



WINNING WAYS

INCOME STATEMENT

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000	Change %
Gross written premium	6	11,647,756	11,243,915	4
Premium ceded to reinsurers		(525,782)	(716,441)	(27)
Net written premium		11,121,974	10,527,474	6
Other revenue				
Net investment income		4,364,844	4,638,140	(6)
Net realised gains		24,313	123,474	(80)
Net fair value losses		(297,847)	(803,075)	(63)
Other income		48,644	42,960	13
Total other revenue		4,139,954	4,001,499	3
Total net revenue		15,261,928	14,528,973	5
Benefits, claims and expenses				
Net insurance benefits and claims paid		(3,668,351)	(3,350,600)	9
Net change in insurance claims outstanding		164,467	442,761	(63)
Change in contract liabilities - Life Fund		(4,983,273)	(3,905,191)	28
Underwriting and net acquisition costs (net of reinsurance)		(1,857,396)	(2,055,051)	(10)
Other operating, administrative and selling expenses		(3,013,755)	(3,523,372)	(14)
Depreciation and amortisation		(299,894)	(154,935)	94
Total benefits, claims and expenses		(13,658,202)	(12,546,388)	9
Profit from operations		1,603,726	1,982,585	(19)
Share of results of equity accounted investee, net of tax		104,736	149,807	(30)
Profit before tax		1,708,462	2,132,392	(20)
Income tax reversal / (expenses)	8	(550,432)	1,111,450	(150)
Profit for the period		1,158,030	3,243,842	(64)
Earnings per share				
Basic (Rs.)		19.65	55.05	(64)
Diluted (Rs.)		19.65	55.05	(64)

The notes form an integral part of these interim financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December	2019 Rs. '000	2018 Rs. '000	Change %
Profit for the year	1,158,030	3,243,842	(64)
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Net gains on revaluation of land and buildings	403,283	-	
Share of net change in actuarial gain / (loss) on defined benefit plan of equity accounted investee, net of tax	(2,397)	433	
Actuarial gain / (loss) on defined benefit plan	(15,969)	6,643	
Related tax	-	3,555	
	384,917	10,631	3,521
Items that are or may be reclassified to profit or loss			
Fair value reserve (available for sale financial assets)			
Net change in fair value of available for sale financial assets	290,225	(54,762)	
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	13,234	(15,583)	
Net change in fair value of available for sale financial assets transferred to the income statement	(6,207)	(11,729)	
Related tax	-	-	
	297,252	(82,074)	462
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	275,545	(416,275)	
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the income statement	42,057	35,479	
Related tax	-	(35,959)	
	317,602	(416,755)	176
	614,854	(498,829)	223
Other comprehensive income, net of tax	999,771	(488,198)	305
Total comprehensive income for the period, net of tax	2,157,801	2,755,644	(22)

The notes form an integral part of these interim financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
Assets			
Intangible assets		1,306,922	1,392,191
Property, plant and equipment		2,500,305	2,082,990
Right of use assets		296,799	-
Deferred tax assets	8	528,614	1,079,046
Investment in equity accounted investee		1,245,951	1,130,379
Financial investments	10	44,881,195	39,138,073
Loans to life policyholders		1,555,759	1,218,949
Reinsurance receivable		502,975	371,126
Premiums receivable		344,785	331,539
Receivables and other assets		1,452,885	1,675,601
Cash in hand and at bank		632,962	696,835
Total assets		55,249,152	49,116,729
Equity and liabilities			
Equity			
Stated capital		1,000,000	1,000,000
Available for sale reserve		529,468	(85,386)
Revaluation reserve		2,089,404	1,690,736
Restricted regulatory reserve	11	3,381,934	3,381,934
Other reserves		52,228	58,610
Retained earnings		7,609,868	7,625,794
Total equity		14,662,902	13,671,688
Liabilities			
Insurance contract liabilities	12	35,489,751	30,599,881
Insurance contract liabilities - Unit Linked		1,246,075	1,501,271
Employee benefit liabilities		162,957	115,516
Reinsurance payables		812,930	669,314
Other liabilities		2,706,109	2,314,884
Bank overdraft		168,428	244,175
Total liabilities		40,586,250	35,445,041
Total equity and liabilities		55,249,152	49,116,729

The notes form an integral part of these interim financial statements.

I certify that the above financial statements comply with the requirements of the Companies Act No. 07 of 2007.



Asha Perera

Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed on behalf of the Board:



K. N. J. Balendra

Chairman



H. A. J. De Silva Wijeyeratne

Director

STATEMENT OF CHANGES IN EQUITY

Rs. '000	Stated capital	Restricted regulatory reserve	Reserves				Retained earnings	Total
			Revaluation reserve	Reserve on merger	Other reserves			
					Available for sale reserve	Other capital reserves		
Balance as at 1 January 2018	1,000,000	3,381,934	1,688,309	16,752	413,443	26,224	5,438,052	11,964,714
Profit for the year	-	-	-	-	-	-	3,243,842	3,243,842
Other comprehensive income for the year, net of tax								
Net change in fair value of available for sale financial assets	-	-	-	-	(66,491)	-	-	(66,491)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	-	-	-	-	(380,796)	-	-	(380,796)
Actuarial gain on defined benefit plan	-	-	-	-	-	6,643	-	6,643
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	-	-	-	-	(15,583)	-	-	(15,583)
Share of net change in actuarial gain on defined benefit plan of equity accounted investee, net of tax	-	-	-	-	-	433	-	433
Tax on other comprehensive income	-	-	7,042	-	(35,959)	(3,487)	-	(32,404)
Total other comprehensive income	-	-	7,042	-	(498,829)	3,589	-	(488,198)
Total comprehensive income for the year	-	-	7,042	-	(498,829)	3,589	3,243,842	2,755,644
Transactions with owners, transfers, recorded directly in equity								
Contributions and distributions								
First and final dividend 2017	-	-	-	-	-	-	(1,060,715)	(1,060,715)
Share based payments	-	-	-	-	-	12,045	-	12,045
Transfer from revaluation reserve to retained earnings	-	-	(4,615)	-	-	-	4,615	-
Total contributions and distributions	-	-	(4,615)	-	-	12,045	(1,056,100)	(1,048,670)
Balance as at 31 December 2018	1,000,000	3,381,934	1,690,736	16,752	(85,386)	41,858	7,625,794	13,671,688
Balance as at 1 January 2019	1,000,000	3,381,934	1,690,736	16,752	(85,386)	41,858	7,625,794	13,671,688
Profit for the year	-	-	-	-	-	-	1,158,030	1,158,030
Other comprehensive income for the year, net of tax								
Net change in fair value of available for sale financial assets	-	-	-	-	284,018	-	-	284,018
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	-	-	-	-	317,602	-	-	317,602
Revaluation gain on land and buildings	-	-	403,283	-	-	-	-	403,283
Actuarial loss on defined benefit plan	-	-	-	-	-	(15,969)	-	(15,969)
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	-	-	-	-	13,234	-	-	13,234
Share of net change in actuarial loss on defined benefit plan of equity accounted investee, net of tax	-	-	-	-	-	(2,397)	-	(2,397)
Tax on other comprehensive income	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	403,283	-	614,854	(18,366)	-	999,771
Total comprehensive income for the year	-	-	403,283	-	614,854	(18,366)	1,158,030	2,157,801
Transactions with owners, transfers, recorded directly in equity								
Contributions and distributions								
First and final dividend 2018	-	-	-	-	-	-	(1,178,571)	(1,178,571)
Share based payments	-	-	-	-	-	11,984	-	11,984
Transfer from revaluation reserve to retained earnings	-	-	(4,615)	-	-	-	4,615	-
Total contributions and distributions	-	-	(4,615)	-	-	11,984	(1,173,956)	(1,166,587)
Balance as at 31 December 2019	1,000,000	3,381,934	2,089,404	16,752	529,468	35,476	7,609,868	14,662,902

The notes form an integral part of these interim financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2019 Rs. '000	2018 Rs. '000
Cash flows from operations			
Insurance premiums received		11,634,510	11,180,888
Reinsurance premiums paid		(207,177)	(392,273)
Insurance benefits and claims paid		(3,760,836)	(3,509,084)
Reinsurance claim received		92,485	158,484
Payments to intermediaries to acquire insurance contracts		(1,953,383)	(2,498,772)
Cash paid to and on behalf of employees		(1,228,363)	(1,031,559)
Interest received		4,163,440	3,559,184
Dividends received		86,559	95,803
Other operating cash flows		(2,128,390)	(2,366,805)
Cash generated from operating activities	A	6,698,845	5,195,866
Employee benefits paid		(34,902)	(25,705)
Net cash flow from operating activities		6,663,943	5,170,161
Cash flows used in investing activities			
Acquisition of investments		(12,407,970)	(26,186,414)
Maturity proceeds of investments		5,664,253	20,315,433
Proceeds from sale of investments		1,507,192	2,712,014
Acquisition of property, plant and equipment		(97,601)	(153,751)
Acquisition of intangible assets		(36,971)	(866,840)
Proceeds on sale of property, plant and equipment		583	1,298
Net cash used in investing activities		(5,370,514)	(4,178,260)
Net cash inflow before financing activities		1,293,429	991,901
Cash flows used in financing activities			
Dividends paid to equity holders of the company		(1,020,775)	(956,495)
Dividend tax paid		(150,672)	-
Settlement of lease liabilities		(110,108)	-
Obligation to repurchase securities		1,386,080	1,998,230
Settlement of obligation to repurchase securities		(1,386,080)	(1,998,230)
Net cash used in financing activities		(1,281,555)	(956,495)
Net increase in cash and cash equivalents		11,874	35,406
Cash and cash equivalents at the beginning of the year		452,660	417,254
Cash and cash equivalents at the end of the year	B	464,534	452,660

The notes form an integral part of these interim financial statements.

For the year ended 31 December	2019 Rs. '000	2018 Rs. '000
NOTE A.		
Reconciliation of profit before taxation with cash from operating activities		
Profit before tax	1,708,462	2,132,392
Non - cash items included in profit before tax		
Depreciation and amortisation	299,894	154,935
Provision for employee benefits	63,832	22,557
Provision for doubtful debts	35,622	2,847
Net realised gains	(24,313)	(123,474)
Net fair value losses	297,847	803,075
Gain on sale of property, plant and equipment	(572)	(759)
Amortisation of financial investments	(156,336)	(144,150)
Impairment of Notional tax receivable	200,000	
Amortisation of lease liabilities	84,668	-
Scrip dividend income	(62,705)	(57,151)
Share of results of equity accounted investee	(104,736)	(149,807)
Interest expense on obligation to repurchase securities	5,574	3,179
Share based payment expenses	11,985	12,045
Profit before working capital changes	2,359,222	2,655,689
Net change in operational assets		
Net change in reinsurance assets / liabilities	11,767	220,459
Net change in premiums receivable	(13,246)	(63,028)
Net change in receivables and other assets	(688,940)	(1,152,379)
Net change in operational liabilities		
Net change in life insurance contract liabilities	4,634,675	3,029,930
Net change in other liabilities	395,367	505,195
Cash generated from operating activities	6,698,845	5,195,866
NOTE B.		
Cash and cash equivalents at the end of the year		
Cash in hand and at bank	632,962	696,835
Bank overdraft	(168,428)	(244,175)
Cash and cash equivalents	464,534	452,660

For the purpose of the cash flow statement, cash and cash equivalent consist of cash in hand & at bank, net of outstanding bank overdraft as shown above.

The notes form an integral part of these interim financial statements.

INCOME STATEMENT

For the quarter ended 31 December	2019 Rs. '000	2018 Rs. '000	Change %
Gross written premium	3,565,766	3,340,229	7
Premium ceded to reinsurers	(192,219)	(261,622)	(27)
Net written premium	3,373,547	3,078,607	10
Other revenue			
Net investment income	985,762	1,601,790	(38)
Net realised gains	25,001	31,534	(21)
Net fair value gains	224,927	36,463	517
Other income	15,845	(87,044)	118
Total other revenue	1,251,535	1,582,743	(21)
Total net revenue	4,625,082	4,661,350	(1)
Benefits, claims and expenses			
Net insurance benefits and claims paid	(925,106)	(729,917)	27
Net change in insurance claims outstanding	43,648	103,143	(58)
Change in contract liabilities - Life Fund	(1,208,256)	(1,031,095)	17
Underwriting and net acquisition costs (net of reinsurance)	(445,889)	(499,321)	(11)
Other operating, administrative and selling expenses	(988,628)	(1,189,395)	(17)
Depreciation and amortisation	(79,762)	(72,584)	10
Total benefits, claims and expenses	(3,603,993)	(3,419,169)	5
Profit from operations	1,021,089	1,242,181	(18)
Share of results of equity accounted investee, net of tax	17,941	71,797	(75)
Profit before tax	1,039,030	1,313,978	(21)
Income tax expense	(357,670)	(311,894)	(15)
Profit for the period	681,360	1,002,084	(32)
Earnings per share			
Basic (Rs.)	12	17	(32)
Diluted (Rs.)	12	17	(32)

The notes form an integral part of these interim financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the quarter ended 31 December	2019 Rs. '000	2018 Rs. '000	Change %
Profit for the quarter	681,360	1,002,084	(32)
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Net gains on revaluation of land and buildings	403,283	-	
Share of net change in actuarial gain / (loss) on defined benefit plan of equity accounted investee, net of tax	(2,397)	433	
Actuarial gain / (loss) on defined benefit plan	(15,969)	6,643	
Related tax	-	-	
	384,917	7,076	5,340
Items that are or may be reclassified to profit or loss			
Fair value reserve (available for sale financial assets)			
Net change in fair value of available for sale financial assets	70,509	(123,964)	
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	(8,811)	(6,647)	
Net change in fair value of available for sale financial assets transferred to the income statement	-	(26)	
Related tax	-	-	
	61,698	(130,637)	147
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	54,119	(104,522)	
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the income statement	9,962	14,067	
Related tax	-	-	
	64,081	(90,455)	
	125,779	(221,092)	
Other comprehensive income, net of tax	510,696	(214,016)	339
Total comprehensive income for the year, net of tax	1,192,056	788,068	51

The notes form an integral part of these interim financial statements.

LIFE INSURANCE FUND

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
Assets			
Intangible assets		581,438	630,319
Property, plant and equipment		2,500,305	2,082,990
Right of use assets		296,799	-
Financial investments, including derivatives		36,142,412	31,024,453
Loans to life policyholders		1,555,759	1,218,949
Reinsurance receivable		502,975	371,126
Premiums receivable		344,785	331,539
Receivables and other assets		768,128	1,270,836
Cash in hand and at bank		624,552	682,430
Total assets		43,317,153	37,612,642
Reserves and liabilities			
Reserves			
Available for sale reserve		267,219	(50,384)
Revaluation reserve		1,613,544	1,214,876
Other reserves		(6,411)	9,559
Total reserves		1,874,352	1,174,051
Liabilities			
Insurance contract liabilities	12	35,489,751	30,599,881
Insurance contract liabilities - Unit Linked		1,246,075	1,501,271
Employee benefit liabilities		162,957	115,516
Reinsurance payables		812,930	669,314
Other liabilities		3,562,660	3,308,434
Bank overdraft		168,428	244,175
Total liabilities		41,442,801	36,438,591
Total reserves and liabilities		43,317,153	37,612,642

NOTES TO THE FINANCIAL STATEMENTS

1 REPORTING ENTITY

Union Assurance PLC ('the Company') is a public limited liability company incorporated and domiciled in Sri Lanka and the ordinary shares of the Company are listed on the Colombo Stock Exchange. The registered office and principal place of business of the Company is located at Union Assurance Centre, No. 20, St. Michael's Road, Colombo 03.

The Company's controlling entity and ultimate parent undertaking is John Keells Holdings PLC which is incorporated in Sri Lanka.

2 APPROVAL OF FINANCIAL STATEMENTS

The interim financial statements for the twelve months ended 31 December 2019 were authorised for issue by the Board of Directors on 28 February 2020.

3 PRESENTATION OF FINANCIAL STATEMENTS

The results of equity accounted investee of the Company, Fairfirst Insurance Limited has been presented in the financial statements in accordance with amendments to LKAS 27 - Separate Financial Statements.

4 BASIS OF PREPARATION AND CHANGES TO THE COMPANY'S ACCOUNTING POLICIES

4.1 Basis of Preparation

The interim financial statements have been prepared in compliance with Sri Lanka Accounting Standard LKAS 34 – Interim Financial Reporting. These interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018. Further, provisions of the Companies Act No.7 of 2007 have been considered in preparing the interim financial statements of the Company. The same accounting policies have been followed in preparation of these interim financial statements as stated in the Audited Financial Statements for the year ended 31 December 2018, except for the adoption of new standard (SLFRS 16 -Leases) effective from 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The interim condensed financial statements are presented in Sri Lankan Rupees (LKR) and all values are rounded to the nearest thousand except when otherwise indicated.

4.2 Fair value measurement and related fair value disclosures

The fair values of all the financial assets and financial liabilities recognised during the period were not materially different from the transaction prices at the date of initial recognition. There were no transfers between Level 1 and Level 2 and no transfers into or out of Level 3 categories as per the fair value hierarchy, during the period.

4.3 New standards, interpretations and amendments adopted by the Company

The Company applies, for the first time, SLFRS 16 Leases. As required by LKAS 34, the nature and effect of these changes are disclosed below.

SLFRS 16 supersedes LKAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. The Company has adopted SLFRS 16 using modified retrospective method from 1 January 2019, without restating comparatives for 2018 reporting period, as permitted under the specific transitional provisions in the standard.

4.3.(a). Nature of the effect of adoption of SLFRS 16

The Company has lease contracts for branches, typically made in between 1 to 7 years of lease term and have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. On adoption of SLFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of LKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of the transition date.

NOTES TO THE FINANCIAL STATEMENTS

Leases previously accounted for as operating leases

The Company recognised right of use assets and lease liabilities for those leases previously classified as operating leases, except for short term leases and leases of low-value assets. The right of use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application

Summary of new accounting policies

Set out below are the new accounting policies of the Company upon adoption of SLFRS 16, which have been applied from the date of initial application:

Right of use assets

The Company recognises right of use assets when the underlying asset is available for use. Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life or the lease term. Right of use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities included under other liabilities.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Company's right of use assets and lease liabilities and the movements for the period ended 31 December 2019

	Right of Use Assets Rs. '000	Lease Liabilities Rs. '000
As at 1 January 2019	323,866	323,866
Prepaid Rent	24,611	-
Additions	46,374	45,745
Depreciation expense	(94,541)	-
Disposals of right-of-use assets during the year	(3,511)	(3,743)
Interest expense	-	34,231
Payments	-	(110,108)
As at 31 December 2019	296,799	289,991

5 SLFRS 9 - FINANCIAL INSTRUMENTS AND SLFRS 17 - INSURANCE CONTRACTS

SLFRS 9 is effective for annual periods beginning on or after 1 January 2018. It replaces LKAS 39 - Financial Instruments: Recognition and Measurement.

Based on the proposed amendments to SLFRS 4 - Insurance contracts (to be replaced by SLFRS 17), the entities whose predominant activity is issuing insurance contracts are permitted to defer the full application of SLFRS 9 until the earlier of 2022 or adoption of SLFRS 17, which is currently expected to commence in 2021.

The Company has used the above temporary exemption.

6 GROSS WRITTEN PREMIUM

For the year ended 31 December	2019 Rs. '000	2018 Rs. '000
Conventional	11,613,265	11,157,255
Unit linked	34,491	86,660
Total gross written premium	11,647,756	11,243,915

7 NOTIONAL TAX CREDIT FOR WITHHOLDING TAX ON TREASURY BILLS AND BONDS

The Inland Revenue Act No.10 of 2006 as amended by subsequent legislation provides that a company which derives interest income from secondary market transactions in government securities on or after 1 April 2002 would be entitled to a notional tax credit being one ninth of the net interest income, provided such interest income forms part of the statutory income of the Company.

As per the Inland Revenue Act No 24 of 2017, the notional taxes (withholding tax) on the interest of government securities have been withdrawn. Based on the transition provisions issued, the Company is allowed to carry forward the notional tax credits up to 3 years from 1 April 2018.

The Company had not recognised notional tax credit in the past, due to the uncertainty on realising the notional tax credits due to unavailability of taxable profits. Based on the amendments to the tax base by the IRD Act No 24 of 2017, the Company is liable for income tax from the year ended 31 December 2018. Accordingly, Company recognized Rs. 608 million notional tax credits as at 31 December 2018 based on internal taxable profit projection. Impairment loss of Rs. 200 million was recognized during the year based on projections for the year ended 31 December 2020.

The unrealized notional tax credit available for set off against the future tax liability of the Company is as follows;

As at 31 December	2019 Rs. '000	2018 Rs. '000
Unutilized Notional tax credits as at 1 Jan	1,071,133	1,598,960
Notional tax credits arising during the period	-	80,176
Notional tax recognized as income during the period	-	(608,003)
Impairment loss on notional tax credits	200,000	-
Unutilized Notional tax credits	1,271,133	1,071,133

NOTES TO THE FINANCIAL STATEMENTS

8 INCOME TAX EXPENSE

Current tax

The Company was liable for income tax at 28%, in terms of the Inland Revenue Act No. 10 of 2006 and amendments thereto till 31st March 2018.

From 1st April 2018 onwards the gains and profits from the Life Insurance Business are ascertained in terms of Section 67 of the Inland Revenue Act No. 24 of 2017. As per this section, gains and profits on which tax is payable is the aggregate of;

Surplus distributed to shareholders from the Life insurance policyholders fund as certified by the actuary at a rate of 28%;

Investment income of the shareholder fund less any expenses incurred in the production of such income at a rate of 28%;

Surplus distributed to a Life insurance policyholder who shares profits of an entity engaged in the business of life insurance at a rate of 14% Up to 3 years from 2018 and thereafter at 28%.

Deferred tax asset

With the introduction of the new Tax base in terms of Section 67 of the Inland Revenue Act No. 24 of 2017, the Company experienced availability of taxable income from the year ending 31 December 2018. As such, the Company will be eligible to claim its brought forward tax losses against its taxable income within a period of 6 years. Accordingly, during the year ended 31 December 2018, the Company recognized a deferred tax asset amounting to Rs.1,079 million arising from brought forward tax losses as at 31 March 2018 after assessing the availability of future taxable profits for utilization.

Deferred tax liability

In terms of Section 67 of the Inland Revenue Act No. 24 of 2017, the Company is of the view that there will not be material temporary differences arising, which will result in a Deferred Tax Liability.

Deferred tax is an estimate computed based on the assessment of available information as at the reporting date. Hence these estimates are subject to changes based on future developments / changes to any information, which the assumptions are based on, at the time of estimation. Such changes to the estimates will be adjusted during the period in which changes occur.

	Amount Rs.000'		
	Tax Expense / (Reversal)	DT Assets	DT Liabilities
Balance as at 1 January 2018	-	105,390	105,390
Origination of deferred tax assets on tax losses	(1,532,212)	1,532,212	-
Reversal of identified deferred tax assets / liabilities - previous year	(32,404)	(105,390)	(105,390)
Tax provision for the period	492,662	(492,662)	-
Effect from unrecognised tax losses from 2017	(2,927)	2,927	-
Effect from Loss incurred in the business of life insurance - 2018	(36,569)	36,569	-
Balance as at 31 December 2018	(1,111,450)	1,079,046	-
Balance as at 1 January 2019	-	1,079,046	-
Reversal during the period due to utilisation of tax losses	550,432	(550,432)	-
Balance as at 31 December 2019	550,432	528,614	-

Impact due to corporate income tax rate change

As per LKAS 12 – Income Taxes, deferred tax assets and liabilities should be measured at the tax rate that are expected to be applied in the period in which the asset will be realised or the liability will be settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the reporting date.

As per the proposed changes by the Government, the tax rate applicable for companies (including insurance companies) has revised to 24%. However, as these changes have not been legislated as at the reporting date, the prevailing income tax rates has been used for the deferred tax computation as at 31 December 2019.

9 PROFITS FROM LIFE INSURANCE

The valuation of the life insurance fund as at 31 December 2019 was carried out by Mr. Vivek Jalan FIA, FIAI of Towers Watson India Private Limited, appointed actuaries of the Company who recommended a sum of Rs. 1 billion be transferred from the life fund to the shareholder's fund for the year 2019.

10 FINANCIAL INVESTMENTS

As at 31 December	2019 Rs. '000	2018 Rs. '000
Held to maturity financial assets (HTM)	20,376,303	19,261,339
Loans and receivables (L&R)	13,199,658	7,644,568
Available for sale financial assets (AFS)	7,848,043	8,603,633
Financial assets at fair value through profit or loss (FVTPL)	3,457,191	3,628,533
Total financial investments	44,881,195	39,138,073

11 RESTRICTED REGULATORY RESERVE

Based on the direction issued by the Insurance Regulatory Commission of Sri Lanka (IRC SL) dated 20 March 2018 and subsequent approval, the Company has transferred Rs. 3,382 million attributable to non - participating fund and non unit fund of unit linked business from life policyholder fund to life shareholder fund (SHF). The distribution of one - off surplus to shareholders, held as part of the Restricted Regulatory Reserve under equity in the statement of financial position is subject to meeting governance requirements stipulated by the IRC SL and can only be released upon receiving approval from the IRC SL. The one - off surplus in the SHF is represented by government debt securities as per the direction of the IRC SL.

As at	31.12.2019 Rs. '000	31.12.2018 Rs. '000
Transfer of one - off surplus from non participating fund	3,393,900	3,393,900
Transfer from shareholder fund for the one - off deficit created in the non-unit fund of unit linked life insurance contracts	(11,966)	(11,966)
	3,381,934	3,381,934

12 INSURANCE CONTRACT LIABILITIES

As at 31 December	2019 Rs. '000	2018 Rs. '000
Life insurance fund	34,819,468	29,872,348
One - off surplus arising from changing policy liability valuation relating to participating fund	435,046	435,046
Tax payable	(51,059)	(26,428)
Unclaimed benefits	286,296	318,915
Total insurance contract liabilities	35,489,751	30,599,881

The one off surplus retained in Insurance Contract Liabilities comprises of Rs. 432.5 million attributable to participating business and Rs. 2.5 million attributable to unit linked fund.

NOTES TO THE FINANCIAL STATEMENTS

12.1 Movement In Insurance Contract Liabilities

As at 31 December	2019 Rs. '000	2018 Rs. '000
Conventional life insurance fund		
Balance as at 1 January	30,557,320	26,912,057
Increase in life insurance fund before surplus transfer to shareholders	5,940,278	5,106,818
Transfer to shareholders	(1,000,000)	(1,084,874)
Effect of Taxation on Surplus / Bonus transferred to - Policyholders	(24,631)	(26,428)
Net change in unclaimed benefits	(24,934)	(350,253)
Balance as at period end - Conventional Life insurance	35,448,033	30,557,320
Non Unit Fund of Linked Life Insurance Contracts		
Balance as at 1 January	42,561	37,556
Increase in non unit fund of linked life insurance before surplus transfer to shareholders	6,841	8,929
Transfer to shareholders	-	(15,126)
Net change in unclaimed benefits	(7,684)	11,202
Balance as at period end - Non unit fund of linked Life insurance	41,718	42,561
	35,489,751	30,599,881

13 LIABILITY ADEQUACY TEST (LAT)

As at the reporting date, the liability adequacy test was performed by the appointed actuary Mr. Vivek Jalan FIA, FIAI of Towers Watson India Private Limited and concluded that, the liability value is sufficient to meet future benefits and expenses. Hence, no provision was required to be made for any premium deficiency.

14 AUDIT OF THE INTERIM FINANCIAL STATEMENTS

Figures for the twelve months are provisional and unaudited

15 COMPARATIVE INFORMATION

The presentation and classification in the financial statements are amended where appropriate to ensure comparability with the current period.

16 RELATED PARTY TRANSACTIONS

The nature of the related parties in the current period is similar to those reported in the audited financial statements for the year ended 31 December 2018.

For the year ended 31 December	2019 Rs. '000	2018 Rs. '000
Transactions with the Ultimate Parent		
Sales / (Purchases) of goods	-	-
Rendering / (Receiving) of services	(115,174)	(109,936)
Sales / (Purchases) of property, plant and equipment	-	-
Loans received / (Given)	-	-
Rent received / (Paid)	-	-
Amount receivable / (payable) as at 31 December	(22,398)	(47,658)
Transactions with companies under common control / Significant influence		
Sales / (Purchases) of goods	(4,683)	(8,315)
Rendering / (Receiving) of services	(165,484)	(134,196)
Sales / (Purchases) of property, plant and equipment	(17,119)	(18,436)
Loans received / (Given)	-	-
Interest received / (Paid)	75,089	102,178
Rent received / (Paid)	-	-
Financial investment	415,000	287,500
Amount payable as at 31 December	(15,169)	(1,852)
Transactions with Subsidiary		
Equity investment	-	-
Transfer of assets and liabilities	-	-
Transactions with Associates		
Sales / (Purchases) of goods	-	-
Sales / (Purchases) of property, plant and equipment	-	-
Rendering / (Receiving) of services	(46,842)	(50,521)
Loans received / (Given)	-	-
Interest received / (Paid)	-	-
Rent received / (Paid)	-	-
Financial investment	-	-
Amount receivable / (payable) as at 31 December	-	15,578
Transactions with Key Management Personnel (KMP)		
Rendering / (Receiving) of services	-	-
Transactions with Close Family Members of KMP		
Rendering / (Receiving) of services	-	-
Companies controlled / jointly controlled / significantly influenced by KMP and their close family members		
Sales / (Purchases) of goods	-	-
Rendering / (Receiving) of services	-	-

NOTES TO THE FINANCIAL STATEMENTS

17 CAPITAL AND OTHER COMMITMENTS

There were no significant capital commitments as at the reporting date other than the following.

As at 31 December	2019 Rs. Mn	2018 Rs. Mn
Capital commitment contracted	915	429

18 CONTINGENCIES

There has been no significant change in the contingencies and other commitments, which were disclosed in the audited financial statements for the year ended 31 December 2018 other than the following;

18.1 Income tax assessment relating to years of assessment 2010/11, 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17

The Department of Inland Revenue has raised assessment on Union Assurance PLC for the year of assessment 2010 / 11, assessing the Life insurance business to pay income tax liabilities of Rs. 13 million and Company lodged an appeal against the said assessment with the Tax Appeals Commission (TAC). TAC issued its determination in favour of the Inland Revenue Department and a case was filed at the Court of Appeal on 20 December 2018 against the said determination. The case was fixed for argument at Court of Appeal on 02 and 03 March 2020.

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2011 / 12, 2012 / 13, 2013 / 14 and 2014 / 15, assessing the Life insurance business to pay income tax liabilities of Rs. 132 million, Rs. 411 million together with a Rs. 233 million penalty totalling to Rs. 644 million, Rs. 175 million together with a Rs. 88 million penalty totalling to Rs. 263 million and Rs. 862 million together with a Rs. 431 million penalty totalling to Rs. 1,293 million respectively. The Company has lodged valid appeals against the said assessments with the Tax Appeals Commission.

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2015 / 16 and 2016 / 17, assessing the Life insurance business to pay an income tax liability of Rs. 862 million along with a 50% penalty totalling to Rs. 1,294 million and Rs. 472 million along with a 50% penalty totalling to Rs. 708 million respectively. The Company has lodged valid appeals with the Commissioner General of Inland Revenue against the said assessments.

VAT assessment relating to years of assessment 2016 and 2017

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2016 and 2017, assessing the Life insurance business to pay a VAT liability of Rs. 8.4 million along with a Rs. 6.6 million penalty totalling to Rs. 15 million and Rs. 1.4 million along with a Rs. 1.1 million penalty totalling to Rs. 2.5 million respectively. The Company has lodged / in the process of lodging valid appeals with the Commissioner General of Inland Revenue against the said assessments.

VAT and NBT on Financial Services assessment relating to years of assessment 2016 and 2017

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2016 and 2017, assessing the Life insurance business to pay a VAT & NBT on Financial Services liability of Rs. 69 million along with a Rs. 37 million penalty totalling to Rs. 106 million and Rs. 337 million along with a Rs. 20 million penalty totalling to Rs. 357 million respectively. The Company has lodged valid appeals with the Commissioner General of Inland Revenue against the said assessments.

Directors are of the view that it has followed due process and acted in accordance with the prevailing laws in its tax submissions for above years of assessment and therefore, the above assessments have no rationale or basis in law.

18.2 The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business.

While it is not practicable to forecast or determine the final results of all pending or potential legal proceedings, Directors do not believe that such proceedings (including litigation) will have a material effect on the company's results and financial position. All pending litigation for claims have been evaluated and adequate provisions have been made in the financial statements.

18.3 The Company is also subject to insurance solvency regulations and has complied with all solvency regulations

There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

19 SHARE INFORMATION

Market Price Per Share

For the quarter ended 31 December	2019 Rs.	2018 Rs.
Last traded	330.00	347.30
Highest price per share for the period	350.00	360.00
Lowest price per share for the period	305.50	300.00

20 NET ASSETS PER SHARE

As at 31 December	2019 Rs.	2018 Rs.
Net assets per share	248.83	232.00

Net assets per share has been calculated based on the number of shares in issue as at each reporting date.

20 STATED CAPITAL

Number of shares as at	31.12.2019	31.12.2018
Ordinary shares	58,928,572	58,928,572

NOTES TO THE FINANCIAL STATEMENTS

22 TWENTY LARGEST SHAREHOLDERS

	As at 31 December 2019		As at 30 September 2019	
	No. of Shares	%	No. of Shares	%
1 John Keells Holdings PLC	53,035,715	90.0	53,035,715	90.0
2 Mr. S.N.P. Palihena	1,350,000	2.3	1,350,000	2.3
3 Suktam Holdings (Pvt) Ltd	609,000	1.0	609,000	1.0
4 Citibank Newyork S/A Norges Bank Account 2	580,294	1.0	580,294	1.0
5 Rubber Investment Trust Limited A/C # 01	199,000	0.3	199,000	0.3
6 Corporate Holdings (Private) Limited A/C No.01	149,373	0.3	149,373	0.3
7 Captain D.V.H. Palihena	138,495	0.2	138,495	0.2
8 People's Leasing & Finance PLC / L.P.Hapangama	116,881	0.2	117,480	0.2
9 Mrs. A. Selliah	100,000	0.2	100,000	0.2
10 People's Leasing & Finance PLC / L.H.L.M.P.Haradasa	88,392	0.1	88,392	0.1
11 People's Leasing & Finance PLC / Dr.H.S.D.Soyasa & Mrs.G.Soyasa	83,135	0.1	83,135	0.1
12 Mr. J.D. Bandaranayake & Miss. N. Bandaranayake & Dr. (Mrs.) V. Bandaranayake	59,019	0.1	-	-
13 Mr. J.D. Bandaranayake & Dr. (Mrs.) V. Bandaranayake & Miss. I. Bandaranayake	59,019	0.1	-	-
14 Mr. H.A.D. Ratnapala	56,250	0.1	56,250	0.1
15 Mr. J.W. Nanayakkara	56,250	0.1	56,250	0.1
16 Mrs. R.Z. Wikramanayake (Deceased)	53,585	0.1	53,585	0.1
17 Mr. N.I. Wikramanayake	53,059	0.1	53,059	0.1
18 Mr. H.A. Rehmanjee	50,001	0.1	50,001	0.1
19 Dr. S. Selliah	50,000	0.1	50,000	0.1
20 Mr. V. Sharda	44,200	0.1	44,200	0.1
Other	1,996,904	3.4	2,114,343	3.6
	58,928,572	100	58,928,572	100

23 DIVIDENDS PAID

For the year ended 31 December	2019 Rs. '000	2018 Rs. '000
Final dividend for 2018 - Rs.20.00 (2017 - Rs. 18.00)	1,178,571	1,060,715

24 DIRECTORS' SHAREHOLDINGS

No. of shares as at	31.12.2019	30.09.2019
Mr. K. N. J. Balendra (Chairman) [Appointed w.e.f 01.01.2019]	Nil	Nil
Mr. S. Rajendra	Nil	Nil
Mr. H. A. J. De S. Wijeyeratne	Nil	Nil
Mr. D. H. Fernando	Nil	Nil
Mr. S. A. Appleyard	Nil	Nil
Mrs. D. C. Alagaratnam [Resigned w.e.f. 31.12.2019]	Nil	Nil
Mr. A. D. Pereira [Resigned w.e.f. 31.10.2019]	N/A	Nil

25 CHIEF EXECUTIVE OFFICER'S SHAREHOLDING

No. of shares as at	31.12.2019	30.09.2019
Mr. Jude Gomes [Appointed w.e.f 01.12.2019]	Nil	N/A
Mr. A. D. Pereira [Resigned w.e.f. 31.10.2019]	N/A	Nil

26 PUBLIC SHAREHOLDING

Company is listed on the Colombo Stock Exchange and the percentage of shares held by the public, the number of public shareholders and the float adjusted market capitalization is as given below:

As at	31.12.2019	30.09.2019
Public shareholding (%)	10.00	10.00
Public shareholders	1,406	1,417
Compliant under option 1 - float adjusted market capitalization (Rs. Bn)	1.94	1.92

27 EVENTS AFTER THE REPORTING PERIOD

There have been no events subsequent to the reporting date, which require disclosure in the interim financial statements. There have been no events subsequent to the reporting date, which would have any material effect on the Company, other than following.

The Board of Directors of the Company has declared a first and final dividend of Rs. 20 per share out of retained earnings for the financial year ended 31 December 2019. The dividend will be paid on 19 March 2020.

As required by the Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Company satisfied the solvency test in accordance with Section 57 prior to declaring the first and final dividend. A statement of solvency duly completed and signed by the Directors on 18 February 2020 has been audited by Messrs. KPMG.

In accordance with LKAS 10, Events After the Reporting Period the first and final dividend has not been recognised as a liability in the financial statement as at 31 December 2019.

CORPORATE INFORMATION

Name of Company

Union Assurance PLC

Legal Form

A public limited liability company incorporated in Sri Lanka on 8 January 1987 and registered under the Companies Act No. 07 of 2007 and quoted on the Colombo Stock Exchange since 1988

Company Registration Number

PQ 12

Tax Payer Identification Number (TIN)

134001372

VAT Registration Number

134001372 7000

Directors

K. N. J. Balendra - Chairman
(Appointed w.e.f 01.01.2019)
S. Rajendra
H. A. J. De Silva Wijeyeratne
D. H. Fernando
S. Appleyard (Appointed w.e.f 01.01.2019)
A. D. Pereira [Resigned w.e.f. 31.10.2019]
D. C. Alagaratnam [Resigned w.e.f. 31.12.2019]

Board Human Resource and Compensation Committee

The Board Human Resource and Compensation Committee (BHRCC) of John Keells Holdings PLC (the Parent) represents the BHRCC of the Company

Nominations Committee

The Nominations Committee (NC) of John Keells Holdings PLC (the Parent) represents the NC of the Company

Related Party Transaction Review Committee

The Related Party Transaction Review Committee (RPTRC) of John Keells Holdings PLC (the Parent) represents the RPTRC of the Company

Project Risk Assessment Committee

The Project Risk Assessment Committee (PRAC) of John Keells Holdings PLC (the Parent) represents the PRAC of the Company.

Board Audit and Compliance Committee

H. A. J. De Silva Wijeyeratne - Chairman
S. Rajendra
D. H. Fernando

Board Supervisory Committee

H. A. J. De Silva Wijeyeratne - Chairman
S. Rajendra
D. C. Alagaratnam [Resigned w.e.f. 31.12.2019]

Investment Committee

J. G. A. Cooray - Chairman
Dirk Pereira [Resigned w.e.f. 31.10.2019]
Jude Gomes [Appointed w.e.f. 01. 12. 2019]
Asha Perera
Nimesha Liyanage
Angelo Keil

Secretaries and Registrars

Keells Consultants (Private) Limited
117, Sir Chittampalam A. Gardiner Mawatha,
Colombo 2

Auditors

Messrs. KPMG (Chartered Accountants)
PO Box 186,
32A, Sir Mohamed Macan Markar Mawatha,
Colombo 3

Appointed Actuaries

Willis Towers Watson India Private Limited
Unitech Business Park, 2nd Floor
Tower-B, South City, Sector 41
Gurgaon-122002
India

Lawyers

The Legal Department
John Keells Holdings PLC
117, Sir Chittampalam A Gardiner Mawatha,
Colombo 2

Bankers

Bank of Ceylon
Commercial Bank of Ceylon PLC
Deutsche Bank AG
DFCC Bank PLC
Hatton National Bank PLC
Housing Development Finance Corporation
National Development Bank PLC
National Savings Bank
Nations Trust Bank PLC
People's Bank
Sampath Bank PLC
Seylan Bank PLC
Standard Chartered Bank
Union Bank Colombo PLC

Reinsurance Panel

RGA
Hannover Re
Munich Re
Partner Re

Registered Office of the Company

20, St Michael's Road,
Colombo 3

Investor Relations

All investor queries should be directed to;
Investor relations hotline 011-2990314
e-mail: investorrelations@unionassurance.com



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