Redeemable Preference Shares	-	-	-	725,000	7,250	6,525
Sector Total		-	-		7,250	6,525
<i>Diversified Holdings</i>						
Hemas Holdings PLC	4,200	447	232	4,200	447	399
John Keels Holdings PLC	39,593	5,221	1,979	41,856	5,521	5,326
Sector Total		5,668	2,211		5,968	5,725
<i>Telecommunications</i>						
Dialog Telekom PLC	247,500	5,866	1,485	247,500	5,865	4,950
Sri Lanka Telecom PLC		-	-	155,000	4,265	4,883
Sector Total		5,866	1,485		10,130	9,833
<i>Hotels and Travels</i>						
Asian Hotels and Properties PLC	19,500	890	483	19,500	890	780
Sector Total		890	483		890	780
Portfolio Total		12,424	4,179		24,238	22,863
Less. Provision for Diminution in						
Market Value Brought Forward		(2,550)			(544)	
Provision Made During the Year		(5,695)			(2,006)	
		(8,245)			(2,550)	
Balance Sheet Value		4,179			21,688	

## 5. INVESTMENTS (CONTD.)

### 5.2 Corporate Debts

Debtures	2008				2007			
	No. of Debtures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate	No. of Debtures	Cost Rs.'000	Market Value Rs.'000	Coupon Rate
<b>Quoted</b>								
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.
Commercial Bank PLC	-	-	-	-	7,250	7,250	7,250	3 Month Net TB +2% p.a.
DFCC Bank PLC	5,000	5,000	5,000	14% p.a.	5,000	5,000	5,000	14% p.a.
DFCC Bank PLC	5,000	5,000	5,000	6 Month Gross TB + 1% p.a.	5,000	5,000	5,000	6 Month 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.	-	-	-	-
Bank of Ceylon	200,000	20,000	20,000	6 Month Gross TB +0.75% p.a.	-	-	-	-
<b>Total Investment in Quoted Debtures</b>		<b>109,000</b>	<b>109,000</b>			<b>72,250</b>	<b>72,250</b>	
	No. of Debtures	Cost Rs.'000	Directors' Valuation Rs.'000	Coupon Rate	No. of Debtures	Cost Rs.'000	Directors' Valuation Rs.'000	Coupon Rate
<b>Unquoted</b>								
Hatton National Bank PLC	-	-	-	-	150,000	15,000	15,000	6 Month net Net TB + 2% p.a.
Singer Sri Lanka PLC	50,000	5,000	5,000	14% p.a.	50,000	5,000	5,000	14% p.a.
Seylan Bank PLC	150,000	15,000	15,000	15% p.a.	150,000	15,000	15,000	15% p.a.
<b>Total Investment in Unquoted Debtures</b>		<b>20,000</b>	<b>20,000</b>			<b>35,000</b>	<b>35,000</b>	
<b>Commercial Papers</b>								
People's Merchant Bank PLC		9,885	9,885	23.5% p.a.	-	-	-	
<b>Total Investment in Commercial Papers</b>		<b>9,885</b>	<b>9,885</b>			<b>-</b>	<b>-</b>	
<b>Total Investment in Corporate Debts</b>		<b>138,885</b>	<b>138,885</b>			<b>107,250</b>	<b>107,250</b>	

### 5.3 Unit Trusts

Unquoted	2008		2007	
	No. of Units	Cost Rs.'000	No. of Units	Cost Rs.'000
Ceybank Gilt Edged Fund	1,500,000	15,000	-	-
NAMAL Gilt Edged Fund	1,000,000	10,000	-	-
<b>Total Investment in Unit Trusts</b>		<b>25,000</b>		<b>-</b>

## Notes to the Financial Statements

### 6. INTANGIBLE ASSETS

	Balance As at 01.01.2008 Rs.'000	Additions /Transfers Rs.'000	Disposals/ Transfers Rs.'000	Balance As at 31.12.2008 Rs.'000
<b>6.1 Gross Carrying Amounts</b>				
Computer Software	38,263	9,375	-	47,638
	38,263	9,375	-	47,638
<b>6.2 Amortisation and Impairment Losses</b>				
Computer Software	17,724	6,856	-	24,580
	17,724	6,856	-	24,580
<b>6.3 Net Book Values</b>			As at 31.12.2008 Rs.'000	As at 01.01.2008 Rs.'000
Computer Software			23,058	20,539
Total Carrying Amount of Intangible Assets			23,058	20,539

### 7. PROPERTY, PLANT AND EQUIPMENT

#### 7.1 Gross Carrying Amounts

	Balance As at 01.01.2008 Rs.'000	Additions /Transfers Rs.'000	Disposals/ Transfers Rs.'000	Balance As at 31.12.2008 Rs.'000
<b>At Cost</b>				
Computer Hardware	49,704	15,109	-	64,813
Motor Vehicles	3,503	4,874	-	8,377
Office Equipment	24,721	7,659	285	32,095
Furniture and Fittings	38,328	11,886	-	50,214
	116,256	39,528	285	155,499
<b>Assets on Finance Leases</b>				
Motor Vehicles	2,277	-	-	2,277
	2,277	-	-	2,277
<b>Total Value of Depreciable Assets</b>	118,533	39,528	285	157,776

**7. PROPERTY, PLANT AND EQUIPMENT (CONTD.)**

	Balance As at 01.01.2008 Rs.'000	Additions /Transfers Rs.'000	Disposals/ Transfers Rs.'000	Balance As at 31.12.2008 Rs.'000
<b>7.2 Depreciation and Impairment</b>				
<b>At Cost</b>				
Computer Hardware	22,957	8,915	-	31,872
Motor Vehicles	3,099	1,196	-	4,295
Office Equipment	11,110	4,829	200	15,739
Furniture and Fittings	7,500	4,612	-	12,112
	44,666	19,552	200	64,018
<b>Assets on Finance Leases</b>				
Motor Vehicles	1,470	571	-	2,041
	1,470	571	-	2,041
<b>Total Depreciation</b>	46,136	20,123	200	66,059
			As at 31.12.2008 Rs.'000	As at 01.01.2008 Rs.'000
<b>7.3 Net Book Values</b>				
<b>At Cost</b>				
Computer Hardware			32,941	26,747
Motor Vehicles			4,082	404
Office Equipment			16,356	13,611
Furniture and Fittings			38,102	30,828
			91,481	71,590
<b>Assets on Finance Leases</b>				
Motor Vehicles			236	807
			236	807
<b>Total Carrying Amount of Property, Plant and Equipment</b>			91,717	72,397

**7.4** During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs.'000. 39,528/- (2007 Rs.'000. 32,113/-). Cash payments amounting to Rs.'000. 39,528/- (2007 Rs.'000. 31,566/-) were made during the year for purchase of Property, Plant and Equipment.

**7.5** Property, Plant and Equipment includes fully depreciated assets which are in the use of normal business activities having a gross carrying amounts of Rs.'000. 1,874/- (2007 Rs.'000. 868/-)

## Notes to the Financial Statements

### 8. LOANS TO LIFE POLICYHOLDERS

	2008 Rs.'000	2007 Rs.'000
Balance as at 1st January	1,588	1,277
Loans Granted during the Year	4,721	704
Repayments	(1,643)	(393)
Balance as at 31st December	4,666	1,588

### 9. REINSURANCE RECEIVABLES

Reinsurance Receivable on Outstanding Claims	55,443	15,475
Reinsurance Receivable on Settled Claims	13,871	15,442
	69,314	30,917

### 10. PREMIUM RECEIVABLES

Premium Receivable From;		
Policyholders	24,273	18,134
Agents, Brokers and Intermediaries	96,649	68,587
Provision for Fall in Value of Premium Receivables	-	-
	120,922	86,721

### 11. OTHER ASSETS

Staff Loans	11.1	66,266	46,006
Advisor related Receivables		23,438	13,123
Interest and Dividend Receivable		125,403	67,358
Advance Payments		18,904	9,325
Notional Tax, ESC, and other Tax Credit Recoverable from CGIR		94,120	57,821
Other Assets		6,751	6,417
		334,882	200,050

#### 11.1 Staff Loans

Balance as at 1st January	46,551	33,234
Loans granted during the year	51,157	32,672
	97,708	65,906
Repayments during the year	(30,430)	(19,355)
	67,278	46,551
Allowance for Bad and Doubtful Staff Loans	(1,012)	(545)
Balance as at 31st December	66,266	46,006



**12. CASH AND CASH EQUIVALENTS**

	2008 Rs.'000	2007 Rs.'000
Cash in Hand and at Bank	62,173	50,702
Other Cash Equivalents	93,709	65,369
	<b>155,882</b>	<b>116,071</b>

**13. INSURANCE PROVISION - LIFE**

Long duration contract liabilities included in the Life Insurance Fund, result primarily from traditional participating and non-participating Life Insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products. The actuarial reserves have been established based upon the following.

- interest rates which vary by product and as required by regulations issued by the Insurance Board of Sri Lanka.
- mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the Insurance Board of Sri Lanka.
- surrender rates based upon actual experience.

The valuation of the Life Insurance business as at 31st December 2008 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. 1,080.7 Million (2007 - Rs. 706.6 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 2008 by Rs. 379.8 Million (2007 - Rs. 239.1 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 2008) under the Regulation of Insurance Industry Act, No. 43 of 2000 as Rs. 55.1 Million (2007 - Rs. 36.4 Million)

This solvency margin is maintained in the Long Term Insurance Fund.

**14. INSURANCE PROVISION - NON-LIFE**

	2008 Rs.'000	2007 Rs.'000
The Non-life Insurance reserve as shown in the Balance Sheet represents the following:		
Reserve for Unearned Premium - Gross	502,351	357,344
- Reinsurance	(171,203)	(99,230)
- Net	14.1	258,114
Reserve for Deferred Acquisition Expenses	14.2	(6,735)
Reserve for Unexpired Risk	14.3	7,470
Reserve for Claims Outstanding - Gross	14.4	138,323
Total *	<b>470,206</b>	<b>340,562</b>

## Notes to the Financial Statements

### 14. INSURANCE PROVISION - NON-LIFE (CONTD..)

	2008 Rs.'000	2007 Rs.'000
<b>14.1 Reserve for Net Unearned Premium</b>		
Balance as at 1st January	258,114	226,117
Transfer during the Year	73,034	31,997
Balance as at 31st December	331,148	258,114
<b>14.2 Reserve for Deferred Acquisition Expenses</b>		
Balance as at 1st January	(4,137)	(393)
Transfer during the Year	(2,598)	(3,744)
Balance as at 31st December	(6,735)	(4,137)
<b>14.3 Reserve for Unexpired Risk</b>		
Balance as at 1st January	6,135	4,489
Transfer during the Year	1,335	1,646
Balance as at 31st December	7,470	6,135
<b>14.4 Reserve for Gross Outstanding Claims</b>		
Balance as at 1st January	70,022	82,207
Claims Incurred during the Year	455,116	372,025
Claims Paid during the Year	(400,460)	(384,210)
Balance as at 31st December	124,678	70,022
IBNR / IBNER balance as at 1st January	10,428	7,118
Increase / (Decrease) in IBNR / IBNER	3,217	3,310
IBNR / IBNER balance as at 31st December	13,645	10,428
Total Reserve for Gross Outstanding Claims	138,323	80,450
<b>14.5 Reconciliation between Insurance Provision and Technical Reserve</b>		
* Insurance Provision	470,206	340,562
Reinsurance on Claims Reserves	(49,271)	(11,012)
Technical Reserves	420,935	329,550

**14.6** Gross Written Premium on Title Insurance is Transferred 100% to the Unexpired Risk Reserve account.

**14.7** Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which can not be known with certainty as of the balance sheet date. The reserves are determined based on the information currently available. However, it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent developments.

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims reserve has been actuarially computed by Messrs K A Pandit, Mumbai, India. The valuation is based on internationally accepted actuarial methods and is performed on an annual basis.

**15. OTHER LIABILITIES**

	2008	2007
	Rs.'000	Rs.'000
Policyholders Advance Payments	31,428	26,641
Payables		
Commission Payable	41,580	30,029
Government Levies	17,883	11,158
Income Taxes Payable	24,001	23,668
Creditors		
Reinsurance Creditors	83,039	78,427
Others	82,409	59,679
	<b>280,340</b>	<b>229,602</b>

**16 INTEREST BEARING BORROWINGS**

Finance Leases	16.1	988	1,423
		<b>988</b>	<b>1,423</b>

**16.1 Finance Leases**

	As At 01.01.2008	New Leases Obtained	Repayments	As At 31.12.2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Liability	1,620	-	589	1,031
Finance Charges allocated to future periods	(197)	-	(154)	(43)
Net liability*	1,423	-	435	988

\* The total liability is repayable during the year 2009

**17. RETIREMENT BENEFIT OBLIGATION**

	2008	2007
	Rs.'000	Rs.'000
Provision for Retiring Gratuity		
As at 1st January	7,477	3,980
Provision during the year	5,288	3,920
	<b>12,765</b>	7,900
Payments made during the year	(1,447)	(423)
As at 31st December	<b>11,318</b>	7,477

**17.1** Since the financial year 2006, the Company has been applying the Benchmark treatment (Actuarial Valuation) under Sri Lanka Accounting Standard 16 - Retirement Benefit Costs that was replaced by Sri Lanka Accounting Standard 16 - Employee Benefits (revised 2006) which became effective for all financial periods beginning on or after 1st July 2007, there is no change in the accounting policy for Defined Benefit Plan - Gratuity compared to the last year. And therefore, there has been no deficit or surplus which had to be adjusted on adoption of the revised SLAS 16 on 1st January 2008.

**17.2 Principle assumptions used**

	2008	2007
(a) Discount Rate (%)	18	19
(b) Salary Increase (%)	17	18

## Notes to the Financial Statements

### 18. STATED CAPITAL

			2008		2007
		Number	Rs.'000	Number	Rs.'000
Fully Paid Ordinary Shares	18.1	37,500,000	375,000	37,500,000	375,000

#### 18.1 Fully Paid Ordinary Shares

			2008		2007
		Number	Rs.'000	Number	Rs.'000
Balance as at 1st January		37,500,000	375,000	25,000,000	250,000
Issue of Shares for Non-Cash Consideration		-	-	12,500,000	125,000
Balance as at 31st December		37,500,000	375,000	37,500,000	375,000

#### 18.2 Rights of Ordinary Share Holders

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.

### 19. REVENUE RESERVES

	2008	2007
	Rs.'000	Rs.'000
Balance as at 1st January	174,143	200,811
Profit for the Year	164,473	123,332
Bonus Issue	-	(125,000)
Dividend Paid	(37,500)	(25,000)
Balance as at 31st December	301,116	174,143

### 20. GROSS WRITTEN PREMIUM

#### Non-life Insurance

Fire	257,408	161,757
Motor	589,837	492,367
Marine	27,425	22,084
Miscellaneous	50,039	28,369
Total Non-life Insurance	924,709	704,577

#### Life Insurance

Individual Policies	907,326	764,225
Corporate Policies	6,844	3,351
Total Life Insurance	914,170	767,576
Total Gross Written Premium	1,838,879	1,472,153

**21. NET INSURANCE CLAIMS AND BENEFITS**

	2008 Rs.'000	2007 Rs.'000
<b>Non-life Insurance</b>		
Gross Claims		
Fire	83,053	48,254
Motor	337,218	275,217
Marine	2,057	2,798
Miscellaneous	24,070	22,100
Total Gross Claims	446,398	348,369
Reinsurance Recoveries	(82,585)	(57,086)
Non-life Insurance Net Claims	363,813	291,283
<b>Life Insurance</b>		
Gross Claims - Deaths, Disability and Hospitalisation	34,999	27,544
Reinsurance Recoveries	(12,475)	(8,989)
Net Insurance Claims	22,524	18,555
Surrenders	16,089	6,903
Policy Maturities	6,056	137
Life Insurance Net Claims and Benefits	44,669	25,595
<b>Net Insurance Claims and Benefits</b>	<b>408,482</b>	<b>316,878</b>

**22. UNDERWRITING AND NET ACQUISITION COSTS**

Net Underwriting and Policy Acquisition Costs	170,764	156,410
Increase / (Decrease) in Deferred Acquisition Expenses	(2,598)	(3,744)
	<b>168,166</b>	<b>152,666</b>

**23. INCOME FROM INVESTMENTS**

Interest Income	338,767	198,860
Dividend Income	1,629	1,144
Realised Capital Gains	1,869	-
	<b>342,265</b>	<b>200,004</b>

**24. OTHER INCOME**

Profit/(Loss) on sale of Property, Plant and Equipment	16	(284)
Policy Related Income	1,726	1,080
	<b>1,742</b>	<b>796</b>

## Notes to the Financial Statements

### 25. OTHER OPERATING, INVESTMENT RELATED AND ADMINISTRATION EXPENSES

		2008	2007
		Rs.'000	Rs.'000
Staff Expenses	25.1	181,716	136,034
Administration and Establishment Expenses		199,790	159,846
Selling Expenses		76,744	49,430
Amortisation of Intangible Assets		6,856	5,511
Depreciation of Property, Plant and Equipment		20,123	15,907
		<b>485,229</b>	<b>366,728</b>

#### 25.1 Staff Expenses

Staff Salaries	106,757	80,759
EPF and ETF	16,014	12,113
Provision for Retirement Benefit Obligation	5,288	3,920
Other Staff costs (Over Time, Bonus etc.)	53,657	39,242
	<b>181,716</b>	<b>136,034</b>

### 26. PROFIT FROM OPERATIONS

Profit from Operations for the year is arrived at after charging all the expenses including the following.

Auditor's Fees;

Statutory Audit Fees and Expenses	700	588
Fees for Other Audit Services	106	88
Directors' Emoluments	7,714	5,675
Employees Benefits including the following		
Defined Benefit Plan Costs - Gratuity (included in Employee Benefits)	5,288	3,920
Defined Contribution Plan Costs - EPF and ETF	16,014	12,113
Provision for Fall in Value of Investments	5,695	2,006
Amortisation of Intangible Assets	6,856	5,511
Depreciation of Property, Plant and Equipment	20,123	15,907
Loss/(Gain) on Foreign Exchange	(1,973)	(1,183)
Loss/(Profit) on Sale of Property, Plant and Equipment	(16)	285
Legal Fees	446	142
Donations	250	250

### 27. INTEREST EXPENSES

Lease Interest	154	224
	<b>154</b>	<b>224</b>

**28. INCOME TAX EXPENSES**

	2008 Rs.'000	2007 Rs.'000
<b>The major components of income tax expense for the years ended 31 December are as follows :</b>		
<b>Current Income Tax</b>		
Income Tax on Current Year Profits	19,477	20,485
Under/(Over) Provision of Current Taxes in respect of Prior Years	(14,076)	(485)
	<b>5,401</b>	<b>20,000</b>
<b>Deferred Income Tax</b>		
Deferred Taxation Charge/(Reversal) 28.2	-	-
Income Tax Expense reported in the Income Statement	<b>5,401</b>	<b>20,000</b>

**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 Income Tax	169,874	143,332
At the statutory income tax rate of 35% ( 2007 : 35% )	59,456	50,166
Adjustments to Current Income Tax in respect of Previous Year	(14,076)	(485)
Income Exempt from Tax	(35,600)	(22,971)
Non-Deductible Expenses	5,954	4,055
Statutory Income Set-off Against Tax Losses Brought Forward	(10,333)	(10,765)
<b>Income Tax Expense</b>	<b>5,401</b>	<b>20,000</b>

**28.2 Deferred Tax Assets , Liabilities and Income Tax relates to the followings**

	Balance Sheet		Income Statement	
	2008 Rs.'000	2007 Rs.'000	2008 Rs.'000	2007 Rs.'000
<b>Deferred Tax Liability</b>				
Capital allowances for tax purposes	12,923	12,385	538	2,526
	<b>12,923</b>	<b>12,385</b>	<b>538</b>	<b>2,526</b>
<b>Deferred Tax Assets</b>				
Defined Benefit Plans	(3,373)	(2,616)	(757)	(1,290)
Brought Forward Tax Losses	(9,550)	(9,769)	219	(1,236)
Deferred income tax income / (expense )			-	-
Net Deferred Tax Liability	-	-		

## Notes to the Financial Statements

### 28. INCOME TAX EXPENSES (CONTD..)

**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 per the amendment made to Section 32 of the Inland Revenue Act, any loss incurred in the business of Life Insurance on or after 1st April 2007 shall be deducted only to the extent of the statutory income generated in the business of Life Insurance.

As at the year end, total carried forward tax loss is Rs. 312 Million (2007 - Rs. 341 Million). The Company has utilised such tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arisen 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 available against which the unused tax losses which would give rise to deferred tax assets.

### 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. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

**29.2** The following reflects the income and share data used in the basic Earnings Per Share computations.

	2008	2007
Net Profit Attributable to Ordinary Shareholders (Rs. '000)	164,473	123,332
Weighted Average Number of Ordinary Shares ('000)	37,500	37,500
Basic Earnings per Share (Rs.)	4.39	3.29

### 30. DIVIDENDS PAID AND PROPOSED

	2008	2007
	Rs.'000	Rs.'000
<b>30.1 Declared and paid during the year</b>		
Final dividend for 2007 : Rs. 1/-per share ( 2006: Rs. 1/- per share)	37,500	25,000

#### 30.2 Proposed 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. 1.25 per share for the year ended 31st December 2008 (2007 - Rs. 1/- per share) which is to be approved at the Annual General Meeting to be held on 30th March 2009. 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 2008.

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 2008. A statement of solvency completed and duly signed by the Directors on 30th January 2009 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) , the details of which are reported below.



**31. RELATED PARTY DISCLOSURES (CONTD..)****31.1 Transaction with the parent and Ultimate Controlling Party  
Hatton National Bank PLC**

	2008 Rs.'000	2007 Rs.'000
<b>Nature of Transaction</b>		
Insurance Premium (Received/Receivable)		
Life	3,312	2,022
Non-life	27,125	20,327
Administration Expenses Paid/Payable		
Life	5,706	6,582
Non-life	42,358	41,100
Claims Incurred (Paid and Outstanding)		
Non-life	6,616	8,742
Investments Balance as at 31 December (Includes Deposits and Debentures)		
Life	13,241	7,500
Non-life	96,428	72,694
Current Account Balances as at 31 December		
Life	33,451	11,784
Non-life	17,139	21,809
Investment Income		
Life	1,196	961
Non-life	7,842	7,206
Rent Expenses (Paid and Payable)	13,451	13,388
Dividends Paid	22,495	14,997

**31.2 Transaction with / between Subsidiary Companies of the Parent Company****a). Sithma Development (Pvt) Ltd.****Nature of Transaction**

Insurance Premium (Received/Receivable)		
Non-life	398	56

**31.3 Transaction with / between Joint Venture Companies of the Parent Company****a). HNB Stock Brokers (Pvt) Ltd.****Nature of Transaction**

Insurance Premium (Received/Receivable)		
Non-life	445	495
Claims Incurred (Paid and Outstanding)		
Non-life	242	315

**b). HNB Securities Ltd.**

Insurance Premium (Received/Receivable)		
Non-life	190	200
Claims Incurred (Paid and Outstanding)		
Non-life	176	39
Investments held in the form of Repurchase Agreements on Government Securities as at 31 December		
Life	12,188	52,132
Non-life	1,460	37,246
Investment Income generated through investments held in Repurchase Agreements on Government Securities		
Life	6,242	10,747
Non-life	5,697	9,192

## Notes to the Financial Statements

### 31. RELATED PARTY DISCLOSURES (CONT.)

#### 31.4 Terms and Conditions

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 at 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.

#### 31.5 Transactions with Key Management Personnel (KMP) 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 close family members have been classified as Key Management Personnel of the Company.

As the Hatton National Bank PLC is the ultimate parent of the Company, and the Board of Directors of the Bank have the authority and responsibility 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 KMP 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.

##### a) Key Management Personnel Compensation

	2008 Rs.'000	2007 Rs.'000
Short-term employee benefits	7,714	5,675
Post employment benefits	743	608

In addition to their salaries, the Company also provides non-cash benefits to KMP and contributes to a defined benefit plan - Gratuity on behalf of the Executive Director.

##### b) Other Transactions with Key Management Personnel

Insurance Premium Non-life	234	387
----------------------------	-----	-----

##### c) Other Related Party disclosures :

Other related entities are those which are controlled or significantly influenced, directly or indirectly by KMP of the Company. Significant influence is presumed to be established if a KMP of the Company has more than 20% shareholding in an entity, unless otherwise reported by the KMP further significant influence is also established if in the view of the respective KMP, he has the ability to influence the operating and financial policies of an entity even in the absence of 20% shareholding. All transactions with other entities where KMP of the Company are Directors without significant influence, has been reported under Directors' interest in contract on pages 79 to 80.

Name of the Company	Name of the KMP	Nature of transactions	2008 Rs.'000	2007 Rs.'000
Alliance Finance Co. PLC	Pratapkumar De Silva, Chairman and Jt.Managing Director	Insurance Premium (Received/Receivable) Non-life	1,068	383
		Claims Paid Non-life	365	-
Alliance Tech Trading (Pvt) Ltd.	Pratapkumar De Silva, Chairman	Purchase of Property, Plant and Equipment	270	530
Arpico Finance Co. PLC	Pratapkumar De Silva, Chairman	Insurance Premium (Received/Receivable) Non-life	1	-
Stassen Exports Ltd.	D H S Jayawardena and R K Obeyesekere	Insurance Premium (Received/Receivable) Non-life	15,835	10,329
		Claims Paid Non-life	4,360	5,683

**31. RELATED PARTY DISCLOSURES (CONT.)****c) Other Related Party disclosures (Contd.)**

Name of the Company	Name of the KMP	Nature of transactions	2008	2007
			Rs.'000	Rs.'000
Stassen Natural Foods (Pvt) Ltd.	D H S Jayawardena and R K Obeyesekere	Insurance Premium (Received/Receivable) Non-life	339	179
		Claims Paid Non-life	-	178
Sri Lanka Insurance Corporation Ltd.	D H S Jayawardena and R K Obeyesekere	Insurance Premium - Co-insurance (Received/Receivable) Non-life	32	-
		Co-Insurance Non-life	225	7,253
Stassen International Ltd.	D H S Jayawardena and R K Obeyesekere	Insurance Premium (Received/Receivable) Non-life	1,263	364
Milford Exports (Ceylon) Ltd.	D H S Jayawardena and R K Obeyesekere	Insurance Premium (Received/Receivable) Non-life	617	103
Ceylon Garden Coir (Pvt) Ltd.	D H S Jayawardena and R K Obeyesekere	Insurance Premium (Received/Receivable) Non-life	132	128
Aitken Spence (Garments) Ltd.	D H S Jayawardena	Insurance Premium (Received/Receivable) Non-life	522	179
Elpitiya Plantaions PLC	D H S Jayawardena	Insurance Premium (Received/Receivable) Non-life	300	215
		Claims Paid Non-life	11	-

**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 30.2

**33. CAPITAL COMMITMENTS**

Amount of capital expenditure approved by the Board and contracted for which no provision has been made in the accounts as at 31st December 2008 is Rs. 10.5 Million (2007 - Rs.4.6 Million)

**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. DIRECTORS' RESPONSIBILITY STATEMENT**

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer to page 81 for the Statement of Directors' Responsibility for Financial Reporting.

## Insurance Revenue Accounts

For the Year ended 31st December

	2008 Rs.'000	2007 Rs.'000
<b>Non-Life Insurance</b>		
Gross Written Premium	924,709	704,577
Premium Ceded to Reinsurers	(308,961)	(202,331)
Net Written Premium	615,748	502,246
Net Change in Reserves for Unearned Premium and Unexpired Risk	(74,285)	(33,651)
Net Earned Premium	541,463	468,595
Net Claims Incurred	(363,813)	(291,283)
Net Commission	(8,870)	(2,198)
(Increase) / Decrease in Deferred Acquisition Expenses	2,598	3,744
Expenses	(228,134)	(186,182)
Underwriting Surplus / (Deficit)	(56,756)	(7,324)
Income from Investments	126,797	86,164
Other Income	(13)	(284)
Operating Profit from Non-life Insurance Business	70,028	78,556
<b>Life Insurance Business</b>		
Gross Written Premium	914,170	767,576
Premium Ceded to Reinsurers	(79,952)	(69,528)
Net Written Premium	834,218	698,048
Investment Income Attributable to Policyholders	215,468	113,840
Other Income	1,755	1,080
Net Benefits Payable	(44,669)	(25,595)
Net Commission	(161,894)	(154,212)
Expenses Attributable to Policyholders	(265,047)	(195,208)
Increase in Life Insurance Fund	(479,831)	(372,953)
Surplus from Life Insurance Business	100,000	65,000
<b>Reconciliation of Statement of Income and Insurance Revenue Accounts</b>		
Operating Profit from Non-life Insurance Business	70,028	78,556
Surplus from Life Insurance Business	100,000	65,000
Profit from Operations	170,028	143,556
Interest Expense	(154)	(224)
Profit Before Income Tax	169,874	143,332
Income Tax Expense	(5,401)	(20,000)
Profit for the Year	164,473	123,332

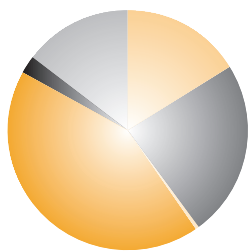
## Value Added Statement - Company

	2008 Rs. '000	2007 Rs. '000
Net Earned Premium	1,375,681	1,166,643
Investment and Other Income	344,007	200,800
	1,719,688	1,367,443
Net Claims and Benefits	(408,482)	(316,878)
Cost of External Services	(184,951)	(157,363)
<b>Value Added</b>	<b>1,126,255</b>	<b>893,202</b>

### Distribution of Value Added

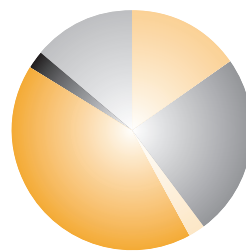
		%		%
<b>To Employees</b>				
Salaries and Other Benefits	181,716	16.13	136,034	15.23
<b>To Intermediaries</b>				
Insurance Commission	267,855	23.78	219,465	24.57
<b>To Government</b>				
Income Tax	5,401	0.49	20,000	2.24
<b>To Life Policyholders</b>				
Increase in Long Term Insurance Reserves	479,831	42.60	372,953	41.75
<b>For Expansion and Growth</b>				
Retained as Depreciation and Amortisation	26,979	2.40	21,418	2.40
Retained in Reserve	164,473	14.60	123,332	13.81
	<b>1,126,255</b>	<b>100.00</b>	<b>893,202</b>	<b>100.00</b>

DISTRIBUTION OF VALUE ADDED - 2008



■ To Employees (16.1%)    ■ To Life Policyholders (42.6%)  
■ To Intermediaries (23.8%)    ■ Retained as Depreciation (2.4%)  
■ To Government (0.5%)    ■ Retained in Reserve (14.6%)

DISTRIBUTION OF VALUE ADDED - 2007



■ To Employees (15.2%)    ■ To Life Policyholders (41.8%)  
■ To Intermediaries (24.6%)    ■ Retained as Depreciation (2.4%)  
■ To Government (2.2%)    ■ Retained in Reserve (13.8%)

## 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 shares 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	-	39.88% (as at 31st December 2008)

### 3. Shareholdings

There were 4,111 registered shareholders as at 31st December 2008 (2007 - 4,093) and were distributed as follows.

Shares	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1,000	2,318	831,201	2.22	11	6,300	0.02	2,329	837,501	2.24
1,001 - 5,000	1,246	2,639,824	7.04	7	11,700	0.03	1,253	2,651,524	7.07
5,001 - 10,000	378	2,607,200	6.95	5	38,050	0.10	383	2,645,250	7.05
10,001 - 50,000	114	1,912,250	5.10	4	67,850	0.18	118	1,980,100	5.28
50,001 - 100,000	13	1,030,975	2.75	2	121,600	0.33	15	1,152,575	3.08
100,001 - 500,000	10	1,831,950	4.88	1	132,000	0.35	11	1,963,950	5.23
500,001 - 1,000,000	-	-	-	-	-	-	-	-	-
Over - 1,000,000	2	26,269,100	70.05	-	-	-	2	26,269,100	70.05
<b>Total</b>	<b>4,081</b>	<b>37,122,500</b>	<b>99.00</b>	<b>30</b>	<b>377,500</b>	<b>1.00</b>	<b>4,111</b>	<b>37,500,000</b>	<b>100.00</b>

### 4. Analysis of Shareholders

Resident / Non-Resident

	31st December 2008			31st December 2007		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	4,081	37,122,500	99.00	4,068	37,361,900	99.63
Non-Resident	30	377,500	1.00	25	138,100	0.37
<b>Total</b>	<b>4,111</b>	<b>37,500,000</b>	<b>100.00</b>	<b>4,093</b>	<b>37,500,000</b>	<b>100.00</b>

Individual / Institutional

	31st December 2008			31st December 2007		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	4,056	10,258,684	27.36	4,036	10,457,734	27.89
Institutional	55	27,241,316	72.64	57	27,042,266	72.11
<b>Total</b>	<b>4,111</b>	<b>37,500,000</b>	<b>100.00</b>	<b>4,093</b>	<b>37,500,000</b>	<b>100.00</b>

## 5. Directors' Shareholdings

Name of the Director	No. of Shares as at 31st December 2008	No. of Shares as at 31st December 2007
Rienzie T. Wijetilleke	750	750
Manjula de Silva	25,000	15,000
R Theagarajah	6,250	3,750
J M J Perera	5,250	5,250
J D N Kekulawela	9,000	9,000
M U de Silva	2,250	2,250
C Benjamin (resigned w.e.f. 25th June 2008)	-	750
J E P A de Silva (appointed w.e.f. 31st March 2008)	-	-
D M de Silva Wijeyeratne (appointed w.e.f. 28th April 2008)	-	-

## 6. Top 20 Shareholders

The 20 largest shareholders as at 31 December 2008 together with their shareholding as at 31 December 2007 are given below.

Name of the Shareholder	2008		2007	
	Shareholding	%	Shareholding	%
1 Hatton National Bank PLC	22,494,750	59.99	22,494,750	59.99
2 Alliance Finance Company Ltd	3,774,350	10.06	3,662,700	9.77
3 Mr. W K V M Fernando/ Mrs. K W S H Fernando	474,850	1.26	826,050	2.20
4 Ms. S A Fernando	279,300	0.74	408,300	1.09
5 Mr. M F Hashim	252,100	0.67	216,700	0.58
6 Ms. W N C Fernando	232,500	0.62	256,500	0.68
7 Mr. N K De Vos / Mrs. D J D e Vos	132,000	0.35	60,000	0.16
8 Mr. A R S Wijayapura	128,500	0.34	160,100	0.43
9 Mr. L Kunjithapatham	128,000	0.34	106,800	0.28
10 Mr. M H V U Gunatilaka	125,000	0.33	125,000	0.33
11 DPMC Financial Services (Pvt) Ltd - A/C No. 2	110,700	0.30	156,400	0.42
12 Miss. A M Udeshi	101,000	0.27	-	-
13 Mr. A P Somasiri	100,000	0.27	100,000	0.27
14 Mr. B Selvanayagam / Mrs. L Selvanayagam	100,000	0.27	100,000	0.27
15 J B Cocoshell (Pvt) Ltd	96,800	0.26	86,400	0.23
16 Malship Ceylon Ltd	93,500	0.25	93,500	0.25
17 Mrs. N I Hashim	91,650	0.24	91,650	0.24
18 N Vaithilingam & Co. Ltd	89,100	0.24	89,100	0.24
19 Mr. R P Senanayake	77,000	0.21	76,000	0.20
20 Union Investments Ltd	75,000	0.20	75,000	0.20
	<b>28,956,100</b>	<b>77.22</b>		

## Share Information

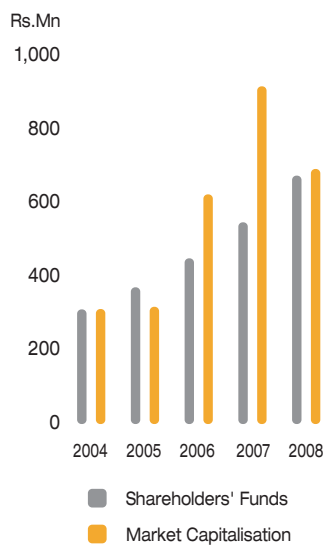
### 7. Public Shareholding

	2008		2007	
	No. of Shares	% on Total Capital	No. of Shares	% on Total Capital
Number of Shares	14,956,750	39.88	14,968,500	39.92

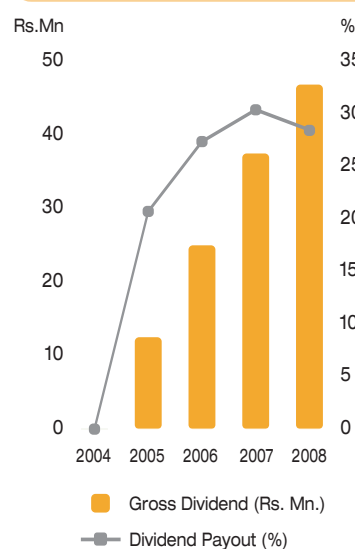
### 8. Share Performance

	2008	2007	2006	2005
Number of Transactions	3,641	6,141	4,080	6,804
Number of Shares Traded	3,566,900	7,343,100	8,135,700	10,647,200
Value of Shares Traded (Rs.)	85,513,100	195,286,050	155,070,400	178,235,150
CSE Turnover (Rs. Mn.)	110,454	104,985	105,154	114,599
Market Capitalisation (Rs. Mn.)				
HNB Assurance PLC	694	919	625	319
CSE	488,813	820,652	834,760	584,039
Dividends Per Share (Rs.)	1.25	1.00	1.00	0.50
Basic Earnings Per Share (Rs.)	4.39	3.29	2.44	1.61
Net Assets Per Share (Rs.)	18.03	14.64	12.02	9.92
Market Price per Share (Rs.)				
Highest	27.00	37.00	25.00	22.00
Lowest	17.00	18.00	12.50	11.00
Year end	18.25	24.50	25.00	12.75
P/E Ratio	4.16	7.45	10.25	7.92

SHAREHOLDERS' FUNDS VS MARKET CAPITALISATION



GROSS DIVIDEND VS DIVIDEND PAYOUT





## Quarterly Analysis 2008 and 2007

### 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
<b>Revenue</b>	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 and Unexpired Risk	(25,802)	(13,751)	(23,926)	(10,806)	(74,285)
Net Earned Premiums	302,168	360,044	355,245	358,224	1,375,681
<b>Benefits and Losses</b>					
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)
	52,697	50,913	54,442	153,198	311,250
<b>Other Revenue</b>					
Income from Investments and Other Income	76,473	77,955	88,214	101,365	344,007
<b>Expenses</b>					
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
Interest Expense	(45)	(41)	(36)	(32)	(154)
Profit Before Income Tax	19,630	14,928	13,860	121,456	169,874
Income Tax Expense	(5,518)	(4,412)	9,768	(5,239)	(5,401)
Profit After Income Tax	14,112	10,516	23,628	116,217	164,473

### Quarterly Analysis 2007

#### Company Statement of Income

	1st Quarter Jan-Mar 07 Rs.' 000	2nd Quarter Apr-Jun 07 Rs.' 000	3rd Quarter Jul-Sep 07 Rs.' 000	4th Quarter Oct-Dec 07 Rs.' 000	Total Jan-Dec 07 Rs.' 000
<b>Revenue</b>	269,704	294,427	379,822	423,490	1,367,443
Gross Written Premium	323,947	322,070	414,335	411,801	1,472,153
Premiums Ceded to Reinsurers	(65,379)	(61,911)	(69,387)	(75,182)	(271,859)
Net Written Premium	258,568	260,159	344,948	336,619	1,200,294
Net Change in Reserves for Unearned Premium and Unexpired Risk	(26,887)	(10,054)	(17,590)	20,880	(33,651)
Net Earned Premiums	231,681	250,105	327,358	357,499	1,166,643
<b>Benefits and Losses</b>					
Insurance Claims and Benefits (Net)	(70,094)	(75,837)	(96,800)	(74,147)	(316,878)
Underwriting and Net Acquisition Costs	(32,500)	(33,900)	(37,228)	(49,038)	(152,666)
Increase in Life Insurance Fund	(57,993)	(78,277)	(138,083)	(98,600)	(372,953)
Other Insurance Related Costs	(2,550)	(2,373)	(5,211)	(4,528)	(14,662)
	68,544	59,718	50,036	131,186	309,484
<b>Other Revenue</b>					
Income from Investments and Other Income	38,023	44,321	52,464	65,992	200,800
<b>Expenses</b>					
Other Operating, Investment Related and Administration Expenses	(89,106)	(89,119)	(87,925)	(100,578)	(366,728)
Profit from Operations	17,461	14,920	14,575	96,600	143,556
Interest Expense	(63)	(58)	(54)	(49)	(224)
Profit Before Income Tax	17,398	14,862	14,521	96,551	143,332
Income Tax Expense	(4,490)	(4,005)	(2,059)	(9,446)	(20,000)
Profit After Income Tax	12,908	10,857	12,462	87,105	123,332

## Eight Year Summary

### Statement of Income for the year ended 31st December

	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>NON-LIFE</b>								(*)
Gross Written Premium	<b>924,709</b>	704,577	618,502	469,929	338,708	243,392	122,232	11,785
Net Earned Premium	<b>541,463</b>	468,595	362,540	270,059	199,777	134,654	26,328	123
Income from Investments and Other Income	<b>126,784</b>	85,880	56,164	38,506	31,088	28,377	32,165	12,890
Net Claims Incurred	<b>(363,813)</b>	(291,283)	( 219,336 )	(144,548 )	(123,751 )	(59,632 )	(22,399 )	(85 )
Net Commission Incurred	<b>(6,272)</b>	1,546	(6,058 )	(4,947)	(4,957)	(7,460)	(1,847)	136
Expenses	<b>(228,288)</b>	(186,406)	(130,609)	(107,061)	(85,038)	(61,502)	(28,272)	(4,793)
Profit Before Income Tax	<b>69,874</b>	78,332	62,701	52,009	17,119	34,437	5,975	8,271

(\*) Non -life business commenced on 22.11.2001

<b>LIFE</b>								(**)
Gross Written Premium	<b>914,170</b>	767,576	503,321	354,181	205,885	104,436	35,297	-
Net Written Premium	<b>834,218</b>	698,048	451,920	318,684	188,980	95,009	32,755	-
Income from Investments and Other Income	<b>217,223</b>	114,920	53,497	26,483	12,208	6,172	1,140	-
Net Benefits Incurred	<b>(44,669)</b>	(25,595)	(14,924)	(12,183)	(7,673)	(1,478)	(129)	-
Net Commission Incurred	<b>(161,894)</b>	(154,212)	(115,132)	(88,675)	(58,785)	(20,960)	(1,427)	-
Expenses	<b>(265,047)</b>	(195,208)	(138,458)	(103,259)	(49,191)	(23,541)	(3,312)	-
Increase in Life Insurance Fund	<b>(479,831)</b>	(372,953)	(206,903)	(131,050)	(85,539)	(55,202)	(29,027)	-
Profit Before Income Tax	<b>100,000</b>	65,000	30,000	10,000	-	-	-	-

(\*\*) Life business commenced on 01.01.2002

### COMPANY

Gross Written Premium	<b>1,838,879</b>	1,472,153	1,121,823	824,110	544,593	347,828	157,529	11,785
Net Earned Premium	<b>1,375,681</b>	1,166,643	814,460	588,743	388,757	229,663	59,083	123
Income from Investments and Other Income	<b>344,007</b>	200,800	109,661	64,989	43,296	34,549	33,305	12,890
Insurance Claims and Benefits (Net)	<b>(408,482)</b>	(316,878)	(234,260)	(156,731)	(131,424)	(61,110)	(22,528)	(85)
Net Commission Incurred	<b>(168,166)</b>	(152,666)	(121,190)	(93,622)	(63,742)	(28,420)	(3,274)	136
Expenses	<b>(493,335)</b>	(381,614)	(269,067)	(210,320)	(134,229)	(85,043)	(31,584)	(4,793)
Increase in Life Insurance Fund	<b>(479,831)</b>	(372,953)	(206,903)	(131,050)	(85,539)	(55,202)	(29,027)	-
Profit Before Income Tax	<b>169,874</b>	143,332	92,701	62,009	17,119	34,437	5,975	8,271
Income Tax Expense	<b>(5,401)</b>	(20,000)	(1,377)	(1,720)	(733)	1,374	(1,109)	(3,636)
Profit for the Year	<b>164,473</b>	123,332	91,324	60,289	16,386	35,811	4,866	4,635
Dividend per Share (Rs.)	<b>1.25</b>	1.00	1.00	0.50				

**Balance Sheet as at 31 st December****Company**

	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>								
Investments	735,866	627,655	530,914	442,077	352,050	307,301	267,092	251,900
Intangible Assets	17,316	17,603	18,530	21,175	17,391	4,893	-	-
Property, Plant and Equipment	83,566	68,064	54,096	44,881	27,486	33,713	7,396	2,492
Policy Loans	-	-	-	-	-	-	-	-
Reinsurance Receivable	59,289	24,683	32,025	63,374	37,945	2,035	595	-
Premium Receivable	120,922	86,721	95,572	67,538	67,536	48,350	36,130	11,399
Other Assets	184,361	121,267	80,367	49,692	32,390	16,393	9,239	6,939
Cash and Cash Equivalents	115,943	71,181	66,785	42,838	36,839	25,165	16,700	317
<b>Total Assets</b>	<b>1,317,263</b>	1,017,174	878,289	731,575	571,637	437,850	337,152	273,047

**Liabilities and Shareholders' Equity****Liabilities**

Insurance Provision - Life	-	-	-	-	-	-	-	-
Insurance Provision - Non-life	470,206	340,562	319,538	267,020	210,611	114,841	53,831	2,905
Other Liabilities	160,316	119,491	102,606	87,806	47,849	25,162	21,236	15,507
Interest Bearing Borrowings	988	1,423	1,809	2,125	-	1,779	2,424	-
Provisions for Retirement Benefits	9,637	6,555	3,525	2,637	1,479	756	160	-
<b>Total Liabilities</b>	<b>641,147</b>	468,031	427,478	359,588	259,939	142,538	77,651	18,412

**Shareholders' Equity**

Stated Capital	375,000	375,000	250,000	250,000	250,000	250,000	250,000	250,000
Revenue Reserves	301,116	174,143	200,811	121,987	61,698	45,312	9,501	4,635
<b>Total Shareholders' Equity</b>	<b>676,116</b>	549,143	450,811	371,987	311,698	295,312	259,501	254,635
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,317,263</b>	1,017,174	878,289	731,575	571,637	437,850	337,152	273,047

## Eight Year Summary

### Balance Sheet as at 31 st December

	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>LIFE</b>								(**)
<b>Assets</b>								
Investments	1,263,166	852,943	513,475	335,222	177,987	89,207	27,878	-
Intangible Assets	5,742	2,936	1,872	204	116	50	-	-
Property, Plant and Equipment	8,151	4,333	3,086	2,994	2,637	2,429	-	-
Policy Loans	4,666	1,588	1,277	982	-	-	-	-
Reinsurance Receivable	10,025	6,234	10,275	5,326	2,411	-	-	-
Premium Receivable from Policyholders	-	-	-	-	-	-	-	-
Other Assets	150,521	78,783	30,229	17,003	9,897	1,584	541	-
Cash and Cash Equivalents	39,939	44,890	36,981	13,102	19,028	14,707	5,522	-
<b>Total Assets</b>	<b>1,482,210</b>	<b>991,707</b>	<b>597,195</b>	<b>374,833</b>	<b>212,076</b>	<b>107,977</b>	<b>33,941</b>	<b>-</b>
<b>Liabilities and shareholders' Equity</b>								
<b>Liabilities</b>								
Insurance Provision - Life	1,360,505	880,674	507,721	300,818	169,768	84,229	29,027	-
Insurance Provision - Non-life	-	-	-	-	-	-	-	-
Other Liabilities	120,024	110,111	89,019	73,551	42,066	19,061	4,908	-
Interest Bearing Borrowings	-	-	-	-	-	4,627	-	-
Provisions for Retirement Benefits	1,681	922	455	464	242	60	6	-
<b>Total Liabilities</b>	<b>1,482,210</b>	<b>991,707</b>	<b>597,195</b>	<b>374,833</b>	<b>212,076</b>	<b>107,977</b>	<b>33,941</b>	<b>-</b>
<b>Shareholders' Equity</b>								
Stated Capital	-	-	-	-	-	-	-	-
Revenue Reserves	-	-	-	-	-	-	-	-
<b>Total Shareholders' Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>1,482,210</b>	<b>991,707</b>	<b>597,195</b>	<b>374,833</b>	<b>212,076</b>	<b>107,977</b>	<b>33,941</b>	<b>-</b>

(\*\*) Life Business commenced on 1st January 2002

**Balance Sheet as at 31 st December****Combined**

	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>								
Investments	1,999,032	1,480,598	1,044,389	777,299	530,037	396,508	294,970	251,900
Intangible Assets	23,058	20,539	20,402	21,379	17,507	4,943	-	-
Property, Plant and Equipment	91,717	72,397	57,182	47,875	30,123	36,142	7,396	2,492
Policy Loans	4,666	1,588	1,277	982	-	-	-	-
Reinsurance Receivable	69,314	30,917	42,300	68,701	40,357	2,035	595	-
Premium Receivable	120,922	86,721	95,572	67,538	67,536	48,350	36,130	11,399
Other Assets	334,882	200,050	110,596	66,694	42,286	17,977	9,780	6,939
Cash and Cash Equivalents	155,882	116,071	103,766	55,940	55,867	39,872	22,222	317
<b>Total Assets</b>	<b>2,799,473</b>	<b>2,008,881</b>	<b>1,475,484</b>	<b>1,106,408</b>	<b>783,713</b>	<b>545,827</b>	<b>371,093</b>	<b>273,047</b>

**Liabilities and shareholders' Equity****Liabilities**

Insurance Provision - Life	1,360,505	880,674	507,721	300,818	169,768	84,229	29,027	-
Insurance Provision - Non-life	470,206	340,562	319,538	267,020	210,611	114,841	53,831	2,905
Other Liabilities	280,340	229,602	191,625	161,357	89,915	44,223	26,144	15,507
Interest Bearing Borrowings	988	1,423	1,809	2,125	-	6,406	2,424	-
Provisions for Retirement Benefits	11,318	7,477	3,980	3,101	1,721	816	166	-
<b>Total Liabilities</b>	<b>2,123,357</b>	<b>1,459,738</b>	<b>1,024,673</b>	<b>734,421</b>	<b>472,015</b>	<b>250,515</b>	<b>111,592</b>	<b>18,412</b>

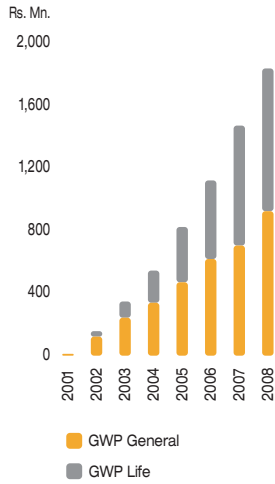
**Shareholders' Equity**

Stated Capital	375,000	375,000	250,000	250,000	250,000	250,000	250,000	250,000
Revenue Reserves	301,116	174,143	200,811	121,987	61,698	45,312	9,501	4,635
Total Shareholders' Equity	676,116	549,143	450,811	371,987	311,698	295,312	259,501	254,635
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,779,473</b>	<b>2,008,881</b>	<b>1,475,484</b>	<b>1,106,408</b>	<b>783,713</b>	<b>545,827</b>	<b>371,093</b>	<b>273,047</b>

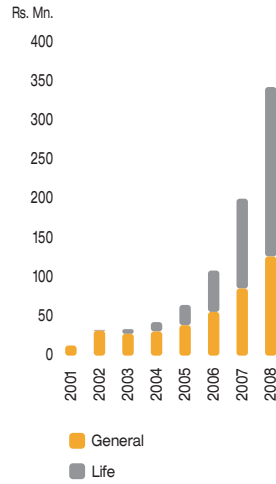
	2008	2007	2006	2005	2004	2003	2002	2001
<b>Investor Information</b>								
Return on Net Assets	22.70%	22.46%	20.26%	16.21%	5.26%	12.13%	1.88%	1.82%
Market Price per Share as at 31st Dec (Rs.)	18.25	24.50	25.00	12.75	12.50	10.25	-	-
Market Price per Share as at 31st Dec (Rs.) - Adjusted for Bonus Issue	18.25	24.50	16.67	8.50	8.33	6.83	-	-
Basic Earnings per Share (Rs.)	4.39	3.59	2.66	1.75	0.48	1.04	0.14	0.13
Price Earning Ratio (Times)	4.16	6.83	6.27	4.85	17.48	6.56	-	-
Market Capitalisation (Rs. Mn.)	694	919	625	319	313	256	-	-
<b>Employee Information</b>								
Number of Employees	457	377	308	262	208	180	99	23
GWP per Employee (Rs. Mn.)	4.02	3.90	3.64	3.15	2.62	1.93	1.59	0.51
Profit per Employee (Rs. '000)	359.89	327.14	296.51	230.11	78.78	198.95	49.15	201.52
<b>Non-life Operations</b>								
Net Claims Ratio	67%	62%	60%	54%	62%	44%	85%	69%
Expense Ratio	43%	39%	38%	41%	45%	51%	114%	3786%
Combined Ratio	110%	102%	98%	95%	107%	95%	199%	3855%

## Eight Year Summary

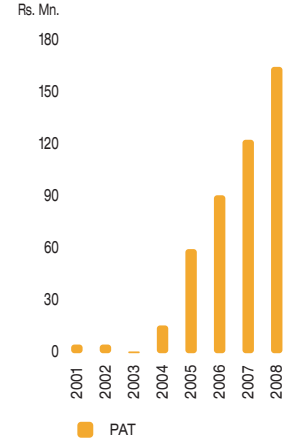
GWP



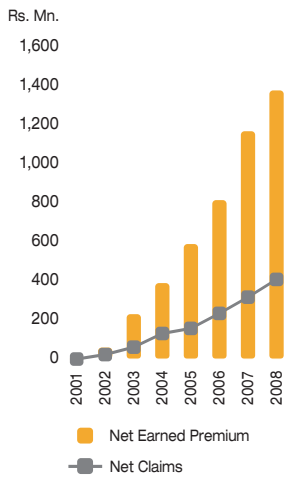
INCOME FROM INVESTMENTS AND OTHER INCOME



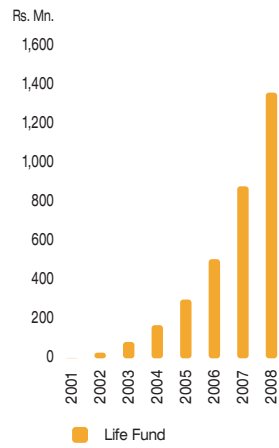
PROFIT AFTER TAX



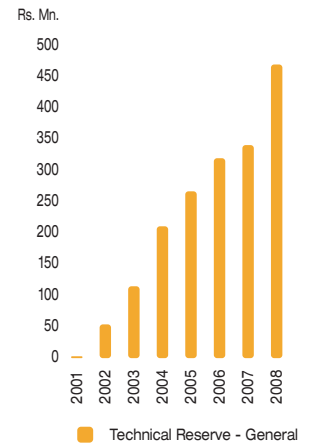
NET EARNED PREMIUM VS NET CLAIMS AND BENEFITS



LIFE FUND



TECHNICAL RESERVE - GENERAL



## Glossary

### Accumulation

The situation where a significant number of risks insured or reinsured with the same Company may be affected simultaneously by a loss event.

### Acquisition Expenses - General Business

All expenses which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts.

### Acquisition Expenses - Life Insurance

All expenses which vary with, and are primarily related to, the acquisition of new insurance contracts.

### Actuary

A person concerned with the application of probability and statistical theory to problems of insurance, investment, financial management and demography.

### Admissible Assets

Value of assets that are included in determining an insurer's statutory solvency margin specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act, No.43 of 2000 (RII Act).

### Annuity

A series of regular payments. Annuities include annuities certain, where payments are made at definite times, and life annuities, where payments depend on the survival of an Annuitant. A life annuity is a contract that provides a regular payment typically monthly during the lifetime of the policyholder or a fixed period if less. If the payments start at the outset of the contract, it is an immediate annuity. If they start at some point in the future, it is a deferred annuity.

### Approved Assets

Assets that represent the technical reserve and the Long-term insurance fund as per the determination made under the Regulation of Insurance Industry Act, No. 43 of 2000.

### Bancassurance

An arrangement whereby banks sell insurance and investment products to their customers on behalf of other financial solution providers.

### 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.

### Bonus

Bonus is a method of distribution of surplus amongst the participating policyholders of a Life Insurance Company. A bonus is an enhancement to the basic sum assured under contract, and is declared as a percentage of the sum assured.

### Bond

A long term debt instrument typically carrying an interest coupon. A bond that does not carry an interest coupon is called a Zero Coupon Bond (ZCB).

### Cancellation

Termination of a contract of insurance in force by a voluntary act of the insurer or insured in accordance with the provisions in the contract or by mutual agreement.

### Claims

The amount payable under a contract of insurance arising from the occurrence of an insured event, such as, the destruction or damage of property and related death or injuries, the incurring of hospital or medical bills, death or disability of the insured, the maturity of an endowment policy, the attainment of pensionable age or the amount payable on the surrender of a policy.

### Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by the claims outstanding provisions at the beginning and the end of the accounting period.

### Claims Incurred But Not Reported (IBNR)

At the end of a period of account, a reserve made in respect of property, liability, pecuniary insurances to cover the expected cost of losses that have occurred but have not yet been reported to the insurer or reinsurer.

### Claims Incurred But Not Enough Reported (IBNER)

At the end of a period of account, a reserve made in respect of property, liability, pecuniary insurances to cover the expected cost of losses that have occurred but no comprehensive information to make adequate provisions.

### Claims Outstanding Reserve - General Business

The amount provided, including claims incurred but not reported and claims handling expenses, to cover the estimated ultimate cost, or if discounting techniques are used, its discounted equivalent, of settling claims arising out of events which have occurred by the end of the accounting period, less amounts already paid in respect of those claims.

## Glossary

### Claims Outstanding- Life Insurance

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.

### Clause

A section of a policy contract or endorsement dealing with a particular subject. For instance, a Subrogation Clause deals with the rights of the insurer in the event of payment of a loss under the contract.

### 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

Remuneration to intermediaries for services such as arranging an insurance.

### Cyclone, Storm and Tempest

Violent commotion of the atmosphere accompanied by rain, hail or snow.

### Deferred Acquisition Expenses

Deferred 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.

### Earthquake

A sudden violent shaking of the ground, caused by movements within the earth's crust.

### Endorsement

A clause appended or affixed to the policy embodying some alteration to the policy terms. Endorsements may be added at inception or afterwards to record a change agreed by the parties.

### Equity

Another word for 'share'. A shareholder's equity is the value of the share they hold.

### Ex-Gratia Payment

A payment by an insurer to an insured for which there is no liability under the contract. In some cases an insurer may feel there has been a mistake or a misunderstanding and he may pay a claim, even though he does not appear to be liable.

### Exclusion

A contractual provision that denies coverage for certain perils, persons, property or locations.

### Explosion

The sudden and violent rendering of any object by force of internal steam or other fluid pressure causing bodily displacement of any part of such object, together with forcible ejection of the contents.

### Facultative Reinsurance

Oldest form of reinsurance. This is the reinsurance of an individual risk on terms and conditions agreed with the reinsurer specifically for that risk. Particulars of each risk are submitted by the ceding Company to the Reinsurer who may accept or decline at will. This is useful when dealing with risks outside the ceding Company's treaty arrangements.

### 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.

### Fund Management

Management of money invested, typically, in stocks and shares, fixed interest, property and cash on behalf of individual and institutional customers also known as asset management or investment management.

### General Insurance Business

Insurance business falling within the classes of insurance specified as General Insurance Business, under the Regulation of Insurance Industry Act, No. 43 of 2000.

### Gross Written Premium- General Insurance (Non-life)

Premium which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance, before any reinsurance is taken in to account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a subsequent period. See also Net Earned Premium.



**Gross Written Premium - Life**

Premium to which the insurer is contractually entitled and received in the accounting period.

**Indemnify**

To restore the victim of a loss to the same position as before the loss occurred.

**Insurer**

A Company registered to carry on insurance business in Sri Lanka under the provisions of Insurance Industry Act, No. 43 of 2000.

**Insurer's Risk**

Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

**Insurance**

Insurance is a contract whereby one party, called the insurer, in return for a consideration, called the premium, undertakes to pay to the other party, called the insured, a sum of money or its equivalent in kind, upon the happening of a specified event that is contrary to the interest of the insured.

**Insurance Provision - Non-life Insurance**

Insurance Provision Non-life include net unearned premiums, provision for unexpired risks, net outstanding claims reserve, net IBNR and IBNER reserves, any contingency reserves and deferred acquisition expenses.

**Insurance Provision - Life Insurance**

The funds or 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.

**Investment Return**

Investment Return comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses.

**Key Ratios**

$$\text{Earnings per Share (EPS)} = \frac{\text{Net Profit After Tax}}{\text{Weighted Average No. of Shares in Issue}}$$

$$\text{Net Assets Value per Share (NAV)} = \frac{\text{Net Assets}}{\text{No. of Ordinary Shares in Issue}}$$

**Price Earnings Ratio (PER)**

$$= \frac{\text{Market Price per Share}}{\text{Earnings per Share}}$$

**Net Loss Ratio**

$$= \frac{\text{Net Claims Incurred}}{\text{Net Earned Premium}}$$

**Expense Ratio**

$$= \frac{\text{Expenses other than Net Claims Incurred}}{\text{Net Earned Premium}}$$

**Combined Ratio**

$$= \frac{\text{Net Claims Incurred} + \text{Other Expenses}}{\text{Net Earned Premium}}$$

**Life Insurance Business**

Insurance business falling within the classes of insurance specified as long term insurance business under the regulation of Insurance Industry Act, No. 43 of 2000.

**Life Surplus**

The excess of the assets over the liabilities as determined by the actuary (taking in to account solvency requirements) and after the distribution of dividends to policyholders.

**Market Capitalisation**

Number of shares in issue multiplied by the market value of each share as at a given date.

**Maturity**

The time at which the survival benefits accruing under life assurance policy or the proceeds of another investment become payable at the end of its term.

**Malicious Damage**

Unlawful damage caused by the malicious act of any person motivated by ill-will in circumstances not amounting to a riot.

**Net Assets**

Total assets less total liabilities. Also, equal to shareholders' equity.

**Net Claims Incurred**

Refers to claims incurred less reinsurance recoveries.

**Net Earned Premium**

In the case of Non-life Insurance Business, Net Earned Premium is the proportion of written premiums (including where relevant those of prior accounting periods) attributable to the risks borne, net of premiums ceded to reinsurance.

## Glossary

### Net Written Premium

Net Written Premium refers to the gross written premium ceded to reinsurers.

### Non-Participating Business

Life Insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

### Non-Proportional Reinsurance

Contracts of reinsurance whereby the re-insurer accepts the whole or proportion of the liability for an individual claim or group of claims incurred by the cedent in excess of an agreed amount, normally also subject to an upper-limit.

### Participating Business

Life insurance business where the policy holders are contractually entitled to share in the surplus of the relevant life fund.

### Peril

The cause of a possible loss. Contrast with Hazard and Risk.

### Policy Loan

A loan given to the policyholder on the security of the surrender value of a Life Insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loan.

### Premium

The consideration payable by the insured for insurance.

### Proportional Reinsurance

A contract of reinsurance under which, in return for a proportion of the original premium, the reinsurer accepts liability for the same proportion of each related claim against the cedent.

### Reinstatement

The restoration of a lapsed policy to full force and effect. The Company requires evidence of insurability and payment of past due premiums plus interest.

### Realised Investment Gains/Losses

- a. For investment included in the Financial Statement at fair value, the difference between the net proceeds on disposal and their purchase price.
- b. For investment included at amortised cost, the difference between the net proceeds on disposal and the latest carrying value. (or if acquired after the last balance sheet date the purchase price).

### Reinsurance

Transfer of all or part of the risk assumed by an insurer under one or more insurances to another insurer, called the re-insurer.

### Reinsurance Commission/Discount

Commission/ discount received or receivable in respect of premiums paid to any reinsurer.

### Reinsurance Premium

The premium payable to the reinsurer.

### Reinsurance profit commission

Commission received or receivable by the cedent (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty.

### Retention

The part of the risk assumed by the insurer (i.e. retained for own account).

### Revenue Account

An account which shows a financial summary of the insurance related revenue transactions for the accounting period.

### Segment

Constituent business units grouped in terms of nature and similarity of operations.

### 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 section 26 of the Regulation of Insurance Industry Act, No. 43 of 2000.

### Solvency Margin - Non-life 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 Non-life Insurance business as defined in Solvency Margin rules 2004, made under section 26 of the Regulation of Insurance Industry Act, No. 43 of 2000.

### Surrender

The giving up of an insurance policy by the insured to the insurer before the insurance has run its full course. An insured will be eligible to surrender a policy only upon the expiry of a pre-determined period after purchasing the policy.

**Term Life Insurance**

A form of Life Insurance that covers the insured person for a certain period of time, the term that is specified in the policy. It pays a benefit to a designated beneficiary only when the insured dies within that specified period. Does not provide a maturity value.

**Title Insurance**

Insurance which indemnifies the owner of real estate in the event that his clear ownership of property is challenged by the discovery of faults in the title that was passed to him.

**Third-party Coverage**

The insurance indemnifies the insured against the legal liabilities to third parties (other than employees of the insured) for bodily injury and or third party property damage arising from the insured's activities.

**Tsunami**

Series of catastrophic ocean waves generated due to earthquake, volcanic eruption or landslides beneath the ocean.

**Unexpired Risk Reserve**

The excess of the estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before the date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred) and any premium receivable under those contracts.

**Unit Trust**

Fund of stocks and shares held by a manager for the benefit of investors. Individuals buy units in the fund, which then invest in a wide range of shares. This approach offers small investors the opportunity to pool their money with others and benefit from a greater spread of risk and investment opportunities.

**Unrealised Investment Gains/Losses**

The difference between the fair value at the balance sheet date of investments held on that date and their purchase price. Movement in unrealised gains/losses comprise, the increase/decrease in the accounting period in the value of investment held at the balance sheet date and the reversal of unrealised investment gains/losses recognised in earlier accounting periods in respect of investment disposals of the current period.

**Under Insurance**

Insurance where the sum insured is less than the full value at risk and would not be adequate to meet a total loss.

**Underwriting**

The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned.

**Unearned Premium**

The portion of premiums already taken into accounts but which relates to a period of risk subsequent to the Balance Sheet date.

**Unearned Premium Reserve**

A fund kept by a general insurer to provide for claims that may arise in the future under insurances that are still in course.

**Yield**

Rate of return on an investment in percentage terms, taking in to 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 Seventh (7th) Annual General Meeting of HNB Assurance PLC is convened on Monday the 30th day of March 2009, 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 2008, the Auditors' Report thereon.

To declare a dividend of Rs. 1.25 per share as recommended by the Directors to the shareholders.

To re-appoint Mr. Pratapkumar de Silva in terms of Article 92 of the Articles of Association of the Company, as a Director of the Company and to adopt the following resolution :-

**Resolution -** *"That Mr Joseph Eardley Pratapkumar Aditya de Silva who has attained the age of 70 years on 18th December 2008, be and is hereby re-appointed as a Director of the Company and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, No. 7 of 2007, shall not apply to the said Director".*

To re-appoint Mr. D M de Silva Wijeyeratne in terms of Article 92 of the Articles of Association of the Company, as a Director of the Company.

To re-appoint Mr. S C Ratwatte in terms of Article 92 of the Articles of Association of the Company, as a Director of the Company.

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 2009 for charitable and other purposes set out in the Companies Donations Act (Cap. 147).

By Order of the Board  
**HNB ASSURANCE PLC**



**INDRANI GOONESEKERA**  
BOARD SECRETARY

Colombo, Sri Lanka.  
30th January 2009.

### 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 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 Rajendra Theagarajah or failing him Joseph Michael Jayanth Perera or failing him Joseph Dacius Nihal Kekulawala or failing him, ..... of .....  
as my/our proxy, to represent me/us to ..... and to vote for me/us on my/our behalf at the Seventh Annual Ordinary General Meeting of the Company to be convened on Monday 30th day of March 2009 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 vote :

	In favour	Against
To declare a dividend of Rs. 1.25 per share	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect Mr J E P A de Silva, as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect Mr D M de Silva Wijeyeratne, as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect Mr S C Ratwatte, as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint Auditors for the ensuing year/authorise the Directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
To authorise the Directors to determine payments for charitable and other purposes	<input type="checkbox"/>	<input type="checkbox"/>

Mark your preference with "✓"

Signed this ..... day .....2009.

Signature/s .....

.....

<i>Please provide the details :</i>	
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.*

#### 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.

# 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. 07 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.

New : PQ 108  
(Previous : N (PBS) 937)

## VAT REGISTRATION NO.

134009373-7000

## TAX PAYER IDENTIFICATION NO.

TIN-134009373

## BALANCE SHEET DATE

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 Uttarananda 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*)  
R Theagarajah  
M U de Silva  
J M J Perera  
J D N Kekulawala  
C Benjamin (resigned w.e.f. 25th June 2008)  
Pratap Kumar de Silva (appointed w.e.f. 31st March 2008)  
D M de S Wijeyeratne (appointed w.e.f. 28th April 2008)  
Sarath Ratwatte (appointed w.e.f. 30th January 2009)

## CORPORATE MANAGEMENT

Manjula de Silva  
(*Managing Director*)  
Lalith Fernando  
(*General Manager - Marketing and Distribution*)  
Gerry Gunadasa  
(*General Manager - General*)  
Indrani Weerasinghe  
(*General Manager - Life*)

## 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  
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.

## BOARD SECRETARY

Indrani Goonesekera  
Attorney-at-Law & Notary Public

## BANKERS

Hatton National Bank PLC  
Commercial Bank of Ceylon PLC

