



*Trust in
transparency.*

Vision

To be the most sought after provider of insurance solutions.

Mission

To Provide protection, financial security and create wealth for our customers, adding value to employees, field staff, business partners, shareholders and the community.

Values

Teamwork

We believe in supporting each other to achieve organisational objectives.

Customer Care

We offer the right product and professional service.

Dedication

We encourage employees to act like they own the company through accountability and responsibility.

Innovation

We believe in continuous learning and improvement.

Business Ethics

We pursue high standards of professionalism and integrity.

Focus

We have a single minded pursuit of company goals.

Trust in transparency.

At Union Assurance, we believe in being transparent, whether it's for our customers or shareholders. It is an integral part of our service, that what we offer is a simple, effective and comprehensive solution for all insurance needs. In our mission to create trust, we believe that continuous learning and improvement is what is needed to provide and receive quality service, making us one of the leading insurance companies in the country. Coupled with our commitment to convenience and respectfulness, we have created a brand that is steeped in the values that are unmatched elsewhere in the industry.

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Management Reports

Management Discussion & Analysis

Corporate Governance

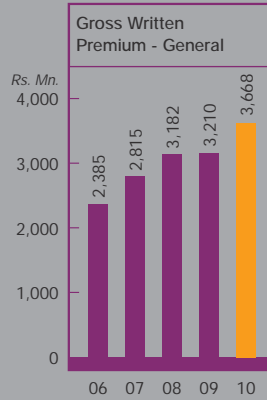
Sustainability Report

Financial Information

Financial Highlights

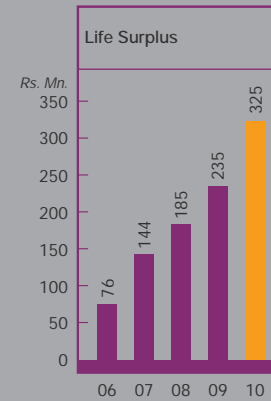
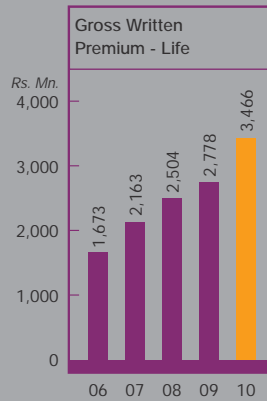
General Insurance

General insurance gross written premium grew by 14% from Rs. 3.2 billion to Rs. 3.7 billion. Most classes of business and the retail distribution channels in particular recorded a significant increase in premium. Net profit increased by 13% from Rs. 166 million in 2009 to Rs. 187 million in 2010.



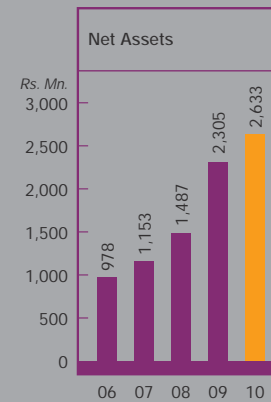
Life Insurance

Life business maintained its growth momentum, reporting an impressive growth rate of 25%. Based on an independent actuarial valuation, Rs. 325 million was transferred as surplus from the life fund. This was 38% higher than the 2009 surplus.



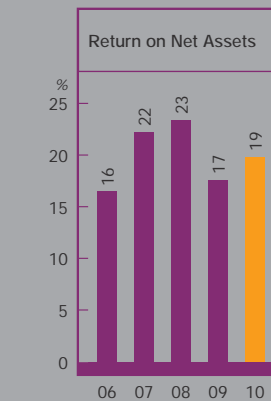
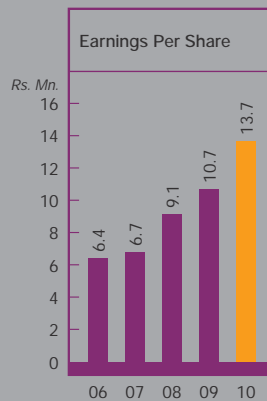
Company

Combined life and general gross written premium amounted to Rs. 7.1 billion, compared with Rs. 6.0 billion in the previous year, an increase of 19%. Profit after tax, increased by 28% from Rs. 401 million in 2009 to Rs. 512 million in 2010.



Net assets increased from Rs. 2.3 billion to Rs. 2.6 billion, due to improved profitability.

Earnings per share and return on net assets amounted to Rs. 13.65 and 19% respectively, compared with Rs. 10.69 and 17% recorded in 2009.



3.7bn

General Insurance Premium 2010

3.5bn

Life Insurance Premium 2010

25%

Growth in Life Insurance 2010

14%

Growth in General Insurance 2010

512mn

Profit After Taxation 2010

Highlights of the Year 2010

January

Commenced the year with a new brand visual, signifying the company's intention to be the most trustworthy provider of insurance solutions. The brand visual symbolised the company's new value proposition, by combining a warm orange with a firm gray in an unbreakable link of energy and strength.

March

Placed 2nd in the medium scale category at the annual Sustainability Reporting Awards conducted by the Association of Chartered Certified Accountants (ACCA). This was the 3rd consecutive year that the company had been placed within the top three companies in this category.

April

Entered into a bancassurance arrangement with Commercial Bank to sell life insurance products to Commercial Bank customers at over 180 bank branches located across the island.

May

Ranked among the top 20 companies in Sri Lanka in terms of our human resource management practices at the HR Awards conducted by Hewitt Associates.

Entered into an agreement with Singer to sell Union Motor Reload at Singer Mega stores. Union Motor Reload is the only product in the market where customers can purchase their motor insurance for 1, 3 or 6 month periods. Apart from the period of cover, the product retains all the features of a standard motor insurance policy currently available in the market.

June

Launched "Pasalen Karaliyata," an all island interschool aesthetic competition conducted in partnership with the Ministry of Education to develop local music and dance. More than 150,000 students representing over 3,000 schools from 22 districts took part in the competition.

July

Launched "Speed Cash," the most convenient motor claims settlement solution in the market. As per the scheme, UA's claim assessor is empowered to finalise the claim at the accident site itself. If the customer agrees to the value of the claim, he / she will immediately receive a SMS indicating the final amount. Customers can collect cash over the counter from any Commercial Bank branch by presenting the SMS and proof of their identity.

August

Launched "Union Challenger," a unit linked insurance product specifically targeting the retirement needs of the mass affluent segment. This product is an excellent investment for people from all age groups as a means to secure financial stability in their old age. A key feature of the product is that it allows the customer to be in control of his / her investment, as they could choose how to allocate their insurance premiums to various asset classes.

Expanded the "Union Pay Easy" scheme by partnering with Abans, adding a further 350 locations across the island for life insurance customers to pay their insurance premiums.

November

The 2009 annual report won first place in the insurance sector and secured joint 2nd overall at the annual report awards competition conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

The 2009 annual report won three awards and was placed among the top three annual reports in the South Asian region, by the South Asian Federation of Accountants (SAFA). The report won first place in the non banking financial services category for the fourth consecutive year. We were also awarded 1st place for corporate governance disclosures.

The report was "highly commended" by the Chartered Institute of Management Accountants, UK at their annual awards ceremony.

UA secured joint first place in the insurance sector and won second place overall for performance management practices at the National Business Excellence awards ceremony conducted by the National Chamber of Commerce (NCCSL).

December

Reported the highest profit in the company's history of Rs. 512 million, a 28% increase over the previous year. Life and general insurance revenues also increased by 19% from Rs. 6.0 billion in 2009 to Rs. 7.1 billion in 2010.

Chairman's Review

As Sri Lanka emerged from three decades of conflict, 2010 can be described as the year in which the foundation was laid for economic activity to thrive throughout the island.

It gives me great pleasure to present to you the annual report of your company for the year ended 31st December 2010. Taking advantage of the positive business sentiment and improving macro economic conditions, Union Assurance recorded excellent results in terms of turnover and profitability.

Macro Economic Environment

As Sri Lanka emerged from three decades of conflict, 2010 can be described as the year in which the foundation was laid for economic activity to thrive throughout the island. Numerous public and private sector development initiatives were commenced and the strong growth figures reported for the first three quarters of the year and the 8% growth estimate for the full year clearly reflects this momentum.

Higher foreign exchange inflows in terms of increased remittances, improved export earnings on account of favourable commodity prices and disbursements under the IMF Stand-by Arrangement facility raised the foreign exchange reserves of the country to





Chairman's Review contd.

Inflation which remained at single digit levels throughout the year enabled the Central Bank to relax its monetary policy further, which in turn helped to reduce interest rates across the board and provide the platform to boost credit growth in the economy.

its highest ever levels and ensured the stability of the Sri Lankan Rupee during 2010 and together with expected higher foreign investment inflows, this trend of a stable rupee is expected to continue in the near term.

Inflation which remained at single digit levels throughout the year enabled the Central Bank to relax its monetary policy further, which in turn helped to reduce interest rates across the board and provide the platform to boost credit growth in the economy.

In addition to the measures adopted by the monetary authorities to boost economic growth, the Government's development oriented budget proposals which included tax reforms and selective reduction of import duties further helped to lay the foundation for Sri Lanka's ambitious growth aspirations. This enabling environment being created by the Government together with political stability, strong macro economic fundamentals and the integration of the Northern and Eastern provinces into the economic mainstream will drive the rapid economic growth that is expected to take place in the country.

While global economic conditions improved during 2010, this recovery was not as strong as expected. The Euro zone debt crisis and rising commodity prices are signals that the recovery is fragile and require continued support from global policy makers.

Asia is emerging as the location of choice and with the international focus on Sri Lanka's post war potential, it is likely that local companies will have to build competencies and skills to compete with regional and multinational companies that will enter our markets

in the medium term. Local companies that are quick to embrace change, quick to spot and exploit opportunities and act decisively would emerge as the flag bearers in this new economic environment.

Amidst the euphoria of growth in Sri Lanka, it is important that the policymakers ensure that inflation is kept in check and that capital markets function in an efficient manner, to ensure that the journey to reach Sri Lanka's potential delivers sustainable development to all levels of society.

General Insurance Industry

Three new general insurance companies obtained licenses in 2010. There are now 19 companies transacting general insurance business including 7 stand alone general insurance companies and 12 companies transacting both life and general insurance business. There was a surge in new motor vehicle registrations particularly towards the latter part of the year. However, growth in the motor segment was offset by continued price competition. Premium rates on property remained soft and the decision to reduce rates on terrorism related insurance coverage by 75% with effect from 1st April 2010 and the treasury circular directing all state sector organisations to place their business with government controlled insurance companies, further reduced overall premium volumes and opportunities for private sector companies to take advantage of on going infrastructure development activities.

The industry is experiencing some difficulties in building a viable relationship with the National Insurance Trust Fund (NITF), which manages the Strike, Riot, Civil Commotion and

Terrorism fund and receives 20% of all reinsurance premiums from all insurance companies (on a mandatory basis). However, the situation is likely to improve following the recent amendments to the Regulation of Insurance Industry Act No. 43 of 2000, stipulating that the NITF will fall within the purview of the Insurance Board of Sri Lanka (IBSL).

Life Insurance Industry

As per statistics published by the IBSL, 26% of the working population has some form of life insurance. However, insurance premium as a percentage of GDP has remained stagnant around 0.5% indicating that there is significant under penetration / under insurance which is an opportunity for life insurers especially in a period of economic development which is likely to increase the income levels of grass root communities.

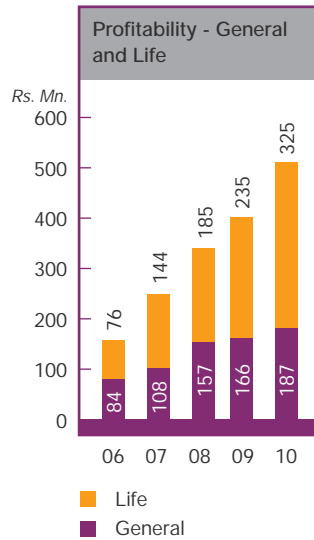
Many of the drivers of a viable life insurance industry are prevalent in Sri Lanka i.e. an ageing population, rising income levels and significant under penetration vis-à-vis regional economies. These factors combined with an increased awareness among the general public regarding the importance of insurance, point to an exciting future for the life insurance industry.

Company Performance

UA maintained a steady growth rate in turnover and profits. General and life insurance premiums increased by 19%, from Rs. 6.0 billion in 2009 to Rs. 7.1 billion in 2010. Profit after tax increased by 28% from Rs. 401 million in 2009 to Rs. 512 million in 2010.

More information on the the company's performance is provided in the CEO's

Review, Management Discussion and Analysis and the financial statements in the latter part of this annual report.



Strength and Stability

As in previous years, several steps have been taken to strengthen UA's balance sheet. Net assets increased from Rs. 2.3 billion in 2009 to Rs. 2.6 billion in 2010. As reflected on page 117, the company's solvency position remained stable. UA's reinsurance programme continues to be led by reinsurers who have been assigned at least an "A" rating by international rating agencies. The details of our reinsurance panel are available on the inner back cover. We have also obtained actuarial valuations of our life policyholder liabilities and provision for incurred but not reported claims. The reports of the actuaries are available on pages 196 and 197 respectively.

Regulations

Recent amendments to the Regulation of Insurance Industry Act No 43 of 2000 (RII Act) requires all insurance companies to operate their general and life insurance

companies as separate entities within four years of the amendment coming into force. All companies must also be listed within a five year period. UA will be working with the industry to operationalise the required changes in a manner that is beneficial to all stakeholders.

In addition, we look forward to IBSL introducing a risk based capital regime and streamlining the solvency regulations in line with current investment opportunities and risk environment.

The business impact on UA as Sri Lanka attempts to harmonise local accounting rules with international accounting standards are currently being reviewed internally, as well as with other industry participants.

Achievements

Union Assurance continues to be recognised both nationally and internationally. Our 2009 annual report was once again judged among the best annual reports in the South Asian Region by the South Asian Federation of Accountants. The report also secured 1st place for corporate governance disclosures competing with all reports in the South Asian region. The 2009 report was judged the best report in the insurance sector and won 2nd place overall in the annual report competition conducted by the Institute of Chartered Accountants of Sri Lanka. The report was "highly commended" by the Chartered Institute of Management Accountants (CIMA UK), which was a significant achievement considering that the award was secured by an UK based company and only one other UK based company's report received the same status as ours.

Chairman's Review contd.

We maintain a very positive outlook for both our life and general insurance businesses. We believe that rapid economic development in the country will create new opportunities for insurance across all customer segments and UA with its strong brand image, professional team and distribution reach is well positioned to take advantage of this growth.

Our sustainability practices were recognised by the Association of Certified Chartered Accountants (ACCA) as we were placed 2nd in the medium scale category. We were judged to be among the top 20 companies in Sri Lanka in terms of our human resource management practices, at the HR awards 2009 conducted by Hewitt Associates. We were also recognised at the National Business Excellence Awards securing joint 1st place in the insurance sector and being placed 2nd overall for performance management practices.

Future Outlook and Strategies

We maintain a very positive outlook for both our life and general insurance businesses. We believe that rapid economic development in the country will create new opportunities for insurance across all customer segments and UA with its strong brand image, professional team and distribution reach is well positioned to take advantage of this growth. In line with our positive outlook, we are in the process of rolling out an ambitious expansion plan which would entail the opening of numerous branch offices.

We believe that customer service and innovation would prove to be the key differentiators among insurance companies. While customer service has always been a key priority at UA, we will continue to improve on an on-going basis in order to provide our customers with an experience that is second to none in the industry. We have invested heavily in staff training in order to develop a motivated and dynamic work force who will provide this exceptional customer experience.

We have also rolled out an initiative to create an innovation oriented culture

in the company. This we believe will enable the company to develop customer centric products, processes and solutions which will enable us to differentiate ourselves further. We also expect information technology and alternate distribution channels to play an important role in bringing customers closer to insurance solutions and we will continue to invest in these aspects into the future.

We believe that these initiatives will hold us in good stead in this rapidly changing economic environment which present numerous opportunities to the insurance industry. Our main challenge going forward would be to exploit these opportunities to our advantage and grow ahead of the industry while managing the associated risks prudently.

We expect the price competition in the general insurance market to continue. However, our continuous investments in improving our products and services would enable customers to perceive us as a value adding and value for money solutions provider.

We have built a strong life business and our on-going investments in distribution expansion, product innovation and service excellence will enable us to aggressively exploit the opportunities in this segment.

Dividends

The Board of Directors is pleased to declare a first and final dividend of Rs. 6.25 per share for 2010, which is 25% higher than the dividend declared in the previous year. The dividend payout for the year amounts to Rs. 234.375 million.

Acknowledgements

On behalf of the Board, I wish to place on record our sincere appreciation of the services rendered by Marina Tharmaratnam who resigned from the Board in December 2010. Marina served as CEO / Director for six years until 2009 and later served on the Board as a non executive Director. The entire Board greatly valued her knowledge and advice.

We commend the initiatives taken by the Insurance Board of Sri Lanka to improve the regulation in the industry and assure them of our fullest support in their endeavours to develop the insurance market. We also appreciate the role played by the insurance ombudsman to build confidence among the insuring public by providing an efficient, independent grievance redress mechanism.

On behalf of the Board, I take this opportunity to thank the Chief Executive Officer and the UA staff for their commitment and dedication to achieve the company's objectives. I sincerely appreciate the contribution made by our valued partners, the sales team, brokers and other business associates. My thanks also go to our customers for their continued patronage and trust placed in us. Last but not least, I wish to acknowledge our shareholders for continuing to be an integral part of Union Assurance.



Ajit Gunewardene
Chairman

15th February 2011

Chief Executive Officer's Review

We anticipated the positive macro economic environment and potential for growth in both life and general insurance segments. As a result our strategic objectives for 2010 were similar to the previous year.

The year was characterised by positive business sentiments and renewed optimism and Union Assurance took advantage of the conditions to report strong growth momentum in both life and general insurance businesses.

Combined life and general insurance premium increased by 19% from Rs. 6 billion in 2009 to Rs. 7.1 billion in 2010. Profit after tax increased by 28% from Rs. 401 million in 2009 to Rs. 512 million in 2010. A detailed analysis of the Company's financial performance is provided in the Financial Review on pages 59 to 63.

Delivery against Strategic Objectives

We anticipated the positive macro economic environment and potential for growth in both life and general insurance segments. As a result our strategic objectives for 2010 were similar to the previous year.



Chief Executive Officer's Review contd.

We will leverage our IT platforms, organisational structure and resources as well as the strength of our brand to ensure that we maintain a profitable growth trajectory in our life business.

We intend to use our team of well trained and experienced underwriting and distribution resources, differentiated service and IT infrastructure to build a balanced portfolio in the general insurance segment.

19%
Combined life and general premium growth

Rs. 512 Mn.
Profit after tax

We continued to focus on

- Delivering profitable growth in both life and general insurance businesses
- Providing high quality customer service
- Managing claims and expenses
- Developing products that met customer needs and
- Improving the morale, motivation and productivity of our staff.

The progress we have made against each of the objectives is set out below.

Focus on Profitable Growth in General Insurance

General insurance premium recorded an increase of 14% to end the year at Rs. 3.7 billion. This is expected to be ahead of the industry growth rate which is estimated at 11%. Both retail and corporate distribution channels contributed to this growth momentum. The industry remains intensely price competitive across all classes of general insurance business. UA was able to leverage the professionalism of the distribution and technical teams as we leveraged our reputation for customer service to extract increases from selected lines of business.

Achieve Sustainable, Profitable Growth in Life Insurance

Life insurance premium grew by 25% from Rs. 2.8 billion in 2009 to Rs. 3.5 billion in 2010. The unit linked products, which was launched in August 2010 contributed significantly to this growth momentum. Excluding these products, regular and group life insurance premium increase by 17%. We also made good progress with the "value drivers" of the business. There was a noteworthy increase in the number of life

insurance advisors and we were able to maintain their productivity and average premium (per policy) in line with 2009 achievements. As a result, we achieved a 34% increase in new business premium on an annualised basis.

Provide Consistent, High Quality Customer Service

We continued to leverage the restructure that was effected in 2009, to separate our general insurance units (excluding motor and health) into underwriting, operations and claims. By providing greater focus on process improvements and training for the specific roles which were created, we believe we have a scalable model which can be leveraged to compete on service, rather than on price.

Several service improvements in the motor and health insurance segments were initiated during the year. We launched "Speed Cash" for our motor insurance policyholders, enabling them (using SMS technology) to receive a confirmation of their claim settlement at the accident site. Customers can present this SMS at any Commercial Bank branch and receive cash over the counter.

We also tied up with Singer, to sell our monthly motor product "Union Motor Reload" at Singer Mega outlets, re-launched Union Motor Rewards (a package of discounts and benefits specifically tailored for motor vehicle owners) and also implemented several back office processes to improve our claims servicing capability.

From the perspective of our life customers, we expanded the network of institutions which accept life insurance premiums to include 350 Abans stores

islandwide. With this addition, we have partnered with a 9 banks, a supermarket chain and white goods retailer enabling life customers to make premium payments at over 2,400 locations across the country.

We also implemented a 24 hour call centre to handle customer inquiries and developed several SMS based platforms to enhance the productivity of our field staff.

Increase Profitability by Managing Claims and Expenses

The overall claims ratio from general insurance improved from 75% in 2009 to 72% in 2010 due to the efforts we have taken to manage pricing and walking away from business when the premium is unlikely to meet expected claims expenses. The claims ratios on motor and accident and liability classes decreased compared with 2009. The marine claims ratio was higher than 2009, but is likely to be lower than the industry average. The claims ratio on property and allied classes was affected by adverse weather patterns which resulted in large losses in May and November 2010.

We took several initiatives to manage our expenses, without compromising our service standards. The expense ratio recorded a marginal increase from 35% in 2009 to 36% in 2010. As a result, the combined ratio, which is a combination of the loss and expense ratio declined from 109% in 2009 to 108% in 2010.

We have profit tested our life products and are confident that future claims and benefit payments are adequately priced into the policies we sell. We leveraged the cost effective distribution model we implemented in 2009 and rolled out nine

business development offices and three branches, expanding our network of distribution points to 68 as at December 2010. We continue to use SMS technology as a cost effective means of communication with our customers and field staff. We also extracted process and efficiency improvements from the existing underwriting and operational infrastructure, to manage overheads in light of increased business volumes.

Develop Products which Meet Customer Needs

We developed a suite of general insurance products targeting retail / commercial customers, providing insurance cover for homes, shops and commercial properties. We also revamped our personal accident product. These solutions have been well received in the market. The key differentiator is that these products are sold on a packaged basis, with minimal underwriting involvement at the point of sale.

We also launched Union Challenger, targeting the retirement / pensions need in the market. The product offers customers the flexibility of investing in three funds providing exposure to government securities, equities or a combination of equities, corporate debt and government securities. Customers may decide the most suitable option, based on age, risk appetite and investment need. From the date of launch in August 2010, Union Challenger has generated approximately Rs. 204 million premium income.

Improve Morale, Motivation and Productivity of Staff

During the year, significant investments were made to upgrade the knowledge, skills and competencies of our staff. We

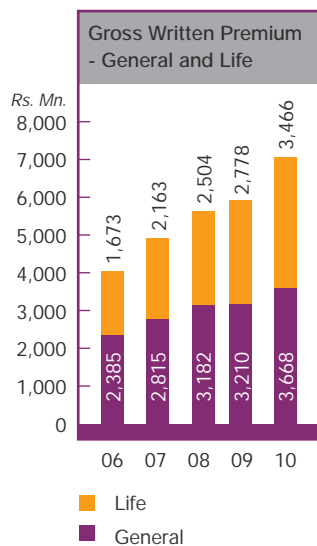
We will continue to work towards implementing the brand pillars of "convenience," "transparency" and being "respectful" to all stakeholders so that we achieve the positioning of a trustworthy brand in the eyes of our customers, employees, field staff and community.

Chief Executive Officer's Review contd.

UA has built a strong reputation for transparency and corporate governance, which together with its team of well trained professional staff, is ideally positioned to take advantage of these opportunities...

introduced modular / case study based training programmes for technical as well as distribution staff, as we believe UA's competitive weapon is its people. We also conducted our biennial employee satisfaction survey and have taken note of the areas that require improvement.

We also launched programmes across the company to elicit suggestions from the staff regarding how to improve service and increase their productivity, so that they could focus on more value added activities. The ideas generated are being implemented in a structured manner, with regular feedback being provided to staff on the progress being made.



Outlook

We maintain a very positive outlook for both life and general insurance businesses. As per information published by the Insurance Board of Sri Lanka approximately 26.4% of the working population has some form of life insurance. While this may appear relatively high, life insurance premium accounts for only 0.5% of GDP compared with 4% in India and approximately 3% in other regional economies. These statistics reveal the extent of under penetration as well as under insurance in the industry which is a significant opportunity for life insurers.

From the perspective of general insurance, the reduction in duties has resulted in an influx of new vehicles to the market, which is likely to increase overall premium volumes from this segment. In addition, growing business confidence and economic activity will create opportunities for other lines of general insurance business as well. However, our short term outlook

is tempered by the intense price competition that is likely to prevail in the market and the lack of opportunities for the private sector to penetrate the state sector.

Future Strategies

In the life insurance segment, our intention is to build scale in a cost effective manner. We will continue to invest in our traditional distribution channels and consolidate our position in the "bancassurance" distribution space. We will leverage our IT platforms, organisational structure and resources as well as the strength of our brand to ensure that we maintain a profitable growth trajectory in our life business.

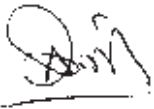
We intend to use our team of well trained and experienced underwriting and distribution resources, differentiated service and IT infrastructure to build a balanced portfolio in the general insurance segment. We will maintain our pricing discipline and walk away from business when premiums are not commensurate with expected claims. To achieve our objectives, we will continuously review our pricing policies, claims management and service delivery mechanisms to provide "value for money" products for our customers.

Overall, we will continue to work towards implementing the brand pillars of "convenience," "transparency" and being "respectful" to all stakeholders so that we achieve the positioning of a trustworthy brand in the eyes of our customers, employees, field staff and community.

Conclusion

It was a year full of opportunity and success and I must place on record my sincere appreciation to the entire team including our field staff for their unstinted commitment and team work. I must also thank the Chairman and the Board of Directors for their continuous guidance and direction. Our brokers and business partners play a significant role in our achievements and are appreciated as such. Last but by no means least, I record my deep gratitude to all our customers for their continued patronage and confidence.

Sri Lanka has commenced a journey towards rapid economic development, which will pave the way for many opportunities for the financial services sector. UA has built a strong reputation for transparency and corporate governance, which together with its team of well trained professional staff, is ideally positioned to take advantage of these opportunities and take the company to even greater heights.



Dirk Pereira

Chief Executive Officer

15th February 2011

Board of Directors



1. Ajit Gunewardene

Chairman

Mr. Gunewardene is the Chairman of Union Assurance PLC and has been a member of the Board since May 1992. He is the Deputy Chairman of John Keells Holdings PLC and has been a member of their Board for over 18 years. He is a Director of many companies in the John Keells Group and is the Chairman of Nations Trust Bank PLC. He is a member of the Board of Nanco PLC, a company established for the development of Nanotechnology in Sri Lanka under the auspices of the Ministry of Science and Technology. He has also served as the Chairman of the Colombo Stock Exchange. Mr. Gunewardene has a degree in Economics and brings over 29 years of experience to your Board.

2. Gerald de Saram

Director

Mr. Gerald de Saram was appointed to the Union Assurance Board on 1st April 2009. He is the Managing Director / CEO of Akzo Nobel Paints Lanka (Private) Limited (formerly CIC Paints Private Ltd), the market leader in the paints business in Sri Lanka. He joined CIC Paints when it was formed, first managing the sales and later the marketing functions of the company. He was appointed the Managing Director in 2001 and has also served on the Paints Asia Executive Team of ICI Paints. Since the global merger of ICI and Akzo Nobel BV, he has led the integration of these two large businesses in Sri Lanka. Mr. de Saram holds a BSc. Honours degree from the University of London and also holds a Post Graduate Diploma in Marketing from The Chartered Institute of Marketing (CIM), UK. He was an active member of the Sri Lanka Institute of Marketing and a former Board Member of the IAA (Sri Lanka Chapter).



3. Krishan Balendra

Director

Mr. Krishan Balendra was appointed to the Union Assurance Board on 1st April 2009. He has responsibility for the Retail sector, John Keells Stock Brokers and the Corporate Finance & Strategy function of the John Keells Group. He started his professional career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. After a four year stint in Hong Kong, he continued his career in corporate finance at Aitken Spence & Co. Ltd., Sri Lanka prior to joining JKH. He holds a Law Degree (LLB) from the University of London and an MBA from INSEAD. He is a member of the Board of the Colombo Stock Exchange.

Board of Directors contd.



4. Arjuna Gunaratne *Director*

Mr. Arjuna Gunaratne was appointed to the Union Assurance Board on 1st April 2009. Mr. Gunaratne is a Director of Central Finance Company PLC where he oversees the functions of Strategic Planning and Risk Management. He also serves on the Boards of Nations Trust Bank PLC and Central Industries PLC. He is a Fellow Member of the Chartered Institute of Management Accountants of UK as well as the Institute of Chartered Accountants of Sri Lanka.



5. Ronnie Peiris *Director*

Mr. Peiris was appointed to the Union Assurance Board on 1st January 2006. He is the Group Finance Director at John Keells Holdings PLC and has served on its Board since 2003 and also serves on the boards of other listed companies. He counts 40 years of finance and general management experience in Sri Lanka and abroad. He is a Fellow Member of the Chartered Institute of Management Accountants, UK; Association of Chartered Certified Accountants, UK and the Society of Certified Management Accountants, Sri Lanka and has an MBA from the University of Cape Town, South Africa. He is a Committee Member of the Ceylon Chamber of Commerce; Chairman of its Taxation Sub Committee and also serves on its Economic, Fiscal and Policy Planning Sub Committee.



6. Ashan de Zoysa
Director

Mr. Ashan De Zoysa was appointed to the Union Assurance Board on 1st April 2009. Mr. De Zoysa holds a Bachelor of Commerce Degree from the University of New South Wales. He has several years of overseas exposure, having worked in the fields of IT and derivative / commodity trading in Australia. He was appointed as Director / Group General Manager of the AMW Group in June 2005. During his tenure, the Group underwent a period of unprecedented growth and expansion. Mr De Zoysa currently serves on the Board of Associated Electrical Corporation Ltd and is an alternate Director at Union Bank of Colombo Ltd.

Management Team





Management Team contd.

1. Dirk Pereira

Chief Executive Officer

Dirk joined UA as General Manager Finance and Planning in May 2004 and was subsequently promoted as the Deputy Chief Executive Officer on 1st January 2007. He served UA for three years as the Deputy CEO and took up reigns as CEO on 1st January 2010. He has over 14 years of finance and audit experience at Eagle Insurance and Ernst & Young. Dirk is a member of the Chartered Institute of Management Accountants UK and the Institute of Chartered Accountants of Sri Lanka. He also holds an MBA from the University of Sri Jayewardenepura.

2. Jayaseeli Dissanayake

General Manager - Life

Jayaseeli joined Union Assurance as the General Manager of the Life Division in April 2002. She counts more than 28 years experience in the industry. Jayaseeli started her career as a Management Trainee at the Insurance Corporation of Sri Lanka in 1981. She joined Eagle Insurance in 1989 and at the time of her departure from Eagle Insurance in 2002 she was the Head of Life Underwriting. She has had extensive training and overseas exposure in life insurance and has won several awards of recognition for her expertise in the area. Jayaseeli is a Chartered Insurer and holds a BSc (Hons) degree in Bio Science from the University of Colombo.

3. Rukman Weeraratne

General Manager - Marketing & Distribution

Rukman joined Union Assurance in January 2005 as General Manager Marketing and Distribution. He has extensive experience in the industry in sales and marketing, having started his career with Aitken Spence Insurance in 1983. He moved to James Finlays Insurance in 1986 and to the Union Assurance branch office of Mercantile Credit in 1987. In 1989 he joined Eagle insurance, where he served for 14 years in numerous capacities and became the Deputy General Manager - Distribution. During his career with Eagle Insurance, he had international exposure with attachments to Eagle Star insurance / Allied Dunbar of United Kingdom for a period of two years. In 2003 he moved to Sri Lanka Insurance Corporation as Deputy General Manager Marketing and Distribution.

4. Indika Prematunga

General Manager - Finance and Planning

Indika joined Union assurance as AGM Finance and Planning in August 2007 and was promoted as General Manager - Finance and Planning in April 2009. Indika has more than nine years experience in four different industries. Before joining UA, he worked as the Group Finance Manager for Ceyline Group of companies. Indika has a BSc special degree in Accountancy and Finance with a First class honours from the University of Sri Jayewardenepura.

He is an Associate member of the Chartered institute of Management Accountants UK and a finalist in CIM UK. He holds an MBA from the University of Sri Jayewardenepura.

5. Niranjana Nagendra

General Manager - Corporate

Niranjana joined Union Assurance in August 2005. Prior to his appointment he served as General Manager / Head of Non Life Distribution at Eagle Insurance PLC. Niranjana has over 20 years local and overseas exposure in general insurance related business development, sales and marketing. In addition, he is also knowledgeable in underwriting property, engineering, miscellaneous and motor classes of business. He is an Associate of the Chartered Insurance Institute - UK, a Chartered Insurer and an Alumni of the International Centre for Management Development, Switzerland.

6. Brigadier Rohan Jayasinghe

General Manager - Human Resources

Rohan joined UA in January 2009 as General Manager Human Resources. He was an Executive Group Director (Human Resources) at The Capital Maharaja Organisation Limited before taking up this new assignment. He has had an exceptional career in the Sri Lanka Army where he served the country for 28 years and held many vital appointments in operations, training and in the staff. He also commanded the Armoured Brigade and retired

prematurely as a Brigadier in 2006. He was the country's first Defense, Military, Naval and Air Attache in Washington DC from 2003 to 2005 and is the recipient of one of the highest medals in the US military - The Legion of Merit. He is a graduate of the Malaysian Armed Forces Command and Staff College and is also a Fellow member of the Certified Professional Managers.

7. Pushpakumar Gunasekera *General Manager - Actuarial*

Pushpakumar joined Union Assurance as General Manager - Actuarial in June 2006. He has over 20 years local and overseas experience in actuarial and life insurance. He is an Actuary of the Institute of Actuaries Australia (IAA) and Associate of the Institute of Actuaries India (IAI). Pushpakumar holds a BSc degree in Mathematics & Statistics with a first class from University of Colombo, Postgraduate Diploma in Actuarial Science from City University UK and an MBA from the Post Graduate Institute of Management University of Sri Jayewardenepura.

8. Ruanthi Gooneratne *General Manager - General Insurance*

Ruanthi joined Union Assurance in January 2007 as Assistant General Manager - General Insurance and was promoted as General Manager on 1st September 2009. Ruanthi served Union Assurance from 1989 to 1995 and then joined Janashakthi Insurance where she

served for 11 years. She was holding the post of Assistant General Manager - Corporate at Janashakthi Insurance prior to joining Union Assurance. She is a Fellow member of the Chartered Insurance Institute, UK and a Chartered Insurer.

9. Ruwan Bakmedeniya *General Manager - Information Technology*

Ruwan joined UA in August 2010. He counts over 18 years of experience in the IT field especially in the banking, finance and insurance sectors. Ruwan joins us from Virtusa which is a leading global engineering and IT services provider. He commenced his career in 1991 with Informatics (Pvt) Ltd which is a pioneering IT services organisation in Sri Lanka. In 1997, he joined BC Computers, which is the IT services and software engineering arm of Bartleet Group of Companies. Ruwan holds an MSc in IT.

Transparency

In an industry that can be convoluted with jargon and intricacies, we're in the business of providing **simple insurance solutions**. Our products and services are clear cut and easy to comprehend, created to suit every lifestyle.

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Management Discussion and Analysis

Overview

Economic Overview A Story of Growth

The economy has performed commendably in the post-war scenario with renewed focus on achieving economic targets for the current as well as forthcoming years. Spending on infrastructure and reconstruction activities has already begun with highways, ports and power generation being expanded aggressively. Regionally, the country continues to attract investor interest especially in the areas of tourism and financial services and has recorded growth on par with its peers.

During the year, agriculture was driven by strong output in export crops and higher global prices, while paddy and fishing activities were boosted by greater contributions from the Northern and Eastern provinces. Industrial growth, which came in at 8.8% for the 3rd quarter was driven by a boom in construction

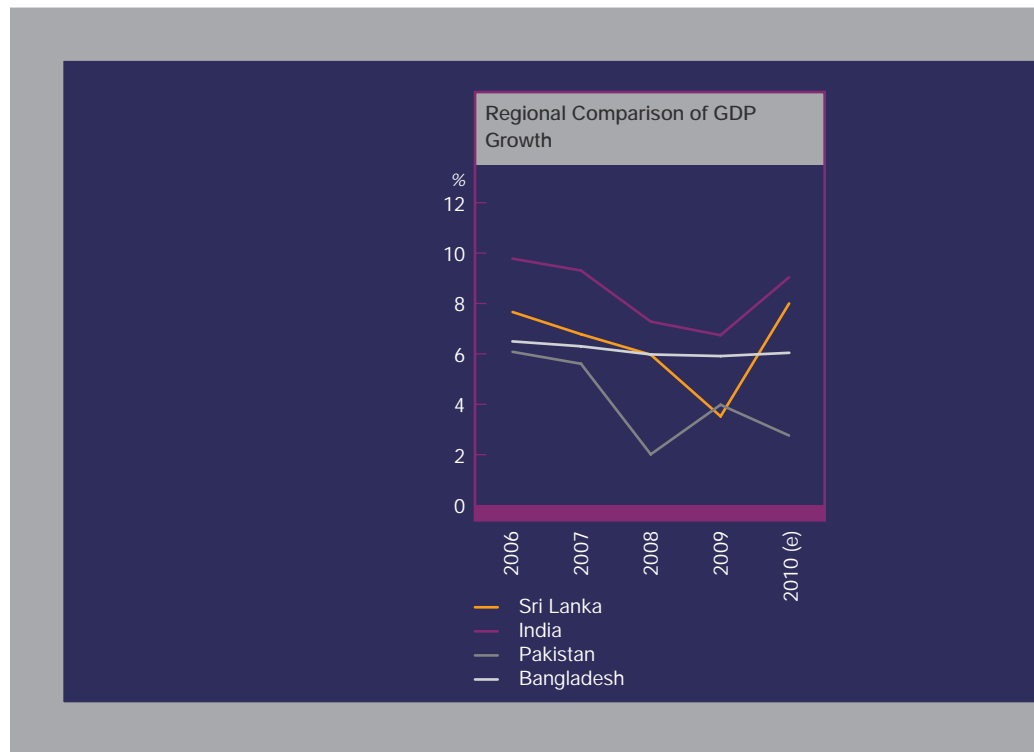
as well as gem mining and exports. The services sub-sector recorded an 8% growth driven by a 32% rise in the hotels and restaurants sub-sector (as the number of tourist arrivals increased) as well as increases in the banking, transport and communications sub-sectors.

Up to September 2010, all major economic sectors recorded strong growth with the 2nd quarter growth of 8.5% being the highest level achieved since 2002. GDP growth for the 3rd quarter was registered at 8.0%. Overall, growth for 2010 is expected to be in the region of 8.0%. This growth momentum is expected to be maintained in 2011 given increased economic activity, supported by fiscal reforms and a lower fiscal deficit.

Inflation and Interest Rates

Inflation continued to decelerate for the most part of 2010, falling to 4.3% as

The economy has performed commendably in the post-war scenario with renewed focus on achieving economic targets for the current as well as forthcoming years.



at July. However, the declining trend reversed slightly from August with the YoY change in October accelerating to 6.6%. As at December, the YoY change was 6.9% while on an annual average basis, which is a lag indicator, inflation ended at 5.9%. Prices of food and beverages, which account for 46% of the CCPI basket increased following increases in the global price of commodities such as wheat and rice. In addition, global oil prices have also started to rise, which has both direct and indirect impacts on the CCPI. However, no revisions were made to local fuel prices during the year.

The slow-down in inflation and excess liquidity in the financial system exerted downward pressure on interest rates during the year. In July, the Central Bank of Sri Lanka further relaxed policy rates by 25 basis points. With the relaxation of monetary policy and build-up of liquidity, treasury bill rates dropped rapidly up to

October and thereafter picked up slightly with the reversal in the CCPI. The 1 year treasury bill ended the year at 7.55% while 5 year treasury bonds were quoted at 9.25% levels. The government also concluded a successful USD 1 billion 10 year sovereign bond issue in September, which substantially reduced the need for domestic financing and helped maintain a low interest rate environment.

Fiscal Reforms

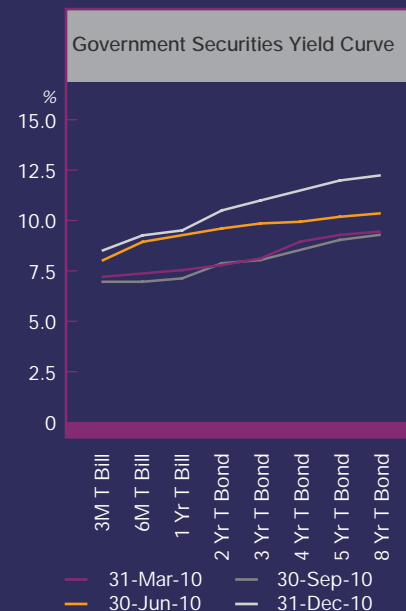
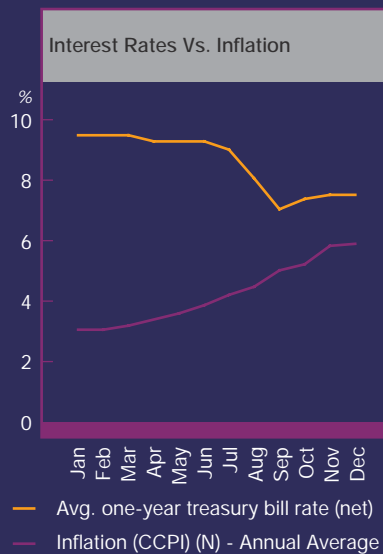
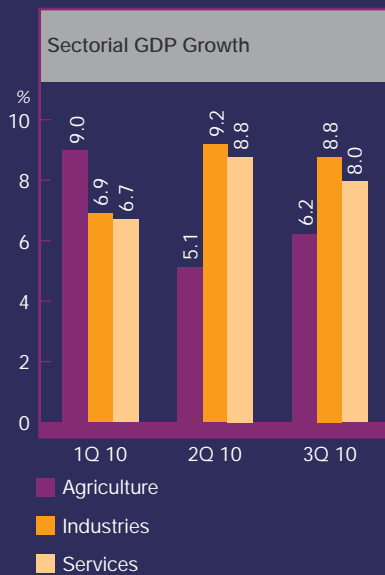
For 2010, the government's target was to curtail the fiscal deficit to 8.0%. Actual data available as at November is encouraging with the 11 month deficit at 7.5% of GDP. Growth in revenue had been 12.6% with tax revenues rising 16.7%. The government has been successful in controlling the increase in current expenditure to 3.1% leading to a current account deficit of 2.1% of estimated GDP, much better than the 3.6% recorded last year. Capital expenditure had grown by 17.7% for the

same period, given the aggressive focus on infrastructure development. However, as a percentage of GDP, it remained at 5.6%.

The government is targeting a fiscal deficit of 6.8% for 2011 with current expenditure expected to rise by 5.5% and capital spending forecast to be 6.3% of GDP, which is a 9% rise YoY. Total revenue is projected to rise by 17% with tax and non tax revenues expected to grow by 17.8% and 10% respectively. The 2011 budget presented some key measures to simplify tax administration and enhance revenue collection. More of such fiscal reforms are being encouraged by the IMF in order to sustain the growth momentum.

Strong External Performance

Up to November, growth in export revenues was registered at 15.4% driven by an impressive 16.7% rise in tea exports. Industrial exports also

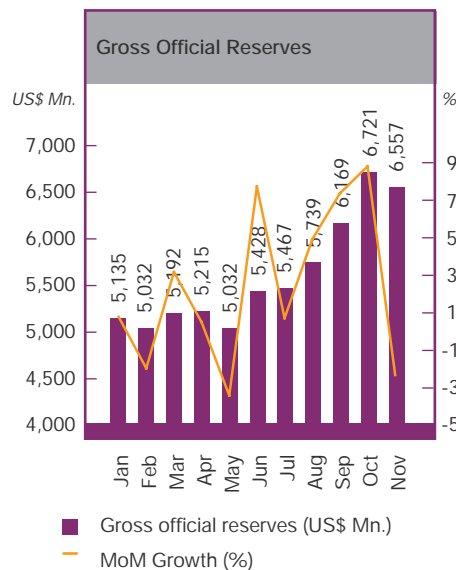


Management Discussion and Analysis contd.

It was another record breaking year for the Colombo Stock Exchange as it topped Asia with an annual gain of 96% followed by Indonesia, a distant second at 46%. The daily average turnover reported was Rs. 2.4 billion, four times higher than last year's average.

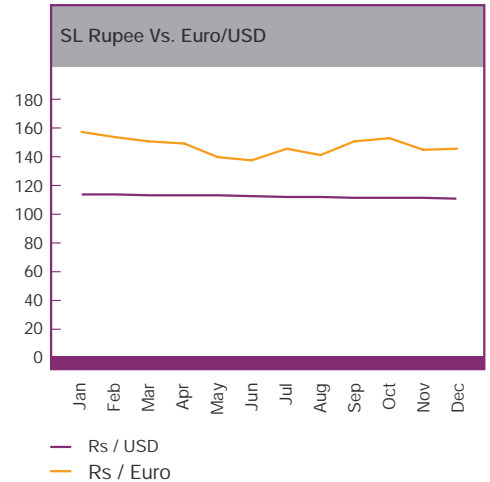
performed commendably rising by 13.6%. Import growth substantially outpaced exports, rising by 32.6%. All categories of imports recorded substantial growth with intermediate goods rising by 33.6%, which comprised a 45.8% rise in petroleum imports. As a result the trade deficit widened by 72% to USD 4.7 billion.

Worker remittances increased by 24% as at November to USD 3.7 billion, which was not adequate to cover the above trade deficit. However, given the increased investment flows and aid flows during 2010, the balance of payments is expected to record a surplus of USD 900 million excluding the IMF loan tranches. Foreign reserves have increased to USD 6.6 billion by year end, sufficient to cover 6 months of imports. Given the improved sovereign rating to B+ by S&P and increased investment flows expected following the upgrade, the reserves position will remain healthy throughout 2011.



During the year, there was pressure on the currency to appreciate as the country remained on a strong reserves position. As such, the SL Rupee ended the year with a 3% appreciation versus the US

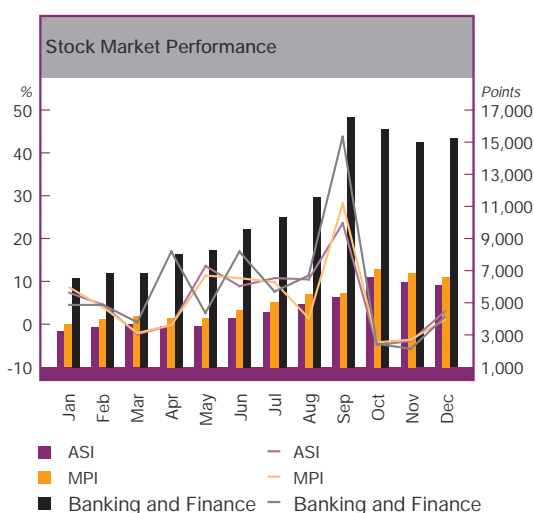
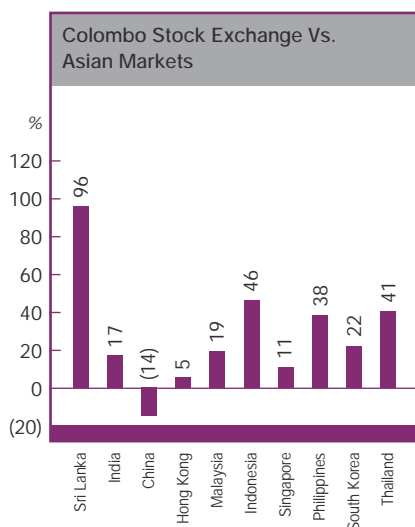
Dollar. Globally, US Dollar weakness had lead to most Asian currencies appreciating against the greenback and competitiveness of domestic exports is not expected to be significantly eroded by this trend. The European debt crisis and consequent volatile market conditions also lead to a 10% appreciation against the Euro.



CSE - Best Performing Asian Bourse for 2nd Year

It was another record breaking year for the Colombo Stock Exchange as it topped Asia with an annual gain of 96% followed by Indonesia, a distant second at 46%. The daily average turnover reported was Rs. 2.4 billion, four times higher than last year's average.

Despite most sectors of the bourse being overvalued, retailers and government funds continued to invest aggressively in anticipation of substantially higher corporate earnings. Foreigners continued to be net sellers, divesting Rs. 26.4 billion in total for the year. During the year, the regulator also imposed several measures to curb excessive speculation in the market as well as increase market liquidity. For 2011, the bourse is expected to perform strongly although a plethora of IPOs expected to flood the market can cause some level of volatility in returns.



Economic prospects are very encouraging and it is anticipated that Sri Lanka has the potential to average 8% growth over the next few years; provided fiscal reforms are implemented and current spending is curtailed. In addition, issues such as corruption, ease of doing business and improving efficiency in capital markets need to be

addressed to ensure that the country is on par with its Asian counterparts. The IMF in its statement following the annual Article IV consultations also stated that the country needs to move away from traditional drivers of growth to the export of services building on the country's geographical location and comparative advantage in services. It can be expected that the proximity of the country to regional power houses of India and China will be a key turning point when writing Sri Lanka's growth story in the coming years.

Company's Performance in Relation to Industry

The insurance industry performed below its potential in 2009. General insurance premiums recorded a decline of 3% and life insurance premiums recorded only a marginal growth of 1%. Combined life and general insurance premiums amounted to Rs. 57 billion in 2009 compared with Rs. 58 billion in 2008.

The industry is expected to recover strongly in 2010. Based on available data, life insurance premiums are expected to grow by 31% from Rs. 23 billion in 2009 to Rs. 31 billion in 2010. General insurance premiums are also expected to report a healthy growth rate of 11% and rise from Rs. 33 billion in 2009 to Rs. 37 billion in 2010.

The premium income generated by the two segments over the recent past and the estimated premium volume for 2010 is provided in the Table 1 overleaf.

General Insurance

As mentioned previously, general insurance is expected to report a 11% growth in 2010. Motor is estimated to be the main contributor, accounting for an estimated 57% of the total market (refer Table 2). While this growth reflects the rise in the number of new vehicle registrations particularly in the 2nd half

of the year, intense price competition dragged down the potential for further growth.

Union Assurance reported a 14% growth in general insurance premium. Growth prospects were hampered by the price competition in the market and UA "walking away" from risks which were likely to generate claims in excess of premiums. Nevertheless, UA is expected to retain its position as the 4th largest general insurer in the market and the 3rd largest non motor insurance company.

The size of the market, growth rate and UA's growth rate over the last 5 years is presented in Table 3.

Life Insurance

Life insurance premiums are expected to grow by 31% in 2010, which is a significant improvement over the 1% growth reported in 2009. The positive economic outlook, relatively low base and the introduction of unit linked policies are the main reasons for this growth.

UA reported a 25% growth in premium income. Hence, it is likely that the company will retain 11% market share and maintain its position as the 4th largest life insurer. Data related to the life insurance market, growth rate and UA's growth rate is provided in Table 4.

Management Discussion and Analysis contd.

Premium Income (Rs. Mn.)	2004	2005	2006	2007	2008	2009	2010(e)
Life insurance	12,518	14,814	17,104	20,729	23,613	23,767	31,166
General insurance	17,037	22,410	25,931	31,156	34,553	33,485	37,332
Total	29,555	37,224	43,035	51,885	58,166	57,252	68,498
As a % of GDP	1.41	1.52	1.46	1.46	1.32	1.19	1.14
Growth rate %	22	26	16	21	12	(1.6)	20

Table 1

Class Wise Distribution of Business (%)	2005	2006	2007	2008	2009	2010(e)
Fire	18	18	18	19	20	18
Marine	6	6	5	5	4	4
Motor	50	54	55	54	53	57
Accident and liability	26	22	22	22	22	21
	100	100	100	100	100	100

Table 2

General Insurance	2005	2006	2007	2008	2009	2010(e)
Market size (Rs. millions)	22,410	25,930	31,156	34,553	33,485	37,332
Market growth %	32	16	20	12	(3)	11
UA growth %	32	39	18	13	10	14

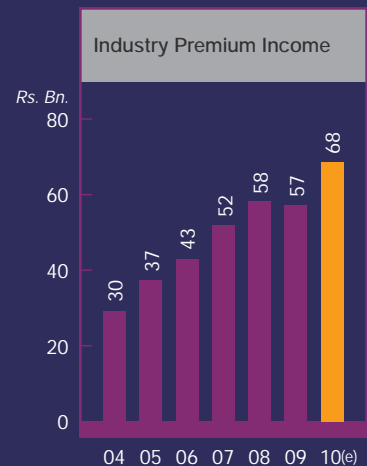
Table 3

Life Insurance	2005	2006	2007	2008	2009	2010(e)
Market size (Rs. millions)	14,814	17,104	20,729	23,613	23,767	31,166
Market growth %	18	15	21	14	1	31
UA growth %	16	15	29	16	11	25

Table 4

Economic prospects are very encouraging and it is anticipated that Sri Lanka has the potential to average 8% growth over the next few years; It can be expected that the proximity of the country to regional power houses of India and China will be a key turning point when writing Sri Lanka's growth story in the coming years.

Based on available data, life insurance premiums are expected to grow by 31% from Rs. 23 billion in 2009 to Rs. 31 billion in 2010. General insurance premiums are also expected to report a healthy growth rate of 11% and rise from Rs. 33 billion in 2009 to Rs. 37 billion in 2010.



68bn

2010 industry premium volume (estimated)

Union Assurance reported a 25% increase in life insurance premium and a 14% increase in general insurance premium



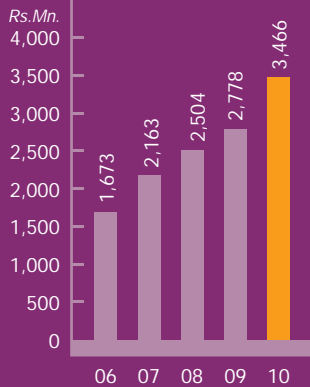

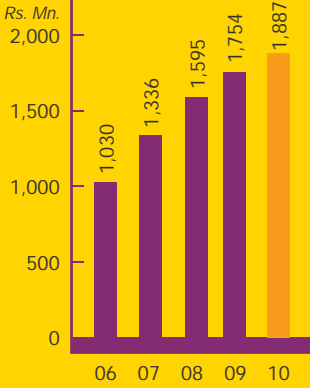

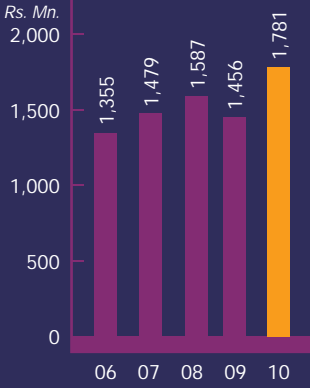
20%

Industry growth rate (estimated)

Management Discussion and Analysis contd.

Significant Features of Operating Performance

The following table illustrates UA's business segments, respective contributions to turnover and profitability, market differentiators, business strategies, highlights of 2010 and strategic priorities for 2011.

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Life</p>	<div style="text-align: center;">   </div> <p>4th largest life insurer offering a comprehensive range of protection and long term savings products to corporate and personal customers</p>	<p>Financial Impact The life business contributes 49% of UA's turnover (2009 - 46%) and 63% of profits (2009 - 59%)</p>	<p style="text-align: center;">Gross Written Premium - Life</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Gross Written Premium (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>06</td> <td>1,673</td> </tr> <tr> <td>07</td> <td>2,163</td> </tr> <tr> <td>08</td> <td>2,504</td> </tr> <tr> <td>09</td> <td>2,778</td> </tr> <tr> <td>10</td> <td>3,466</td> </tr> </tbody> </table>	Year	Gross Written Premium (Rs. Mn.)	06	1,673	07	2,163	08	2,504	09	2,778	10	3,466
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<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Motor</p>	<div style="text-align: center;">  </div> <p>4th largest motor insurer, with an estimated market share of 9% (2009 - 9%)</p>	<p>Financial Impact General insurance (motor and non motor) contributes 51% of UA's turnover (2009 - 54%) and 37% of profit (2009 - 41%)</p>	<p style="text-align: center;">Gross Written Premium - Motor</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Gross Written Premium (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>06</td> <td>1,030</td> </tr> <tr> <td>07</td> <td>1,336</td> </tr> <tr> <td>08</td> <td>1,595</td> </tr> <tr> <td>09</td> <td>1,754</td> </tr> <tr> <td>10</td> <td>1,887</td> </tr> </tbody> </table>	Year	Gross Written Premium (Rs. Mn.)	06	1,030	07	1,336	08	1,595	09	1,754	10	1,887
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<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Non motor</p>	<div style="text-align: center;">  </div> <p>3rd largest non motor insurer with an estimated market share of 11% in 2010 (2009 - 9%)</p>	<p>Financial Impact Refer above.</p>	<p style="text-align: center;">Gross Written Premium - Non Motor</p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Gross Written Premium (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>06</td> <td>1,355</td> </tr> <tr> <td>07</td> <td>1,479</td> </tr> <tr> <td>08</td> <td>1,587</td> </tr> <tr> <td>09</td> <td>1,456</td> </tr> <tr> <td>10</td> <td>1,781</td> </tr> </tbody> </table>	Year	Gross Written Premium (Rs. Mn.)	06	1,355	07	1,479	08	1,587	09	1,456	10	1,781
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<p>Market Differentiators</p> <ul style="list-style-type: none"> • Balance sheet strength and stability • Strong corporate governance framework • Comprehensive and competitive product range • Training capabilities and facilities • In-house actuarial support • Strong distribution structure and brand • Web based sales force management system 	<p>Business Strategy Expand our presence in the life insurance market in a cost effective manner by</p> <ul style="list-style-type: none"> • Offering competitively priced protection products and long term savings products which provide sustainable long term returns • Enhancing the sales, customer servicing, underwriting and claims management skills of our people and • Building a strong brand in our chosen market segments 	<p>Highlights of Performance</p> <ul style="list-style-type: none"> • Life insurance premium increased by 25% • 38% increase in profits • Successful launch of Union Challenger product targeting pension / retirement need • Entered into bancassurance partnership with Commercial Bank • Expanded "Union Pay Easy" schemes by adding 350 Abans outlets as premium collection points • Reported good progress in key value drivers 	<p>Strategic Priorities</p> <ul style="list-style-type: none"> • Maintain growth momentum by expanding distribution reach in cost effective manner • Launch new products and augment existing products in line with customer needs • Leverage technology to provide improved customer service and drive efficiency and effectiveness in all functions • Implement activities to operationalise new brand positioning • Manage lapsation
<p>Market Differentiators</p> <ul style="list-style-type: none"> • Technical expertise • Strong distribution network and alliances • Centralised management through integrated systems • Ability to leverage multiple IT platforms to enhance efficiency, effectiveness and customer convenience • Differentiated products and access to alternative distribution channels 	<p>Business Strategy</p> <ul style="list-style-type: none"> • Exploit profitable growth opportunities by offering competitively priced solutions to selected market segments • Build strong relationships across multiple distribution channels • Provide consistent, high quality customer service • Enhance training and development • Launch new products and augment existing products in line with customer needs 	<p>Highlights of Performance</p> <ul style="list-style-type: none"> • Motor premium increased by 8% from Rs. 1.8 billion to Rs. 1.9 billion • Improvement reported in loss ratio • Launch of "Speed Cash," whereby an SMS is sent to a customer confirming the value of the claim from the accident site itself, which can be collected from any Commercial Bank branch • 97% of motor insurance customers who had claims during the year were satisfied with the service they received. 	<p>Strategic Priorities</p> <ul style="list-style-type: none"> • Improve IT infrastructure to increase usage of pre-underwritten products • Implement activities to operationalise new brand positioning • Review options to implement actuarially validated pricing models • Manage claims ratios and profitability • Continuously improve service standards
<p>Market Differentiators</p> <ul style="list-style-type: none"> • Strong corporate image • Balance sheet strength and stability • High level of technical expertise • Superior reputation among corporate clients • Reinsurance arrangements with highly rated reinsurance partners • High reinsurance capacity • In-house risk engineering / survey capabilities 	<p>Business Strategy Exploit profitable growth opportunities by</p> <ul style="list-style-type: none"> • Offering a competitive range of products across all segments of the market • Building strong relationships across multiple distribution channels • Providing superior customer service and leveraging our underwriting and claims management skills 	<p>Highlights of Performance</p> <ul style="list-style-type: none"> • Rolled out packaged, pre-underwritten products targeting retail / commercial market segments • Implemented structured training for technical and distribution staff to enhance knowledge and provide better service • Improved claims servicing capabilities • Increased resources to manage underwriting and operational functions 	<p>Strategic Priorities</p> <ul style="list-style-type: none"> • Increase sales of pre-underwritten products • Develop workflow processes to improve claims servicing • Roll out structured training for technical and distribution staff • Upgrade IT infrastructure to improve productivity • Implement activities to operationalise new brand positioning

Management Discussion and Analysis contd.

Principal Risks and Uncertainties Facing the Business

Insurance companies face a number of challenges including changes in regulatory environment, evolving customer needs, pressure on margins, retention of key staff etc. We have summarised some of these generic challenges and action taken by UA in the following table. The challenges outlined in the table are based on an article published by Mr. H. A. Rehmanjee, who previously served as a Director on UA's Board.

Challenge	UA's response	Update 2010
<p>Pressure on Capital Insurers will have to ensure that they have adequate financial strength on a continuous basis. The concept of "risk based capital" will be the benchmark of regulators. The days when insurers could continue to remain in business by simply complying with the minimum capital requirements are numbered.</p>	<ul style="list-style-type: none"> • Maintain net assets in excess of minimum requirements. • Monitor solvency position on a monthly basis. • Obtain annual verification of life solvency position from independent actuary. 	<ul style="list-style-type: none"> • UA's net assets as at 31st December 2010 is Rs. 2.6 billion. • Solvency computations for the year are provided on page 117.
<p>Pressure on Volumes Fierce competition to increase volume and market share will prevail. Two avenues would be open to insurers: to be the least cost producer or to offer a differentiated product or service. The latter may appear easier. But developing new products is expensive and the advantage short lived since it can be quickly copied. Another option is to maximise customer retention. This can pay rich dividends since it is more cost effective to maintain current customer bases than to create new customers.</p>	<ul style="list-style-type: none"> • Constantly develop products which meet customer requirements. • Monitor life insurance premium persistency and general insurance renewal retention. • Rationalise products / pricing based on profitability objectives. 	<ul style="list-style-type: none"> • Launched packed, pre-underwritten products targeting retail and commercial segments of general insurance market. • Launched Union Challenger catering to retirement needs of rapidly ageing population. • Improved life persistency. • Maintained renewal retention of general insurance policies. • Reviewed portfolio profitability / projected ultimate claims expenses and implemented walk away pricing decisions. • Streamlined value added services for corporate customers and relaunched Union Motor Rewards for individual motor insurance customers. • Streamlined claims management processes to improve turnaround times and compete on service.

Challenge	UA's response	Update 2010
<p>Pressure on Margins</p> <p>Intense competition for business and the presence of competitors of different shapes, sizes and objectives will impact on the terms and conditions of insurance. Those who can adapt themselves to change will have the edge. Insurers will be driven to minimise their operating costs and raise performance standards to meet customers' rising expectations.</p>	<ul style="list-style-type: none"> • Monitor competitor activity. • Monitor / analyse customer needs / satisfaction levels. • Initiate expense management initiatives. • Use of IT as a key differentiator to improve service as well as efficiency and effectiveness. • Increase training and development initiatives to enhance knowledge and capabilities of technical and sales staff. 	<ul style="list-style-type: none"> • Continued to monitor / analyse competitor activity. • Achieved 97% satisfaction among motor insurance customers. • Leveraged technology to implement cost effective distribution and underwriting models for life and general insurance business. • Launched modular / case study based training programmes for underwriting and distribution staff to enhance their knowledge and update them regarding latest trends / developments.
<p>Pressure on Service</p> <p>In the context of increasing access to information and tougher competition, the customer will demand higher service standards. Technology will enable him to make comparisons quickly and accurately. High quality customer service will have to mean more than a customer service department. Customer care will have to be a state of mind and be accepted by all levels of management and staff.</p>	<ul style="list-style-type: none"> • Initiate staff training programmes. • Implement service quality initiatives e.g. six sigma, customer satisfaction surveys etc. • Use IT to improve customer service. 	<ul style="list-style-type: none"> • Staff training initiatives ongoing (refer above). • Restructured general insurance non motor departments to provide greater focus on delivering consistent, high quality operational, underwriting and claims management services. • 97% of motor insurance customers who had claims during the year, were satisfied with the service they received. • Leveraged IT infrastructure to improve customer service (e.g. "Speed Cash" option for motor claims).
<p>Pressure on Reinsurance</p> <p>Insurers will have to closely examine their own risk transfer mechanisms i.e. reinsurance. Reinsurance capacity will be in short supply. Losses incurred by reinsurers will result in changes to terms and reduced commissions. Insurers with bad results may find it difficult to obtain any reinsurance.</p>	<ul style="list-style-type: none"> • Provide reinsurance partners with a balanced portfolio. • Ensure reasonable retention levels. 	<ul style="list-style-type: none"> • Reinsurance programme continues to be led by highly rated international reinsurers. • Monitored business performance from the reinsurance partners' perspective. • Streamlined processes to ensure that management information is available to reinsurers on a timely basis.

Management Discussion and Analysis contd.

Challenge	UA's response	Update 2010
<p>Pressure on Organisations</p> <p>The emergence of new economic models and new entrants with greater financial resources, management and technical expertise and access to research and development and other technology transfers on a global scale will pose great challenges to local operators. Training of staff to meet the challenges of a rapidly changing and fiercely competitive business environment will have to be one of the key strategies adopted by insurers.</p>	<ul style="list-style-type: none"> • Develop cost effective distribution and operating models. • Training and development is an on-going and focused area for the organisation. 	<ul style="list-style-type: none"> • Leveraged IT to deliver cost effective operating and business models. • Provided staff with exposure to international best practices via participation in seminars, training programmes etc. • Strengthened training and development initiatives by implementing structured programmes for technical and distribution staff involved in both life and general businesses.
<p>Pressure to Attract and Retain Quality People</p> <p>The key drivers of the future will be the quality and the commitment of our people. Success will depend primarily on the ability to attract, motivate and retain the best people.</p>	<ul style="list-style-type: none"> • Conduct employee satisfaction survey once every two years. • Implement "great place to work" (GPTW) initiatives. • Conduct strategic planning process with representatives from all functions across the organisation to ensure buy in and commitment to deliver corporate strategies and objectives. • Launch skip level meetings with staff. • Implement talent management and succession planning programmes. 	<ul style="list-style-type: none"> • Continued to place significant emphasis on training and development as key differentiator to attract and retain quality people (refer above). • Conducted employee satisfaction survey. • More than 100 persons actively contributed to strategic planning process. • Cascaded company plan to all staff via dedicated team of 40 individuals. • Launched talent management initiative to identify and develop key talent in the organisation.
<p>Pressure on the use of Information Technology</p> <p>Insurers are entering an era where speed of response will be a key competitive differentiator. In the millennium, the organisations that will succeed will be those that can capture and exploit knowledge. Accelerated competitiveness will be a key issue, perhaps more important in the insurance industry than anywhere else. However, in the rush for technology, insurers will have to understand that IT can only be the enabler never the panacea.</p>	<ul style="list-style-type: none"> • Use multiple IT platforms to improve efficiency and effectiveness as well as customer service. • Cost effectively expand IT infrastructure in line with business requirements. • Use video conferencing facilities to interact with staff in a cost effective manner. 	<ul style="list-style-type: none"> • Used SMS, web based applications, AS 400 and 3rd party technology platforms to improve customer service and enhance efficiency / effectiveness. • Implemented new life system module to process unit linked transactions. • Commenced process to upgrade call centre technology. • Added new features / functionality to web based life sales force management system.

Challenge	UA's response	Update 2010
<p>Pressure on Intermediaries</p> <p>Insurers will have to make sure that the persons representing them in the front end of the business, including agents, sales representatives and field officers, are well trained and equipped with the necessary skills to provide accurate advice to potential customers. These persons must be able to demonstrate that they can really add value through their intermediation.</p>	<ul style="list-style-type: none"> • Enhance sales skills and technical competencies. • Implement reward / recognition schemes to motivate sales staff. • Conduct programmes to improve productivity and professionalism. 	<ul style="list-style-type: none"> • Upgraded training and development initiatives across the organisation for life / general sales staff. • Developed and rolled out packaged / pre-underwritten products enabling general insurance sales staff to capture untapped markets. • Upgraded features / functionality of web based sales force management system to improve productivity / enhance image of life insurance sales force.
<p>Pressure from Regulatory Authorities</p> <p>The ultimate aim of regulation is to protect policyholders and ensure the viability of the industry. On the one hand regulators will have to ensure that insurers adhere to sound insurance principles and practices as well as maintain adequate financial resources to meet their liabilities. On the other hand, they will be required to play a proactive role in developing the market and promoting competition and innovation.</p>	<ul style="list-style-type: none"> • Work closely with relevant regulatory bodies. • Work closely with other industry participants. 	<ul style="list-style-type: none"> • Implementation of regulatory requirements e.g. premium warranty clause. • Working with industry participants to introduce risk based capital regime. • In addition to internal team, participating in industry forum of finance and actuarial staff to review impact of changes in Sri Lanka Accounting Standards, as they converge with International Accounting Standards.

Management Discussion and Analysis contd.

General Insurance Operational Review

Market Conditions

There are 19 companies registered with the Insurance Board of Sri Lanka to transact general insurance business. Of these 7 are stand alone general insurance companies and 12 companies transact both life and general insurance business. During the year two large leasing companies obtained licences to operate their own insurance companies and a large Sri Lankan conglomerate also commenced insurance operations.

The industry is estimated to report a 10% growth, with GWP increasing from Rs. 33 billion in 2009 to Rs. 37 billion in 2010. Motor insurance is likely to report a 19% growth, fueled by an increase in new vehicles which entered the market following the reduction in duties. Non motor premiums, especially on property did not grow as anticipated due to the reduction in both rates and demand for local and foreign terrorism coverage following the cessation of hostilities. Growth in the general insurance industry was also hampered by price competition in both the motor and non motor segments.

The treasury circular which requires all state entities to insure their risks with Sri Lanka Insurance Corporation or the National Insurance Trust Fund reduced growth opportunities for private sector insurers.

As per the 2009 annual report published by the IBSL, claims ratios in the industry stabilised, albeit at a relatively high level. With interest rates already recording a downward trend, it is anticipated that general insurance rates will harden, as insurers reduce their dependence on investment income and focus on underwriting results to maintain profitability.

Business Review








General insurance gross written premium recorded a 14% increase during the year. Both retail and corporate distribution channels contributed to this growth. Most classes of general insurance, except property classes reported growth. Premiums from this class declined mainly due to the reduction in terrorism rates as well as demand for such coverage.

The country experienced two of the worst natural disasters in the recent past as floods caused significant damage in many parts of the island in May and November 2010. Despite the insurance losses caused by the two incidents, UA was able to improve the loss ratios from 75% in 2009 to 72% in 2010. There was a marginal increase in the expense ratio from 35% to 36% during the same period. As a result, the combined ratio improved by 1% from 109% in 2009 to 108% in 2010. In absolute figures the underwriting results improved marginally from a loss of Rs. 201 million in 2009 to Rs. 191 million in 2010.

Profit before tax increased from Rs. 232 million in 2009 to Rs. 268 million in 2010. This was due to the improvement in underwriting results as well as investment income. After charging Rs. 81 million as taxes (2009 - Rs. 67 million) profit after tax from the general insurance segment increased by 13% from Rs. 166 million in 2009 to Rs. 187 million in 2010.












Progress against Strategic Objectives - Summary





The progress against strategic objectives highlighted in the previous annual report is summarised as follows.

2010 Priority	Progress	Achievement
Expand Distribution Capabilities in Retail Segment		
Operationalise activities to deliver brand promise (convenience)	<ul style="list-style-type: none"> • Rolled out packaged pre-underwritten products for shop, home and commercial properties. • Expanded options for customers to purchase motor policies, by entering into an agreement to sell Union Motor Reload policies at Singer Mega outlets. • Launched mobile phone based quotation system, enabling customers to SMS a particular number to receive a free indicative quote for their motor insurance. • Implemented "Speed Cash" process whereby motor insurance customers receive a confirmation of the claim amount at the accident site via SMS, which together with some form of identification, can be used to withdraw money from any Commercial Bank branch islandwide. 	
Implement cost effective distribution model to increase sales from retail segment	<ul style="list-style-type: none"> • Structured remuneration / incentive scheme to expand retail distribution resources. • Focused on sales via Keells Super and Singer Mega outlets. • Revamped products / processes to enable expansion. 	
Increase training and development material and activities	<ul style="list-style-type: none"> • Increased training and development resources specifically targeting general retail marketing operations. • Developed training path and material for distribution resources. 	
Continuous Improvement of Service Standards		
Leverage benefits arising from restructure to streamline and improve operational efficiency and speed up claims settlement	<ul style="list-style-type: none"> • Increased underwriting operational resources to remove bottlenecks / streamline service. • Improved non motor claim service by enabling "self service" environment via web. 	
Enhance customer convenience by expanding usage of Union Motor Reload	<ul style="list-style-type: none"> • Focused resources and cost effective promotions to grow sales of Union Motor Reload. • Tied up with Singer to sell Motor Reload at Singer Mega outlets. • Refer above for further Information. 	
Develop Alternative Distribution Channels		
Increase number of channels to purchase Union Motor Reload	<ul style="list-style-type: none"> • Enabled Motor Reload renewals via web. • Tied up with Commercial Bank to accept renewals at selected Commercial Bank branches. • Set up standing order processes to encourage sales via traditional distribution channels. 	
Increase worksite distribution resources.	<ul style="list-style-type: none"> • Increased worksite distribution resources and GWP volumes also grew in 2010. 	

Management Discussion and Analysis contd.

Progress against Strategic Objectives - Summary contd.

2010 Priority	Progress	Achievement
Develop Alternative Distribution Channels contd.		
Explore opportunities to build bancassurance relationships with unaffiliated banks and financial institutions.	<ul style="list-style-type: none"> In progress. 	
Product Development		
Revamp product portfolio available for retail distribution channels.	<ul style="list-style-type: none"> Developed packaged, pre-underwritten products catering to home, shop and commercial property owners. Revamped and launched personal accident product. 	
Streamline / improve Union Motor Rewards scheme.	<ul style="list-style-type: none"> Scheme revamped and launched in 2010. 	
Review new business opportunities.	<ul style="list-style-type: none"> Reviewed several new business opportunities in light of improving business environment. Modified existing products to meet evolving customer needs. 	
Strengthen Underwriting Processes		
Strengthen training and development activities for underwriting staff so that they gain knowledge in all classes of general insurance.	<ul style="list-style-type: none"> Implemented modular / case study based training programme to enhance knowledge and skills of all technical staff. 	
Collect risk profile information to develop differentiated pricing models / products.	<ul style="list-style-type: none"> Reviewing actuarial pricing models. 	
Use new surgical and hospitalisation system to quote for new business and renewals.	<ul style="list-style-type: none"> In progress. 	
Expand use of pre-underwritten products.	<ul style="list-style-type: none"> In progress. 	
Continue to implement walk away pricing.	<ul style="list-style-type: none"> In progress. Loss ratio improved from 75% in 2009 to 72% in 2010, despite significant losses incurred due to floods in May and November 2010. 	
Work with reinsurance partners to constantly update underwriting knowledge.	<ul style="list-style-type: none"> Key staff participated in structured training programmes conducted by reinsurance partners. 	
Strengthen Claims Management Processes		
Work with reinsurance partners to constantly update knowledge. Refer previous comment.	<ul style="list-style-type: none"> Key staff participated in structured training programmes conducted by reinsurance partners. 	

2010 Priority	Progress	Achievement
Enhance motor claims audit function	<ul style="list-style-type: none"> Increased resources for motor claims audit function during the year. Expanded audit programme to identify leakage, gaps in customer service and confirm accuracy of reserves. 	
Use strategic alliances with repair shops and spare part dealers to minimise motor claim leakage	<ul style="list-style-type: none"> Formed alliances with seven garages in selected geographic locations. Integrated claims management processes to educate customers regarding partner garages. 	
Use IT infrastructure to manage leakage in surgical and hospitalisation claims	<ul style="list-style-type: none"> In progress. 	
Strengthen quarterly incurred but not reported (IBNR) reserving process	<ul style="list-style-type: none"> Commissioned firm of external actuaries to conduct quarterly valuations during the year. 	

Progress against Strategic Objectives

A brief description of UA's performance against the strategic objectives of the general insurance business is as follows.

Expand Distribution Capabilities

UA launched several packaged, pre-underwritten products catering to shop, home and commercial property owners. The unique feature of these products is that they do not require underwriting decision making at the point of sale and staff can print quotations / policies at the customers' home or office.

In terms of service improvements, the company launched "Speed Cash," whereby a motor insurance policyholder who meets with an accident receives a SMS indicating the settlement amount at the accident site itself. The customer could present this SMS together with some form of identification at any Commercial Bank branch and receive cash immediately.

Training and development initiatives were also enhanced during the year with resources deployed to enhance the knowledge and competencies of distribution, underwriting and operational staff.

Improve Service Standards

Several steps were taken to increase resources and streamline functions in order to fully harness the synergies of creating separate underwriting, operations and claims units for selected general insurance classes. These initiatives resulted in improved customer service, insightful underwriting as well as greater opportunities for staff to improve their knowledge and skills. For example, the non motor claims process was revamped to allow customers the option of reporting their claims via web, thus reducing the lead time between reporting and responding to a claim.

The monthly motor product Union Motor Reload was promoted in a cost effective manner during the year. A mobile application was developed, whereby customers could SMS the value of their vehicle to a designated number and instantaneously receive an indicative Motor Reload quote. In addition the company entered into an agreement with Singer, enabling customers to purchase a new policy or renew their existing policy at any Singer Mega store.

Develop Alternative Distribution Channels

In addition to expanding Reload distribution points, steps were taken to enable Reload renewals via web and at selected Commercial Bank branches. Standing order processes with selected banks were also streamlined to ensure convenient renewals for customers and sales staff.

Worksite distribution resources were increased during the year and Motor Reload was added to the product portfolio. The worksite team focuses on persons employed by corporate / commercial establishments and offer motor and personal accident related insurance products at premiums which are adjusted for the volume of anticipated business.

Product Development

As previously mentioned, several packaged pre-underwritten products targeting home, shop and commercial property owners was launched in 2010. These products were in addition to the motor insurance related products which were also developed on the same platform. In addition to pre-approved pricing and coverage, the products

Management Discussion and Analysis contd.

are structured in a manner that a sales person could generate a quotation at any time, using a laptop computer and mobile printer.

The Union Motor Rewards scheme was revamped and re-launched during 2010. The main difference in the new scheme is that UA, together with its partners will combine annual as well as time specific discounts / value added offers, which will be communicated primarily via SMS alerts.

Strengthen Underwriting and Claims

The underwriting and claims management teams implemented a structured / modular training programme for technical staff which was well received. In addition, case study based training was also conducted

for distribution staff to update them regarding the latest developments / trends in insurance coverage available for specific industry segments.

We were also able to leverage our relationships with global reinsurance providers to further enhance the technical and claims management skills of our staff. Several members participated in 5 training programmes organised by the reinsurers and the knowledge was shared at the appropriate forums.

The company is currently reviewing the pricing / profitability of its motor portfolio. The assignment is being carried out by a team of internal resources who are supported by an external team of actuaries.

Strengthen Claims Management Processes

The motor claims audit process which commenced towards the latter part of 2009, was further strengthened by expanding the audit programme to cover accuracy of claims reserves, gaps in customer service etc.

UA also formed alliances with selected repair shops and spare part dealers negotiating pre agreed prices in return for business volumes. As at December 2010, the company has formed alliances with seven repair shops and is in the process of finalising arrangements with three other repair shops.

Distribution Channel Wise GWP	2010 Rs. Mn.	2009 Rs. Mn.	Growth %	2010 Mix %	2009 Mix %	Change in Mix
Direct Corporate	897	826	8.5	24.4	25.7	(1.3)
Direct Commercial / Retail	683	510	33.9	18.6	15.9	2.7
Brokers	1,507	1,223	23.2	41.1	38.1	3
Agents	581	651	(10.2)	15.9	20.3	(4.4)
Total	3,668	3,210	14	100	100	-

Expenditure to Enhance Future Results

The annualised cost of increased sales staff, support staff, infrastructure and training and development resources is as follows:

	Rs. Mn
Sales staff	6.0
Support staff	0.2
Infrastructure	7.7
Training and development	14.7
Brand development	9.8
Total	38.4

Current Performance against Objectives

The key performance indicators used to manage the general insurance business and the rationale for their use is outlined below.

Key Performance Indicator	What does it show?										
Increase in gross written premium	The amount of business we were able to secure										
Net combined ratio	Our underwriting profit margin. A ratio less than 100% represents profit and vice versa										
Profit after tax	The final bottom line result for the period										
<table border="1"> <caption>Increase in Gross Written Premium</caption> <thead> <tr> <th>Year/Type</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>09 Act</td> <td>1</td> </tr> <tr> <td>10 Obj</td> <td>13</td> </tr> <tr> <td>10 Act</td> <td>14</td> </tr> <tr> <td>11 Obj</td> <td>12</td> </tr> </tbody> </table>	Year/Type	%	09 Act	1	10 Obj	13	10 Act	14	11 Obj	12	<p>We exceeded the 2010 objective with both retail and corporate channels reporting growth. All classes of insurance, except fire reported growth. The fire class reported a decline in GWP due to the drop in rates and demand for terrorism coverage, following the cessation of hostilities.</p>
Year/Type	%										
09 Act	1										
10 Obj	13										
10 Act	14										
11 Obj	12										
<table border="1"> <caption>Net Combined Ratio</caption> <thead> <tr> <th>Year/Type</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>09 Act</td> <td>109.1</td> </tr> <tr> <td>10 Obj</td> <td>106.1</td> </tr> <tr> <td>10 Act</td> <td>108.2</td> </tr> <tr> <td>11 Obj</td> <td>103.7</td> </tr> </tbody> </table>	Year/Type	%	09 Act	109.1	10 Obj	106.1	10 Act	108.2	11 Obj	103.7	<p>The net combined ratio reported a negative variance against budget but an improvement over 2009. The main reason for the improvement was the reduction in the loss ratio, which was achieved despite the significant impact of flood losses following heavy rains in May and November 2010.</p>
Year/Type	%										
09 Act	109.1										
10 Obj	106.1										
10 Act	108.2										
11 Obj	103.7										
<table border="1"> <caption>Profit after Tax</caption> <thead> <tr> <th>Year/Type</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>09 Act</td> <td>166</td> </tr> <tr> <td>10 Obj</td> <td>172</td> </tr> <tr> <td>10 Act</td> <td>187</td> </tr> <tr> <td>11 Obj</td> <td>213</td> </tr> </tbody> </table>	Year/Type	%	09 Act	166	10 Obj	172	10 Act	187	11 Obj	213	<p>Profit after tax was higher than the budget and the previous year. This was due to improved underwriting results as well as an increase in investment income.</p>
Year/Type	%										
09 Act	166										
10 Obj	172										
10 Act	187										
11 Obj	213										

Management Discussion and Analysis contd.

Strategic Objectives – Highlights of 2010 Performance and 2011 Priorities

Expand distribution capability especially in retail segment	Continuous improvement in service standards	Develop alternative distribution channels to exploit cross marketing opportunities within group
<p>Due to the prevailing price competition in the market, we chose to consolidate on the investments we made in the previous year, building capability and increasing resources in a selective manner, targeting profitable segments of the market.</p> <p>We also implemented a programme to increase non permanent distribution resources which we believe will be more cost effective.</p>	<p>We firmly believe that price competition cannot last and service will be the ultimate differentiator of the industry. We set high service standards and continuously improve on them.</p>	<p>We continuously seek more cost effective distribution channels that are convenient for existing and potential customers. We also have significant opportunities within the group which we could harness to improve our income and profitability.</p>
<p>2010 Key Points</p> <ul style="list-style-type: none"> Premium income from retail channels maintained growth momentum. Developed training and development modules, incentive structures and career path to expand non permanent sales force. Implemented “convenience” related service improvements in line with brand positioning. Leveraged relationships with brokers, leasing and other financial institutions to grow business in retail segment. Developed non motor pre-underwritten products. 	<p>2010 Key Points</p> <ul style="list-style-type: none"> Streamlined underwriting operations and claims management process to ensure optimal efficiency and effectiveness following the restructure. Reported 97% satisfaction among motor insurance customers who had claimed against their policy in 2010. Introduced “Speed Cash” whereby the claim value is confirmed to the client via SMS, at the accident site itself. Implemented structured training programmes for technical and distribution staff to improve their knowledge and thereby enhance customer service. Trained branch staff to conduct non motor claims reviews to provide speedy service to customers outside Western province. 	<p>2010 Key Points</p> <ul style="list-style-type: none"> Increased sales of Motor Reload products at Keells supermarket outlets. Entered into a partnership with Singer, to sell Reload policies at Singer Mega outlets. Increased GWP from worksite marketing channel. Launched cost effective promotion campaign for Union Motor Reload, including SMS based quotation engine. Streamlined organisation structure / resources.
<p>2011 Priorities</p> <ul style="list-style-type: none"> Increase non permanent sales cadre, to focus on the retail segment of the market. Continue initiatives to enhance customer “convenience” in line with UA brand. Further improve / enhance suite of pre-underwritten motor and non motor products. Enhance training and development activities for distribution staff. Focus on delivering profitable mix of motor / non motor business. 	<p>2011 Priorities</p> <ul style="list-style-type: none"> Implement improvements to motor claims systems. Implement changes to non motor underwriting operations and IT infrastructure to enhance staff productivity and customer service. Implement structured training to continuously enhance knowledge of staff. Implement work flow system to monitor and manage non motor claims. 	<p>2011 Priorities</p> <ul style="list-style-type: none"> Expand renewal points for Motor Reload policies. Increase sales via Singer outlets and Keells supermarkets. Increase sales from worksite marketing channel.

Develop new products and augment existing products	Strengthen underwriting processes	Strengthen claims management processes
<p>We need to constantly identify the needs of our existing and potential customers and upgrade our product portfolio to provide adequate solutions.</p>	<p>Underwriting and pricing of risks is at the heart of our business. We need to constantly upgrade the skills and competencies of our people to ensure we accurately price risks and comply with our underwriting philosophy of walking away when we cannot charge a fair premium.</p>	<p>Claims management is a vital aspect of our business, both from the perspective of managing our claims ratios as well as delivering a superior service. We need to constantly upgrade the skills and competencies of our people as well as the infrastructure available in the organisation to settle claims fairly and speedily.</p>
<p>2010 Key Points</p> <ul style="list-style-type: none"> Developed pre-underwritten products for shop, home and commercial properties Revamped personal accident product Developed process to deliver marine certificates to specified banks in electronic format. Augmented product / service offering for corporate surgical and hospitalisation policyholders. Launched "Speed Cash" solution for motor insurance claims. 	<p>2010 Key Points</p> <ul style="list-style-type: none"> Implemented structured training programmes for technical staff to improve their knowledge in all classes of insurance. Encourage staff to take up professional exams to enhance their knowledge. Developed process to review motor pricing on a regular basis. Leveraged IT infrastructure to quote for new surgical and hospitalisation business. 	<p>2010 Key Points</p> <ul style="list-style-type: none"> Formed strategic alliances with repair shops / spare part dealers to minimise leakage. Increased resources for motor claims audit process. Streamlined process for customers to intimate non motor claims via web.
<p>2011 Priorities</p> <ul style="list-style-type: none"> Enhance IT infrastructure enabling faster access / usage of motor and non motor pre-underwritten products. Increase usage of "Speed Cash" solution. Review UA's product portfolio in light of rapid economic development and new business opportunities. 	<p>2011 Priorities</p> <ul style="list-style-type: none"> Continue to focus on training of technical staff. Review options to develop actuarial pricing model to manage profitability of motor portfolio. Continue to implement walk away pricing. Work with reinsurance partners to constantly update underwriting knowledge. 	<p>2011 Priorities</p> <ul style="list-style-type: none"> Continue to focus on training and development for technical staff. Work with reinsurance partners / loss adjustors to constantly update knowledge regarding claims. Use strategic alliances with repair shops and spare part dealers to minimise motor claims leakage. Use surgical and hospitalisation system to manage claims expenses. Review IBNR provision on a quarterly basis.

Management Discussion and Analysis contd.

Opportunities and Threats

The key opportunities identified for the general business are summarised as follows.

Opportunity	UA Response
Increased business confidence and positive business sentiments enabling corporate customers to consider value for money options rather than focusing on lowest price.	Use suite of value added services to compete for business rather than focusing on price as a key competitive tool.
Expansion opportunities in the North and East and growth in commercial, SMI and retail segments.	Leverage distribution and underwriting capability to grow business volumes and profits from this segment.
Grow volumes from alternative distribution channels.	The increasing IT / telecommunication penetration levels in Sri Lanka provide significant opportunities for UA to develop new products and re-engineer existing operating models.

The threats faced by the business are outlined below.

Threat	UA Response
Increasing economic / insurance losses due to natural disasters, but pricing does not reflect this reality.	Increase pricing in light of increased likelihood of natural disasters and attempt to compete on basis of "value for money" rather than price.
Uneven playing field with identified insurers set to monopolise state sector business and National Insurance Trust Fund acting as primary insurer, while accepting compulsory cessions from all companies.	Lobby relevant authorities to ensure level playing field.
Lack of distribution and technical expertise.	Increase training and development initiatives and commence talent management programme to identify high potential employees and develop short / medium term strategies to bridge capability gaps (if any).

Future Outlook

We maintain a positive medium term outlook for the industry. With interest rates set to decline we expect insurance rates to harden, as insurers attempt to maintain / grow profitability by focusing on generating positive results from underwriting operations.

It is likely that the changes in regulation i.e. requirement to separate general and life insurance companies, introduction of risk based capital and strict implementation of the premium payment warranty (PPW) clause (which states that an insurance policy is invalid if premium is not paid within 60 days) will also ensure pricing and credit discipline in the market.

While these changes may not occur in the short term, there is every reason to be hopeful that in the medium term the general insurance industry will return to underwriting profitability propelled by regulatory and shareholder pressure to ensure a viable long term business which generates a sufficient return on capital employed.

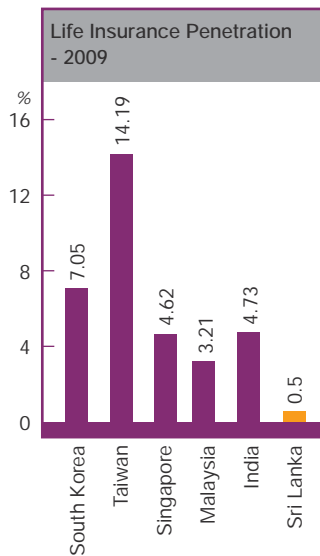
Life Insurance Operational Review

Market Conditions

There are currently 14 life insurance companies operating in Sri Lanka, with at least one new entrant likely to enter the market in the near future. Of the existing companies two institutions function as stand alone life insurance companies and the others offer both life and general insurance products. The life insurance industry is expected to report a 31% growth in 2010. The contributory factors for this growth are

- The relatively low 2009 base (when the industry grew by 1%, compared with a CAGR of 10% in the previous five years)
- Introduction of unit linked products and
- The general improvement in economic activity and confidence.

Despite this growth, life insurance premiums as a percentage of GDP is not expected to record a significant improvement in 2010. From a positive perspective, this reflects the catch up potential in the sector compared with other countries in the region.



As depicted in the table below, 467,249 new life policies were sold during 2009, a decrease of 16% compared with 2008. As at December 2009, 2.13 million life insurance policies were in force, compared with 2.10 million policies in 2008. Life insurance penetration as a percentage of the total labour force decreased from 27.8% in 2008 to 26.4% in 2009.

Business Review

Life insurance premiums increased by 25%, from Rs. 2.8 billion in 2009 to Rs. 3.5 billion in 2010. The company reported a significant increase in the number of advisors selling our products. Despite this increase, the average premium size per policy sold and the productivity of the sales force remained in line with 2009. As a result, there was a significant increase in the new business premiums (on an annualised basis) as well.






As in previous years, the life fund was actuarially valued in 2010. Following actuarial advice, Rs. 325 million was transferred to shareholders as profit from the life business. This is a 38% increase over the Rs. 235 million profit reported in 2009. The actuary approved an increase in the dividends to participating policyholders and declared a higher than guaranteed rate for non participating dividend based products as well. Following these adjustments, the life fund increased by 20%, from Rs. 9.8 billion in 2009 to Rs. 11.8 billion in 2010.














Life Insurance Statistics	2003	2004	2005	2006	2007	2008	2009
Number of new policies issued	305,092	304,639	366,132	409,933	527,385	555,886	467,249
Number of in force policies	1,359,536	1,490,191	1,629,061	1,740,648	1,923,550	2,103,809	2,131,947
Penetration as a % of the labour force	19.0	20.8	22.8	24.3	25.3	27.8	26.4

Management Discussion and Analysis contd.

Progress against Strategic Objectives - Summary

The progress against strategic objectives highlighted in the previous annual report is summarised as follows.

2010 Priority	Progress	Achievement
Expand Distribution in Cost Effective Manner		
Expand distribution in a cost effective manner.	Opened 14 new locations during the year. The majority of new locations were set up as business development offices which does not require the capital or operating expenditure of a traditional branch.	
Enhance features and functionality of web based sales force management system.	Implemented performance management module to monitor / motivate the sales force (especially new recruits) and focus on achieving their goals.	
Reorganise zonal distribution structure to capitalise on emerging business opportunities.	Completed. Further changes were made in 2011, in light of improved business conditions.	
Enhance sales force recruitment / retention initiatives.	Completed and ongoing. Reported significant increase in new recruitments during 2010.	
Improve Service Standards		
Increase SMS based communication to customers and field staff.	Customers are informed via SMS regarding premium due dates and confirmation of premium receipts. Field staff are informed of status of proposals introduced via SMS as well.	
Continuously monitoring and improving service standards.	Several system / process changes have been introduced to maintain and improve service standards in light of increased volumes.	
Leverage 24 hour call centre facility to deliver improved service.	24 hour call centre implemented.	
Expedite claims settlement process.	On going initiative.	
Enhance Training and Development		
Develop training material for unit linked products.	Unit linked training delivered to approximately 1,200 field sales and supervisory staff.	
Enhance Tamil language training material and resources.	Tamil language resource recruited and training material developed.	
Link training to web based sales force management system.	Development in progress.	

2010 Priority	Progress	Achievement
Increase number of certified advisors and unit leaders.	Certified 210 advisors and 37 unit leaders in 2010. Total of 728 advisors and 98 unit leaders have been certified up to 2010.	
Introduce professional unit leader designation.	Launched. Certification programme to be conducted in March 2011.	
Develop alternative distribution channels.	Tele marketing based sales process being implemented.	
Increase bancassurance penetration.	Entered into a bancassurance agreement with Commercial Bank.	
Explore opportunities to build relationships with unaffiliated banks and finance institutions.	Refer above.	
Review selected alternative channels for further expansion.	Focused on enhancing relationships with existing bancassurance partners.	
New Product Development		
Launch unit linked product targeting retirement need.	Union Challenger launched in August 2010.	
Continuously identify customer needs.	On going.	
Increase rider sales.	On going.	
Develop simplified products catering to new recruits.	Streamlined product training to ensure successful launch pad for new recruits.	
Strengthen Underwriting and Claims Management		
Utilise Prophet actuarial system to implement actuarial control cycle.	Actuarial control cycle implemented.	
Increase underwriting and claims technical resources on selective basis.	<ul style="list-style-type: none"> Underwriting and claims management technical staff increased on a selective basis. Structured / modular training programme conducted to enhance skills / competencies of staff. 	
Leverage reinsurance partnerships to upgrade knowledge of internal staff.	<ul style="list-style-type: none"> Reinsurance conducted 5 knowledge sharing sessions at which 39 persons participated from UA. 	

Management Discussion and Analysis contd.

Progress against Strategic Objectives

A brief description of UA's performance against the strategic objectives of the life insurance business is as follows.

Expand Distribution

The company opened 11 business development offices (BDOs) and 3 branches during the year. The business development offices represent a conscious shift away from the high capital / operating cost model of traditional branches. BDOs are essentially sales outlets which facilitate team meetings and reviews. Changes to underwriting operations, sales monitoring and premium receipting processes have been implemented to enable the successful roll out of BDOs as a means to enhance UA's presence in selected high potential locations.

One of UA's key competitive advantages is its web based sales force management system which enables field and supervisory staff at all levels to monitor business performance, customer requirements and service issues. During the year, a performance evaluation process was added to the system to enable field management to monitor and motivate (especially) new recruits to achieve their business objectives and personal goals.

The company's zonal structure was revamped at the beginning of 2010 demarcating Eastern and Northern zones in line with the business opportunities in these regions.

Significant investments were made to improve the recruitment and retention of field staff including designating a national level recruitment champion, streamlining recruitment tools and processes across the network and revamping training and development inputs for new recruits. These initiatives resulted in a significant increase in the sales force.

Improve Service Standards

The company continued to use SMS technology to interact and inform customers regarding their premium due dates, confirm when premium collections are received etc. In addition, field staff are also informed via SMS regarding the status

of proposals they introduce, thus reducing the number of queries and telephone expenses incurred by them.

There is a noteworthy increase in the number of new policies during 2010. As a result, several small, but significant productivity improvements were implemented by the underwriting and operational teams to manage volumes and maintain / improve service standards without a significant increase in resources. A 24 hour call centre was also launched in 2010 to handle customer inquiries and provide a speedy response to service related issues. Several steps were taken to improve claims service, including closer interaction with the sales staff with regular updates being provided regarding outstanding claims.

Enhance Training and Development

Comprehensive training material and exposure to unit linked products was provided pre, during and post launch of Union Challenger. As at date, approximately 1,200 persons have been trained and certified to sell the product.

With the company's expansion into the Tamil speaking, Northern and Eastern provinces, Tamil language training materials have been enhanced. The company has recruited and developed 11 Tamil speaking trainers as well.

A key objective of the company is to enhance the professionalism of the field sales force. A certification programme based on business performance and training courses attended is a key component of this initiative. During 2010, 210 advisors and 37 unit leaders were granted the certified advisor / unit leader designation. As at December 2010 the company has 728 certified advisors and 98 certified unit leaders.

Develop Alternative Distribution Channels

The company entered into a bancassurance arrangement with Commercial Bank which is one of the largest private sector commercial banks in the country. With this tie up, UA has established a strong foot hold in the bancassurance distribution space and is the only local company to achieve this position. In addition to Commercial Bank, UA has similar arrangements with two other banks as well.

New Product Development

During the year the company launched Union Challenger, catering to the retirement needs of the rapidly ageing population of Sri Lanka. Based on a unit linked platform, which is different from traditional product platforms, Union Challenger offers policyholders exposure to equities, corporate debt, government securities or a combination of these investment options depending on the risk appetite / age of the policyholder.

Strengthen Underwriting and Claims Management

We continued to implement the actuarial control cycle, conducting experience investigations for hospital cash and critical illness. Lapse and mortality investigations were also conducted. Several initiatives were taken to update underwriting and claims management procedures, including the launch of a modular training programme for technical staff. We also increased technical resources in a structured manner and leveraged our reinsurance partnerships to enhance the knowledge and skills of the technical staff.

Expenditure to Enhance Future Results

The annualised cost of increased sales staff, support staff, infrastructure and training and development resources is as follows:

	Rs. Mn.
Sales staff	6.3
Support staff	0.2
Infrastructure	18.0
Training and development	34.3
Brand development	98.8
Total	157.6

Current Performance against Objectives

The key performance indicators used to manage the life insurance business and the rationale for their use is outlined below.

Key Performance Indicator	What does it show?										
Increase in gross written premium	The amount of business we were able to secure in terms of new business and renewals.										
Increase in new business premium on an annualised basis	The amount of new business we were able to secure.										
Profit from life insurance	The final bottom line result for the period.										
<table border="1"> <caption>Increase in Gross Written Premium</caption> <thead> <tr> <th>Year</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>09 Act</td> <td>11</td> </tr> <tr> <td>10 Obj</td> <td>14</td> </tr> <tr> <td>10 Act</td> <td>25</td> </tr> <tr> <td>11 Obj</td> <td>26</td> </tr> </tbody> </table>	Year	Value (%)	09 Act	11	10 Obj	14	10 Act	25	11 Obj	26	Overall GWP exceeded budget by a wide margin. Union Challenger product made a significant contribution to the favourable variance. New business premiums from other regular products exceeded the budget, while renewals from such products fell marginally short of budget.
Year	Value (%)										
09 Act	11										
10 Obj	14										
10 Act	25										
11 Obj	26										
<table border="1"> <caption>Increase in New Business Premium on an Annualised Basis</caption> <thead> <tr> <th>Year</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>09 Act</td> <td>1</td> </tr> <tr> <td>10 Obj</td> <td>24</td> </tr> <tr> <td>10 Act</td> <td>34</td> </tr> <tr> <td>11 Obj</td> <td>26</td> </tr> </tbody> </table>	Year	Value (%)	09 Act	1	10 Obj	24	10 Act	34	11 Obj	26	Annualised new business premium (ANBP) volumes also exceeded budget by a wide margin. There was a significant increase in the sales force during the year. This factor alone pushed ANBP volumes above budget.
Year	Value (%)										
09 Act	1										
10 Obj	24										
10 Act	34										
11 Obj	26										
<table border="1"> <caption>Profit on life insurance</caption> <thead> <tr> <th>Year</th> <th>Value (Rs. Mn)</th> </tr> </thead> <tbody> <tr> <td>09 Act</td> <td>235</td> </tr> <tr> <td>10 Obj</td> <td>249</td> </tr> <tr> <td>10 Act</td> <td>325</td> </tr> <tr> <td>11 Obj</td> <td>397</td> </tr> </tbody> </table>	Year	Value (Rs. Mn)	09 Act	235	10 Obj	249	10 Act	325	11 Obj	397	Profitability exceeded budget by a wide margin. Several initiatives have been taken to ensure the long term sustainability of the business and based on projections, it is likely that life profits will continue to grow.
Year	Value (Rs. Mn)										
09 Act	235										
10 Obj	249										
10 Act	325										
11 Obj	397										

Management Discussion and Analysis contd.

Strategic Objectives – Highlights of 2010 Performance and 2011 Priorities

Expand distribution network in a cost effective manner	Continuous improvement in service standards	Improve / enhance training and development initiatives
<p>We have aggressively invested to enhance distribution capability and resources in the life insurance business. We intend to continue this trend, by implementing a cost effective business development office (BDO) model.</p>	<p>We need to continuously monitor the service levels we provide our customers as well as our field staff, while at the same time ensuring optimal efficiency and effectiveness.</p>	<p>As life insurance products are not intuitively purchased by Sri Lankan consumers, training and development of our field force is a key focus area of our business, which ensures the success of all stakeholders.</p>
<p>2010 Key Points</p> <ul style="list-style-type: none"> • Opened 12 new locations the majority as BDOs, which require less capital / operating expenses than traditional branches. • Life GWP increased by 25%. • Enhanced functionality of web based sales force management system. • Expanded sales force by focusing on recruitment and retention practices. 	<p>2010 Key Points</p> <ul style="list-style-type: none"> • Expanded Union Pay Easy scheme by adding 350 Abans outlets. • Increased use of SMS technology to communicate with customers and field force. • Set up 24 hour call centre facility. • Ensured unit linked operations are performed efficiently. 	<p>2010 Key Points</p> <ul style="list-style-type: none"> • Developed training material for unit linked product - Union Challenger. • Streamlined training and development activities to ensure success of new recruits. • Enhanced Tamil language training material and resources. • Enhanced e-learning facilities and material. • Increased number of certified trainers.
<p>2011 Priorities</p> <ul style="list-style-type: none"> • Increase distribution points using BDO model backed by IT enabled processes and alternative premium collection points. • Focus on recruitment and retention as key drivers of a sustainable business. • Increase usage of web based sales force management system to ensure consistent application and monitoring across the network. • Revamp zonal distribution structure in line with business opportunities. 	<p>2011 Priorities</p> <ul style="list-style-type: none"> • Focus on ensuring high quality service, in light of increased business volumes. • Leverage IT based solutions to deliver benefit / claim payments speedily. • Use workflow process to monitor service standards. • Develop web portal for unit linked customers to distribute up to date information / initiate service requests. 	<p>2011 Priorities</p> <ul style="list-style-type: none"> • Focus on leadership development for all supervisory staff. • Continue to provide training inputs on traditional and unit linked products. • Develop / implement road map to move standard training to e-learning platforms. • Link training and development initiatives to sales force management system

	Expand alternative channels and cross marketing activities	Develop new products and augment existing products	Strengthen underwriting and claims management processes
	<p>In addition to the traditional agency channel, we continuously seek more cost effective distribution channels in order to approach our target markets</p>	<p>We need to constantly identify the needs of our existing and potential customers and upgrade our product portfolio to provide adequate solutions</p>	<p>Underwriting and claims management are at the heart of our business. We need to constantly upgrade the skills and competencies of our people to ensure we accurately price risks and settle claims fairly</p>
	<p>2010 Key Points</p> <ul style="list-style-type: none"> Entered into bancassurance partnership with Commercial Bank. Increased sales from other bancassurance channels. Commenced outbound call centre operations. 	<p>2010 Key Points</p> <ul style="list-style-type: none"> Launched Union Challenger focusing on retirement need. Increased rider sales. Increased sales of Union Life Advantage, UA's flagship product. 	<p>2010 Key Points</p> <ul style="list-style-type: none"> Conducted experience investigations for hospital cash and critical illness products. Conducted lapse and mortality investigations. Reviewed and updated underwriting procedures. Commenced structured / modular training programme for underwriting and claim staff. Implemented IT system to launch unit linked products.
	<p>2011 Priorities</p> <ul style="list-style-type: none"> Increase bancassurance penetration. Explore opportunities to build relationships with unaffiliated non partner banks and financial institutions. Increase outbound call centre operations. 	<p>2011 Priorities</p> <ul style="list-style-type: none"> Launch improvements to health insurance covers. Focus on developing simple / packaged products for new recruits. Review options to launch products for corporate segment of market. 	<p>2011 Priorities</p> <ul style="list-style-type: none"> Roll out modular training programme for technical staff. Utilise Prophet system to implement actuarial control cycle. Leverage reinsurance partnerships to update knowledge of internal staff. Streamline unit linked / underwriting operational processes.

Management Discussion and Analysis contd.

Opportunities and Threats

The key opportunities identified for the life business are summarised as follows

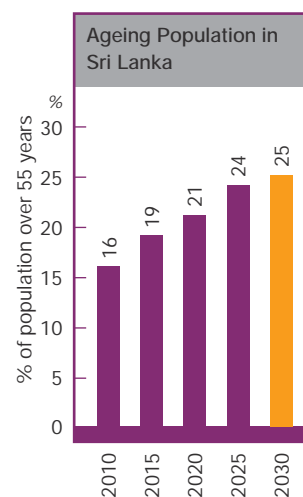
Opportunity	UA's Response
Inadequate post-retirement medical and pension schemes in the context of an ageing population.	Develop innovative investment and financial protection products to fulfill market needs.
Growth potential in North and East.	Increase distribution, training and development and communication resources to tap emerging business opportunities.
Low penetration levels and growth potential in mass affluent market segment.	Introduce products specifically targeting this market segment and improve acquisition and closing skills across all distribution channels.
Turmoil in the financial service sector, highlighting the need for transparency, good corporate governance practices and balance sheet strength.	UA's image, strong heritage and recent national and international awards reflect the company's commitment to these attributes. The new brand positioning also seeks to differentiate UA as a reliable partner to all stakeholders.

Threat	UA's Response
Inadequate long term assets to match long term liabilities.	Selectively diversify into long term assets other than government bonds, corporate paper e.g. property, equities.
Threat of new entrants.	Enhance brand visibility, distribution reach and service standards to maintain / grow position in life insurance market.
Lack of skilled staff to manage distribution and technical functions.	<ul style="list-style-type: none"> • Increase training and development initiatives. • Commence talent management programme to identify high potential employees. • Develop short / medium term strategies to bridge capability gaps (if any).

Future Outlook

The relatively low penetration levels, ageing population with retirement and health insurance needs and growing affluence across most segments of the market has always made life insurance a lucrative business proposition. The end of military hostilities resulting in the opening up of the North and East, renewed economic activity across the country and a general upturn in business confidence will enhance the positive outlook for the sector. This outlook is not negated by the threat of new entrants, as the significant under penetration signals that there are sufficient business opportunities for all.

In order to take advantage of these benign conditions, industry participants will have to work together to create more awareness regarding the benefits of life insurance, manage the risk of not having long term assets to match long term liabilities and work towards increasing persistency by delivering value for money products that customers will continue to pay for. Industry participants will also have to lobby regulators and other financial institutions to implement technology to increase the efficiency of premium collections. Insurers will also have to focus on developing skills and competencies across distribution, underwriting and claims management functions.

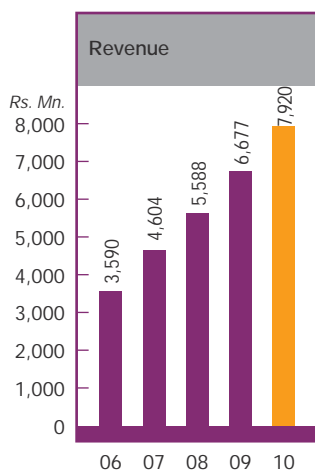


Source: World Bank

Financial Review

Overview of Financial Performance

Consolidated revenues increased by 19% from Rs. 6.7 billion in 2009 to Rs. 7.9 billion in 2010. All components of revenue i.e. general insurance premium net of reinsurance (adjusted for premium earned during the year), life insurance premium net of reinsurance and investment income contributed to this growth.



Gross written premium increased by 19% from Rs. 6.0 billion in 2009 to Rs. 7.1 billion in 2010. This was mainly due to a 25% growth in life insurance premiums, which increased from Rs. 2.8 billion in 2009 to Rs. 3.5 billion in 2010. General insurance premium grew by 14% from Rs. 3.2 billion in 2009 to Rs. 3.7 billion in 2010.

Premium ceded to reinsurers amounted to 14% of combined life and general insurance GWP in 2010, compared with 16% reported in 2009. This was mainly due to a decline in premium from general insurance business classes where a higher proportion of the premium is ceded, vis-à-vis increases in classes where reinsurance outgo is lower.

Rs. 417 million was transferred to the unearned premium reserve to be credited as income in 2010, compared

with Rs. 125 million transferred in 2009. This is an accounting adjustment required to match general insurance premiums over the period that insurance cover is provided.

Consequent to this adjustment, general insurance net earned premium increased by Rs. 120 million. This increase, combined with the growth of Rs. 689 million in life insurance net written premium, boosted net earned premium by 17%, from Rs. 4.9 billion in 2009 to 5.7 billion in 2010.

Insurance claims and benefits increased by 18% from Rs. 3.8 billion in 2009 to Rs. 4.5 billion in 2010. This was mainly due to Rs. 2.1 billion transferred to the life fund in 2010, compared with Rs. 1.6 billion transferred in 2009. This transfer is to recognise the increase in life policyholder liabilities as a consequence of increased business volumes.

General insurance claims (net of reinsurance recoveries) increased by Rs. 34 million and life insurance claims, benefits and maturity payments increased by Rs. 154 million. These factors also contributed to the overall increase in insurance claims and benefits.

Underwriting and acquisition costs increased by 38%, mainly due to an increase in life insurance commission expenses on account of new business generated during the year.

Investment income increased by 24% from Rs. 1.7 billion in 2009 to Rs. 2.1 billion in 2010 as the company was able to take advantage of the appreciation in market prices of equity investments during the year. Growth in the life insurance investment portfolio also contributed to the increase in investment income.

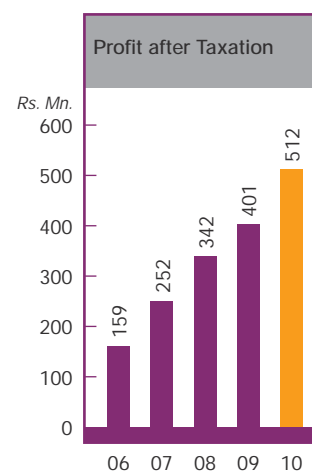
Operating and administrative expenses increased by 10% in 2010 compared

with 17% increase in 2009. The company has taken several steps to contain expenses by leveraging information technology to enhance productivity and change existing operating models and business practices.

Profit before taxation increased by 27%, from Rs. 467 million in 2009 to Rs. 593 million in 2010. Both life and general insurance segments contributed to this growth. Profit from life business increased from Rs. 235 million in 2009 to Rs. 325 million in 2010. Profit from general insurance also increased from Rs. 232 million to Rs. 268 million during the same period.

As per current tax regulations, life and general insurance businesses are taxed separately. The general insurance tax charge for 2010 has increased by 22% mainly due to the increase in profit before tax.

UA's profit after tax increased by 28% from Rs. 401 million in 2009 to Rs. 512 million in 2010. As mentioned above, both life and general insurance segments contributed to the highest profit after tax recorded by the company.



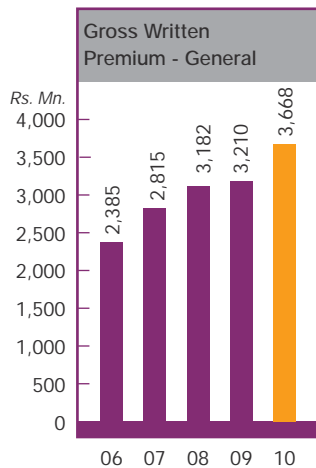
Management Discussion and Analysis contd.

Dividends

The Directors declared a first and final dividend of Rs. 6.25 per share and the dividend payout amounted to Rs. 234.375 million.

Segmental Performance - General Insurance

General GWP grew by 14% from Rs. 3.2 billion in 2009 to Rs. 3.7 billion in 2010. General insurance related retail distribution channels and corporate distribution channels maintained a steady growth momentum in 2010. Accident and liability premiums reported the highest year on year growth mainly due to the increase in surgical and hospitalisation premiums. Motor premiums grew by 8% and marine premiums also reported a 19% increase. Fire insurance premiums reported a decline of 11%, mainly due to the drop in rates and demand for terrorism coverage.



Premium ceded to reinsurers as a percentage of GWP declined from 27% in 2009 to 25% in 2010. As a result, reinsurance outgo did not keep pace with the increase in GWP, but reported a marginal increase from Rs. 0.88 billion in 2009 to Rs. 0.93 billion in 2010.

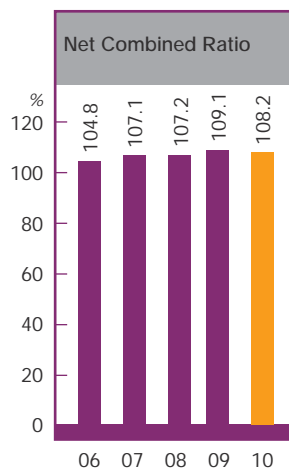
Net written premium increased by 18% and was consistent with UA's strategy of growing retail business volumes and retaining more risk within the balance sheet.

Net written premium increased by Rs. 412 million, but Rs. 417 million was transferred to the unearned premium reserve as income to be accounted in 2011. In the previous year, the company transferred Rs. 125 million as unearned premiums. Following this adjustment, net earned premiums increased by 5% from Rs. 2.2 billion in 2009 to Rs. 2.3 billion in 2010.

The claims ratio (computed as a % of net claims over net earned premium) decreased from 74.6% in 2009 to 72.2% in 2010. Net claims expense includes Rs.19 million charge on account of incurred but not reported (IBNR) claims which has been actuarially valued.

The net expense ratio (computed as a % of commission and overhead expenses over net earned premium) of 36% in 2010 was higher than the 34.6% reported in 2009.

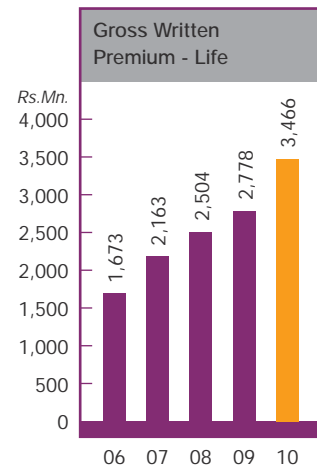
Following these developments, the combined ratio (total of the claims and expense ratios) of 108.2% in 2010 was lower than the 109.1% reported in 2009.



The decrease in underwriting losses and increase in investment income in 2010 resulted in the profit from general insurance business increasing from Rs. 232 million in 2009 to Rs. 268 million in 2010.

Segmental Performance - Life Insurance

Life insurance premiums increased by 25% from Rs. 2.8 billion in 2009 to Rs. 3.5 billion in 2010. Regular premiums including unit linked products grew by 26%, while GWP from group life policies reported a marginal decline. As a result, net written premium (after deducting premium due to reinsurers) increased by 26% from Rs. 2.7 billion in 2009 to Rs. 3.4 billion in 2010.



Following actuarial advice, Rs. 2.1 billion was transferred to the life fund (compared with Rs. 1.6 billion transferred in 2009), to reflect the increase in liabilities to our life policyholders.

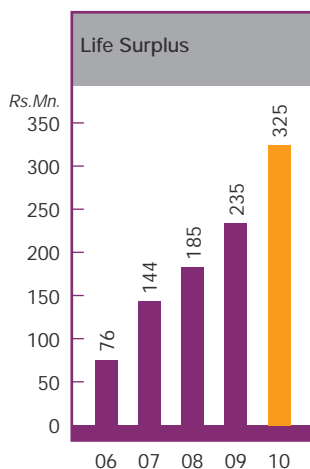
Claims, benefits and maturity payments increased from Rs. 562 million in 2009 to Rs. 716 million in 2010, mainly due to increased maturity payments.

Underwriting and policy acquisition expenses increased by 34% in 2010, which was consistent with the growth in GWP as premiums generated in the first year of the policy term are entitled to a higher commission.

The life investment portfolio increased by 12% from Rs. 9.6 billion in 2009 to Rs. 10.8 billion in 2010.

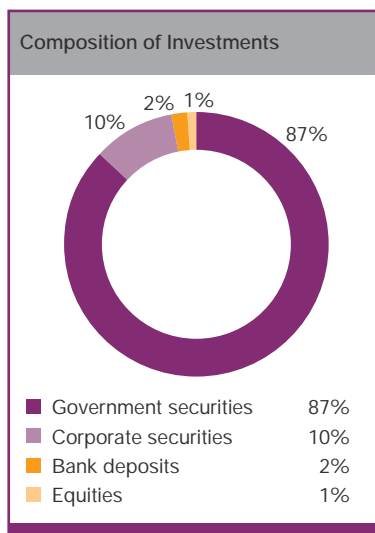
Operating and administration expenses increased from Rs. 1.1 billion in 2009 to Rs. 1.3 billion in 2010.

As per independent actuarial advice, Rs. 325 million was transferred as surplus from the life fund, after providing for bonuses to policyholders. In 2009, Rs. 235 million was transferred as life surplus.



Financial Position Investments

The investment portfolio including government securities, corporate securities, bank deposits and equity investments increased by 15%, from Rs. 11.9 billion in 2009 to Rs. 13.8 billion in 2010. The composition of the investment portfolio is provided below.



Quoted Equities

In line with the strategy of matching long term liabilities with long term assets, investments in quoted equities increased from Rs. 332 million in 2009 to Rs. 767 million in 2010. As at December 2010, the portfolio is weighted mainly to the Banks, Finance & Insurance and Manufacturing sectors, which together account for 61% of equity investments (on cost).

Property, Plant and Equipment

There is no substantial increase in property, plant and equipment from 2009 to 2010. Net book value of property plant and equipment in 2009 and 2010 was Rs.1.07 billion and Rs.1.11 billion respectively. Land and buildings account for 71% of this asset class, with computer equipment accounting for 19%.

Reinsurance Receivable

Reinsurance receivables comprise Rs. 124 million receivable on paid claims (2009 - Rs. 70 million) and Rs. 457 million (2009 - Rs. 832 million) receivable on claims provided but not paid. Adequate provision has been made in the financial statements for reinsurance receivables where recovery is doubtful.

Premium Receivable

Premium receivable on general insurance policies written during the year increased by 46%. This increase is attributable to a 65% increase in premium written in the months of November and December 2010, compared with the same period of 2009.

Other Assets

Other assets amounting to Rs. 1.5 billion in 2010 has increased by 16% compared with Rs.1.3 billion reported in 2009. Loans to employees and interest receivable on life and general investment portfolios account for 26% and 36% of other assets respectively. Taxes receivable / recoverable accounted for a further 22% of other assets.

Life Insurance Provision

Following the annual valuation of life policyholder liabilities, the life insurance provision increased from Rs. 9.8 billion in 2009 to Rs. 11.8 billion in 2010. The life insurance provision includes Rs. 190 million unclaimed benefits due to policyholders.

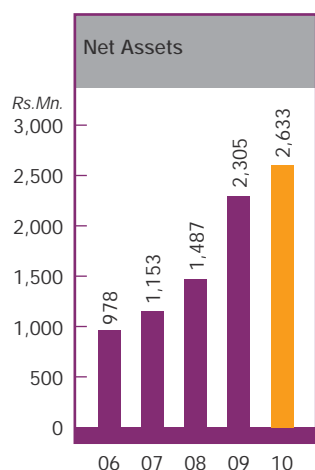
General Insurance Provision

General insurance provisions, which include net (after reinsurance) unearned premiums, net deferred acquisition costs and gross (before reinsurance) outstanding claims increased only by 3% from Rs. 2.6 billion in 2009 to Rs. 2.7 billion in 2010.

Equity

Improved profitability resulted in equity increasing from Rs. 2.3 billion in 2009 to Rs. 2.6 billion in 2010.

Management Discussion and Analysis contd.



Cash Flow Analysis

Net cash from operating activities increased by 10%, from Rs. 2.6 billion in 2009 to Rs. 2.8 billion in 2010 mainly due to increased premium income.

The bulk of these funds (Rs. 2.6 billion) were channeled into investing activities, compared with Rs. 2.5 billion utilised in investing activities in 2009.

Following this transfer and Rs. 187.5 million dividend payment to shareholders, cash and cash equivalents recorded a positive balance of Rs. 69 million as at December 2010.

Impact of Changes in Sri Lanka Accounting Standards

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards – 2011, applicable for financial periods beginning on or after 1st January 2012. These Standards have many changes and consequential changes from the adoption of SLAS 44 and 45. These new Accounting Standards are prefixed both SLFRS and LKAS which correspond to the relevant IFRS and IAS.

The following Accounting Standards have been adopted to the Sri Lankan financial framework and have a direct impact on the insurance industry.

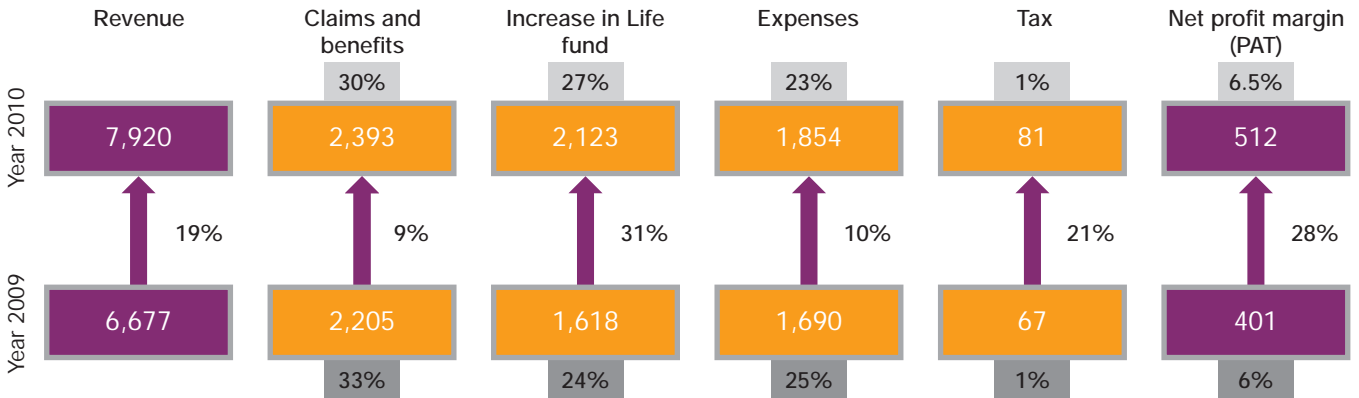
- 1) SLFRS 1- First-time Adoption of Sri Lanka Accounting Standards
- 2) SLFRS 4 - Insurance Contracts

Accounting Standards which relate to financial instruments are summarised below;

- 1) Sri Lanka Accounting Standard 32 - Financial Instruments: Presentation (LKAS – 32)
- 2) Sri Lanka Accounting Standard 39 - Financial Instruments: Recognition and Measurement (LKAS 39)
- 3) Sri Lanka Accounting Standard 7 - Financial Instruments: Disclosures (SLFRS – 7)

We are in the process of ascertaining the impact of these standards on UA's financial statements.

Graphical presentation of Statement of Income - year on year comparison



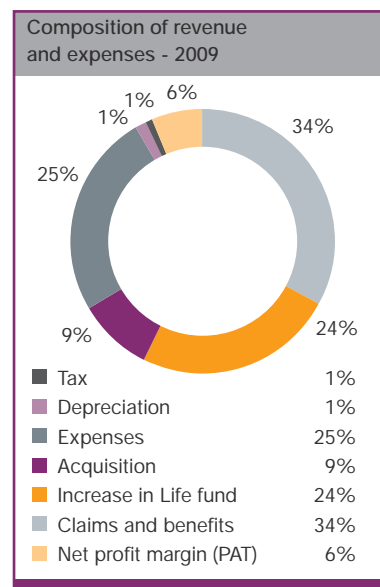
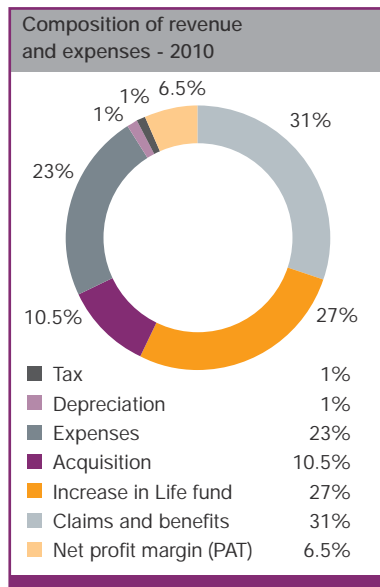
Where; Year on Year increase (2010 vs 2009)

Expense / profit as a % of revenue 2010

Expense / profit as a % of revenue 2009

Outgoing (Rs. Mn.)

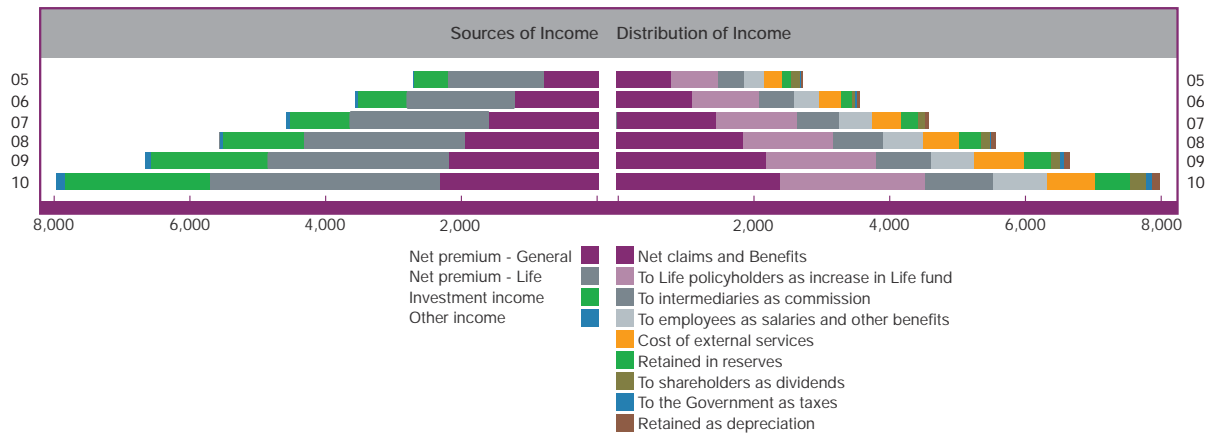
Incoming / residual (Rs. Mn.)



Management Discussion and Analysis contd.

Contribution to National Economy

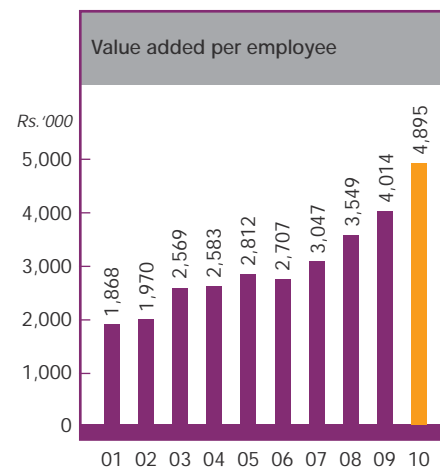
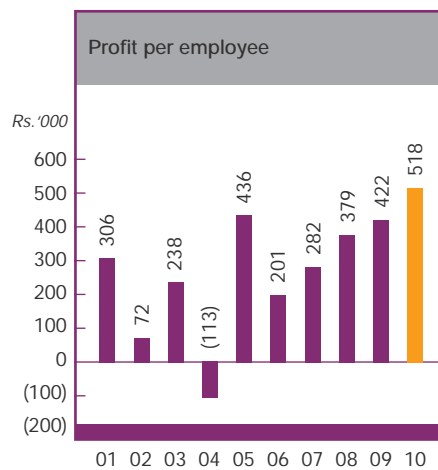
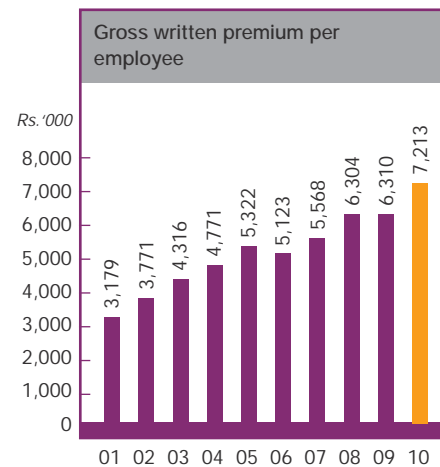
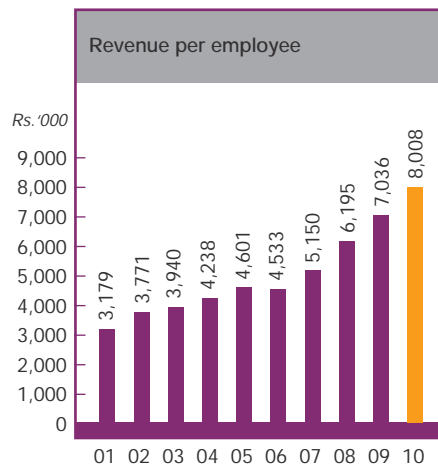
Consolidated Statement of Value Added	2010		2009		2008		2007		2006		2005	
	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%
Net premium	5,691		4,882		4,337		3,674		2,834		2,222	
Investment and other income	2,263		1,795		1,249		929		748		516	
Net claims and benefits	(2,393)		(2,204)		(1,861)		(1,458)		(1,108)		(796)	
Cost of external services	(720)		(664)		(524)		(421)		(330)		(263)	
Total value added	4,841		3,809		3,201		2,724		2,144		1,679	
To employees as salaries and other benefits	787	16	648	17	586	18	492	18	375	17	292	17
To intermediaries as commission	996	21	799	21	746	23	620	23	502	23	379	23
To the Government as taxes	81	2	67	2	23	1	1	0	23	1	16	1
To shareholders as dividends	234	5	188	3	122	3	103	4	50	2	125	7
To Life policyholders as increase in life fund	2,123	44	1,619	43	1,318	41	1,192	44	992	46	700	42
Retained with the business												
- as depreciation	108	2	87	2	71	2	62	2	47	2	30	2
- in reserves	512	11	401	11	335	11	254	9	155	7	137	8
	4,841	100	3,809	100	3,201	100	2,724	100	2,144	100	1,679	100



Staff Distribution by Province	2010		2009	
	No.	%	No.	%
Central	37	4	43	5
Eastern	42	4	26	3
North Central	46	5	48	5
North Western	39	4	36	4
Northern	14	1	10	1
Sabaragamuwa	22	2	22	2
Southern	63	6	58	6
Uva	43	4	47	5
Western	683	69	659	69
Total	989	100	949	100

Employee Productivity

Employee Productivity (Rs. '000)	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenue per employee	8,008	7,036	6,195	5,150	4,533	4,601	4,238	3,940	3,771	3,179
Gross written premium per employee	7,213	6,310	6,304	5,568	5,123	5,322	4,771	4,316	3,771	3,179
Profit per employee	518	422	379	282	201	436	(113)	238	72	306
Value added per employee	4,895	4,014	3,549	3,047	2,707	2,812	2,583	2,569	1,970	1,868
Number of employees	989	949	902	894	792	597	537	547	571	586



Management Discussion and Analysis contd.

Employee Indicators

Staff Strength

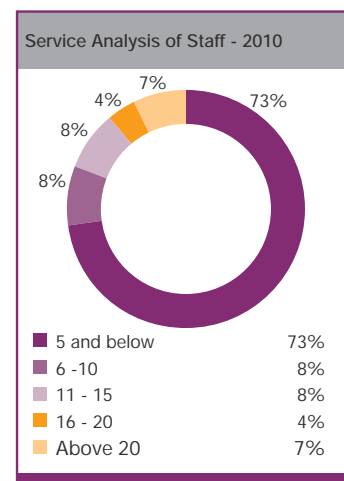
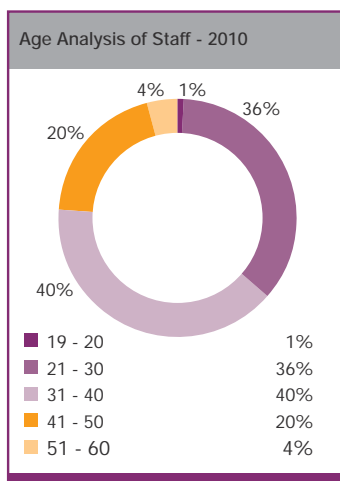
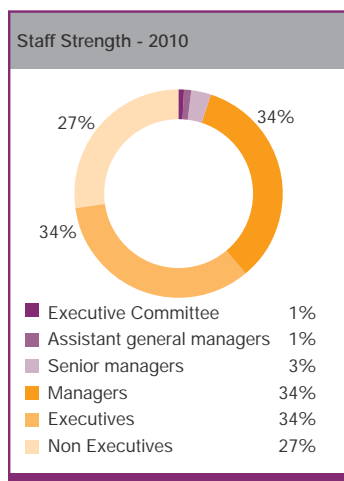
As at 31 st December	2010	2009	2008	2007	2006
Executive Committee	9	9	10	10	10
Assistant general managers	7	8	9	10	8
Senior managers	31	29	27	32	28
Managers	332	315	264	251	200
Executives	340	300	279	293	291
Non executives	270	288	313	298	255
Total	989	949	902	894	792

Age Analysis of Staff - 2010

Age group (Years)	Executive Committee	Assistant General Managers	Senior Managers	Managers	Executives	Non Executives	2009 Total
19 - 20	-	-	-	-	-	10	10
21 - 30	-	-	-	49	141	162	352
31 - 40	2	-	6	179	148	56	391
41 - 50	4	7	16	90	42	36	195
51 - 60	3	-	9	14	9	6	41
Grand Total	9	7	31	332	340	270	989

Service Analysis of Staff - 2010

Years	Executive Committee	Assistant General Managers	Senior Managers	Managers	Executives	Non Executives	2009 Total
5 and below	6	1	16	228	273	198	722
6 - 10	3	3	5	35	23	9	78
11 - 15	-	1	4	33	19	25	82
16 - 20	-	1	-	13	9	14	37
Above 20	-	1	6	23	16	24	70
Total	9	7	31	332	340	270	989



Brand Valuation and Brand Building Process

As mentioned in the previous annual report, following extensive research, the UA brand is positioned on the basis of Trust.

The new platform is operationalised on the basis of being “convenient” to our general insurance customers, “transparent” to our life insurance customers and being “respectful” to all stakeholders. The activities which have been initiated to deliver these attributes are outlined below.

Life Insurance Customers

Life insurance is a long term investment / projection mechanism. Customers place their trust in an insurance company, by paying premiums up to 30 years. Insurers must meet their commitments in terms of investing these premiums in a manner that will enable them to pay the maturity proceeds / other benefits at the end of the policy period, or the claim value, if the insured event occurs.

The initiatives taken by UA to ensure “transparency” for life insurance customers is summarised as follows

Activity	2010 Progress
Identify customer needs and sell products accordingly.	<ul style="list-style-type: none"> • Products are sold based on a “fact find” of customer requirements • Union Challenger sales process has embedded fact find mechanisms to identify any gaps in investment / income requirements
Customers’ money will be invested in a manner that will ensure that the promise (in terms of death / maturity benefits) will be delivered and sound risk management practices are in place.	<ul style="list-style-type: none"> • Investments are in accordance with regulatory requirements • The company’s solvency position is published on page 117 of this report • Investment decisions are delegated by the Board to the Board Investment Committee (BIC), which conducts its activities in accordance with the Investment Policy Statements approved by the Board • The following types of risks are monitored by the Board / BIC with regard to investments made. Further details are available on pages 125 to 127. <ul style="list-style-type: none"> • Concentration risk • Liquidating risk • Credit risk • Market Risk
Deliver high quality service	<ul style="list-style-type: none"> • Several initiatives have been taken to improve service levels as outlined on page 56.
Ensure transparency in all business documentation e.g. training materials, marketing brochures, policy documents etc.)	<ul style="list-style-type: none"> • Set up 24 hour call centre to handle customer inquiries and conduct ‘welcome calls” to ensure that customers are fully appraised regarding product features risks / obligations etc. • Union Challenger product material designed to ensure maximum transparency.
Train sales / support staff to act with responsibility and in a professional manner	<ul style="list-style-type: none"> • On going initiative.

Management Discussion and Analysis contd.

General Insurance Customers

General insurance is a mechanism where a person's / organisation's financial assets are protected from an unforeseen occurrence for a nominal premium.

The activities to operationalise the brand positioning of "convenience" and progress made in 2010 is as follows.

Activity	2010 progress
Sell products which meet customer needs i.e. in terms of coverage, value covered etc.	<ul style="list-style-type: none"> Details of general insurance products are available on page 146. Details of new products and service improvements are detailed on pages 56 to 57.
Obtain reinsurance support for high quality reinsurers.	<ul style="list-style-type: none"> The company's reinsurance panel is summarised on inner back cover.
Implement sound risk management practices to ensure that UA delivers on its commitments.	<ul style="list-style-type: none"> Details of the company's risk management practices are provided on pages 122 to 128 of this report.
Offer convenience to customers when purchasing policies / lodging claims and deliver high quality service.	<ul style="list-style-type: none"> Details of service improvements are available on page 56.
Train sales / support staff to act with responsibility	<ul style="list-style-type: none"> On going initiative

Employees and Field Force

We are conscious that we must add value to our people and provide them with a rewarding career with opportunities to enhance their skills / competencies.

The activities undertaken in line with this commitment is provided on pages 154 to 161.

Community

UA has pledged to conduct its business affairs in a responsible manner, by organising programmes and activities which will add value to the communities it interacts with.

The details of the community activities undertaken by UA is provided on pages 162 to 165.

Shareholders

The sustainability report on pages 166 to 168 outline UA's commitment to ensure that the company operates in a manner which will generate sustainable results to shareholders.

Environment

Activities undertaken to ensure the preservation of the environment is outlined on pages 169 to 171 of this report.

Brand Valuation

The UA brand was valued at Rs. 1.2 billion in 2010 (2009 - Rs. 876 million). This value was derived from the valuation conducted by Brand Finance (UK) in association with Sting Consultants, using the "relief of royalty" approach, which assumes that the company does not own the brand and calculates how much it would need to license it from a third party.

In 2010, the UA brand received an AA+ rating in terms of its "brand power" from Brand Finance (UK). Brand power determines the ability of the brand to continue delivering the revenue streams expected in the future. It is based on a number of objective criteria including growth rates, market share, brand awareness etc., which are detailed overleaf.

It is expected that the initiatives set into motion as part of the new brand positioning will enhance the value and power of the UA brand in future years.

Attribute	Developments in 2010
Market share	It is estimated that UA has retained its market shares in both the life and general insurance industries of 11% and 9% respectively.
Sales growth	General insurance premiums growth is expected to exceed industry growth rate. Life insurance premium grew by 25%
Brand awareness	Based on research conducted as part of the overall brand strategy, awareness regarding the UA brand remains high in chosen market segments.
Advertising spend	The company incurred Rs. 107 million in advertising expenses in 2010.
Brand loyalty	The company measures brand loyalty by reviewing general insurance renewal retention rates and life insurance persistency ratios on a monthly basis.
Brand outlook	Given the growth potential of the life and general insurance businesses, the brand outlook remains positive.
Brand Management	UA takes a holistic approach to brand management. The new brand position has also enabled UA to focus resources to deliver specific customer requirements and the new visual will be carried across all products / service offerings to ensure that the brand promise is articulated across all customer points.
Distribution	Life insurance products are distributed mainly by tied agency force (field sales staff), which numbered over 4,063 as at December 2010. General insurance business is distributed via brokers, agents and UA staff. We are also investing in alternative distribution channels and leveraging cross marketing opportunities between the life and general businesses as well as within the group. As at December 2010, UA sold life and general insurance products through 68 branches spread throughout the island.
Brand heritage	The brand "Union" was derived from the union of strength that was forged by merging the insurance businesses of Aitken Spence, Carsons, ACW and Whittal Boustead. UA continues to enjoy a superior reputation especially among corporate customers who value the company's corporate governance practices and commitment to transparency

Superbrand Status

The UA brand retained its Superbrand status, which was awarded after a rigorous selection process. As per the official definition, "a superbrand has established the finest reputation in its field and offers consumers emotional and / or tangible advantages over competitors, which (consciously or sub consciously) customers want, recognise and are confident about investing in. Superbrands must represent quality, reliability, distinction, reputation and prestige."

The Superbrand status is conferred on a brand following a two step process involving both a consumer feedback

mechanism as well as an assessment of "brand strength" by an independent panel of experts. The UA brand was selected from an initial long list of all Sri Lanka's business to consumer brands, which were shortlisted to distill the Superbrands.

Management Discussion and Analysis contd.

Intellectual Capital Report

At Union Assurance, we maintain that our intellectual capital is as important as our financial capital in providing truly sustainable earnings. That is why we have made substantial efforts in recent years to visualise and more concretely describe those assets that are difficult to distinguish in the overwhelming mass of financial information.

A clearer and more balanced report of UA's performance not only makes it easier to value our operations, it also gives us more effective instruments with which to manage and develop our hidden assets. The more tangible we can make our hidden assets, the better for all of us.

Therefore, we have created a set of indicators that visualise our performance in terms of intellectual capital

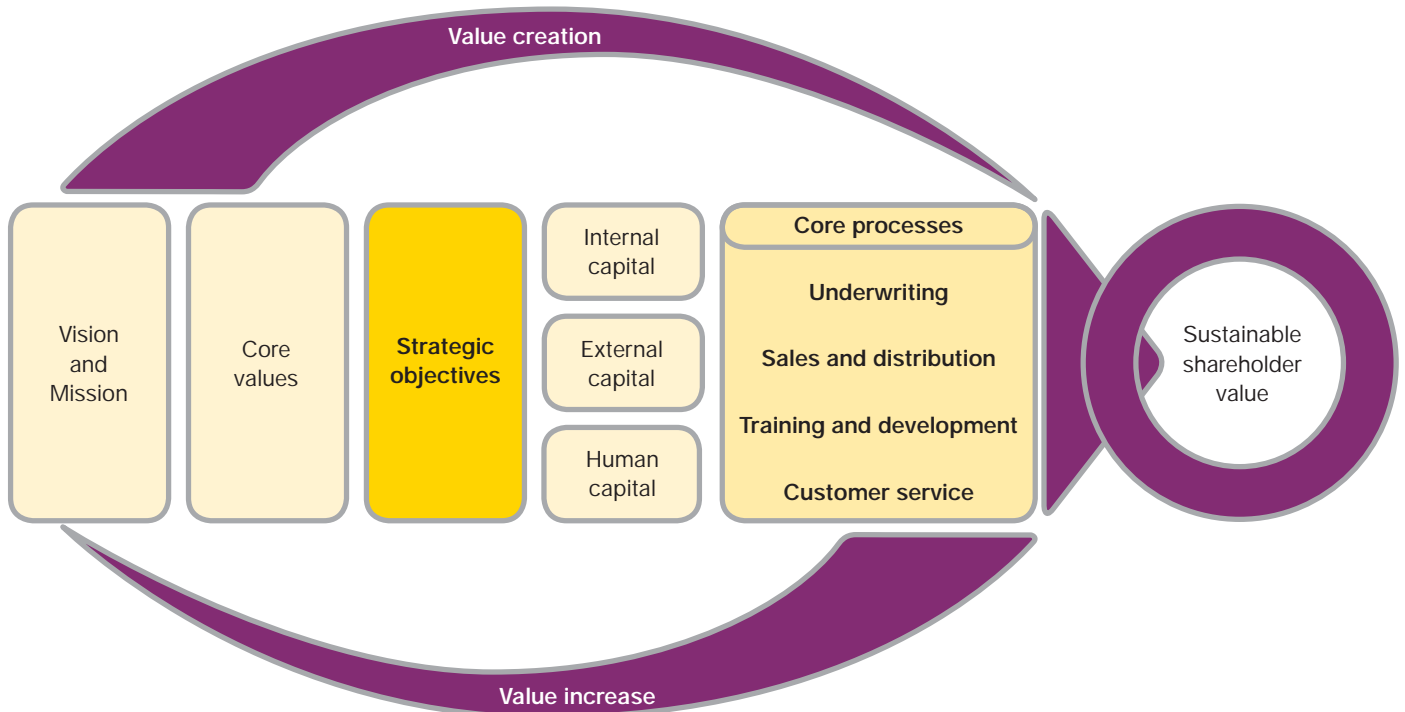
management. This broadened, balanced type of accounting and reporting results in a more systematic description of the company's ability and potential to transform intellectual capital into financial capital.

The starting point of UA's value creation process is the organisation's vision, mission and core values. These define the long term context of our business and set the tone for our dealings with all stakeholders. The company's strategic objectives as outlined on pages 48 to 49 of this report are derived from this perspective.

The company's strategic objectives are achieved with reference to the following drivers of intellectual capital, which underpin the core functions of the organisation i.e. underwriting, sales and distribution, training and development and customer service.

1. Internal Capital encompasses both the organisational framework and technical infrastructure designed to ensure smooth functioning of business operations.
2. External Capital illustrates the company's focus on its business, customers, partners and its dealings with the public.
3. Human Capital comprises staff structures as well as the human resource skills applied to business processes.

As depicted in the diagram in the previous page, the links between these processes, drivers and structures creates value for all stakeholders, ultimately resulting in sustainable shareholder value.



Internal Capital

Internal Capital Goals	Commentary
Update corporate governance practices in line with best practices	<ul style="list-style-type: none"> Reinforced our commitment to adopt best corporate governance practices by formally reviewing and updating the set of charters outlining the company's objectives and commitments towards all stakeholder groups. Revamped the risk management process making it a bottom up process, rather than a top down process as conducted in the past. As a result, each head of department conducted risk management workshops with their relevant teams and all the departmental risk grids are summarised and monitored at the corporate level. Enhanced internal audit resources and frequency of audits to ensure that strategic and key operational risks are well managed and any deviations are escalated on a timely basis. Intensified the business continuity testing process, by conducting a real time simulation without any pre-warning to staff.
Constantly optimise business processes	<ul style="list-style-type: none"> Developed "Speed Cash" to ensure speedy claims settlement for amounts up to Rs. 50,000/-. Developed SMS based quotation system. Developed e-learning modules to facilitate training and development of employees. Ensured consistent usage of web based sales force management system.

Internal Capital Indicators

a. Organisational Framework	Indicators	Annual Report Reference	
	Formalised corporate governance structure	Corporate Governance (page 80)	
	Board Committees <ul style="list-style-type: none"> Board Audit and Compliance Committee Remuneration Committee Board Investment Committee Nominations Committee 	Corporate Governance (page 106)	
	Separation of corporate management from the Board of Directors	Corporate Governance (page 80)	
	Branch network	Distribution network (pages 269 to 271)	
b. Technical Infrastructure	Indicators	Value 2010	Value 2009
	Number of IT applications	36	35
	Investment in IT infrastructure during the year	Rs. 99 million	Rs. 87 million
	Value of IT infrastructure as a percentage of long term assets	19%	17%
c. Philosophy and Culture	Indicators	Value 2010	
	Employee perception of philosophy and culture – employee satisfaction survey 2010	In the employee satisfaction survey conducted during the year, the company scored 86% for the statement "We are proud to work for our company."	
d. Financial Relations	Indicators	Annual Report Reference	
	Company ownership	Shareholder Information (pages 255 to 259)	
	Reinsurer ratings	Panel of reinsurers (inner back cover)	
	Risk management initiatives	Risk Management report (pages 121 to 133)	

Management Discussion and Analysis contd.

Organisational Framework

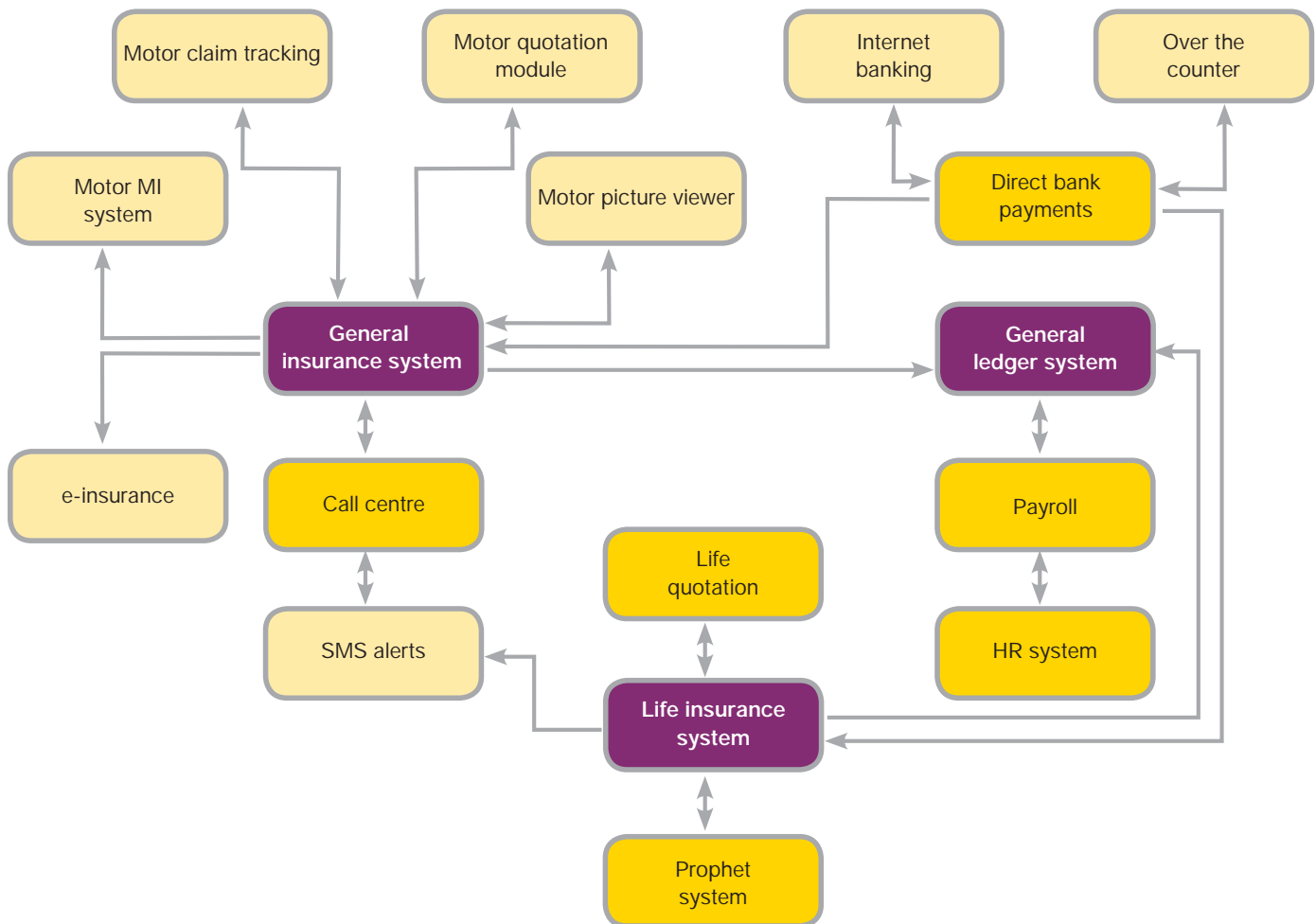
To handle UA's core tasks successfully and efficiently, the company continuously optimises its organisational framework and technical structure. The corporate governance framework ensures the highest standards of business integrity, ethical values and professionalism. Further details are available in the Corporate Governance report on pages 80 to 110.

Technical Infrastructure

The company operates two separate systems for life and general insurance underwriting, claims management and servicing. All UA locations have access to these systems ensuring convenient, hassle free service to our customers. Both systems are maintained in-house. The general insurance system was an off the shelf package which was purchased and modified to suit the requirements of the local market, while the life

system was developed internally. These systems are integrated with a general ledger system as well as several other work flow and e-insurance systems. In addition to providing e-mail, internet / intranet facilities to our staff, we have also automated several HR processes, e.g. performance appraisals, attendance, leave applications, etc. During the year, the company invested Rs. 99 million in IT infrastructure.

Our IT infrastructure is diagrammatically presented as follows



IT infrastructure	Investment (Rs. Mn)	
	2010	2009
AS 400	14	54
Personal computers	19	22
Software	66	11
Total	99	87

Philosophy and Culture

A good indicator of our organisational philosophy and culture is the response we received from the employee satisfaction survey conducted in 2010. The company achieved a score of 86% when employees affirmed that "We are proud to work for our company." This attribute was ranked as the 6th

highest among more than 110 attributes included in the survey. The company also scored 73% for the attribute "Maintenance of a good overall culture (within the organisation)."

Financial Relations

The company is backed by the corporate strength of one of Sri Lanka's largest conglomerates, John Keells Holdings

PLC. The company also reinsures its risks with financially stable reinsurers whose security ratings are either on par or better than the minimum ratings stipulated by the Insurance Board of Sri Lanka. Together with appropriate risk management activities, the company is able to provide the protection, financial security and wealth creation opportunities we promise our customers.

External Capital

External Capital Goals	Commentary
Increase the brand equity of the company	<ul style="list-style-type: none"> The UA brand was valued at Rs. 1.2 billion and the brand rating was AA+.
Build customer confidence through ethical business practices and prudent risk management	<ul style="list-style-type: none"> The company adopts effective corporate governance practices. The company strives to ensure transparency and accountability in all its dealings. Implemented a formal risk management process.
Maintain strong business relationships with external service providers	<ul style="list-style-type: none"> UA has strong relationships with 38 financial institutions. In the process of forming strategic alliances with garages in key locations.
Constantly improve service standards	<ul style="list-style-type: none"> Launched "Speed Cash" where the customer will receive an SMS at the accident site itself confirming the agreed claim value which can be presented at any Commercial Bank branch, to collect cash over the counter. Launched SMS based quotation system where a customer can get a quotation by simply sending an SMS. Tied up with Singer to sell Union Motor Reload policies at Singer outlets enabling UA to expand its distribution reach. Tied up with Abans to expand "Union Pay Easy" scheme. Achieved 97% satisfaction among motor insurance customers who made claims on their policies.

Management Discussion and Analysis contd.

External Capital Indicators

a. Brand Building		Indicators	Value 2010	Value 2009
		Brand value	The UA brand was valued at Rs. 1.2 billion by Brand Finance (UK) in association with Sting Consultants.	The UA brand was valued at Rs. 876 million by Brand Finance (UK) in association with Sting Consultants.
b. Corporate Image Building			Value 2010	Value 2009
		Number of press releases	24	62
		Number of press conferences	1	2
c. Internet Based Communication			Value 2010	Value 2009
		Number of visits to the web site	264,308	24,941
d. Business Partnering			Value 2010	Value 2009
		Partnering with garages	Entered into strategic partnerships with 7 garages.	Entered into strategic partnerships with 3 garages.
		Partnering with pharmacies and hospitals	Partnered with over 43 hospitals, 2 opticians and a chain of pharmacies.	Partnered with 36 hospitals, 2 opticians and a chain of pharmacies.
		Partnering with banks and financial services providers	Strong relationships with 38 financial institutions.	Strong relationships with 38 financial institutions.
e. Distribution Channels			Value 2010	Value 2009
		Field staff	We employ over 3,200 field staff members, refer pages 160 to 161 for more details.	We employ over 2,400 field staff members.
		Brokers	We work with over 40 registered brokers.	We work with over 40 registered brokers.
f. Market Share			Value 2010	Value 2009
		General	10% (e)	10%
		Life	11% (e)	11%
g. Focus on Customer Satisfaction			Value 2010	Value 2009
		Motor insurance claimants satisfaction level.	97% (survey conducted by internal R&D division).	96% (survey conducted by internal R&D division).
h. Addressing Customer Complaints			Value 2010	Value 2009
		Number of customer complaints received.	399	374
		Resolved	126	107
		Resolution in progress	273	267
i. Service Enhancements			Value 2010	Value 2009
		Life	2	4
		General	5	4

Brand Building

The UA brand was valued at Rs. 1.2 billion in 2010 by Brand Finance (UK) in association with Sting Consultants. The brand rating improved to AA+.

Following a rigorous selection process, the UA brand emerged as one of the 50 Superbrands in Sri Lanka.

Corporate Image Building

The company has a public relations unit responsible for corporate image building. Apart from formal events such as press conferences, our high standards of business integrity, ethical values and professionalism contribute to building a positive image of the company.

Internet based Communication

We believe that the corporate website is a good source of communication. A wide variety of information including corporate information, latest products and services, employment information and investor information have been made available on our website, www.ualink.lk.

The company became the first insurance company in Sri Lanka to launch a trilingual website, enabling customers to view the website in the language of their preference.

Business Partnering

As part of the unique "three in one" claims settlement option available to Union Motor customers, we have entered into formal agreements with over 250 garages across the island and have entered into strategic partnerships with seven garages. Referred to as the "Drive in Drive out" option, the company's motor policyholders may take their vehicles to any one of these garages and the company will settle the dues direct to the garage.

UA has also entered into arrangements with 43 hospitals, two opticians and a chain of pharmacies whereby "Union Health Cash" customers' hospitalisation and medication bills are directly settled by the company. In addition, we have built strong relationships with banks and financial institutions in order to procure business as well as leverage their technology and distribution reach to enhance the level of convenience available to our policyholders.

Distribution Channels

Life insurance products are sold mainly through our field staff. We have branded them "Union Pride," indicating that each member of the team is a prudent entrepreneur, who takes personal responsibility for his work, acts with integrity and dependability in providing financial services to his client in an ethical manner.

General insurance products are mainly sold through the company's sales staff, brokers and agents. In 2008, UA introduced a web based motor insurance system "Click & Go," enabling customers to print their own motor certificate from the comfort of their home or office 24x7x365.

Market Share

We have approximately 10% of the general insurance market and 11% of the life insurance market. This makes UA the 4th largest insurer in each of these segments.

Focus on Customer Satisfaction

The company has commissioned a monthly process to monitor satisfaction levels of motor insurance claimants. As per the findings of this survey 97% of the customers polled were satisfied with the service they received.

Addressing Customer Complaints

The company has developed an on-line complaint management system to manage customer dissonance. As at year end, there were 399 customer complaints updated in the system. We have resolved 126 and 273 are being followed up.

Service Enhancements

Details of our service enhancements are provided in the Management Discussion and Analysis (pages 48) as well as in the Sustainability Report (pages 149 to 153).

Management Discussion and Analysis contd.

Human Capital

Human Capital Goals	Commentary
Recruit, develop and retain employees with necessary skills.	<ul style="list-style-type: none"> Review human resources in the context of strategic objectives. Implement structured training programmes to constantly upgrade skills / competencies. Implement remuneration policies which link fixed and variable remuneration to performance. Develop formal communication channels. Develop structured career progression opportunities. Implement strategies to enhance the image of insurance advisors. Implement strategies to reduce gap between permanent and non-permanent teams.
Foster a conducive working environment for all employees.	<ul style="list-style-type: none"> The company conducts a bi-annual employee satisfaction survey to identify any issues which require corrective action. The company aims to ensure that all employees of the company have a healthy work / life balance. To this end the recreation club organised several events during the year. The company strives to ensure that there is open communication between all employees. The company also has a grievance handling policy whereby any employee can communicate any grievances to his superiors.
Ensure the performance appraisal system clearly distinguishes between high and low performers, links individual performance to organisation goals and motivates and rewards staff for high performance.	<ul style="list-style-type: none"> The company has implemented an online performance appraisal system. In 2010, 50% of employees completed their performance appraisals on-line. The performance appraisal system is a two way process, whereby both the employee and the appraiser discuss the performance of the employee during the year and a rating is awarded to the employee based on his performance. The rating determines the employee's annual increment and bonus. The company has several performance based incentive schemes to reward individuals. Variable pay opportunities include commissions for acquiring new business and annual bonuses.
Ensure an integrated and strategic training and development program that builds technical skills, soft skills and leadership competencies.	<ul style="list-style-type: none"> The company strives to ensure that all employees are provided with the necessary training to effectively discharge their duties. Training needs are identified as part of the formal performance appraisal process and feed back from line management. During the year UA continued with the talent management initiative started in 2009. Details of training provided during the year are given below.

Human Capital Indicators

Training and Development	Indicators	Value 2010	Value 2009
	Training days per employee	Managers 5.46 Executives 2.06 Non executives 2.83	Managers 4.3 Executives 3.1 Non executives 2.4
	Training days per field staff member	9.8	8.8
	Cost of training and education	Rs. 49 million	Rs. 42 million
	Number of employees with overseas training	26	9
b. Employee Relations		Value 2010	Value 2008
	Employee satisfaction survey	Overall employee satisfaction rating was 77% as per the employee satisfaction survey conducted in 2010.	Overall employee satisfaction rating was 80% as per the employee satisfaction survey conducted in 2008.
	Number of management meetings	4	9
	Number of "Links" magazines published	-	3
	Number of "Union Pride" magazines published	-	2

Human Capital Indicators contd.

c. Employee Welfare Indicators		Value 2010	Value 2009
	Number of activities organised by the recreation club	13	7
	Number of staff members entitled to medical and insurance cover	989	949
	Number of field staff members entitled to medical and insurance cover	All staff with over 6 months service	All staff with over 6 months service
d. Employee Know How Indicators		Annual Report Reference	
	Business and financial acumen of the Board of Directors	Corporate Governance - page 87	
	Business and financial acumen of the Executive Committee	Executive Committee - pages 26 to 27	
	Number of years of service analysis	Employee Indicators - page 66	
e. Number of International Award Winners		Value 2010	Value 2009
	Number of LIMRA International Quality Award winners	4	8
	Number of participants at MDRT conference	2	2

Training and Development

We believe that our employees are our competitive advantage and improving their performance is the key to achieving better business results. We are committed to investing in the development of the technical, functional and managerial skills of our people. We do not only believe in internal training and development but also external training and development. To encourage this, we have introduced a scheme to reimburse professional examination related fees.

Employee Relations

We strive to engage our employees and obtain their feedback by conducting employee satisfaction surveys once every two years. The overall employee satisfaction index was 80% as per the employee satisfaction survey conducted during the year. We also provide opportunities for open, transparent dialogue with management; e.g. management meetings, interactive

strategic planning and cross functional teams, etc. Management staff are also encouraged to conduct informal departmental and one on one meetings on a regular basis.

Employee Welfare

Staff welfare activities are connected to providing employees with a healthy work-life balance. The recreation club organises several events throughout the year to foster fellowship and interaction among staff. Some of these events are open to the spouses and children of our staff members.

Employee Know How

The UA Board and Executive Committee comprises Directors and senior management staff with a wide variety of industry and financial acumen. Over 25% of our staff have more than five years experience with UA.

Number of International Award Winners

UA is a member of LIMRA and leverages their best practice and knowledge in order to develop the sales team. International award and recognition schemes such as LIMRA International Quality Awards, MDRT, etc. benchmark the professionalism and productivity of the sales team with the best in the world.



Corporate Governance

Transparency

We believe in *trust and respect* for all our stakeholders and that is why, transparency plays an important role in all our activities. Our notions of accountability and professionalism are geared towards service and satisfaction

Corporate Governance

The Board is responsible to shareholders for creating and delivering sustainable shareholder value and is conscious that a strong corporate governance framework is critical to maintaining investor trust and business integrity. This report explains UA's governance policies and practices and sets out how the Board manages the company for the benefit of all stakeholders, ensuring a viable, long term business.

For UA, governance is to ensure that:

- The business is taken in the right strategic direction.
- The executives lead and manage effectively and are accountable.
- The company has appropriate controls in place and risks are managed.
- 'Doing the right thing' for shareholders and wider stakeholders.

Statement of Compliance

UA is fully compliant with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission (SEC) as well as the Rules

on Corporate Governance published by the Colombo Stock Exchange (CSE).

The following developments which took place in 2010 further improved UA's corporate governance framework:

- Reinforced our commitment to adopt best corporate governance practices by formally reviewing and updating the set of charters outlining the company's objectives and commitments towards all stakeholder groups.
- Revamped the risk management process making it a bottom up process, rather than a top down process as conducted in the past. As a result, each head of department conducted risk management workshops with their relevant teams and all departmental risk grids are summarised and monitored at the corporate level.
- Enhanced internal audit resources and frequency of audits to ensure that strategic and key operational risks are well managed and any deviations are escalated on a timely basis.

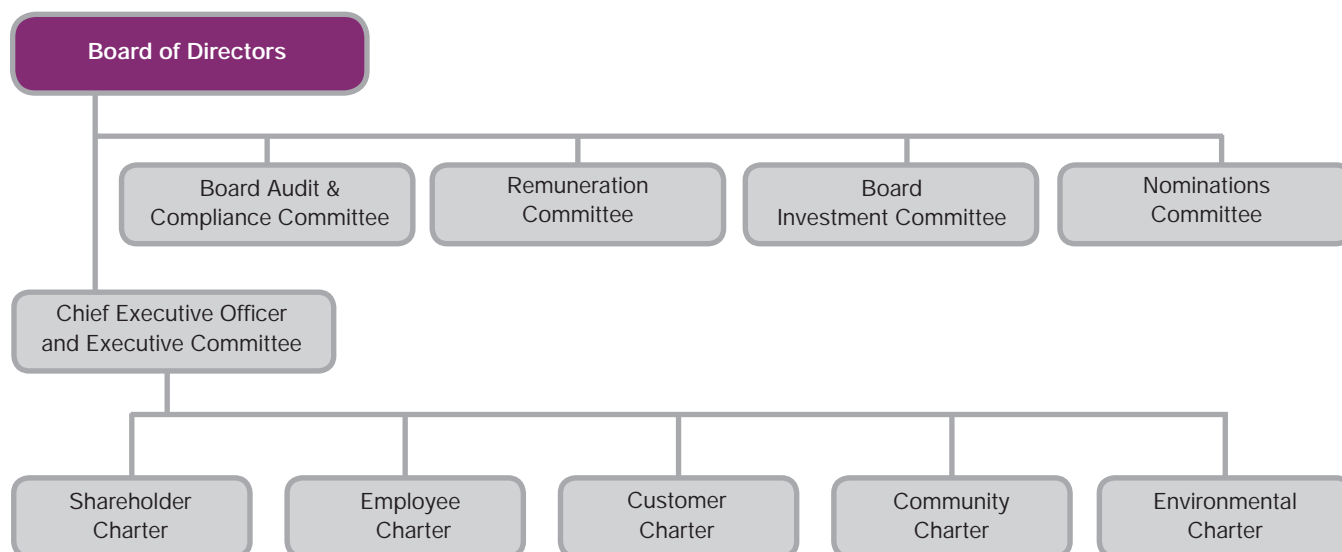
- Intensified the business continuity testing process, by conducting a real time simulation without any pre warning to staff.

Governance Structure

As diagrammatically presented below, UA's governance structure is meant to create a distinction between the functions of the Board and management while at the same time fostering effective co-operation and communication between the two groups. The company's commitments to all stakeholder groups are formally documented in the stakeholder charters as depicted below.

The company demands impeccable standards of conduct from its Directors and employees in the performance of their official duties and in situations that could affect the company's image. The company has issued a Code of Ethics requiring all employees to:

- Exercise honesty, objectivity and diligence when performing their duties.
- Avoid situations where their personal interest might conflict with the interest of the company and disclose such transactions; e.g. trading in UA shares.



- Maintain confidentiality of commercial and price sensitive information.
- Work within applicable laws and regulations.
- Safeguard the company's assets.
- Avoid conduct that will reflect badly on them or the company's image.

The company has implemented a formal whistle blowing procedure and encourages any employee who suspects wrongdoing at work, whether by management, peers or any other employee, to raise their concerns.

We have also implemented a Code of Conduct for the field staff covering their responsibility, commitment and level of service to clients.

In addition to our charters and codes of conduct, we have implemented policies covering:

- Recruitment and selection
- Financial integrity
- Outside employment
- Confidentiality of information
- Use of company property including use of computers
- Harassment in the workplace
- Environmental health and safety
- Fraud
- Media
- IT security and
- Prevention of money laundering and terrorist financing

Code of Best Practice on Corporate Governance

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 (SEC) in 2008 covers the following key aspects:

- Directors
- Directors' remuneration
- Relations with shareholders

- Accountability and audit
- Institutional investors
- Other investors

The company's commitment with respect to the above aspects is summarised below:

Directors

UA maintains a dual panel structure, namely Board of Directors and Chief Executive Officer and Executive Committee as detailed on the previous page. It thus distinguishes clearly between the members of the Board of Directors as the supervisory body and those of management including the division of responsibilities between the Chairman and CEO. The Board consists of six Directors all of whom hold office as Non-Executive Directors. The Board meets on a bi-monthly basis to discharge their duties and responsibilities in a timely manner. The Board performs its supervisory functions through the Board Audit and Compliance Committee, Remuneration Committee, Nominations Committee and Board Investment Committee, thus ensuring competence and effectiveness. Members of professional accounting bodies are on the Board ensuring financial acumen and knowledge. A standard set of appropriate, timely and comprehensive documents is provided to the Board in addition to the ad-hoc information requested from time to time. The Board has set up a process to appraise the CEO's performance and their functions as well. Information with respect to each Director has been disclosed together with the other disclosure requirements as per the Code of Best Practice on Corporate Governance.

Directors' Remuneration

The company has established a formal and transparent procedure / policy on remuneration for individual Directors. Accordingly, the Remuneration Committee consisting exclusively of

Non-Executive Directors has been set up to make recommendations to the Board within agreed terms of reference. Due care is taken to ensure that remuneration paid to Board members is commensurate with their skills, knowledge, competencies and involvement in Board activities as well as with other companies of similar size and operations. The Remuneration Committee takes into account the practices within the Group when determining salary increases. The break-up of remuneration paid to Executive and Non-Executive Directors is disclosed among the other disclosures regarding remuneration in the annual report.

Relations with Shareholders

The Board uses the Annual General Meeting (AGM) to communicate with shareholders and encourages their participation. Each substantially separate issue is proposed as a separate resolution at the AGM including the proposal for the adoption of the report and accounts. The Chairman ensures that the chairman of the Audit and Compliance Committee is available to answer questions at the AGM, if required. The notice of meeting and related documents are circulated to the shareholders 15 working days prior to the AGM. Disclosures have been made to shareholders on major transactions which materially alter the company's net asset base.

Accountability and Audit

A balanced and understandable assessment of the company's financial position, performance and prospects is presented by the company. Various reports including Chairman's Review, CEO's Review and Management Discussion and Analysis are used in addition to annual financial statements and interim accounts for this purpose. The Board presents a Directors' Report containing information with regard to declarations by them in

Corporate Governance contd.

accordance with the guidelines of the Code of Best Practice. The Board has delegated certain responsibilities to the Board Audit and Compliance Committee (BACC). The BACC's main responsibilities are to ensure that good financial reporting systems are in place, internal control systems are effective, laws and regulations are complied with, review the company's risk assessment processes and organisational risk profile and assess the independence and evaluate the performance of auditors. The company has issued a Code of Ethics applicable to all Directors

and employees and any violation is disclosed. Details of the Code of Ethics and other policies are provided below. The company has disclosed the extent to which UA has complied with the Code of Best Practice and rules on Corporate Governance.

Institutional Investors

All institutional investors are encouraged to participate and cast their votes at the company's AGM. The company uses the AGM as the forum to have structured, objective dialogue with shareholders. The Corporate Governance report in the

annual report sets out the company's governance arrangements.

Other Investors

All other investors are encouraged to participate and cast their vote at the company's AGM. Sufficient information is included in the annual report for shareholders to make informed decisions.

The extent of our adherence to the Code of Best Practice on Corporate Governance issued jointly by the ICASL and the SEC is as follows.

Principle	UA Action	2010 Update
The Company		
Directors Board		
Need for an effective Board, which should direct, lead and control the company	<p>The Board comprises six Directors, all of whom, including the Chairman, function in a Non-Executive capacity. The Board has delegated the day to day running of the organisation to the CEO and Executive Committee. The company's operations are governed by policies, procedures and authority delegated by the Board to the CEO.</p> <p>The Board plays an active role in directing and leading the company by endorsing a long term vision, mission and setting the direction for the organisation. Key performance indicators are used to monitor progress at every Board meeting.</p> <p>In addition, the Board is keenly involved in setting the company's medium term strategic plan which is regularly reviewed and updated through a rigorous planning process conducted annually.</p>	<p>Board of Directors comprise six members, who possess broad commercial knowledge and extensive business leadership experience.</p> <p>The profiles of all Board members are provided on pages 20 to 23.</p> <p>The Board monitors the performance of the company based on a pre-agreed matrix of key result areas comprising financial as well as non-financial targets and objectives.</p> <p>Following extensive discussions, the Board approved the company's medium term plan for 2011 - 2013.</p>

Principle	UA Action	2010 Update
The Company contd.		
Directors contd. Board contd.		
Frequency of Board meetings	<p>The Board meets on a bi-monthly basis. Additional meetings are held if required.</p> <p>The following Board sub committees also meet on a regular basis.</p> <ul style="list-style-type: none"> • Board Investment Committee • Board Audit and Compliance Committee • Remuneration Committee 	<p>During 2010 the Board met on six occasions as detailed on page 108.</p> <p>The meetings convened by the Board sub committees during 2010 are also provided on page 108.</p>
Responsibilities of the Board to ensure:		
<ul style="list-style-type: none"> • The formulation and implementation of a sound business strategy 	Refer comments above.	The Board reviewed the business strategies of the life and general businesses separately. The review was based on UA's comparative strengths and weaknesses, potential opportunities and threats and where UA should position itself in the medium term, considering likely socio-economic developments, competitor activities, available resources and future investments.
<ul style="list-style-type: none"> • The CEO and management team possess the skills, experience and knowledge to implement the strategy 	The profiles of the CEO and Executive Committee members are provided in the annual report.	The profiles of the CEO and Executive Committee members are provided on pages 26 to 27.
<ul style="list-style-type: none"> • Effective CEO and senior management succession planning 	A CEO succession plan was implemented with the appointment of a Deputy CEO in 2007. Succession plans for all members of the Executive Committee, their direct reports and senior managers are also in place. A key aspect of the succession plan is to develop senior managers to ensure that there are adequate options available internally to replace key personnel.	<p>As per the CEO succession plan, the Deputy CEO assumed duties as CEO from 1st January 2010.</p> <p>One Executive Committee position fell vacant during the year. In accordance with the documented succession plan, this position was filled with an external resource.</p>

Corporate Governance contd.

Principle	UA Action	2010 Update
The Company contd.		
Directors contd. Board contd.		
<ul style="list-style-type: none"> Effective systems to secure integrity of information, internal controls and risk management 	The Board has delegated this responsibility to the Board Audit and Compliance Committee (BACC).	<p>The role and responsibilities together with the activities performed by the BACC are disclosed on pages 194 to 195.</p> <p>Under its mandate the BACC increased the resourcing and frequency of internal audits to ensure that key strategic and operational risks are escalated to the relevant persons in a timely manner.</p>
<ul style="list-style-type: none"> Compliance with laws, regulations and ethical standards 	A compliance checklist is provided to all Board members indicating compliance with applicable laws, regulations, etc. The company has also issued a Code of Ethics applicable to all Directors and employees.	<p>Details of compliance with applicable laws and regulations in 2010 are provided on page 105.</p> <p>Details of the Code of Ethics are provided on pages 80 to 81.</p>
<ul style="list-style-type: none"> All stakeholder interests are considered in corporate decisions 	The company has developed charters covering responsibilities to shareholders, employees, customers, community and the environment. All key decisions are reviewed within the framework of these charters.	As a measure of UA's success in this regard, the company was placed 2 nd in the medium scale category at the Association of Chartered Certified Accountants Annual Sustainability Awards.
<ul style="list-style-type: none"> The company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations 	Accounting policies are reviewed annually in light of changing business requirements, evolving international and local accounting standards and industry best practice. As mentioned above, significant emphasis is placed on compliance with applicable regulations.	<p>There were no changes in the accounting policies. The impact of adopting the following Sri Lanka Accounting Standards (SLAS), which are effective from 1st January 2012, is currently under further review.</p> <ul style="list-style-type: none"> SLAS 44 - Financial Instruments: Presentation SLAS 45 - Financial Instruments: Recognition and Measurement
<ul style="list-style-type: none"> Fulfilling other Board functions as relevant to the organisation 	The Board makes every endeavour to fulfill their stewardship obligations on behalf of all stakeholders.	During the year, the Board made every endeavour to fulfill their stewardship obligations on behalf of all stakeholders.

Principle	UA Action	2010 Update
The Company contd.		
Directors contd. Board contd.		
Need to act in accordance with laws relevant to the organisation and procedure for Directors to obtain independent professional advice	<p>As mentioned above, there is significant emphasis across the organisation to ensure compliance with applicable laws and regulations.</p> <p>The Board has adopted a procedure whereby Directors may, in the performance of their duties, seek independent professional advice at the company's expense if considered appropriate.</p>	No Director obtained any independent professional advice during 2010.
Company Secretary	The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. All Directors have access to the Company Secretary. The Secretary possesses the required qualifications as set out in the Companies Act. The Articles of the company specify that the removal of the Company Secretary should be by resolution involving the whole Board.	Keells Consultants (Private) Limited who was appointed as Company Secretary in 2009 continued to function as the Company Secretary during 2010.
Independent judgement	Each Director brings his / her independent judgement to bear on issues that are discussed at the Board.	None of the Non-Executive Directors have held executive positions in the recent past.
Dedication of adequate time and effort to matters of the Board and the company	<p>The Board members dedicate adequate time for the affairs of the company by attending Board meetings, Board sub committee meetings and by making decisions via circular resolutions.</p> <p>In addition, the Board members have meetings and discussions with management when required.</p>	<p>The Board met on six occasions during the year. The Chairman attended all meetings and the attendance of the other Directors is detailed on page 108.</p> <p>The Board is satisfied that the Chairman and the Non-Executive Directors committed sufficient time during 2010 to fulfil their duties.</p>

Corporate Governance contd.

Principle	UA Action	2010 Update
The Company contd.		
Directors contd. Board contd.		
Training for Directors	<p>The Board policy on Directors' training is to provide adequate opportunities for continuous development, subject to requirement and relevance for each Director.</p> <p>The Directors are constantly updated on the latest trends and issues facing the company and the insurance industry in general.</p> <p>The Chairman is responsible for ensuring that the Directors continually update their skills, knowledge and familiarity with the company as required to fulfil their roles both on the Board and on committees appointed by the Board. The company provides the necessary resources for the training of Directors.</p>	<p>A formal training programme was developed to appraise the new Directors of the following:</p> <ul style="list-style-type: none"> • Overview of industry and competitors. • Familiarisation with financial statements and specific accounting issues. • Industry specific operations; e.g. underwriting, reinsurance etc. • Strategic plans and risks. • Investment policies. • Regulatory requirements. <p>During the year, the Board obtained advice from external consultants on economic scenarios, investment strategies, new product development, actuarial practices and brand development. In addition, several knowledge sharing initiatives were conducted to inform the Board on such subjects as industry trends, solvency, risk management practices and the impact of regulatory changes.</p>
Chairman and CEO		
Division of responsibilities between the Chairman and CEO	The positions of Chairman and CEO are separated to ensure a balance of power and authority and to prevent any one individual from possessing unfettered decision making authority.	The CEO is not a member of the Board. This structure establishes the necessary checks and balances and is designed to enhance the institutional independence of the Board of Directors from the CEO.
Decision to combine the posts of Chairman and CEO in one person	In accordance with best practice and in order to maintain a clear division of responsibilities, the roles of Chairman and CEO have not been combined.	No change from previous year.
Chairman's Role		
Preserving order and facilitating the effective discharge of Board functions	The Chairman is responsible for leading the Board and for its effectiveness. In practice, this means taking responsibility for the Board's composition, appraisal and development, ensuring that the Board focuses on its key tasks and supports the Chief Executive Officer in managing the day to day running of the company. The Chairman is also the ultimate point of contact for shareholders, particularly on corporate governance issues.	In accordance with the best practice, the Board continued to have three independent Non-Executive Directors during 2010.

Principle	UA Action	2010 Update
The Company contd.		
Directors contd.		
Chairman's Role contd.		
Conducting Board proceedings in a proper manner	<p>The Chairman satisfies himself that the information available to the Board is sufficient to make an informed assessment of the company's affairs as well as to discharge their duties to all stakeholders.</p> <p>The Chairman conducts Board meetings in a manner which ensures that there is effective participation from all Directors, that their individual contribution and concerns are objectively assessed prior to making key decisions and that the balance of power is maintained. He also ensures that the Board is in complete control of the company's affairs.</p>	<p>At each Board meeting, the CEO provides a detailed review of the business and financial performance.</p> <p>In 2010 the range of subjects discussed included:</p> <ul style="list-style-type: none"> • Development and implementation of strategy including the company's people strategy. • UA's financial results. • Key business areas including underwriting, sales and distribution, customer service, etc. • IT infrastructure and platforms. • Regulatory and governance issues.
Financial Acumen		
Availability of sufficient financial acumen and knowledge	There are two senior Chartered / Management Accountants on the Board. In addition, all members of the Board have extensive experience in various aspects of financial management.	<p>The following Directors provide the Board with the necessary degree of financial acumen and knowledge:</p> <ul style="list-style-type: none"> • Mr. J. R. F. Peiris • Mr. A. K. Gunaratne • Mr. A. S. De Zoysa • Mr. K. N. J. Balendra
Board Balance		
Balance of Executive and Non-Executive Directors	All Directors on the Board hold office in a Non-Executive capacity and are therefore independent of management.	The current Board comprises only Non-Executive Directors, three of whom are independent Non-Executives.
Number of Executive and Non-Executive Directors on the Board	As mentioned above, the Board comprises only Non-Executive Directors so that their views carry significant weight in the Board's decisions.	Refer above.
"Independence" of Non-Executive Directors	UA is compliant with the rules which require a minimum of two Independent Non-Executive Directors on the Board.	<p>The following Directors who were appointed to the Board on 1st April 2009 continued to be independent, Non-Executive Directors during 2010:</p> <ul style="list-style-type: none"> • Mr. A. K. Gunaratne • Mr. A. S. De Zoysa and • Mr. G. F. C. De Saram <p>Accordingly, the company continued to be in compliance with the requirement to have the higher of two, or one third of Non-Executive Directors, as "Independent" Non-Executive Directors.</p>

Corporate Governance contd.

Principle	UA Action	2010 Update
The Company contd.		
Directors contd.		
Board Balance contd.		
Criteria to evaluate "independence" of Non-Executive Directors	A Director is deemed to be independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement.	The Directors mentioned above are deemed to be independent of management and free of any business or other relationship that could materially interfere with the exercise of their independent judgement.
Submission of an annual declaration by each Non-Executive Director regarding independence / non-independence against specified criteria	The Board considers on an annual basis the independence or non-independence of the Non-Executive Directors, based on the declaration made and other information available to the Board.	Declarations of independence or non-independence in respect of 2010 as per the Code of Best Practices on Corporate Governance were obtained from all Non-Executive Directors.
Disclosure of names of Non-Executive Directors who are deemed to be "independent"	The names of the independent Non-Executive Directors are disclosed in the annual report.	Based on available information, the Board determined that Mr. A. K. Gunaratne, Mr. A. S. De Zoysa and Mr. G. F. C. De Saram are independent Non-Executive Directors.
Appointment of Senior Independent Director (SID)	The requirement to appoint a Senior Independent Director does not arise as the roles of Chairman and CEO are separated.	Not applicable.
Availability of SID for confidential discussions with other Directors	Not applicable.	Not applicable.
Chairman to hold meetings with Non-Executive Directors, without Executive Directors being present	The Board of Directors comprises only Non-Executive Directors.	Not applicable.
Recording of Directors' concerns in the Board minutes	<p>The Board minutes are prepared in order to record any concerns of the Board as a whole or those of individual Directors regarding the running of the company or of a proposed action.</p> <p>If a Director resigns over an unresolved issue, the Chairman will bring the issue to the attention of the Board. The Director concerned is also required to provide a written statement to the Chairman for circulation to the Board.</p>	<p>Minutes of the Board meetings are circulated to all Directors and formally approved at the subsequent Board meeting.</p> <p>No Director resigned over an unresolved issue.</p>

Principle	UA Action	2010 Update
The Company contd.		
Directors contd.		
Supply of Information		
Supply of relevant information in a timely manner	The Board receives a standard set of documents, which are timely, accurate, relevant and comprehensive. These papers include a detailed analysis of financial and non financial information. The Board may call for additional information or clarify any issues with any member of the Executive Committee.	During the year, several Executive Committee members made presentations to the Board regarding competitor activities, risk management initiatives, reinsurance arrangements and sales and marketing activities.
Chairman to ensure that all Directors are adequately briefed on issues arising at Board meetings	All Directors are adequately briefed on matters arising at Board meetings.	Any Director who does not attend a meeting is updated on proceedings prior to the next meeting through: <ul style="list-style-type: none"> Formally documented minutes of discussions. Separate discussions at start of meeting regarding matters arising for the previous meeting.
Board minutes, agenda and papers to be circulated seven days before the meeting	The Board papers are circulated a week prior to Board meetings.	Refer adjacent column.
Appointments to the Board		
Formal and transparent procedure for new appointments	The Board decides on the appointment of new Directors and the nomination of professionals to the Board or as CEO. In identifying suitable candidates, professional / business experience and personal qualities are taken into consideration and appointments are purely on merit. All new appointments are approved by the shareholders.	There were no new Board appointments in 2010.
Establishment of a Nominations Committee	A Nominations Committee comprising three Non-Executive Directors was appointed in 2007.	Details and composition of the Nominations Committee are provided on page 106.
Assessment of Board composition	The Board reviews its own composition on a regular basis to ascertain whether its combined knowledge and experience match the strategic demands facing the company.	The Board is satisfied that it possesses the right combination of knowledge and expertise which matches the strategic opportunities and threats facing the company in the foreseeable future.
Disclosure of details of new Directors to shareholders	All new appointments are communicated to the shareholders via the Colombo Stock Exchange.	There were no new Board appointments in 2010. The details of the current Board of Directors are provided on pages 20 to 23.

Corporate Governance contd.

Principle	UA Action	2010 Update
The Company contd.		
Directors contd.		
Re-election		
Re-election of Directors at regular intervals	<p>In accordance with the Articles of Association, one of the Directors retires from office at each Annual General Meeting. A retiring Director is eligible for re-election by the shareholders.</p> <p>Any Director who has been appointed to the Board during the year, holds office until the next AGM, when he / she is required to retire and be re-elected by the shareholders.</p>	In accordance with the Articles of Association, Mr. J. R. F. Peiris retires from office at the 24 th Annual General Meeting and is eligible for re-election.
Appointment of Non-Executive Directors for specified terms, subject to re-election	The Non-Executive Directors are subject to re-election and to the provisions of the Companies Act relating to the removal of a Director and their re-appointment is not automatic.	Refer above.
All Directors including the Chairman to be subject to re-election by the shareholders at the first appointment and to re-election thereafter at intervals of no more than three years	All Directors, including the Chairman, are subject to election by shareholders at the first opportunity after their appointment and to re-election as stated above. A brief resume of the Director/s standing for election or re-election is provided in the annual report, enabling shareholders to make an informed decision.	The details of the current Board of Directors are provided on pages 20 to 23.
Appraisal of Board Performance		
Board to periodically appraise their own performance	<p>The Board commenced a process to evaluate its performance and effectiveness in 2008. The process is led by the Chairman.</p> <p>All Directors are required to complete a questionnaire regarding the Board's effectiveness, their perception of their own contributions and where improvement may be considered. The questionnaire also involved assessing the effectiveness of the committees on which they serve.</p> <p>All submissions are collated by the Chairman and discussed with the Board. Specific actions to improve performance and effectiveness are implemented following this review.</p>	As a part of annual process, the Board evaluated its performance and effectiveness during 2010.

Principle	UA Action	2010 Update
The Company contd.		
Directors contd.		
Appraisal of Board Performance contd.		
Annual appraisal of Board performance in discharging its key responsibilities	<p>The Board regularly evaluates its performance based on the following set of guidelines:</p> <ul style="list-style-type: none"> • Development and implementation of strategy. • Competency and succession planning for the CEO and members of the Executive Committee. • Effectiveness of systems to ensure integrity of information, internal controls and risk management. • Compliance with laws, regulations and ethical standards and • Balancing the needs of all stakeholders. 	Refer previous update.
Annual self evaluation of Board performance and its committees	As mentioned previously, the Board has commenced a process of self evaluation.	Refer previous update.
Disclose methodology of such evaluations	Refer previous update.	There was no change to the methodology in 2010.
Disclosure of Information in Respect of Directors		
Shareholders to be advised of relevant details in respect of Directors	The annual report contains relevant details pertaining to all Board members.	The details of the current Board of Directors are provided on pages 20 to 23.
Annual report to contain information in relation to each Director	Information in relation to each Director required by the Code of Best Practice on Corporate Governance is disclosed in the annual report.	<p>The following information in relation to Directors is disclosed in the annual report.</p> <p>The profiles of all Board members are provided on pages 20 to 23.</p> <p>Details of related party transactions are provided on pages 243 to 245.</p> <p>The composition of Board committees, attendance at Board meetings and Board committee meetings are provided on pages 106 to 107.</p>
Appraisal of the Chief Executive Officer (CEO)		
Appraisal of the CEO	The Board assesses the performance of the CEO on an annual basis.	The Board appraised the performance of the CEO.

Corporate Governance contd.

Principle	UA Action	2010 Update
The Company contd.		
Directors contd.		
Appraisal of the Chief Executive Officer (CEO) contd.		
Financial and non financial targets to be achieved by the CEO	Following the corporate planning process, the Board (in consultation with the CEO) sets financial and non financial objectives to be achieved by the CEO.	The following objectives / action plans were reviewed by the Board on a bi-monthly basis: <ul style="list-style-type: none"> • Achievement of turnover and profitability targets. • Implementation of cost effective distribution models. • Implementation of IT systems to improve underwriting and claims functions. • Management of debtors. • Brand development initiatives. • Training and development / talent management initiatives. • New product development targeting mass affluent segments.
Performance of the CEO to be evaluated against the targets set by the Board	At the end of the year, the Board evaluates the performance of the CEO and ascertains if the agreed objectives have been achieved.	Refer above.
Directors' Remuneration Remuneration Procedure		
Formal and transparent procedure for developing policy on remuneration for executives and Directors	The Remuneration Committee is responsible for developing policy on executive remuneration. No Director is involved in deciding his / her own remuneration.	There is a formal process for approving remuneration for executives and Directors. No Director is involved in deciding his / her own remuneration.
Appointment of a Remuneration Committee	A Remuneration Committee has been appointed and functions within agreed terms of reference.	No change from previous year.
Composition of the Remuneration Committee	The Remuneration Committee comprises a majority of independent Non-Executive Directors. The Chairman of the Board chairs the Remuneration Committee.	No change from previous year.
Disclosure of Chairman and members of the Remuneration Committee	Details and composition of the Remuneration Committee are provided in the annual report.	Details and composition of the Remuneration Committee are provided on pages 106 to 107.
Determination of remuneration for Non-Executive Directors	Non-Executive Directors who are part of the group are paid a nominal fee for their services. Other Non-Executive Directors are remunerated in line with market practices.	No change from previous year.

Principle	UA Action	2010 Update
The Company contd.		
Directors' Remuneration contd. Remuneration Procedure contd.		
Access to professional advice	The Remuneration Committee has access to professional advice from within and outside the company.	During the year, the Committee reviewed the information provided by UA's team of human resource professionals to determine market and industry trends with regard to remuneration and perquisites.
Level and make up of Remuneration		
Level and make up of remuneration	Remuneration at all levels including the CEO consists of a fixed element as well as a variable element based on company and individual performance.	No change from previous year.
Remuneration for Executive Directors	Executive Directors do not set their own remuneration. The Remuneration Committee reviews industry and market practice when setting the remuneration of Executive Directors.	There were no Executive Directors during 2010.
Positioning company remuneration levels relative to other companies	When positioning remuneration levels relative to other companies in the industry, due care is taken to ensure that remuneration is commensurate with the comparative performance / scale of other companies in the industry.	No change from previous year.
Annual increases in remuneration	The Remuneration Committee reviews the annual increments provided to companies within the group, when deciding on increments for UA staff.	No change from previous year.
Performance related elements of remuneration for Executive Directors	The performance related element of remuneration applicable to the CEO is based on achieving the company's profit targets. It is believed that this measure best aligns the interests of the company and main stakeholders. There are no performance related elements of remuneration for the Non-Executive Directors.	There were no Executive Directors during 2010.
Share option schemes	The senior management is entitled to participate in the share option scheme initiated by the group.	Refer adjacent column.

Corporate Governance contd.

Principle	UA Action	2010 Update
The Company contd.		
Directors' Remuneration contd.		
Level and make up of Remuneration contd.		
Designing schemes of performance related remuneration	<p>The CEO is eligible for annual bonuses based on achievement of life and general business profitability on a standalone basis. As per the scheme, there is an upper limit on the annual bonus.</p> <p>In terms of long term incentive schemes, the senior management is entitled to participate in the share option scheme initiated by the group.</p> <p>The consequences of pension and associated costs are considered when determining salary increases.</p> <p>Performance related remuneration schemes are not applied retrospectively.</p> <p>Annual bonuses are not pensionable.</p> <p>Non-Executive Directors are not eligible to performance based remuneration schemes.</p>	<p>No change from previous year.</p> <p>Access to participate in group share option scheme commenced in 2010.</p> <p>No change from previous year.</p> <p>No change from previous year.</p> <p>No change from previous year.</p> <p>No change from previous year.</p>
Compensation commitments in the event of early termination	There are no terminal compensation commitments other than gratuity in the company's contracts of service.	No change from previous year.
Dealing with early termination	Refer comment above.	No change from previous year.
Levels of remuneration for Non-Executive Directors	Non-Executive Directors are remunerated in line with market practices.	No change from previous year.
Disclosure of Remuneration		
Statement of remuneration policy and details of remuneration of the Board as a whole	A statement regarding the company's remuneration policy and the details of remuneration to the Board as a whole are disclosed in the annual report.	A statement regarding the company's remuneration policy is contained in the Remuneration Committee report on pages 119 to 120. The details of remuneration to the Board as a whole are disclosed on page 221.

Principle	UA Action	2010 Update
The Company contd.		
Directors' Remuneration contd. Disclosure of Remuneration contd.		
Composition of Remuneration Committee, statement of remuneration policy and aggregate remuneration paid to Executive and Non-Executive Directors	Details of the Remuneration Committee and break up of remuneration paid to Executive and Non-Executive Directors are disclosed.	Details of the Remuneration Committee are provided on pages 106 to 107. The information on page 221 provides a break up of remuneration paid to Executive and Non- Executive Directors.
Relations with Shareholders		
Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings		
Constructive use of the AGM	The Board encourages all shareholders to attend and actively participate in the AGM. The shareholders may raise any queries they have with the Directors. The Chairman, the Chief Executive Officer and the Chairmen of the principal committees of the company are present at the AGM to answer any queries.	The company's 23 rd AGM was held on 31 st March 2010. The shareholders' queries were answered by the Chairman. The Chief Executive Officer and the Chairmen of the principal committees of the company were also present at the AGM to answer any queries.
Consideration of all proxy votes	As a matter of practice, proxy votes together with the votes of shareholders present at the AGM are considered for each resolution.	No change from previous year.
Separate resolutions for each substantially separate issue	Each substantially separate issue is proposed as a separate resolution. The adoption of the report and accounts is proposed as a separate resolution.	No change from previous year.
Availability of Board sub committee Chairmen to answer queries	The Chairman of the Board functions as the Chairman of the Remuneration Committee, Nominations Committee and Board Investment Committee. He ensures that the Chairman of the Board Audit and Compliance Committee is available to answer any queries as well.	The Chairmen of the Board sub committees were present at the AGM held on 31 st March 2010. No queries were raised by shareholders to the Chairmen of the committees at the AGM.
Circulation of notice and related documents to shareholders	The notice of meeting and related documents are circulated to the shareholders 15 working days prior to the AGM.	The notice of meeting and related documents were circulated to the shareholders 15 working days prior to the AGM held in 2010.

Corporate Governance contd.

Principle	UA Action	2010 Update
The Company contd.		
Relations with Shareholders contd.		
Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings contd.		
Summary of procedures governing voting at the AGM	A summary of the procedures governing voting at the AGM is provided in the proxy form, which is circulated to shareholders 15 working days prior to the AGM.	The proxy form was circulated to shareholders 15 working days prior to the AGM.
Major Transactions		
Disclosure of major transactions	The company's future strategies and their potential impact are disclosed in the annual report.	The company's future strategies and their potential impact have been disclosed in the following sections of this annual report. <ul style="list-style-type: none"> • Chairman's Review pages 12. • CEO's Review page 18. • Management Discussion and Analysis pages 50 and 58.
Disclosure of all facts of transactions which have a material impact on net assets	All transactions which materially alter the company's net asset base are disclosed.	No specific major transactions which have a material impact on net assets occurred in 2010. Annual financial statements are provided on pages 188 to 254.
Accountability and Audit Financial Reporting		
Balanced, understandable assessment of the company's position and prospects	The company's position and prospects are disclosed in the annual report.	The company's position and prospects have been discussed in detail in the following sections of this annual report. <ul style="list-style-type: none"> • Chairman's Review pages 8 to 13. • CEO's Review pages 14 to 19. • Management Discussion and Analysis pages 42 and 51.
Interim accounts, price sensitive public reports, reports to regulators and information required by statute	The interim accounts and annual financial statements are published on a timely basis. Regulatory reports are filed by the due dates. Price sensitive information is disclosed to the Colombo Stock Exchange on a timely basis. The company strives to provide a detailed and transparent analysis of strategies, performance and future strategies to enable investors to make an informed decision. In addition to the information provided in the reports mentioned above, a summary of the interim accounts and a section on understanding our financials is provided in the annual report.	The interim accounts and annual financial statements were published on a timely basis during 2010. Regulatory reports were filed by the due dates. Price sensitive information was also disclosed to the Colombo Stock Exchange on a timely basis during the year. A summary of the interim accounts is presented on pages 260 to 261. A section on understanding our financials is provided on pages 264 to 266.

Principle	UA Action	2010 Update																		
The Company contd.																				
Accountability and Audit contd.																				
Financial Reporting contd.																				
Directors' Report	The Directors' report contains declarations by the Directors as required by the Code of Best Practice on Corporate Governance.	Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on page 189.																		
Responsibilities of the Board for preparation of financial statements and reporting responsibilities of auditors	The Statement of Directors' Responsibility and Report of the Auditors are provided in the annual report.	The Statement of Directors' Responsibility and Report of the Auditors are provided on pages 198 and 199 respectively.																		
Inclusion of a "Management Discussion and Analysis" report	The annual report contains a "Management Discussion and Analysis" report.	The required information in the Management Discussion and Analysis is provided in this annual report as follows: <table border="1" data-bbox="1045 785 1471 1262"> <thead> <tr> <th>Information required</th> <th>Pages</th> </tr> </thead> <tbody> <tr> <td>Industry structure and developments</td> <td>33</td> </tr> <tr> <td>Opportunities and threats</td> <td>50 and 58</td> </tr> <tr> <td>Risks and concerns</td> <td>38 to 41</td> </tr> <tr> <td>Internal control systems and their adequacy</td> <td>97 to 99</td> </tr> <tr> <td>Social and environmental protection activities carried out by the company</td> <td>162 to 165</td> </tr> <tr> <td>Financial performance</td> <td>59 to 63</td> </tr> <tr> <td>Material developments in human resources</td> <td>154 to 159</td> </tr> <tr> <td>Prospects for the future</td> <td>50 and 58</td> </tr> </tbody> </table>	Information required	Pages	Industry structure and developments	33	Opportunities and threats	50 and 58	Risks and concerns	38 to 41	Internal control systems and their adequacy	97 to 99	Social and environmental protection activities carried out by the company	162 to 165	Financial performance	59 to 63	Material developments in human resources	154 to 159	Prospects for the future	50 and 58
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Declaration of going concern by Directors	Information on going concern is provided in the Report of the Directors.	This information is provided in the Report of the Directors on page 192.																		
EGM if the net assets of the company fall below half of the shareholders funds	The situation has not arisen.	Not applicable.																		
Internal Control																				
Maintain a sound system of internal control	The Board has overall responsibility for the system of internal controls and has delegated certain of these responsibilities to the Board Audit and Compliance Committee (BACC).	No change from previous year.																		

Corporate Governance contd.

Principle	UA Action	2010 Update
The Company contd.		
Accountability and Audit contd. Internal Control contd.		
<p>Review of effectiveness of the system of internal controls by the Board</p>	<p>In order to ensure that a sound system of internal controls is maintained, the BACC ensures that an internal audit programme (which is adequate in terms of coverage and scope) is prepared on an annual basis covering all head office and branch operations. In addition,</p> <ul style="list-style-type: none"> • Internal audit plans are followed up, to ensure that audits are concluded on time. • Internal and external audit reports are reviewed by management on a timely basis and control weaknesses are corrected. • External auditors review the key reconciliations and report on any irregularities. • Risks associated with all key processes are identified and control systems to mitigate such risks are reviewed to ensure that they are functioning smoothly. • A formal delegation of financial authority from the CEO to the relevant management staff is available and adhered to in respect of all transactions. • Procedure manuals for underwriting and claims are available for all staff and updated regularly. • A structured loss reporting process covering fraud or suspected fraud involving staff, damage or loss to company property, theft, agent misappropriations resulting in financial impact and losses due to inadequate financial / operational controls has been implemented. • A comprehensive compliance checklist and exception reporting procedure is in place. • The company's business continuity plan is regularly updated and tested. • A whistle blowing procedure is available to any employee who suspects wrongdoing at work. 	<ul style="list-style-type: none"> • During the year, the scope and resourcing of the internal audit function was enhanced to increase frequency of audit coverage and escalate any control issues on a timely basis. • For the first time, the business continuity plan was tested on a real time basis without any pre-warning to staff. • Internal audits were carried out to cover all operational aspects performed at head office and selected branches in accordance with the internal audit programme approved by the BACC. • Reports of both internal and external auditors were reviewed by the BACC and measures taken to correct control weaknesses. • All reconciliations connected with the financial statements were independently reviewed by the external auditors. • Internal audit programmes were designed to test adequacy of control systems to mitigate operational risks. • Procedure manuals covering life and general insurance related underwriting and claims functions were updated to cover new products / process changes etc. • The compliance checklist was reviewed and updated in line with changes in legal / regulatory requirements. • Employees made use of the whistle blowing procedure.

Principle	UA Action	2010 Update
The Company contd.		
Accountability and Audit contd. Internal Control contd.		
	<ul style="list-style-type: none"> Formal systems are in place to continuously upgrade the knowledge and skills of employees in order to foster acceptance and participation in building effective controls. A comprehensive quarterly sign off process culminating in a sign off from the CEO and CFO to the Board of Directors is available. 	
Need for internal audit function	<p>The internal audit function has been outsourced to a leading firm of Chartered Accountants. The Board believes that this provides greater access to global best practices with independence from management.</p> <p>The BACC reviews the internal audit plan and monitors progress on a regular basis. The internal auditors may also carry out any additional tasks they deem necessary to effectively discharge their duties.</p>	<p>In line with best practices and to avoid conflicts of interest at group level, Messrs. PricewaterhouseCoopers - a leading firm of Chartered Accountants was appointed as the internal auditors in September 2010.</p> <p>Following their appointment, the scope and frequency of internal audits was also enhanced.</p> <p>The internal audit function was previously handled by Messrs. Ernst & Young, Chartered Accountants.</p>
Audit Committee		
Board to establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles	The Board has delegated their responsibility with regard to financial reporting, internal controls and maintaining an appropriate relationship with the company's auditors to the Board Audit and Compliance Committee. Accounting policies are agreed with auditors and the Board Audit and Compliance Committee and are applied on a consistent basis.	No change from previous year.
Composition of the Audit Committee	The BACC consists of three Non-Executive Directors, two of whom are independent.	<p>Mr. A. K. Gunaratne and Mr. A. S. De Zoyza continued to serve on the BACC as independent Non-Executive Directors during 2010.</p> <p>Mr. J. R. F. Peiris also continued to serve on the BACC as a Non-Executive Director.</p>

Corporate Governance contd.

Principle	UA Action	2010 Update
The Company contd.		
Accountability and Audit contd.		
Audit Committee contd.		
Ensure the objectivity and independence of the external auditors	<p>As per its charter, the BACC is responsible for reviewing the scope and results of the audit and its effectiveness.</p> <p>In addition to audit services, the company auditors Messrs. KPMG Ford Rhodes, Thornton & Co. provide tax advice and related services.</p>	<p>The BACC conducted an evaluation and satisfied itself regarding KPMG's integrity, competence and professionalism and concluded that no aspect of the auditors' work was impaired due to lack of independence.</p> <p>The BACC also reviewed the non audit services provided by KPMG.</p>
Written terms of reference for Audit Committee	<p>The BACC operates within clearly defined terms of reference which have been approved by the Board.</p> <p>The duties and responsibilities of the BACC are in line with the Code of Best Practice on Audit Committees issued by the ICASL and Code of Best Practice on Corporate Governance jointly issued by the ICASL and the SEC.</p>	No change from previous year.
Disclosure of Directors in Audit Committee	The details and composition of the BACC are provided in the annual report.	The details and composition of the BACC are provided on pages 106 to 107 of this annual report.
Report of the Audit Committee	The report of the BACC is given in the annual report.	The report of the BACC for 2010 is available on pages 194 to 195.
Code of Business Conduct and Ethics		
Adoption of a code of business conduct and ethics for Directors and senior management	<p>The company has issued a Code of Ethics requiring all Directors and employees to:</p> <ul style="list-style-type: none"> • Exercise honesty, objectivity and diligence when performing their duties. • Avoid situations where their personal interest might conflict with the interest of the company and disclose any such transactions; e.g. trading in UA shares. • Maintain confidentiality of commercial and price sensitive information. • Work within applicable laws and regulations. • Safeguard the company's assets. • Avoid conduct that will reflect badly on them or on the company's image. <p>The company also has a Code of Conduct for the field staff which covers their responsibility, commitment and level of service to clients.</p>	No change from previous year.

Principle	UA Action	2010 Update
The Company contd.		
Accountability and Audit contd.		
Code of Business Conduct and Ethics contd.		
Affirmative declaration that all Directors and members of the senior management team have complied with the code	Violations of the Code of Ethics by any of the Directors or any member of the Executive Committee are disclosed.	There have been no violations of the Code of Ethics during 2010 by any of the Directors or any member of the Executive Committee.
Affirmation from the Chairman regarding not violating the provisions of the code	The Chairman discloses any violation of the company's Code of Ethics.	The Chairman is not aware of any violation of the company's Code of Ethics.
Disclose extent of adherence to established principles and practices	The company's corporate governance practices are in accordance with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for Listed Companies issued by the CSE.	The company is fully compliant with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for Listed Companies issued by the CSE.
Inclusion of a corporate governance report in annual report	The company includes a corporate governance report in the annual report.	This report sets out the manner in and extent to which the company has complied with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC.
Shareholders		
Institutional Investors		
Shareholder Voting		
Encourage institutional shareholders to ensure their voting intentions are translated into practice	All shareholders are encouraged to participate at general meetings and cast their votes.	No change from previous year.
Regular and structured dialogue with shareholders	The AGM is used as a forum to have a structured, objective dialogue with shareholders. The Chairman ensures that the views expressed at the AGM are communicated to the Board as a whole.	No change from previous year.
Evaluation of Governance Disclosures		
Encourage institutional investors to give due weight to relevant governance arrangements	The Corporate Governance report in the annual report sets out the company's governance arrangements.	This report sets out the company's governance arrangements

Corporate Governance contd.

Principle	UA Action	2010 Update
Shareholders contd.		
Other Investors		
Investing / Divesting Decisions		
Encourage other investors to seek independent advice in investing or divesting decisions	The annual report contains sufficient information to help make an informed decision.	<p>The following reports aim to provide a balanced overall assessment of the company's activities, performance and prospects.</p> <ul style="list-style-type: none"> • Chairman's Review pages 8 to 13. • CEO's Review pages 14 to 19. • Management Discussion and Analysis pages 30 to 69. • Annual financial statements pages 188 to 254.
Shareholder voting		
Encourage shareholders to participate in general meetings and exercise voting rights	All shareholders are encouraged to participate at general meetings and cast their votes.	No change from previous year.

Other Aspects of Corporate Governance Resource Management

The Board has delegated its financial authority to the CEO and General Managers within a comprehensively documented Manual of Financial Authority (MOFA). The MOFA indicates the responsibilities of all staff members

who enter into financial transactions and commitments on behalf of the company including persons responsible for recommendation, approval and payment. All General Managers including the CEO are required to provide a sign off on compliance with the MOFA on a quarterly basis. In addition, the following committees comprising senior

management personnel have been set up to manage expenses in an efficient and effective manner and improve productivity.

Resource Management Committee	Objectives and Functions
Capital Expenditure Committee	Review and rationalise capital expenditure (excluding IT related expenses).
IT Committee	Review and rationalise IT related capital and revenue expenditure in terms of the company's IT strategy to: <ul style="list-style-type: none"> • Improve overall productivity, efficiency and effectiveness across distribution and service functions. • Improve quality of management information. • Provide secured and uninterrupted IT facilities and • Ensure IT resource readiness for future advancements, while optimising the usage of existing IT resources.
Supplies Committee	Optimise purchases and ensure quality, reliability and value for money.
Staff Committee	Review cadre increases in line with expected volume growth and required service standards and recommend promotions based on an annual performance appraisal process, organisational requirements and the candidates' skills and competencies in performing the relevant functions.

IT Governance

The core areas of IT governance at Union Assurance are as follows:

Core Area	Description
IT alignment	Ensures that IT objectives are aligned with business objectives by defining them in business terms. IT objectives are directly articulated from planning stage to implementation with a set of well defined IT policies, standards, procedures and technology.
Risk management	Focuses on areas of IT risks based on severity of impact and probability of occurrence. Risk management encompasses processes designed to understand risks and implement controls to effectively manage them as well as techniques for minimising risk exposure and embedding risk management responsibilities into the organisation.
Value delivery	Ensures optimal investment in support of corporate objectives, with the availability of proper controls including well defined policies and key result areas (KRAs) for the management of critical resources and people.
Resource management and performance measurement	Focuses on monitoring strategic implementations, project completion, resource usage, results of disaster recovery / business continuity plan tests and service delivery. It includes people, processes and technologies for improving the efficiency and effectiveness of business solutions. Further tracking mechanisms for security related events and use of security dashboards are also included.

Corporate Governance contd.

IT Governance contd.

Core Area	Description
Integration	Ensuring the involvement of all corporate stakeholders in the decision making process, with seamless integration to assurance activities by enabling the processes to operate as intended from end-to-end, minimising hidden risks.
Compliance	Ensuring regulatory and compliance requirements are embedded through implementation of appropriate IT controls in systems and conducting periodic reviews of the same for effectiveness.

IT Controls over Financial Reporting

The reliability of financial reporting is heavily dependent on a well controlled IT environment. Therefore the following IT controls over financial reporting are in place to ensure the quality of information used for financial reporting.

- Data centre operation controls such as job setup and scheduling, operator actions and data backup and recovery procedures.
- System software controls over the effective acquisition, implementation and maintenance of system software, security software and utility software.
- Access security controls that prevent inappropriate and unauthorised use of the system.
- 'System Development Life Cycle' document defines process that should be followed in application system development. 'Software Change Management' document defines change process.

CEO / CFO Sign Off required by the Insurance Board of Sri Lanka (IBSL)

In accordance with the determinations issued by the IBSL, the company provides a written sign off by the Chief Executive Officer and Chief Financial Officer stating inter alia that the company has:

- Complied with all the legal and regulatory provisions of the Regulation of Insurance Industry (RII) Act, No. 43 of 2000.
- Arranged treaty and facultative reinsurance with approved reinsurers as per guidelines issued by the Insurance Board of Sri Lanka (IBSL).
- Complied with the reserving and solvency guidelines and that total reserves have matching admissible assets backing.
- Met the set minimum capital requirements in accordance with applicable regulations.
- Implemented the necessary processes to comply with circular number 25 dated 1st December 2006

Actuarial Valuation of Insurance Liabilities

The company has actuarially validated the general insurance incurred but not reported claims reserve (IBNR) appearing on the balance sheet. Since claims reserves are based on judgement and estimates, an actuarial valuation provides a greater degree of comfort as to the accuracy of the reserves. The actuarial certification regarding IBNR is provided on page 196. The report also certifies that the unearned premium reserve is adequate in relation to the future liabilities arising from unexpired

risks as at 31st December 2010. Life insurance liabilities have also been validated by an independent external actuary in accordance with the RII Act.

The Actuary's Report is available on page 197.

Compliance with Regulations Governing Investments

General insurance technical reserves and the life fund are fully backed by "approved investments" as per Section 25(1) of the RII Act and subsequent determinations. Refer page 117 for details.

Fraud Risk Assessment

The susceptibility of business processes to misappropriation and fraud is reviewed as part of the internal audit programme. The external auditors also perform an evaluation of the company's processes to assess the possibility of manipulation, falsification and alteration of accounting records. The company adopts a zero tolerance policy in cases of fraud and misappropriation.

Ability to Meet Policyholder Obligations

An insurance company's ability to meet its obligations to policyholders is measured by the solvency margin computation, which compares the total value of "admissible assets" (as

defined by the IBSL) with the value of total liabilities (also defined by the IBSL) including the solvency margin which is stipulated by regulation. As presented on page 117, total admissible assets were Rs. 16.1 billion compared with total liabilities (including solvency margin) of Rs. 15.2 billion, resulting in a solvency position of Rs. 916 million.

Capital Structure

The company's stated capital of Rs. 388 million meets the share capital requirements set by the Insurance Board of Sri Lanka for a composite insurance company. The Insurance Board of Sri Lanka has proposed to increase the minimum share capital to Rs. 500 million for each class of insurance business and as a further / concurrent step to introduce a risk based capital regime. As per our medium term plans, Union Assurance is well positioned to meet these requirements as they are enacted.

Compliance Framework and Self Regulation

The Board recognises its responsibility of ensuring that business is conducted in accordance with relevant laws, rules and regulations. A regulatory compliance checklist is signed off on a monthly basis by persons responsible for ensuring compliance with such requirements. Changes to regulations are updated in the checklist on a regular basis. This is a proactive measure to ensure that no violations take place. Any violations are reported to the BACC. The company is in compliance with the statutory and regulatory requirements as summarised below.

Requirement 2010	Compliances
Inland Revenue	66
Ministry of Transport	24
RMV	12
IBSL Directives and RII Act	67
National Insurance Trust Fund	24
EPF and ETF	28
Gratuity	1
Registrar of Companies	27
CSE	32
SLAAS Monitoring Board	1
Central Bank of Sri Lanka	12
Municipal Council	4
Total Compliances 2010	298
Non Compliances 2010	Nil

Risk Management Initiatives

The company has implemented a comprehensive risk management programme to identify risks which may impede the achievement of business objectives and develop appropriate mitigation strategies. In 2010, the risk management process was revamped from a top down approach to a bottom up approach. Under the new scheme, heads of department conduct risk management workshops with their relevant teams to identify the key strategic / operational risks which affect their functions and list out mitigating action plans, responsibilities and target dates.

The risk grids prepared by the departments are summarised at a corporate level and reviewed by the senior management and Board Audit and Compliance Committee. The departmental heads work towards updating their risk grids on a pre-agreed calendar, which is aligned with the BACC schedule of meetings, so that the committee could be briefed regarding this initiative.

A detailed report on risk management initiatives is provided on pages 121 to 133.

Reinsurance Arrangements

The IBSL has stipulated that insurance companies must enter into reinsurance arrangements with companies which at a minimum have a rating of BBB. As per details on page 124, 62% of our reinsurance receivables are due from reinsurance companies that have been assigned at the minimum, an "A" rating by international rating agencies such as Standard & Poor's, AM Best, Moody's, Fitch Ratings or from the National Insurance Trust Fund.

Relationship and Communication with Stakeholders other than Shareholders

The company has developed a set of stakeholder charters outlining its objectives and commitments to its key stakeholders. A summary of these documents and progress during 2010 is provided on pages 141 to 144.

Corporate Governance contd.

Board Committees

Committee	Audit and Compliance Committee	Remuneration Committee	Investment Committee	Nominations Committee
Chairman (Non-Executive)	A. K. Gunaratne	A. D. Gunewardene	A. D. Gunewardene	A. D. Gunewardene
Agenda	Available	Available	Available	Available
Circulation of the agenda and papers	One week in advance	One week in advance	One week in advance	One week in advance
Notice for each meeting	As per annual calendar agreed in advance	As per annual calendar agreed in advance	As per annual calendar agreed in advance	As per annual calendar agreed in advance
Members Non-Executive Directors	J. R. F. Peiris A. S. De Zoysa	A. K. Gunaratne G. F. C. De Saram	K. N. J. Balendra A. S. De Zoysa	A.S. De Zoysa G. F. C. De Saram
Invitees	CEO GM Finance and Planning CFO Financial Services Group - JKH AVP Group Risk and Control Review - JKH External auditors Internal auditors	CEO CFO Financial Services Group - JKH	CEO GM Finance and Planning GM Actuarial CFO Financial Services Group - JKH Group Treasurer - JKH Head of Investments	No invitees
Professional advice	Actuarial, technical and legal specialists	Chartered Accountants, professional HR firms	Investment and economic consultants	N/A
Secretary	CFO Financial Services Group - JKH	Company Secretary	Head of Investments	A. S. De Zoysa
Planned frequency	Quarterly	On requirement	Monthly	On requirement
Availability of terms of reference	Available	Available	Available	Available
Objectives of the committee	<ul style="list-style-type: none"> Ensure that a good financial reporting system is in place and is well managed in order to give accurate, appropriate and timely information to the management, regulatory authorities and shareholders in accordance with Sri Lanka Accounting Standards (SLAS), Regulation of Insurance Industry Act, Companies Act and other financial reporting related regulations and requirements. 	<ul style="list-style-type: none"> Set the compensation for the CEO and senior management. Maintain a competitive remuneration package linked to performance. Establish appropriate salary packages and incentives for management and employees at all levels. 	<ul style="list-style-type: none"> Review and develop broad investment policies and guidelines for implementation. Monitor performance against agreed benchmarks. Review risk exposures and ensure compliance with all internal investment procedures and external regulations. 	<ul style="list-style-type: none"> Identify suitable persons for appointment to the Board. Consider the appointment or reappointment of any Director to the Board.

Committee	Audit and Compliance Committee	Remuneration Committee	Investment Committee	Nominations Committee
Objectives of the committee contd.	<ul style="list-style-type: none"> • Review the company's risk assessment process and organisational risk profile (An overview of the company's risk management processes is available on pages 121 to 133). • Ensure that systems of internal control are soundly conceived and effectively administered. • Ensure that applicable laws and regulations have been complied with. • Assess the independence and evaluate the performance of internal and external auditors. 	<ul style="list-style-type: none"> • Approve annual increments, bonuses and changes in perquisites and incentives. 		

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Directors' Attendance at Meetings

The Directors' attendance at meetings is outlined in the following table.

Board and Committee Composition and Attendance	Committee Memberships	Directorship Status	Directors' Meetings		Board Audit and Compliance Committee Meetings		Remuneration Committee Meetings		Investment Committee Meetings	
			A	B	A	B	A	B	A	B
Total number of meetings			6		4		4		12	
Meeting status			A	B	A	B	A	B	A	B
A. D. Gunewardene	RC, IC	Non-Executive Director	6	6	-	-	4	4	12	9
J. R. F. Peiris	BACC	Non-Executive Director	6	4	4	4	-	-	-	-
K. N. J. Balendra	IC	Non-Executive Director	6	6	-	-	-	-	12	12
A. K. Gunaratne	BACC, RC	Independent Non-Executive Director	6	6	4	4	4	4	-	-
A. S. De Zoysa ¹	BACC, IC	Independent Non-Executive Director	6	6	4	4	-	-	9	9
G. F. C. De Saram	RC	Independent Non-Executive Director	6	5	-	-	4	4	-	-
M. A. Tharmaratnam ²		Non-Executive Director	6	6	-	-	-	-	-	-
A - Number of meetings held during the time the Director held office										
B - Number of meetings attended										
BACC - Board Audit and Compliance Committee										
RC - Remuneration Committee										
IC - Investment Committee										
1 - Appointed to Investment Committee 1 st April 2010										
2 - Resigned 31 st December 2010										

Compliance with Corporate Governance Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange

The following table has been published in accordance with the requirement to disclose the level of compliance with the above Rules.

Rule No.	Requirement	Compliance Status	Details
7.10.1	Two or one third of the Directors, whichever is higher, should be Non- Executive Directors.	Compliant	All six Directors on UA's Board are Non-Executive Directors.
7.10.2 (a)	Two or one third of Non-Executive Directors, whichever is higher, should be independent.	Compliant	The Board comprises three independent Non-Executive Directors.
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence / non-independence in the prescribed format.	Compliant	The Non-Executive Directors have submitted the declarations.
7.10.3 (a)	Names of independent Directors should be disclosed in the annual report.	Compliant	Please refer page 87.
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the annual report.	N/A	No such determination has been made by the Board.
7.10.3 (c)	A brief resume of each Director should be published in the annual report including the areas of expertise.	Compliant	Please refer pages 20 to 23.
7.10.3 (d)	Provide a brief resume of any new Director appointed to the Board.	Compliant	No new Directors were appointed in 2010.
7.10.5	A listed company shall have a Remuneration Committee.	Compliant	Please refer the Remuneration Committee report on pages 119 to 120.
7.10.5 (a)	The Remuneration Committee shall comprise a minimum of two independent Non-Executive Directors or a majority of independent Non-Executive Directors, whichever is higher.	Compliant	The Remuneration Committee comprises a majority of independent Non-Executive Directors.
	One Non-Executive Director shall be appointed as Chairman of the committee by the Board.	Compliant	Mr. A. D. Gunewardene functions as Chairman of the Remuneration Committee.
7.10.5 (b)	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Compliant	Please refer the Remuneration Committee report on pages 119 to 120.
7.10.5 (c)	The annual report shall set out:		
	The names of the Directors that comprise the Remuneration Committee.	Compliant	Please refer page 106.
	A statement of remuneration policy.	Compliant	Please refer the Remuneration Committee report on pages 119 to 120.
	Aggregate remuneration paid to Executive and Non-Executive Directors.	Compliant	Please refer page 221.

Corporate Governance contd.

Rule No.	Requirement	Compliance Status	Details
7.10.6	A listed company shall have an Audit Committee	Compliant	Please refer the BACC report on pages 194 to 195.
7.10.6 (a)	The Audit Committee shall comprise a minimum of two independent Non-Executive Directors, or a majority of independent Non-Executive Directors, whichever is higher.	Compliant	The BACC comprises a majority of independent Non-Executive Directors.
	One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.	Compliant	Mr. A. K. Gunaratne functions as the Chairman of the BACC.
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.	Compliant	The CEO and CFO attended all BACC meetings.
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body.	Compliant	Two members of the BACC are members of professional accounting bodies.
7.10.6 (b)	The Audit Committee shall have functions as set out in section 7.10 of the listing rules.	Compliant	Please refer BACC report on pages 194 to 195.
7.10.6 (c)	The annual report shall set out:		
	The names of the Directors who comprise the Audit Committee.	Compliant	Please refer page 106.
	The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination.	Compliant	Please refer the BACC report on pages 194 to 195.
	A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the listing rules.	Compliant	Please refer the BACC report on pages 194 to 195.

Performance Governance

In addition to a strong corporate governance framework, the Board has also implemented a robust performance management system encompassing a detailed strategic planning process to set organisational direction and objectives as well as tools to monitor implementation and manage business risks.

Strategic Direction and Corporate Objectives

Strategic planning is a bottom up process, involving staff at all levels, creating ownership and commitment, as well as harnessing their creative potential. The process commences with the Board setting the broad objectives for the year from a top line and profitability perspective.

Based on these requirements, the Executive Committee reviews the company's vision and mission and analyses the market position, competitive and macro environment, competitor positioning and organisational strengths, weaknesses, opportunities and threats (SWOT analysis). Based on this information, the Executive Committee identifies the issues and challenges in the plan period and formulates broad strategies and objectives.

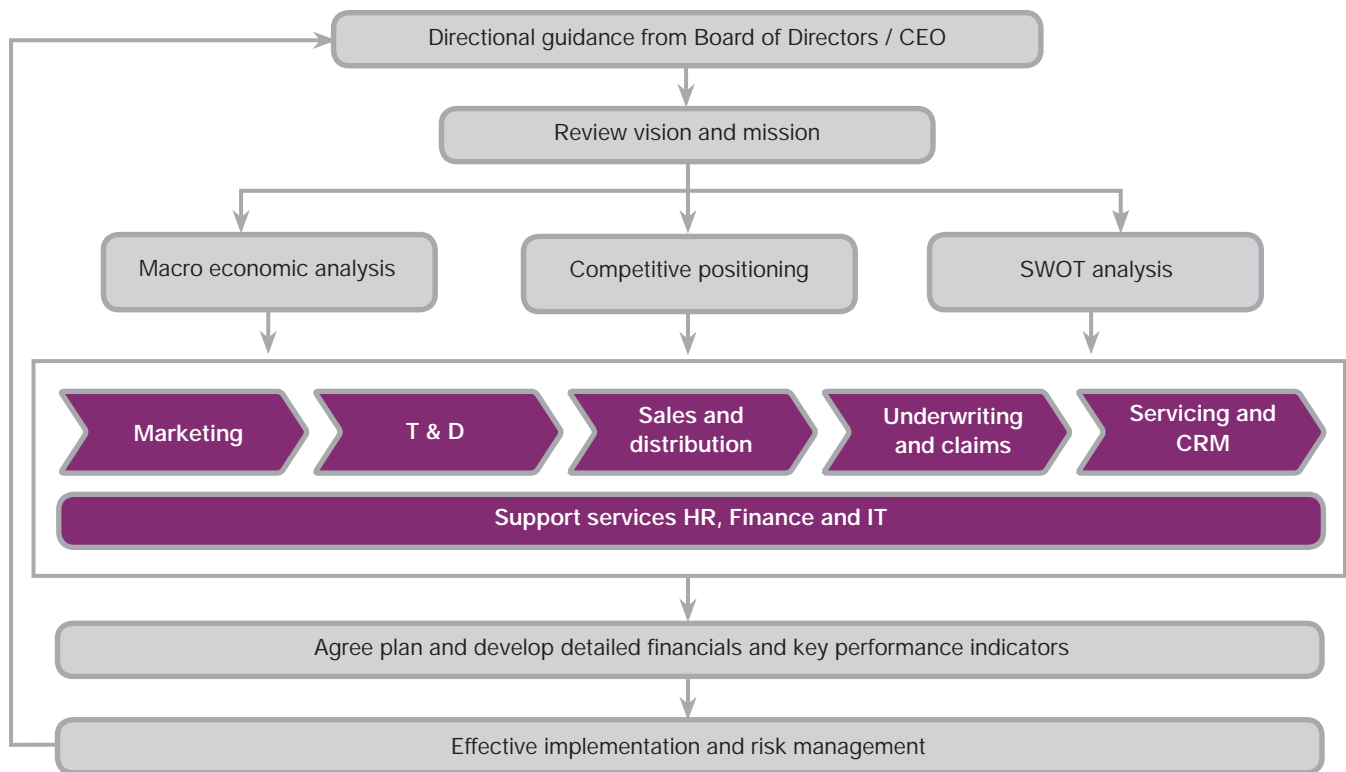
Simultaneously, the company conducts planning meetings at regional / distribution channel level. The strategic plans derived from these workshops are synchronised with the objectives

determined by the Executive Committee at a broader planning forum comprising the Executive Committee and key representatives from the functional / distribution channels.

Once agreed, financial budgets and objectives are set and presented to the Board.

During the year, the company updated the medium term business plan which was initiated in 2005.

An overview of the process is provided below.



Performance Governance contd.

Effective Implementation

The CEO and the Executive Committee review the strategic plan actions and budgets on a monthly basis and analyse variances between budgeted and actual results. The same information is also reviewed by the Board. Both parties use a dash board with key performance

indicators (KPIs) to monitor progress. The KPIs are linked to the strategic objectives of the company as reflected below.

General Insurance Strategic Objectives and Key Performance Indicators

Strategic Objective	Key Performance Indicator	Relevance	2010 Update
Expand distribution capability especially in retail segment	<ul style="list-style-type: none"> Channel wise GWP 	<ul style="list-style-type: none"> Measures GWP generated from specific channels in line with expectations, investments made. 	<ul style="list-style-type: none"> Premium income from retail channels maintained growth momentum. Developed training and development modules, incentive structures and career path to expand non-permanent sales force. Implemented "convenience" related service improvements in line with brand positioning. Leveraged relationships with brokers, leasing and other financial institutions to grow business in retail segment. Developed non motor pre-underwritten products.
Continuous improvements in service standards	<ul style="list-style-type: none"> Customer satisfaction results with regard to motor claims settlement process Number and value of claims outstanding over agreed time frames 	<ul style="list-style-type: none"> Direct feedback from customers regarding end to end service delivery. Claims settlement time is a key indicator of our service delivery. 	<ul style="list-style-type: none"> Streamlined underwriting operations and claims management process to ensure optimal efficiency and effectiveness following the restructure. Reported 97% satisfaction among motor insurance customers who had claimed against their policy in 2010. Introduced "Speed Cash" whereby the claim value is confirmed to the client via SMS, at the accident site itself. Implemented structured training programmes for technical and distribution staff to improve knowledge and thereby customer service. Trained branch staff to conduct non motor claims reviews to provide speedy service to customers outside Western province.

General Insurance Strategic Objectives and Key Performance Indicators *contd.*

Strategic Objective	Key Performance Indicator	Relevance	2010 Update
Develop alternative distribution channels	<ul style="list-style-type: none"> GWP generated from alternative channels 	<ul style="list-style-type: none"> Measures GWP generated from specific initiatives. 	<ul style="list-style-type: none"> Increased sales of Motor Reload products at Keells supermarket outlets. Entered into a partnership with Singer, to sell Reload policies at Singer Mega outlets. Increased GWP from worksite marketing channel. Launched cost effective promotion campaign for Union Motor Reload, including SMS based quotation engine. Streamlined organisation structure / resources. Enhanced business relationships with Singer.
New product development	<ul style="list-style-type: none"> GWP generated from new products 	<ul style="list-style-type: none"> Ultimate measure of success of a new product. 	<ul style="list-style-type: none"> Developed pre-underwritten products for shop, home and commercial properties. Revamped personal accident product. Developed process to deliver marine certificates to specified banks in electronic format. Augmented product/service offering for corporate surgical and hospitalisation policyholders. Launched "Speed Cash" solution for motor insurance claims.
Strengthen underwriting processes	<ul style="list-style-type: none"> GWP mix Combined ratio General insurance underwriting profits 	<ul style="list-style-type: none"> Measures GWP generated from various classes of business, as risk / pricing / claims experience vary by class of business. Reflects the total margin generated by the business. Measures profits generated from the core function of the business. 	<ul style="list-style-type: none"> Implemented structured training programmes for technical staff to improve their knowledge in all classes of insurance. Encourage staff to take up professional exams to enhance their knowledge. Developed process to review motor pricing on a regular basis. Leveraged IT infrastructure to quote for new surgical and hospitalization business.

Performance Governance contd.

General Insurance Strategic Objectives and Key Performance Indicators contd.

Strategic Objective	Key Performance Indicator	Relevance	2010 Update
Strengthen claims management processes	<ul style="list-style-type: none"> Claims ratio 	<ul style="list-style-type: none"> Amount of claims paid as a % of income - the ultimate measure of claims management capability. 	<ul style="list-style-type: none"> Formed strategic alliances with repair shops / spare part dealers to minimise leakage. Increased resources for motor claims audit process. Streamlined process for customers to intimate non motor claims via web.

Life Insurance Strategic Objectives and Key Performance Indicators

Strategic Objective	Key Performance Indicator	Relevance	
Expand distribution network in cost effective manner	<ul style="list-style-type: none"> GWP generated from regular business Location wise expense ratios / benchmarks Lapse information 	<ul style="list-style-type: none"> Investments to expand distribution are mainly to drive growth in regular premium business. Manage expenses. Manage GWP growth by ensuring renewal premiums are consistently paid. 	<ul style="list-style-type: none"> Opened 12 new locations the majority as BDOs, which require less capital / operating expenses than traditional branches. Life GWP increased by 25%. Enhanced functionality of web based sales force management system. Expanded sales force by focusing on recruitment and retention practices.
Continuous improvements in service standards	<ul style="list-style-type: none"> Review actual versus benchmark for selected services. Number and value of claims outstanding over agreed time frames 	<ul style="list-style-type: none"> Ensure service delivery is in line with pre-agreed standards. Claims settlement time is a key indicator of our service delivery. 	<ul style="list-style-type: none"> Expanded Union Pay Easy scheme by adding 350 Abans outlets. Increased use of SMS technology to communicate with customers and field force. Set up 24 hour call centre facility. Ensured unit linked operations are performed efficiently.
Improve / enhance training and development	<ul style="list-style-type: none"> Training hours by staff category GWP achieved vs. plan 	<ul style="list-style-type: none"> Measures training inputs received. Ultimate measure of success for investment in training and development. 	<ul style="list-style-type: none"> Developed training material for unit linked product - Union Challenger. Streamlined training and development activities to ensure success of new recruits. Enhanced Tamil language training material and resources. Enhanced e-learning facility and material. Increased number of certified trainers.

Life Insurance Strategic Objectives and Key Performance Indicators contd.

Strategic Objective	Key Performance Indicator	Relevance	
Develop alternative distribution channels	<ul style="list-style-type: none"> GWP generated from alternative channels 	<ul style="list-style-type: none"> Measures GWP generated from specific initiatives. 	<ul style="list-style-type: none"> Entered into bancassurance partnership with Commercial Bank. Increased sales from other bancassurance channels. Commenced outbound call centre operations.
New product development	<ul style="list-style-type: none"> GWP generated from new products 	<ul style="list-style-type: none"> Ultimate measure of success of a new product. 	<ul style="list-style-type: none"> Launched Union Challenger focusing on retirement need. Increased rider sales. Increased sales of Union Life Advantage, UA's flagship traditional product.
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> Life surplus and embedded value 	<ul style="list-style-type: none"> Measures current and future profitability of the business. 	<ul style="list-style-type: none"> Conducted experience investigations for hospital cash and critical illness products. Conducted lapse and mortality investigations. Reviewed and updated underwriting procedures. Commenced structured / modular training programme for underwriting and claim staff. Implemented IT system to launch unit linked products.

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Performance Governance contd.

Financial, marketing and underwriting performance reviews are also conducted at monthly management meetings. The discussion points arising from such meetings are cascaded to all staff members.

In addition, the Board benchmarks the company's performance on the following metrics with published industry information.

Metric	Rationale
General and life insurance gross written premium	<ul style="list-style-type: none"> • Review market share • Identify new business opportunities • Growth potential in industry • Comparison versus competitors in identified segments
Claims and expense margins	<ul style="list-style-type: none"> • Benchmark company in terms of efficiency and effectiveness • Identify profitability trends • Identify profitable business segments
Balance sheet structure	<ul style="list-style-type: none"> • Review investment positions • Composition of net assets • Management of debtors • Financing strategies

Strategic Risk Management

Risk management is an integral part of the planning process. Prior to preparation and subsequently, the planning team reviews the associated risks and formulates appropriate mitigation action plans to face any eventually. During the year, the risk management process was revamped from a top down approach to a bottom up approach.

Under the new system, heads of department conduct risk management workshops with their relevant teams to identify the key strategic / operational risks which affect their functions and list out mitigating action plans, responsibilities and target dates.

The risk grids prepared by the departments are summarised at a corporate level and reviewed by the senior management and Board Audit and Compliance Committee. The

departmental heads work towards updating their risk grids on a pre-agreed calendar, which is aligned with the BACC schedule of meetings, so that the committee could be briefed regarding this initiative. An overview of the risk management process is provided on pages 121 to 133.

Statement of Solvency and Approved Assets

Solvency

The statement of Solvency for General Insurance and Long Term insurance in respect of conventional business has been prepared in accordance with the Solvency Margin (General Insurance) Rules - 2004 and Solvency Margin (Long Term Insurance) Rules of 2002 respectively and is disclosed below on a composite basis.

For the year ended 31 st December	2010 Rs. Mn.	2009 Rs. Mn.
Value of admissible assets maintained in life and general	16,116	14,412
Total liabilities including technical reserves (general) and life fund	14,169	12,581
Net admissible assets	1,947	1,831
Required solvency margin (life and general)	1,031	886
Excess over required solvency margin	916	945

Approved Assets

Determined as per section 25(1) of the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent Determinations made by the Insurance Board of Sri Lanka in terms of the said Act.

For the year ended 31 st December	2010 Rs. Mn.	2009 Rs. Mn.
General Insurance Business		
Approved assets maintained in general	3,095	2,459
Technical reserves	2,289	1,823
Excess in approved assets	806	636
Life Insurance Business		
Approved assets maintained in life	11,981	9,892
Life insurance fund liability under solvency valuation basis	9,668	8,403
Excess in approved assets	2,313	1,489

Board Investment Committee Report

Composition of the Board Investment Committee

The Board Investment Committee (BIC) is composed of the following Non-Executive Directors with expertise and leadership backgrounds in risk and investment management.

- A. D. Gunewardene (Chairman)
- K. N. J. Balendra
- A. S. De Zoysa

Meetings

The Committee met 12 times during the year and independent professionals in the fields of economics, risk and investment management attended the meetings to provide technical input and facilitate decision making. The CEO, General Manager Finance and Planning, General Manager Actuarial and Head of Investments attended these meetings by invitation.

Terms of Reference

The Committee is guided by the Board approved Investment Policy Statements (IPS) for the life, general and unit linked funds and the purpose of the Board Investment Committee is to assist the Board of Directors to fulfill their responsibility to shareholders and policyholders, in relation to the management of general and life investment portfolios including the development of overall and portfolio specific investment guidelines. The Committee focuses on the following objectives in discharging its responsibilities:

- Advice on formulation of investment strategy.
- Provide guidance on the asset allocation of investment funds.
- Review fund performance for the month and on a cumulative basis.
- Manage risk exposure.
- Review compliance with internal and external investment regulations.

The Committee reports discussions had and decisions taken at the BIC to the Board of Directors. With effect from 2009, the Committee provides a detailed list of investments to the Board.

In carrying out its responsibilities, the BIC's policies and procedures remain flexible, in order to best react to changing conditions and to ensure that management of the general and life funds is performed to the highest quality possible and in accordance with all internal and external regulations.

Summary of Activities

- The Committee obtained independent advice on macroeconomic forecasts, yield curve predictions and other factors, discussed and agreed on the Committee's view with regard to key macro-economic indicators such as inflation, interest rates, exchange rates and their impact on performance of capital markets.
- At the beginning of the year, the Committee considered the profit plan together with the budgeted investment income for general and life funds for the ensuing year and advised on formulation of investment strategies taking into account the investment objectives for the planning period, the maturity profiles and risk tolerance of the respective funds.
- Provided guidance on asset allocation for the general and life funds in order to achieve the budgeted investment income, taking into account the determinations issued by the Insurance Board of Sri Lanka (IBSL), the maturity profiles of the funds and agreed investment strategies.
- Discussed and agreed on duration of investments for asset liability management and provided advice

on the proportion of long term versus short term investments to be maintained for the year.

- Reviewed fund performance for the month and on a cumulative basis against agreed benchmarks. The Committee is also updated each month on fund growth, maturity profiles and asset liability management of the respective funds.
- The Committee has set separate exposure limits for banks and corporate entities, which are reviewed monthly. These limits are updated on a regular basis in line with respective fund sizes and information pertaining to the financial stability of such entities.
- The Committee reviewed compliance with internal and external investment regulations at each meeting, including IBSL regulations related to solvency and approved assets.
- The Committee also ensured that the agreed investment strategies and asset allocations for the year were implemented.

Conclusion

The Committee is satisfied with the performance of both life and general funds during the year.



A. D. Gunewardene
Chairman - Board Investment Committee

15th February 2011

Remuneration Committee Report

Composition and Charter of the Remuneration Committee

The Remuneration Committee, appointed by and responsible to the Board of Directors comprises the following three Non-Executive Directors.

A. D. Gunewardene (Chairman)
A. K. Gunaratne
G. F. C. De Saram

The Chief Executive Officer who is responsible for the overall management of the company assists the Committee by providing relevant information and participating in its analysis and deliberations, except when his own compensation package is reviewed. Other Executive Committee members may be invited as and when required.

The responsibilities of the Remuneration Committee include:

- Formulating formal and transparent procedures for developing policy on remuneration for executives and Directors.
- Recommending corporate management appointments to the Board and advising on succession planning.
- Setting the compensation for the CEO and senior management.
- Maintaining a competitive and attractive remuneration package linked to performance.
- Ensuring that the performance related element of remuneration is designed and tailored to align employees' interests with those of the company and main stakeholders.
- Approving annual increments, bonuses and changes in perquisites and incentives.
- Ensuring that no Director is involved in setting his own remuneration.

Remuneration Committee Meetings

The Remuneration Committee held four meetings during the year under review. The decisions and recommendations of the committee are submitted for ratification / approval by the Board of Directors.

Remuneration Policy Principles

The key principles which constitute the remuneration policies are that:

- Total remuneration is set at a level that can attract, motivate and retain high quality executive talent.
- Remuneration is commensurate with each employee's level of expertise and contribution and aligned with the business' performance and long term shareholder returns.
- Executive remuneration is set so that a significant portion of remuneration is linked to performance.
- The performance related element of remuneration is designed and tailored to align employees' interest with those of the company and main stakeholders.
- Remuneration levels are based on industry and market surveys.

Remuneration Package Employees

Total compensation of an individual is influenced by a number of factors such as business performance, individual performance and industry and market surveys. Total remuneration will have a fixed component and a variable component.

Base Salary

Base salary is the fixed component of the remuneration for the role performed and is based on the scope and complexity of the role and is reviewed annually. Annual performance appraisals

are conducted and increments are granted based on performance. Overall competence and performance are key factors that determine an individual's base pay.

Variable Pay

There are several performance based incentive schemes in place to reward individuals. Variable pay opportunities are provided for certain employees, when it is necessary to motivate them to achieve key short term and medium term goals. Incentives include inter alia, commissions paid for acquiring new business, incentives for achieving key result areas and annual bonus.

Annual Bonus

The company has implemented a variable bonus scheme for staff at all levels. As per the scheme, the annual bonus is subject to individual performance and achievement of company objectives. If the company's performance exceeds the targets set for the year, employees are entitled to a higher bonus. Conversely, if the company performs poorly, employees may not receive a bonus. Bonus payments depend on individual performance as well.

Employee Benefits

Benefits provided to employees include vehicle loans and medical insurance.

Board of Directors

Remuneration for Directors is determined by the Remuneration Committee. The remuneration for Non-Executive Directors reflects the time, commitment and responsibilities of their role and is based on industry and market surveys. They do not receive any performance or incentive payments. No Director is involved in determining his or her own remuneration.

Remuneration Committee Report contd.

Remuneration for Directors

The fees paid to the Directors are disclosed on page 221. This includes fees for all the committees of the company that they serve in. The Directors' business interests with the company are disclosed on pages 243 to 245.

Share Plans for Directors

The company does not have a share plan for Directors.

Directors' Shareholding

The shareholdings of Directors are provided on page 191.

Personal Loans for Directors

None of the Directors have taken loans from the company.

Professional Advice

The committee has the authority to seek external professional advice on matters within its purview whenever required.



A. D. Gunewardene

Chairman - Remuneration Committee

15th February 2011

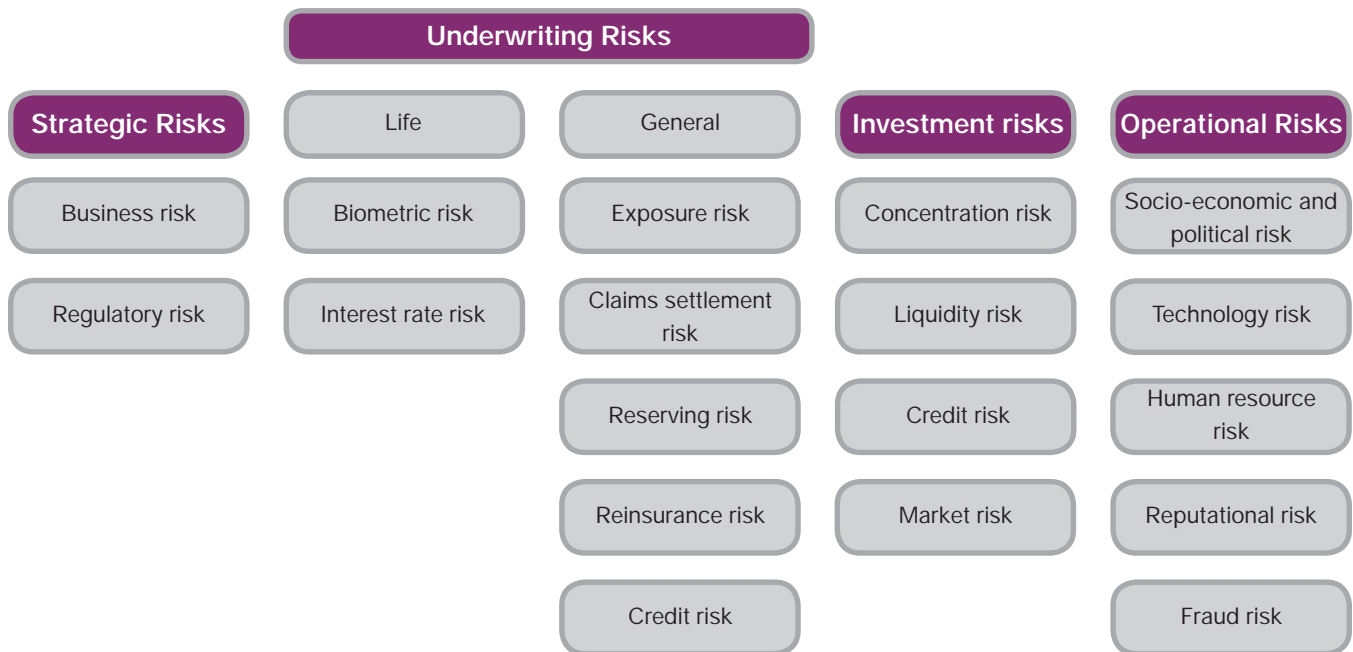
Risk Management

An insurance company is in the business of reducing and eliminating the risk and uncertainty faced by its customers. Effectively managing risks affecting Union Assurance is therefore essential to our ability to help our customers manage theirs. Risk management is an integral component of Union Assurance's enterprise governance system and the

risk management framework is designed to identify, assess, measure and manage exposure to risk. However as tragically demonstrated by the recent man made and natural catastrophes, there cannot and never will be, absolute security when it comes to identifying risks, measuring them sufficiently or correctly estimating the potential impact.

Overview of Generic and Insurance Specific Risks

An insurance company's risk environment is diagrammatically presented below.



The table on the following page summarises the controls that UA has implemented to manage risks generally faced by insurance companies.

Risk Management contd.

Risk Category / Risk Description	Controls in Place to Mitigate Risks
Strategic Risks	
<p>Business Risk Business risk is the risk that the company may not be able to achieve its business objectives. Business risk may arise if the company's strategy is not compatible with market or customer requirements, or with socio-economic / political parameters.</p>	<ul style="list-style-type: none"> • The risk management process is embedded within the corporate planning process i.e. once the corporate plan is formulated, the risk management team reviews the risks associated with strategies outlined and develops suitable action plans. • As reflected in figure 1 on page 129, there is a constant scan of the internal and external environment e.g. to identify factors which may impede the achievement of organisational objectives. • The company's strategic plans are updated on an annual basis and formally approved by the Board. • The Board reviews the strategic plans on an ongoing basis as well.
<p>Regulatory Risk Regulatory risk may arise if the company is not able to comply with regulatory requirements which may change from time to time, or is not compliant with existing regulations.</p>	<ul style="list-style-type: none"> • Company representatives are actively involved in reviewing regulatory changes and assessing the business impact of such proposals. • The company also keeps abreast of the regulatory environment in regional markets and leverages the knowledge of our general and life insurance consultant actuaries as well. • A comprehensive compliance checklist has been developed (Refer page 105), which is signed off by the relevant management on a monthly basis. A summary of the checklist is presented at every Board meeting.
Underwriting Risks	
<p>Risk of Change Changing risk parameters and unforeseen factors may result in unexpectedly large claims.</p>	<ul style="list-style-type: none"> • The company makes significant investments to improve the knowledge and skills of underwriting staff. During the year, the company implemented a modular certification course for both life and general technical staff and implemented case study based training programme for general sales staff as well. • The company also maintains statistical databases and regularly reviews premium versus sums assured by location to identify accumulation impact. • Underwriting is also on a selective basis, with certain insurance covers being restricted to certain regions / locations due to risks associated with that particular geographical area. • The company also reviews the adequacy of reinsurance support for catastrophe / extreme events on a regular basis.
<p>Biometric Risk Biometric risk refers to the mortality and disablement assumptions used to price life insurance policies as well as reserve for liabilities. The checking of mortality and the appropriateness of trend assumptions may result in a need for additional reserving i.e. if actual life expectancy has not been sufficiently taken into account.</p>	<ul style="list-style-type: none"> • Apart from in-house actuaries, the company has contracted the services of an actuarial firm with extensive experience internationally and particularly in the region, to review biometric calculation tables and make suitable adjustments. • The Prophet actuarial system has enabled the company to monitor trends and review pricing in a proactive manner.

Risk Category / Risk Description	Controls in Place to Mitigate Risks
Underwriting Risks contd.	
<p>Interest Rate Risk Interest rate risk refers to a scenario where the company will not be able to earn the returns for which life products have been priced.</p>	<ul style="list-style-type: none"> • The company uses prudent assumptions regarding probable interest rates when computing future liabilities. • The Board Investment Committee members keep a regular track of macro economic scenarios and their likely impact on interest rates. • Life insurance products are profit tested by qualified actuaries to confirm that the company will be able to meet its obligations to life policyholders. • In 2007, the company launched Union Life "Advantage," a life product which provides a guarantee limited to a one year period. • "Union Challenger", which was launched in August 2010, is on a unit linked platform, which enables customers to choose their investment options in a transparent manner
<p>Exposure Risk Exposure risk may arise when the underwriter accepts a risk for a price which is insufficient to meet the cost of claims.</p>	<ul style="list-style-type: none"> • The company reviews the profitability, pricing and terms and conditions it offers its customers on a regular basis. Risk surveys are conducted in the case of large risks to ensure that such risks are accurately rated and recommendations are made on risk prevention strategies. • Underwriting staff are expected to scrutinise all relevant information including proposal forms, broker information (if any) and risk assessment reports before granting cover. • In addition to training and development opportunities provided to the underwriting staff, procedure manuals are available and updated as required. • The company ensures adequate segregation of duties and underwriters work within formally documented limits of authority. • If reinsurance support is required, cover is confirmed to customers only once confirmation from the reinsurer is received. • A geo-coding process has been initiated to monitor accumulation exposures. • The company has also invested in IT systems to monitor / manage pricing of motor and surgical lines of business.
<p>Claims Settlement Risk Claims settlement risk refers to the risk of potential disputes (e.g. legal, fraudulent etc.) which may arise when settling claims.</p>	<ul style="list-style-type: none"> • Customers are advised of any deductibles, adequacy of sum insured, whether the required covers have been obtained and any risk prevention / minimisation strategies. • Claims manuals are available and updated regularly. • At the point of settling a claim, employees are expected to cross check the information gathered from various sources and verify policy conditions, sum insured and underwriting details. • There is adequate segregation of duties in the claims payment function and payments are recommended and approved based on authority limits. • The company also avails itself of third party specialists to validate claims if required.
<p>Reserving Risk Reserving risk refers to the risk of not providing adequate reserves for intimated claims as well as incurred but not reported (IBNR) claims.</p>	<ul style="list-style-type: none"> • Claims handlers are expected to create the necessary reserves as soon as information is received based on a Board approved claims reserving policy. • Reserves are updated on a timely basis for all information received as at period end. • Claims reserves are reviewed and signed off on a quarterly basis to further emphasise the need to maintain accurate reserves. • The company has also implemented an internationally accepted actuarial basis for valuing the IBNR claims provision. • Reserving risk is also applicable to the life business. Hence the life fund is subject to a bi-annual actuarial review. The mid year review is conducted by the in-house actuary and the year end review is conducted by an independent actuary.

Risk Management contd.

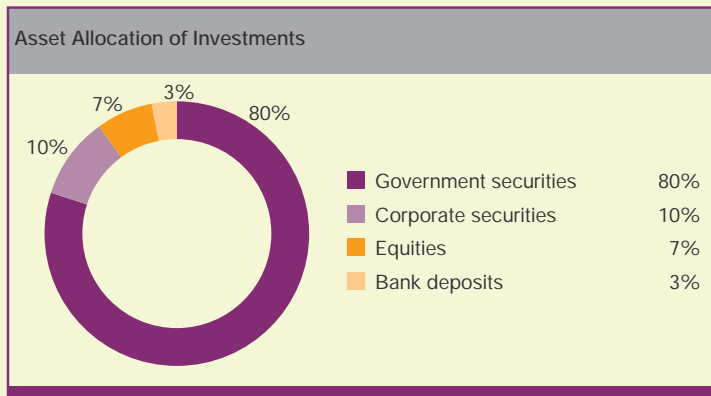
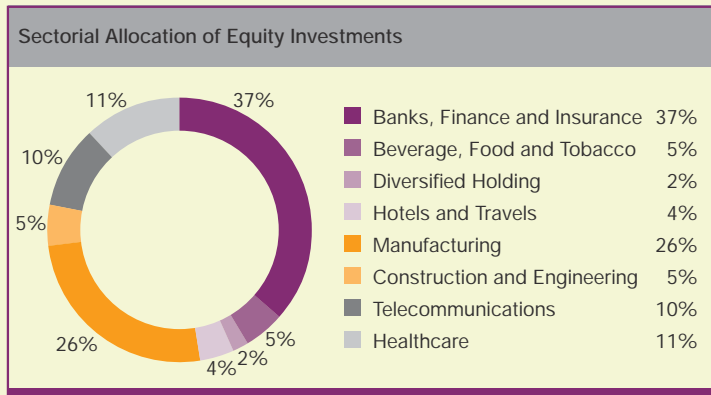
Risk Category / Risk Description	Controls in Place to Mitigate Risks																				
Underwriting Risks contd.																					
<p>Reinsurance Risk Inadequate transfer of underwritten risks to and inability of reinsurers to meet their commitments due to insufficient financial strength.</p>	<ul style="list-style-type: none"> As at 31st December 2010, 62% of our reinsurance receivables were due from reinsurers with a rating of "A" or better and from the National Insurance Trust Fund. The company reviews past trends and conducts "what if" scenario testing before finalising the reinsurance arrangements for the year. The reinsurance panel is formally approved by the Board on an annual basis. A provisioning policy has been implemented for outstanding reinsurance receivables. Reinsurer ratings are reviewed on a regular basis and appropriate action is taken if ratings decline. <div data-bbox="808 699 1224 1262" style="text-align: center;"> <table border="1"> <caption>Reinsurance Receivables by Rating Class</caption> <thead> <tr> <th>Rating Class</th> <th>Rs. Mn.</th> </tr> </thead> <tbody> <tr> <td>AA</td> <td>7</td> </tr> <tr> <td>AA-</td> <td>74</td> </tr> <tr> <td>A+</td> <td>74</td> </tr> <tr> <td>A</td> <td>79</td> </tr> <tr> <td>A-</td> <td>149</td> </tr> <tr> <td>BBB+</td> <td>1</td> </tr> <tr> <td>BBB</td> <td>9</td> </tr> <tr> <td>NITF</td> <td>124</td> </tr> <tr> <td>Not Assigned</td> <td>61</td> </tr> </tbody> </table> </div>	Rating Class	Rs. Mn.	AA	7	AA-	74	A+	74	A	79	A-	149	BBB+	1	BBB	9	NITF	124	Not Assigned	61
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Not Assigned	61																				
<p>Credit Risk Credit risk may arise if policyholders or intermediaries cannot settle their dues to the company.</p>	<ul style="list-style-type: none"> In life insurance, credit risk is minimal, since premium is accounted on a cash basis and typically paid before the liability is assumed. The premium warranty clause which states that a claim is not payable if the premium is not settled within 60 days has reduced credit risk in general insurance. The following steps have also been taken to further minimise this risk. <ul style="list-style-type: none"> Customers are informed on a regular basis regarding the premium warranty clause. Credit is granted as per a Board approved credit policy. Outstanding credit is followed up on a daily basis. Policies which are not settled within a reasonable period are routinely cancelled. Outstanding debts are checked and confirmed before settling claims. Information regarding policies cancelled due to non payment of premiums is submitted to the industry database. A provisioning policy has been implemented for long outstanding premium receivables. 																				

Investment Risks

Concentration Risk

Concentration risk may arise when the investment portfolio is not sufficiently diversified.

- The Board Investment Committee (BIC) sets an overall asset allocation target at the start of the year. The decision is based on a number of factors including an analysis of the macro economic environment, regulatory requirements, liquidity position and return expectations during the plan period.
- The BIC has set sectoral asset allocation limits for equity investments as well as related party exposure limits.
- The asset allocation of consolidated investments and the sectoral allocation of equity investments as at 31st December 2010 are given below



Risk Management contd.

Risk Category / Risk Description	Controls in Place to Mitigate Risks																								
<p>Investment Risks contd.</p> <p>Liquidity Risk Liquidity risk may arise from larger than expected cash outflows or smaller than expected cash inflows.</p>	<ul style="list-style-type: none"> The BIC manages this risk by diversifying investment durations and reviewing cash flow projections. Maturity analysis of Corporate Securities is given below. <div data-bbox="662 474 1377 863" data-label="Figure"> <p>Maturity Analysis of Corporate Securities</p> <table border="1"> <thead> <tr> <th>Maturity Period</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Less than 1 year</td> <td>12%</td> </tr> <tr> <td>1 - 5 years</td> <td>55%</td> </tr> <tr> <td>5 - 10 years</td> <td>21%</td> </tr> <tr> <td>10 - 15 years</td> <td>12%</td> </tr> </tbody> </table> </div>	Maturity Period	Percentage	Less than 1 year	12%	1 - 5 years	55%	5 - 10 years	21%	10 - 15 years	12%														
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<p>Credit Risk The risk that investment institutions will be unable to pay the contractual interest or principal on their debt obligations due to declining financial strength.</p>	<ul style="list-style-type: none"> The creditworthiness of a potential investment is assessed mainly through ratings assigned to the issuing institution or the ratings assigned to an issue. In the event the investments are guaranteed by a banking institution, the rating of the bank is considered. The Board Investment Committee (BIC) works strictly within stipulated exposure limits. The exposure limits are set (inter alia) based on institutional rating (if available) and size of the investment portfolio. As at 31st December 2010, 89% of our corporate debt investments had a rating of "A" or better or were guaranteed by banking institutions with ratings of "A" or better. <div data-bbox="662 1205 1036 1665" data-label="Figure"> <p>Corporate Debt Investments by Rating Class</p> <table border="1"> <thead> <tr> <th>Rating Class</th> <th>Rs. Mn.</th> </tr> </thead> <tbody> <tr> <td>AAA</td> <td>442.2</td> </tr> <tr> <td>AA+</td> <td>520</td> </tr> <tr> <td>AA</td> <td>200</td> </tr> <tr> <td>AA-</td> <td>325</td> </tr> <tr> <td>A+</td> <td></td> </tr> <tr> <td>A</td> <td></td> </tr> <tr> <td>A-</td> <td></td> </tr> <tr> <td>BBB+</td> <td></td> </tr> <tr> <td>BBB</td> <td>10</td> </tr> <tr> <td>BBB-</td> <td></td> </tr> <tr> <td>Unrated</td> <td>174.3</td> </tr> </tbody> </table> </div>	Rating Class	Rs. Mn.	AAA	442.2	AA+	520	AA	200	AA-	325	A+		A		A-		BBB+		BBB	10	BBB-		Unrated	174.3
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<p>Market Risk Loss of value of investments due to adverse movements in assets prices.</p>	<ul style="list-style-type: none"> Investment decisions are based on fundamentals rather than on speculative bets. Decisions are based on in depth macroeconomic and industry analysis as well as company research. A model to review the market prices of certain asset classes has been developed and is referred to the BIC on a monthly basis. 																								

Risk Category / Risk Description	Controls in Place to Mitigate Risks
Operational Risks	
<p>Socio-economic and Political Risk The socio economic and political environment has an impact on the insurance business as well as the investment climate. An economic downturn could lead to a slowdown in insurance business and payment default among debtors. Social and political changes could also result in a deterioration in law and order, the legal system etc.</p>	<ul style="list-style-type: none"> • Strengthen underwriting and claims management processes to monitor issues arising from under insurance, fictitious claims etc. • Review pricing in light of inflation. • Compete on service by continuously upgrading service standards. • Monitor lapsation of life policies. • Develop alternative distribution channels.
<p>Technology Risk The company operates in a fully computerised, networked environment. The organisational and technical measures needed to protect the confidentiality, availability and integrity of these systems and data becomes increasingly important. In addition the company is also exposed to IT risks such as breakdowns and disruptions.</p>	<ul style="list-style-type: none"> • The company has invested in the security infrastructure appropriate for our size and scale of operations. • Security arrangements are constantly updated to take account of the latest knowledge and technical enhancements. • Security regulations cover technical aspects as well as organisational measures including staff training, end user computer policies etc. • The company has implemented a fully fledged disaster recovery center. The disaster recovery machine mirrors day to day transactions on a real time basis. • The disaster recovery plan was tested in live environment during the year and confirmed to be satisfactory. • A comprehensive IT audit covering the core systems, network, web related services and all other infrastructure was concluded in 2008. • A vulnerability assessments audit was conducted in 2010.
<p>Human Resource Risk The main human resource risks are the shortage of qualified personnel, demotivation and loss of staff.</p>	<ul style="list-style-type: none"> • HR policies are geared to encourage continuous education at all levels of staff. • Managers are required to identify / provide relevant training and development opportunities. • Foster a culture where all employees, regardless of rank, can actively contribute to the business. • Provide adequate monetary and non monetary incentives. • Implement a succession plan for senior level staff. • Identify opportunities for job rotation. • Review remuneration vis-à-vis industry norms. • A talent management initiative was implemented in 2010 to identify and nurture high potential employees and groom them to take additional responsibilities.
<p>Reputational Risk Reputational risk could be defined as the risk that a particular event or behaviour could affect the company and negatively impact stakeholders' perceptions, thus impairing its ability to operate effectively.</p>	<ul style="list-style-type: none"> • The company has implemented a robust system of internal controls which are regularly reviewed by internal and external auditors. Any shortcomings are reported and followed up by the Board Audit and Compliance Committee. For example, fraud identification is now a part of both internal and external audit programmes. • In addition, the company has defined the key objectives, associated risks and mitigating actions for each business process, e.g. underwriting, claims, finance, HR etc. This document is reviewed by internal auditors and any shortcomings are notified. • Company representatives work closely with regulators, industry players, accounting standards committees etc. to ensure that all regulatory issues are fully understood and complied with. • The company has also implemented a Board approved media policy.

Risk Management contd.

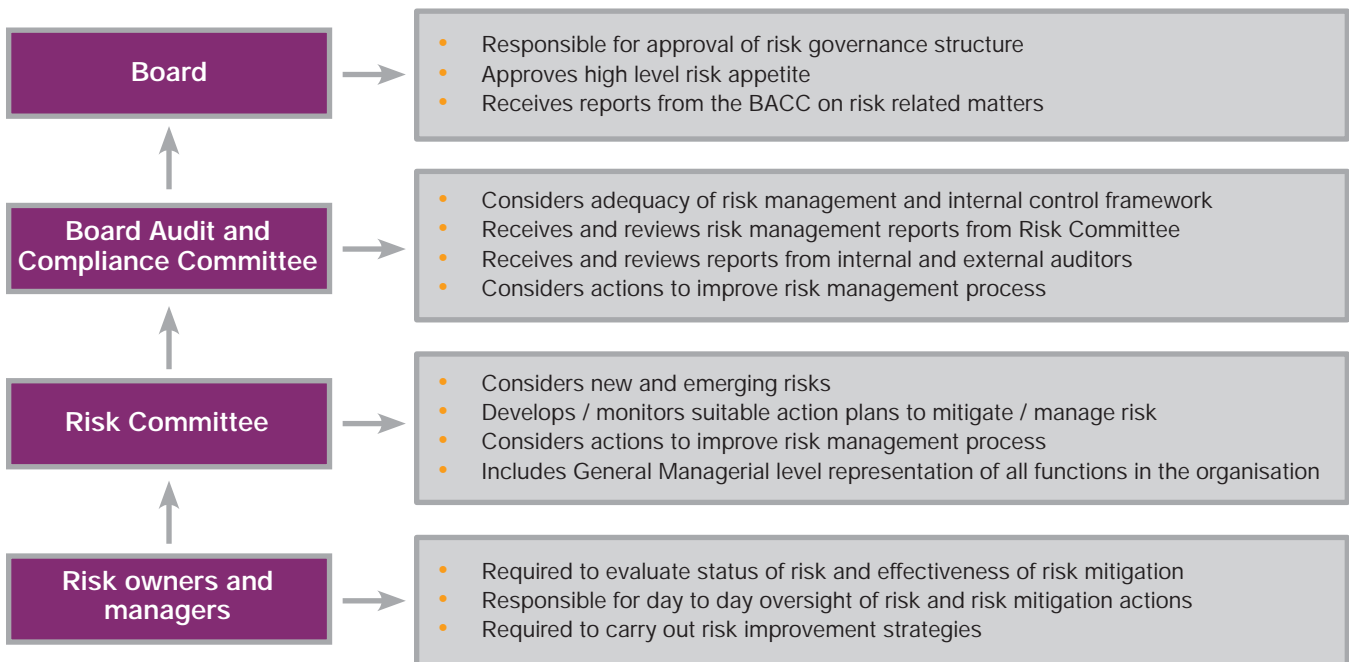
Risk Category / Risk Description	Controls in Place to Mitigate Risks
Operational Risks contd.	
<p>Fraud Risk The risk that internal control weaknesses may lead to misappropriation of assets or fraudulent financial reports.</p>	<ul style="list-style-type: none"> • Authority limits, segregation of duties and access controls have been implemented for all critical functions of the company. • Key controls are reviewed periodically and internal auditors conduct regular reviews of areas which are susceptible to fraud. Internal auditors have also provided a detailed report reviewing the company's systems and processes to mitigate risks and frauds. • The company has a process by which any employee, who suspects wrongdoing at work, can report his concerns confidentially directly to the BACC, through an internal whistle blowing procedure. • Any complaints received from customers regarding malpractices or fraud by any employee, is investigated immediately. The company adopts a zero tolerance policy in the case of fraud.

Risk Management Methodology at Union Assurance

At UA, the risk management process has been defined as "a process whereby there is a constant scan of the internal and external environment to identify potential threats or uncertain events which could have an adverse effect on business operations so that mitigating action plans may be worked out." Risks in this context have been defined as "anything that may prevent the company from achieving its objectives."

Risk Management Governance Structure

The chart below outlines our structure for managing and reporting risks.



Risk Management Process

The risk management process was changed during 2010, with the introduction of divisional risk grids. Senior teams in each division identify the risks in the respective areas. Each risk is then tracked on a dashboard and reviewed in terms of business impact and likelihood of occurrence. Based on these factors, the team decides whether to accept, transfer, eliminate, share or manage the risk.

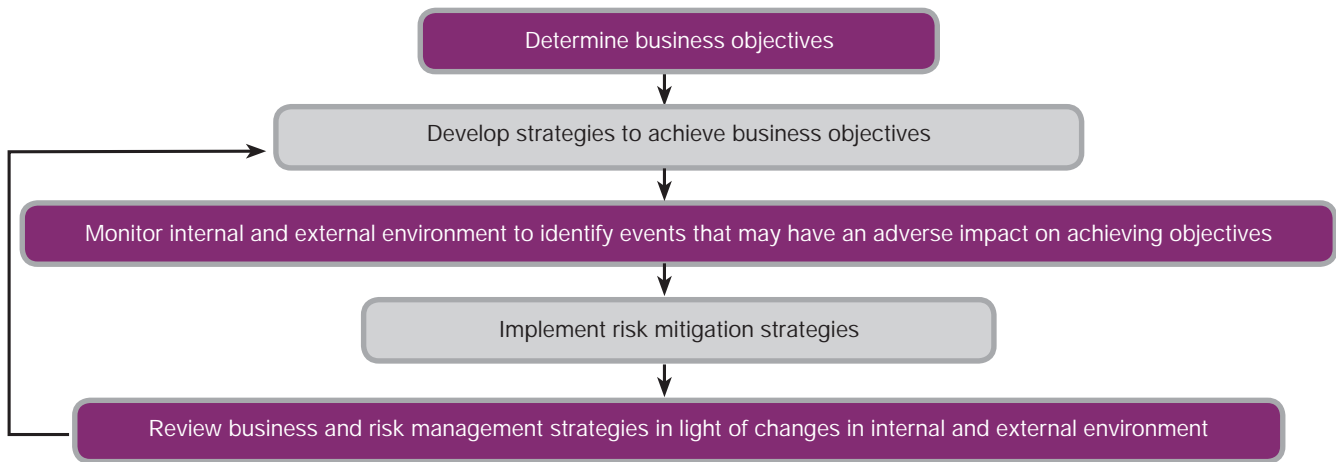
These risk grids are then handed over to the company risk management

committee chaired by the CEO, with representation from all distribution channels as well as operational and support service functions. The risk management committee filters these risks down to the significant risks to prepare the company risk grid. Divisional and company risk grids are updated on a agreed time frame.

It is recognised that it is not possible to entirely eliminate all risks and that some risks must be retained within the balance sheet in order to generate a return in excess of the risk free rate.

The risk retention threshold has been clearly communicated by the Board of Directors. The risk management process enables the team to understand the risk profile of the company and synchronise the risk profile with the risk appetite of the Board. UA's risk management process is documented in Figure 1.

Figure 1: Risk Management Process



Identified risks are ranked on a scale of 1 - 5 on both impact and likelihood (Refer Figures 2 and 3 respectively). The "score," which is a multiplication of impact and likelihood rankings, determines the priority the company must place on managing the risk (Refer Figure 4).

Risk Management contd.

Figure 2: Impact

Classification	Guideline	Ranking
Catastrophic / extreme impact	Entire operation is at a standstill	5
Major / very high impact	Major effect on operation, profitability and image	4
Moderate / high impact	Medium level impact in financial, HR, reputational terms etc.	3
Minor impact	Considerably small effect	2
Low / insignificant impact	Negligible effect	1

Figure 3: Likelihood

Classification	Guideline	Ranking
Almost certain to occur	Risk is affecting the operation all the time	5
Likely to occur	Risk frequency is fairly high	4
Possible to occur	Risk frequency is moderate	3
Unlikely to occur	Risk frequency is low	2
Rare / remote to occur	Risk frequency is negligible	1

Figure 4: Priority

Priority	Short form	Score	Colour
Ultra high risk	U	15-25	
High risk	H	9-14	
Moderate risk	M	4-8	
Low risk	L	2-3	
Insignificant risk	I	1	

Divisional risk teams met at divisional level and updated the risks pertaining to their divisions. There were 78 risk items in the divisional risk grids. These were then forwarded to the risk management committee. The risk management committee summarised these risks into 14 main risk items that needed continuous top management attention. The Board is also updated on a timely basis. A summary of the company's risk grid is shown in Figure 5 and the summary of the divisional risk grids are shown in Figure 6.

Figure 5: Summary of the Company Risk Grid

























Impact / severity ranking	5	Catastrophic / extreme risk		1			
	4	Major / very high impact			1		
	3	Moderate / high impact	1	2	3		
	2	Minor impact		1	3	2	
	1	Low / insignificant impact					
			Rare / remote to occur	Unlikely to occur	Possible to occur	Likely to occur	Almost certain to occur
			1	2	3	4	5
			Occurrence / likelihood ranking				

Figure 6: Summary of Divisional Risk Grids

Impact / severity ranking	5	Catastrophic / extreme risk	1				
	4	Major / very high impact	6	8	5		
	3	Moderate / high impact	8	15	16	1	
	2	Minor impact	1	9	7		
	1	Low / insignificant impact			1		
			Rare / remote to occur	Unlikely to occur	Possible to occur	Likely to occur	Almost certain to occur
			1	2	3	4	5
			Occurrence / likelihood ranking				

Risk Management contd.

All risks which have been identified are classified into 12 broad headings. The following table provides a brief summary of these "headline risks," the overall risk rating and action plans initiated by UA to mitigate such risks.

Headline Risk	Description	Risk Priority		Action Plans
		2010	2009	
Catastrophe risk	Risk associated with a large scale event e.g. tsunami			<ul style="list-style-type: none"> • Ensure adequate reinsurance arrangements to cover such eventuality. • Periodically test and update the business continuity plan. • Monitor accumulation.
Credit risk	Refer previous section on insurance specific risks			Refer previous section.
Distribution risk	Dependence on traditional distribution channels, poaching of key sales staff etc.			<ul style="list-style-type: none"> • Leverage broker / leasing / finance company relationships. • Constantly review incentive, motivation and remuneration strategies. • Develop career paths for high potential staff. • Invest to develop alternative channels.
HR risk	Refer previous section on insurance specific risks			Refer previous section.
Interest rate risk	Refer previous section on insurance specific risks			Refer previous section.
Internal process risk	Errors or omissions resulting in financial losses			<ul style="list-style-type: none"> • Ensure adequate systems support. • Review underwriting, claims management processes. • Ensure adequate staffing. • Update skills and knowledge based on current events.
Legal and regulatory risk.	Changes to insurance regulations, tax laws etc			<ul style="list-style-type: none"> • Lobby via appropriate channels. • Work with industry participants.
Market risk	Intense price competition, threat of new entrants etc			<ul style="list-style-type: none"> • Improve marketing strategies. • Continuously enhance service standards. • Reduce dependence on single channel / line of business. • Implement cost effective distribution models. • Strengthen CRM activities. • Leverage strong reinsurance arrangements. • Focus on profitable segments of the market. • Ensure renewal retention.
Reinsurance risk	Refer previous section on insurance specific risks			Refer previous section.
Socio political risk	Refer previous section on insurance specific risks			Refer previous section.
Technology risk	Refer previous section on insurance specific risks			Refer previous section.
Underwriting risk	Refer previous section on insurance specific risks			Refer previous section.

Oversight by the Board Audit and Compliance Committee

The company's risk management efforts are critical to the BACC's oversight of the financial reporting process. A robust risk management process is invaluable to the BACC to enable them to identify and prioritise the company's significant financial reporting risks and non financial risks that may have financial reporting implications. It also supports the BACC to ensure that, for each significant risk:

- The company has appropriate internal controls.
- Internal and external audit plans appropriately address the risk.
- Management makes appropriate disclosures.
- The financial statement impact of the risk is properly recorded.

Future Outlook

The new risk management process with divisional participation will continue in 2011.

We will continue to strengthen our risk management framework and systems in 2011. In particular we will review and improve our underwriting and claims reserving practices and processes by improving the knowledge and skills of staff performing these functions.

The talent management initiative will be enhanced as a key strategy to manage the intense poaching and lack of technically competent, experienced staff in the industry.

Socio political risk significantly reduced after the war and provided the company many opportunities to expand into the North and East. These initiatives will continue in 2011.

The Insurance Board of Sri Lanka (IBSL) proposes to enact risk based capital requirements as well as measures to enhance transparency and good governance. We believe that a risk

based capital approach will lead to the betterment of the industry and discourage irrational price based competition.

The most significant risk the company faces is the prolonged soft market cycle in the general insurance industry, which is likely to continue with the entry of new players into the market. As outlined above we have taken steps to arrest this situation through prudent risk management practices, implementing walk away pricing and consciously focusing on enhancing our service.



Sustainability Report

Transparency

*Our promise is to be **genuine** in all our transactions.
We are committed to maintaining our values and continue to be a respected
business that our stakeholders can trust.*

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About this Report

Sustainability lies at the very heart of the insurance business. Whether it is providing a financial safety net for dependents or mitigating losses suffered by corporate entities, insurance activities are inextricably linked to all spheres of commerce and life.

UA's Sustainability Report for financial year 2010 is our fifth step in sustainability reporting. It summarises the actions we have taken during 2010 to ensure we engage all our stakeholders. It also indicates the progress we have made with regard to the sustainability goals we published in 2009. We have also disclosed our sustainability objectives for 2011. Further, we have included our carbon foot print, calculated and certified by the University of Moratuwa.

We have compiled our 2010 report based on the internationally recognised Global Reporting Initiative (GRI) G3 framework for sustainability reporting. KPMG Ford, Rhodes, Thornton & Co., an independent assurance provider, has reviewed this report and provided an assurance report.

Sustainability Report

Chief Executive Officer's Statement

We have always been mindful of our impact on those around us and firmly recognise the vital role our stakeholders play in ensuring the long term success of our business. I am therefore, pleased to report that we made good progress with regard to implementing the sustainability goals we had set for the year.

Our Approach to Sustainability

Our approach reflects our mission and our values. The management of our sustainability programme is based on four key areas of activity in line with our core values. These are: Our Customers, Our People, Our Community and Our Environment. Within each of these areas, we have identified key priorities which reflect our values and support our objective of building a sustainable organisation. This approach provides us with a consistent framework and takes into account our different social, environmental and economic priorities.

Creating Value for Customers

In 2010, the company launched "Union Challenger," a unit linked insurance product specifically targeting the retirement needs of the mass affluent segment. The product offers three investment options for customers with the Equity Tracker, Managed and Fixed Income funds. The product architecture is very transparent, allowing customers to make sound decisions regarding their investments. To fulfill general insurance needs in the market, several packaged, pre-underwritten products catering to shop, home and commercial property owners were also launched.

The Union Motor Rewards scheme was revamped during 2010 offering value added services to our motor customers. The "Union Pay Easy" scheme was further expanded by adding 350 Abans outlets to the network. With this latest addition, our customers have more than 2,400 locations throughout the island to pay their life premiums.

Several steps were taken during the year to improve our service standards,

particularly in relation to managing the growing number of motor and life insurance policies.

Engaging our Employees

As in previous years, the employee satisfaction survey was conducted by an independent external resource ensuring absolute confidentiality. Overall satisfaction was rated as 77%. As per the latest feedback, some of the key areas which were identified as areas for improvement in the previous surveys have been resolved.

During the year we continued with the talent management initiative which commenced in 2009. The company commenced a long term leadership development programme with a select batch of 23 high potential employees.

We continue to invest in training and development as we firmly believe that the knowledge and skills of our employees is a vital resource in ensuring the long term prosperity of our business.

Community Initiatives

UA's community activities are based on the platforms of security, education, and health and have a direct link to the company's business objectives.

We work closely with government institutions in order to ensure the effectiveness of our activities. For example, we have partnered with the Sri Lanka Police to erect crime prevention hoardings across the island. During the year, new hoardings were erected in Mannar, Batticaloa and along the A9 road.

We conducted second round of the "Pasalen Karaliyata" programme with the participation of more than 150,000 students from more than 3,000 schools.

We leveraged our resources and expertise to respond to national level issues, and conducted a series of flood awareness campaigns covering all of the districts in the country. The

main objective of this programme was to educate small and medium sized business enterprises regarding damage minimisation practices in the event of a flood.

Managing our Environmental Impact

We recorded the lowest level of electricity consumption per employee in the past four years. Our agreement with R&G Toners to recycle printer cartridges was also continued. For the second consecutive year, we partnered with the Department of Chemical and Process Engineering, University of Moratuwa, in calculating the carbon footprint of our head office operations. We have minimised the number of annual report copies we print, and actively promote a CD / electronic format, as a further initiative to preserve our environment.

Conclusion

Over the past years we have launched many initiatives and achieved success on many fronts. However, as the local and global socio economic and political landscape continues to evolve at a rapid pace, we are determined not be complacent, but forge ahead with initiatives that align all stakeholder groups with the strategic direction of the company.

In this context, I wish to thank the sustainability committee and the UA staff, for their continued commitment, and look forward to their active engagement in the year ahead.



Dirk Pereira
Chief Executive Officer

15th February 2011

Sustainability Report

What Sustainability Means to Our Stakeholders

Internal Management and Governance Structure

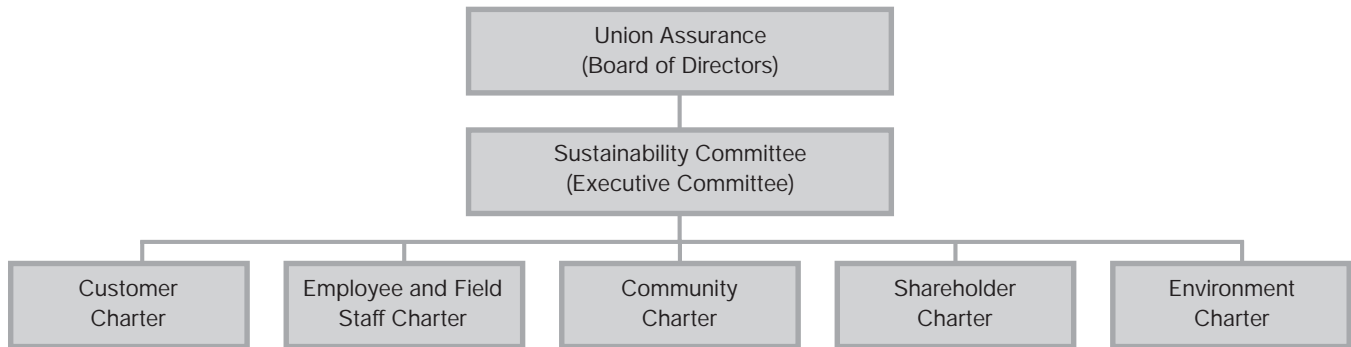
Our main challenge is to manage our business in the context of a rapidly changing business environment and conflicting stakeholder demands. To address these apparent conflicts, we documented several charters in 2007. As described in subsequent sections

in this report, these charters have been updated in 2010 as well.

Sustainability Committee and Charters

The Executive Committee led by the Chief Executive Officer is responsible for managing the business in a sustainable fashion. The Executive / Sustainability

Committee meets on a regular basis and decisions with regard to strategic initiatives and formulation of company policies are based on a careful study of their potential impacts on various stakeholder groups.



The performance against the charters developed for each of our stakeholders is mentioned within the relevant section.

Report scope and the boundary

This report covers the operations of the company and compiled in accordance with the GRI – G3 guidelines. This report has increased the boundary to 68 branches from 54 branches in 2009.

On the basis of materiality, we have identified eight main stakeholder groups namely, customers, employees, field staff, community, shareholders, reinsurance partners, suppliers and environment. The report details our engagement processes with them and our responses to issues highlighted during the process.

Sustainability Report contd.

What Sustainability Means to Our Stakeholders contd.

Stakeholder Engagement

We are mindful that the social and environmental aspects of our business extend and impact far beyond our corporate operations. Hence it is our constant endeavour to ensure that we

maintain a continuous interaction with all our stakeholders viz. customers, employees, field staff, the community, the environment, reinsurance partners, suppliers and our shareholders.

The following table summarises our key stakeholder groups, the processes we have implemented to engage with them and the key issues highlighted during the process.

Stakeholder Group	Engagement Process	Key Issues from Stakeholder Perspective
Customers	<ul style="list-style-type: none"> Customer satisfaction survey for motor insurance customers. Out-bound call centre processes to obtain direct feedback from life insurance customers. Regular formal interaction with intermediaries / corporate customers. Formalised complaint management process. 	<ul style="list-style-type: none"> To settle claims in a speedy and fair manner. To provide insurance coverage in line with changing business requirements and asset values / income levels. Develop processes to ensure that premiums are paid in a timely manner.
People (employees and field staff)	<ul style="list-style-type: none"> Biennial employee satisfaction survey. Formal review meetings with distribution channel representatives and technical staff. Skip level meetings for all staff to elicit their ideas to improve service / productivity. 	<p>Staff</p> <ul style="list-style-type: none"> Staff capability not fairly utilised by the company. Recognition by supervisors regarding job role and performance. Decision making authority. Equality when recognising employees. Understanding of important procedures. Compensation package to be in line with market. <p>Field Staff</p> <ul style="list-style-type: none"> Opportunities to obtain housing loan facilities. Health insurance facilities. Awareness created by company to promote life / general insurance products. Long term savings mechanism.
Community	<ul style="list-style-type: none"> Regular, formal interaction with community representatives. Interaction with community members as part of community programmes. Interactions with community activity partners e.g. representatives from Sri Lanka Police, Ministry of Education. Corporate web site. 	<ul style="list-style-type: none"> Support specific community activities which vary based on geographic location / priorities in the area.
Shareholders	<ul style="list-style-type: none"> Annual General Meeting. Quarterly reports and annual reports. Articles published in media regarding company activities. Dedicated investor relations hotline. 	<ul style="list-style-type: none"> Increased dividends. Sustainable business performance in light of competitive business environment.

Stakeholder Group	Engagement Process	Key Issues from Stakeholder Perspective
Reinsurance Partners	<ul style="list-style-type: none"> Regular formal interactions with reinsurance partners on an on-going basis culminating in annual negotiations regarding terms and conditions. 	<ul style="list-style-type: none"> Soft market cycle in general insurance industry and lack of profitability in sector.
Suppliers	<ul style="list-style-type: none"> Regular interactions with suppliers throughout the year when tendering for company requirements or entering into long term agreements for selected services. 	<ul style="list-style-type: none"> Speedy settlement of invoices (in line with agreed terms) for goods / services provided / rendered. Adequate lead time between placing order for goods / services and delivery date.
Environment	<ul style="list-style-type: none"> Train employees to be aware of the environmental impact of our operations and integrating environmental considerations into business decisions. 	<ul style="list-style-type: none"> Minimise waste and environmental impact.

The following table summarises the key issues and the action taken by the company to address them in order to improve the company's current performance and ensure a viable business in the long term.

Key Issues from Stakeholders Perspective	Company Response
Customers	
Need to settle claims in a speedy and fair manner.	<ul style="list-style-type: none"> Leverage technology, technical knowledge / competencies of internal staff and 3rd party service providers to achieve this requirement. Launch of "Speed Cash" in 2010, enables motor customers to receive a confirmation of the claim value at the accident site itself (via SMS) which can be produced at any Commercial Bank branch to collect cash. Restructuring of general claims units (excluding motor and surgical) into a separate stand alone facility has enabled the company to improve claims settlement speed, with greater focus on accuracy and knowledge enhancement of staff. Mechanisms in place to monitor settlement times of both life and general insurance claims.
Need to provide insurance coverage in line with changing business requirements and asset values (in case of general insurance) and income levels (in case of life insurance).	<ul style="list-style-type: none"> Develop technical competencies of staff through structured internal training programmes and overseas assignments to keep abreast of latest regional / international developments. Leverage relationships with regional / international reinsurance brokers and reinsurance companies to enhance knowledge and skills. Conduct risk surveys, portfolio reviews to ensure that general insurance coverage has been adequately obtained. Conduct fact finding / financial underwriting processes to ensure that life insurance coverage is obtained in line with customers' income / lifestyle requirements.

Sustainability Report contd.

What Sustainability Means to Our Stakeholders contd.

Key Issues from Stakeholders Perspective	Company Response
Develop processes to ensure that premiums are paid in a timely manner.	<ul style="list-style-type: none"> Tied up with eleven banks, Keells chain of supermarkets and 350 Abans stores islandwide enabling customers to pay their life insurance premiums at over 2,400 locations across the island.
Staff capability not fully utilised by company.	<ul style="list-style-type: none"> Several steps have been taken to enhance the knowledge and skills of staff e.g. certification courses for technical staff, case study based learning for distribution staff to ensure that employees have adequate skills / competencies which could be leveraged to add value to their job functions.
Recognition by supervisors regarding job role and performance.	<ul style="list-style-type: none"> Introduced a reward scheme which encourages line managers to identify employees who make a significant contribution and reward them instantly. Schemes to formally recognise sales and non-sales staff for individual and team performance /contribution also in place.
Decision making authority.	<ul style="list-style-type: none"> Decision authority levels are reviewed based on performance / impact of certification programme mentioned above.
Equality when recognising employees.	<ul style="list-style-type: none"> Criteria for employee recognition schemes are clearly articulated to all managers, who are actively encouraged to nominate staff. All nominees are reviewed by the Executive Committee to minimise any bias.
Understanding of important processes.	<ul style="list-style-type: none"> As mentioned above, regular training and development initiatives will reduce any knowledge gaps in this regard.
Compensation package to be in line with market.	<ul style="list-style-type: none"> The compensation and benefits programme is structured in a manner that ensures adequate incentives to achieve the company's annual objectives and medium / long term goals by providing a mix of fixed and variable compensation. Steps have been taken to align compensation with the company's relative performance in relation to other industry participants.
Field Staff	
Opportunities to obtain housing loan facilities.	<ul style="list-style-type: none"> Entered into agreement with several banks to facilitate housing loans for the life field staff.
Health insurance facilities.	<ul style="list-style-type: none"> Health insurance facilities are provided based on experience / performance of field staff members.
Awareness created by company to promote life / general insurance products.	<ul style="list-style-type: none"> Continuous investment in training and development initiatives to enhance individual field staff members' personal brand, combined with the company's corporate advertising campaigns will yield sustainable results.
Long term savings mechanism.	<ul style="list-style-type: none"> Implemented a process whereby field staff can contribute to a long term savings scheme.

Key Issues from Stakeholders Perspective	Company Response
Community	
Requests to support specific community activities which vary based on geographic location / priorities in area.	<ul style="list-style-type: none"> Build relationships with national level institutions e.g. Sri Lanka Police, Ministry of Education and create networks at grass root levels to ensure that these activities yield a positive impact across the island.
Shareholders	
Increase dividends and deliver sustainable business performance in light of competitive business environment.	<ul style="list-style-type: none"> As mentioned in various sections of the annual report, several steps have been taken to grow premium volumes in a sustainable manner by focusing on superior customer service, rather than price and managing claims and overheads in a manner that will ensure long term profitability.
Reinsurance Partners	
Soft market cycle in general insurance industry and lack of profitability in sector.	<ul style="list-style-type: none"> Implement disciplined underwriting and walk away from business opportunities which do not generate sufficient premiums to meet claims expenses. Focus on providing superior service and value added benefits to overcome soft market conditions.
Suppliers	
<ul style="list-style-type: none"> Speedy settlement of invoices for goods / services provided / rendered. Adequate lead time between placing order for goods / services and delivery date. 	<ul style="list-style-type: none"> Implement processes to ensure UA meets contractual obligations. Attempt to develop long term relationships with key suppliers based on quality, price and related considerations.

Risk Management - Stakeholder Perspective

The following table identifies the risks that are likely to be faced by company and the steps taken by UA to manage / mitigate these risks in order to build a sustainable business which adds value to multiple constituencies. Further details of the company's enterprise governance and risk management initiatives is outlined on pages 80 to 110 and pages 121 to 133.

Stakeholder Group	Risk	UA's Response
Customers	<ul style="list-style-type: none"> Inability of the company to meet its commitments to customers in terms of providing a financial safety net in case of general insurance and the long term promise of protection / wealth accumulation in the case of life insurance. 	<ul style="list-style-type: none"> Leverage underwriting / claims management and actuarial skills to ensure that products are priced in a manner that will enable the company to deliver its commitments across the policy period. Ensure adequate reinsurance support with financially stable reinsurance partners. Manage claims in a manner that minimises leakage so that genuine customers continue to enjoy premium levels which are not inflated due to fraudulent practices / claims.

Sustainability Report contd.

What Sustainability Means to Our Stakeholders contd.

Stakeholder Group	Risk	UA's Response
People (Employees and Field Staff)	<ul style="list-style-type: none"> Lack of experienced / qualified staff in industry and intense poaching especially as new entrants enter the insurance space. Inability to keep pace with changing consumer needs due to lack of knowledge. Mis-selling / lack of skill in identifying customer needs and resultant consequences. 	<ul style="list-style-type: none"> Continue to focus on training technical, distribution and support services staff to enhance skills levels across the organisation. Review compensation and benefit packages and ensure adequate alignment with company performance and industry norms. Implement complaints management / internal review processes to identify instances of mis-selling and / or gaps in coverage to take appropriate corrective action.
Community	<ul style="list-style-type: none"> Demand for multi-pronged initiatives which may not be aligned with company's business strategy. 	<ul style="list-style-type: none"> Focus on building long term relationships with national institutions and implement programmes which are aligned with company's long term strategy e.g. security, education etc.
Shareholders	<ul style="list-style-type: none"> Focus on year on year improvement in results / dividend payout without investing for long term sustainability. 	<ul style="list-style-type: none"> Maintain continuous dialog with shareholders to inform them regarding industry dynamics, business opportunities and financial performance.
Reinsurance Partners	<ul style="list-style-type: none"> Soft market conditions may reduce reinsurance options for company / industry. 	<ul style="list-style-type: none"> Focus on maintaining pricing discipline, so that premiums are sufficient to generate a positive contribution to UA and reinsurance partners. Further details of the quality of our reinsurance partnerships and the risk management initiatives we have undertaken with regard to this key stakeholder group is provided on page 124.
Suppliers	<ul style="list-style-type: none"> Inability to form long term partnerships with high quality, reliable suppliers. 	<ul style="list-style-type: none"> Invest time and effort at appropriate levels to build sustainable relationships and ensure that contractual obligations are fulfilled.

Sustainability Report

Customers

Following the economic turmoil of the recent past and Sri Lanka's emergence as a potentially high growth economy in the region, it is as important to remain true to our promise of being the most trustworthy insurer, providing peace of mind for our customers.

By placing them at the forefront of our decision making process, we aim to exceed their expectations by providing high products and services, delivering superior customer service

and paying claims fairly and speedily. Our performance against the charters applicable to the customers is summarised below.

Stakeholder Group and Objective	Commitments	Progress During the Year
Provide products and services that customers require in a convenient manner.	<ul style="list-style-type: none"> Conduct formal and informal research to understand customer requirements. Introduce new products which meet evolving customer needs. Augment existing products in line with customer requirements. Enhance convenience by expanding distribution network. Manage 3rd party supplier relationships e.g. motor garages, financial institutions to enhance customer convenience. 	<ul style="list-style-type: none"> Launched Union "Challenger" and "Union Asset protector". Revamped "Union Home Protector", "Union Shop Protector" and "Union Araksha". 97% of motor policyholders who intimated claims were satisfied with the service they received. Enhanced Union Motor Rewards scheme providing vehicle owners with more value added services. Formed strategic alliances with seven repair workshops.
Deliver superior customer service.	<ul style="list-style-type: none"> Regularly review service standards and aim to exceed industry benchmarks. Invest in process improvements to enhance customer service. Monitor delays and minimise bottlenecks / delays via training and relationship building. 	<ul style="list-style-type: none"> Expanded "Union Pay Easy" scheme to include "Abans" network. Continued with the customer satisfaction survey to obtain feedback regarding our motor claims settlement process. Ensured adherence to pre-agreed service benchmarks.
Settle claims fairly and speedily.	<ul style="list-style-type: none"> Invest in process improvements to ensure speedy settlement of claims. Develop the technical competencies of claims management staff. Leverage technology to enhance efficiency and effectiveness. Work with Insurance Ombudsman to settle claims fairly. 	<ul style="list-style-type: none"> Launched "Speed Cash" to pay motor claims at the accident site. Introduced a SMS based payment system for life customers.

Sustainability Report contd.

Customers contd.

Providing Products and Services Customers Require

We have implemented formal and informal feedback mechanisms to identify customer needs. Once identified, the feasibility of launching products / services catering to those needs is discussed with the relevant underwriting,

claims management and distribution staff before a product development process is launched.

General Insurance Solutions

We have a range of packaged policies designed specifically to meet the needs of individuals and clients involved in

SMI / commercial segments. In addition, we provide tailor made solutions to corporate clients. The full range of general insurance products / lines is given below

Marine	Motor	Fire	Miscellaneous
<ul style="list-style-type: none"> Imports Exports Goods in transit Stock throughput Road / rail / postal transits Marine terrorism cover Freight forwarders policy Protection and indemnity Miscellaneous vessels Ocean going vessels Pleasure craft Ship builders risk Ship repairers 	<ul style="list-style-type: none"> Private cars Hiring cars Dual purpose vehicles Lorries Buses Motor cycles Trailers Special types e.g. construction vehicles, agricultural vehicles, ambulances etc. 	<ul style="list-style-type: none"> Fire and allied perils for commercial premises Fire and allied perils for private dwellings Electronic equipment / computer insurance Property all risks Contractors all risks Erection all risks Machinery all risks Machinery breakdown Boiler and pressure vessels Business interruption Deterioration of stock in cold storage Hoteliers combined Tea factories Foreign terrorism Union Asset Protector Union Shop Protector Union Home Protector 	<ul style="list-style-type: none"> Burglary and housebreaking Money insurance All risks insurance Plate glass insurance Fidelity guarantee Medical insurance Workmen's compensation Personal accident Travel insurance Professional indemnity Public liability Products liability Golfer's policy Mobile phone policy Banker's indemnity Personal liability Sports policy Contingency insurance Directors' and officers' liability insurance Union Araksha

New Products and Improvements - General

During the year, UA launched several packaged, pre-underwritten products catering to shop, home and commercial property owners. These products were in addition to the motor insurance related products which were also developed on the same platform. In addition to pre-approved pricing and coverage, the products are structured in a manner that a sales person could generate a quotation at any time (ideally at the customers' home or office), using a laptop computer and mobile printer.

The Union Motor Rewards scheme was revamped and re-launched during 2010. The main difference in the new scheme is that UA, together with its partners will combine annual as well as time specific discounts / value added offers, which will be communicated primarily via SMS alerts.

Life Insurance Solutions

Life insurance products have been developed to cater to the needs of individual as well as corporate customers. Individuals are able to select from a range of products which combine both investment and financial protection. Products are designed to cater to the

various stages of a customer's life; e.g. single and working, married, planning for retirement, etc. Additional covers such as critical illness could be added on in order to ensure that customers are sufficiently protected.

UA's team of professional insurance advisors conduct fact finding exercises to determine customer need/s, evaluate current and future income levels and identify personal assets and liabilities before introducing suitable insurance solutions. A full range of life insurance products and additional covers available at UA is listed below.

Life Insurance Products

Name of Product	Target Market	Special Features
Union Challenger - Builder Plan	For individuals who are more than 15 years away from their retirement and have an opportunity to build a substantial fund.	<ul style="list-style-type: none"> • Unit linked investment solution allowing the customer to choose his / her investment option. • Ability to customise solution to suit individual risk appetite and market conditions. • Linked to three unique investment funds, offering flexibility in terms of investment options and premium payment terms. • Regular premium payments, premium top up and waiver of premium benefit options available.
Union Challenger - Booster Plan	For individuals who are between 5 to 10 years away from their retirement and need to build a fund to generate a sufficient income when retired.	<ul style="list-style-type: none"> • Unit linked investment solution allowing the customer to choose his / her investment option. • Ability to customise solution to suit individual risk appetite and market conditions. • Premium payment term limited to 3 or 5 years. Premium top up option available.
Union Challenger - Provider Plan	For individuals who are approaching retirement and have a need for a regular income.	<ul style="list-style-type: none"> • A unit linked product with a single premium investment option. • Ability to generate a regular income for a specified period while providing life protection. • Special options available to invest in additional funds to increase the pension benefit.
Union Health Deposit	Persons who have no medical insurance coverage or persons who require an additional coverage to meet the escalating costs of health and hospitalisation.	<ul style="list-style-type: none"> • Only health insurance policy in the market that pays interest on premiums paid, while providing coverage for surgical and hospitalisation expenses. • Coverage available for ten years. • Available in three options to suit the life style needs and financial capacity of all segments of the market.
Union Advantage	Flexible investment plan which could be enhanced with life cover and all other rider benefits. This plan enables policyholders to balance investment and protection needs.	<ul style="list-style-type: none"> • Universal Life type plan with dividend accumulation mechanism with individual investment account maintained for each policyholder. • The policy provides a minimum guaranteed dividend at the start of each year with actual dividends accumulated at end of each year.

Sustainability Report contd.

Customers contd.

Life Insurance Products contd.

Name of Product	Target Market	Special Features
Union Sisumaga	Parents with young children and potential parents.	<ul style="list-style-type: none"> 124% of the sum assured is paid as an educational annuity. On death of the life assured the future premiums are waived and educational annuities trebled. If the death is due to accident, four times the sum assured is paid. Else, twice the sum assured is paid along with the bonuses.
Union Jayamaga	Investors who look for steady / secure financial returns coupled with life cover.	<ul style="list-style-type: none"> Sum assured increases by 5% every year during the policy term. Double the increased sum assured and bonuses are paid in the event of death.
Union Jayamaga Plus	Investors who look for a guaranteed financial return coupled with life cover.	<ul style="list-style-type: none"> Sum assured increases by 10% every year during the policy term which is guaranteed. Double the increased sum assured is paid in the event of death.
Union Parithyaga	Individuals who look for an investment opportunity along with a life cover for an affordable premium.	<ul style="list-style-type: none"> An endowment type product which can be customised to suit the premium payment capacity of a customer. Premium paying terms available from 5 to 30 years All additional rider benefits can be added to this policy.
Union Super Benefit	Individuals who wish to have periodical payments instead of waiting until maturity.	<ul style="list-style-type: none"> Part payments are made every three years while providing protection for the full sum assured in case of a death of the life assured.
Union Suwamaga	Individuals who want a cover to provide for medical expenses in the event of a critical illness.	<ul style="list-style-type: none"> Product covers 24 critical illnesses such as bypass surgery, cancer, renal failure, major organ transplants, etc.
Union Loan Protection	Individuals who obtain credit facilities from financial institutions.	<ul style="list-style-type: none"> Affordable, once and for all premium. Settlement of capital outstanding on death. Payment of loan installments in the event of total and permanent disability.

Additional Covers

Description	Details
Accidental death benefit	A benefit which is paid in the event of the accidental death of the life assured. This benefit is available for policy holders at a nominal premium.
Total and permanent disability benefit due to an accident	This benefit will be paid as an annuity over five year period in the event of total and permanent disability due to an accident.

Additional Covers contd.

Description	Details
Total and permanent disability benefit due to an accident or sickness	This benefit is designed to cover total and permanent disability of the life assured as a result of an accident or sickness. The benefit is paid as an annuity over a five year period.
Waiver of premium benefit	This benefit provides for a waiver of future premiums on the main benefits of the policy in the event of a total and permanent disability.
Partial and permanent disability benefit	This benefit provides an additional payment if the life assured becomes partially and permanently disabled as a result of an accident.
Level term benefit	This is an additional protection benefit that could be added to the basic policy by paying a small premium. The sum assured is paid on death of the life assured whether due to accidental or natural causes during the policy term.
Spouse rider benefit	This benefit provides a life cover for the spouse of the life assured at a nominal premium. The spouse may continue to have the cover throughout the policy term even after the death of the main life assured.
Funeral expenses benefit	Provides relief for the dependants of a deceased policyholder by paying a sum immediately on the death of the life assured.
Family hospital cash benefit	This cover provides a daily benefit for the family in the event of a hospitalisation. If the assured requires treatment in an intensive care unit, the daily benefit is doubled.
Family income benefit	In the event of death of the life assured, this benefit provides a regular income in the form of an annuity until the expiry of the policy term.
Union Suwamaga	This benefit provides a payment in the event of a critical illness such as cancer. The benefit is available for the life assured and spouse.
Major surgical benefit	This benefit covers over 100 major surgeries for the life assured and spouse. In the event of a major surgery, the benefit is paid as a percentage of the sum insured.
Child health benefit	This benefit provides a dual cover for children, namely hospital cash benefit and surgery benefit. The surgery benefit covers over 240 specified surgeries and the benefit is paid as a percentage of the sum insured. The hospital cash benefit provides a daily benefit in the event of a hospitalisation.

New Products and Benefits - Life

In 2010, the company launched "Union Challenger," a unit linked insurance product specifically targeting the retirement needs of the mass affluent segment. This product is an excellent investment for people from all age groups as a means to secure financial stability in their old age. A key feature of the product is that it allows the customer to be in control of his / her investment, as they could choose how to allocate their insurance premiums to various asset classes.

"Union Challenger" offers three investment options for customers with the Equity Tracker, Managed and Fixed Income funds. Customers can opt for the potentially high returns of an Equity Tracker Fund, which tracks the Milanka Price Index; the Managed Fund, which offers progressive capital appreciation with moderate risks; and the Fixed Income Fund, which is a low risk category and offers stable capital appreciation. The product architecture is transparent, allowing customers to make sound decisions regarding their investments.

Delivering superior customer service

At Union Assurance, we have consistently improved the quality of our customer service and strive to be a benchmark in the industry. We firmly believe that price will not be a long term differentiator, but that consumers will look to partner with an insurance company which offers them convenience and transparency.

Sustainability Report contd.

Customers contd.

Geared for Performance

During the year there were several customer service enhancement programmes which were attended by more than 150 staff members. The table below summarises these programmes and the number of hours spent on them.

Customer Service Programmes	2010		2009	
	Number of Persons	Number of Hours	Number of Persons	Number of Hours
Life and general underwriters	70	2,100	130	1,040
Public relations officers	54	432	4	32
Call center staff	23	184	24	192
Motor claims assessors	5	36	51	408
Total	152	2,752	209	1,672

General Insurance Related Service Enhancements

Customer Satisfaction Survey

A customer satisfaction survey was conducted throughout 2010 to monitor satisfaction levels with regard to our motor claims settlement process. A structured questionnaire has been developed for this purpose, covering the end to end process, commencing from the first interaction the customer has with the motor assessor at the accident site up to the time taken to receive the settlement cheque.

82% of the customers surveyed have rated their satisfaction level as good, while 15% customers recorded an average level of satisfaction. This is a significant improvement compared with 2009 where the good and average ratings were 72% and 24% respectively. Importantly 91% of customers surveyed confirmed that they would continue to insure their motor vehicles with Union Assurance. A summary of the findings is provided below:

Leveraging Technology to Improve Service

Union "Speed Cash" was launched during the year as an enhancement to the existing motor claims settlement process. This is a system where the customer will receive a SMS (indicating the agreed claim value) at the accident site itself. The customer can present this SMS at any Commercial Bank branch and collect cash over the counter. This facility is currently available up to a value of Rs. 50,000 per claim.

Satisfaction Level	%	
	2010	2009
Good	82	72
Average	15	24
Poor	3	4
Total	100	100

The company also launched a SMS based quotation system, which enables prospective or existing customers to get an instant quote for their motor insurance by SMSing their vehicle value to a specified number.

Intention to Renew	%	
	2010	2009
Yes	91	78
No	9	5
Decide later	0	17
Total	100	100

Service through Training

UA implemented a structured training programme for underwriting and claims management staff to enhance their knowledge and keep them updated regarding the latest regional and global trends in the industry. It is expected that this training will have a direct and positive impact on customer service as staff with enhanced knowledge will be able to identify customer needs and provide solutions in a speedy manner.

Life Insurance Related Service Enhancements

"Union Pay Easy" Scheme

The network of Abans stores was the newest addition to the "Union Pay Easy" scheme in 2010. With this inclusion, the scheme now comprises 11 banks, the Keells chain of supermarkets and approximately 350 Abans stores island-wide. UA customers have more than 2,400 possible locations to pay their life premiums (2009 - 1,600).

The payment options available for our life policy holders are illustrated in the table below.

	Standing Orders	Internet Banking	ATM	Tele Banking	Over the Counter	Credit Card	Ez-pay	Pay Easy
Sampath Bank	✓	✓	✓	✓	✓	✓		✓
Nations Trust Bank	✓	✓	✓	✓	✓	✓		
Hong Kong and Shanghai Bank	✓	✓	✓	✓		✓		
Hatton National Bank	✓				✓			
Bank Of Ceylon	✓	✓			✓	✓		
People's Bank	✓				✓			
NDB / Dialog	✓				✓		✓	
Commercial Bank	✓	✓	✓		✓			
Keells Super					✓	✓		
DFCC Vardhana Bank	✓				✓			
National Savings Bank					✓			
Union Bank	✓	✓		✓				
Abans network					✓			

Service Standards

Pre-agreed service standards are constantly monitored via a workflow system which is integrated with the core life insurance system. A summary of the service standards is provided below.

Department	Function	Expected Service Standard
New Business	1 Underwriting decision making - new proposals	100% by 3 days
	2 Policy dispatching	100% by 7 days
Policy Holder Servicing	1 Minor alterations	100% by 1 day
	2 Policy assignment and reassign	100% by 2 days
	3 Bank standing orders	100% by 2 days
	4 Revivals	100% by 2 days
	5 Major alterations	100% by 2 days
	6 Responding to customer letters	100% by 2 days
Claims	1 Maturities and advance payments	100% by 2 days
	2 Death, disability and hospital cash claims	100% by 3 days
	3 Policy loans	100% by 1 day
	4 Queries on claims	100% by 2 days

Actual delivery times versus the set standards are monitored on a monthly basis and areas for improvement are identified and solutions implemented on an on-going basis.

Sustainability Report contd.

Customers contd.

Branch Development and Expansion

In line with our strategy of expanding our branch network to provide more convenience for our customers and field staff, the company opened fourteen new branches during the year. The majority are Business Development Offices (BDOs), which require less capital / operating expenses than traditional branches.

Leveraging Technology to Improve Service

The company continued to use SMS technology to interact and inform customers regarding their premium due dates, confirm when premium collections are received, etc. In addition, field staff is also informed via SMS regarding the status of proposals they introduce, thus reducing the number of queries and telephone expenses incurred by them.

There is a noteworthy increase in the number of new policies during 2010. As a result several small, but significant productivity improvements were implemented by the underwriting and operational teams to manage volumes and maintain / improve service standards without a significant increase in resources. A 24-hour call centre was also launched in 2010 to handle customer inquiries and provide speedy response to service related issues.

Paying Claims Fairly and Speedily

As a comprehensive insurance solutions provider, it is our duty to pay customer claims fairly and as quickly as possible. Claims intimation is the point at which the customer comes into direct interaction with the company for the desired level of service.

Paying Claims Speedily

Speedy settlement of claims revolves around the ability to deploy people to the scene or site of an accident. UA has strengthened this area by increasing its panel of assessors with a complement

of both in-house and external resources spread throughout the island. The panel includes 48 persons with a wide range of experience, competency and specialisation.

As mentioned above, we launched the "Speed Cash" process for motor claims below Rs. 50,000 whereby customers receive an SMS at the accident site itself, which they can produce at any Commercial Bank branch to withdraw the claim value in cash, over the counter.

The company has streamlined the process for customers to intimate non-motor claims via the web. In addition, several staff members have been trained

to carry out non-motor claims related inspections to provide a speedy service to customers outside the Western province.

Claims Settlement Period

The company continued the process of reviewing the number and value of outstanding claims for each class of general insurance business as well as for life insurance related claims. Outstanding claims are regularly followed up either directly with the customer or via the intermediary to ensure speedy resolution and settlement. As depicted in the table below, there has been a significant improvement in the time taken to settle claims.

Category	%	
	2010	2009
Less than 30 days	91	47
30 - 60 days	4	13
60 - 180 days	3	12
More than 180 days	2	28
Total	100	100

Paying Claims Fairly

An inevitable predicament faced by all insurance companies is that all claims do not fall within the purview of the terms and conditions of the policy and must then be repudiated.

At UA, such claims are first referred to a claims review panel chaired by the General Manager - General. The panel includes General Managers responsible for distribution as well as the Senior Manager Legal.

Customers who remain dissatisfied with a particular decision are directed to the Insurance Ombudsman. The Insurance Ombudsman is a body established by the Insurance Association of Sri Lanka with the concurrence of the Insurance Board of Sri Lanka to resolve disputes between customers and insurance companies. This is the final avenue of

appeal and the decision made is binding on both parties. As a member of the Insurance Association of Sri Lanka, UA participates fully in the system. During the year under review nine cases were referred to the Insurance Ombudsman. In six of these, the company settled its customers based on the Ombudsman's decision.

As a means to minimise leakage and ensure that legitimate claims are paid in a speedy manner and genuine customers do not have to pay enhanced premiums due to fraudulent claims, the company increased the resources provided to the motor claim audit function which was initiated in 2009. In addition, the company formed alliances with selected garages in order to manage claims costs in a transparent manner.

Customer Feedback System

We used our on-line customer feedback system to monitor the progress of the complaints received during the year. As at December 2010, there were 399 complaints updated on the system and the status of these is summarised below.

Description	No.
Received	399
Resolved	(126)
In progress	273

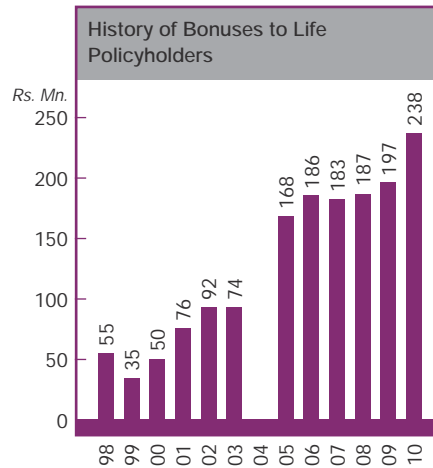
Understanding and Pricing Risk

Our ability to pay claims depends on our capability to understand and price risks. It is important that we do not under price risk, since this has a direct impact on our ability to pay claims. Neither should we overprice risk, which would affect the affordability of insurance.

One of the key challenges faced by the insurance industry is the lack of data and records regarding claims statistics, weather patterns, accident trends etc. To overcome this issue, we employ specialists such as underwriters, actuaries and researchers to analyse data. We also support industry level initiatives to collate motor claims statistics on a common database accessed by all insurers.

We continued with the services of external actuaries to ensure that our life fund is able to meet its obligations to policyholders. Further, we have commenced an actuarial based pricing mechanism for general insurance. We continued with the quarterly IBNR valuation to monitor general insurance claims development during the year.

We have implemented prudent investment strategies to ensure that policyholders will receive the stipulated maturity values at the end of the policy period. The history of bonuses we have declared to our life policyholders is graphically presented above.



Case Study



Providing convenience!

In 2010, the Abans network was added to the "Union Pay Easy" scheme. This initiative added a further 350 locations, which are open until 7 p.m. daily, providing greater convenience for our life insurance customers to pay their premiums. With this latest addition, UA customers have over 2,400 locations to pay their premiums.

Sustainability Report

People

We believe that we will succeed in the long term by attracting, developing and motivating the right individuals. Once recruited, we are committed to engaging them in our business, providing them with a rewarding career and ensuring that they have a healthy work life balance. Our performance against the charters applicable to the employees is summarised below.

Stakeholder Group and Objective	Commitments	Progress During the Year
Build ownership by engaging employees in our business.	<ul style="list-style-type: none"> Conduct employee satisfaction survey once every two years and implement remedial action for areas which require improvement. Ensure information regarding company activities and results are cascaded to all levels of staff. Ensure adequate participation at strategic and operational planning events. Engage employees in cross functional activities. 	<ul style="list-style-type: none"> Conducted the biennial satisfaction survey. Extensively used SMS to convey important messages to the staff. Over 100 employees directly participated in strategic planning process. Four management meetings were held during the year providing an opportunity to discuss business developments, company performance, etc.
Provide a rewarding career.	<ul style="list-style-type: none"> Ensure recruitment, promotions and rewards are based on qualifications, merit and capability, regardless of race, religion or gender. Invest in training and development infrastructure and resources. Deliver training and development for all levels of staff in line with benchmarks. Encourage professional education by offering loan schemes, study leave arrangements etc. Ensure fair evaluation and reward of performance. Provide job enrichment and career progression opportunities. 	<ul style="list-style-type: none"> Successfully concluded the first step in the talent management initiative targeting 23 high potential employees. Launched modular training programmes for technical staff in life and general divisions. Initiated an on-the-spot recognition scheme Enhanced e-learning capabilities with the new T&D web portal
Ensure a healthy work-life balance.	<ul style="list-style-type: none"> Organise recreational activities for staff members on a regular basis. Encourage sporting activities. Ensure the health and safety of our workforce. 	<ul style="list-style-type: none"> "Union superstar" season 2 was launched with the participation of the field staff. "Bring your Child to Work Day" was conducted for the second consecutive year

Key Workplace Indicators

As at 31st December 2010, the company employed 989 persons in sales and non sales related functions both at head office as well as our regional offices spread throughout the island.

We are an equal opportunity employer. Recruitment decisions are based on qualifications, merit and capability, regardless of race, religion or gender. The male to female staff ratio has not changed during the year. However,

the company has provided more opportunities for women in decision making positions (in senior management positions) compared with the last year.

Women in the Work Place	2010		2009	
	Male	Female	Male	Female
CEO and General Managers	7	2	7	2
Assistant General Managers	7	-	8	-
Senior Managers	25	6	25	4
Managers and Assistant Managers	283	49	267	48
Executives	262	78	223	77
Non Executives	158	112	178	110
Total	742	247	708	241
Percentage	75%	25%	75%	25%

Engaging our Employees

We have developed several communication channels and forums to ensure that our employees are fully informed with regard to the company's operations, strategies, progress against objectives and any other areas which directly affect them. Employee satisfaction surveys are conducted once every two years to allow employees to air any grievances in an anonymous

fashion and identify any areas that require improvement.

Employee Satisfaction Survey

As in previous years, the employee satisfaction survey was conducted by an independent external resource ensuring absolute confidentiality. The survey was conducted on-line and all employees with over 12 months of service were given the opportunity to participate. Of

the eligible employees, 74% participated in the survey. Overall satisfaction was rated as 77%. In keeping with our policy of transparency and openness, the results of the survey have been communicated to the staff and posted on the company's intranet.

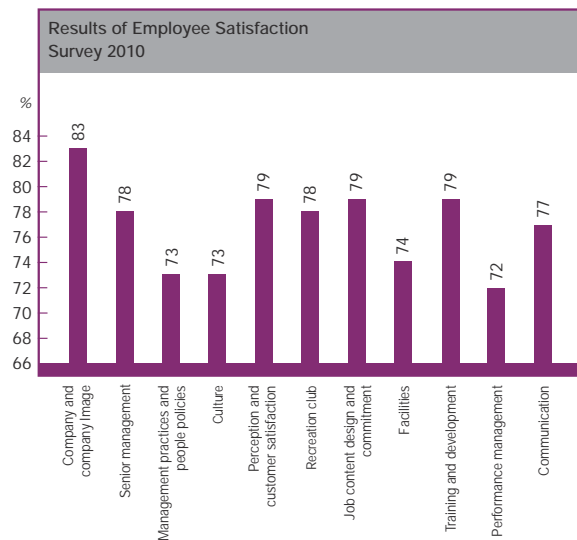
The attributes which received the highest scores are as follows:

Attribute	Score
Believe the company is stable	93%
Have a good understanding of the knowledge, skills and personal attributes that will make them successful in their job	90%
Vision, mission and values are well understood	90%
Overall reputation of the company is excellent	88%
Company / superiors understand employees' contribution towards business goals	87%
Employees are proud to work for the company	86%
UA is a leading and a respected company	86%
Work is challenging and exciting	85%

Sustainability Report contd.

People contd.

The scores achieved for each attribute which was surveyed is provided below.



"Bring your child to work day"

As per the latest feedback, the following areas which were identified as areas for improvement in the previous surveys have been resolved.

- Company lacks innovation
- Lack of team work at senior levels
- Lack of inter departmental coordination

The following areas have been highlighted as areas for further improvement:

Areas for improvement	2010	2008	2006
Staff capabilities not fully utilised by the company	✓		✓
Lack of recognition by supervisors regarding job role and performance	✓		
Insufficient decision making authority	✓		
Lack of equality when recognising employees	✓	✓	
Lack of understanding of important procedures	✓	✓	
Compensation package not in line with market	✓	✓	✓

Engaging through Communication

Open, transparent communication plays a vital role in our strategy to engage our employees. The company conducts bi-monthly management meetings to discuss business developments, company activities and progress against plans. This information is then cascaded to every employee by the respective departmental / branch managers.

This forum allows employees to raise questions and issues and make suggestions, as well as enabling the management to gather insights from our staff on the issues and opportunities they believe need to be addressed.

We continued the practice of conducting an interactive strategic planning process involving representatives from all functional areas. This year, over 100 persons directly participated in planning

discussions. Strategic and tactical action plans formulated at these meetings are fine-tuned and presented to the Executive Committee and Board of Directors for final approval.

The company also continued with an employee suggestion scheme where any employee could forward his or her suggestions on-line via the intranet. All suggestions received were acted upon or responded to by relevant managers.

HR News via SMS

Started in 2009, we continued to use mobile text messaging (SMS) to convey important messages to our employees. The objective of this exercise was to promptly pass on vital business information to individual employees. It has proved an effective system of communicating (especially) with our sales staff and the system has been well received by other employees as well.

Providing a Rewarding Career

Employees are our competitive advantage and improving their performance is key to achieving better business results. The company invests a significant amount of resources to develop the technical, functional and managerial skills of our people.

Human Resource Development

Building a high performing team through training, development and education provide immense benefits to the organisation by way of increased productivity, knowledge, loyalty and ability to contribute. Our aim is to focus on training which can significantly improve our human capital. One key factor in employee motivation and retention is the fact that all employees want to grow and develop their career enhancing skills. At UA we believe that providing such opportunities to employees is one of the strongest drivers of motivation. In 2010 therefore, we continued to invest in our people. The range of training encompassed technical, functional, language and information technology inputs. As depicted in the table below, in line with our strategy, the company has significantly increased the number of training programmes during the year. However, there is a reduction in the number of hours per programme during the year. The contents of some of the programmes have been redesigned based on the feedback received to enhance the effectiveness.

Comparison of Training Programmes and hours

	2010	2009
Number of programmes	321	140
Number of hours	28,165	26,044

Talent Management

UA continued with the talent management initiative which commenced in 2009. Talent management refers to the process of developing and integrating new workers, developing and retaining current workers and attracting highly skilled workers. Such an endeavour also facilitates the creation of clear-cut career paths for most job categories, with job rotation options and multi skilling.

In 2010, the Company selected 23 top performing high potential employees from Assistant Manager to Senior Manager level and commenced a long term leadership development programme.

Case Study



High Achievers!

Suranjith Godagama joined Union Assurance in 2002 as the AGM-T&D and was instrumental in creating a performance oriented learning culture with world class best practices, implementing internal professional designations, developing regional trainers, measuring training effectiveness and differentiating UA's life insurance advisers in the industry. His contribution during the period 2002 - 2009 was recognised by the Institute of Personnel Management at the National HR Excellence Awards 2010.

Sustainability Report contd.

People contd.

The programme consists of 10 modules covering the following:

- Leadership
- Positive attitudes and personal branding
- Cost and waste management
- Negotiation skills
- Time and tasks management
- Emotional intelligence
- Persuasion skills
- Coaching
- Decision making
- Effective communication and presentation skills

Phase 1 of the program culminated with an outbound program conducted by the Sri Lanka Army in Trincomalee titled "Iron Lion."

Toastmasters Club

The Toastmasters Club which was formed in 2009 with 20 charter members and 20 other members has been fully embedded in to the culture of the company. Staff members are encouraged to actively participate and improve their communication skills, build leadership and self confidence and broaden their horizons.

Induction and Familiarisation Programmes

New recruits undergo a two day induction programme, which is mandatory. Recruits for senior management levels go through a

learning arrangement which is spread over five days. On a needs basis, a further 9 days of familiarisation on life and general insurance is provided to equip recruits with foundation inputs to get started on the job. The "Buddy" scheme was reintroduced during the year to ensure effectiveness of the integration process of new recruits. The table below shows the number of programmes conducted and the hours covered. There is a reduction in the number of hours per programme during the year, as the contents of some of the programmes have been redesigned based on the feedback received.

Induction Programmes	2010		2009	
	Number of Programmes	Number of Hours	Number of Programmes	Number of Hours
Induction	12	1,744	12	2,880

Overseas Exposure

UA continued to provide overseas exposure to staff, as an essential element of the training and development process. Twenty six employees attended overseas training programmes during the year.

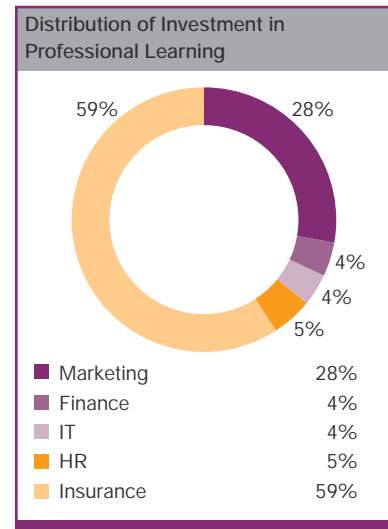
International Programmes	2010
Technical	16
Marketing and Distribution	4
Finance	1
Human Resources	1
Information Technology	1
General Management	1
Actuarial	2
Total	26

Support for Professional Learning

We have created a conducive environment for our staff to pursue professional learning in insurance and other job related courses. The professional examinations assistance scheme supported 50 staff members in 2010.

Learning Benchmarks

A total of 115 in-house training programmes and 206 external programmes (including 23 overseas programmes) were conducted during the year. The total learning days achieved against benchmarks for the year in comparison to last year are detailed in the table below.



Category	2010		2009	
	Benchmark	Actual	Benchmark	Actual
Managers	6	5.49	6	4.3
Executives	4	2.06	4	3.1
Non Executives	3	2.83	3	2.4

Measure Effectiveness of Training Programmes

During 2010, the following tools / techniques were used to ascertain the effectiveness of training programmes which were conducted. The contents of the programmes were redesigned where necessary based on the feedback.

- Employee external training report
- Employee action plan
- New programme evaluation sheet
- Randomly conducted post training interviews with participants

Investment in Training and Development

The total training and development expense for 2010 is tabulated below. These costs include the expense on behalf of our office staff as well as field staff. The expense includes the remuneration and related costs of our in-house panel of trainers.

Investment in Training and Development	2010 Rs. Mn.	2009 Rs. Mn.
In-house training	18	12
External training	6	3
Conferences	14	13
Overseas training	6	11
Insurance and professional education	3	2
Professional memberships	2	1
Total	49	42

Rewards and Recognition

As per the Remuneration Committee report, the key remuneration policy principles are as follows:

- Total remuneration is set at a level that can attract, motivate and retain high quality executive talent.
- Remuneration is commensurate with each employee's level of expertise and contribution and is aligned with the company's performance.
- Executive remuneration is set so that a significant portion is linked to performance.
- The performance related element of remuneration is designed

and tailored to align employees' interests with those of the company and main stakeholders.

- Remuneration levels are based on industry and market surveys.

An employee's initial compensation and benefits are based on individual knowledge, skills and competencies and is aligned with the company's remuneration policies as mentioned above.

Individual employee performance is reviewed twice a year, through a one-on-one performance appraisal process. Performance appraisals for all staff are conducted on-line.

schemes for sales staff are based on achievement of set targets and quality of business generated. Non-sales staff are recognised for the contribution made to significant company initiatives and include a combination of individual and team based recognition schemes.

During the year, 83 non-sales staff members (2009 - 57) were recognised under the non-sales employee recognition scheme for contributing to initiatives which enabled UA to differentiate itself from competition, launch new products, enhance customer service and streamline training and development activities.

Managing a Healthy Work Life Balance

We believe that creating a balance between work, leisure and family will enhance employee wellbeing and have a positive effect on morale and motivation.

We continued with the flexi-hours arrangement started in 2009 due to its popularity and effectiveness.

In 2010, company conducted the "Bring Your Child to Work Day" for the second consecutive year. The objective of the event was to educate our employees' children regarding the importance of the mother's / father's job and thereby create a stronger bond between parents and children. More than one hundred children and our employees' spouses attended the programme. Many events including singing, dancing and storytelling sessions were conducted by popular comedians.

During the year, the UA Recreation Club organised several events including the singing competition - Union Super Star Season 2. More than 117 persons auditioned for the contest and after conducting four elimination rounds, the grand finale was held in February 2011. All events were well received and there was active participation by staff from all head office departments and branches.

Sustainability Report

Field Staff

Our field staff members are an integral part of the Union family. They act as the link between our customers and the company in delivering the promise of trust. Hence we believe in developing them by giving adequate training and development opportunities, aligning them with international recognition schemes and implementing structures,

sales tools and techniques that enhance their productivity and professionalism.

Training and Development Activities

As depicted in the table below, we significantly increased the number of training hours delivered to the field staff and their line management. Total training

hours in 2010 increased by 33% to 259,163 hours, compared with 194,839 hours delivered in 2009. As a result, per capita training hours also improved from 70.2 in 2009 to 78.6 in 2010.

Training for Field Staff and Management	2010			2009		
	Average Cadre	Total Training Hours	Per Capita Training Hours	Average Cadre	Total Training Hours	Per Capita Training Hours
Regional sales managers	24	1,344	57.2	20	320	16.0
Life sales managers	104	4,016	38.6	63	1,112	17.8
Unit leaders	415	37,339	90.0	431	28,066	65.2
Advisors	2,755	216,464	78.6	2,262	165,341	73.1
Total	3,298	259,163	78.6	2,776	194,839	70.2

In order to enhance the training and development activities for the growing number of field staff, the training and development department's resources were aligned with the distribution structure of the organisation with trainers taking responsibility for specified geographical zones. The training programmes conducted at the zonal level and the number of participants is summarised below.

Zone	No. of Programmes	No. of Participants
North	47	938
North Central	103	2,281
Western	120	2,625
Colombo Metro	57	1,315
Uva	40	777
Eastern	68	954
Southern	57	1,150
Total	492	10,040

Regional Panel of Trainers

As per Insurance Board of Sri Lanka (IBSL) regulations, all life insurance advisors joining the industry after 23rd September 2002 must pass a licencing examination conducted by the Sri Lanka Insurance Institute. In light of the growing number of new recruits, the company launched a "Train the Trainer" programme for sales management staff to certify themselves as regional trainers and conduct the training leading up to the IBSL licencing examination.

As a result of these initiatives, the number of certified induction trainers increased by eight persons to 103 trainers during 2010 and an additional 100 unit leaders will be certified in the future. In order to be a certified trainer, each person has to complete a specified set of programmes covering training skills, product knowledge, advisor development and personal grooming.

During the year, certified regional trainers were able to provide training to over 2,500 new recruits.

With the expansion of business activities in the North and East, the company recruited a training manager for the Northern zone, further strengthening the Tamil language training resources within the company.

Leveraging Training Infrastructure

Optimal use was made of the regional training and development centres based in Galle and Kurunegala. During 2010, 78 programmes were conducted in these regional training centers, covering 1,530 participants.

Steps were taken to further improve the e-learning infrastructure by adding video based learning modules to the existing content.

International Recognition Schemes

To maintain and enhance the quality of our sales team, we continually encourage the field staff to qualify for LIMRA (Life Insurance Market and Research Association) USA awards. In 2010, we were able to produce 34 members for LIMRA International Award for Productivity (IAP) and four members for LIMRA International Quality award (IQA). Over the last eight years, we have also promoted the prestigious Million Dollar Round Table (MDRT) award to our sales force. We were able to produce two MDRT qualifiers in 2010.

Initiatives to Enhance Productivity and Professionalism

In order to enhance the productivity and professionalism of the field force, we have developed internal certification programmes, launched IT based applications and introduced more than 2,400 premium payment points for life insurance policyholders to pay their premiums, rather than depending on the sales person to perform this duty.

Internal Certification Programmes

UA launched an internal certification programme in 2008 for insurance advisors and unit leaders. The certification is awarded upon completion of specified training modules and the candidate must also have maintained a consistent business performance. As per this scheme, the number of certified advisers increased from 518 in 2009 to 728 in 2010 and the number of certified unit leaders also increased from 61 in 2009 to 98 in 2010.

We also developed a team to sell Union Challenger, a unit linked product targeting the retirement needs of the mass affluent customer segment. Potential candidates were initially chosen based on business performance and sales experience. Upon successful completion of a comprehensive training programme, they were designated as Certified Investment Planners (CIPs). Over 1,500 CIPs were certified in 2010 including sales managers.

IT Based Applications

As a means to enhance productivity as well as the image of the sales person, the company has introduced a loan scheme to encourage field sales staff to purchase a laptop computer. Loans are granted based on their business performance and achievements. All users are trained on basic IT skills and are capable of using IT effectively in their day to day business activities. The following IT facilities / programmes are provided for field staff using laptop computers:

- Fact finding software
- On-line quotation system
- Presentations on insurance needs
- Product presentations

The number of field staff members using laptop computers has increased up to approximately 350 persons in 2010.

Alternative Premium Collection Mechanisms

The company encourages life insurance policyholders to make premium payments via banks or other options convenient to them. Alternate premium collection mechanisms were further strengthened in 2010 with the inclusion of 350 Abans outlets island wide. The company has already tied up with 11 banks and a supermarket chain and is actively promoting the use of standing orders and other payment mechanisms. These initiatives are beneficial for the field staff in the long term, as they can concentrate on new business instead of having to spend time and effort collecting premiums from existing customers.

Case Study

Enhanced Productivity!

Approximately 350 members of our life sales staff are equipped with notebooks and internet access to provide superior customer convenience. The "Financial Needs Identification" and the "Pension Calculation" systems allow them to interact with their customers and identify their financial needs accurately and provide them with more customised / tailor made financial solutions.



Sustainability Report

Community

As the trend setter in the insurance industry, we make every effort to create a positive contribution to the society in which we are an integral part. In our core business practices, our propositions

and services and in our engagements with the communities in which we live and work, we proactively address social and environmental issues of our stakeholders. Our performance against

the charters applicable to the community is summarised below.

Stakeholder Group and Objective	Commitments	Progress During the Year
Improve the welfare of the community.	<ul style="list-style-type: none"> Ensure compliance with all legal / regulatory requirements relevant to our business operations. Partner with local and national authorities to implement projects to improve the welfare of communities and enhance their quality of life. Provide opportunities for persons to interact with subject matter experts in areas which have a positive impact on the well being of the community. 	<ul style="list-style-type: none"> “Pasalen Karaliyata” second round was successfully conducted with the participation of more than 150,000 students. Continued the white cane and the blood donation campaigns. Initiated a project of establishing center island huts for traffic control officers. During the year, crime prevention hoardings were erected in Mannar, Batticaloa and along the A9 road.

Our Partners in Community Service

As a responsible business, we have partnered with government institutions in delivering sustainable value to the community. The Sri Lanka Police is our partner in a crime prevention hoarding project. We coordinate with the Ministry of Education in our “Pasalen Karaliyata” programme. We also have a long standing relationship with the National Blood Bank, with whom we conduct a yearly blood donation campaign.

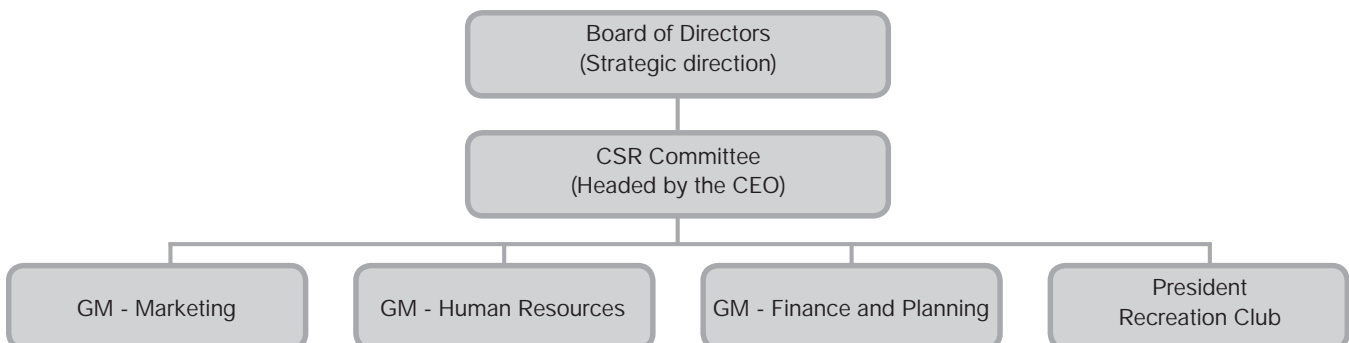
Corporate Social Responsibility Committee

Our CSR committee continued its activities for the fourth consecutive year. The objectives of the Committee continue as below:

- Proactively align business initiatives with CSR guidelines.
- Develop and ensure adherence to set standards.

- Ensure continuous communication with the communities within which we operate.

The structure of our CSR committee is given below.



UA's community activities are based on the platforms of security, education and health which have a direct link to the company's business objectives and activities.

Security

Insurance is a mechanism where a nominal premium collected from a large number of individuals / organisations is pooled to settle the losses suffered by a few. There is a direct correlation between the occurrence of a loss and the safety and security of a neighbourhood / business establishment. The initiatives taken by UA; i.e. flood awareness campaigns, erecting police boards, providing shelters for security personnel, etc. is to enhance the level of security in the communities that the company operates, for the benefit of all stakeholders.

Education

Sri Lanka's rapidly ageing population requires retirement and health care solutions. The economic development that is likely to take place in the medium term will also lead to an increase in domestic and business related spending on insurable assets.

However, life and general insurance penetration in Sri Lanka lags behind most countries in the region and is significantly below the levels of penetration achieved by developed countries. One of the main factors for this apparent anomaly is the lack of awareness regarding the benefits of insurance among the general public.

On the one hand, the education related community activities conducted by UA for students, teachers and the community at large provide them with tools and techniques to ensure their long term success. On the other hand, it also offers an opportunity for UA to familiarise participants regarding the nature and benefits of insurance, thus increasing the level of awareness at grass root-levels.

Health

As mentioned above, an ageing population will increasingly demand health related products and services. UA's product portfolio includes health insurance related products and services and our contribution to uplift the health infrastructure is in line with our long term objective of fulfilling this market requirement in a cost efficient manner.

Crime Prevention Hoardings

Since 2005, UA has been conducting the crime prevention project in partnership with the Sri Lanka Police. The objective of the project is to reduce crime in the country by erecting display boards carrying the telephone numbers of district police stations and promoting the police emergency number, 1-1-9 to encourage citizens to report criminal activities. The other objective of the hoardings is to keep motorists advised as to which police jurisdiction they were travelling through.

The project has covered the Western, Southern, Central, North Western, Sabaragamuwa, North Central, Eastern and Uva provinces. During the year, new hoardings were erected in Mannar, Batticaloa and along the A9 road.

Having already erected over 325 hoardings carrying the telephone numbers of relevant police stations, our ongoing task is to maintain these hoardings and to further install new ones.

The number of hoardings erected in each province is as follows.

Province	Number of Hoardings
Western	48
Central	38
Eastern	48
North	28
North Central	38

Province	Number of Hoardings
North Western	53
Sabaragamuwa	24
Southern	26
Uva	29
Total	332

Center Island Huts for Traffic Control Officers

During the year UA initiated a project to establish center island huts for traffic control officers. Five such huts were erected within Colombo and its suburbs where traffic congestion is very intense. This has proved to be effective as more visibility is provided to traffic control officers as well as to the motorists.

Union "Pasalen Karaliyata"

One of the flagship projects of the company, "Pasalen Karaliyata" was launched for the fourth consecutive year in partnership with the Ministry of Education. The main objective of this programme is to highlight the aesthetic talents of students and provide them with a stage to showcase their talents. This all island inter school aesthetic contest includes dancing, singing and art competitions.

The "Pasalen Karaliyata" programme offers rich rewards for winners and the schools to which they belong. Uniquely, it is not only the winners who are singled out for recognition. The schools they attend also receive cash awards. Further, the bonus marks awarded to the winners are considered when selecting students to national universities.

During the year, we concluded the second round of this competition and the final round will be held in 2011. More than 150,000 (2009 - 53,632) students took part in the competition representing more than 3,000 schools from 22 districts. These programmes were conducted in both Sinhala and

Sustainability Report contd.

Community contd.

Tamil mediums. A breakup of the student participation by province is depicted in the table below.

Sri Lanka has a rich heritage of dance, music, drama and creative arts which must be preserved and fostered. "Pasalen Karaliyata" is UA's acknowledgement of this cultural treasure and an outcome of our effort to foster the natural, inborn talent of the next generation.

Province	Number of Students
Central	9,108
North Central	15,756
East	4,871
North Western	18,126
Western	57,160
Uva	11,637
Southern	11,217
Sabaragamuwa	16,118
North	10,460
Total	154,453

Flood Awareness Campaign

During the year UA conducted a series of flood awareness campaigns covering all of the districts in the country. The main objective of this programme was to educate small and medium sized business enterprises regarding damage minimisation practices in the event of a flood. As a part of this campaign, brochures were distributed throughout the island. E-flyers and SMS alerts were also used to enhance the awareness levels.

Improving Hospital Conditions

Supporting the development of government-run hospitals has been one of UA's key community related activities. In 2010, the General Hospital in Batticaloa was upgraded with name boards and ward / theater direction boards. The officers in this location have

been tasked with further strengthening UA's relationship with the hospital staff.

Pre-School Teachers Training Programme

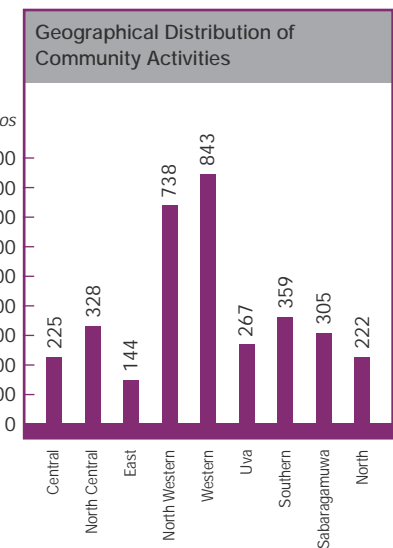
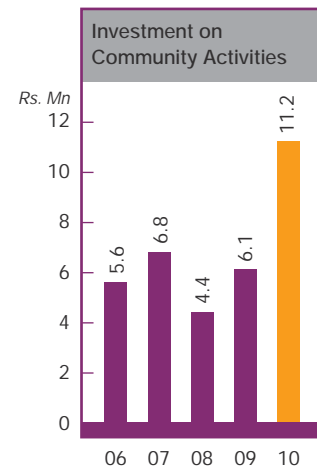
During the year UA continued to update the knowledge of pre-school teachers on latest teaching techniques, child psychology and how to identify the inherent talent and skills children possess. Facilitated by Mr. Vimal Udupila, in 2010, the programmes were conducted in the North Central and Western provinces. The participants rated the programme as one of the best they had attended.

White Cane Donations to Visually Impaired

UA's recreation club continued the tradition of donating white canes to the visually handicapped. The canes (cost of which was entirely funded by UA employees) were donated direct to the Sri Lanka Welfare Society of the Blind.

Blood Donation Campaign

In collaboration with the National Blood Transfusion Service (the Central Blood Bank), UA's annual blood donation campaign was organised for the 12th consecutive year. It was well attended by UA staff and well wishers.



"Center Island Hut"

Staff Volunteerism

Union Assurance staff members were granted the opportunity to volunteer their time and talents to the John Keells Group's Social Responsibility Foundation (JKSRF). Eleven staff members enrolled in the programme to support various initiatives.

Objective	Number of Volunteers
Increasing employment opportunities for rural youth	1
Building and supporting entrepreneurs	5
Supporting arts and crafts	7
Nature conservation	8
HIV / AIDS awareness programme	8
School development projects	9
Community / livelihood development	1
English language education	4

A summary of community activities conducted by UA is provided below.

Program Type	2006	2007	2008	2009	2010
Union Sisumaga (childrens' programme)	✓	✓	✓	✓	✓
Teachers' training programme		✓	✓	✓	✓
Special education programme	✓	✓	✓	✓	✓
Parent education programme		✓	✓	✓	✓
Pasalen Karaliyata		✓	✓	✓	✓
Flood awareness campaign					✓
Crime prevention programme	✓	✓	✓	✓	✓
Blood donation campaign	✓	✓	✓	✓	✓
Donation of white canes	✓	✓	✓	✓	✓



"Pasalen Karaliyata" concert

Sustainability Report

Shareholders

Existing and Potential Investors

We aim to deliver superior shareholder returns over the long term by balancing our short and long term objectives and responding to the social and environmental issues inherent in our business. Our performance against the charters applicable to the shareholders is summarised below.

Stakeholder Group and Objective	Commitments	Progress During the Year
Sustain and enhance shareholder value.	<ul style="list-style-type: none"> Manage business performance to consistently deliver GWP and profitability targets. Implement a robust risk management system. Embed effective internal controls into key operational processes. Comply with all relevant regulatory / statutory requirements. Obtain reinsurance arrangements with reinsurers whose financial stability is confirmed by ratings which are in line with IBSL regulations. 	<ul style="list-style-type: none"> Recorded strong growth in selected segments of the market. Achieved the largest profit figure in the company's history. 2010 reinsurance programme led by reinsurers who have been assigned at least an "A" rating by international rating agencies and strengthened process to review reinsurer ratings.

Financial performance

Total of General and Life premiums increased by 19% from Rs. 5.9 billion in 2009 to Rs 7.1 billion in 2010. Profit after tax for the company increased from Rs. 401 million in 2009 to Rs. 512 million in 2010. This is a growth of 28% and the highest ever profit achieved in company history.

Earning Value

Earnings per share (EPS) in 2010 amounted to Rs. 13.65, giving a price earnings ratio of 8.95. An investment of Rs. 1,000 at UA's IPO is now valued at Rs. 57,409.

Dividends

The Board of Directors has recommended a dividend of Rs. 6.25 per share for approval by the shareholders at the AGM. The dividend payout from 2010 profits will amount to Rs. 234 million.

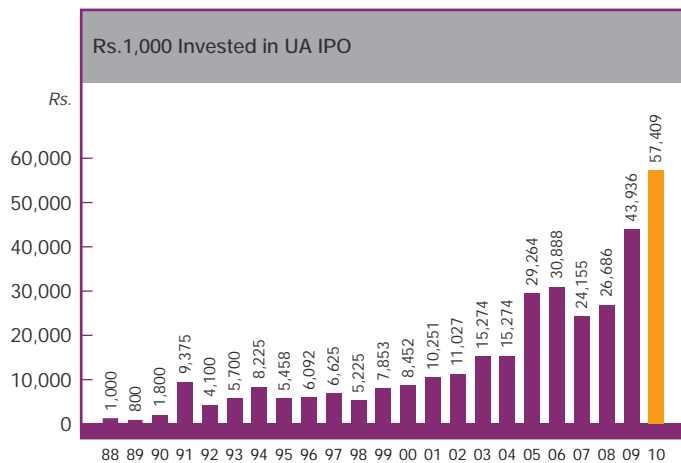
Economic	2010	2009
Gross written premium Total amount we receive from life and general customers as payments for their insurance policies	Rs. 7.1 billion	Rs. 6.0 billion
Net written premium Gross written premium minus the amount ceded to reinsurers	Rs. 6.1 billion	Rs. 5.0 billion
Net profit Profit after tax attributable to our ordinary shareholders from life and general insurance businesses	Rs. 512 million	Rs. 401 million
Return on net assets Net profit attributable to our ordinary shareholders as a percentage of net assets as at year end	19%	18%

Shareholders	2010	2009
Earnings per share	Rs. 13.65	Rs. 10.69
Share price (year end)	Rs. 122.10	Rs. 90.75
Dividends per share	Rs. 6.25	Rs. 5.00
Market capitalisation (Rs. Bn.)	Rs. 4.60	Rs. 3.40
Price earnings ratio	8.95 times	8.49 times

Achieving Sustainable, Profitable Growth

The company has implemented the following initiatives in line with our strategic objective of delivering sustainable, profitable growth in the medium to long term.

Initiative	Highlights of Performance
Manage claims expenses	<ul style="list-style-type: none"> Formed strategic alliances with spare parts suppliers and garages. Expanded the scope of the motor claims audit process. Leveraged on the newly introduced surgical system to offer convenience to customers and manage claims in an effective manner.
Leverage IT to improve people productivity, distribution effectiveness and customer service	<ul style="list-style-type: none"> “Speed Cash” was launched during the year, enabling customers to collect their claim value through SMS, at the accident site itself. Expanded pre-underwritten general insurance products. Introduced SMS based motor quotation system. Improved call center features and functionality. Enhanced functionality of web based sales force management system. Launched trilingual web site.
Expand alternate distribution channel	<ul style="list-style-type: none"> Partnered with Singer Mega outlets to distribute “Union Motor Reload” policies. Expanded work site marketing channel. Increased sales from affinity marketing initiative. Expanded relationships with financial institutions.
Manage overheads	<ul style="list-style-type: none"> Continued with expense bench marking process. Continued efforts to reduce electricity consumption. Introduced new process covering entire procurement function. Consciously rationalised discretionary expenses. Implemented strategy of opening BDOs which require less capital and operating expense.



Corporate Governance

During the year, the company reviewed its governance structures in the context of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission as well as the Rules on Corporate Governance published by the Colombo Stock Exchange.

Several aspects of the governance process were improved during the year, a summary of which are as follows:

- Reinforced our commitment to adopt best corporate governance practices by formally reviewing and updating the set of charters outlining the company's objectives and commitments towards all stakeholder groups.

Sustainability Report contd.

Shareholders contd.

- Revamped the risk management process making it a bottom up process, rather than a top down process as conducted in the past. As a result, each head of department conducted risk management workshops with their relevant teams and all the departmental risk grids are summarised and monitored at the corporate level.
- Enhanced internal audit resources and frequency of audits to ensure that strategic and key operational risks are well managed and any deviations are escalated on a timely basis.
- Intensified the business continuity testing process, by conducting a real time simulation without any pre warning to staff.

The details of these improvements as well as the overall structure are provided on pages 82 to 110 of this report.

Risk Management Initiatives

The company has a robust risk management framework with a Risk Management Committee chaired by the CEO. All functions are represented by relevant senior management staff. The objectives of the Committee are to identify risks which will impact UA's performance and implement suitable mitigation / management strategies. One of the key changes implemented in 2010 was the introduction of the divisional and company's risk grids. Objective of this exercise was to obtain feedback from the staff involved in operations as they have a better understanding of the risks involved with our business practices. The company's overall risk grid was compiled using the divisional risk grids.

The Risk Management Committee provides detailed information regarding organisational risks to the Board Audit and Compliance Committee who in turn report to the Board of Directors.

An overview of UA's risk management process is provided on pages 121 to 133.

Business Continuity Planning

The business continuity plan was successfully tested during the year. Testing was based on real life scenarios and was well attended by staff members. At the end of the session, the Executive Committee critically reviewed the current system and identified areas for improvement.

Performance Management

The Board has implemented a robust performance management system encompassing a detailed strategic planning process linked to strategic objectives for the company. These objectives are then distilled into key performance indicators which are monitored on a regular basis at line management, senior management and Board levels. The details of the company's performance governance framework are provided on pages 111 to 116 of this report.

Awards and Recognitions

Union Assurance continues to be recognised both nationally and internationally.

The 2009 annual report was highly commended under the annual report of the year category at the CIMA annual awards 2010, held in London.

Once again, our 2009 annual report was judged among the best reports in the South Asian region by the South Asian Federation of Accountants. The report was awarded 1st place in the non banking financial services sector and UA's corporate governance disclosures was also ranked 1st place overall.

The report won several accolades at the annual report awards ceremony conducted by the Institute of Chartered Accountants of Sri Lanka, including silver award for corporate governance disclosures, best report in the insurance sector and the overall silver award for best annual report.

We were also recognised at the National Business Excellence Awards conducted by the National Chamber of Commerce, winning 1st place in the insurance sector and 2nd place overall for our performance management practices.



ICASL Annual Report Awards 2010

Sustainability Report

Environment

We at Union Assurance firmly believe that today's actions affect future generations. This is more evident in the light of the climate changes we have experienced throughout the year under review. Hence, we are well aware of our

responsibility to make our employees conscious of the consequences of their actions to the planet which they live in. Our established and proven strategies focus on controlling our own impacts and resources, including oil, trees, water,

electricity and waste. Our performance against the charters applicable to the environment is summarised below.

Stakeholder Group and Objective	Commitments	Progress During the Year
Minimise waste and our environmental impact.	<ul style="list-style-type: none"> Train employees to be aware of the environmental impact of our operations. Integrating environmental considerations into business decisions. 	<ul style="list-style-type: none"> Implemented the recommendations from the energy audit. Expanded the usage of IT to develop paperless workflow systems to minimise usage of paper. Continued with the carbon foot print calculation Electricity usage sustained at last years' level despite significant increase in business activities.

Carbon Footprint

We continued with our efforts to reduce carbon emission through various initiatives. Department of Chemical and Process Engineering, University of Moratuwa, partnered with us in 2010 to calculate the carbon footprint in operations at our head office. The table below depicts the results of the study. During the year we have been very successful in reducing the CO2 emission by 231 tonnes upholding our commitment towards the environment.

Carbon Dioxide and other Green House Gases Emitted

Category	Tones of CO2e	%
Company vehicles	5.3	1%
Grid electricity	401.5	57%
Employee commuting	235.5	33%
Waste materials	55.7	8%
Water supply	8.9	1%
Total	706.9	100%

A summary of the initiatives taken to reduce our carbon footprint is as follows. The report is printed on page 171.

Category	Action Taken
Company vehicles	Vehicle usage is monitored and vehicles are serviced to ensure optimal fuel efficiency.
Grid electricity	The actions taken to manage electricity usage are listed below.
Employee commuting	Rolled out video conferencing facilities linking selected branches with head office to minimise travel.

Sustainability Report contd.

Environment contd.

Conserving Energy

Initiatives we have taken to conserve energy has resulted in lowering the electricity consumption per employee to the lowest level during the last four years.

Year	Consumption (Units)	Employees (Head office)	Units per employee
2007	749,100	367	2,041
2008	702,600	382	1,839
2009	654,920	384	1,706
2010	668,040	415	1,610

Leveraging Technology to Reduce Paper Consumption

We continued with our efforts to reduce paper consumption through the introduction of information technology, redirecting any waste to be re-used and recycling non-reusable waste.

During the year, video conferencing facilities and the virtual branch concept was used extensively as an alternative to travelling, which in turn resulted in less fuel consumption and lower carbon emissions.

Union "Speed cash" was launched during the year as another step towards paperless claims settlement process where the customer will receive a SMS at the accident site on the agreed claim value. The customer in turn can go to any "Commercial Bank" branch and collect cash over the counter.

Recycle and Re-Use

Our agreements with Neptune Papers (Private) Limited and National Paper Company (Private) Limited to recycle used paper continued throughout the year. The actual saving resulted due to this arrangement, in terms of resources is represented in the following table.

Description	Savings (Units)
Trees	343
Water (litres)	64,462
Electricity (Kilowatts)	80,612
Oil (litres)	35,369
Land fill (cubic meters)	60.46

Our agreement with R&G Toners to recycle printer cartridges also continued. The company brought back 182 toners manufactured using used cartridges in 2010. This is another useful initiative which ensures that plastics are reused and environmentally hazardous chemicals are not disposed of irresponsibly.

Paper, Fuel and Toner usage during the year

Description	Number
Total number of toners used	772
Paper used (Total number of sheets)	10,943,535
No of liters of fuel used for company owned vehicles	78,967

Vision: Delivering Chemical and Process Engineering knowledge, skills and innovation for a sustainable tomorrow



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University of Moratuwa,
Katubedda, Moratuwa 10400,
SRI LANKA

15th February 2011

Certification

Carbon Footprint Analysis for Union Assurance Head Office Premises at No. 20, St. Michael's Avenue, Colombo 03 was conducted by the Department of Chemical & Process Engineering, University of Moratuwa.

The analysis is based on the data provided by Union Assurance PLC, standards published by Carbon Trust, power sector baseline data calculated for Sri Lanka by Ministry of Environment and Natural Resources and localization of other conversion factors to represent the Sri Lankan context.

Prof. Suren Wijeyekoon
Dept. Chemical & Process Engineering
Faculty of Engineering
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Sri Lanka.

SUREN WIJEYEKOON (BSc.Eng., M.Eng., PhD.)
SENIOR LECTURER
DEPT. OF CHEMICAL & PROCESS ENGINEERING,
UNIVERSITY OF MORATUWA
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Mission: The Department of Chemical and Process Engineering will strive to educate, conduct research and offer consulting services with dedication, devotion and commitment and aim to be a place of excellence through internationally recognized programs for the benefit of society.

Sustainability Report

Reinsurers and Suppliers

Reinsurance Arrangements

UA continues to enter into reinsurance arrangements with financially stable reinsurers whose security ratings are either on par or better than the minimum ratings stipulated by the Insurance Board of Sri Lanka. Please refer inner back cover for details of our reinsurance panel. Such arrangements, despite protecting both the client and the company have significant pricing impacts in a competitive market as evidenced by the few clients lost to competition, purely due to pricing.

Suppliers

Our suppliers enable us to deliver the quality of service we have promised our customers. This is particularly true for suppliers who come into direct contact with our customers as well as for suppliers who provide goods and services to UA, enabling us to function effectively.

Suppliers with Direct Contact to Customers

In the event of a motor accident, our customers may have to interact with a garage or spare parts dealer. Customers who have obtained health insurance policies will require the services of a particular hospital or pharmacy. UA has formed alliances with several garages, as well as over 42 hospitals to ensure that customers receive a convenient, hassle free service. The following factors are considered when choosing suppliers.

- Reputation for quality
- Proximity of location
- Resources in terms of people, equipment etc.
- Scalability
- Price

Other Suppliers

The company has developed a formal process to evaluate new suppliers and ensures that all suppliers have an equal opportunity to present their products or services. The supplier selection process

considers the following attributes of a product or service (as applicable) prior to making a firm commitment.

- Fitness - fit for the purpose the product / service to be used
- Operational simplicity including ease of maintenance, disposal
- Durability
- Energy consumption
- Upgradability
- Reusability

Sustainability Report




2010 Performance Summary

Customers - At the Forefront of Everything We Do

General Insurance

Goals set for 2010	Commentary	Achievement
Launch pre-underwritten products for non motor classes.	Union "Asset Protector" was launched during 2010.	
Form strategic alliance with garages and hospitals.	Formed strategic alliances with seven garages.	
Increase usage of technology among general sales force.	As at December 2010, 144 general sales staff carried laptops and mobile printers.	
Ensure efficiency / effectiveness of restructured non motor unit.	Initiatives targeting enhanced efficiency are ongoing.	




Life Insurance

Goals set for 2010	Commentary	Achievement
Launch unit linked products.	Launched a Unit Linked product with three investment plans.	
Maintain life service standards.	Service standards met during the year.	
Enhance "Union Pay Easy" scheme.	Expanded the scheme by adding Keels Super and Abans outlets.	

Goals for 2011

General	<ul style="list-style-type: none"> Revamp motor call center. Review motor insurance pricing model. Improve motor and non motor claims service standards. Enhance IT infrastructure to support pre-underwritten products.
Life	<ul style="list-style-type: none"> Enhance health insurance riders. Maintain life service standards. Grow "Union Challenger" volumes.





Status Key

Achievement	Colour
Achieved satisfactory	
Partly achieved	
Not achieved	

Sustainability Report contd.

2010 Performance Summary contd.





People - The Secret behind our Success

Goals set for 2010	Commentary	Achievement
Implement talent management initiative.	Successfully conducted for 23 high potential employees who were selected to participate in a comprehensive training programme.	
Conduct biennial employee satisfaction survey.	Satisfaction survey conducted.	
Streamline training and development activities.	Re-designed training and development activities based on the feedback received.	
Extend online performance management system to non executive staff.	This process will commence with the 2011 performance appraisal system.	

Goals for 2011

- Extend talent management initiative to include non executive and executive staff as well.
- Develop leadership skills among sales management staff.
- Roll out certification programme for life and general technical staff.



Field Staff - Enabling Professionalism and Productivity

Goals set for 2010	Commentary	Achievement
Increase number of certified advisers and leaders to enhance professionalism.	<ul style="list-style-type: none"> • 210 advisers were certified as Certified Insurance Advisers (CIAs). • 37 new unit leaders were certified as Certified Unit Leaders (CULs). 	
Increase certified trainers to enhance the quality of induction training.	100 unit leaders were provided with "Train the Trainer" training and 8 trainers were certified as Certified Induction Trainers.	
Use video conferencing effectively for training.	18 branches were resourced with video conferencing system and facility is used for product trainings and discussions.	
Enhance e-learning resources for laptop users.	E-learning portal and adviser portal were developed to access <ul style="list-style-type: none"> • Product presentations • Video presentations on soft skills and technical skills • General competency course book • Union Challenger performance update 	

Goals for 2011

- Increase number of certified advisers and leaders.
- Certify general insurance trainers to conduct IBSL and adviser induction training.
- Certify unit linked product experts.




Community – Earning Community Trust

Goals set for 2010	Commentary	Achievement
Maintain security hoardings in an organised manner.	Security hoardings around the island were well maintained during the year.	
Conduct programmes in line with the company's business objectives and activities.	Conducted several programmes including "Pasalen Karaliyata" second round.	

Goals for 2011

- Conduct final round of "Pasalen Karaliyata" programme.
- Maintain the police hoardings and center island huts in an organised manner.



Shareholders – Sustaining Shareholder Value

Goals set for 2010	Commentary	Achievement
Grow general insurance premium by 13%.	General insurance premium grew by 14%.	
Grow life insurance premium by 14%.	Life insurance premium grew by 25%.	
Achieve profit target of Rs. 420 million.	Profit after tax for 2010 is Rs. 512 million.	

Goals for 2011

- Grow general insurance premium by 10%.
- Grow life insurance premium by 14%.
- Grow PAT by 12%.

Environment – Managing Environmental Impact

Goals set for 2010	Commentary	Achievement
Ensure effective usage of video conferencing facilities.	Video conferencing was used effectively, covering 18 branches.	
Leverage technology to minimise use of paper.	"ICAS" claims management system was introduced to minimise paper usage.	

Goals for 2011

- Implement actions to further minimise "Carbon footprint."
- Use IT to further reduce paper usage.

Sustainability Report

Performance Snapshot

Customers	2010	2009
Number of life customers	198,983	169,457
Number of general customers	69,283	67,554
Number of life insurance policies	221,982	189,266
Number of general insurance policies	91,348	98,322
Insurance claims and benefits (net) The amount paid out in claims and benefits to life and general policyholders during the year, as well as an estimate of how much we need to pay on unsettled claims less recoveries from reinsurers	Rs. 4.4 billion	Rs. 3.8 billion
Number of new products	2	4
Number of claims assessors	48	47
Number of branches	68	54
Number of staff trained in customer care	152	209
Number of disputes referred to insurance Ombudsman Referred	Referred 09	Referred 16
	Settled 06	Settled 12

Employees - Key Work Place Indicators	2010	%	2009	%
Non Sales	638	65	568	60
Sales	351	36	381	40
Total	989	100	949	100

Representation of Men and Women	2010		2009	
	Women	Men	Women	Men
Board positions	14%	86%	14%	86%
Management positions	15%	85%	15%	85%
Executives	23%	77%	26%	74%
All levels	25%	75%	25%	75%
Staff turnover	18%		16%	

Employees - Employee Engagement	2010	2009
Number of "Links" magazines	-	3
Number of management meetings	4	9

Employees - Providing a Rewarding Career	2010	2009
Local	298	131
No. of programmes		
No. of hours	28,165	26,044
Foreign	23	9
No. of programmes		

Employees - Providing a Rewarding Career contd.		2010		2009	
Number of training days	Benchmark	Actual	Benchmark	Actual	
Managers	6	5.46	6	4.3	
Executives	4	2.06	4	3.1	
Non Executives	3	2.83	3	2.4	
Training and development	Number	Amount (Rs. Mn)	Number	Amount (Rs. Mn)	
Number of employees on education support scheme	50	1.8	56	1.9	
Number of employees on support for professional memberships	59	0.6	62	1.2	
Total training and development expenditure	49			42	
Number of employee recognition awards	Number	Amount (Rs. Mn)	Number	Amount (Rs. Mn)	
Sales	163	15.7	154	12.6	
Non Sales	83	0.5	57	0.4	
Performance appraisals	Number	% of total staff	Number	% of total staff	
Performance appraisals conducted via PAMS	495	50%	617	65%	

Field Staff	2010	2009
Number of LIMRA International Quality Award winners	4	8
Number of LIMRA Productivity Award winners	34	44
Number of International Quality Management Awards	3	-
MDRT participants	2	2
Pass rate for life insurance technical competency test	70%	72%
Number of field staff	3,173	2,776
Commission paid to field staff (Rs. Mn.)	995	832
Number of policies per field staff member	20	26

Community	2010	2009
Pasalen Karaliyata programmes	3,351	19
Number of crime prevention hoardings	25	43
Number of Sisumaga / Danamuthu programmes	58	74
Number of pre-school teacher training programmes	3	15
Number of parent education programmes	19	13
Hospital upgrades	1	4
All island art competitions	-	1
Union Day events	-	9

Industry	2010	2009
Members serving SLII council	2	1

Environment	2010	2009
Electricity use at UA Centre	668,040 kwh	654,920 kwh

Sustainability Report

Assurance Report



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INDEPENDENT ASSURANCE REPORT TO UNION ASSURANCE PLC

Introduction

We were engaged by the Board of Directors of Union Assurance PLC ("Company") to provide assurance on the following elements of the Sustainability Report 2010 ("Report") for the year ended 31 December 2010:

- Reasonable assurance on the data on financial performance, as specified on page 166 of the Report 2010;
- Limited assurance on Performance Snap Shot for 2010 specified on pages 176-177 and other information presented in the Report.

Managements' responsibilities and the criteria applied

Management is responsible for the preparation and presentation of the Report in accordance with the GRI Sustainability Reporting Guidelines as described in page 139 of the Report and the information and assertions contained within it: for determining the Company's objectives in respect of sustainable development performance and reporting, including the identification of stakeholder and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Our responsibilities and compliance with SLSAE 3000

Our responsibility is to carry out a reasonable & limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with the Sri Lanka Standard on Assurance Engagements 3000 : Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard requires amongst others that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain reasonable & limited assurance about whether the Report is free of material misstatement.

Summary of work performed

Financial data

A reasonable assurance engagement on financial performance reported on page 166 of the Report involves verification that they were properly derived from the audited financial statements of the Company for the year ended 31 December 2010.

Performance Snap Shot and the other information

A limited assurance engagement on Performance Snap Shot and other information in the Report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of the Company's processes for determining the material issues for the Company's key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Report.
- Inquiries about the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in the Report.

- Comparing the information presented in the Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Report.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of the Company.

Our conclusion

Based on the procedures performed, as described above, we conclude that

- The data on financial performance, as specified on page 166 of the Report 2010 are properly derived from the financial statements of the Company for the year ended 31 December 2010 for which the independent auditors have issued an unqualified audit opinion dated 15 February 2011 on page 199 of the Annual Report;
- Nothing has come to our attention that causes us to believe that the Performance Snap Shot for 2010 specified on pages 176 - 177 and other information presented in the Report are not fairly presented, in all material respects, in accordance with the GRI Sustainability Reporting Guidelines as described in page 139 of the Report.

CHARTERED ACCOUNTANTS
Colombo

15 February 2011

KPMG Ford, Rhodes, Thomson & Co., a Sri Lanka Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

A N Fernando FCA
M. M. P. Perera FCA
I. J. S. Rajakumar FCA
Ms. S. M. B. Jayasekera ACA
G. A. U. Karunaratne ACA

S. Sureshrajith FCA
P. V. S. Abey FCA
W. W. J. C. Perera FCA
W. K. D. C. Abeyaratne ACA

M. R. Manjula FCA
C. P. Jayatilaka FCA
Ms. S. Joseph FCA
S. T. D. L. Perera FCA

Sustainability Report

Global Reporting Initiative Index

GRI Indicator		Report Section	Page No
1. Strategy and Analysis			
1.1	Statement from the most senior decision-maker of the organisation.	Sustainability report - CEO's statement	138
1.2	Description of key impacts, risks, and opportunities.	Management discussion and analysis / Risk management	58 / 122 - 128
2. Organisational Profile			
2.1	Name of the organisation.	Union Assurance PLC	N/A
2.2	Primary brands, products, and/or services.	Management discussion and analysis / Sustainability report – Customers	36 - 37 / 145
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	Management discussion and analysis	70 - 77
2.4	Location of organisation's headquarters.	No 20, St Micheal's road, Colombo 03	N/A
2.5	Number and name of countries where the organisation operates.	Sri Lanka	N/A
2.6	Nature of ownership and legal form.	Corporate information	Inner back cover
2.7	Markets served.	Management discussion and analysis	36 - 37
2.8	Scale of the reporting organisation.	Management discussion and analysis	36 - 37
2.9	Significant changes during the reporting period.	None	N/A
2.10	Awards received in the reporting period.	Sustainability report – Shareholders	166
3. Report Parameters			
3.1	Reporting period.	1st January 2010 to 31st December 2010	N/A
3.2	Date of most recent previous report.	December – 2009	N/A
3.3	Reporting cycle.	Annually	N/A
3.4	Contact point for questions regarding the report or its contents.	Sustainability report - Investor feedback form	179
3.5	Process for defining report content.	Sustainability report - Sustainability Committee and charters	139
3.6	Boundary of the report.	Sustainability report - Report scope and boundary	139
3.7	State any specific limitations on the scope or boundary of the report.	Report covers the operations of the Company.	N/A
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	A single entity	N/A
3.9	Data measurement techniques.	Based on actuals	N/A
3.10	Re-statements of information provided in earlier reports	None	N/A

GRI Indicator		Report Section	Page No
3. Report Parameters contd.			
3.11	Significant changes from previous reporting periods	No significant changes.	N/A
3.12	Table identifying the location of the Standard Disclosures in the report.	Sustainability report – Global Reporting Initiative Index	180
3.13	External assurance for the report	Independent assurance report from KPMG.	178
4. Governance, Commitments and Engagement			
4.1	Governance structure of the organisation	Corporate governance	80 - 110
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Corporate governance	82
4.3	Highest governance body that are independent and/or non-executive members.	Corporate governance	82
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	BACC report / Sustainability report - Investor feedback form	195 / 179
4.5	Compensation and performance	Remuneration committee report	119 - 120
4.6	Avoiding conflicts of interest	Annual report of the Board of Directors	190 - 191
4.7	Expertise of the governance body	Board of Directors	20 - 23
4.8	Internally developed statements of mission or values	Vision, Mission and Our Values	Inner front cover
4.9	Management of economic, environmental, and social performance	Management discussion and analysis	30 - 34
4.10	Processes for evaluating the highest governance body's own performance	Corporate governance	91
4.11	Precautionary approach or principle is addressed by the organisation.	Risk management	121 - 133
4.12	Externally developed principles or other initiatives.	Sustainability report – Community	162
4.13	Memberships in associations (such as industry associations)	Sustainability report – Performance Snapshot	176 - 177
4.14	List of stakeholder groups engaged by the organisation.	Sustainability report – What Sustainability Means to Our Stakeholders	139 - 144
4.15	Basis for identification and selection of stakeholders with whom to engage.	Sustainability report – What Sustainability Means to Our Stakeholders	139 - 144
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Sustainability report – What Sustainability Means to Our Stakeholders	139 - 144
4.17	Key topics and concerns raised through stakeholder engagement	Sustainability report – What Sustainability Means to Our Stakeholders	139 - 144

Sustainability Report contd.

Global Reporting Initiative Index contd.

GRI Indicator		Report Section	Page No
Economic			
Economic performance			
EC1	Direct economic value generated and distributed	Management discussion and analysis	64
EC2	Financial implications due to climate change.	Risk management	127
EC3	Coverage of the organisation's defined benefit plan obligations.	Financial information – Note No. 28	239
EC4	Significant financial assistance received from government.	None	N/A
Market presence			
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Corporate governance	103
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Recruited locally / Management discussion and analysis	76 - 77
Indirect economic impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Sustainability report – Community	162 - 165
Environmental			
Materials			
EN1	Materials used by weight or volume.	Not applicable	N/A
EN2	Percentage of materials used that are recycled input materials.	Sustainability report – Environment	169 - 170
Energy			
EN3	Direct energy consumption by primary energy source.	Not reported	N/A
EN4	Indirect energy consumption by primary source.	Not reported	N/A
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Sustainability report – Environment	169 - 170
Water			
EN8	Total water withdrawal by source.	Not reported	N/A
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Not applicable	N/A
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Not applicable	N/A
Emissions, effluents and waste			
EN16	Total direct and indirect greenhouse gas emissions by weight.	Sustainability report – Environment	169 - 170
EN17	Other relevant indirect greenhouse gas emissions by weight.	Sustainability report – Environment	169 - 170
EN19	Emissions of ozone-depleting substances by weight.	Sustainability report – Environment	169 - 170

GRI Indicator		Report Section	Page No
Emissions, effluents and waste contd.			
EN20	NOx, SOx, and other significant air emissions by type and weight.	Not reported	N/A
EN21	Total water discharge by quality and destination.	Not reported	N/A
EN22	Total weight of waste by type and disposal method.	Not reported	N/A
EN23	Total number and volume of significant spills.	None	N/A
Products and services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Not applicable	N/A
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not applicable	N/A
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	None	N/A
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Sustainability report – Environment	169 - 170
Overall			
EN30	Total environmental protection expenditures and investments by type.	Not reported	N/A
Social: Labor Practices and Decent Work			
Employment			
LA1	Total workforce by employment type, employment contract, and region.	Management discussion and analysis	66
LA2	Total number and rate of employee turnover	Sustainability report - Performance snapshot	176
Labor/management relations			
LA4	Percentage of employees covered by collective bargaining agreements.	Not applicable	N/A
LA5	Minimum notice period(s) regarding significant operational changes	Stated within the conditions of employment.	N/A
Occupational health and safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	A 55 member safety committee is in place.	N/A
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Not reported during the year.	N/A
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Three HIV/ Aids awareness campaign was conducted.	N/A

Sustainability Report contd.

Global Reporting Initiative Index contd.

GRI Indicator		Report Section	Page No
Social: Labor Practices and Decent Work contd.			
Training and education			
LA10	Average hours of training per year per employee by employee category.	Sustainability report - People / Field staff	154 - 159 / 160 - 161
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Sustainability report - People / Field staff sections	154 - 159 / 160 - 161
Diversity and equal opportunity			
LA13	Employees per category according to diversity.	Sustainability report - People	155
LA14	Ratio of basic salary of men to women by employee category.	Not reported	N/A
Social: Human Rights			
Diversity and equal opportunity			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Not reported	N/A
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Not reported	N/A
Non-discrimination			
HR4	Total number of incidents of discrimination and actions taken.	None	N/A
Freedom of association and collective bargaining			
HR5	Freedom of association and collective bargaining and actions taken to support these rights.	Sustainability report - People	155 - 156
Child labor			
HR6	Child labor and measures taken to contribute to the elimination of child labor	Avoided at the recruitment.	N/A
Forced and compulsory labor			
HR7	Forced or compulsory labor and measures to contribute to the elimination of forced or compulsory labor.	None	N/A
Social: Society			
Community			
SO1	Impacts of operations on communities, including entering, operating, and exiting.	Not reported	N/A
Corruption			
SO2	Percentage and total number of business units analyzed for risks related to corruption.	All business units are analysed.	N/A
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	Covered in the code of ethics accessible to all employees.	N/A

GRI Indicator		Report Section	Page No
Social: Society contd.			
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying.	No significant involvement during the year.	N/A
Compliance			
SO8	Monetary value of significant fines	Not reported during the year.	N/A
Social: Product Responsibility			
Marketing communications			
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Internal code of conduct on marketing and communications.	N/A
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Not reported during the year.	N/A

Report Application Levels

		2002 in Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared			✓				
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	GRI Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured



28%

Growth in Profit

Revenue growth of 19%, driven by double-digit growth in Life and General segments.

Profit after tax of Rs. 512 million.

19%

Growth in Revenue

Financial Report

Transparency

A key aspect of our services is **clear communication.**
We work with our customers and strive to ensure that what we offer is exactly what they need. With Union Assurance, what you see is what you get.

Financial Calendar - 2010

Audited Financial Statements signed on - 15th February 2011

24th Annual General Meeting to be held on - 31st March 2011

The first and final dividend for the 2010 financial year will be paid on - 10th March 2011

Interim Financial Statements published in terms of Rule 8.3 of the Colombo Stock Exchange;

Interim Results for the three months ended (1st quarter) - 12th May 2010

Interim Results for the six months ended (2nd quarter) - 06th August 2010

Interim Results for the nine months ended (3rd quarter) - 08th November 2010

Interim Results for the for the year ended (4th and final quarter) - 15th February 2011

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

The Board of Directors have pleasure in presenting their report to the members together with the audited financial statements for the year ended 31st December 2010 of Union Assurance PLC, a public limited liability Company incorporated in Sri Lanka on 8th January 1987 under the Companies Act No. 17 of 1982, quoted on the Colombo Stock Exchange since 1988 and re-registered as required under the provisions of the Companies Act No. 7 of 2007 on 7th June 2007. The audited financial statements were approved by the Board of Directors on 15th February 2011.

Principal Activities

There were no significant changes in the nature of principal activities of the Company during the financial year under review. The principal activity of the Company, which is insurance remained unchanged. The Company has not engaged in any activities, which contravene laws and relevant regulations.

Review of Business

A review of the financial and operational performance and future business developments of the Company is contained in the Chairman's Review (pages 8 to 13), Chief Executive Officer's Review (pages 14 to 19) and the Management Discussion and Analysis (pages 30 to 69) of the annual report. These reports form an integral part of the report of the Directors and together with the audited financial statements reflect the state of the affairs of the Company. The segmental contribution of gross written premium, profits, assets and liabilities is provided on page 205 on the financial statements.

Financial Statements and Auditors' Report

The financial statements duly signed by the Directors is provided on pages 200 to 254 and Auditors' Report on the Financial Statements is provided on page 199 of this annual report.

Future Developments

An overview of the future developments of the Company is presented in the Chairman's Review (page 12), Chief Executive Officer's Review (page 18) and the Management Discussion and Analysis (pages 50 and 58).

System of Internal Controls

The Board of Directors has put in place an effective and comprehensive system of internal controls covering financial, operational and compliance controls and have obtained reasonable assurance of their effectiveness. An enterprise risk management initiative has been implemented since 2004. The Board is satisfied that the process is sufficiently robust to identify and manage risks which have an impact on the Company's performance.

Corporate Governance

The Directors declare that:

- a) The Company has not engaged in any activity which contravenes laws and regulations.
- b) All material interests in contracts involving the Company have been declared by the Directors and they have refrained from voting on matters in which they were materially interested.
- c) The Company has made all endeavours to ensure the equitable treatment of shareholders.
- d) The business is a going concern.
- e) A review of internal controls covering financial, operational and compliance controls and risk management has been conducted, and the Directors have obtained a reasonable assurance of their effectiveness and successful adherence.

The Board of Directors is committed to maintaining an effective corporate governance structure and process. A fuller report on Corporate Governance is found on pages 80 to 110.

Human Resources

The Company continued to implement appropriate human resource management policies to develop employees and optimise their contribution towards the achievement of corporate objectives. These policies and procedures ensure the equitable treatment of all employees. Some of the processes and procedures adopted in this regard are mentioned on pages 154 to 161 of the annual report.

Board Audit and Compliance Committee

The composition of the Board Audit and Compliance Committee comprising of Non-Executive Directors is provided on page 106. The CEO, other Executive Committee members and internal and external auditors attend the meetings by invitation. The report of the Board Audit and Compliance Committee is provided on pages 194 to 195 of this report.

Vision, Mission and Corporate Conduct

The Company's vision and mission are provided on inner front cover of this report. In achieving its vision and mission all Directors and employees conduct their activities with the highest level of ethical standards and integrity as set out in the Code of Ethics.

Risk Management

The Board and executive management of the Company have put in place a comprehensive risk identification, measurement and mitigation process. The risk management process is an integral part of the annual strategic planning cycle. A detailed overview of the process is outlined in the Risk Management Report on pages 121 to 133.

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

Auditors' Report

Auditors' Report on the financial statements is given on page 199 of this annual report.

Accounting Policies

The accounting policies adopted in preparation of the financial statements are given on pages 207 to 215. There have been no changes in the accounting policies adopted by the Company during the year under review.

Turnover

The Company underwrote an amount of Rs. 7,133 million in 2010 (Rs. 5,988 million in 2009) as total premium.

Financial Results

The Company recorded a net profit of Rs. 512 million for the year. A synopsis of the Company's performance is presented below.

Financial Results

	2010 Rs. '000	2009 Rs. '000
Profit after taxation	511,971	400,871
Profit brought forward from previous year	1,332,359	1,051,077
Profit available for appropriation	1,884,330	1,451,948
Appropriations		
Dividend paid for previous year	(187,500)	(121,875)
Transfer from revaluation reserve	3,668	2,286
Unappropriated profit carried forward	1,660,498	1,332,359

Dividends

The Directors have declared a first and final dividend of Rs. 6.25 per share for the year 2010 (Rs. 5.00 per share in 2009). The Directors have confirmed that the Company satisfies the solvency test requirement under Section 56 of the Companies Act No. 7 of 2007 for the final dividends declared. A solvency certificate was obtained from the auditors as well.

The dividend will be paid partly out of dividend received and partly out of taxable profits of the Company. The dividends to be paid out of profits will be subject to withholding tax.

Provision for Taxation

The tax position of the Company is disclosed in note 13 (pages 221 to 223) to the financial statements.

Property, Plant and Equipment

The details of property, plant and equipment are shown in note 20 (pages 231 to 233).

Market Value of Freehold Properties

The land and building owned by the Company in Kurunegala and the land and building at No. 20, St. Michael's Road, Colombo 3. was revalued as at 31st December 2009 to reflect its market value.

The revaluation was performed by Mr. P. B. Kalugalagedera, Chartered Valuation Surveyor. The details of the revaluation and relevant accounting policies are provided in note 20 and 3.5.4 (pages 231 and 209) respectively.

Reserve

The movement in reserves during the year is set out in the statement of changes in equity on page 202. Rs. 3.7 million was transferred from the revaluation reserve to revenue reserves.

Investments

Details of investments held by the Company are disclosed in notes 16, 17 and 18 (Pages 224 to 230) to the financial statements.

Stated Capital and Shareholders' Funds

In compliance with the Companies Act No. 7 of 2007, the financial statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The total capital and reserves stood at Rs. 2,633 million as at 31st December 2010 (Rs. 2,305 million as at 31st December 2009), details of which are provided in notes 31 and 32 (pages 241 to 243) to the financial statements.

Share Information

Information relating to earnings, dividends, net assets and market value per share is given in the Ten Year Summary on page 262. Information on share trading is given on page 255 and 256 of this report.

Shareholdings

There were 1,335 registered shareholders, holding ordinary voting shares as at 31st December 2010 (1,302 registered shareholders as at 31st December 2009). The distribution of shareholdings including the percentage held by the public is given on page 258 of this report. The Company has made every endeavour to ensure the equitable treatment of all shareholders.

Substantial Shareholdings

The list of top twenty shareholders is given on page 259 of this report.

Information to Shareholders

The Board strives to be transparent and provide accurate information to shareholders in all published material.

Directors

As at 31st December 2010 the Board of Directors of Union Assurance PLC consisted of six Directors with wide financial knowledge and experience. The qualifications and experience of the Directors are given on pages 20 to 23 of this report. The following persons were Directors of the Company as at 31st December 2010.

A. D. Gunewardene – Chairman

(Non- Executive Director)

Appointed as alternate Director on 1st May 1992

Appointed to the Board on 24th February 2004

Appointed Chairman on 1st January 2006

J. R. F. Peiris

(Non- Executive Director)

Appointed to the Board on 1st January 2006

M. A. Tharmaratnam

(Non- Executive Director)

Appointed to the Board representing ACW Insurance (Private) Limited on 1st October 2004.

Appointed to the Board on 25th September 2007

Resigned from the Board with effect from 31st December 2010

K. N. J. Balendra

(Non- Executive Director)

Appointed to the Board on 1st April 2009

A. K. Gunaratne

(Non- Executive Director)

Appointed to the Board on 1st April 2009

A. S. De Zoysa

(Non- Executive Director)

Appointed to the Board on 1st April 2009

G. F. C. De Saram

(Non- Executive Director)

Appointed to the Board on 1st April 2009

In terms of Article 83 and 84 of the Articles of Association of the Company, J. R. F. Peiris retires by rotation and being eligible, offers himself for re-election.

Interests Register

The Company, in compliance with the Companies Act No. 7 of 2007 maintains an Interests Register. In compliance with the requirements of the Companies Act, this annual report also contains particulars of any entries made in the Interests Register as detailed below.

Directors' Interests in Transactions

The Directors of the Company have made general declarations as provided for in section 192 (2) of the Companies Act No. 7 of 2007. Arising from this details of contracts in which they have an interest are found in note 33 on pages 243 to 245, under related party transactions.

Share Dealings

There have been no share dealings by the Directors during the year ended 31st December 2010. Therefore, there have been no further entries in the interests register of the Company for the year ended 31st December 2010.

Directors' Interests in Shares

The share ownership of Directors is stated below. There is no change in the number of shares owned by any Director after the requirement relating to entries in the Interests Register came into force.

The Directors' individual shareholdings in the Company as at 31st December 2010 and 31st December 2009 were as follows.

Name of Director	No. of shares as at 31.12.2010	No. of shares as at 31.12.2009
A. D. Gunewardene	3,746	3,746
J. R. F. Peiris	Nil	Nil
K. N. J. Balendra	Nil	Nil
A. K. Gunaratne	1,600	1,600
A. S. De Zoysa	Nil	Nil
G. F. C. De Saram	Nil	Nil

Remuneration to Directors

Executive Directors' remuneration is established within a framework approved by the Board's Remuneration Committee. The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the Company. The remuneration of the Non-Executive Directors are determined according to scales of payment decided upon by the Board previously.

Details of Directors' fees and emoluments paid during the year are disclosed on next page.

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

	2010 Rs. '000	2009 Rs. '000
Executive Directors' fees and emoluments	-	15,196
Non-Executive Directors' fees and emoluments	6,000	2,891

Directors' Meetings

Details of Directors' meetings are presented on page 108 of this report.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the financial statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Regulation of Insurance Industry Act No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

Related Party Transactions

There are no related party transactions which exceeds the lower of 10% of Equity or 5% of the total assets of the Company.

Donations

There were no donations granted during the year.

Compliance with Laws and Regulations

The Company has complied with all applicable laws and regulations. A compliance checklist is signed on a monthly basis by responsible officers and any violations are reported to the Board Audit and Compliance Committee. Refer page 105 for a list of compliances.

Environment

Initiatives taken by the Company to preserve the environment are presented on pages 169 to 171 of this report. The Company has not engaged in any activity that is harmful to the environment.

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the government, other regulatory institutions and in relation to the employees have been made on time.

Outstanding Litigation

In the opinion of the Directors and in consultation with the Company lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company.

Events after the Balance Sheet Date

Details of events after the balance sheet date are provided in note 36 (page 246) to the financial statements.

Going Concern

After considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the Code of Best Practice on Corporate Governance, issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

The Company's auditors during the period under review were Messrs. KPMG Ford, Rhodes, Thornton & Co. A sum of Rs. 1,700,000/- (2009 - Rs.1,700,000/-) was paid to them as audit fees during the year under review and a sum of Rs.

2,004,000/- (2009 - 1,508,000/-) was paid by the Company for tax related services and other non audit work performed. Based on the declaration from Messrs. KPMG Ford, Rhodes, Thornton & Co., and as far as the Directors are aware, the auditors do not have any relationship or interest in the Company other than those disclosed in this paragraph.

Appointment of Auditors

The retiring auditors, Messrs. KPMG Ford, Rhodes, Thornton & Co. have intimated their willingness to continue in office and a resolution to re-appoint them as auditors and authorising the Directors to fix their remuneration, will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at the Auditorium, Institute of Chartered Accountants of Sri Lanka, 30 A, Malalasekera Mawatha, Colombo 7, on Thursday 31st March 2011 at 9.00 a.m. The notice of the Meeting relating to the twenty fourth Annual General Meeting is given on page 272.

This Annual Report is signed for and on behalf of the Board of Directors by:

A. D. Gunewardene
Chairman

A. K. Gunaratne
Director

Keells Consultants (Private) Limited
Secretaries

15th February 2011

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The financial statements are prepared in accordance with Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007 and the Regulation of Insurance Industry Act No. 43 of 2000. The formats and disclosures are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SoRP), adopted by the Institute of Chartered Accountants of Sri Lanka.

There have been no changes in the accounting policies adopted by the company during the year under review.

Significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with our external auditors and the Board Audit and Compliance Committee (BACC).

We confirm, that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the company as of, and for, the periods presented in this annual report.

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the company is made known to us and for safeguarding the company's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of the company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation

of internal controls and any fraud that involves management or other employees. Our internal auditors also conduct periodic reviews to ensure that the internal controls and procedures are consistently followed.

The financial statements were audited by Messrs. KPMG Ford, Rhodes, Thornton & Co. (KPMG)

The BACC pre-approves the audit and non-audit services provided by KPMG in order to ensure that the provision of such services does not impair KPMG's independence. The BACC also reviews the external audit plan and the management letters and follows up on any issues raised during the statutory audit. The BACC also meets with the external and internal auditors to review the effectiveness of the audit.

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.

We also confirm that the company has complied with the following IBSL requirements:

- a) The legal and regulatory provisions of the RII Act.
- b) Arranged treaty and facultative reinsurance with approved reinsurers as per IBSL guidelines for all risk commitments exceeding retention limits.
- c) Reserving and solvency guidelines have been complied with and total reserves are backed by matching admissible assets.
- d) The equity capital meets the set minimum capital requirements in accordance with applicable regulations.

- e) The company has implemented the necessary processes to implement the premium warranty clause.



A. D. Pereira
Chief Executive Officer



I. Prematunga
Chief Financial Officer

15th February 2011

Management Reports

Management Discussion & Analysis

Corporate Governance

Sustainability Report

Financial Information

Board Audit and Compliance Committee Report

The Board Audit and Compliance Committee (BACC) comprises of the following Directors who conduct Committee proceedings in accordance with the terms of reference approved by the Board as a whole.

- A. K. Gunaratne (Chairman)
- J. R. F. Peiris
- A. S. De Zoysa

All Directors are Non-Executive Directors, including the Chairman and Mr. A. S. De Zoysa who function as independent Directors in terms of the Rules on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange.

Mr. A. K. Gunaratne is a Fellow Member of the Chartered Institute of Management Accountants (UK) as well as the Institute of Chartered Accountants of Sri Lanka and counts many years of experience in the financial services industry. Mr. J. R. F. Peiris is a Fellow of the Chartered Institute of Management Accountants (UK) and the Association of Chartered Certified Accountants and counts over 40 years experience in finance and general management in Sri Lanka and abroad. Mr. A. S. De Zoysa holds a Bachelor of Commerce Degree from the University of New South Wales and has overseas and local exposure in a wide variety of disciplines and industries.

The Board has determined that the Committee possesses an adequate blend of financial and insurance expertise in order to efficiently carry out its duties. The Committee operates pursuant to a charter which is formally approved by the Board.

Meetings of the BACC

The Committee had four meetings during the year under review which were attended by external auditors, internal auditors and also all the meetings were attended by Executive Committee members including the CEO, CFO and general managers responsible for underwriting, marketing, distribution and IT.

Numerous other informal meetings and communications among the Chairman, various Committee members, internal and external auditors and members of the Executive Committee also occurred.

Role of the BACC

The main objective of the BACC is to assist the Board of Directors to carry out its responsibilities with regard to:

- Ensuring that a good financial reporting system is in place and is well managed in order to give accurate, appropriate and timely information to the management, regulatory authorities and shareholders in accordance with Sri Lanka Accounting Standards (SLAS), Regulation of Insurance Industry Act, Companies Act and other financial reporting related regulations and requirements.
- Ensuring that the company's risk management processes are effective to identify and mitigate risks.
- Reviewing the design and operational effectiveness of internal controls and implement changes where required.
- Ensuring that the conduct of the business is in compliance with the applicable laws and regulations and policies of the company.
- Assessing the independence and monitoring the performance and functions of internal and external auditors.
- Assessing the company's ability to continue as a going concern in the foreseeable future.

The BACC is empowered to carry out any investigations it deems necessary and review all internal control systems and procedures, compliance reports, risk management reports, etc. to achieve the objectives as stated above. The committee has reviewed and discussed

with management and internal and external auditors, the audited financial statements, the quarterly unaudited financial statements as well as matters relating to the company's internal control over financial reporting, key judgments and estimates in the preparation of financial statements and the processes that support certifications of the financial statements by the CEO and CFO.

Internal Audit

The internal audit function was outsourced to Ernst & Young, a leading firm of Chartered Accountants until September 2010. Following a group wide review of audit services the internal audit function is currently outsourced to Pricewaterhouse Coopers, another leading firm of Chartered Accountants. The Committee monitors the effectiveness of the internal audit function and is responsible for approving their appointment or removal and for ensuring they have adequate access to information required to conduct their audits.

During the year, the BACC reviewed the internal audit plan and monitored progress on a regular basis. The sections covered and the regularity of audits depends on the risk level of each section, with higher risk sections being audited more frequently.

The Committee reviewed 13 internal audit reports covering the operations of 8 branch locations and several head office functions, i.e. underwriting, claims, reinsurance, credit control, finance, investments, etc. Audit findings presented in the reports are prioritised based on the level of risk. The Committee followed up on internal audit recommendations. Internal audit reports are made available to external auditors as well.

The internal auditors also presented a performance grading and scoring system to evaluate the performance and control environment at branch offices, regional offices, departments and divisions of the head office.

The BACC met the internal auditors without the management being present.

Fraud Risk

The internal auditors reviewed the Company's systems and processes to mitigate risks / frauds. The review focused on the systems and processes as applicable to the underwriting, claims, reinsurance, investment, finance, marketing, human resource development, administration and debt management operations to mitigate the risk of fraud and highlighted areas for improvement.

External Audit

The BACC has policies aimed at safeguarding and supporting the independence and objectivity of the external auditors. The BACC reviews the audit and non-audit work that is assigned to KPMG Ford, Rhodes, Thornton & Co, our external auditors to ensure that provision of such services does not impair KPMG's independence. The services provided by the external auditors are segregated between what requires an independent view such as audit and assurance services and other advisory services such as tax consultancy and work is assigned to prevent a conflict of interest for the external auditors.

The Committee has received a declaration from Messrs. KPMG Ford, Rhodes & Co., as required by the Companies Act No. 7 of 2007, confirming that they do not have any relationship or interest in the company, which may have a bearing on their independence within the meaning of the Code of Conduct and Ethics of the Institute of Chartered Accountants of Sri Lanka.

The BACC reviewed the external audit plan as well as management letters and followed up on issues raised. In addition to the statutory audit, the external auditors reviewed the key reconciliations which have an impact on the financial reporting framework of the company.

The BACC met the external auditors without the management being present once during the year.

The BACC has recommended to the Board of Directors that Messrs. KPMG Ford, Rhodes Thornton & Co. be re-appointed as auditors for the financial year ended 31st December 2011 at the next Annual General Meeting. The BACC recommends the fees payable to the statutory auditors for approval by the Board.

IT Risk and Control Assessment

The BACC receives a report detailing above from Messrs. KPMG Ford, Rhodes, Thornton & Co. on an annual basis. In addition, the recommendations arising from the IT security audit conducted by MIEL e-Security Pvt. Ltd. of India in 2008 have been implemented.

Report of External Actuaries

The BACC received written representations from the life and general independent external actuaries, summarising their observations and comments with regard to the work performed valuing life policyholder liabilities and general insurance incurred but not reported claims.

Whistle Blowing

The Company encourages any employee who suspects wrong doing at work - whether by his management, peer, or another employee - to raise his concern through an internal whistle blowing procedure directly to the BACC. Concerns raised are investigated and the identity of the person raising the concern is kept confidential. The BACC may use management resources to conduct necessary investigations.

Compliance with the Code of Best Practice on Audit Committees

The BACC's scope and functions are in compliance with the requirements of the above code.

Compliance with the Code of Best Practice on Corporate Governance

The BACC has conducted its affairs in compliance with the requirements of the above code.

Compliance with Corporate Governance Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange

The BACC has conducted its affairs in compliance with the requirements of the above code.

Evaluation of Committee

The BACC formally approved a matrix indicating their objectives / functions, the steps required to accomplish these functions, deliverables and the due dates. The matrix is updated and reviewed on an annual basis in order to evaluate the Committee's performance.

Conclusion

The Committee is satisfied that the internal controls have been operating as designed and the company's assets have been adequately safeguarded as at the end of the period and that the company's internal and external auditors have been effective and independent throughout the period. The committee also believes that the company's accounting policies are appropriate and have been applied accurately.



A. K. Gunaratne

Chairman - Board Audit and Compliance Committee


15th February 2011

Certification of Incurred But Not Reported (IBNR) Claims - General

We hereby certify that the IBNR provision of Rs. 250,200,000 is adequate in relation to the claims liabilities of UA as at 31 December 2010, net of reinsurance. This provision applies to claims from all accident year through 2010. This IBNR provision, together with the case reserves held by the Company is expected to be adequate to meet the future liabilities in respect of the Company's incurred claims obligations as at 31 December 2010, in many but not all scenarios of future experience.

We also certify that the UPR provision of Rs. 1,717,826,000 set by the Company net of reinsurance is adequate in relation to the future liabilities of the unexpired risks as at 31 December 2010, in many but not all scenarios of future experience. Our results have been determined largely in accordance with internationally accepted actuarial principles.

We have relied upon information and data provided by the management of the above Company and we have not independently verified the data supplied, beyond applying checks to satisfy ourselves as to the reasonability of the data.



Matthew Maguire

Fellow of Institute of Actuaries Australia (FIAA)

Fellow of Institute of Actuaries (FIA)

For and on behalf of NMG Financial Services Consulting

Date: 15th February 2011



15 February 2011

To the Shareholders of Union Assurance PLC

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER, 2010

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2010. 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, 2010, 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, excluding the Unit Fund and the Non-unit Fund, as included in the audited accounts, exceeds the required actuarial reserves, excluding the reserves for the Unit Fund and the Non-unit Fund, as at 31 December, 2010, by Rs. 1,359.256 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 Non-unit Fund, as included in the audited accounts, exceeds the required actuarial reserves by 1.734 million.
- 5) The solvency margin required under the Regulation of Insurance Industry Act No. 43 of 2000 is Rs. 483.411 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2010 and the non-unit fund and, is fully provided for.

M. Poopalanathan
Actuary

Statement of Directors' Responsibility

The responsibility of the Directors in relation to the financial statements is set out in the following statement. The responsibility of the auditors in relation to the financial statements is set out in the Report of the Auditors on page 199 of the report.

As per the provisions of the Companies Act No. 7 of 2007 the Directors are required to prepare for each financial year and place before a general meeting financial statements, which comprise

- i. A statement of income, which presents a true and fair view of the profit or loss of the Company for the financial year; and
- ii. A balance sheet, which presents a true and fair view of the state of affairs of the Company as at the end of the financial year and which comply with the requirements of the Act.

The Directors have ensured that, in preparing these financial statements:

- i. The appropriate accounting policies have been selected and applied in a consistent manner. Material departures, if any, have been disclosed and explained;
- ii. All applicable accounting standards as relevant have been followed;
- iii. Judgments and estimates have been made which are reasonable and prudent;
- iv. It provides the information required by and otherwise comply with the Companies Act and the Listing Rules of the Colombo Stock Exchange.

The Directors have also ensured that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company and 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.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their audit opinion.

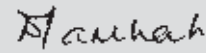
Further as required by Section 56(2) of the Companies Act No. 7 of 2007, the Board of Directors have confirmed that the Company, based on the information available, satisfies the solvency test immediately after the distribution, in accordance with Section 57 of the Companies Act No. 7 of 2007, and have obtained a certificate from the Auditors, prior to declaring a final dividend of Rs. 6.25 per share for the year ended 31st December 2010, to be paid on 10th March 2011.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes

payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the balance sheet date have been paid or, where relevant provided for.



Keells Consultants (Private) Limited
Secretaries

15th February 2011

Report of the Auditors



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

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF UNION ASSURANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Union Assurance PLC, which comprise the balance sheet as at December 31, 2010, 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 200 to 254 of this Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka

Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2010 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2010 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 Sections 151(2) of the Companies Act No. 07

of 2007. Pursuant to Section 47(2) of the Regulation of Insurance Industry Act No.43 of 2000, we also report, so far as appears from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

Chartered Accountants
Colombo

15th February 2011

KPMG Ford, Rhodes, Thomson & Co., a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

A N Fernando FCA
Ms. M. P. Perera FCA
I. J. S. Rajakumar FCA
Ms. S. M. B. Jayasinghe ACA
G. A. U. Karunaratne ACA

S. Sureshwaran FCA
P. V. S. Raju FCA
W. W. J. E. Perera FCA
W. R. D. C. Abeyaratne ACA

M. R. Mahipala FCA
C. P. Jayatilaka FCA
Ms. S. Joseph FCA
S. T. D. L. Perera FCA

Statement of Income

For the year ended 31 December			Sustainability Report Page No.	2010 Rs. '000	2009 Rs. '000	Change %
	Note	Page No.				
Revenue	6	216		7,919,528	6,677,295	19
Gross written premium	7	216	145	7,133,375	5,988,402	19
Less: Premium ceded to reinsurers			172	(1,025,924)	(981,595)	5
Net written premium				6,107,451	5,006,807	22
Net change in reserve for unearned premium				(416,944)	(124,927)	234
Net earned premium				5,690,507	4,881,880	17
Benefits, losses and expenses						
Insurance claims and benefits (net)	8	217	145	(2,393,149)	(2,204,862)	9
Increase in provision for life business			145	(2,123,447)	(1,617,769)	31
Underwriting and net acquisition costs (including reinsurance)			160	(848,296)	(615,535)	38
Total benefits, losses and expenses				(5,364,892)	(4,438,166)	21
Net premium less benefits, losses and expenses				325,615	443,714	(27)
Other revenue						
Income from investments	9	218		2,129,425	1,719,230	24
Other income	10	220		99,596	76,184	31
Expenses						
Other operating, investment related and administrative expenses	11	220		(1,853,829)	(1,690,024)	10
Depreciation on property, plant and equipment				(107,766)	(81,722)	32
Profit before income tax	12	221		593,041	467,382	27
Income tax expense	13	221		(81,070)	(66,511)	22
Profit after taxation			166	511,971	400,871	28
Basic earnings per share (Rs.)	14	223	166	13.65	10.69	
Dividend per share (Rs.)	15	223	166	6.25	5.00	

The above Statement of Income is to be read in conjunction with the notes to the financial statements from pages 207 to 254 which form an integral part of the financial statements.

The Report of the Auditors' is on page 199.

Balance Sheet

As at 31 December

	Note	Page Management No.	Risk Page No.	2010 Rs. '000	2009 Rs. '000
Assets					
Investments	16	224	125	12,817,417	11,578,665
Investments - unit linked	17	227		168,109	-
Quoted equities at market value	18	229	125	767,431	332,421
Intangible assets	19	230		49,500	49,500
Property, plant and equipment	20	231		1,108,723	1,070,060
Loans to life policyholders	21	233		232,618	224,325
Reinsurance receivable	22	234	124	579,009	900,800
Premiums receivable	23	234	124	1,237,594	845,756
Other assets	24	235		1,540,932	1,329,848
Other assets - unit linked				11,157	-
Cash and cash equivalents	25	236		390,138	313,855
Total assets				18,902,628	16,645,230
Liabilities and equity					
Liabilities					
Insurance provision - life - conventional	26	236		11,769,308	9,783,676
Insurance provision - unit linked				165,835	-
Insurance provision - general	27	237		2,716,888	2,636,772
Reinsurance payable			124	405,764	327,196
Retirement benefit obligations	28	239		132,422	95,955
Obligation to repurchase securities				-	622,146
Other liabilities	29	240		898,429	726,498
Other liabilities - unit linked				13,672	-
Current tax liabilities				81,558	66,259
Deferred tax liabilities	30	240		13,948	17,435
Bank overdraft				71,695	64,142
Total liabilities				16,269,519	14,340,079
Equity					
Stated capital	31	241		388,433	388,433
Capital reserves	32	242		584,178	584,359
Retained earnings				1,660,498	1,332,359
Total equity				2,633,109	2,305,151
Total liabilities and equity				18,902,628	16,645,230

The above Balance Sheet is to be read in conjunction with the notes to the financial statements from pages 207 to 254 which form an integral part of the financial statements.

I certify that the above financial statements comply with the requirements of the Companies Act No. 7 of 2007.



I. Prematunga
Chief Financial Officer

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

Signed on behalf of the Board



A. D. Gunewardene
Chairman



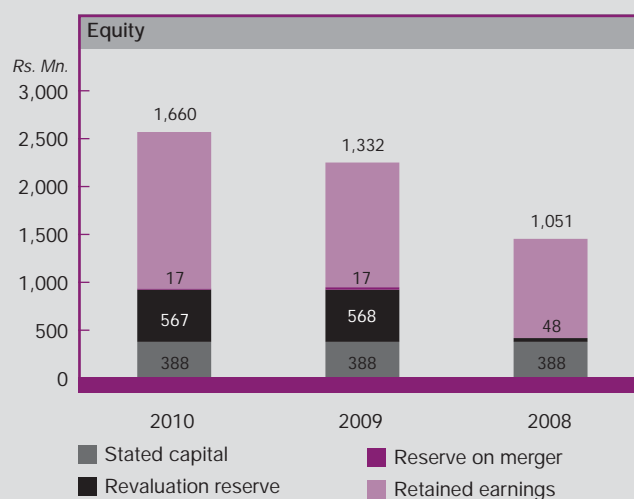
J. R. F. Peiris
Director

Colombo
15 February 2011

Statement of Changes in Equity

	Stated capital Rs. '000	Capital reserves		Retained earnings Rs. '000	Total Rs. '000
		Revaluation reserve Rs. '000	Reserve on merger Rs. '000		
Balance as at 1 January 2009	388,433	47,958	-	1,051,077	1,487,468
Final dividend 2008	-	-	-	(121,875)	(121,875)
Adjustment on merger of Cornhill (Private) Limited	-	433,856	16,752	-	450,608
Transfer from revaluation reserve to retained earnings	-	(2,286)	-	2,286	-
Surplus on revaluation	-	92,429	-	-	92,429
Tax effect of revaluation recognised in equity	-	(4,350)	-	-	(4,350)
Net profit for the year	-	-	-	400,871	400,871
Balance as at 31 December 2009	388,433	567,607	16,752	1,332,359	2,305,151
Final dividend 2009	-	-	-	(187,500)	(187,500)
Transfer from revaluation reserve to retained earnings	-	(3,668)	-	3,668	-
Tax effect of revaluation (recognised) / reversed in equity	-	3,487	-	-	3,487
Net profit for the year	-	-	-	511,971	511,971
Balance as at 31 December 2010	388,433	567,426	16,752	1,660,498	2,633,109

As of December 31, 2010, Equity amounted to Rs. 2.6 Billion an increase of 14% from the previous year. The increase was mainly due to the increase in net profit which amounted to Rs. 512 million. The dividend for 2009 was paid in the second quarter of 2010. The following graph depicts the movement in equity for the past three years.



The above statement of changes in equity is to be read in conjunction with the notes to the financial statements from pages 207 to 254 which form an integral part of the financial statements.

The Report of the Auditors' is on page 199

Cash Flow Statement

For the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
Cash flow from operating activities		
Premium received from customers	6,741,538	5,867,393
Reinsurance premium paid	(799,902)	(820,642)
Claims paid	(2,739,862)	(2,305,851)
Reinsurance receipts in respects of claims	390,453	264,301
Cash paid to and on behalf of employees	(691,375)	(621,214)
Interest received	2,078,762	2,072,197
Dividends received	14,828	3,588
Other operating cash payments	(2,059,096)	(1,803,001)
Cash flow from operating activities (Note A)	2,935,346	2,656,771
Retiring gratuity paid	(14,505)	(13,617)
Income tax and ESC paid	(73,872)	(46,692)
Net cash from operating activities	2,846,969	2,596,462
Cash flow from investing activities		
Acquisition of liquid investments (other than cash equivalents)	(890,708)	(574,083)
Acquisition of other investments (other than cash equivalents)	(3,669,031)	(3,930,195)
Proceeds from sale from liquid investments (other than cash equivalents)	586,263	712,836
Proceeds from sale from other investments (other than cash equivalents)	1,524,859	1,411,755
Acquisition of property, plant and equipment	(146,514)	(122,748)
Proceeds on sale of property, plant and equipment	4,426	4,143
Net cash used in investing activities	(2,590,705)	(2,498,292)
Net cash inflow before financing activities	256,264	98,170
Cash flow from financing activities		
Dividends paid	(187,500)	(121,875)
Net cash used in financing activities	(187,500)	(121,875)
Increase / (decrease) in cash and cash equivalents (Note B)	68,764	(23,705)
Notes to the cash flow statement		
A. Reconciliation of profit before taxation with cash from operating activities		
Profit before income tax	593,041	467,382
Depreciation on property, plant and equipment	107,766	81,722
Change in debtors	(33,704)	(159,094)
Change in life insurance fund	2,122,445	1,617,769
Change in unearned premiums and deferred acquisition costs	387,190	116,292
Change in claims provisions	(278,051)	227,404
Change in creditors	257,123	126,429
Exchange (gain) / loss	34	(1,338)
(Gain) on sale of property, plant and equipment	(4,341)	(4,143)
Effect on sale of investments	(267,129)	158,587
Change in provision for retiring gratuity	50,972	25,761
Cash from operating activities	2,935,346	2,656,771

Management Reports

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Cash Flow Statement contd.

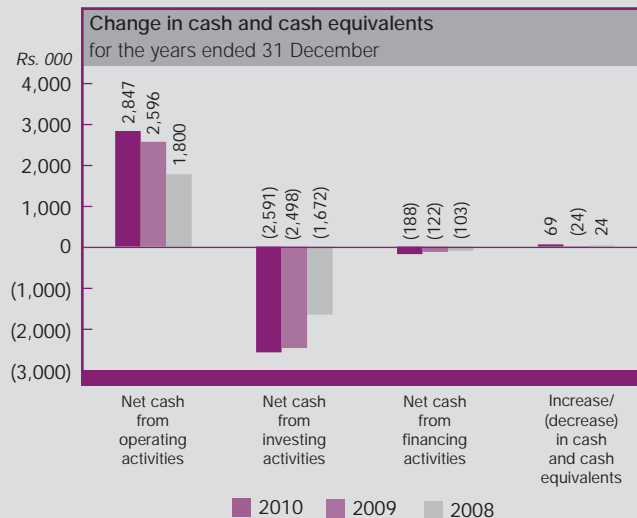
For the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
B. Increase in cash and cash equivalents		
Cash at bank and in hand and cash equivalents	390,138	313,855
Bank overdraft	(71,695)	(64,142)
Net cash at bank and in hand and cash equivalents	318,443	249,713
Effect of exchange rate changes	34	(1,338)
Net cash and cash equivalents for the current year	318,477	248,375
Net cash and cash equivalents for the previous year	249,713	272,080
Increase/(Decrease) in cash and cash equivalents	68,764	(23,705)

Net cash flow provided by operating activities amounted to Rs. 2.8 billion in 2010. This is an increase of Rs. 250 million compared to the previous year. This was mainly due to the increased revenue reported from both life and general insurance segments.

Net cash outflow used in investing activities increased from Rs. 2.5 billion to 2.6 billion.

Net cash flow from financing activities changed were as a result of the dividend payout.



The above Cash Flow statement is to be read in conjunction with the notes to the financial statements from pages 207 to 254 which form an integral part of the financial statements.

Schedule of Industry Segment Data 2010

For the year ended 31 December 2010	General insurance Rs. '000	Life insurance Rs. '000	Elimination Rs. '000	Total Rs. '000
Gross written premium	3,667,870	3,465,505	-	7,133,375
Less: Premium ceded to reinsurers	(927,598)	(98,326)	-	(1,025,924)
Net written premium	2,740,272	3,367,179	-	6,107,451
Net change in reserve for unearned premium	(416,944)	-	-	(416,944)
Net earned premium	2,323,328	3,367,179	-	5,690,507
Benefits, losses and expenses				
General insurance losses and loss adjustment expenses	(1,677,537)	-	-	(1,677,537)
Increase in provision for life business	-	(2,123,447)	-	(2,123,447)
Life insurance claims, benefits and maturity payments	-	(715,612)	-	(715,612)
Underwriting and policy acquisition costs (including reinsurance)	(172,623)	(675,673)	-	(848,296)
Total benefits, losses and expenses	(1,850,160)	(3,514,732)	-	(5,364,892)
Net premium less benefits, losses and expenses	473,168	(147,553)	-	325,615
Other revenue				
Income from investments	384,425	1,745,000	-	2,129,425
Other income	74,840	61,873	(37,117)	99,596
Expenses				
Other operating, investment related and administrative expenses	(587,182)	(1,303,764)	37,117	(1,853,829)
Depreciation on property, plant and equipment	(77,211)	(30,556)	-	(107,766)
Profit before income tax	268,041	325,000	-	593,041
Income tax expense	(81,070)	-	-	(81,070)
Profit after taxation	186,971	325,000	-	511,971
Net cash from operating activities	980,838	1,866,131	-	2,846,969
Net cash used in investing activities	(847,563)	(1,743,142)	-	(2,590,705)
Net cash used in financing activities	(187,500)	-	-	(187,500)
Acquisition of property, plant and equipment	(49,714)	(96,800)	-	(146,514)
Investments	2,978,072	10,774,884	-	13,752,957
Total segment assets	6,325,329	12,982,843	(405,545)	18,902,628
Total segment liabilities	3,800,538	12,874,526	(405,545)	16,269,519

The above schedule of Industry Segment Data is to be read in conjunction with the notes to the financial statements from pages 207 to 254 which form an integral part of the financial statements.

The Report of the Auditors' is on page 199

Schedule of Industry Segment Data 2009

For the year ended 31 December 2009	General insurance Rs. '000	Life insurance Rs. '000	Elimination Rs. '000	Total Rs. '000
Gross written premium	3,210,218	2,778,184	-	5,988,402
Less: Premium ceded to reinsurers	(881,893)	(99,702)	-	(981,595)
Net written premium	2,328,325	2,678,482	-	5,006,807
Net change in reserve for unearned premium	(124,927)	-	-	(124,927)
Net earned premium	2,203,398	2,678,482	-	4,881,880
Benefits, losses and expenses				
General insurance losses and loss adjustment expenses	(1,643,287)	-	-	(1,643,287)
Increase in provision for life business	-	(1,617,768)	-	(1,617,768)
Life insurance claims, benefits and maturity payments	-	(561,575)	-	(561,576)
Underwriting and policy acquisition costs (including reinsurance)	(112,386)	(503,150)	-	(615,536)
Total benefits, losses and expenses	(1,755,673)	(2,682,493)	-	(4,438,166)
Net premium less benefits, losses and expenses	447,725	(4,011)	-	443,714
Other revenue				
Income from investments	396,419	1,322,811	-	1,719,230
Other income	37,143	42,251	(3,210)	76,184
Expenses				
Other operating, investment related and administrative expenses	(583,436)	(1,109,798)	3,210	(1,690,024)
Depreciation on property, plant and equipment	(65,469)	(16,253)	-	(81,722)
Profit before income tax	232,382	235,000	-	467,382
Income tax expense	(66,511)	-	-	(66,511)
Profit after taxation	165,871	235,000	-	400,871
Net cash from operating activities	379,414	2,217,048	-	2,596,462
Net cash used in investing activities	(312,457)	(2,185,835)	-	(2,498,292)
Net cash used in financing activities	(121,875)	-	-	(121,875)
Acquisition of property, plant and equipment	100,851	13,662	-	114,513
Investments	2,306,920	9,604,166	-	11,911,086
Total segment assets	5,731,346	11,468,769	(554,885)	16,645,230
Total segment liabilities	2,421,256	11,363,938	554,885	14,340,079

The above schedule of Industry Segment Data is to be read in conjunction with the notes to the financial statements from pages 207 to 254 which form an integral part of the financial statements

The Report of the Auditors' is on page 199

Notes to the Financial Statements

1. REPORTING ENTITY

Union Assurance PLC is a company incorporated and domiciled in Sri Lanka. The address of the company's registered office is Union Assurance Centre, 20 St. Michael's Road, Colombo 3. The Company is primarily involved in the life and general insurance business. Ordinary shares of the company are listed on the Colombo Stock Exchange.

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLAS), 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. 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 financial statements were authorised for issue by the directors on 15th February 2011.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following;

- Land and building are measured at revalued amounts as explained in note 20
- Quoted investments are measured at market values as explained in note 18
- Unit linked investments as explained in note 17

2.3 Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees, which is the

company's functional currency. All financial information presented in Sri Lankan Rupees are rounded to the nearest thousand.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with SLASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements are included in the table below:

Critical accounting estimate/judgment	Disclosure reference	
	Note	Page
Intangible assets	19	230
Insurance provision - life - conventional	26	236
Insurance provision - general	27	237
Unearned premium	27a	238
Deferred acquisition cost	27b	238
Gross outstanding claims	27c	238
Retirement benefit obligations	28	239
Deferred tax assets / liabilities	30	240
Valuation of property plant and equipment	20	231
Impairment of assets	19, 20	230, 231

2.5 Materiality and aggregation

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The Company balance sheet represents the assets, liabilities and equity of the shareholders. The life insurance balance sheet presented as supplemental information on page 248 represents assets and liabilities of the life insurance fund. The statement of income reflects the underwriting results, surplus from long term insurance business investment income and other income of the general insurance business and the life insurance business.

The Directors have made an assessment of the company's ability to continue as a going concern in the foreseeable future, and they do not foresee a need for liquidation or cessation of business.

Notes to the Financial Statements contd.

3.1 Foreign currency transactions

Sri Lankan Rupees is the functional currency of the company. Transactions in foreign currencies are translated to the respective functional currency of the company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between the cost in the functional currency at the beginning of the year, adjusted for payments during the year and the cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates as at the dates of the initial transactions. Foreign currency differences arising on retranslation are recognised in the statement of income.

3.2 Segment reporting

A segment is a distinguishable component of the company that is engaged either in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The company's primary format for segment reporting is based on business segments. The business segments are determined based on the company's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the

total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

The activities of the company are located in Sri Lanka. Consequently, the economic environment in which the company operated is not subject to risks and rewards that are significantly different on a geographical basis. Hence disclosure by geographical region is not provided.

3.3 Investments

3.3.1 Investments in government securities

Investments in treasury bills and treasury bonds are initially recognised at cost and interest is accrued up to year end. The premium / discount arising from treasury bond is systematically amortized to / recognised in the statement of income throughout the period up to maturity.

3.3.2 Securities purchased under re-sale agreements

These are advances collateralised by purchases of treasury bills and treasury bonds from the financial institutions, subject to an agreement to re-sell them at a pre-determined price. Such securities remain on the balance sheet of the company and the asset is recorded in respect of the consideration paid and interest accrued thereon.

3.3.3 Debt instruments and unquoted investments

Debt instruments and unquoted investments are held on a long term basis and are stated at cost.

Provision for diminution in value is made when in the opinion of the Directors there has been a decline, other than temporary, in the value of the investment.

3.3.4 Quoted equity investments

Quoted equities are stated at market value with resultant gains or losses recognised in the statement of income.

3.3.5 Unit - linked investments

Unit linked investments are stated at market values. Gains and losses arising from the changes due to market value are recognised in the statement of income.

3.3.6 Disposal of investment

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

3.4 Intangible assets

3.4.1 Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of business from the four former branches, Aitken Spence Insurance Limited, Carsons Insurance Limited, ACW Insurance (Private) Limited and Whittall Boustead Limited. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill acquired in a business combination prior to 1 June 2005 in accordance with the transitional provisions of SLAS 25 (Revised) was amortised over a period of 20 years until 31 December 2005. Thereafter, commencing 1 January 2006 such amortization of goodwill has been discontinued.

3.4.2 Impairment of goodwill

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount of the cash generating unit to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The company performed its annual impairment test as at the reporting date and goodwill has been allocated to the insurance business.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

3.5 Property, plant and equipment

3.5.1 Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. 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 cost 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 part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in the statement of income. When revalued assets are sold, the relevant amount included in the revaluation reserve is transferred to retained earnings.

3.5.2 Subsequent cost

The cost of replacing a component 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 carrying amount of the replaced component is

derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of income as incurred.

3.5.3 Repairs and maintenance

Repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

3.5.4 Revaluations

Revaluation is performed on freehold land and building by professionally qualified valuers using the investment method. Land and buildings are revalued every two years.

The revaluation surplus is recognised in the net carrying amount of the assets and is transferred to revaluation reserve after restating the asset at the revalued amount. The revaluation reserve is transferred to retained earnings over the remaining useful life of the asset.

Any revaluation loss is directly recognised in the statement of income. Any revaluation loss arising from an asset which has been previously recognised in the revaluation reserve is debited to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

3.5.5 Depreciation

Depreciation is recognised in the statement of income on a straight-line basis over the estimated useful lives of each component part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Asset Class	Current Basis	Previous Basis
Buildings	50 Years	50 years
Office furniture	5 Years	3 years
Furniture and Fittings	5 Years	4 years
Computer equipment	5 Years	3 years
Motor Vehicles	5 Years	4 years

As per SLAS 18 (Revised) assets purchased after 1 January 2006 were depreciated from the month it was available for use. The additions purchased after 1 January 2006 were depreciated using the re-estimated useful lives.

The assets other than freehold land purchased prior to 1 January 2006 were depreciated using the previously assessed useful lives as reflected above.

3.5.6 Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in property, plant and equipment as well as system development, awaiting capitalisation.

3.5.7 Carrying Amount

The carrying amount of an asset or significant group of assets within the class is assessed annually with its fair value and where the fair value is less than the carrying amount the asset is written down to its fair value. The consequent adjustment is recognised in the statement of income.

The residual values of assets that are not insignificant are reassessed annually.

Depreciation on revaluation of a class of assets is based on the remaining useful life of the assets at the time of the revaluation.

Notes to the Financial Statements contd.

3.5.8 De-recognition

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is de-recognised.

3.6 Reinsurance receivable

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amount recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance policy. Reinsurance is recorded gross in the balance sheet unless a right to offset exists.

If a reinsurance asset is impaired, the company reduces the carrying amount accordingly and recognises a loss in the statement of income. 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 assets, that the company may not receive all amounts due 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 receivable

Collectability of premiums and other debts are reviewed on an ongoing basis. Policies issued on debt basis and that are known to be uncollectible are cancelled and the respective gross written premium is reversed. A provision for doubtful debts is raised when some doubt as to collection exists.

3.8 Inventories

Inventories include all consumable items and are measured at the lower of cost and net realisable value. Cost is generally determined by reference to weighted average cost. Net realisable

value is the estimated market price in the ordinary course of business less any estimated expense to sell.

3.9 Other assets and receivables

Other assets and receivables are measured at their cost less impairment losses.

3.10 Impairment of assets

The carrying amounts of the company's non financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized for the asset in prior years. Such reversal is recognised in the statement of income unless the assets are carried at revalued amount,

in which case the reversal is adjusted in the revaluation reserve.

The following criteria is also applied in assessing impairment of specific assets:

Intangible assets with indefinite useful lives are tested for impairment annually as at the reporting date either individually or at the cash generating unit level, as appropriate.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts are included in the balance sheet under liabilities.

3.12 Liabilities and provision

3.12.1 Insurance provision - life

The Directors agree to the long term and unit linked insurance business provisions for the company on the recommendation of the actuary following annual valuation of the life insurance business.

The actuarial valuation takes into account all liabilities including contingent liabilities and is based on assumptions recommended by the independent external actuary.

3.12.2 Insurance provision – General

Insurance provision comprises of reserve for the net unearned premium, reserve for the deferred acquisition cost (net), reserve for gross outstanding claims and the incurred but not reported (IBNR) provision.

Unearned premium, deferred acquisition cost and the reserve for gross outstanding claims are stated according to the industry practices where as the IBNR reserve is decided by an independent external actuary to estimate the outstanding liabilities as of reporting date.

3.12.3 Trade and Other Liabilities

Trade and other liabilities are stated at their cost.

3.13 Employee benefits

3.13.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognised as an employee benefit expense in the statement of income in the period during which services are rendered by employees.

3.13.2 Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and also discounting that benefit to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit (PUC) method as recommended by Sri Lanka Accounting Standard No.16 - Employee Benefits. Any actuarial gains and losses are recognised in the statement of income in the period in which they arise.

The obligation is not externally funded.

3.13.3 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.14 Provisions (excluding insurance contracts)

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can

be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

General Insurance Business

3.15 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.

3.16 Reinsurance premium

Reinsurance premium expense is accounted for in the same accounting period as the gross written premium to which it relates.

3.17 Unearned premium reserve

Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/24th basis except for marine policies which is computed on a 60-40 basis.

3.18 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 the reporting date.

3.19 Acquisition cost

Acquisition costs, representing commissions, which vary with and are directly related to the production of

business are deferred and amortised over the period in which the related written premiums are earned. Reinsurance commission is also treated in the same manner within deferred acquisition costs.

3.20 Claims

Claims expenses and liabilities for outstanding claims are recognised in respect of direct and inward reinsurance business. The liability covers claims reported but not yet paid, Incurred But Not Reported claims (IBNR) and the anticipated direct and indirect costs of settling those claims. 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 IBNR is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

While the Directors consider that the provision for claims is 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 adjustment 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.

Life Insurance Business

3.21 Gross written premium

Premiums from traditional life insurance contracts, including participating contracts and non participating contracts are recognised as revenue when cash is received from the policyholder.

3.22 Reinsurance premium

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

3.23 Acquisition cost

Commission expense is charged to the period in which it is incurred.

Notes to the Financial Statements contd.

3.24 Claims

Death claims are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Interim payments and surrenders are accounted at the time of settlement.

Investment Income and Other Income

3.25 Investment income

Investment income comprises interest income on funds invested, dividend income, gain / (losses) on quoted equity investments and gains on the disposal of investments.

Interest income is recognised on accrual basis and dividend income is recognised in the statement of income on the date that the company's right to receive payment is established.

The realised / unrealised gains or losses arising from changes in market values of quoted equity investments are directly recognised in the statement of income.

3.26 Other income

Other income comprises gain on disposal of property plant and equipment, gain on foreign currency translations and interest on policy loans.

Gain/(loss) on disposal of property plant and equipment and gain/(loss) on foreign currency translation are recognised on a net basis while the interest income on loans granted to life policyholders is accounted on accrual basis.

Expenses and Taxation

3.2 Expenditure recognition

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income.

All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

3.28 Finance cost

Finance cost is recognised as expenditure in the period in which they are incurred.

3.29 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

3.29.1 Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3.29.2 Deferred income tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences 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 benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxable authority.

3.29.3 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No.13 of 2006 and the amendments thereto, 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 within the specified time period mentioned in the Act and set off against the income tax payable as per the relevant provisions in the Act.

3.29.4 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, SRL was introduced with effect from 1, 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.

3.29.5 Nation Building Tax (NBT)

As per the provisions of the Nation Building Tax Act, No. 9 of 2009 and the amendments thereto, Nation Building Tax should be payable at the rate of 3% with effect from 1 May 2009 on the liable turnover as per the relevant provisions of the Act.

3.30 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.

3.31 Cash flow statements

The cash flow statement has been prepared using the "direct method."

Interest paid, interest received and dividend received is classified as operating cash flows, while dividends paid are classified as financing cash flows for the purpose of presenting the cash flow statement.

3.32 Events occurring after balance sheet date

All material post balance sheet events have been considered and where appropriate adjustment to or disclosures have been made in the financial statements.

3.33 Proposed dividends

Dividend declared by the Board of Directors after the balance sheet date is not recognised as a liability and is disclosed as a note to the financial statements.

3.34 Capital commitments and contingencies

Capital commitments and contingent liabilities of the company are disclosed in the financial statements.

3.35 Comparative information

Comparative information has been reclassified where necessary to conform to the current year's presentation.

4. FINANCIAL RISK MANAGEMENT

4.1 Introduction and overview

The company has implemented a risk management framework in order to identify, measure, mitigate and control the various risk specific to its business operation.

4.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework.

The company's risk management policies are established to identify and analyse the risks faced by the company to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the

company's activities. The company, through its training and management standards and procedures aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board Audit and Compliance Committee (BACC) oversees how management monitors compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The BACC is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BACC.

4.3 Credit risk

This is the risk that one party to a financial arrangement will fail to discharge an obligation and cause the other party to incur a financial loss. The following is an overview of how the Company manages its significant credit risk exposures.

4.3.1 Investments

The company limits its exposure to credit risk by analysing the creditworthiness of each investment. The creditworthiness of a potential investment is assessed mainly through ratings assigned to the issuing institution or the ratings assigned to the particular issue.

4.3.2 Trade receivable

The company has established a credit policy under which new customers are analysed for creditworthiness before the company's standard payment terms and conditions are offered. Policies which are not settled within a given period are routinely cancelled.

4.3.3 Reinsurance

Reinsurance is placed in line with policy guidelines and concentration of risk is managed by reference to counterparties'

limits that are set each year and are subject to regular reviews. On a regular basis management performs assessments of creditworthiness of reinsurers to update reinsurance purchase strategy and to ascertain suitable allowance for impairment of reinsurance assets.

The following credit risk table in respect of reinsurance receivable and investments provides information regarding the credit risk exposure of the company by classifying the assets according to credit ratings of the counterparties.

Rating	Reinsurance receivable (Rs. Mn.)	Corporate debt investment (Rs. Mn.)
AAA	-	442.2
AA	7.0	520.0
AA -	74.0	200.0
A +	74.0	-
A	79.0	325.0
A -	105.0	-
BBB +	1.0	-
BBB	9.0	10.0
BB -	94.0	-
NITF	125.0	-
Not Rated	11.0	174.3
Total	579.0	1,669.5

4.4 Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting the obligations associated with its liabilities that are settled by delivering cash or another assets.

The most significant liquidity risk confronting the company is the daily calls on its available cash resources in respect of claims arising from insurance contracts. The company manages this risk by diversifying investment durations and reviewing cash flow projections.

Notes to the Financial Statements contd.

The table below summarises the maturity profiles of corporate securities.

Category	As a % of total corporate securities
Less than 1 year	12%
1 - 5 years	55%
5 - 10 years	21%
10 - 15 years	12%

4.5 Market risk

Market risk is the risk that the value or future cash flows will fluctuate because of adverse movements in exchange rates, interest rates or asset prices.

Market risk for investments is controlled through the use of detailed investment guidelines which are decided by the Board Investment Committee (BIC). The guidelines have been developed based on institutional ratings (if available) and size of the investment portfolio.

Interest rate risk is managed through duration limits at the security and portfolio levels within the investment guidelines and the BIC members regularly monitor of macro-economic scenarios and their likely impact on interest rates.

The following table depicts the sectorial allocation of quoted equity investments.

Sector	As a % of total quoted equity investments
Banks, Finance & Insurance	42%
Beverage, Food & Tobacco	5%
Diversified Holding	3%
Hotels & Travels	4%
Manufacturing	29%
Construction & Engineering	6%
Telecommunications	11%

4.6 Insurance risk

By the very nature of an insurance contract, risk is based on fortuity and is therefore unpredictable.

The principal risks that the company faces under its insurance contracts are that the business will be under-priced, under reserved or subject to catastrophe claims.

The company has developed underwriting guidelines, limits of authority and business plans which are binding upon all staff authorised to accept business.

The company carries out an annual business planning process for each of its underwriting units. The resulting plans set out premium, territorial and aggregate limits for all classes of business. Performance against the plans is monitored on a regular basis by the Executive Committee and the Board of the Directors.

4.6.1 Reinsurance

The company purchases reinsurance to limit its exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events.

The types of reinsurance purchased were as follows:

- Facultative reinsurance purchased to reduce risk relating to individual / specific inwards contract.
- General excess of loss reinsurance is purchased to provide protection from the aggregation of claims, possibly arising from catastrophe events.
- Treaty reinsurance is purchased to provide protection against claims arising either from individual large claims or aggregations.

The company's reinsurance panel is approved by the Board. Decisions are supported by historical underwriting experience and actuarial analysis.

5. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards – 2011, applicable for financial periods beginning on or after 1, January 2012. These standards have many changes and consequential changes from the adoption of SLAS 44 and 45. These new Accounting Standards are prefixed as both SLFRS and LKAS which correspond to the relevant International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

The following accounting standards are directly related to the insurance industry.

- 1) SLFRS 1 - First-time Adoption of Sri Lanka Accounting Standards
- 2) SLFRS 4 - Insurance Contracts

Accounting standards which relate to financial instruments are presented below in summary form:

- 1) SLAS 32 - Financial Instruments: Presentation (LKAS – 32)
- 2) SLAS 39 - Financial Instruments: Recognition and Measurement (LKAS 39)
- 3) SLAS 7 - Financial Instruments: Disclosures (SLFRS – 7)

SLAS 32 (LKAS 32) – Financial Instruments: Presentation provides for the following:

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

SLAS 39 (LKAS 39) – Financial Instruments: Recognition and Measurement outlines the principles for recognising and measuring financial assets and financial liabilities.

However, the scope of the standard excludes its application to rights and obligations arising under an insurance contract, except for derivatives embedded in an insurance contract. The ICASL has not adopted a standard for Insurance Contracts and therefore the Statement for Recommended Practice on insurance Contracts is used, except for matters summarised below. The requirements of the new standards are summarised below.

a) Recognition

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

b) Measurement

For the purpose of measuring a financial asset LKAS 39 requires the financial asset to be classified into the following four categories; Financial asset or financial liability at fair value

through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets. The categorisation determines whether and where the re-measurement is recognised in the financial statements.

Derivative financial instruments and hedging

Derivatives are always categorised as trading and therefore measured at fair value with changes recorded in the income statement, unless the enterprise can establish that an effective hedging relationship exists. LKAS 39 also applies to a derivative that is embedded in an insurance contract, if the derivative is not itself a contract within the scope of IFRS 4. There are three types of hedging relationships under LKAS 39. These are the fair value hedge, the cash flow hedge and the hedge of a net investment in a foreign operation.

Financial liabilities

All Financial liabilities are measured at amortised cost except certain financial liabilities which are at fair value. The Company is currently in the process of evaluating the potential effect of these Standards. However, the impact of the above requirement has not been quantified as at balance sheet date.

Sri Lanka Accounting Standard 7 (SLFRS – 7) – Financial Instruments: Disclosures provides guidance on how entities should disclose.

- The significance of financial instruments for the entity's financial position on performance,
- The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date and,
- How the entity manages those risks.

Notes to the Financial Statements contd.

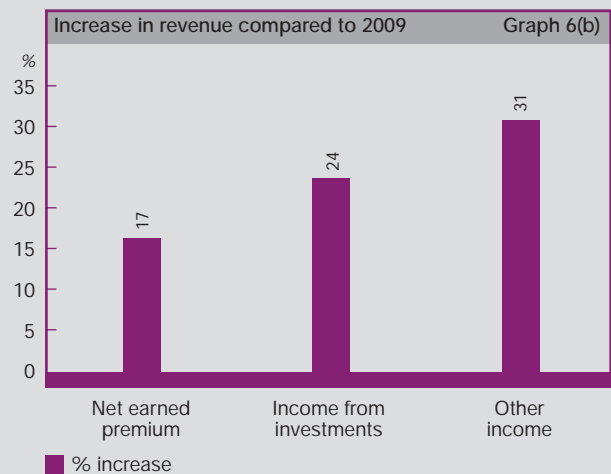
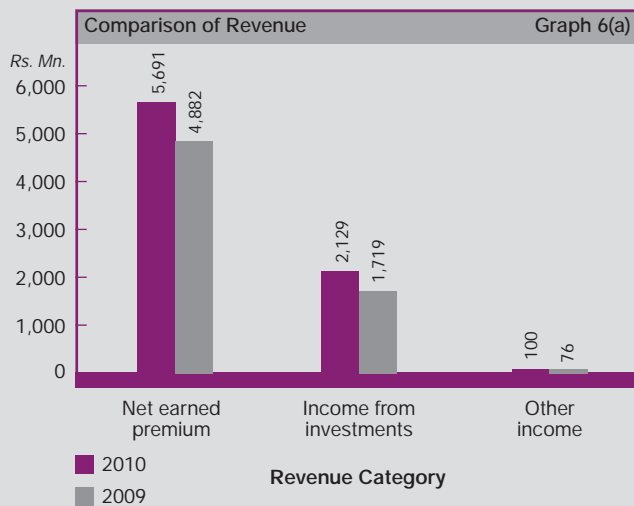
6. Revenue

This note provides a break down of revenue reflected in the statement of income. Net written premium refers to premiums earned from writing life and general insurance policies, after deducting the amounts payable to reinsurance Companies. Net earned premium is the amount of premium applicable to the particular period. Investment income is derived from the life and general investment portfolios.

For the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
Net written premium	6,107,451	5,006,807
Net change in reserve for unearned premium	(416,944)	(124,927)
Net earned premium	5,690,507	4,881,880
Income from investments	2,129,425	1,719,230
Other income	99,596	76,185
Total revenue	7,919,528	6,677,295

The Graph 6(a) analyses the comparison of 2010 revenue categories (consolidated revenue) and 2009 revenue categories. Graph 6(b) illustrates the change in 2010 consolidated revenue compared to 2009. During the year 2010, Union Assurance reported 19% growth in consolidated revenue compared to 2009.



7. Gross written premium

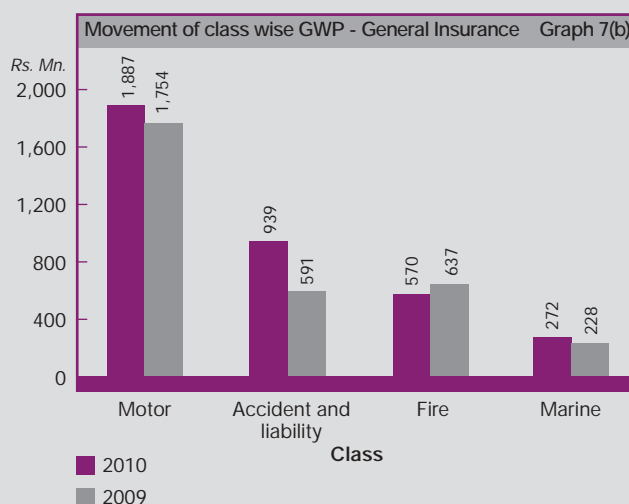
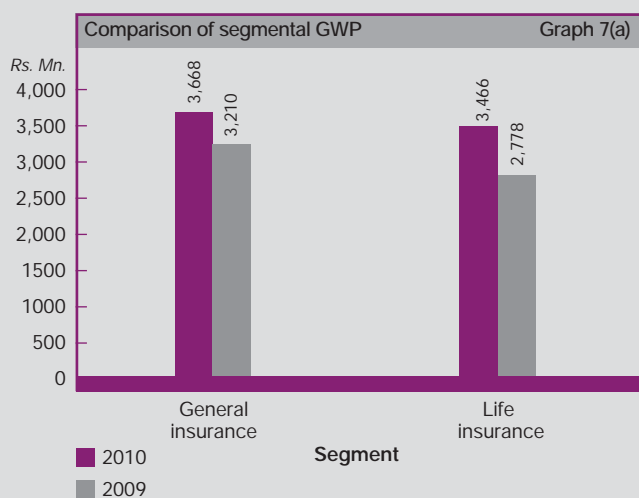
Gross written premium (GWP) represents the price (premium) charged by UA to underwrite risk in order to pay customer claims / benefits if the event insured against occurs / specified term is completed. Life insurance GWP is accounted on a cash basis and general GWP is accounted on an accrual basis. The accounting policy related to general insurance GWP is provided on page 211 (Note no. 3.15). The accounting policy regarding life insurance GWP is provided on page 211 (Note no. 3.21).

The premium income for the year by major classes of business is as follows;

For the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
General insurance		
Accident and liability	938,887	591,039
Fire	570,172	637,324
Marine	271,987	227,750
Motor	1,886,824	1,754,104
	3,667,870	3,210,217
Long term insurance		
Life insurance - conventional	3,261,346	2,778,185
Life insurance - unit linked	204,159	-
	7,133,375	5,988,402

The Graph 7(a) provides a comparison of 2010 segmental gross written premium (GWP) versus 2009. GWP increased by 19% from Rs. 6.0 billion in 2009 to Rs. 7.1 billion in 2010. This was mainly due to a 25% growth in life insurance premiums, which increased from Rs. 2.8 billion in 2009 to Rs. 3.5 billion in 2010. General insurance premium grew by 14% from Rs. 3.2 billion in 2009 to Rs.3.7 billion in 2010. Graph 7(b) reflects the movement in general insurance class wise GWP.



8. Insurance claims and benefits (net)

General insurance net claims reflect the total amount of claims and claims related expenses incurred during the year, net of amounts due from reinsurers. Since claims expenses are based on the information available as at a particular date, the charge for the year includes any over or under provisioning with regard to the previous years claims. A provision is also made in respect of claims incurred by policyholders but not informed to UA as at the balance sheet date. Such claims are commonly referred to as Incurred But Not Reported (IBNR) claims and is computed based on internationally accepted actuarial principles.

Life insurance policyholders are entitled to maturity proceeds, interim payments (e.g. payments made before the expiry of the policy), etc. They may also require to surrender their policies or make claims on account of death, disability or hospitalisation. These amounts net of reinsurance receivable are recorded under insurance claims and benefits.

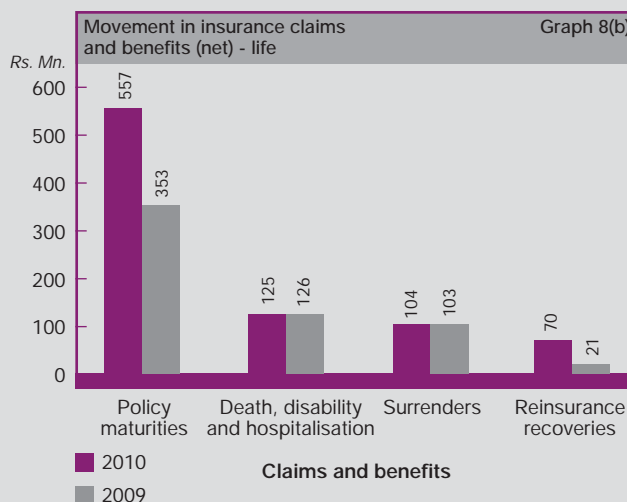
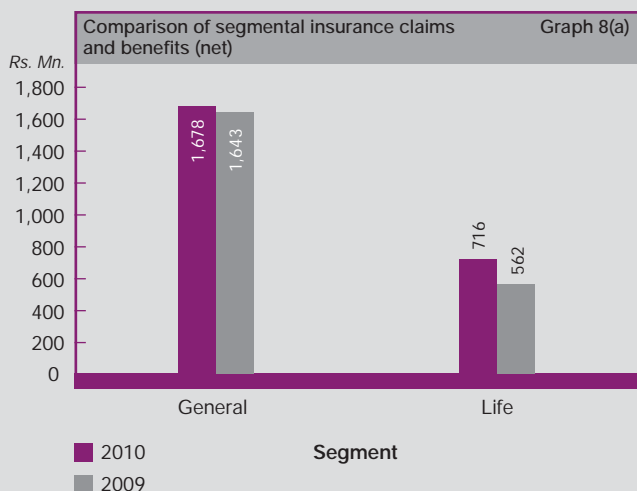
Notes to the Financial Statements contd.

The accounting policies for life and general claims and benefits are provided on page 211 (Note no. 3.20) and page 212 (Note no. 3.24) respectively.

For the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
General insurance		
Gross claims incurred	1,727,913	1,951,035
Reinsurance recoveries	(50,375)	(307,748)
General insurance net claims incurred	1,677,538	1,643,287
Life insurance		
Death, disability and hospitalisation claims	124,993	125,536
Surrenders	103,984	103,248
Policy maturities	556,721	353,436
Reinsurance recoveries	(70,087)	(20,645)
Life insurance net claims and benefits	715,611	561,575
Total insurance claims and benefits (net)	2,393,149	2,204,862

The Graph 8(a) provides a comparison of segmental net claims and benefits in 2010 and 2009. General insurance claims (net of reinsurance recoveries) increased by Rs. 34 million and life insurance claims, benefits and maturity payments increased by Rs. 154 million. The claims ratio in general insurance improved from 75% in 2009 to 72% in 2010.



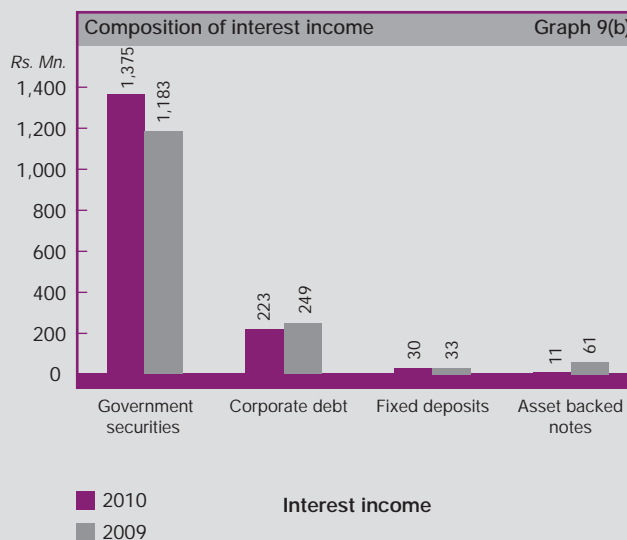
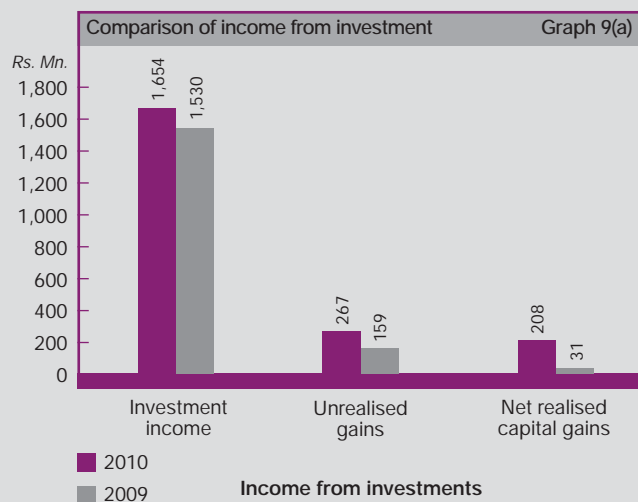
9. Income from investments

This note analyses the investment income generated by the Company. Refer Note no. 3.25 on page 212.

For the year ended 31 December

		2010 Rs. '000	2009 Rs. '000
Investment income	9a	1,654,167	1,530,068
Net realised capital gains		208,129	30,575
Unrealised gains		267,129	158,587
		2,129,425	1,719,230

Composition of the income from investments is reflected in Graph 9(a). Graph 9(b) reflects the composition of interest income. Investment income increased by 24% from Rs. 1.7 billion in 2009 to Rs. 2.1 billion in 2010 mainly due to the appreciation of equity investments. In 2010, Union Assurance reported 24% growth in income from investments compared to 2009.



9a. Investment income

For the year ended 31 December

		2010 Rs. '000	2009 Rs. '000
Interest income	9b	1,639,339	1,526,480
Dividend income - quoted investments		14,828	3,588
		1,654,167	1,530,068

9b. Interest income

For the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
Interest income from government securities		
Treasury bills	7,920	6,130
Treasury bonds	1,360,599	1,138,920
Repurchase agreements	6,876	38,359
	1,375,395	1,183,409
Interest income from corporate debt		
Debentures	222,951	248,818
Promissory notes	-	330
	222,951	249,148
Asset backed notes	11,358	60,940
Fixed deposits	29,634	32,983
Total interest income	1,639,339	1,526,480

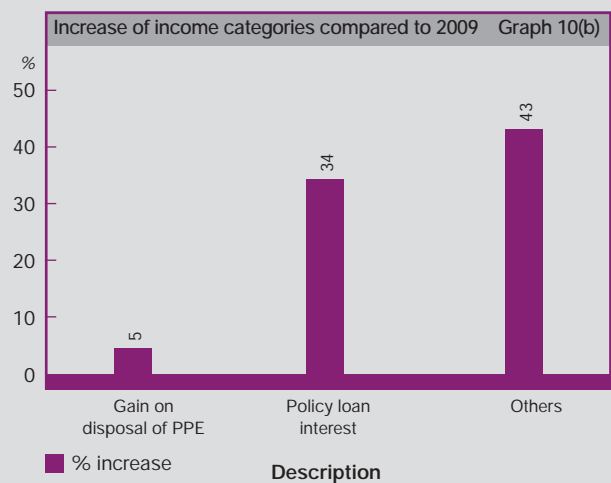
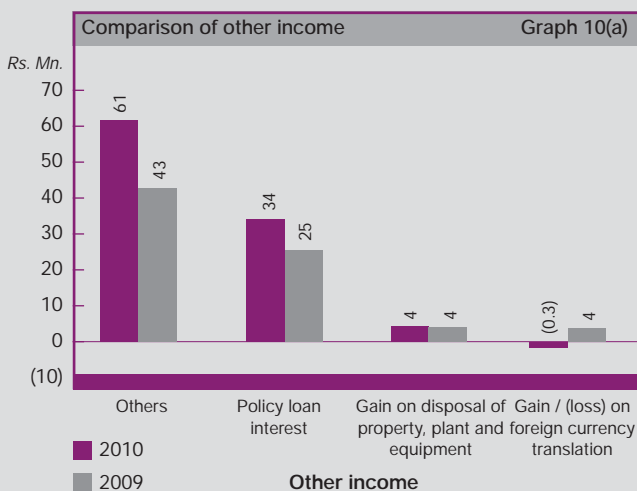
Notes to the Financial Statements contd.

10. Other income

This note provides details of UA's other income

For the year ended 31 December	2010 Rs. '000	2009 Rs. '000
Gain on disposal of property, plant and equipment	4,341	4,143
Gain / (loss) on foreign currency translation	(34)	3,908
Policy loan interest	33,978	25,314
Others	61,311	42,819
	99,596	76,184

The Graph 10(a) reflects the year on year composition of other income. Graph 10(b) illustrates that year on year increase from each income category. During the year 2010, Union Assurance reported 31% growth in other income compared to year 2009.



11. Other operating, investment related and administrative expenses

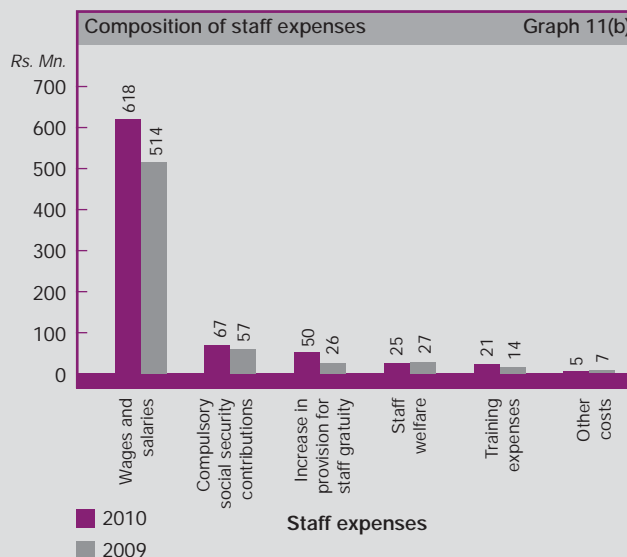
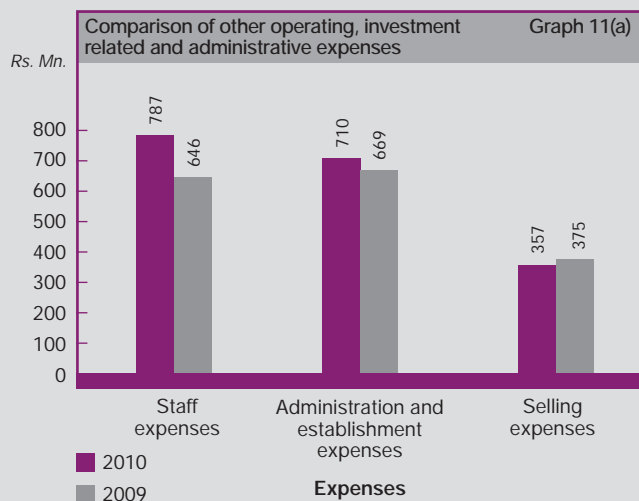
This note provides details of UA's expenses.

For the year ended 31 December		2010 Rs. '000	2009 Rs. '000
Staff expenses	11a	786,744	646,070
Administration and establishment expenses		709,900	668,488
Selling expenses		357,185	375,466
		1,853,829	1,690,024

11a. Staff expenses

For the year ended 31 December	2010 Rs. '000	2009 Rs. '000
Wages and salaries	618,361	513,981
Compulsory social security contributions	66,657	57,391
Increase in provision for staff gratuity	50,972	25,761
Staff welfare	25,100	26,986
Training expenses	21,020	14,494
Other costs	4,634	7,457
	786,744	646,070

Category wise movement of operating, investment related and administrative expenses is reflected in Graph 11(a) Graph 11(b) illustrates the movement in the each category of staff expenses.



12. Profit before income tax

This note provides additional details of expenses incurred by UA.

The profit before taxation for the year is stated after charging the following expenses

For the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
Auditors remuneration		
Statutory audit services	1,700	1,700
Audit related services	730	650
Non audit related services	1,274	858
Legal fees	744	531
Remuneration to Executive Directors	-	15,196
Remuneration to Non Executive Directors	6,000	2,891

13. Income tax expense

This note analyses the tax charge for the year and provides a reconciliation between the tax charge and the value derived from multiplying the accounting profit by the applicable tax rate.

Taxation charge is made up as follows

Current Income tax expense

For the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
Income tax on current year profit	79,913	64,522
Social responsibility levy	1,200	968
	81,113	65,490
Under / (over) provision in respect of previous year	(43)	1,021
Total income tax expense	81,070	66,511

Notes to the Financial Statements contd.

13a. Numerical reconciliation between tax charge and the product of accounting profit multiplied by the applicable tax rate

For the year ended 31 December	2010 Rs. '000	2009 Rs. '000
Accounting profit before income tax	593,041	467,382
Aggregate net allowable income	(970,175)	(679,461)
Aggregate disallowed expenditure	469,306	352,295
Aggregate allowed expenditure	(279,756)	(205,459)
Notional tax credit added for tax purposes	158,768	133,312
Tax losses incurred during the year which is carried forward	380,082	215,546
Tax losses brought forward and utilised	(122,943)	(99,265)
Taxable profit	228,323	184,350
Statutory tax rate	35%	35%
Current income tax expense	79,913	64,522
(Over) / under provision in respect of previous year	(43)	1,021
Social responsibility levy	1,200	968
	81,070	66,511

Union Assurance PLC is liable to income tax at 35% in terms of Inland Revenue Act No. 10 of 2006 and amendments thereto (from 2011 applicable rate is 28%). Current year income tax charge wholly consists of income tax charge on general insurance division. However, there is no payment due to the Department of Inland Revenue (other than Social responsibility Levy) as the tax liability is fully absorbed by payments made in lieu of economic service charge and credit available on the notional withholding tax from government securities. The tax loss carried forward as at 31 December 2010 is Rs. 1,801 million (2009 - Rs. 1,546 million) is made as follows:

As at 31 December	2010 Rs. '000	2009 Rs. '000
Loss brought forward	1,546,267	1,429,986
Claimed during the year	(122,943)	(99,265)
	1,423,324	1,330,721
Loss incurred in the business of life insurance	380,082	215,546
Over recognition of tax losses in respect of previous year	(2,692)	-
Loss carried forward	1,800,714	1,546,267

13b. Movement in temporary differences during the year

	Balance 1 Jan 2009 Rs. '000	Recognised in statement of income Rs. '000	Recognised in equity Rs. '000	Balance 31 Dec 2009 Rs. '000	Recognised in statement of income Rs. '000	Recognised in equity Rs. '000	Balance 31 Dec 2010 Rs. '000
Property, plant and equipment	13,085	-	4,350	17,435	-	(3,487)	13,948

13c. 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 the 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.

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

As at 31 December	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	454,987	321,802
Tax credit for the year	158,768	133,185
	613,755	454,987

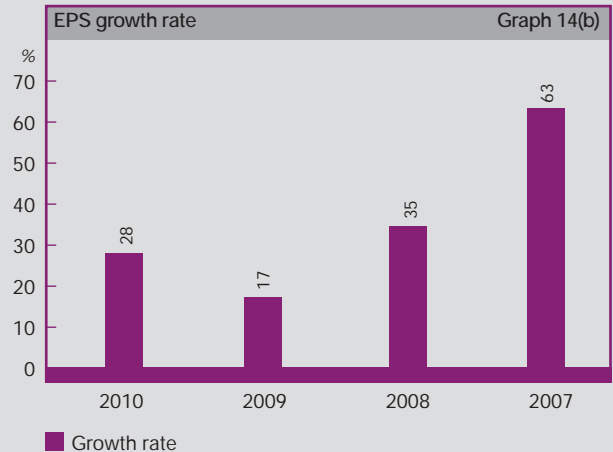
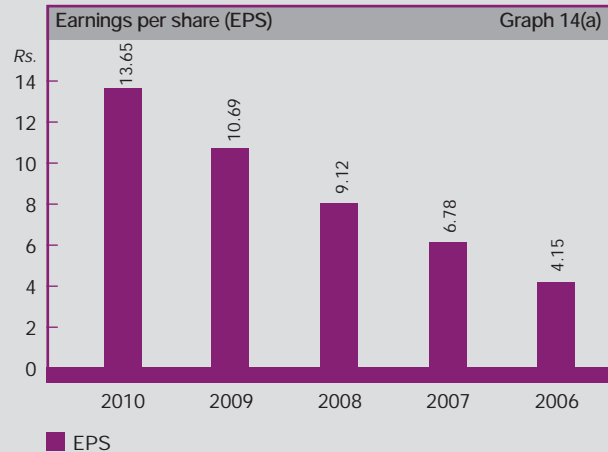
14. Basic earnings per share

This note indicates how earnings per share is computed

The calculation of basic earnings per share as at 31 December 2010 was based on the profit attributable to ordinary shareholders of Rs. 512 million (2009 - Rs.401 million) and the number of ordinary shares outstanding for the year ended 31 December 2010 of 37.5 million (2009 - Rs. 37.5 million)

For the year ended 31 December	2010	2009
Profit after taxation (Rs. '000)	511,971	400,871
Number of ordinary shares ('000)	37,500	37,500
Earnings per share (Rs.)	13.65	10.69

The following graphs depict the growth in earning per share over the previous five years.



15. Dividend per share

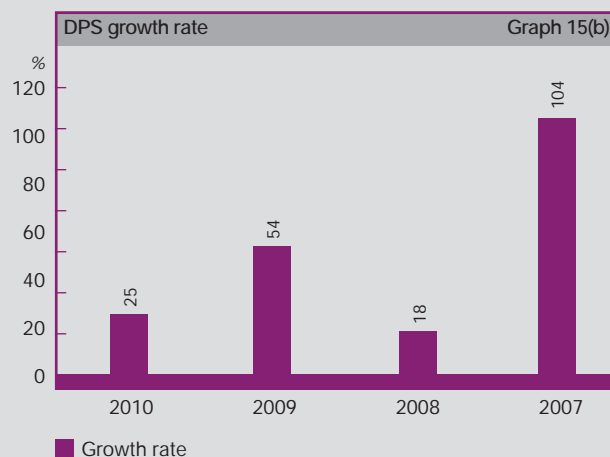
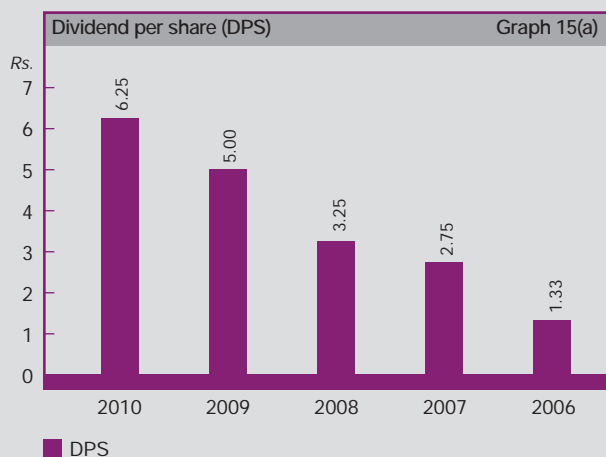
This note indicates how dividend per share is computed

15a. The Board of directors of the Company declared a first and final dividend of Rs. 6.25 per share for the financial year ended 31 December 2010 (2009 - Rs. 5.00) subsequent to the balance sheet date.

Notes to the Financial Statements contd.

	2010	2009
Dividend declared / proposed (Rs. '000)	234,375	187,500
Number of ordinary shares ('000)	37,500	37,500
Dividend per share (Rs.)	6.25	5.00

The following graphs depict the increase in dividend per share over the past five years.



15b. Compliance with Section 56 and 57 of Companies Act No. 7 of 2007

As required by Section 56 of the Companies Act No. 7 of 2007, the Board of Directors satisfied the solvency test in accordance with section 57, prior to declaring the final dividend. A statement of solvency duly completed and signed by the directors on 15 February 2011 has been audited by Messrs KPMG Ford, Rhodes, Thornton & Co.

16. Investments

This note provides details of how life policyholder funds and general insurance funds have been invested. The relevant accounting policies are detailed in note no. 3.3. The risk management practices adopted by UA in relation to the investment portfolio is outlined on page 125. The decision making process adopted by the Board Investment Committee with regard to which assets / classes / durations to invest is detailed on page 118. The bulk of UA's investments i.e. 87 % (2009 - 82%) are in government securities. Corporate securities (which comprise quoted and unquoted debentures) account for a further 10% of investments (2009 - 13%).

		2010 Rs. '000	2009 Rs. '000
Government securities	16a	11,176,746	9,521,040
Corporate securities	16b	1,229,300	1,545,000
Asset backed securities		-	312,000
Bank deposits		300,000	100,000
Unquoted equities	16e	100,625	100,625
Investments in unit linked	16f	10,746	-
		12,817,417	11,578,665

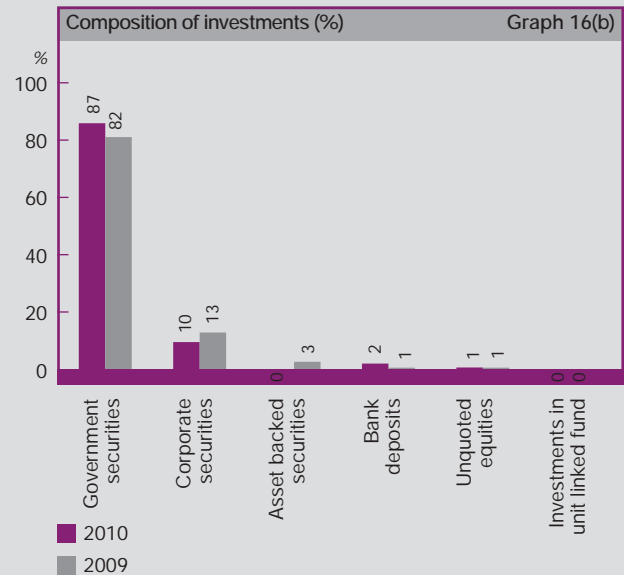
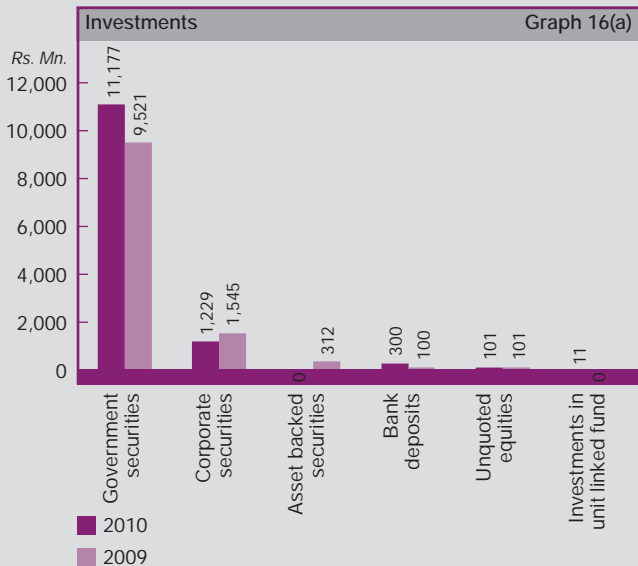
16a. Government securities

		2010 Rs. '000	2009 Rs. '000
Treasury bonds	16aa	10,147,603	8,750,360
Treasury bills		194,112	212,320
Reverse repurchase agreements		835,031	558,360
		11,176,746	9,521,040

16aa. Assets Pledged as security

Assets	Liability	2010 Rs. '000	2009 Rs. '000
Government treasury bonds	Secured against repurchase agreements	-	666,475
		-	666,475

Union Assurance's Investments portfolio mainly derives from our core business of insurance. The following graphs reflect the movements in the portfolio from 2009 to 2010. As depicted below, investments in government securities increased from Rs. 9.5 billion to Rs. 11.2 billion. As per the composition of investments the majority (87%) of investments were in government securities (2009 - 82%).



16b. Corporate securities

		2010 Rs. '000	2009 Rs. '000
Quoted debentures	16c	959,300	785,000
Unquoted debentures	16d	270,000	760,000
		1,229,300	1,545,000

Notes to the Financial Statements contd.

16c. Quoted debentures

Issuer	2010					2009			
	Maturity Date	No. of Debentures	Cost Rs. '000	Market Value Rs. '000	Coupon Rate %	No. of Debentures	Cost Rs. '000	Market Value Rs. '000	Coupon Rate %
DFCC Bank PLC	9/26/2016	50,000	50,000	50,000	14.00	50,000	50,000	50,000	14.00
DFCC Bank PLC	9/26/2016	200,000	200,000	200,000	14.00	200,000	200,000	200,000	14.00
Hatton National Bank PLC	7/31/2022	2,000,000	200,000	200,000	16.75	2,000,000	200,000	200,000	16.75
LB Finance PLC	9/22/2013	10,000	10,000	10,000	24.00	10,000	10,000	10,000	24.00
Nations Trust Bank PLC	8/19/2013	1,750,000	175,000	175,000	21.00	1,750,000	175,000	175,000	21.00
Singer Sri Lanka PLC	9/30/2013	1,500,000	150,000	177,000	19.75	1,500,000	150,000	150,000	19.75
Urban Development Authority	10/5/2015	1,743,000	174,300	174,300	11.00	-	-	-	-
			959,300	986,300			785,000	785,000	

16d. Unquoted debentures

Issuer	2010					2009			
	Maturity Date	No. of Debentures	Cost Rs. '000	Directors' Valuation Rs. '000	Coupon Rate %	No. of Debentures	Cost Rs. '000	Directors' valuation Rs. '000	Coupon Rate %
Aitken Spence PLC		-	-	-	-	500,000	50,000	50,000	*12.10
Aitken Spence PLC	10/25/2012	2,000,000	175,000	175,000	13.75	2,000,000	200,000	200,000	13.75
Commercial Bank of Ceylon PLC	16/05/2016	20,000	20,000	20,000	13.25	20,000	20,000	20,000	13.25
Commercial Bank of Ceylon PLC	5/16/2016	75,000	75,000	75,000	13.25	75,000	75,000	75,000	13.25
Commercial Bank of Ceylon PLC		-	-	-	-	25,000	25,000	25,000	*11.53
Commercial Bank of Ceylon PLC		-	-	-	-	100,000	100,000	100,000	12.00
HDFC Bank		-	-	-	-	400,000	40,000	40,000	13.00
John Keells Holdings PLC		-	-	-	-	500,000	50,000	50,000	13.50
John Keells Holdings PLC		-	-	-	-	1,000,000	100,000	100,000	13.50
Singer Sri Lanka PLC		-	-	-	-	1,000,000	100,000	100,000	14.00
			270,000	270,000			760,000	760,000	

*Floating

16e. Unquoted equities

	2010			2009		
	No. of Shares	Cost Rs. '000	Directors' Valuation Rs. '000	No. of Shares	Cost Rs. '000	Directors' Valuation Rs. '000
Fitch Rating Lanka Limited	62,500	625	625	62,500	625	625
Central Hospital (Private) Limited	5,882,353	100,000	100,000	5,882,353	100,000	100,000
		100,625	100,625		100,625	100,625
Provision for decline in value other than temporary		-	-		-	-
		100,625	100,625		100,625	100,625

16f. Investments - unit linked

	2010 Rs. '000	2009 Rs. '000
Union Assurance PLC - Unit Linked Life Insurance Fund - Managed Fund	5,606	-
Union Assurance PLC - Unit Linked Life Insurance Fund - Fixed Income Fund	5,140	-
	10,746	-

17. Investments - unit linked

This note provides the details of investments from unit linked premiums. As per note no. 3.3.5 on page 208, unit linked investments are stated at market value.

As at 31 December

		2010 Rs. '000	2009 Rs. '000
Government securities at market value	17a.	45,116	-
Quoted equities at market value	17b.	122,993	-
		168,109	-

17a. Government securities at market value

As at 31 December

	2010 Rs. '000	2009 Rs. '000
Treasury bills	8,700	-
Reverse repurchase agreements	36,416	-
	45,116	-

17b. Quoted equities at market value

As at 31 December

	No. of Shares	2010 Cost Rs. '000	Market Value Rs. '000	No. of Shares	2009 Cost Rs. '000	Market Value Rs. '000
Banks Finance and Insurance						
Commercial Bank of Ceylon PLC*	43,600	11,123	11,332	-	-	-
Commercial Bank of Ceylon PLC - Non Voting	6,600	999	1,069	-	-	-
DFCC Bank PLC*	32,500	6,637	6,507	-	-	-
Hatton National Bank PLC*	23,400	9,108	9,358	-	-	-
Janashakthi Insurance PLC*	46,100	718	738	-	-	-
Merchant Bank of Sri Lanka PLC*	18,400	829	843	-	-	-
National Development Bank PLC*	11,000	3,881	3,845	-	-	-
Nations Trust Bank PLC*	27,700	2,291	2,310	-	-	-
Pan Asia Banking Corporation PLC*	20,400	1,058	1,061	-	-	-
Sampath Bank PLC*	18,628	4,839	5,065	-	-	-
Seylan Bank PLC*	16,500	1,604	1,614	-	-	-
AVIVA NDB Insurance PLC	7,000	2,033	1,960	-	-	-
Beverage Food and Tobacco						
Distilleries Company of Sri Lanka PLC*	49,200	8,407	8,753	-	-	-
Chemicals and Pharmaceuticals						
Chemical Industries Colombo PLC*	8,700	1,098	1,224	-	-	-

Notes to the Financial Statements contd.

17b. Quoted equities at market value contd.

As at 31 December	2010			2009		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Construction and Engineering						
Colombo Dockyard PLC*	10,600	3,026	2,915	-	-	-
Diversified Holdings						
John Keels Holdings PLC*	76,400	22,795	22,798	-	-	-
Richard Pieris and Company PLC*	232,200	2,356	2,438	-	-	-
Health Care						
Nawaloka Hospitals PLC*	170,600	689	631	-	-	-
Hotels and Travels						
Asian Hotels and Properties PLC*	26,500	5,012	5,141	-	-	-
Keels Hotels PLC*	173,800	3,577	3,476	-	-	-
Investment Trusts						
Environmental Resources Investments PLC*	37,400	3,109	3,213	-	-	-
Land and Property						
Overseas Reality Ceylon PLC*	106,300	1,709	1,626	-	-	-
Manufacturing						
ACL Cables PLC*	5,500	500	468	-	-	-
Chevron Lubricants Lanka PLC*	16,300	2,642	2,600	-	-	-
Lanka Tiles PLC	3,000	382	403	-	-	-
Tokyo Cement Company Lanka PLC	71,800	2,061	2,894	-	-	-
Power and Energy						
Lanka IOC PLC*	46,800	884	885	-	-	-
Laugfs Gas PLC	3,500	81	91	-	-	-
Laugfs Gas PLC-Non Voting	4,200	63	78	-	-	-
Telecommunication						
Dialog Axiata PLC*	1,160,900	13,516	13,699	-	-	-
Sri Lanka Telecom PLC	32,000	1,481	1,568	-	-	-
Trading						
Browns and Company PLC*	9,700	2,235	2,395	-	-	-
		120,739	122,993	-	-	-

* Investments made by Union Assurance PLC under the unit linked equity tracker fund, which invests in the 25 Companies that comprise the Milanka Price Index.

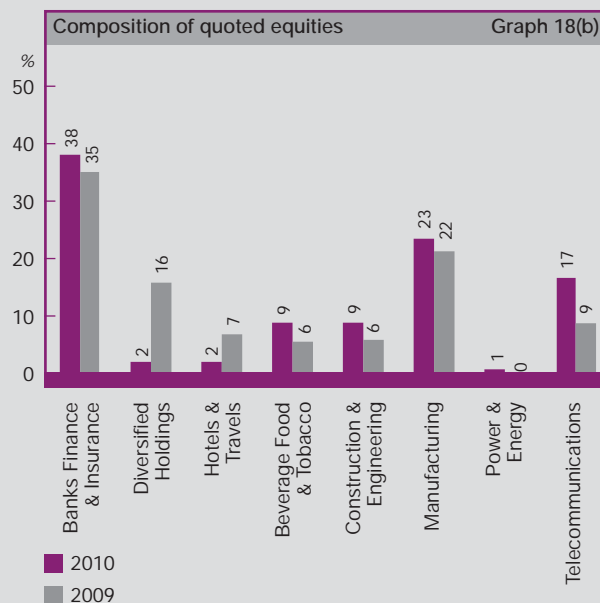
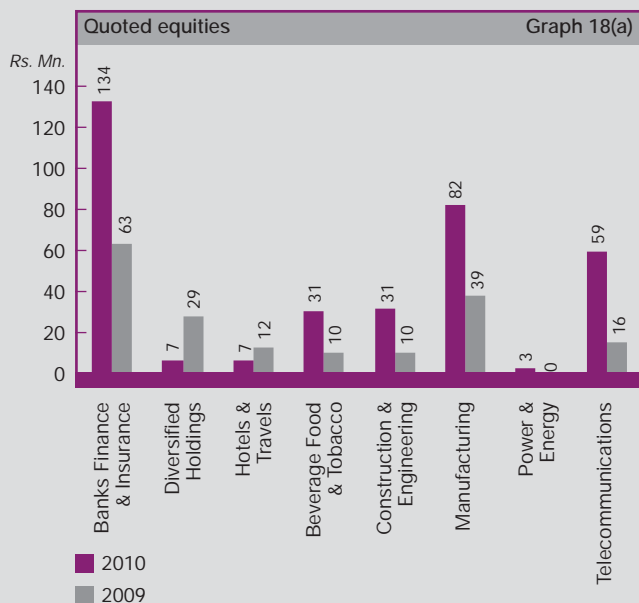
18. Quoted equities at market value

This note indicates the investments in quoted equities. As per note no. 3.3.4 on page 208, quoted equities are stated at market value. Approximately 38% of quoted equities (in terms of cost) is invested in the Banks, Finance & Insurance sector. The Manufacturing and Telecommunication sectors account for 23% and 17% of the portfolio respectively.

	2010			2009		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Banks Finance & Insurance						
Central Finance Company PLC	99,800	31,640	81,686	47,800	10,548	15,177
Commercial Bank PLC (Non-Voting)	206,050	14,991	33,380	150,000	13,418	18,713
Commercial Bank PLC	135,000	13,752	35,087	100,000	15,280	18,950
Hatton National Bank PLC (Non-Voting)	297,900	28,495	63,929	232,000	13,420	24,302
Sampath Bank PLC	370,582	35,554	100,761	72,000	10,304	14,706
Aviva NDB Insurance PLC	33,300	9,092	9,324	-	-	-
Singer Finance (Lanka) PLC	18,100	272	272	-	-	-
Diversified Holding						
Aitken Spence PLC	-	-	-	64,000	21,849	84,800
Hemas Holdings PLC	405,750	6,708	18,056	81,150	6,708	9,961
Hotels and Travels						
Aitken Spence Hotel Holdings PLC	310,800	6,722	32,852	100,000	12,424	26,925
Beverage Food and Tobacco						
Distilleries Company of Sri Lanka PLC	225,000	30,525	40,028	115,000	9,975	12,104
Construction and Engineering						
Colombo Dockyard PLC	152,000	31,168	41,800	82,000	10,351	20,070
Manufacturing						
Chevron Lubricants Lanka PLC	102,000	7,503	16,269	136,000	10,004	19,278
Royal Ceramics Lanka PLC	310,000	21,404	94,519	250,000	11,355	16,625
Tokyo Cement Company (Lanka) PLC (Voting)	582,525	7,817	32,039	51,780	7,817	16,686
Tokyo Cement Company (Lanka) PLC (Non-Voting)	1,607,500	30,481	64,782	700,000	9,389	13,825
Lanka Floortiles PLC	124,700	15,015	16,747	-	-	-
Power and Energy						
Laufgs Gas PLC (Voting)	58,000	1,334	1,502	-	-	-
Laufgs Gas PLC (Non-Voting)	79,800	1,197	1,476	-	-	-
Telecommunication						
Dialog Axiata PLC	5,000,000	35,603	59,000	2,800,000	15,559	20,300
Sri Lanka Telecom PLC	488,200	23,452	23,922	-	-	-
		352,724	767,431		178,402	332,421

Notes to the Financial Statements contd.

The following graphs depict the year on year increase and change in composition of the quoted equity portfolio.



19. Intangible assets

This note analyses the change in carrying amount of goodwill during the year, and details the assumptions used when conducting the impairment test as per note no. 3.4 on page 208.

As at 31 December

	2010 Rs. '000	2009 Rs. '000
Acquisition cost		
Balance as at 1 January	110,000	110,000
Additions	-	-
Balance as at 31 December	110,000	110,000
Amortisation		
Balance as at 1 January	60,500	60,500
Amortisation charge for the year	-	-
Balance as at 31 December	60,500	60,500
Carrying amount		
As at 31 December	49,500	49,500

Intangible assets represent the cost of acquisition (Rs. 110 million) of business from the four former branches, Aitken Spence Insurance Limited, Carsons Insurance Limited, ACW Insurance (Private) Limited and Whitall Boustead Limited.

As per SLAS 25 (Revised 2005) - Business Combinations, the intangible asset is not amortised during the period. The asset has been tested for impairment as at the balance sheet date considering the entire business as the cash generating unit.

The following assumptions were used when performing the impairment test.

- Volume growth: Volume growth has been budgeted on a reasonable and realistic basis taking into account the growth rates of the two years immediately preceding the budgeted year and forecast industry growth rates in the future.
- Gross margins: Gross margins are budgeted on a realistic basis considering the Company's business model, cost structure and projected market conditions.
- Discount rate: A suitable rate adjusted by an appropriate risk premium has been used to arrive at the discount rate. Impairment losses have not arisen for the year ended 31 December 2010

Based on the above the Board of Directors conclude that no adjustment for impairment is required.

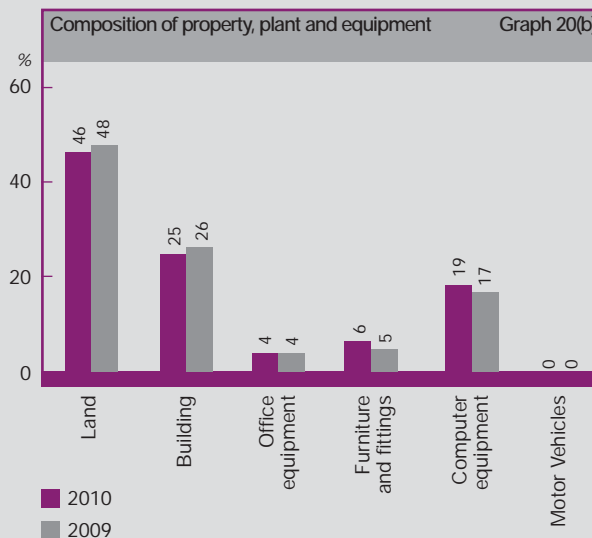
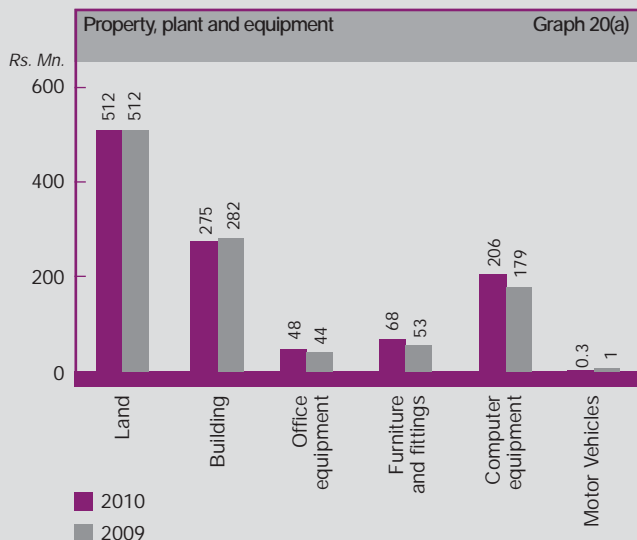
20. Property, plant and equipment

This note analyses UA's tangible fixed assets, which comprise mainly of investments in land and buildings and computer equipment. Note no. 3.5 (page 209) outlines the accounting treatment when purchasing fixed assets and the depreciation rates used for each class of assets. There is a substantial increase in computer equipment by Rs. 98 million due to implementing a unit linked system to support this new line of our life business.

	Land Rs. '000	Building Rs. '000	Office Equipment Rs. '000	Furniture and Fittings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs. '000	Total Rs. '000
Cost / Revalued amount							
Balance as at 1 January 2010	512,000	282,408	121,455	163,541	523,849	40,286	1,643,539
Additions during the year	-	-	24,125	36,955	98,829	207	160,116
Disposals during the year	-	-	(390)	-	(400)	(8,392)	(9,182)
Balance as at 31 December 2010	512,000	282,408	145,190	200,496	622,278	32,101	1,794,473
Depreciation and impairment losses							
Balance as at 1 January 2010	-	-	82,821	113,167	351,815	39,278	587,081
Depreciation charge for the year	-	7,485	14,823	19,424	65,214	820	107,766
Accumulated depreciation on disposals	-	-	(390)	-	(400)	(8,307)	(9,097)
Balance as at 31 December 2010	-	7,485	97,254	132,591	416,629	31,791	685,750
Carrying amount							
Balance as at 31 December 2010	512,000	274,923	47,936	67,905	205,649	310	1,108,723
Balance as at 31 December 2010	512,000	274,923	47,936	67,905	205,649	310	1,108,723
Balance as at 31 December 2009	512,000	282,408	38,634	50,374	172,034	1,008	1,056,458
Capital work-in-progress	-	-	4,871	2,240	6,491	-	13,602
Balance as at 31 December 2009	512,000	282,408	43,505	52,614	178,525	1,008	1,070,060

Notes to the Financial Statements contd.

The following graphs depict the breakdown of property, plant and equipment in a written down value basis. During the year there was no significant change to the carrying amount of each assets category other than the computer equipment which was mainly due to implementing a computer software to support unit linked life insurance products.



20a. Capital work-in-progress

	Land Rs. '000	Building Rs. '000	Office Equipment Rs. '000	Furniture and Fittings Rs. '000	Computer Equipment Rs. '000	Motor Vehicles Rs. '000	Total Rs. '000
Balance as at 1 January 2010	-	-	4,871	2,240	6,491	-	13,602
Transferred During the Year	-	-	(4,871)	(2,240)	(6,491)	-	(13,602)
Balance as at 31 December 2010	-	-	-	-	-	-	-

Capital work in progress represented the amount incurred on branch renovations.

The details of freehold land and buildings which are stated at valuation are as follows

20b. Company Property

	Method of Valuation	Date of Valuation	Valuer	Revalued Amount Rs. '000
Land and building situated at No. 20 St. Michaels Road, Colombo, owned by Union Assurance PLC	Investment method	31 December 2009	Mr. P. B. Kalugalagedera Chartered valuation surveyor	662,800
Land and building situated at No. 6 Rajapihilla Road, Kurunegala, owned by Union Assurance PLC	Investment method	31 December 2009	Mr. P. B. Kalugalagedera Chartered valuation surveyor	133,000

20c. If land and buildings were stated at historical cost, the amounts would have been as follows

As at 31 December	2010 Rs. '000	2009 Rs. '000
Cost	251,124	251,124
Accumulated depreciation	(53,505)	(48,482)
Carrying amount	197,619	202,642

20d. The effect of revaluation of freehold buildings on the profit or loss in the subsequent period is as follows

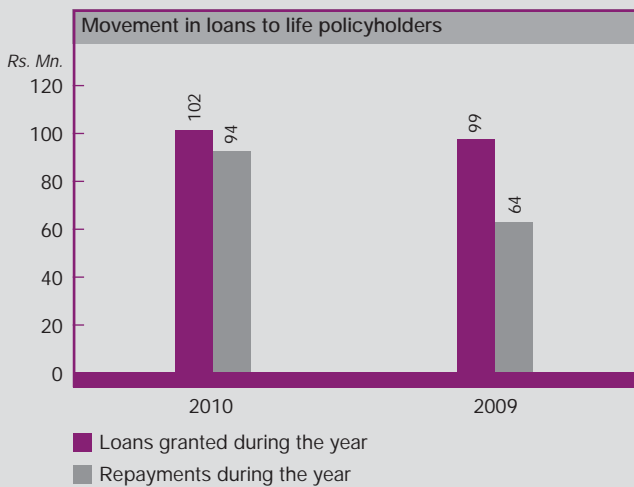
As at 31 December	2010 Rs. '000
Depreciation charge per annum prior to revaluation	3,818
Depreciation charge per annum after revaluation	7,485
Decrease in profit in subsequent period	3,668

21. Loans to life policyholders

This note analyses the movement in loans granted to life insurance policyholders.

As at 31 December	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	224,325	189,274
Loans granted during the year	102,185	98,866
Repayments during the year	(93,892)	(63,815)
Balance as at 31 December	232,618	224,325

The following graph depicts the movement in loans granted to policyholders and their repayments.



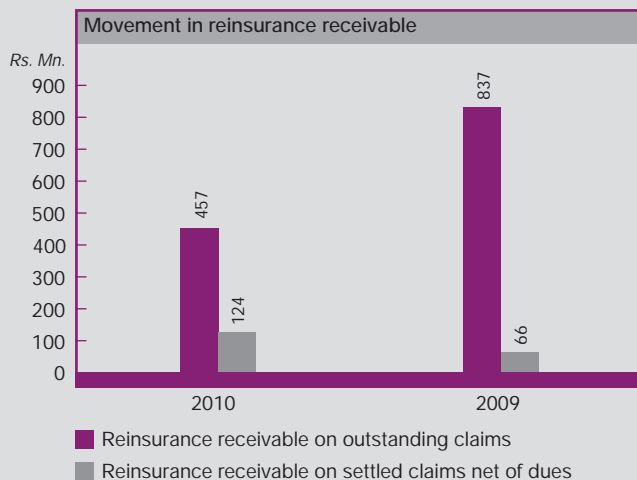
Notes to the Financial Statements contd.

22. Reinsurance receivable

This note analyses the amounts due from reinsurers between receivables on account of outstanding claims (i.e. claims which have been reserved, but not paid to policyholders) and receivables on account of claims which have already been paid. The relevant accounting policies are detailed in note no. 3.6 on page no. 210. The risk management initiatives taken to ensure recoverability of reinsurance receivables is detailed on page no. 124.

As at 31 December	2010 Rs. '000	2009 Rs. '000
Reinsurance receivable on outstanding claims	456,569	832,321
Reinsurance receivable on settled claims net of dues	124,127	70,166
Provision for doubtful receivable	(1,687)	(1,687)
	579,009	900,800

The following graph reflects the movement in reinsurance receivable compared to the previous year. 2010, reinsurance receivable on outstanding claims decreased. However, reinsurance receivable on settled claims increased compared to the previous year.



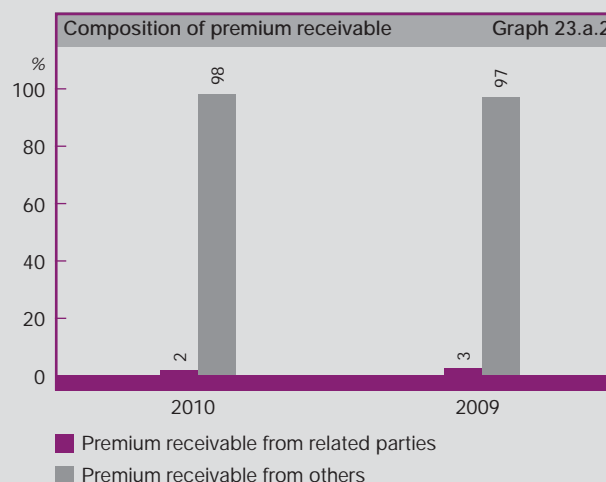
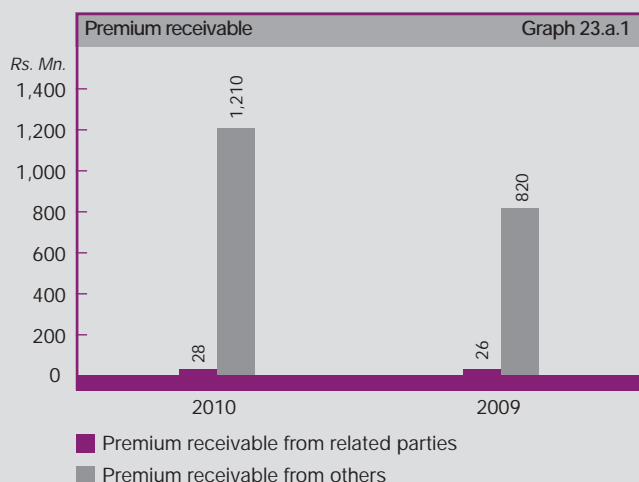
23. Premium receivable

This note details the general insurance premium receivables from customers and intermediaries as outlined in note no. 3.7 on page no. 210.

As at 31 December	2010 Rs. '000	2009 Rs. '000
Premium receivable	1,245,625	853,787
Less: Provision for bad debts		
As at the beginning of the year	8,031	8,031
Provision made for the year	-	-
Bad debts written off during the year	-	-
As at the end of the year	8,031	8,031
Premium receivable net of provision	1,237,594	845,756
Premium receivable from related parties	31,563	28,844
Premium receivable from others	1,206,031	816,912
	1,237,594	845,756

As at December 31, 2010, premium receivable amounted to Rs. 1.2 Billion an increase of Rs. 391 million from 31 December 2009. The change was mainly due to an increase in the gross written premium during the later part of the financial year. The risk management initiatives taken to ensure recoverability of premium receivables is detailed on page no. 124.

As reflected in the following graph of premium receivables (non related party receivables and related party receivables) has not changed significantly.



23a. The above provision for bad debts has been made as a specific provision.

24. Other assets

This note provides details of assets other than those mentioned above. Loans to employees - 26% (2009 - 27%) and interest income receivable - 36% (2009 - 25%) form the largest components of other assets. Taxes receivable / recoverable accounted for a further 22% (2009 - 24%) of other assets.

As at 31 December

	2010 Rs. '000	2009 Rs. '000
Inventories	9,257	10,300
Interest income receivable	547,656	332,378
ACT recoverable	92,296	92,296
WHT recoverable	159,029	133,001
ESC receivable	89,613	98,258
Refundable deposit and prepayments	63,344	49,020
Other debtors and receivables	178,936	256,006
Loans to employees	400,801	358,589
	1,540,932	1,329,848

24a. Loans to employees

As at 31 December

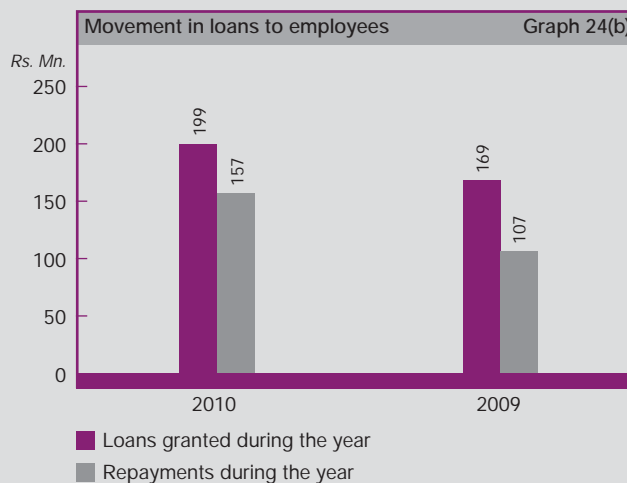
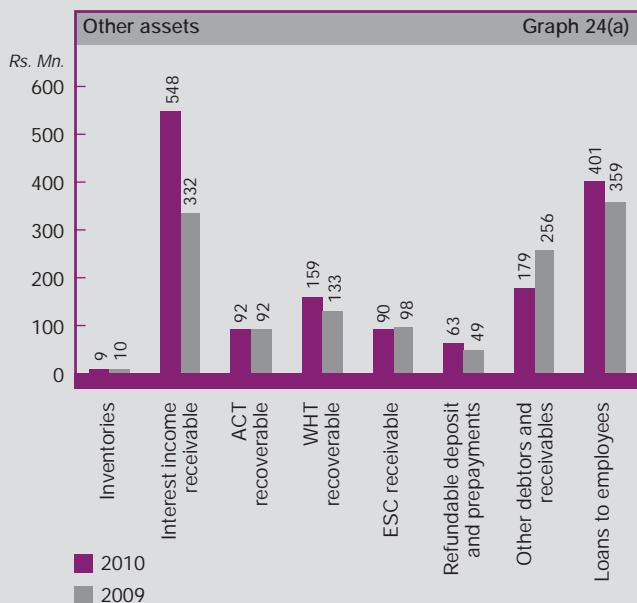
	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	358,589	296,500
Loans granted during the year	199,217	168,736
Repayments during the year	(157,005)	(106,647)
Balance as at 31 December	400,801	358,589

No loans have been granted to the Directors of the Company.

Notes to the Financial Statements contd.

The following graph depicts the composition of other assets in 2010 comparing with 2009. UA's other asset base amounted to Rs.1.5 billion as at December 31 2010. There was no significant movement other than interest receivable.

Graph 24(b) shows the movement in loans to employees. During the year, the value of loans granted to employees and repayments to the given loans had increased significantly compared to the previous year.



25. Cash and cash equivalents

Cash and cash equivalents indicate the balances maintained in demand deposits, savings accounts, call accounts and cash in hand. The relevant accounting policy is provided on page no. 210 (Note no. 3.11)

As at 31 December	2010 Rs. '000	2009 Rs. '000
Cash in hand and at bank	389,896	313,855
Cash in hand and at bank-Unit Linked	242	-
	390,138	313,855

26. Insurance provision - life - conventional

This note indicates the liability on account of policyholders which has been actuarially valued and claims / benefits due to life policyholders, which remain unclaimed to date. Refer note no. 3.12.1 on page no. 210.

As at 31 December		2010 Rs. '000	2009 Rs. '000
Insurance Provision - life	26a 26b	11,579,108	9,622,498
Unclaimed benefits		190,200	161,178
Total		11,769,308	9,783,676

26a. 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 (IBSL)
- Mortality rates based on published mortality tables adjusted for actual experience as required by Regulations issued by the IBSL
- Surrender rates based upon actual experience.

The amount of policyholder dividend to be paid is determined annually by the Company. The dividend includes life policyholders share of net income that is required to be allocated by the insurance contract or by insurance regulations.

The valuation of conventional life insurance fund as at 31 December 2010 was made by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd, who recommended a sum of Rs. 325 million to be transferred from the conventional life insurance fund to the shareholders fund for the year 2010. Subsequent to the transfer the conventional life fund stands as Rs. 11,575 million, including the liability in respect of bonuses and dividends declared up to and including for the year 2010. Similarly the non unit fund of linked long term business stands at Rs. 4 million as at 31 December 2010. Surplus of Rs. 1.7 million of non unit fund of linked long term business was retained without being transferred to the shareholders as recommended by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd.

In establishing the valuation, a reserve of Rs. 796 million for conventional life insurance fund and Rs. 1.7 million for the non unit fund of linked long term business have been created by the actuary to counter any future fluctuations in interest rates and distributions.

In the opinion of the consultant actuary, the admissible assets of the conventional life insurance fund and the non unit fund of linked long term business as at 31 December 2010 is adequate to cover the liabilities of the funds and the solvency margin requirement prescribed under section 26 of the Regulation of Insurance Industry Act No 43 of 2000. The funds also carried forward surpluses for future growth and contingencies.

26b. Life insurance fund As at 31 December

	2010 Rs. '000	2009 Rs. '000
Life fund - conventional	11,900,014	9,857,498
Transfer to shareholders	(325,000)	(235,000)
Non unit fund of linked long term business	4,094	-
	11,579,108	9,622,498

27. Insurance provision - general

This note analyses the general insurance related provisions. Refer Note no. 3.17, 3.19 and 3.20 on page no. 211.

- The reserve for net unearned premium indicates the amount of premium (net of reinsurance) which is attributable to policies written as at 31 December 2010, but covering periods after 31 December 2010.
- The reserve for net deferred acquisition cost refers to the commission adjustment (net of reinsurance) linked to the above reserve.
- The reserve for gross outstanding claims indicates the amount of claims which remain unpaid as at 31 December 2010. This reserve includes a reserve for claims Incurred But Not Reported (IBNR).

The general insurance provision as shown in the balance sheet represents the following;

As at 31 December		2010 Rs. '000	2009 Rs. '000
Reserve for net unearned premiums	27a	1,717,826	1,300,881
Reserve for net deferred acquisition cost	27b	(47,009)	(17,255)
Reserve for gross outstanding claims	27c	1,046,071	1,353,146
		2,716,888	2,636,772

Notes to the Financial Statements contd.

27a. Reserve for net unearned premiums

As at 31 December	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	1,300,881	1,175,954
Increase during the year (Note 6)	416,945	124,927
Balance as at 31 December	1,717,826	1,300,881

27b. Reserve for net deferred acquisition cost

As at 31 December	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	(17,255)	(8,620)
Increase during the year	(29,754)	(8,635)
Balance as at 31 December	(47,009)	(17,255)

27c. Reserve for gross outstanding claims

As at 31 December	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	1,121,709	1,016,679
Claims incurred during the year	1,709,148	1,860,528
Payments during the year	(2,034,987)	(1,755,498)
Balance as at 31 December	795,870	1,121,709
IBNR claim reserve as at 1 January	231,437	140,930
Increase in IBNR	18,764	90,507
IBNR reserve as at 31 December	250,201	231,437
	1,046,071	1,353,146

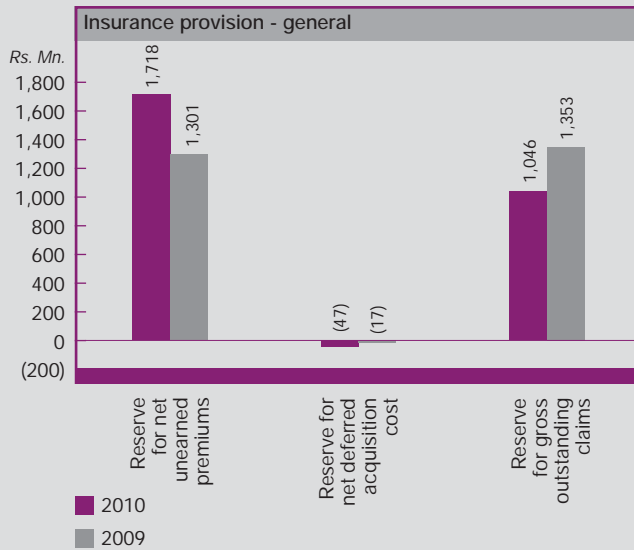
Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves are determined based on the information currently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

The incurred but not reported claims reserve has been actuarially computed by Mr. Matthew Maguire of NMG Financial Services Consulting. The valuation is based on internationally accepted actuarial methods, and is performed on an annual basis.

27d. General insurance technical reserves

As at 31 December	2010 Rs. '000	2009 Rs. '000
General insurance provision	2,716,888	2,636,772
Reinsurance receivable on outstanding claims	(456,569)	(832,321)
	2,260,319	1,804,451

The following graph reflects the movement in the general insurance provision. Compared to the previous year, the reserve for Net Unearned Premiums (UPR) and Deferred Acquisition Cost (DAC) increased due to the growth in business volumes.



28. Retirement benefit obligations

This note indicates the assumptions used and the movement in the provision for retirement gratuity which is actuarially valued. Refer note no. 3.13 page no. 211.

As at 31 December	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	95,955	83,811
Provision for the year	50,972	25,761
Payments during the year	146,927	109,572
Balance as at 31 December	132,422	95,955
Expenses recognised in statement of income		
Current service costs	15,742	10,748
Interest on obligation	11,515	10,057
Actuarial loss recognised during the year	23,715	4,956
	50,972	25,761

As at 31 December 2010 the gratuity liability was actuarially valued under the projected unit credit (PUC) method by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Limited. The liability is not externally funded. The valuation is performed on an annual basis.

Principal actuarial assumptions used:

	% per annum
(a) Discount rate	10
(b) Incidence of withdrawal	3
(c) Salary increase	10

Notes to the Financial Statements contd.

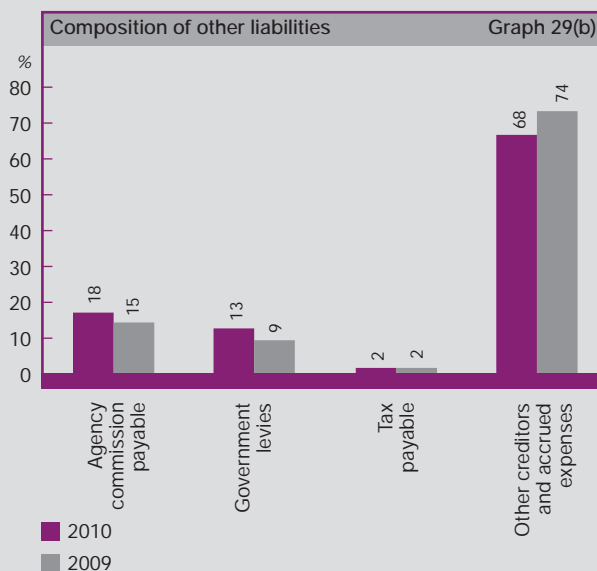
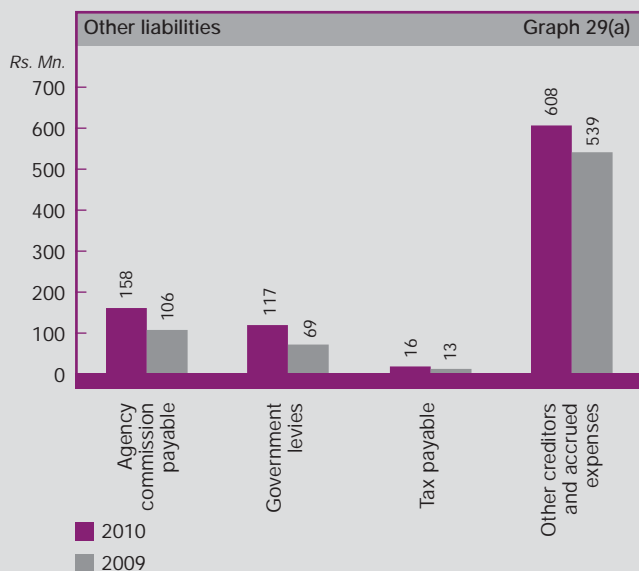
29. Other liabilities

This note analyses the other liabilities as at the end of the year.

As at 31 December

	2010 Rs. '000	2009 Rs. '000
Agency commission payable	157,976	106,366
Government levies	116,530	68,663
Tax payable	16,316	12,664
Other creditors and accrued expenses	607,607	538,805
	898,429	726,498

UA's other liabilities amounted to Rs. 898 million as at 31 December 2010. The following graphs depict the movements in other liabilities in 2010, compared to 2009. There was no significant movements in each category of other liabilities except for other creditors and accrued expenses.



30. Deferred tax liabilities

30a. Deferred tax liability on net gain on revaluation of assets

This note analyses the deferred tax liability as at the end of the year arising from revaluation of building. The relevant accounting policy is on page no. 212 (note no. 3.29.2). Deferred tax liability has changed from the previous year due to the change in the future tax rate from 35% to 28%

As at 31 December

	2010 Rs. '000	2009 Rs. '000
Deferred Income tax related to items charged or credited directly to equity		
Net gain on revaluation of building	49,815	49,815
Tax rate	28%	35%
	13,948	17,435

The amount reflects the liability that may arise on the revaluation impact if the property situated at No. 6, Rajapihilla Road, Kurunegala and the property situated at No. 20, St. Michael's Road, Colombo 3, is disposed.

30b. Movement in unrecognised deferred tax liabilities / (assets)

No provision has been made in respect of deferred taxation as the company has incurred tax losses and temporary differences are not expected to reverse due to the above component and it is not probable that future tax profits will be available against which the company can utilise the benefits therefrom. The amount of temporary differences and the resultant tax effect are as follows.

As at 31 December		2010 Rs. '000	2009 Rs. '000
Unrecognised deferred tax assets brought forward	30b.1	(498,048)	(540,262)
Movement during the year		73,624	42,214
Unrecognised deferred tax assets carried forward		(424,424)	(498,048)

30b.1 Analysis of unrecognised deferred tax assets and liabilities

As at 31 December	2010		2009	
	Temporary Difference Rs. '000	Deferred Tax Rs. '000	Temporary Difference Rs. '000	Deferred Tax Rs. '000
Deferred tax - liability				
Property, plant and equipment	548,300	153,524	310,599	108,710
Deferred tax - assets				
Retirement benefit obligation	(132,422)	(37,078)	(96,339)	(33,719)
Staff bonus	(130,963)	(36,670)	(90,988)	(31,846)
Unutilised tax losses	(1,800,714)	(504,200)	(1,546,267)	(541,193)
Net deferred tax (assets) / liabilities - (Note 30b.2)	(1,515,799)	(424,424)	(1,422,995)	(498,048)

30b.2 Net deferred tax (assets) / liabilities

As at 31 December	2010			2009		
	Balance as at 1 January Rs. '000	Movement Rs. '000	Balance as at 31 December Rs. '000	Balance as at 1 January Rs. '000	Movement Rs. '000	Balance as at 31 December Rs. '000
Deferred tax - liability						
Property, plant and equipment	310,599	237,701	548,300	45,190	265,409	310,599
Deferred tax - assets						
Retirement benefit obligation	(96,339)	(36,083)	(132,422)	(83,811)	(12,528)	(96,339)
Provision for bonuses	(90,988)	(39,975)	(130,963)	(75,000)	(15,988)	(90,988)
Unutilised tax losses	(1,546,267)	(254,447)	(1,800,714)	(1,429,986)	(116,281)	(1,546,267)
	(1,422,995)	(92,804)	(1,515,799)	(1,543,607)	120,612	(1,422,995)

Deferred tax asset has not been recognised in respect of losses incurred because it is because it is not probable that future taxable profit will be available against which the company can utilise the benefit thereafter.

31. Stated capital

This note provides details of UA's stated capital

As at 31 December	2010 Rs. '000	2009 Rs. '000
Issued and fully paid		
At the beginning of the year - 37,500,000 ordinary shares	375,000	375,000
Share premium	16,667	16,667
Share issue expenses (incurred prior to 3 May 2007)	(3,234)	(3,234)
	388,433	388,433

Notes to the Financial Statements contd.

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. All shares rank equally with regard to the company's residual assets.

The share premium reflects the amount received in excess of the par value of the shares issued by the company in 1995.

32. Capital reserves

This reserve consists of gain arising from revaluation of freehold land and building.

As at 31 December		2010 Rs. '000	2009 Rs. '000
Unrealised gain reserve	32a	475,860	479,528
Life policy holder's revaluation reserve	32b	91,566	88,079
Reserve on merger with Cornhill (Private) Limited	32c	16,752	16,752
		584,178	584,359

32a. Unrealised gain reserve

This note provides details of the movement in the unrealised gain reserve during the year. The reserve comprises the gain from transferring the investment of Cornhill (Private) Limited, owned by shareholders, to life policy holders in 2007, and the gain on transferring the land and building in Kurunegala in 2008. These gains will be realised to shareholders when the properties are disposed.

	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	479,528	47,958
Adjustment following merger of Cornhill with life policy holders	-	433,856
Transfer from unrealised gain reserve to retained earnings	(3,668)	(2,286)
Balance as at 31 December	475,860	479,528

32b. Life policy holders revaluation reserve

This note provides details of the movement in the revaluation reserve during the year.

	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	88,079	-
Surplus on revaluation during the year, net of deferred tax liability	-	88,079
Adjustment for differed tax due to change in tax rate	3,668	-
Balance as at 31 December	91,566	88,079

The revaluation relates to land and building as indicated in Note 20b.

The revaluation was performed on freehold land and building as at 31 December 2009 by Mr. P. B. Kalugalagedera Chartered Valuation Surveyor using the investment method.

The revaluation reserve is transferred annually to the revenue reserve based on the remaining useful life of the asset which is estimated to be 40 years.

32c. Reserve on merger with Cornhill (Private) Limited

The unrealised gain reflects the net result of the merger of UA and Cornhill (Private) Limited. The investment in Cornhill (Private) Limited was absorbed by merging all assets and liabilities into the life policy holders' balance sheet.

	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	16,752	-
Net assets of Cornhill (Private) Limited Investment	-	633,808
	-	(617,056)
	16,752	16,752

33. Related party transactions

This note provides details of UA's related parties and the transactions which have taken place between the company and related parties.

Identity of the related parties

Union Assurance has a related party relationship with John Keells Holdings PLC which has a majority shareholding in the equity of the company, and with its Directors.

Transactions with key management personnel

Union Assurance PLC, considers its Board of Directors as the key management personnel of the company.

The Directors of the company and their immediate relatives do not have substantial shareholdings in the company as at 31 December 2010.

The Directors fees and emoluments for the year ended 31 December 2010 amounted to Rs. 6 million. Directors fees where applicable are paid directly to the companies that they represent. There are no short-term, long-term, post-employment, terminal and share-based payments linked to the remuneration of the Directors and no ex-gratia payments were made to Directors during the year.

33a. Transactions with related parties

Company	Name of Director	Position	Relationship	Details of financial dealings
John Keells Holdings PLC	A. D. Gunewardene J. R. F. Peiris K. N. J. Balendra	Deputy Chairman Director Director	John Keells Holdings PLC and its subsidiaries own 81% of the Company's issued share capital	Union Assurance has transactions in the normal course of business with John Keells Holdings PLC, and its subsidiaries and associate companies.

33b. Transactions with Companies significantly influenced by key management personnel

Company	Name of Director	Position	Relationship	Details of financial dealings
Vision Fund Lanka Ltd World Vision Lanka	M. A. Tharmaratnam	Director*	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with Vision Fund Lanka (Gte) Ltd and World Vision Lanka.

Notes to the Financial Statements contd.

Company	Name of Director	Position	Relationship	Details of financial dealings
Kalutara Bodhi Trust Union Bank of Colombo Ltd	A. S. De Zoysa	Director	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with Kalutara Bodhi Trust and Union Bank of Colombo Ltd.
Central Finance Company PLC Central Industries PLC	A. K. Gunaratne	Director	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with Central Finance Company PLC and Central Industries PLC.
Nations Trust Bank PLC	A. D. Gunewardene J. R. F. Peiris K. N. J. Balendra A. K. Gunaratne	Chairman Director Director Director	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with Nation Trust Bank PLC.
Akzo Nobel Paints Lanka (Pvt) Ltd	J. F. C. De Saram	Director	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with Akzo Nobel Paints Lanka (Pvt) Ltd.

(*Resigned with effect from 31 December 2010)

For the year ended 31 December	2010 Rs. '000	2009 Rs. '000
Premium received		
John Keells Holdings PLC and its subsidiaries and associates	373,720	439,624
Kalutara Bodhi Trust	129	130
Union Bank of Colombo Ltd	1,201	1,078
Central Finance Company PLC	1,024	613
Nations Trust Bank PLC	428	1,570
Central Industries PLC	100	150
	376,602	443,165

33b. Transactions with companies significantly influenced by key management personnel *contd.*

For the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
Net claims incurred		
John Keells Holdings PLC and its subsidiaries and associates	212,572	201,130
Kalutara Bodhi Trust	58	5
Union Bank of Colombo Ltd	37	321
Central Finance Company PLC	427	34
Nations Trust Bank PLC	1,287	449
Central Industries PLC	-	-
	214,381	201,939
Premium receivable from related parties		
John Keells Holdings PLC and its subsidiaries and associates	30,213	27,659
Central Finance Company PLC	1,350	-
Union Bank of Colombo Ltd	-	1,185
	31,563	28,844

These insurance contracts have been entered into on normal terms, in the ordinary course of business. Also refer note no. 23 (page no. 234) for details of premium receivable.

	2010 Rs. '000	2009 Rs. '000
Investments placed - equity		
Central Hospital (Pvt) Limited an associate of John Keells Holdings PLC	100,000	100,000
Investments placed - corporate debt		
John Keells Holdings PLC	-	150,000
Nations Trust Bank PLC an associate of John Keells Holdings PLC	175,000	175,000
	175,000	325,000
Reverse repurchase agreement - overnight		
Nations Trust Bank PLC an associate of John Keells Holdings PLC	95,586	118,292
Reverse repurchase agreement - term		
Nations Trust Bank PLC an associate of John Keells Holdings PLC	350,000	350,000
Assets backed securities		
Nations Trust Bank PLC an associate of John Keells Holdings PLC	-	9,000
Borrowings		
Repurchase agreement with Nations Trust Bank PLC an associate of John Keells Holdings PLC	-	268,325

34. Number of employees

The total number of employees as at 31 December 2010 amounted to 989 (2009 - 949).

35. Capital commitments

The Company had no capital commitments as at balance sheet date.

Notes to the Financial Statements contd.

36. Events after the balance sheet date

There have been no events subsequent to the balance sheet date, which would have any material effect on the company, other than the following;

The Board of Directors of the company has declared a first and final dividend of Rs. 6.25 per share for the financial year ended 31 December 2010 as required by section 56 (2) of the Companies Act No. 07 of 2007, the Board of Directors has confirmed that the company satisfies the solvency test in accordance with section 57 of the Companies Act No. 07 of 2007, and has obtained a certificate from auditors, prior to declaring the dividend.

In accordance with the Sri Lanka Accounting Standard 12 (Revised 2005), Events after the Balance Sheet date, the final dividend has not been recognised as a liability in the financial statements as at 31 December 2010.

37. Contingencies

In the opinion of Directors and in consultation with the company lawyers litigation currently pending against the company will not have any material impact on the reported results or future operations of the company.

All pending litigation for claims have been evaluated and adequate provisions have been made in the financial statements.

38. Comparative information

Comparative information has not been restated.

39. Directors' responsibility

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

Insurance Revenue Accounts

For the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
General Insurance		
Gross written premium	3,667,870	3,210,217
Outward reinsurance	(927,598)	(881,893)
Net written premium	2,740,272	2,328,324
Net change in reserve for unearned premium	(416,944)	(124,927)
Net earned premium	2,323,328	2,203,397
Net claims incurred	(1,677,537)	(1,643,287)
Net commission	(172,623)	(112,386)
Expenses	(664,392)	(648,905)
Underwriting loss	(191,224)	(201,180)
Net loss ratio	72.2%	74.6%
Net expense ratio	36.0%	34.6%
Net combined ratio	108.2%	109.1%
Life Insurance		
Gross written premium	3,465,505	2,778,184
Outward reinsurance	(98,326)	(99,702)
Net written premium	3,367,179	2,678,482
Investment and other income	1,806,873	1,361,853
Increase in Life insurance fund	(2,123,447)	(1,617,768)
Net benefits payable	(715,612)	(561,576)
Net commissions	(675,673)	(503,150)
Expenses	(1,334,319)	(1,122,842)
Surplus from Life insurance fund	325,000	235,000
Reconciliation of segmental data and insurance revenue account		
General insurance		
Underwriting profit/(loss)	(191,224)	(201,180)
Investment and other income	459,265	433,562
Income tax expense	(81,070)	(66,511)
General profit after taxation	186,971	165,871
Life Insurance		
Surplus from life insurance fund	325,000	235,000
General and Life profit after taxation	511,971	400,871

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Balance sheet of the life insurance fund

	Notes	Page No.	2010 Rs. '000	2009 Rs. '000
Assets				
Investments	1	250	9,840,485	9,283,220
Investments - unit linked	2	251	168,109	-
Quoted equities at market value	3	251	766,291	320,946
Property, plant and equipment	4	252	912,001	845,757
Loans to life policyholders			232,618	224,325
Reinsurance receivable	5	253	49,785	38,826
Other assets	6	253	738,270	616,422
Other assets - unit linked			11,157	-
Cash and cash equivalents	7	253	269,127	139,273
Total assets			12,987,842	11,468,769
Reserves				
Reserve on Cornhill merger	8	253	16,752	16,752
Revaluation reserve	9	253	91,566	88,079
Total reserves			108,318	104,831
Liabilities				
Insurance provision - life - conventional	10	254	11,769,308	9,783,675
Insurance provision - unit linked			165,834	-
Reinsurance creditors			42,681	117,745
Provision for retirement benefits	11	254	81,949	53,172
Obligation to repurchase securities			-	622,146
Other liabilities	12	254	776,969	764,957
Other liabilities - unit linked			13,672	-
Bank overdraft			29,109	22,243
Total liabilities and reserves			12,987,842	11,468,769

Life insurance cash flow statement for the year ended 31 December

	2010 Rs. '000	2009 Rs. '000
Cash flow from operating activities		
Premium received from customers	3,465,505	2,778,184
Reinsurance premium paid	(166,939)	(98,079)
Claims paid	(704,876)	(549,255)
Reinsurance receipts in respects of claims	7,327	8,291
Cash paid to and on behalf of employees	(426,808)	(368,642)
Interest received	1,670,898	1,466,003
Dividends received	14,662	3,381
Other operating cash payments	(1,528,195)	(1,285,738)
Cash received / (paid) to life insurance fund	(441,245)	287,007
Cash flow from operating activities (Note A)	1,890,330	2,241,152
Retiring gratuity paid	(5,610)	(5,717)
Income tax and ESC paid	(18,590)	(18,387)
Net cash from operating activities	1,866,131	2,217,048
Cash flow from investing activities		
Acquisition of liquid investments (other than cash equivalents)	(241,148)	-
Acquisition of other investments (other than cash equivalents)	(3,029,472)	(2,906,154)
Proceeds from Sale from liquid investments (other than cash equivalents)	124,502	190,387
Proceeds from Sale from other investments (other than cash equivalents)	1,499,776	536,353
Acquisition of property, plant and equipment	(96,800)	(8,295)
Proceeds on sale of property, plant and equipment	-	1,874
Net cash used in investing activities	(1,743,142)	(2,185,835)
Increase in cash and cash equivalents (Note B)	122,989	31,213
Notes to the cash flow statement		
A. Reconciliation of profit before taxation with cash from operating activities		
Profit before income tax	325,000	235,000
Depreciation on property, plant and equipment	30,556	16,260
Change in debtors	125,200	(96,562)
Change in life insurance fund	2,122,445	1,617,768
Change in amount owed by long term fund	(441,245)	287,007
Change in claims provisions	29,023	31,860
Change in creditors	(67,907)	(17,115)
(Gain) on sale of property, plant and equipment	-	(801)
Effect on sale of investments	(267,129)	158,587
Change in provision for retiring gratuity	34,387	9,148
Cash from operating activities	1,890,330	2,241,152
B. Increase in cash and cash equivalents		
Cash at bank and in hand and cash equivalents	269,127	139,273
Bank overdraft	(29,109)	(22,243)
Net cash and cash equivalents for the current year	240,018	117,030
Net cash and cash equivalents for the previous year	117,030	85,817
Increase in cash and cash equivalents	122,989	31,213

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1. Investments

As at 31 December		2010 (Rs. '000)	2009 (Rs. '000)
Government securities	1a	8,391,185	7,717,220
Corporate securities	1b	1,049,300	1,275,000
Asset backed securities		-	91,000
Bank deposits		300,000	100,000
Unquoted equities		100,000	100,000
		9,840,485	9,283,220

1a. Government securities

As at 31 December		2010 (Rs. '000)	2009 (Rs. '000)
Treasury bonds	1aa	8,017,595	7,416,590
Treasury bills		144,767	-
Reverse repurchase agreements		228,823	300,630
		8,391,185	7,717,220
1aa. Assets pledged as security			
Assets		Liability	
Government treasury bonds	Secured against repurchase agreements	-	666,475
		-	666,475

1b. Corporate securities

As at 31 December		2010 (Rs. '000)	2009 (Rs. '000)
Quoted debentures	1c	834,300	660,000
Unquoted debentures	1d	215,000	615,000
		1,049,300	1,275,000

1c. Quoted debentures

As at 31 December	2010				2009		
	No. of Debentures	Cost Rs. '000	Market Value Rs. '000	Coupon Rate %	No. of Debentures	Cost Rs. '000	Market Value Rs. '000
Issuer							
DFCC Bank PLC	200,000	200,000	200,000	14.00	200,000	200,000	200,000
Hatton National Bank PLC	2,000,000	200,000	200,000	16.75	2,000,000	200,000	200,000
LB Finance PLC	10,000	10,000	10,000	24.00	10,000	10,000	10,000
Nations Trust Bank PLC	1,500,000	150,000	150,000	21.00	1,500,000	150,000	150,000
Singer Sri Lanka PLC	1,000,000	100,000	118,000	19.75	1,000,000	100,000	100,000
Urban Development Authority	1,743,000	174,300	174,300	11.00	-	-	-
		834,300	852,300			660,000	660,000

1d. Unquoted debentures

As at 31 December	2010				2009		
	No. of Debentures	Cost Rs. '000	Directors' Valuation Rs. '000	Coupon Rate %	No. of Debentures	Cost Rs. '000	Directors' Valuation Rs. '000
Issuer							
Aitken Spence PLC	1,400,000	140,000	140,000	13.75	2,000,000	200,000	200,000
Commercial Bank PLC	75,000	75,000	75,000	13.25	75,000	75,000	75,000
Commercial Bank PLC	-	-	-	-	100,000	100,000	100,000
HDFC Bank Limited	-	-	-	-	400,000	40,000	40,000
John Keells Holdings PLC	-	-	-	-	1,000,000	100,000	100,000
Singer Sri Lanka PLC	-	-	-	-	1,000,000	100,000	100,000
		215,000	215,000			615,000	615,000

2. Investments - unit linked

	2010 Rs. '000	2009 Rs. '000
Government securities	45,116	-
Quoted equities	122,993	-
	168,109	-

3. Quoted equities at market value

As at 31 December	2010			2009		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Banks Finance & Insurance						
Aviva NDB Insurance PLC	33,300	9,092	9,324	-	-	-
Central Finance Company PLC	99,800	31,640	81,686	47,800	10,548	15,177
Commercial Bank Ceylon PLC (Non-Voting)	206,050	14,991	33,380	100,000	8,913	12,475
Commercial Bank Ceylon PLC	135,000	13,752	35,087	100,000	15,280	18,950
Hatton National Bank PLC (Non-Voting)	297,900	28,495	63,929	182,000	10,636	19,065
Sampath Bank PLC	370,582	35,554	100,761	72,000	10,304	14,706
Singer Finance (Lanka) PLC	11,600	174	174	-	-	-
Diversified Holding						
Aitken Spence PLC	-	-	-	64,000	21,849	84,800
Hemas Holdings PLC	405,750	6,708	18,056	81,150	6,708	9,960
Hotels and Travels						
Aitken Spence Hotel Holdings PLC	310,800	6,722	32,852	100,000	12,424	26,925
Beverage Food and Tobacco						
Distilleries Company of Sri Lanka PLC	225,000	30,525	40,028	115,000	9,975	12,104

Notes to the Supplemental Information contd.

3. Quoted equities at market value contd.

As at 31 December	2010			2009		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Construction & Engineering						
Colombo Dockyard PLC	152,000	31,168	41,800	82,000	10,351	20,070
Manufacturing						
Chevron Lubricants Lanka PLC	102,000	7,503	16,269	136,000	10,004	19,278
Royal Ceramics Lanka PLC	310,000	21,404	94,519	250,000	11,355	16,625
Tokyo Cement Company (Lanka) PLC (Voting)	582,525	7,817	32,039	51,780	7,817	16,686
Tokyo Cement Company (Lanka) PLC (Non Voting)	1,607,500	30,481	64,782	700,000	9,389	13,826
Lanka Floortiles PLC	124,700	15,015	16,747	-	-	-
Power & Energy						
Laufgs Gas PLC (Voting)	37,700	867	976	-	-	-
Laufgs Gas PLC (Non Voting)	51,900	779	960	-	-	-
Telecommunication						
Dialog Axiata PLC	5,000,000	35,603	59,000	2,800,000	15,561	20,300
Sri Lanka Telecom PLC	488,200	23,452	23,922	-	-	-
		351,741	766,291		171,115	320,946

4. Property, plant and equipment

	Land Rs. '000	Building Rs. '000	Office equipment Rs. '000	Furniture and fittings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs. '000	Total Rs. '000
Cost / Revalued amount							
Balance as at 1 January 2010	512,000	283,800	24,696	22,672	66,774	5,577	915,519
Additions during the year	-	-	4,895	15,901	75,889	115	96,800
Disposals during the year	-	-	-	-	-	-	-
Balance as at 31 December 2010	512,000	283,800	29,591	38,573	142,663	5,692	1,012,319
Depreciation							
Balance as at 1 January 2010	-	-	15,810	12,068	37,103	4,781	69,762
Depreciation charge for the year	-	7,485	3,386	4,736	14,233	715	30,556
Accumulated depreciation on disposals	-	-	-	-	-	-	-
Balance as at 31 December 2010	-	7,485	19,196	16,804	51,336	5,496	100,318
Carrying amount							
Balance as at 31 December 2010	512,000	276,315	10,395	21,769	91,327	196	912,001
Balance as at 31 December 2009	512,000	283,800	8,886	10,604	29,671	796	845,757

5. Reinsurance receivable

As at 31 December	2010 Rs. '000	2009 Rs. '000
Reinsurance receivable on outstanding claims	28,730	19,394
Reinsurance receivable on settled claims net of dues	21,159	19,536
Provision for doubtful receivables	(104)	(104)
	49,785	38,826

6. Other assets

As at 31 December	2010 Rs. '000	2009 Rs. '000
Inventories	7,588	6,978
Interest receivable	441,917	403,596
WHT recoverable	106,889	86,289
ESC receivable	40,078	22,425
Refundable deposit and prepayments	5,569	4,161
Other debtors and receivables	136,230	92,974
	738,270	616,423

7. Cash and cash equivalents

As at 31 December	2010 Rs. '000	2009 Rs. '000
Cash in hand and at bank	268,885	139,273
Cash and cash equivalents - unit linked	242	-
	269,127	139,273

8. Reserve on Cornhill merger

As at 31 December	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	16,752	-
Net assets of Cornhill (Private) Limited	-	633,808
Investment	-	(617,056)
	16,752	16,752

9. Revaluation Reserve

As at 31 December	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	88,079	-
Surplus on revaluation during the year, net of deferred tax liability	-	88,079
Adjustment for differed tax due to change in tax rate	3,668	-
Balance as at 31 December	91,566	88,079

The revaluation relates to land and building as indicated in Note 20b

Notes to the Supplemental Information contd.

The revaluation was performed on freehold land and building as at 31 December 2009 by Mr. P. B. Kalugalagedera Chartered Valuation Surveyor using the investment method.

The revaluation reserve is transferred annually to the revenue reserve based on the remaining useful life of the asset which is estimated to be 40 years.

10. Insurance provision - life - conventional

As at 31 December	2010 Rs. '000	2009 Rs. '000
Insurance provision - life	11,579,107	9,622,498
Unclaimed benefits	190,201	161,177
	11,769,308	9,783,675

11. Provision for retirement benefits

As at 31 December	2010 Rs. '000	2009 Rs. '000
Balance as at 1 January	53,172	49,742
Payments during the year	(5,610)	(6,411)
Provision for the year	34,387	9,841
Balance as at 31 December	81,949	53,172

12. Other liabilities

As at 31 December	2010 Rs. '000	2009 Rs. '000
Agency commission payable	50,834	38,473
Government levies	1,546	5,914
ESC payable	3,006	3,943
Other creditors and accrued expenses	316,038	190,487
Current account with general business	405,545	526,140
	776,969	764,957

Shareholder Information

Adequate corporate disclosures are provided to the financial community by Union Assurance in order to allow optimal pricing of UA securities. The Company's year end share price increased from Rs. 90.75 in 2009 to Rs. 122.10 in 2010.

Stock Exchange Listing

Union Assurance PLC is a public quoted Company whose shares are listed with the Colombo Stock Exchange (CSE). The audited statement of income for the year ended 31 December 2010 and the audited balance sheet of the Company as at that date will be submitted to the Colombo Stock Exchange within three months of the balance sheet date.

The CSE ticker symbol for Union Assurance shares is 'UAL.N0000'.

UA Share

It was another record breaking year for the Colombo Stock Exchange as it topped Asia with an annual All Share Price Index (ASPI) gain of 96% to 6,636 points and Milanka Price Index (MPI) gain of 84% to 7,061 points. The average daily turnover reported was Rs. 2.4 billion, four times higher than last year's average as retail interest was boosted by a steady stream of IPOs and higher earnings expectations. Foreigners continued to be net sellers mainly due to profit taking although a number of new foreign funds entered the market on account of strong medium to long term growth prospects.

The UA share grew by 35% to Rs. 122.10 as at 31 December 2010 compared with the closing price of Rs. 90.75 at the end of the previous year. The UA Share was traded between a low of Rs. 90.75 and high of Rs. 198.00 during the year under review.

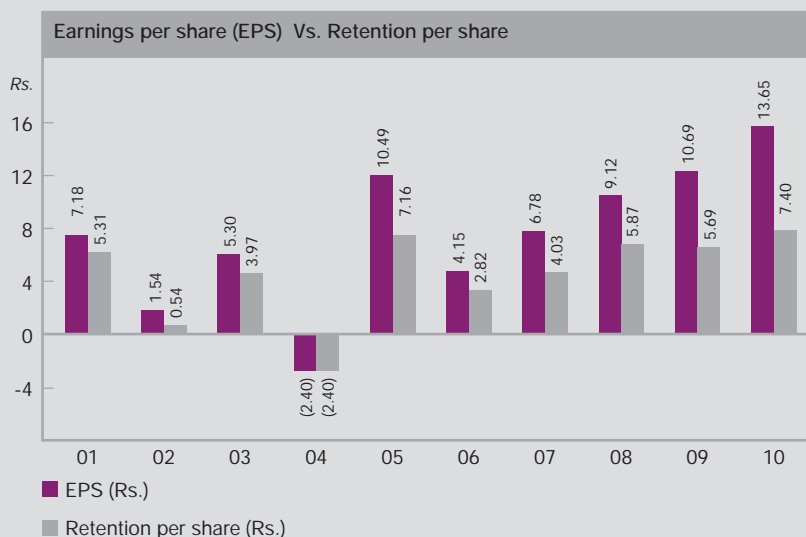
Earnings Per Share

The earnings per share (EPS) for the year ended 31 December 2010 was Rs.13.65, an increase from Rs. 10.69 recorded in 2009. This was due to Rs. 111.1 million increase in profit in 2010, compared with 2009.

EPS Vs. Retention per share

The retention ratio was maintained above 50% on total earnings on a constant basis for the last five years.

Year	EPS (Rs.)	Retention Per Share (Rs.)	Retention Ratio
2001	7.18	5.31	74%
2002	1.54	0.54	35%
2003	5.30	3.97	75%
2004	(2.40)	(2.40)	100%
2005	10.49	7.16	68%
2006	4.15	2.82	68%
2007	6.78	4.03	59%
2008	9.12	5.87	64%
2009	10.69	5.69	53%
2010	13.65	7.40	54%



Price Earnings Ratio

The Price Earnings Ratio (PER) as at 31 December 2010 increased to 8.95 times from 8.49 times as at 31 December 2009. The UA shares were trading at a 64.4 % discount to the market PER which on 31 December 2010 was estimated at 25.16 times.

Price to Book Ratio

The price to book ratio as at 31 December 2010 was 1.75 times, an increase from 1.49 times recorded in 2009.

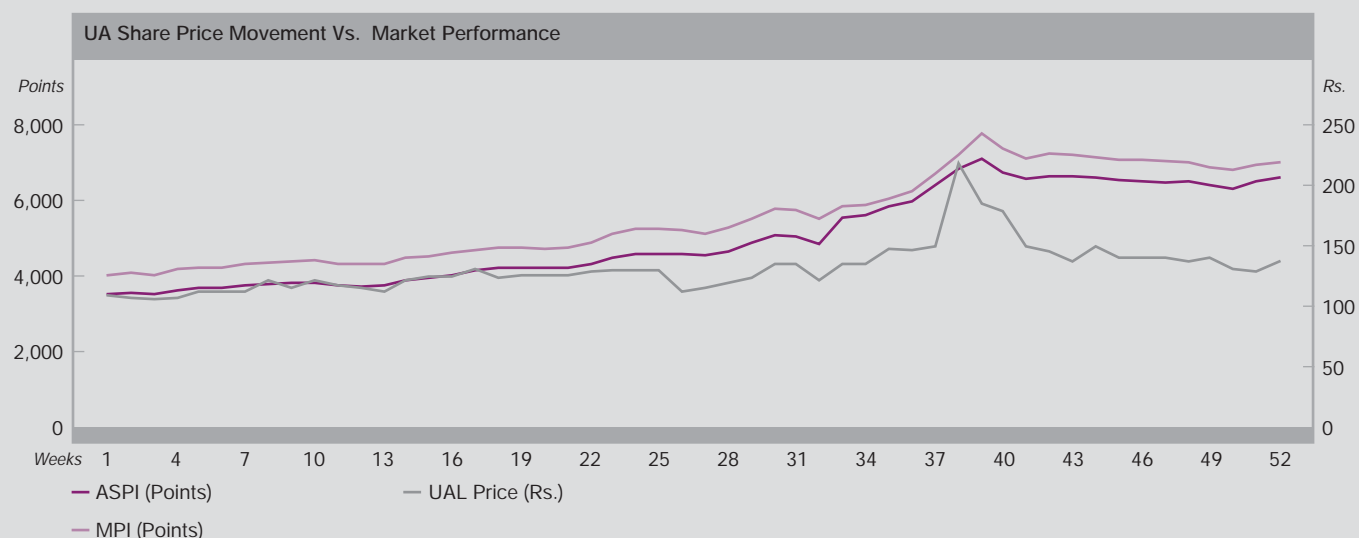
Shareholder Information contd.

Total Shareholder Returns

Total shareholder returns (TSR) of UA share were 41.4% compared with 92.5% recorded in the previous year. Both dividend yield (6.9%) and capital gain (34.5%) contributed to the positive TSR.

Valuation

31 December		2010	2009
Earnings per share	(Rs.)	13.65	10.69
Price earnings ratio	(Times)	8.95	8.49
Price / book value	(Times)	1.75	1.49
Dividend yield	(%)	6.9%	10.1%
Total shareholder returns	(%)	41.4%	92.5%



Market Capitalisation and Market Price

The market capitalisation of Union Assurance share as at 31 December 2010 was Rs 4.6 billion, valued at the year end price of Rs 122.10 per share. UA's main benchmark indices - the All Share Price Index (ASPI) and the Milanka Price Index (MPI) - increased by 96% and 84% respectively. In the same period, the UA share price ranged between a low of Rs 90.75 and a high of Rs 198.00, closing the year at Rs.122.10.

Market Information on Ordinary Shares of the Company

Market value		2010	2009
Highest price	(Rs.)	198.00 (23 Sep. 2010)	109.00 (02 Oct. 2009)
Lowest price	(Rs.)	90.75 (04 Jan. 2010)	49.00 (06 Jan. 2009)
Year end price	(Rs.)	122.10	90.75

Trading statistics		2010	2009
Number of transactions		789	1,020
Number of shares traded		392,600	15,991,027
% of total shares in issue		1.0	42.6
Value of shares traded	(Rs.)	46,011,015	1,151,879,681
Market capitalisation	(Rs.)	4,578,750,000	3,403,125,000
% of total market capitalisation		0.2	0.3

Dividends

The dividend policy of Union Assurance seeks to ensure a dividend payout which correlates with the growth in profits, whilst ensuring that the company retains adequate funds to meet the solvency requirements as stipulated by the Insurance Board of Sri Lanka (IBSL) in the short, medium and long term.

The Board of Directors declared a first and final dividend of Rs. 6.25 per share, based on the profits of 2010. Accordingly, the dividend per share (DPS) in the current year increased by

Rs. 1.25 per share (25%) compared with Rs. 5.00 per share in the previous year. The gross dividend payable out of the profits for the year ended 31 December 2010 will be Rs. 234.4 million compared to the dividend of Rs. 187.5 million in the previous year. UA pays its dividend annually.

Free Float

The Colombo Stock Exchange (CSE) defines the free float of a company as the percentage of shareholders excluding Directors' shareholdings, of Directors who hold less than a 3% stake in the company. According to this definition the UA free float is 4 %.

Shareholder Base

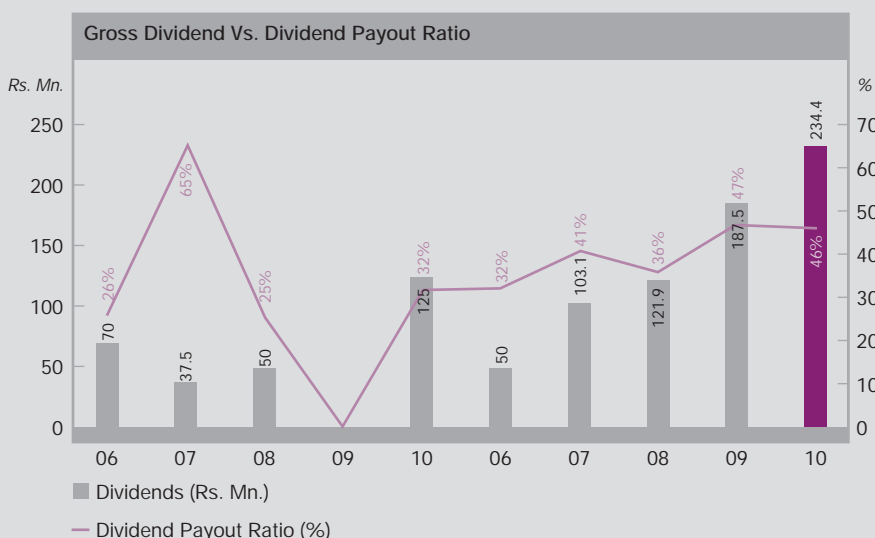
UA has a diversified shareholder base, both geographically and in the ratio of private to institutional investors. The total number of shareholders increased from 1,302 as at 31 December 2009 to 1,335 as at 31 December 2010. On 31 December 2010, UA had 1,257 registered individual shareholders, representing 94% of the shares registered; 79% of the shareholders hold less than 1,000 shares. The vast majority of UA's individual shareholders are residents of Sri Lanka. Institutional shareholders represent approximately 96.8% of UA's ordinary share capital.

The top twenty shareholders hold 97.35% of UA's shares. The Directors hold 0.01% of the total outstanding shares in their individual capacity.

Gross Dividend Vs. Dividend Payout

Year	Dividend Per Share (Rs.)	Dividends (Rs.) ('000)	Dividend Payout Ratio
2001	1.87	70,000	26%
2002	1.00	37,500	65%
2003	1.33	50,000	25%
2004	-	-	0%
2005	3.33	125,000	32%
2006	1.33	50,000	32%
2007	2.75	103,125	41%
2008	3.25	121,875	36%
2009	5.00	187,500	47%
2010	6.25	234,375	46%

* Diluted for subsequent bonus issues



Shareholder Information contd.

Distribution of Shareholders

Range	31 December 2010				31 December 2009			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Less than 1,000	1,056	79.10	277,228	0.74	1,010	77.57	265,763	0.71
1,001 - 10,000	255	19.10	674,921	1.80	269	20.66	724,051	1.93
10,001 - 100,000	17	1.27	328,029	0.87	16	1.23	290,364	0.77
100,001 - 1,000,000	1	0.07	328,780	0.88	1	0.08	328,780	0.88
Over - 1,000,001	6	0.46	35,891,042	95.71	6	0.46	35,891,042	95.71
Total	1,335	100.00	37,500,000	100.00	1,302	100.00	37,500,000	100.00

Composition of shareholders

	31 December 2010				31 December 2009			
	No. of Shareholders	%	No. of Shares	%	No. of Shareholders	%	No. of Shares	%
Directors and spouses:	2	0.15	5,346	0.01	2	0.15	5,346	0.01
Resident:								
Individuals	1249	93.56	1,181,356	3.15	1220	93.70	1,195,345	3.19
Institutions	76	5.69	10,063,992	26.84	70	5.38	10,049,853	26.80
Non Resident:								
Individuals	6	0.45	4,741	0.01	7	0.54	4,841	0.01
Institutions	1	0.07	1,000	0.01	2	0.15	1,050	0.01
Shareholders holding more than 10%	1	0.08	26,243,565	69.98	1	0.08	26,243,565	69.98
Total	1,335	100.00	37,500,000	100.00	1,302	100.00	37,500,000	100.00

Public Shareholding

As at 31 December	2010		2009	
	No. of Shares	% of Shares	No. of Shares	% of Shares
Public Shareholding	7,228,612	19.28	7,228,612	19.28

Twenty Largest Shareholders

Name of Shareholder	31 December 2010		31 December 2009	
	No. of Shares	%	No. of Shares	%
1. John Keells Holdings PLC	26,243,565	69.98	26,243,565	69.98
2. Whittall Boustead Limited	2,776,309	7.40	2,776,309	7.40
3. Aviva NDB Insurance PLC A/C No. 01	1,875,000	5.00	1,875,000	5.00
4. Aviva NDB Insurance PLC A/C No. 02	1,875,000	5.00	1,875,000	5.00
5. Aviva NDB Insurance PLC A/C No. 03	1,875,000	5.00	1,875,000	5.00
6. Mackinnons & Keells Financial Services Limited	1,246,168	3.32	1,246,168	3.32
7. ACW Insurance (Private) Limited	328,780	0.88	328,780	0.88
8. R. Senathirajah	47,403	0.13	2,403	0.01
9. H. A. D. Ratnapala	28,125	0.08	28,125	0.08
10. J. W. Nanayakkara	28,125	0.08	28,125	0.08
11. R. Z. Wikramanayake	24,182	0.06	23,682	0.06
12. N. I. Wikramanayake	23,989	0.06	23,048	0.06
13. G. M. Abdulhussein	20,905	0.06	17,937	0.05
14. T. G. Perera	19,500	0.05	19,500	0.05
15. H. A. Rehmanjee	17,228	0.05	18,561	0.05
16. L. Amaradasa	16,875	0.05	16,875	0.05
17. J. D. Bandaranayake	16,500	0.04	-	-
18. S. Nishyanthan	15,150	0.04	15,150	0.04
19. M. R. Wijetunga	14,062	0.04	14,062	0.04
20. C. A. Mack	12,649	0.03	12,649	0.03
	36,504,515	97.35	36,439,939	97.18
Others	995,485	2.65	1,060,061	2.82
Total	37,500,000	100.00	37,500,000	100.00

Directors' Shareholdings

31 December

	2010	2009
Mr. A. D. Gunawardene	3,746	3,746
Mr. J. R. F. Peiris	Nil	Nil
Mr. K. N. J. Balendra	Nil	Nil
Mr. A. K. Gunaratne	1,600	1600
Mr. A. S. D. Zoysa	Nil	Nil
Mr. G. F. C. De Saram	Nil	Nil
CEOs' Shareholdings		
Mr. A. D. Pereira	Nil	Nil

Record of Share Issue

Year	Issue	Basis	No. of Shares	Share Capital (Rs.)
1987	Prior to public issue	-	8,000,000	80,000,000
1988	Public issue	-	2,000,000	20,000,000
1995	Rights @ Rs. 50	1:3	3,333,333	33,333,333
1999	Bonus	1:2	6,666,667	66,666,667
2002	Bonus	1:4	5,000,000	50,000,000
2007	Bonus	1:2	12,500,000	125,000,000
Total			37,500,000	375,000,000

Quarterly Analysis 2010

	1 st Quarter Jan-Mar 10 Rs. '000	2 nd Quarter Apr-Jun 10 Rs. '000	3 rd Quarter Jul-Sep 10 Rs. '000	4 th Quarter Oct-Dec 10 Rs. '000	Total Jan-Dec 10 Rs. '000
Statement of Income					
Revenue	1,746,032	1,844,269	2,198,949	2,130,278	7,919,528
Gross written premium	1,612,217	1,499,566	1,671,800	2,349,792	7,133,375
Less: Premium ceded to reinsurers	(295,236)	(223,969)	(227,096)	(279,624)	(1,025,924)
Net written premium	1,316,981	1,275,597	1,444,705	2,070,168	6,107,451
Net change in reserve for unearned premium	(29,364)	14,259	(47,071)	(354,769)	(416,944)
Net earned premium	1,287,617	1,289,856	1,397,634	1,715,399	5,690,507
Benefits, losses and expenses					
Insurance claims and benefits (net)	(1,078,036)	(1,154,778)	(1,483,212)	(800,571)	(4,516,596)
Underwriting and net acquisition costs (Including reinsurance)	(186,941)	(179,814)	(205,123)	(276,418)	(848,296)
Total benefits, losses and expenses	(1,264,977)	(1,334,592)	(1,688,335)	(1,076,989)	(5,364,892)
Net premium less benefits, losses and expenses	22,640	(44,736)	(290,700)	638,410	325,615
Other revenue					
Income from investments	447,230	538,415	753,960	389,821	2,129,425
Other income	11,185	15,998	47,354	25,058	99,596
Expenses					
Other operating, investment related and administrative expenses	(387,070)	(404,916)	(431,214)	(630,630)	(1,853,830)
Depreciation on property, plant and equipment	(23,865)	(26,071)	(26,146)	(31,685)	(107,766)
Profit before taxation	70,120	78,690	53,254	390,974	593,041
Income tax expense	(18,993)	(25,325)	(13,704)	(23,047)	(81,069)
Profit after taxation	51,127	53,365	39,550	367,927	511,971

Quarterly Analysis 2009

	1 st Quarter Jan-Mar 09 Rs. '000	2 nd Quarter Apr-Jun 09 Rs. '000	3 rd Quarter Jul-Sep 09 Rs. '000	4 th Quarter Oct-Dec 09 Rs. '000	Total Jan-Dec 09 Rs. '000
Statement of Income					
Revenue	1,491,061	1,597,460	1,707,462	1,881,312	6,677,295
Gross written premium	1,522,426	1,436,466	1,431,583	1,597,927	5,988,402
Less: Premium ceded to reinsurers	(319,930)	(263,078)	(191,446)	(207,141)	(981,595)
Net written premium	1,202,496	1,173,388	1,240,137	1,390,786	5,006,807
Net change in reserve for unearned premium	(77,544)	(18,337)	2,872	(31,918)	(124,927)
Net earned premium	1,124,952	1,155,051	1,243,009	1,358,868	4,881,880
Benefits, losses and expenses					
Insurance claims and benefits (net)	(927,873)	(1,046,415)	(1,069,014)	(779,328)	(3,822,630)
Underwriting and net acquisition costs (Including reinsurance)	(150,361)	(136,712)	(159,133)	(169,330)	(615,536)
Total benefits, losses and expenses	(1,078,234)	(1,183,127)	(1,228,147)	(948,658)	(4,438,166)
Net premium less benefits, losses and expenses	46,718	(28,076)	14,862	410,210	443,714
Other revenue					
Income from investments	354,584	426,112	449,087	489,447	1,719,230
Other income	11,525	16,298	15,367	32,994	76,184
Expenses					
Other operating, investment related and administrative expenses	(327,851)	(348,482)	(402,562)	(611,129)	(1,690,024)
Depreciation on property, plant and equipment	(17,895)	(19,393)	(21,659)	(22,775)	(81,722)
Profit before taxation	67,081	46,459	55,095	298,747	467,382
Income tax expense	(15,846)	(5,452)	(13,822)	(31,391)	(66,511)
Profit after taxation	51,235	41,007	41,273	267,356	400,871

Management
Reports

Management
Discussion & Analysis

Corporate Governance

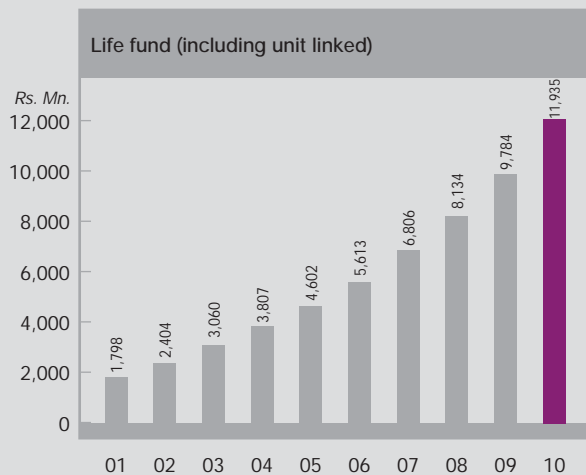
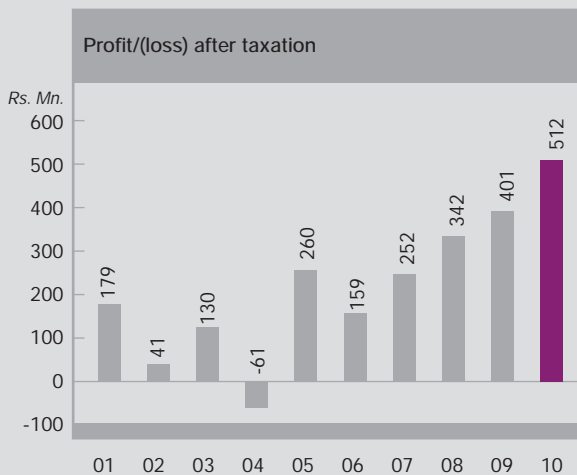
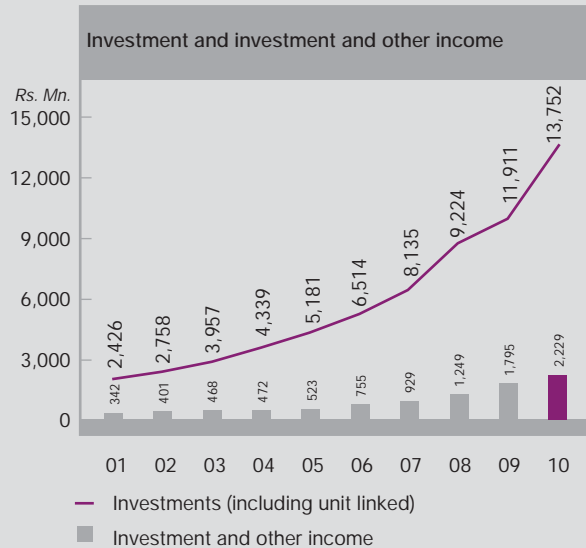
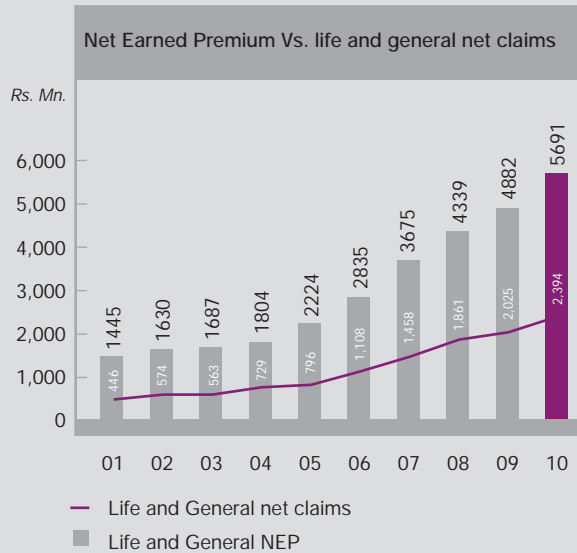
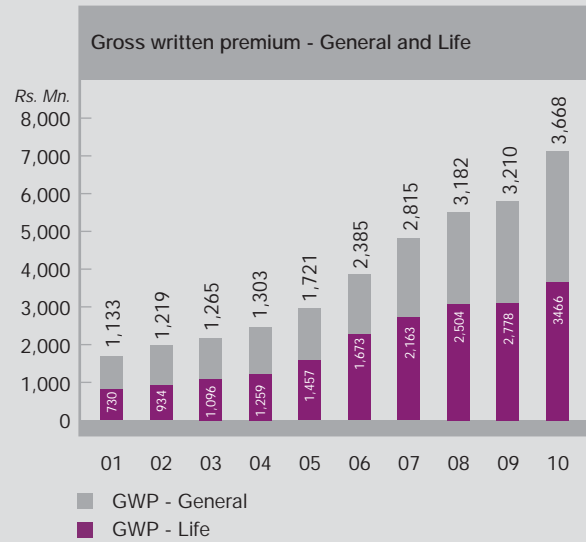
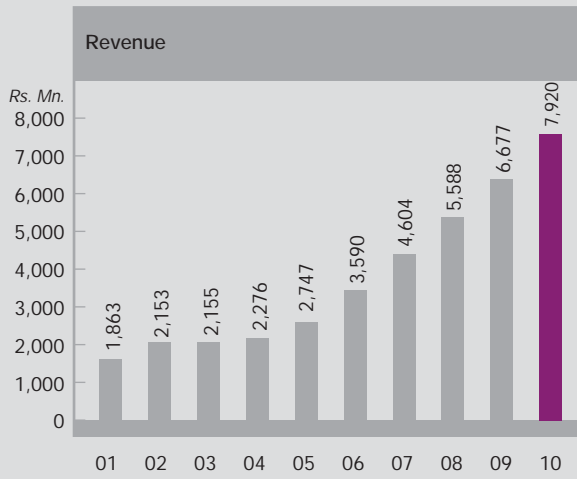
Sustainability Report

Financial Information

Ten Year Summary

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Statement of Income (Rs. '000)										
Revenue	7,919,528	6,677,295	5,587,830	4,604,101	3,590,044	2,746,683	2,275,926	2,155,015	2,153,144	1,863,147
Net earned premium	5,690,507	4,881,880	4,338,794	3,675,264	2,835,228	2,223,567	1,803,944	1,686,680	1,630,272	1,445,081
Insurance claims and benefits (net)	(4,516,596)	(3,822,631)	(3,172,484)	(2,652,287)	(2,099,885)	(1,495,517)	(1,476,966)	(1,264,716)	(1,294,015)	(1,064,179)
Underwriting and net acquisition costs (including reinsurance)	(848,296)	(615,535)	(546,405)	(426,885)	(320,819)	(219,871)	(229,445)	(167,212)	(143,580)	(87,667)
Net premium less benefits, losses and expenses	325,615	443,714	619,905	596,092	414,524	508,179	97,533	254,752	192,677	293,235
Investment and other income	2,229,021	1,795,414	1,249,036	928,837	754,816	523,116	471,982	468,335	401,432	341,618
Expenses	(1,961,595)	(1,771,746)	(1,511,571)	(1,272,770)	(988,556)	(756,108)	(621,469)	(592,689)	(553,072)	(455,586)
Profit before income tax	593,041	467,382	357,370	252,159	180,784	275,187	(51,954)	130,398	41,037	179,267
Income tax expense	(81,070)	(66,511)	(15,286)	(227)	(21,866)	(14,695)	(8,646)	-	-	-
Profit after taxation	511,971	400,871	342,084	251,932	158,918	260,492	(60,600)	130,398	41,037	179,267
Insurance revenue accounts										
General										
Gross written premium	3,667,870	3,210,217	3,182,236	2,814,654	2,384,910	1,720,783	1,302,894	1,264,961	1,218,997	1,132,730
Net earned premium	2,323,328	2,203,397	1,966,419	1,608,756	1,231,145	807,005	594,410	625,299	635,854	615,523
Net claims incurred	(1,677,537)	(1,643,287)	(1,425,748)	(1,147,955)	(820,783)	(441,141)	(446,560)	(315,916)	(434,148)	(362,835)
Net commissions	(172,623)	(112,386)	(88,974)	(47,238)	(57,505)	6,187	9,466	11,247	(371)	28,655
Expenses	664,392	(648,905)	(593,450)	(526,582)	(411,912)	(333,956)	(320,877)	(307,616)	(314,763)	(245,746)
Underwriting profit / (loss)	(191,224)	(201,180)	(141,753)	(113,019)	(59,055)	38,095	(163,561)	13,014	(113,428)	35,597
Life										
Gross written premium	3,465,505	2,778,184	2,503,887	2,163,480	1,672,744	1,456,576	1,259,309	1,096,149	934,147	730,417
Net written premium	3,367,179	2,678,482	2,372,375	2,066,508	1,604,083	1,416,562	1,209,534	1,061,381	883,442	696,342
Investment and other income	1,806,873	1,361,853	934,913	707,659	590,477	430,024	360,375	383,951	262,467	212,448
Increase in life fund	(2,123,447)	(1,617,768)	(1,311,420)	(1,194,516)	(992,083)	(699,885)	(747,220)	(701,686)	(607,532)	(478,158)
Net benefits payable	(715,612)	(561,576)	(435,316)	(309,816)	(287,019)	(354,491)	(283,186)	(247,114)	(139,796)	(82,843)
Net commissions	(675,673)	(503,150)	(457,431)	(379,647)	(263,314)	(226,058)	(238,911)	(178,459)	(141,182)	(116,322)
Expenses	(1,334,320)	(1,122,842)	(918,122)	(746,188)	(576,644)	(422,152)	(300,592)	(285,073)	(236,399)	(211,467)
Surplus from life insurance fund	325,000	235,000	185,000	144,000	75,500	144,000	-	33,000	21,000	20,000
Balance sheet										
Assets										
Investments	13,584,848	11,911,086	9,224,198	8,135,335	6,513,709	5,180,839	4,339,425	3,956,483	2,757,454	2,426,377
Investments - unit linked	168,109	-	-	-	-	-	-	-	-	-
Intangible assets	49,500	49,500	49,500	49,500	49,500	49,500	55,000	60,500	66,000	71,500
Property plant and equipment	1,108,723	1,070,060	353,725	328,622	250,078	180,976	118,718	142,052	158,653	162,728
Other assets and receivables	3,590,153	3,300,729	3,263,872	2,725,995	2,625,923	2,948,391	3,275,044	1,646,292	1,906,053	1,500,104
Other assets - unit linked	11,157	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	390,138	313,855	272,080	244,301	152,515	167,741	330,148	286,505	357,358	308,581
Total assets	18,902,628	16,645,230	13,163,375	11,483,753	9,591,725	8,527,447	8,118,335	6,091,832	5,245,518	4,469,290
Liabilities and equity										
Liabilities										
Insurance provision - life - conventional	11,769,308	9,783,676	8,134,040	6,806,385	5,612,984	4,602,493	3,806,826	3,059,606	2,403,514	1,798,106
Other liabilities - unit linked	165,835	-	-	-	-	-	-	-	-	-
Provision for life fund solvency	-	-	-	95,323	67,849	-	-	-	-	-
Insurance provision - general	2,716,888	2,636,772	2,324,943	2,200,328	2,118,848	2,288,577	2,858,459	1,137,266	1,094,433	1,037,270
Other liabilities and creditors	1,617,488	1,919,631	1,216,924	1,228,531	814,117	624,519	747,392	1,078,702	940,465	867,845
Total liabilities	16,269,519	14,340,079	11,675,907	10,330,567	8,613,798	7,515,589	7,412,677	5,275,574	4,438,412	3,703,221
Equity										
Stated capital	388,433	388,433	388,433	388,433	266,667	266,667	266,667	266,667	266,667	266,667
Capital reserves	584,178	584,359	47,958	48,633	45,048	45,708	-	-	-	-
Retained earnings	1,660,498	1,332,359	1,051,077	716,120	666,212	699,483	438,991	549,591	540,439	499,402
Total equity	2,633,109	2,305,151	1,487,468	1,153,186	977,927	1,011,858	705,658	816,258	807,106	766,069
Total liabilities and equity	18,902,628	16,645,230	13,163,375	11,483,753	9,591,725	8,527,447	8,118,335	6,091,832	5,245,518	4,469,290
Investor information										
Return on net assets (%)	19.4	17.4	23.0	21.8	16.3	25.7	-8.6	16.0	5.1	23.4
Earnings per share (Rs.)	13.65	10.69	9.12	6.78	4.15	6.99	(1.60)	3.53	1.03	4.79
Dividend per share (Rs.)	6.25	5.00	3.25	2.75	1.33	3.33	-	1.33	1.00	1.87
Net assets per share (Rs.)	70.22	61.47	39.67	30.75	39.12	40.47	28.23	32.65	32.28	30.64
Market price per share (Rs.)	122.10	90.75	49.75	46.25	102.50	96.00	45.00	45.00	31.00	35.50
Market capitalization (Rs. Mn.)	4,575	3,403	1,866	1,734	2,563	2,400	1,125	1,125	775	888
Price earnings ratio (times)	8.95	8.49	5.46	6.88	16.12	9.21	(18.56)	8.63	18.89	4.95
<i>*Diluted for subsequent bonus issues</i>										
Other information										
Number of employees	989	949	902	897	792	597	547	551	571	586
No of Shares ('000)	375,000	375,000	375,000	375,000	250,000	250,000	250,000	250,000	250,000	250,000

Ten Year Graphical Review



Understanding Our Financials

Understanding the UA's Statement of Income

An insurance company's statement of income includes the income and expenses derived from both general and life insurance. Since general and life insurance are two distinct lines of business, the accounting practices

adopted also differ. In order to fully understand UA's statement of income, we have provided the following overview based on the general and life insurance statements of income as presented in the Segmental Analysis.

General Insurance Statement of Income

	Comment	Rs. '000
Gross written premium	1	3,667,870
Less: Premium ceded to reinsurers	2	(927,598)
Net written premium	3	2,740,272
Net change in reserve for unearned premium	4	(416,944)
Net earned premium	5	2,323,328
Benefits, losses and expenses		
Insurance claims and benefits (net)	6	(1,677,537)
Underwriting and net acquisition costs (including reinsurance)	7	(172,623)
Total benefits, losses and expenses		(1,850,160)
Net premium less benefits, losses and expenses	-	473,168
Other revenue		
Income from investments	8	384,425
Other income		74,840
Expenses		
Other operating, investment related and administrative expenses	9	(587,182)
Depreciation on property, plant and equipment		(77,211)
Profit before income tax		268,041
Income tax expense		(81,070)
Profit after taxation		186,970

Comments

1. Gross written premium (GWP) represents the price charged by insurance companies in order to pay customer claims if the event that is insured against occurs. GWP is comparable with the "turnover" of a trading or manufacturing organisation.
2. Insurance companies often transfer some component of the risk they accept from customers to reinsurance companies. In return for accepting this risk, reinsurers are paid a part of the premium received from customers.
3. Premium received from customers less the amount paid to reinsurers is referred to as "Net written premium."
4. Please refer definition of net earned premium. The difference between net earned premium and net written premium is charged or credited to the statement of income with the corresponding adjustment recorded in the balance sheet as reserve for net unearned premiums under "Insurance provision - general."
5. Net earned premium represents the amount of GWP less reinsurance outgo that is relevant to the accounting period. For example, consider an insurance policy that commences from the 1st of April 2010 and expires on the 31st of March 2011. In such instance the premium may be received on 1st April, but the insurer carries the risk associated with the policy until March the following year. In order to recognise this fact and match income with expenses, only that component of premium applicable for the year is considered. The terminology "net" refers to the fact that it is net of reinsurance and "earned" reflects that it is the premium applicable for the particular period under review.
6. General insurance losses and loss adjustment expenses reflect the total amount of claims and claims related expenses incurred during the year, net of amounts due from reinsurers. Since claims expenses are provided for based on the information available as at a particular date, the charge for the year includes any over or under provisioning with regard to the previous years claims. A provision is also made in respect of claims incurred by policyholders but not informed to insurers as at the date of the balance sheet. Such claims are commonly referred to as incurred but not reported (IBNR) claims.
7. General insurance business is procured either directly by the insurance company or via intermediaries e.g. agents, brokers etc. Underwriting and policy acquisition costs (including reinsurance) represents the amount of commission payable by insurance companies to such intermediaries less any commission income due from reinsurers for placing business with them. Similar to net earned premium, the net amount of commissions is adjusted to reflect the commission "earned" for a particular period. The balance is transferred as reserve for net deferred acquisition cost included in the "Insurance provision - general."
8. Income from investments represents the amount of interest, dividend etc. earned from relevant investments.
9. Overhead expenses e.g. staff, administration, sales and marketing costs related to the general insurance operation are reflected under this point.

Understanding Our Financials contd.

Life Insurance Statement of Income

	Comment	Rs. '000
Gross written premium	1	3,465,505
Less: Premium ceded to reinsurers	2	(98,326)
Net written premium		3,367,179
Benefits, losses and expenses		
Increase in provision for life business	3	(2,123,447)
Life insurance claims, benefits and maturity payments	4	(715,612)
Underwriting and policy acquisition costs (including reinsurance)	5	(675,673)
Total benefits, losses and expenses		(3,514,732)
Net premium less benefits, losses and expenses		(147,553)
Other revenue		
Income from investments	6	1,745,000
Other income		61,873
Expenses		
Other operating, investment related and administrative expenses	7	(1,303,764)
Depreciation on property, plant and equipment		(30,556)
Profit before taxation	8	325,000
Taxation		-
Profit after taxation		325,000

Comments

- Gross written premium (GWP) represents the price charged by insurance companies in order to pay claims or benefits applicable under the life insurance policy. Similar to general insurance, GWP is comparable with the "turnover" of a trading or manufacturing organisation. However, life insurance GWP is accounted on a cash basis, whereas general insurance GWP is accounted on an accrual basis.
- Bears the same meaning as for general insurance.
- The increase in provision for life business represents the year on year increase in the amount of current and future liabilities that must be reserved based on actuarial principals.
- In addition to claims due to death, disability or hospitalisation, life insurance policyholders are entitled to maturity proceeds, interim payments (e.g. payments made before the expiry of the policy) etc. In addition, policyholders may require to surrender their policies as well. These amounts net of reinsurance receivable are recorded under this heading.
- Bears the same meaning as for general insurance.
- Similar to general insurance.
- Similar to general insurance.
- Profit represents the difference between the provision for life business as at year end and life policyholder liabilities which are valued based on actuarial principles.

Glossary of Insurance Terms

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

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

Actuary

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

Administrative expenses

Costs of an administrative nature including those arising from premium collection, portfolio administration, handling of bonuses and rebates, and inward and outward reinsurance, including staff costs and depreciation provisions in respect of property, plant and equipment.

Admissible assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000.

Annual basis of accounting

A basis of accounting for general insurance business whereby a result is determined at the end of the accounting period reflecting the profit or loss from providing insurance cover during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

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.

Beneficiary

A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

Cedent

Client of a reinsurance company (also see primary insurers).

Claims

The amount payable under a contract of insurance arising from the occurrence of an insured event.

Claims incurred

A claim is incurred when the event giving rise to the claim occurs. Claims incurred include paid claims and movements in outstanding claims.

Claims incurred but not reported (IBNR)
Claims arising out of events which have occurred by the balance sheet date but have not been reported to the insurer at that date.

Claims outstanding – general insurance business

The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the balance sheet date, including IBNR claims and claims handling expenses, less amounts already paid in respect of those claims.

Claims outstanding - life insurance business

The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have been notified by the balance sheet date being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

Co insurance

An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportions at a specified premium.

Commissions

A payment made to a broker or a sales agent in return for selling and servicing an insurer's products.

Deferred acquisition costs - general insurance business

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date which are carried forward from one accounting period to subsequent accounting periods.

General insurance business

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

Gross / net

The terms gross and net mean before and after deduction of the portion attributable to reinsurance.

Insurance 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 provision - general

Usually relates to the proportion of net written premiums relating to periods of risk after the accounting date, which are deferred to subsequent accounting periods, as well as the related net acquisition costs and gross claims outstanding.

Insurance provision - life

The fund or funds maintained by an insurer in respect of its life insurance business in accordance with the Regulation of Insurance Industry Act No. 43 of 2000.

Glossary of Insurance Terms contd.

Life insurance business

Insurance (including reinsurance) business falling within the classes of insurance specified as Long Term Insurance Business under the Regulation of Insurance Industry Act No. 43 of 2000.

Net

Refer Gross / net

Net combined ratio

Indicates the profitability of a general insurer's operations by combining the net loss ratio with the net expenses ratio. The combined ratio does not take account of investment income.

Net earned premium

In the case of general 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.

Net expense ratio

A formula used by general insurance companies to relate net earned premium to acquisition and administrative expenses (e.g. commissions, taxes, staff, selling and operating expenses).

Net loss ratio

A formula used by general insurers to relate net claims incurred to net earned premium (i.e. after deducting relevant reinsurance).

Non-participating business

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

Participating business

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

Policy loans

A loan from the insurer to a 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 loans.

Primary insurers

Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

Reinsurance

An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

Reinsurance commission

Commission received or receivable in respect of premiums paid or payable to a reinsurer.

Reinsurance inwards

The acceptance of risks under a contract of reinsurance.

Reinsurance outwards

The placing of risks under a contract of reinsurance.

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

That part of the risk assumed which the insurer / reinsurer does not reinsure / retrocede, i.e. retained net for own account.

Retrocession

The reinsurance outwards of risks previously accepted by an insurer as reinsurance inwards. The recipient is known as the retrocessionaire.

Solvency margin - general

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on general insurance business as defined in Solvency Margin (General Insurance) Rules, 2004 made under

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

Solvency margin - life

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on life insurance business (Long Term Insurance) as defined in Solvency Margin (Long Term Insurance) Rules, 2002 made under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000.

Surrender value

The amount payable by an insurer to a policyholder on termination of an insurance policy before the expiry of its term (more common in life insurance).

Underwriting profit

The underwriting result generated by transacting general insurance business, without taking into account the investment income.

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).

Written premium - general insurance business

Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the annual basis of accounting, these are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.

Written premium - life insurance business

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

Distribution Network

Corporate Office

Union Assurance Centre

20, St. Michael's Road, Colombo 3.
Customer Service: 011-2428000
General Line: 011-2428428
Fax: 011-2343095

Life Insurance Division

1st Floor, Union Assurance Centre
20, St. Michael's Road, Colombo 3.
Customer Service: 011-2428000
General Line: 011-2428428
Fax: 011-2438165

General Insurance Division

2nd Floor, Union Assurance Centre
20, St. Michael's Road, Colombo 3.
Customer Service: 011-2428000
General Line: 011-2428428
Fax: 2nd Floor - 011-2343065,
3rd Floor - 011-2347701

Motor Centre

99, Dharmapala Mawatha, Colombo 7.
General Line: 011-2462462, 011-2462100
Fax: 011-2462222 / 2462121

Akkaraipaththu

155, Ampara Road, Akkaraipaththu.
Tel: 067-2279385, 067-3696286

Akuressa

64, Matara Road, Akuressa.
Tel: 011-2428220, 041-2283393
Fax: 041-2283493

Aluthgama

Galle Road, Aluthgama.
Tel: 011-3135922

Ambalangoda

26 B/2, New Road, Ambalangoda.
Tel: 011-2428232, 091-2258747
Fax: 091-2255882

Ambalantota

1/46, Main Street, Ambalantota.
Tel: 011-2428204, 047-2223370
Fax: 047-2225500

Ampara

Gavini Building, Kandy Road, Ampara.
Tel: 011-2428308-9, 063-2224401
Tel /Fax: 063-2224668

Anuradhapura

280A, 1st Floor, Main Street,
Anuradhapura.
Tel: 011-2428176-7, 025-2224677-8
Fax: 025-2235547

Avissawella

15 1/2, Kudagama Road, Avissawella.
Tel: 011-2428260, 036-2231349
Fax: 036-2233575

Baddegama

No.402/3, Galle Road, Baddegama.

Badulla

158, Modern Complex, Lower Street,
Badulla.
Tel: 011-2428280
Tel /Fax: 055-2229536, 055-2229538

Balangoda

164, Thumbagoda Junction, Balangoda.
Tel: 045-3603111
Fax: 0453603111

Bandarawela

341/A, 1st Floor, Badulla Road,
Bandarawela.
Tel: 011-2428264-5, 057-2223239,
057-2223396
Fax: 057-2223397

Batticaloa

217, Trincomalee Road, Batticaloa.
Tel /Fax: 065-2224574

Chawakachcheriya

Kandy Road, Chawakachcheriya.
Tel /Fax: 021-2270073

Chilaw

87, Puttalam Road, Chilaw.
Tel: 011-2428120
Tel /Fax: 032-2222104

City Office

Upper Floor, 646, Galle Road,
Colombo 03.
Tel: 011-2589222, 011-2589193,
011-2589198-9, 011-2589227-8
Fax: 011-2589191

Dambulla

661, Anuradhapura Road, Dambulla.
Tel: 011-2428164
Tel /Fax: 066-2284628

Deniyaya

211, Viharahena Road, Main Street,
Deniyaya.
Tel /Fax: 041-3003457

Embilipitiya

Main Street, Pallegama, Embilipitiya.
Tel: 047-2230463
Fax: 047-2261946

Galle

16 A, Gamini Mawatha, Galle.
Tel: 011-2428212-3, 091-2243948,
091-2226700, 091-2226701
Fax: 091-2223759

Gampaha

262, Colombo Road, Gampaha.
Tel: 011-2428252-3, 033-2222802,
033-2226441
Fax: 033-2228430

Gampola

10 B, Nidahas Mawatha, Gampola.
Tel: 011-2428172
Tel /Fax: 081-2350127

Hingurakgoda

Airport Road, Hingurakgoda.
Tel: 011-2428184, 027-2246581
Fax: 027-2245299

Homagama

119/2, Katuwana Road, Homagama
Tel: 011-2892802-3
Fax: 011-2892804

Distribution Network contd.

Horana

161, Ratnapura Road, Horana.
Tel: 011-2428237, 034-2265217
Tel /Fax: 034-2264182

Ja-Ela

1/17, 1st Floor, Negombo Road, Ja-Ela.
Tel: 011-2428132
Tel /Fax: 011-2243633

Jaffna

139, Stanley Road, Jaffna.
Tel /Fax: 021-2223753

Kadawatha

211, Ehala Biyanvila, Kadawatha.
Tel /Fax: 0113071596

Kaduwela

76/A/2, New Kandy Road, Kothalawala,
Kaduwela.
Tel /Fax: 0113071596

Kalmunai

74, 1st Floor, Main Street, Kalmunai.
Tel: 067-2222636, 067-2222633,
Fax: 067-2222320

Kalutara

340, Main Street, Kalutara.
Tel: 011-2428224-5, 034-2228964,
034-2223132
Fax: 034-2228963

Kandy

28, Hill Street, Kandy.
Tel: 011-2428156-7, 081-2227443,
081-2232731
Tel /Fax: 081-2233291

Katunayake

16, 2 A, Plaza Complex, Phase 1, IPZ,
Katunayake.
Tel: 011-2251131
Fax: 011-2251132

Kegalle

134, 1st Floor, Kalugalle Mawatha,
Kegalle.
Tel: 035-2232829
Tel /Fax: 035-2230363

Kiribathgoda

94, 2nd Floor, Makola Road,
Kiribatgoda.
Tel: 011-2916924, 011-2916925
Fax: 011-2916852

Kuliyaipitiya

245 A, Hettipola Road, Kuliyaipitiya.
Tel: 011-2428128
Tel /Fax: 037-2281904

Kurunegala

Union Assurance Centre
6, Rajapihilla Road, Kurunegala.
Tel: 011-2428136-7, 037-2222282,
037-2224252
Tel /Fax: 037-2227585

Kurunegala

Business Development Centre
6, Rajapihilla Road, Kurunegala.
Tel: 037-2222474
Tel /Fax: 037-2227585

Mahiyangana

5, Kandy Road, Mahiyangana.
Tel: 055-2258244, 055-2258255
Fax: 055-2258200

Mannar

No: 43, Ward No: 2, Pallimuni Street,
Mannar.
Tel /Fax: 023-3238255

Matale

553 F 1/1, Trincomalee Road, Matale.
Tel: 011-2428168
Tel /Fax: 066-2231536

Matara

No.13, 1st Floor, Station Road,
Matara.
Tel: 041-2223024, 041-2222953
Fax: 041-2223026

Mathugama

Agalawattha Road, Mathugama.
Tel /Fax: 034-3944339

Monaragala

5, Wellawaya Road, Monaragala.
Tel: 011-2428276-7, 055-2276290
Fax: 055-2277379

Moratuwa

193 1/1, New Galle Road, Moratuwella,
Moratuwa.
Tel: 011-2641666, 011-2641800
Fax: 011-2641811

Negombo

147, St. Joseph Street,
Negombo.
Tel: 011-2428108-9, 031-2235042-3,
031-2224264
Fax: 031-2224243

Nikaweratiya

71, Puttalam Road, Nikaweratiya.
Tel: 011-2428148
Tel /Fax: 037-2260367

Nugegoda

376, High Level Road,
Gangodawilla Nugegoda.
Tel: 011-2815511-3, 011-2815588,
011-815599
Fax: 011-2815515

Nuwara Eliya

36, 2nd Floor, Park Road,
Nuwara Eliya.
Tel: 011-2428272, 052-2223341
Tel /Fax: 052-2223017

Padaviya

NO: 2, New Town, Padaviya.
Tel /Fax: 025-3770758

Panadura

571/3, Galle Road, Panadura.
Tel /Fax: 038-3392217

Point Pedro

357, Main Street, Point Pedro.
Tel /Fax: 0113-158153

Polonnaruwa

5, Batticaloa Road, Polonnaruwa.
Tel: 011-2428188, 027-2223261,
027-2226611
Fax: 027-2226612

Puttalam

Yard No. 2, Kurunagala Road,
Puttalam.
Tel: 011-2428124
Tel /Fax: 032-2265980

Ratmalana

228, Galle Road, Ratmalana.
Tel: 011-2726612-3
Fax: 011-2726611

Ratnapura

53 1/2, Senanayake Mawatha,
Ratnapura.
Tel: 011-2428240-1, 045-2230739,
045-2226740
Fax: 045-2223525

Thalawathugoda

1114/1, Wickramasinghepura Junction,
Thalawathugoda.
Tel: 011-2796321-2, 011-2796311-2
Fax: 011-2796310, 011-2796370

Tambuttegama

No 319, Rajina Junction, Tambuttegama.
Tel/Fax: 025-2276060

Tangalle

No 61/1, Beach Road, Tangalle.
Tel: 047-2241841

Tissamaharama

92, Main Street, Tissamaharama.
Tel: 011-2428208, 047-2237711
Fax: 047-2239644

Trincomalee

83, Main Street, Trincomalee.
Tel /Fax: 026-2227530

Valachchanai

830B, Main Street, Valachchanai.
Tel /Fax: 024-3158152

Vavuniya

113 A, Kandy Road, Vavuniya.
Tel: 011-2428192
Tel /Fax: 024-2223138

Warakapola

35, 1st Floor, Anguruwella Road,
Warakapola.
Tel: 011-2428152
Tel /Fax: 035-2267441

Welimada

34, Old Post office Road, Welimada.
Tel /Fax: 057-3586615

Wellawaya

Monaragala Road, Wellawaya.
Tel /Fax: 055-3600031

Wennappuwa

6, Colombo Road, Wennappuwa.
Tel /Fax: 031-2255844

Notice of Meeting

Notice is hereby given that the 24th Annual General Meeting of Union Assurance PLC, will be held at the Auditorium, Institute of Chartered Accountants of Sri Lanka, 30 A, Malalasekera Mawatha, Colombo 7, on Thursday 31st March 2011 at 9.00 a.m. for the following purposes:

1. To read the Notice convening the meeting
2. To receive and consider the Annual Report and the Financial Statements of the company for the year ended 31st December 2010 with the Report of the Auditors thereon
3. Re-elect as a Director, Mr. J. R. F. Peiris, who retires in terms of Article 83 of the Articles of Association of the company
4. To re-appoint auditors and authorise the Directors to fix their remuneration
5. Any other business of which due notice has been given

**BY ORDER OF THE BOARD
UNION ASSURANCE PLC**



KEELLS CONSULTANTS (PRIVATE) LIMITED
Secretaries

15 February 2011

Note:

- a. A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend and vote instead of him / her
- b. A proxy need not be a member of the company. The form of Proxy is attached to the Annual Report
- c. The completed Form of Proxy should be deposited at the registered office of the company not less than 48 hours before the time appointed for the holding of the meeting

Proxy Form

I/We..... of
 being a member/s of Union Assurance PLC
 hereby appoint of
 or failing him/her

Mr. Ajit Damon Gunewardene	of Colombo, or failing him
Mr. James Ronnie Felitus Peiris	of Colombo, or failing him
Mr. Arjuna Kapila Gunaratne	of Colombo, or failing him
Mr. Ashan Suresh De Zoysa	of Colombo, or failing him
Mr. Gerald Fredrick Christopher De Saram	of Colombo, or failing him
Mr. Krishan Niraj Jayasekara Balendra	of Colombo, or failing him

as my/our proxy to represent me/us and vote on my/our behalf at the 24th Annual General Meeting of the Company to be held on Thursday, 31st March 2011 at 9.00 a.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

I/We, the undersigned, hereby direct my/our proxy to vote for me/us and on my/our behalf on the specified Resolution as indicated by the letter "X" in the appropriate cage:

	For	Against
To re-elect as a Director Mr. J.R.F. Peiris who retires by rotation in terms of Article 83 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint the retiring Auditors, KPMG Ford, Rhodes, Thornton & Co. Chartered Accountants, and to Authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this day of Two Thousand and Eleven

.....
 Signature/s of Shareholder/s

NOTE:
INSTRUCTIONS AS TO COMPLETION OF PROXY FORM ARE NOTED ON THE REVERSE HEREOF.

Proxy Form contd.

Instructions as to Completion of Proxy

1. Please perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 20, St. Michael's Road, Colombo 3, not later than 48 hours before the time appointed for the holding of the Meeting.
3. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a company or Corporation, the Form of Proxy should be executed under its Common Seal or by a duly authorised officer of the company or Corporation in accordance with its Articles of Association or Constitution.
5. If this Form of Proxy is returned without any indication of how the person appointed as Proxy shall vote, then the Proxy shall exercise his/her discretion as to how he/she votes or, whether or not he/she abstains from voting.

Corporate Information

Name of Company

Union Assurance PLC

Legal Form

A public limited liability company incorporated in Sri Lanka on 8th January 1987 and registered under the Companies Act No. 7 of 2007 and quoted on the Colombo Stock Exchange since 1988

Company Registration Number

PQ12 [Previous registration number N(PBS)137]

Tax Payer Identification Number (TIN)

134001372

VAT Registration Number

1340013727000

Directors

A. D. Gunewardene - *Chairman*
A. K. Gunaratne
A. S. De Zoysa
G. F. C. De Saram
J. R. F. Peiris
K. N. J. Balendra

Secretaries and Registrars

Keells Consultants (Private) Limited
130, Glennie Street, Colombo 2

Auditors

KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Marker Mawatha,
Colombo 3

Consultant Actuaries

Actuarial & Management Consultants (Pvt) Ltd.
434, 1st Floor, R A De Mel Mawatha,
Colombo 3

NMG Financial Services Consulting Limited

Suite 2207-9 Tower 2 Lippo Centre Admiralty Hong Kong

Lawyers

Julius & Creasy
Attorney-at-Law, Solicitors & Notaries Public
41, Janadhipathi Mawatha, Colombo 1

Bankers

Bank of Ceylon
Citibank, N.A.
Commercial Bank of Ceylon PLC
Deutsche Bank AG
DFCC Vardhana Bank Limited
Hatton National Bank PLC
Housing Development Finance Corporation
Bank of Sri Lanka Limited
National Development Bank PLC
National Savings Bank
Nations Trust Bank PLC
Peoples Bank
Sampath Bank PLC
Seylan Bank PLC
Standard Chartered Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Union Bank of Colombo Limited

Reinsurance Panel

Munich Reinsurance Company
Swiss Reinsurance Company Ltd.
SCOR Reinsurance Asia Pacific Pte Ltd.
The Toa Reinsurance Company Ltd.
Lloyds
Asia Capital Reinsurance Group Pte Ltd.
Hannover Re
General Insurance Corporation of India
Labuan Reinsurance Ltd.
BEST Reinsurance
Sirius Reinsurance
Trust Re
Korean Re

Registered Office of the Company

Union Assurance Centre
20, St Michaels Road,
Colombo 3

Investor Relations

All investor queries should be directed to the investor relations
hotline number 011-2428692



Union Assurance Centre
20 St. Michael's Road Colombo 3
Sri Lanka.
www.unionassurance.lk