



Annual Report

# 2011

## Into the Future



# Vision

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To be the most sought after provider of insurance solutions

# Mission

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

# Values

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## **Excellence**

Strive for excellence in everything we do  
Be the Best we can be

## **Caring**

Fostering a great place to work by supporting each other to reach our full potential

## **Innovation**

Improving constantly, reinventing and evolving

## **Trust**

Building strong relationships based on transparency and convenience with internal and external customers

## **Ethics and Integrity**

Doing the right thing always

# Into the Future

A new year in which to extend our vision, a new day in which to dream big. We at Union Assurance see a future that is bright, filled with opportunity to grow and follow through with the values that have made us a trusted name amongst Sri Lankans in all forms; all of whom share the need be assured with quality and exceptional service. So together with our stakeholders, who have placed their confidence in us and to whom, in turn, we hope to add value; we look forward to the future. One that is illuminated with potential and in which we achieve, beyond expectations.

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**FINANCIAL**  
HIGHLIGHTS

# Rs. 4,261 Mn

General insurance gross written premium grew by 16% from Rs. 3.7 billion to Rs. 4.3 billion

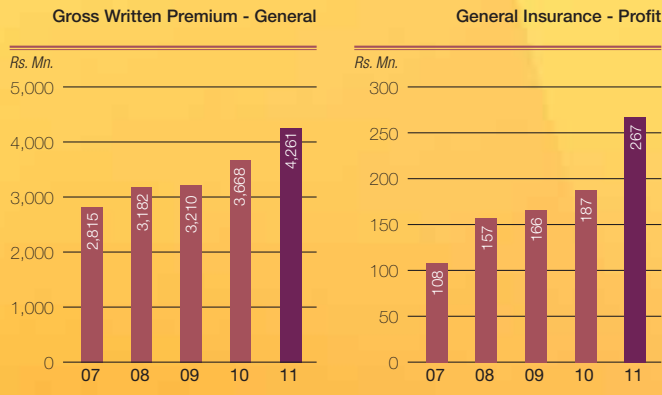
# Rs. 4,472 Mn

Life business maintained its growth momentum, reporting an impressive growth rate of 29%.

# Rs. 696 Mn

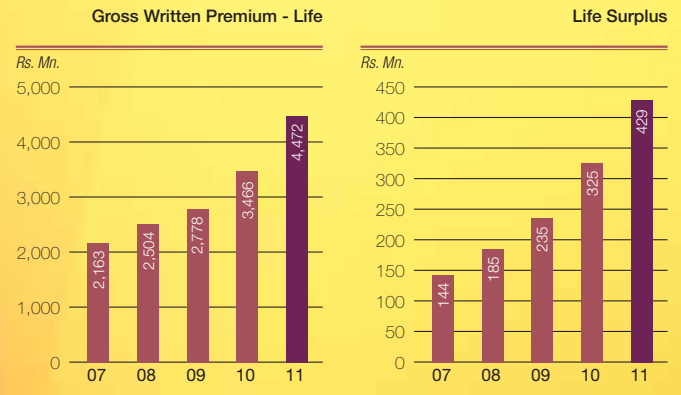
Profit for the year increased by 36% from Rs. 512 million in 2010 to Rs. 696 million in 2011

## General Insurance



General insurance gross written premium grew by 16% from Rs. 3.7 billion to Rs. 4.3 billion. Most classes of general insurance business contributed to growth, and both retail and corporate distribution channels expanded their business volumes. Net profit increased by 43% from Rs. 187 million to Rs. 267 million in 2011.

## Life Insurance



Life business maintained its growth momentum, reporting an impressive growth rate of 29%. Based on an independent actuarial valuation, Rs. 429 million was transferred as surplus from the life fund. This was 32% higher than the 2010 surplus.

## Company



Combined life and general gross written premium amounted to Rs. 8.7 billion, compared with Rs. 7.1 billion in the previous year, an increase of 22%. Profit after tax, increased by 36% from Rs. 512 million in 2010 to Rs. 696 million in 2011.

Net assets increased from Rs. 2.6 billion to Rs. 3.2 billion, due to improved profitability and revaluation of freehold land and buildings. Earnings per share and return on net assets amounted to Rs. 9.27 and 22% respectively, compared with Rs. 6.83 and 19% recorded in 2010.

# HIGHLIGHTS OF THE YEAR

## January

Commenced the year by launching the 1<sup>st</sup> trilingual website in the insurance industry. The contents on the web site were also revamped to ensure that UA communicated with all stakeholders in a transparent manner.

Entered into an agreement with Commercial Bank to enable life insurance policyholders to receive their claim or benefit payments over the counter from any bank branch upon presenting a sms sent by UA, together with proof of their identity.

## February

Entered into an agreement with Commercial Bank to sell Union Motor Reload, enabling customers to reload their motor insurance policies via Commercial Bank's 180+ branches across the island. 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.

## April

The finals of "Pasalen Karaliyata," the all island inter school aesthetic competition was held at the National Aesthetic and Cultural Art Centre. More than 150,000 students representing over 3,000 schools from 22 Districts took part in this competition.

## July

Revamped the life insurance surgical and hospitalisation policies to include almost all surgeries, rather than limiting cover to specified procedures. UA's flagship life product, Union Life Advantage was also enhanced to enable customers to choose the extent of life cover they require.

## August

Launched Health Net, a surgical and hospitalisation product for customers who require treatment in India. The key features of the product include access to approximately 4,000 hospitals in India, cashless settlement options, coverage for over 150 named day-care procedures that do not require 24 hour hospitalisation etc.

## September

Launched an on-line Claims Tracking System (CTS), enabling customers to view the status of claims related to specific classes of general insurance business. With the launch of the system, claims processes were revamped to ensure that selected claims were settled within 24 hours upon receipt of relevant information.

## October

Launched an IT based e-learning solution, in line with international best practices, and with a view to enhance the quality of learning and development for both office and field staff. Employees are able to access the system at anytime, anywhere and refer material on a variety of topics specifically developed for the platform by trained professionals.

## November

Launched Union Family Health Net, providing comprehensive surgical and hospitalisation insurance to persons who require treatment in Sri Lanka. The product is available to persons between the ages of 1 to 65 years on an individual basis or as a family unit. A key feature of the product is that an individual whose insurance is paid by the employer, could extend the coverage to his / her family at a discounted premium.

UA's 2010 annual report was awarded 1<sup>st</sup> place for corporate governance disclosures by the South Asian Federation of Accountants after competing with reports from across the South Asian region. The report was placed 1<sup>st</sup> in the insurance category as well.

## December

The 2010 annual report won several accolades at the annual report awards ceremony conducted by the Chartered Accountants of Sri Lanka, including overall 1<sup>st</sup> place for corporate governance disclosures, 1<sup>st</sup> place in the insurance sector, 2<sup>nd</sup> place for overall excellence in annual financial reporting and overall 3<sup>rd</sup> place for corporate social responsibility.

UA secured 1<sup>st</sup> place in the Insurance Sector for the 3<sup>rd</sup> consecutive year and were runners up for Performance Management practices at the National Business Excellence Awards ceremony conducted by the National Chamber of Commerce (NCCSL).

Reported the highest profit in the company's history of Rs. 696 million, a 36% increase over the previous year. Life and general insurance revenues also increased by 22% from Rs. 7.1 billion in 2010 to Rs. 8.7 billion in 2011.

# CHAIRMAN'S REVIEW

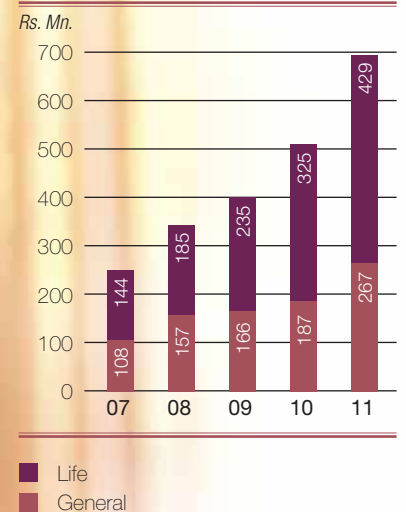
UA recorded an impressive growth rate in both turnover and profits. General and life insurance premiums increased by 22%, from Rs. 7.1 billion in 2010 to Rs. 8.7 billion in 2011. Profit after tax increased by 36% from Rs. 512 million in 2010 to Rs. 696 million in 2011.



**Chairman**  
Ajit Gunewardene



Profitability - General and Life



It gives me great pleasure to present to you the annual report of your company for the year ended 31<sup>st</sup> December 2011. Union Assurance has taken full advantage of the positive socio economic conditions prevailing in Sri Lanka to post excellent results in terms of turnover and profitability.

## Macro Economic Environment

Growth and infrastructure expansion were the main economic themes for 2011, which saw many projects being brought to fruition such as the Hambantota port, southern expressway and the Norochcholai power plant. Private sector investments also gathered momentum with numerous ventures being commenced in the areas of leisure, property development, IT and outsourcing as well as retail and trade. Economic growth continued to come in strongly with the third quarter growth figure being 8.4% led by strong growth in the industrial and services sectors.

## General Insurance Industry

Two new insurers commenced business during the year. As a result, there are 19 companies providing general insurance services including the National Insurance Trust Fund. These comprise seven stand alone companies and twelve companies which provide life and general insurance services.

Registration of new motor vehicles continued to grow, and increased economic activity created opportunities for new business in the non motor segment. However, price competition across most lines of business and the effective monopoly on large scale infrastructure projects (following a treasury circular that state sector organisations must place their business with government controlled insurance companies) were negative factors to contend with.

## Life Insurance Industry

As per statistics published by the IBSL, 28% of the working population has some form of life insurance. However, insurance premium as a percentage of GDP has stagnated around 0.5% indicating that there is significant under penetration / under insurance.

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 industry.

## Company Performance

UA recorded an impressive growth rate in both turnover and profits. General and life insurance premiums increased by 22%, from Rs. 7.1 billion in 2010 to Rs. 8.7 billion in 2011. Profit after tax increased by 36% from Rs. 512 million in 2010 to Rs. 696 million in 2011.

More information on 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 report.

## Strength and Stability

UA's net asset base increased by Rs. 595 million from Rs. 2.6 billion in 2010 to Rs. 3.2 billion in 2011. As reflected on page 114, the company's solvency position has also improved. 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 page. 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 194 and 195 respectively.

## Regulations

Significant amendments were made to expand investment opportunities for insurance funds. However, an inconsistency between the basis of valuation for fixed income securities (which constitute a large proportion of invested assets) vis-à-vis insurance liabilities in the context of a volatile interest rate environment, is a risk for insurers to contend with.

The Insurance Board of Sri Lanka (IBSL) has progressed towards implementing a risk based capital regime with effect from 2015, following a test run in 2014.

A committee comprising of representatives from the IBSL and Insurance Association of Sri Lanka (of which all insurers are members) are also working on developing guidelines and studying related laws / regulations to facilitate composite companies (which transact both life and general insurance businesses) to operate as two separate entities by 2015.

## Achievements

I am proud that Union Assurance was recognised both nationally and internationally in 2011. UA's 2010 annual report was awarded 1<sup>st</sup> place for corporate governance disclosures by the South Asian Federation of Accountants after competing with reports from across the South Asian region. The report was placed 1<sup>st</sup> in the insurance category as well. We also won several accolades at the annual report awards ceremony conducted by the Chartered Accountants of Sri Lanka, including overall 1<sup>st</sup> place for corporate governance disclosures, 1<sup>st</sup> place in the insurance sector, 2<sup>nd</sup> place for overall excellence in annual financial reporting and overall 3<sup>rd</sup> place for corporate social responsibility. We were also recognised at the National Business Excellence Awards securing joint 1<sup>st</sup> place in the insurance sector and 2<sup>nd</sup> overall for performance management practices.

## Future Outlook and Strategy

As with businesses in any country experiencing rapid economic and infrastructure development, companies in Sri Lanka would also have to re-align their business models to successfully face new entrants, both from domestic and regional markets.

We maintain a very positive outlook for our general and life insurance businesses. We believe that increasing economic prosperity will create new opportunities for insurance services across all customer segments.

We are confident that the prolonged soft market cycle in the general insurance business will reverse when the regulatory requirement to separate general and life insurance businesses is implemented, risk based capital is introduced and companies are required to maintain a minimum share capital of Rs. 500 million for each line of business.

UA is well positioned to capitalise on the opportunities in the general insurance space due to the continued focus on improving customer service, streamlining processes and enhancing the technical competencies of staff at all levels.

A rapidly ageing population, lower penetration levels vis-à-vis regional economies and rising income levels point to an exciting future for life insurance. UA will continue to invest in professionalising the sales force, developing new products and improving service standards for both internal and external customers in order to maintain the growth momentum achieved in this segment.

## Dividends and Share Split

The company's shares were split during the year to facilitate more liquidity and better representation of the company's value.

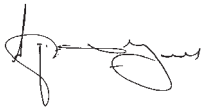
The Board of Directors is pleased to declare a first and final dividend of Rs. 5 per share for 2011, which is 60% higher than the dividend declared in the previous year. The dividend payout for the year amounts to Rs. 375 million.

## Acknowledgements

On behalf of all the stakeholders of UA, I wish to place on record our appreciation of the valuable services rendered to UA by Messrs Arjuna Gunaratne, Ronnie Peiris and Krishan Balendra who stepped down from the Board during the year. I also welcome Messrs Harin De Silva Wijeyeratne, Suresh Rajendra and Ms. Dilani Alagaratnam. We are confident that their combined knowledge and experience will be invaluable to UA's future growth.

We commend the initiatives taken by the Insurance Board of Sri Lanka to improve the regulatory framework for 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 team at UA 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*

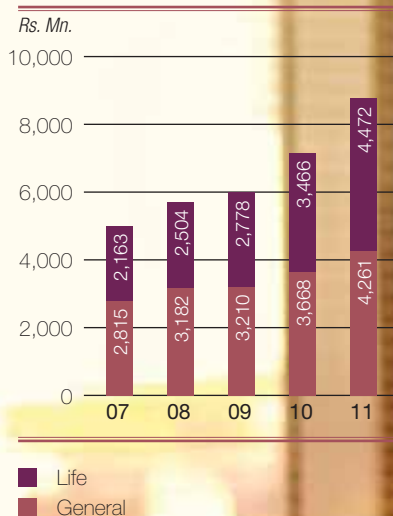
23<sup>rd</sup> February 2012

# CHIEF EXECUTIVE OFFICER'S REVIEW

General insurance premium recorded an increase of 16% to end that year at Rs. 4.3 billion. Life insurance premiums grew by 29% from Rs. 3.5 billion in 2010 to Rs. 4.5 billion in 2011.

**Chief Executive Officer**  
Dirk Pereira

**Gross Written Premium - General and Life**



Union Assurance reported strong growth in turnover and profitability as it entered its 25<sup>th</sup> year of operations. Combined life and general insurance premiums increased by 22%, from Rs. 7.9 billion in 2010 to Rs. 9.0 billion in 2011. Profit after tax increased by 36% from Rs. 512 million in 2010 to Rs. 696 million in 2011.

These results were achieved due to the company's continued focus on its strategic objectives as summarised below.

- Deliver profitable growth in both life and general insurance businesses
- Manage claims and expenses
- Develop products that meet customer needs and
- Improve the morale, motivation and productivity of our staff

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

### **Focus on Profitable Growth in General Insurance**

General insurance premium recorded an increase of 16% to end that year at Rs. 4.3 billion. Both retail and corporate distribution channels contributed to this growth momentum. The industry remains very price competitive across most lines of business. UA took a conscious decision to aggressively pursue opportunities when pricing was commensurate with risks, while retreating from business when pricing was unviable.

### **Achieve Sustainable, Profitable Growth in Life Insurance**

Life insurance premiums grew by 29% from Rs. 3.5 billion in 2010 to Rs. 4.5 billion in 2011. Unit linked products contributed significantly to this growth. Excluding such products, regular and group life insurance premium increased by 16%.

We achieved good progress with the "value drivers" of the business. There was a noteworthy increase in the number of new advisors and the average case size per policy. As a result, new business premium on an annualised basis reported growth. The bancassurance channel also made a positive contribution to this increase.

### **Provide Consistent, High Quality Customer Service**

We continued to focus on service as a key differentiator for both internal and external customers. Motor claims processes including call centre infrastructure was revamped in order to ensure a faster turnaround time for customers. An e-based claims tracking system was introduced to manage and monitor service pertaining to selected classes of non motor claims. A new e-based motor underwriting solution was launched during the latter part of 2011, and the suite of pre-underwritten non motor products was also streamlined.

Service parameters for life insurance customers and advisors were continuously monitored during the year to ensure that services were delivered in line with or exceeded industry benchmarks. In accordance with our strategy to deliver services in a cost effective manner, several services required by customers and life insurance advisors were made accessible via mobile phone and tablet computer platforms. A sms based payment process to settle life claims and benefits was also launched during the year.

### **Increase Profitability by Managing Claims and Expenses**

The overall claims ratio from general insurance improved from 72.2% in 2010 to 7.2% in 2011. This was due to the efforts taken to manage pricing and walking away from business when the premium was unlikely to meet expected claims expenses. The claims ratios on motor, marine and accident & liability classes decreased compared with 2010. The claims ratio on property was affected by the floods which occurred in January and the cyclonic conditions in November 2011.

We took several initiatives to manage our expenses, without compromising our service standards. The expense ratio recorded a decline from 36.0% in 2010 to 34.2% in 2011. As a result, the combined ratio, which is a combination of the loss and expense ratio declined from 108.2% in 2010 to 104.4% in 2011.

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 which was introduced in 2009 to significantly expand our network in 2011. 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**

Sales of Union Motor Reload which allows customers to obtain coverage for one, three or six months (rather than the full year) gathered momentum during the year. In response to the rising demand for a cost effective, stand alone health insurance solution, the company launched Union Family Health Net, catering to the needs of individuals and / or their families. The policy offers a comprehensive cover against hospitalisation, OPD and critical illnesses for persons between the ages of 1 to 65 years individually or as a family unit. A key feature of the product is that an individual whose insurance is paid by the employer, could extend the coverage to his / her family at a discounted premium.

The Union Advantage range of life products was repositioned to clearly align with customer needs i.e. protection, education, investment etc. The flexibility of the product was also enhanced by adding a feature to allow customers to choose the amount of life cover they require. The limits available on the range of life related health and surgical insurance solutions were enhanced, and coverage expanded to include almost all types of surgeries, rather than a specified set.

### **Improve Morale, Motivation and Productivity of Staff**

We worked on the areas for improvement highlighted in the employee satisfaction survey conducted in 2010. We believe the impact of the initiatives we have taken will be reflected in the next survey which is scheduled for 2012.

We continued to invest in developing the technical, managerial and leadership competencies of staff at all levels. Several structured training programmes were launched in this regard with an emphasis on e-learning and blended learning solutions to ensure consistency and quality across the branch network spread across the island.

### **Outlook**

We maintain a very positive outlook for both life and general insurance businesses. The low penetration levels vis-à-vis potential as evidenced by the industry's contribution to national GDP and the number of life insurance policies as a percentage of the working population will likely entice new entrants with local, regional or international ties to enter and invest in the Sri Lankan market.

We believe that the general insurance business will continue to be price competitive in the medium term. Competition will be fuelled by new entrants as well as existing players attempting to maintain their market share. In the medium term, large general insurers will be more likely to have an in-house portfolio of business from other financial services businesses within their group.

### Future Strategies

In the life insurance segment, our intention is to build scale in a cost effective manner. We will continue to invest in 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 this segment.

We intend to use our team of well trained and experienced staff, 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.

As we enter our 25<sup>th</sup> year of operation, UA is well positioned to capitalise on the growth opportunities that will follow rapid socio economic development. As income levels rise and greater awareness regarding the value of insurance is created, we believe that UA with its consistent focus on governance and transparency together with the team of high quality professionals will be able to deliver sustainable value to all stakeholders.



**Dirk Pereira**  
*Chief Executive Officer*

23<sup>rd</sup> February 2012

# BOARD OF DIRECTORS



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## 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 19 years. He is a Director of many companies in the John Keells Group. 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 and Nations Trust Bank PLC. Mr. Gunewardene has a degree in Economics and brings over 30 years of experience to your Board.

## 2. Gerald de Saram

### *Director*

Mr. Gerald de Saram was appointed to the Union Assurance Board on 1<sup>st</sup> 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. Suresh Rajendra

### *Director*

Mr. Suresh Rajendra was appointed to the Union Assurance Board on 16<sup>th</sup> August 2011. He is President, Property Group of John Keells Holdings PLC. He also serves as a Director in many companies of the John Keells Group. He has over 20 years of experience in the fields of finance, travel and tourism, and business development acquired both in Sri Lanka and overseas. Prior to joining the Group, he was the head of commercial and business development for NRMA Motoring & Services in Sydney, Australia, Director/General Manger of Aitken Spence Hotel Managements (Pvt) Ltd. and also served on the Boards of the hotel companies of the Aitken Spence Group. Suresh is a Fellow of the Chartered Institute of Management Accountants, UK.



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#### 4. Harin de Silva Wijeyeratne

##### Director

Mr. Harin de Silva Wijeyeratne was appointed to the Union Assurance Board on 7<sup>th</sup> September 2011. He is currently the Head of Finance and Business Development at the Sri Lanka Institute of Nano Technology (Pvt) Limited and also the CEO of Avastha Financial Advisory Services (Pvt) Limited. He is an Associate Member of both the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK. He has over 23 years experience in the fields of general management, financial management and auditing which has been acquired while being employed at Investcorp Bank, Bahrain, Grindlays Bahrain Bank, Ernst & Young, Bahrain and Ernst & Young, Sri Lanka

#### 5. Dilani Alagaratnam

##### Director

Dilani Alagaratnam was appointed to the Union Assurance Board on 16<sup>th</sup> August 2011. She is President, Group HR, Legal & Secretarial and has overall responsibility for the Group Human Resources, Legal & Secretarial and Corporate Communication Functions and is also a Director of several companies within the John Keells Group. A Lawyer by profession, she has

been with John Keells Holdings PLC for 20 years and is a law graduate and a holder of a Masters Degree in Law. Currently she is the Chairperson of the Steering Committee on Human Resources and Education of the Ceylon Chamber of Commerce, member of the National Labour Advisory Committee and member of the Technical Advisory Committee of the Sri Lanka Institute of Directors.

#### 6. Ashan de Zoysa

##### Director

Mr. Ashan De Zoysa was appointed to the Board on 1<sup>st</sup> 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. Mr. De Zoysa currently serves on the Board of Associated Electrical Corporation Ltd, A E C Properties (Pvt) Ltd and is an alternate Director at Union Bank of Colombo PLC. He has also served on the Board of AMW Group as a Working Director.

# MANAGEMENT TEAM





### **1. Dirk Pereira**

*Chief Executive Officer*

Dirk joined UA as General Manager Finance and Planning in May 2004 and was promoted as the Deputy Chief Executive Officer on 1 January 2007. He was promoted as CEO on 1 January 2010. He has over 15 years of finance and audit experience at Eagle Insurance and Ernst & Young. Dirk is a Fellow member of the Chartered Institute of Management Accountants UK and a member of 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 Insurance*

Jayaseeli joined Union Assurance as the General Manager of the Life Division in April 2002. She counts for more than 30 years experience in the industry. Jayaseeli started her career in insurance as a Management Trainee at the Insurance Corporation of Sri Lanka in 1981 just after her graduation from the University of Colombo. Her engagement with the private sector was in 1989 when she joined Eagle Insurance. At the time of her departure from Eagle in 2002 she was the Head of Life Underwriting. She had her initial insurance training from the College of Insurance of India and Swiss Insurance Training Center in Switzerland. She has had extensive training and overseas exposure in life insurance and has won several awards of recognition for her expertise in the area.

### **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 Finley's 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 the AGM Finance and Planning in August 2007 and was promoted as General Manager - Finance and Planning in April 2009. Indika has more than eleven 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 honors from University of Sri Jayewardenepura. He is an Associate member of Chartered Institute of Management Accountants UK and a finalist in CIM UK. He holds a 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 to 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 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 Attaché 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 Jayawardenepura.

## 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 - General Insurance on 1 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 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 banking, finance and insurance. Ruwan joined UA 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 of an MSc in IT.

## 10. Nihal Handunge

*General Manager, Distribution General Insurance*

Nihal joined UA in November 1983 in the capacity of a Manager, Marketing for Life Insurance. Subsequently he rose to the position of General Manager, Distribution for General Insurance.

Nihal counts over 28 years experience, in sales and marketing and brings a wealth of knowledge to UA. He provides leadership to a dynamic team of Zonal and Regional Managers covering UA's islandwide branch network. Prior to joining UA he was with Mercantile Credit Ltd which was a key promoter of UA.



# Seeing the Future

Your plans for the future are precious and helping achieve your dreams is our goal. We aim to provide peace of mind, protection and the freedom to truly experience life while making us your wingmen

## MANAGEMENT DISCUSSION AND ANALYSIS

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# MANAGEMENT DISCUSSION AND ANALYSIS

## Overview

### Economic Overview

#### Expansion and Growth – Key Themes for the Year

Economic growth continued unabated by the turmoil in developed nations as domestic inflation and interest rates were contained to spur economic activity. In keeping with the infrastructure drive commenced in 2009/10, key projects such as the Norochcholai Power Plant, Hambantota port and the Southern highway were commissioned during 2011. On the global front, there are clear downside risks emerging from the fiscal challenges in the EU region, high levels of unemployment in the US and unrest in oil producing nations. Widening budget deficits and elevated commodity prices are expected to dampen global growth to about 4% throughout 2011 and 2012.

In Sri Lanka, the strong growth momentum continued for the first three quarters of 2011 with the 3<sup>rd</sup> quarter recording 8.4% GDP growth. The industrial sector continued to lead the way growing by 10.8% for the 3<sup>rd</sup> quarter, while services grew by 7.8%. Within the industrial sector, the construction subsector reported strong growth of 17.3%. The agriculture sector recovered from the slump experienced in the first half of 2011 due to supply shocks and recorded a satisfactory growth of 6.2% in the 3<sup>rd</sup> quarter. Strong growth was witnessed in paddy (+12.4%) and fisheries (+17.3%) subsectors which compensated for lackluster performance from export crops. Full year growth is estimated at 8% for 2011.

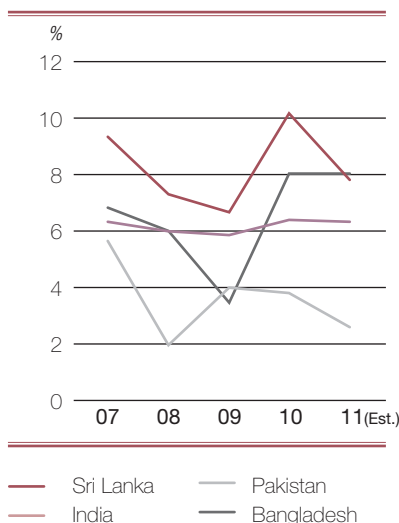
For 2012, the economy is expected to grow at 7.6% provided the slowdown in the major export markets i.e., EU and US can be compensated by strong domestic activity. The recently introduced expropriation bill and volatility in interest rates are downside risks to this growth forecast.

#### Fiscal Performance on Track

For the first eight months of 2011, the budget deficit was contained at 5.3% of GDP compared to 5.6% for the same period in 2010. During the period, current expenditure was curtailed to 10.6% of GDP with debt service payments benefiting from lower interest rates. Capital expenditure increased by 31.9%, underlining the infrastructure development drive.

The strong growth momentum continued for the first three quarters of 2011 with the 3<sup>rd</sup> quarter recording 8.4% GDP growth.

Regional Comparison of GDP Growth



Sectoral GDP Growth



Deficit financing was primarily focused on bank borrowings although the 2011 budget indicated non-bank borrowings to be the major source of financing. Up to August 2011, bank borrowings were Rs. 138 billion versus the Rs. 42 billion estimated in the budget. Non-bank borrowings dipped to Rs. 91 billion, sharply lower than the budgeted figure of Rs. 248 billion.

The government's deficit target for 2012 is set at 6.2% of GDP with total revenue and expenditure estimated at 14.7% and 21.2% of GDP respectively. Tax revenue is forecast at 13.3% from 12.9% of GDP, benefiting from the measures undertaken to widen the tax base and simplify tax administration. Non-tax revenue is expected to grow by 10.2%. Public investment is expected to be 6.6% of GDP rising from 6% in 2011. The curtailment of current expenditure is forecast to continue with the figure for 2012 being budgeted at 14.7% from 15.6% of GDP in 2011.

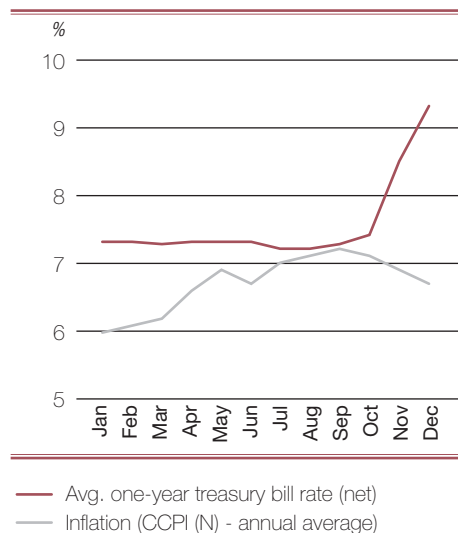
Unlike 2011, where bank borrowings played a major role in deficit financing, the 2012 deficit is expected to be financed primarily through domestic non-bank borrowings. Non-bank borrowings are budgeted at Rs. 208 billion versus bank borrowings of Rs. 64 billion, which may exert upward pressure on domestic treasury bill and bond rates.

**Inflation and Interest Rates have Bottomed Out**

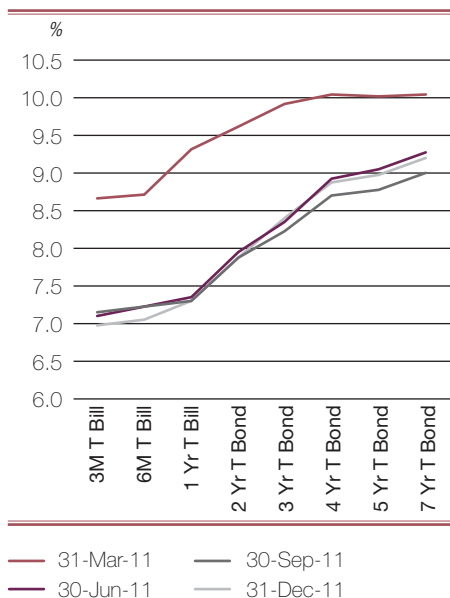
For most of 2011, inflation on an annual average basis continued upwards at a slow but steady pace with the peak of 7.2% reported in September 2011. There was a slight dip from October onwards with the annual average rate as at December 2011 being 6.7%. On a year on year basis, inflation has dipped to 4.9% as at December 2011. However, the GDP deflator, which can be viewed as a more comprehensive indicator of inflation, was 7.9% as at September 2011.

The decision to float the rupee by 3% in November 2011 and the increased taxes on imports proposed in the 2012 budget will exert upward pressure on prices of imported goods next year. However, this rise may be cushioned to some extent by benign commodity prices, (mainly oil) as the world economies enter a recessionary phase.

**Interest Rates vs. Inflation**



**Government Securities Yield Curve**



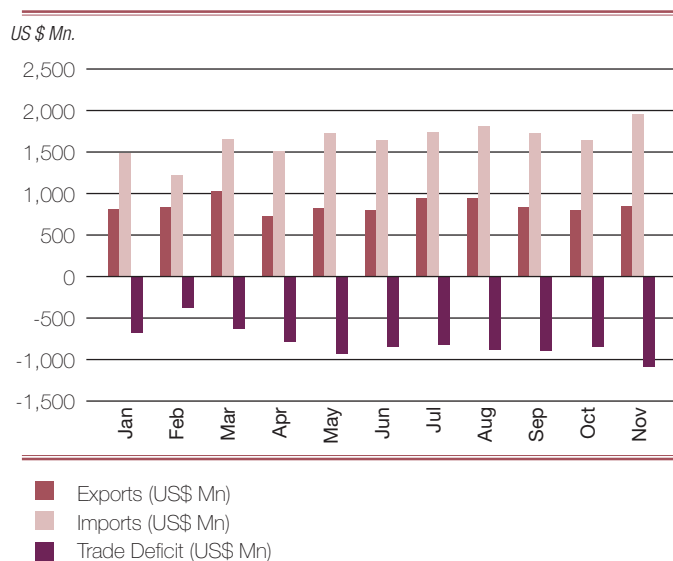
## Management Discussion and Analysis Contd.

The one year treasury bill, which was 7.55% in 2010 has risen to 9.21% in December 2011 following the devaluation and currency defense post-devaluation. On long term bonds, the impact has been muted so far, as most bond holders are yet to cut their positions and book the unrealised losses. However, the five year treasury bond has risen by almost 70 basis points since January, to approx. 9.95% in December 2011.

Given the increased reliance on non-bank sources to finance the 2012 deficit, interest rates would be under pressure to rise during 2012. This could be mitigated by significant foreign inflows into the local capital markets, although such inflows would be harder to attract in a recessionary environment.

**Widening Trade Deficit**

Up to November 2011, the growth in import expenditure far outweighed the growth in export earnings, resulting in a further deterioration of the trade deficit. Exports grew at 22.2% to USD 9.6 billion while import growth was recorded at 53.2% to USD 18.4 billion. Growth in exports were primarily led by industrial exports including rubber exports, which grew by 60%. Import growth was primarily from intermediate (+53.6%) and investment goods (+63.5%), which were mostly for utilisation in government infrastructure projects and capacity expansion. Hence, the overall trade deficit expanded by 111% to USD 8.8 billion for the eleven months of 2011.

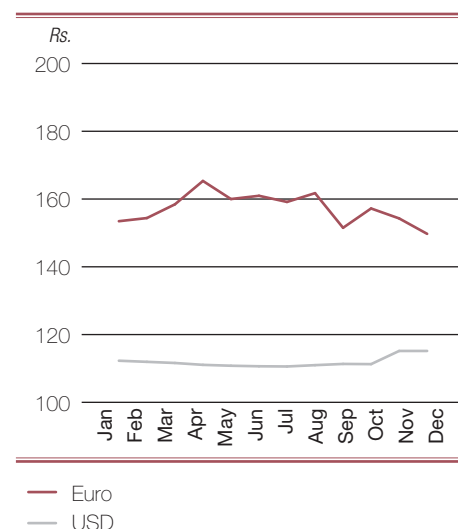
**External Trade Performance**

Worker remittances recorded healthy growth of 24% to USD 4.6 billion. However, this was not adequate to cover the ballooning trade deficit.

Hence, the current account deficit rose to approximately USD 4.2 billion as at November 2011. Including the proceeds of the sovereign bond issue, foreign inflows for 2011 are expected to be adequate to maintain the BoP at a marginal deficit of USD 88 million.

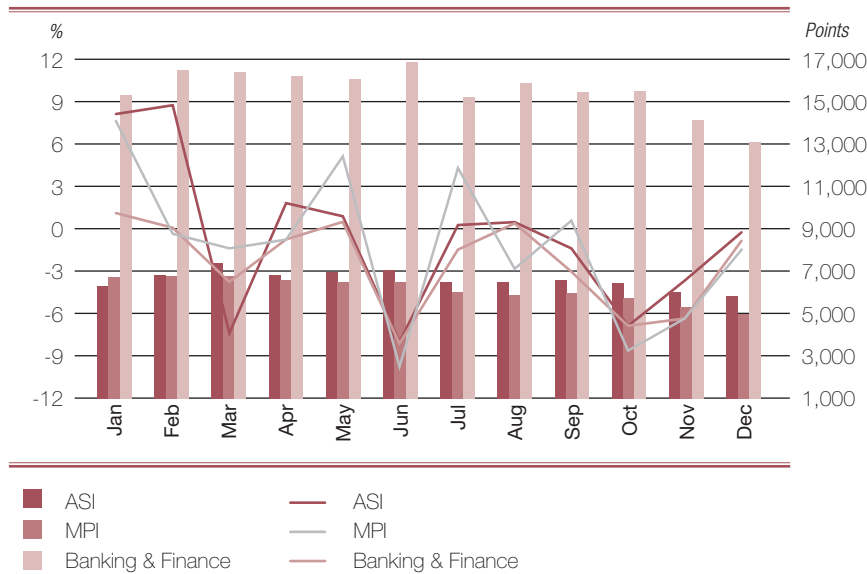
In 2012, it would be difficult to attract new foreign inflows on commercial terms given the turmoil in foreign markets and dampened investor confidence. In addition, redemption of existing foreign commercial debt and depressed export earnings on account of the EU crisis may further aggravate the external position. This would create added pressure on the BoP, which is likely to end the year with a deficit in excess of USD 300 million.

The Sri Lankan Rupee was defended at Rs. 110 for most part of the year until the surprise 3% devaluation announced in the November budget. It is estimated that USD 2 billion has been spent by the Central Bank on currency defense up to September 2011. For next year, there will be pressure on the currency to depreciate by a further 5% as foreign inflows reduce or turn negative. Most other emerging market currencies are also expected to follow this pattern of depreciation as risk aversion takes hold of global investors.

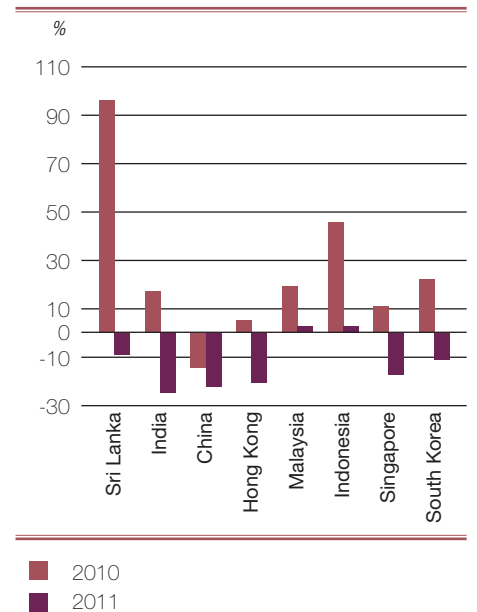
**SL Rupee vs. USD / Euro****Bears Continue to Rule at the CSE**

The stock market witnessed unprecedented falls during the year amidst tightening credit rules, forced selling and regulatory pressures. For the year, the ASPI shed 8.5% while the more liquid MPI declined by 25.9%. The smaller decline in the ASPI signifies the impact of speculative trading on stocks that are generally classified as junk. The trading on such stocks muted the fall in the ASPI as these were driven up to unrealistic levels and usually parked in retail accounts.

Stock Market Performance



Colombo Stock Exchange vs. Regional Markets



Despite the dismal performance, 2011 was an eventful year with approximately Rs. 60 billion raised via IPOs and rights issues. In line with last year, the daily average turnover remained healthy at Rs. 2.3 billion although foreign activity remained dull. For the year, the market recorded a net foreign outflow of Rs. 19 billion.

During the year, several steps were taken to curb excessive speculation, which are expected to bring in more mature investors to the bourse. However, certain stocks remain over valued as at the end of the year and these would need to adjust downward significantly prior to any recovery being witnessed in the overall market. The fundamentally sound stocks are also expected to remain weak as investors need to cut losses and strengthen their buying power. The absence of significant foreign buying even at these attractive valuations can be attributed to the risk-off attitude of most foreign investors and funds, stemming from the weakening global scenario.

**Conclusion**

The growth trajectory achieved since 2009 is expected to continue with medium term growth forecast at 6% beyond 2012. Capacity expansion and infrastructure developments are taking place, which will support long term growth.

Together with these tangible developments, the policy makers should also focus on strengthening the regulatory, legal and administrative framework to attract foreign investments. The ease of doing business should be improved while addressing issues such as corruption, capital market efficiency, labour productivity and employability. Improvements in such qualitative factors will help to attract much needed foreign capital and expertise to charter a course towards sustainable economic and social development.

## Management Discussion and Analysis Contd.

**Company's Performance in Relation to Industry**

The insurance industry maintained a strong growth momentum in 2010, with combined life and general insurance premiums increasing from Rs. 57 billion in 2009 to Rs. 68 billion in 2010. The life insurance segment surged ahead with a growth rate of 31% while the general insurance segment recorded a growth rate of 12%.

The industry is expected to maintain a robust growth rate in 2011. Based on available data, life insurance premiums are expected to grow by 12% to Rs. 35 billion in 2011. General insurance premiums are also expected to report a healthy growth rate of 21% and increase to Rs. 45 billion in 2011.

The premium income generated by the 2 segments over the recent past and the estimated premium volume for 2011 is provided in Table 1.

Premium Income	2005	2006	2007	2008	2009	2010	2011(e)
Long term insurance (Rs. millions)	14,814	17,104	20,729	23,613	23,767	31,151	35,020
General insurance (Rs. millions)	22,410	25,931	31,156	34,553	33,485	37,342	45,073
<b>Total Premium Income (Rs. millions)</b>	<b>37,224</b>	<b>43,035</b>	<b>51,885</b>	<b>58,166</b>	<b>57,252</b>	<b>68,493</b>	<b>80,093</b>
Total premium as % of GDP	1.52	1.46	1.45	1.32	1.19	1.22	1.29
Growth rate in total premium (%)	26	16	21	12	(2)	20	17

Table 1

**General Insurance**

As mentioned previously, the general insurance industry is expected to report a 21% growth in 2011. Motor insurance is estimated to be the main contributor, accounting for an estimated 60% of the total market. Refer Table 2.

Class Wise Distribution of Business (%)	2005	2006	2007	2008	2009	2010	2011(e)
Fire	18.5	17.8	18.4	18.8	20.2	18.0	15.5
Marine	6.1	6.0	5.3	5.3	4.3	4.2	3.8
Motor	49.5	54.0	54.8	54.2	53.3	56.8	60.1
Miscellaneous	25.9	22.2	21.6	21.8	22.3	21.0	20.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Table 2

Union Assurance reported a 16% growth in general insurance premium. Growth prospects were hampered by the price competition in the market and UA "walking away" from risks which were priced at unviable levels. The size of the market growth rate and UA's growth rate over the last 7 years is presented in Table 3.

General Insurance	2005	2006	2007	2008	2009	2010	2011(e)
Market size (Rs. millions)	22,410	25,931	31,156	34,553	33,485	37,342	45,073
Market growth %	32	16	20	11	(3)	12	21
UA growth %	32	39	18	13	10	14	16

Table 3

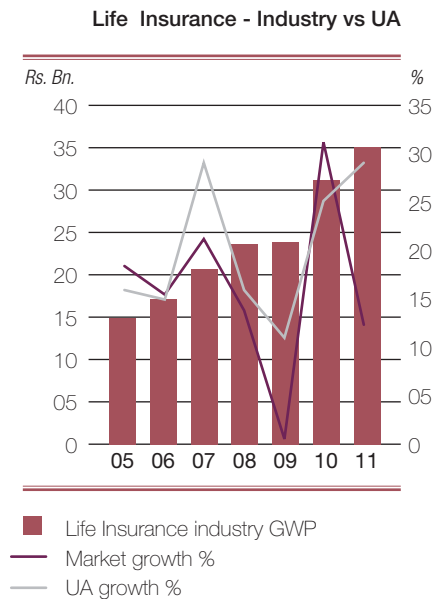
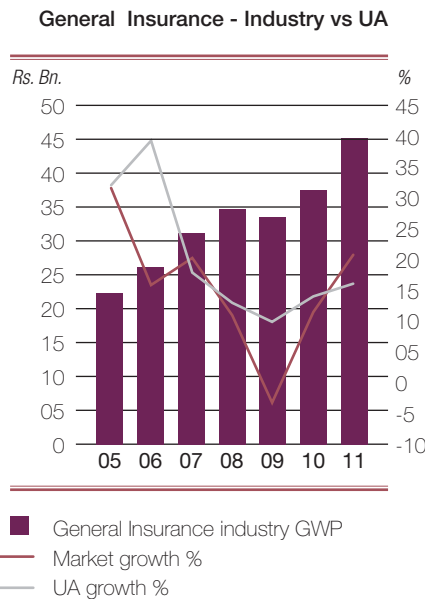
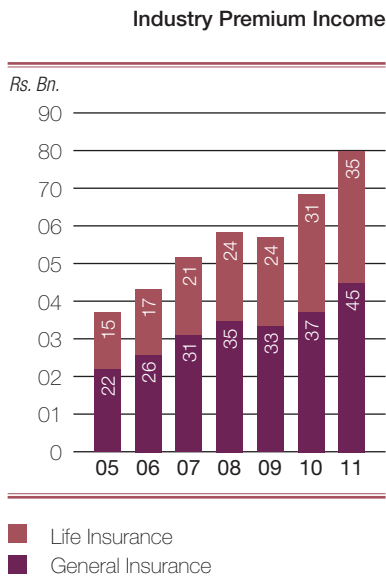
**Life Insurance**

Life insurance premiums are expected to grow by 12% in 2011. This is below the 31% growth rate achieved in 2010, but from a positive perspective the 2011 growth is off a higher base. Rising per capita income, positive economic developments and the growing popularity of unit linked products could be attributed as reasons for this growth.

UA reported a 29% growth in premium income. Hence it is likely that the company will command a 13% market share and retain its position as the 4<sup>th</sup> largest life insurer. Data related to the life insurance market, growth rate and UA's growth rate is provided in Table 4.

Life Insurance	2005	2006	2007	2008	2009	2010	2011(e)
Market size (Rs. millions)	14,814	17,104	20,729	23,613	23,767	31,151	35,020
Market growth %	18	15	21	14	1	31	12
UA growth %	16	15	29	16	11	25	29

Table 4



80 Bn  
2011 Industry premium volume  
(estimated)

Union Assurance reported a 29% increase in life insurance premium and a 16% increase in general premium.

**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 2011 and strategic priorities for 2012.

<p style="writing-mode: vertical-rl; transform: rotate(180deg);"><b>LIFE</b></p>	<div style="text-align: center;">     </div> <p>4<sup>th</sup> largest life insurer offering a comprehensive range of protection and long term savings products to corporate and individual customers</p>	<p><b>Financial Impact</b> The life business contributes 51% of UA's turnover (2010 - 49%) and 62% of profits (2010 - 63%)</p>	<p style="text-align: center;"><b>Gross Written Premium - Life</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Gross Written Premium (Rs. Mn.)</th> </tr> </thead> <tbody> <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>3,486</td> </tr> <tr> <td>11</td> <td>4,472</td> </tr> </tbody> </table>	Year	Gross Written Premium (Rs. Mn.)	07	2,163	08	2,504	09	2,778	10	3,486	11	4,472
Year	Gross Written Premium (Rs. Mn.)														
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<p style="writing-mode: vertical-rl; transform: rotate(180deg);"><b>MOTOR</b></p>	<div style="text-align: center;">  </div> <p>4<sup>th</sup> largest motor insurer with an estimated market share of 10% (2010 - 9%)</p>	<p><b>Financial Impact</b> General insurance (motor and non motor) contributes 49% of UA's turnover (2010 - 51%) and 38% of profit (2010 - 37%)</p>	<p style="text-align: center;"><b>Gross Written Premium - Motor</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Gross Written Premium (Rs. Mn.)</th> </tr> </thead> <tbody> <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> <tr> <td>11</td> <td>2,183</td> </tr> </tbody> </table>	Year	Gross Written Premium (Rs. Mn.)	07	1,336	08	1,595	09	1,754	10	1,887	11	2,183
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<p style="writing-mode: vertical-rl; transform: rotate(180deg);"><b>NON MOTOR</b></p>	<div style="text-align: center;">  </div> <p>3<sup>rd</sup> largest non motor insurer with an estimated market share of 13% in 2011 (2010 - 11%)</p>	<p><b>Financial Impact</b> Refer above</p>	<p style="text-align: center;"><b>Gross Written Premium - Non Motor</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Gross Written Premium (Rs. Mn.)</th> </tr> </thead> <tbody> <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> <tr> <td>11</td> <td>2,078</td> </tr> </tbody> </table>	Year	Gross Written Premium (Rs. Mn.)	07	1,479	08	1,587	09	1,456	10	1,781	11	2,078
Year	Gross Written Premium (Rs. Mn.)														
07	1,479														
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### Market Differentiators

- 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

### Business Strategy

- Expand our presence in the life insurance market in a cost effective manner by
- 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

### Highlights of Performance

- Life insurance premium increased by 29%
- 32% increase in profits
- Successfully balanced sales of traditional and unit linked products
- Achieved strong momentum in bancassurance distribution channel with four bank partners
- Successfully re-launched Union Advantage product and health related riders

### Strategic Priorities

- 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 including learning and development
- Implement activities to operationalise new brand positioning
- Manage lapsation

### Market Differentiators

- 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

### Business Strategy

- 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 learning and development
  - Launch new products and augment existing products in line with customer needs

### Highlights of Performance

- Motor insurance premiums increased by 16% from Rs. 1.9 billion in 2010 to Rs. 2.2 billion in 2011
- Reported improvement in loss ratio
- 90% customers who made claims on their policies were satisfied with the services they received
- Re-launched e-based motor insurance solution with enhanced features / functionality
- Introduced risk based pricing in line with international best practices

### Strategic Priorities

- Consistently improve service standards
- Manage claims ratios and profitability
- Refine risk based pricing framework
- Ensure 100% usage of e-motor solution by sales staff
- Implement activities to operationalise new brand positioning

### Market Differentiators

- Strong corporate image
- Balance sheet strength and stability
- High level of technical expertise
- Reputation for superior service among corporate clients
- Reinsurance arrangements with highly rated reinsurance partners
- High reinsurance capacity
- In-house risk engineering / survey capabilities

### Business Strategy

- Exploit profitability growth opportunities by
- 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
  - Leverage structured learning and development initiatives and improve technical competencies of underwriting, claims and distribution channel staff

### Highlights of Performance

- Non motor premiums increased from Rs. 1.8 billion to Rs. 2.1 billion
- Retained position as 3<sup>rd</sup> largest non motor solutions provider in the market
- Reviewed and refined suite of pre-underwritten products targeting retail / commercial market segments
- Implemented claims tracking systems to monitor and manage selected classes of non motor claims
- Introduced simplified policy documents for six classes of business
- Implemented structured training for technical and distribution staff to enhance technical knowledge in order to provide a better service

### Strategic Priorities

- Manage profitability of portfolio in light of soft market cycle
- Build strong relationships with reinsurance partners by offering them a balanced, profitable portfolio
- Consistently improve service standards
- Continue to roll out structured training for technical and distribution staff
- Upgrade IT infrastructure to improve efficiencies and effectiveness of internal processes

### 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 2011
<p><b>Pressure on Capital</b></p> <p>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"> <li>• Maintain net assets in excess of minimum requirements</li> <li>• Monitor solvency position on a monthly basis</li> <li>• Obtain annual verification of life solvency position from independent actuary</li> <li>• Obtain regular updates regarding risk based capital frameworks implemented in regional markets</li> </ul>	<ul style="list-style-type: none"> <li>• UA's net assets as at 31.12.2011 is Rs. 3.2 billion</li> <li>• Solvency computations for the year are provided on page 114</li> <li>• UA is working closely with external actuarial resources and industry participants to understand implications of risk based capital framework proposed by the Insurance Board of Sri Lanka (IBSL)</li> </ul>
<p><b>Pressure on Volumes</b></p> <p>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 maximize 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"> <li>• Product development initiatives focus on creating differentiated products which meet customer needs which can be sold and serviced effectively</li> <li>• Scan market to identify customer needs and new product opportunities</li> <li>• Monitor life insurance premium persistency and general insurance renewal retention</li> </ul>	<ul style="list-style-type: none"> <li>• Generated balanced growth from traditional and unit linked life products</li> <li>• Reported growth across most lines of general insurance business</li> <li>• Revamped e-motor solutions utilising new IT platform, incorporating enhanced features and functionality</li> <li>• Reviewed and revamped suite of pre-underwritten non motor products</li> </ul>
<p><b>Pressure on Margins</b></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"> <li>• Increase learning and development initiatives to enhance knowledge and capabilities of technical and distribution staff</li> <li>• Use of IT as a key differentiator to improve service as well as efficiency and effectiveness</li> <li>• Initiate expense management initiatives</li> <li>• Rationalise products / pricing based on profitability objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Launched modular / case study based training programmes for underwriting and distribution staff to enhance their knowledge and keep abreast of latest trends / developments</li> <li>• Leveraged technology to implement cost effective distribution and underwriting models for life and general insurance businesses</li> <li>• Implemented risk based pricing for motor and health insurance products</li> </ul>

Challenge	UA's response	Update 2011
<p><b>Pressure on Service</b></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"> <li>• Constantly monitor service standards and take corrective action as appropriate</li> <li>• Inculcate customer service culture across all levels in the organisation</li> <li>• Identify key technologies which will enhance customer services for both external and internal customers</li> </ul>	<ul style="list-style-type: none"> <li>• Achieved 90% satisfaction among motor insurance customers who made claims on their policies</li> <li>• Used cross functional teams to review key processes and take corrective action / initiate changes to improve service levels</li> <li>• Leveraged SMS based technology to increase communication effectiveness with internal and external customers</li> <li>• Launched several service improvements to retain motor and non motor clients e.g. non motor claims tracking system, motor claims work flow system, etc.</li> </ul>
<p><b>Pressure on Reinsurance</b></p> <p>Insurers will have to closely examine their own risk transfer mechanism 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"> <li>• Provide reinsurance partners with a balanced portfolio</li> <li>• Ensure reasonable retention levels</li> </ul>	<ul style="list-style-type: none"> <li>• Reinsurance programme continues to be led by highly rated international reinsurers</li> <li>• Monitored business performance from the reinsurance partners' perspective</li> <li>• Streamlined processes to ensure that management information is available to reinsurers on a timely basis</li> </ul>
<p><b>Pressure on Organisations</b></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"> <li>• Develop cost effective distribution and operating models</li> <li>• Learning and development is an on-going and focused area for the organization</li> <li>• Consciously focus on developing technical competencies of staff as key differentiator</li> </ul>	<ul style="list-style-type: none"> <li>• Leveraged IT to deliver cost effective operating and business models</li> <li>• Provided staff with exposure to international best practices via participation in seminars, training programmes etc.</li> <li>• Implemented structured programmes for underwriting, operations and distribution staff from both life and general businesses to enhance their technical skills</li> </ul>
<p><b>Pressure to attract and retain Quality People</b></p> <p>The key drivers of the future will be the quality and 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"> <li>• Conduct employee satisfaction survey once every two years</li> <li>• Implement "great place to work" (GPTW) initiatives</li> <li>• Increase employee engagement by conducting strategic planning process with representatives from all functions to ensure buy in and commitment to deliver corporate objectives</li> <li>• Launch skip level meetings with staff</li> <li>• Implement talent management and succession planning programmes</li> </ul>	<ul style="list-style-type: none"> <li>• Implemented structured technical and soft skills training programmes including launch of UA leadership academy</li> <li>• Formal succession plan for all people management roles completed - selected candidates to be groomed to take up specified positions</li> <li>• Leadership development programmes launched for all levels of staff</li> <li>• Utilised e-learning solution to encourage self study</li> </ul>

## Management Discussion and Analysis Contd.

Challenge	UA's response	Update 2011
<p><b>Pressure on the use of Information Technology</b></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"> <li>• Use multiple IT platforms to improve efficiency and effectiveness as well as customer service</li> <li>• Cost effectively expand IT infrastructure in line with business requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Used SMS, web based applications, AS 400 and 3<sup>rd</sup> party technology platforms to improve customer service and enhance efficiency / effectiveness</li> <li>• Upgraded call centre technology</li> <li>• Added new features / functionality to web based life sales force management system</li> <li>• Implemented SAP to generate financial information</li> </ul>
<p><b>Pressure on Intermediaries</b></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"> <li>• Enhance sales skills and technical competencies</li> <li>• Implement reward / recognition schemes to motivate sales staff</li> <li>• Use technology to improve productivity and enhance their professional image</li> </ul>	<ul style="list-style-type: none"> <li>• Launched learning and development initiatives to improve technical knowledge of distribution staff</li> <li>• Launched e-motor solution, enabling sales staff to provide end to end underwriting solution to clients</li> <li>• Upgraded features / functionality of web based sales force management system to improve productivity / enhance image of life insurance sales force</li> </ul>
<p><b>Pressure from Regulatory Authorities</b></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"> <li>• Work closely with relevant regulatory bodies</li> <li>• Work closely with other industry participants</li> </ul>	<ul style="list-style-type: none"> <li>• Set up processes to ensure compliance with regulatory requirements</li> <li>• Reviewed impact of risk based capital requirements</li> <li>• Identified impact of converting Sri Lanka Accounting Standards with International Accounting Standards</li> <li>• Active participation in committee comprising representatives of insurance companies and the IBSL, responsible for developing guidelines for separating composite insurance companies by 2015</li> </ul>

## General Insurance Operational Review

### Market Conditions

There are 22 insurance companies registered with IBSL as at 31<sup>st</sup> December 2011 and 19 companies including the National Insurance Trust Fund transact general insurance business. Of these seven are stand alone general insurance companies and twelve companies transact both life and general insurance business. Two insurance companies commenced operations during the year. The general insurance market is estimated to have grown by 21% from Rs. 37 billion in 2010 to Rs. 45 billion in 2011. This is significantly higher than the 12% growth achieved in 2010. Growth was driven mainly by the motor segment which benefited from a record number of new vehicle registrations. Most classes of general insurance remained extremely price competitive. This is reflected by the industry claims ratios published in the IBSL's annual report for 2010. The new business generated during the year was mainly captured by the new entrants rather than incumbent insurers. It is expected that this trend will accelerate into the future, and the industry will witness further fragmentation in the short term.

### Business Review

General insurance gross written premium recorded a 16% increase during the year. Both retail and corporate distribution channels contributed to this growth.

The accident and liability class reported a 28% growth rate mainly due to an increase in surgical and hospitalisation related premiums. Motor and marine classes reported growth rates of 16% and 14% respectively. GWP from property was in line with 2010 figures.

The overall net claims ratio declined from 72.2 % in 2010 to 70.2% in 2011 mainly due to a reduction in the motor claims ratio. While the claims ratios for marine and accident and liability classes improved, property claims were impacted by adverse weather conditions which affected the North Central, Eastern and Southern parts of the island.

The expense ratio declined from 36.1% in 2010 to 34.2% in 2011. As a result the combined ratio improved from 108.3% in 2010 to 104.4% in 2011. In absolute figures, the underwriting results improved from a loss of Rs.192 million in 2010 to Rs. 137 million in 2011. The improved underwriting result and increase in investment income resulted in the profit before tax growing from Rs. 268 million in 2010 to Rs. 333 million in 2011. Profit after tax from the general insurance segment increased by 43% from Rs. 187 million in 2010 to Rs. 267 million in 2011.











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2011 General Insurance Market  
Volume *(estimated)*

The general insurance market is estimated to have grown by 21% from Rs. 37 billion in 2010 to Rs. 45 billion in 2011. This is significantly higher than the 12% growth achieved in 2010

**Progress against Strategic Objectives – Summary**

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

2011 Priority	Progress	Achievement
<b>Expand Distribution Capabilities in Retail Segment</b>		
Increase non permanent sales cadre to focus on retail segment of the market.	<ul style="list-style-type: none"> <li>Achieved non permanent sales cadre increase across the island</li> <li>Generated 20% of zonal GWP from non permanent cadre</li> <li>Launched pre-underwritten / packaged policies ideally suited to this segment</li> </ul>	
Continue initiative to enhance customer "convenience" in line with UA brand.	<ul style="list-style-type: none"> <li>Improved motor claims paperless work flow process to settle claims in a speedy and accurate manner</li> <li>Implemented claims tracking system for selected non motor classes enabling customers to view the status of their claims and UA's service standards</li> <li>Revamped technology related to Motor Reload product to make it more user friendly / convenient</li> </ul>	
Further improve / enhance suite of pre-underwritten motor and non motor products.	<ul style="list-style-type: none"> <li>Revamped e-motor solution with enhanced features / functionality</li> <li>Reviewed suite of pre-underwritten non motor products and updated in line with amended underwriting guidelines</li> </ul>	
Enhance learning and development activity for distribution staff.	<ul style="list-style-type: none"> <li>Developed modular training programmes</li> <li>Launched e-learning platform / knowledge portal</li> </ul>	
Focus on delivering profitable mix of motor / non motor business.	<ul style="list-style-type: none"> <li>Loss ratio improved by 2%</li> <li>Expense ratio improved by 2%</li> <li>Combined ratio improved by 4% and underwriting losses reduced from Rs.192 million in 2010 to Rs. 137 million in 2011</li> </ul>	
<b>Continuous Improvement of Service Standards</b>		
Implement improvements to motor claims process.	<ul style="list-style-type: none"> <li>Improved motor claims paperless work flow system</li> <li>Enhanced call centre technology and resources</li> <li>Increased number of technical executives responsible for conducting inspections at accident site</li> </ul>	
Implement changes to non motor underwriting operations and IT infrastructure to enhance staff productivity and customer service.	<ul style="list-style-type: none"> <li>Four key modifications to improve productivity implemented</li> <li>Controls and processes related to non motor pre-underwritten products streamlined</li> </ul>	
Implement structured training to continuously enhance knowledge of staff.	<ul style="list-style-type: none"> <li>Modular training programmes launched for distribution and non distribution staff</li> <li>Launched e-learning portal enabling instant access to material / knowledge on demand</li> </ul>	
Implement work flow system to monitor and manage non motor claims.	<ul style="list-style-type: none"> <li>Implemented claims tracking system to monitor service / progress of selected non motor claims</li> </ul>	
<b>Develop Alternative Distribution Channels</b>		
Expand renewal points for Motor Reload policies.	<ul style="list-style-type: none"> <li>Expanded Reload sales outlets via Singer sales outlets in Western Province</li> <li>Reload system revamped with user friendly features / functionality</li> </ul>	

2011 Priority	Progress	Achievement
Increase sales via Singer outlets and Keells Supermarkets.	<ul style="list-style-type: none"> <li>GWP from Motor Reload policies increased by 48%</li> </ul>	<input checked="" type="checkbox"/>
Increase sales from worksite marketing channel.	<ul style="list-style-type: none"> <li>Enhanced worksite channel resources</li> <li>GWP from worksite marketing channel increased by 177%</li> </ul>	<input checked="" type="checkbox"/>
<b>Develop New Products and augment Existing Products</b>		
Enhance IT infrastructure enabling faster access / usage of motor and non motor pre-underwritten products.	<ul style="list-style-type: none"> <li>Revamped e-motor solutions enabling faster access / additional features and functionality</li> <li>Implemented improvements to non motor processes</li> <li>Launched health insurance product for individual customers</li> </ul>	<input checked="" type="checkbox"/>
Increase usage of speed cash solution.	<ul style="list-style-type: none"> <li>Number of speed cash transactions increased by 88%</li> </ul>	<input checked="" type="checkbox"/>
Review UA's product portfolio in context of rapid economic development and new business opportunities.	<ul style="list-style-type: none"> <li>Reviewed key growth sectors of economy and UA's products vis-à-vis competition to identify potential gaps in cover / features</li> <li>Concluded that current product range is adequate to cater to current and potential demand</li> </ul>	<input checked="" type="checkbox"/>
<b>Strengthen underwriting Processes</b>		
Continue to focus on training of technical staff.	<ul style="list-style-type: none"> <li>Modular training conducted for technical staff at head office and branches</li> <li>Launched advanced underwriting training programmes</li> </ul>	<input checked="" type="checkbox"/>
Review options to develop actuarial pricing model to manage profitability of motor portfolio.	<ul style="list-style-type: none"> <li>Developed risk factor based pricing model for motor business</li> <li>Pricing incorporated into revamped e-motor solution</li> </ul>	<input checked="" type="checkbox"/>
Continue to implement walk away pricing.	<ul style="list-style-type: none"> <li>The improved underwriting result reflects our commitment in this regard</li> </ul>	<input checked="" type="checkbox"/>
Work with reinsurance partners to constantly update underwriting knowledge.	<ul style="list-style-type: none"> <li>Key staff participated in structured training programmes conducted by reinsurance partners</li> </ul>	<input checked="" type="checkbox"/>
<b>Strengthen claims management process</b>		
Continue to focus on training and development for technical staff.	<ul style="list-style-type: none"> <li>Refer comments above</li> </ul>	<input checked="" type="checkbox"/>
Work with reinsurance partners / loss adjustors to constantly update knowledge regarding claims.	<ul style="list-style-type: none"> <li>Key staff participated in training programmes conducted by reinsurance partners</li> <li>Generated and implemented action points in light of claims experience in the Sri Lankan market</li> </ul>	<input checked="" type="checkbox"/>
Use strategic alliances with repair shops and spare part dealers to minimise motor claims leakage.	<ul style="list-style-type: none"> <li>Increased number of strategic alliance partners to 9</li> <li>Volumes generated to strategic alliance partner also increased in 2011</li> </ul>	<input checked="" type="checkbox"/>
Use surgical and hospitalisation IT system to manage claims expenses.	<ul style="list-style-type: none"> <li>Surgical and hospitalisation claims ratio improved by 8 points in 2011</li> </ul>	<input checked="" type="checkbox"/>
Review IBNR provision on a quarterly basis.	<ul style="list-style-type: none"> <li>IBNR provision reviewed at regular intervals</li> <li>Year end provision certified by external actuary (refer page 194)</li> </ul>	<input checked="" type="checkbox"/>

## Management Discussion and Analysis Contd.

**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**

The strategy to create a non permanent sales force to capture new business opportunities especially in the retail segment of the market yielded positive results. GWP volumes from this segment exceeded budget by a wide margin. The staff is equipped with UA's e-based motor and non motor solutions enabling them to issue policies / quotes as per the company's underwriting guidelines. A breakdown of GWP between corporate and retail channels is as follows.

Distribution Channel Wise GWP	2011 Rs. Mn.	2010 Rs. Mn.	Growth %	2011 Mix %	2010 Mix %	Change in Mix
Direct Corporate	611	897	(32)	14.3	24.4	(10.1)
Direct Commercial / Retail	1,017	683	49	23.9	18.6	5.3
Brokers	1,659	1,507	10	38.9	41.1	(2.2)
Agents	973	581	67	22.8	15.9	7.0
<b>Total</b>	<b>4,261</b>	<b>3,668</b>	<b>16</b>	<b>100</b>	<b>100</b>	<b>-</b>

**Improve Service Standards**

The motor claims work flow system was improved with additional features / functionality including management information capability to ensure that claims are settled in a speedy and accurate manner. A work flow system to monitor and manage selected types of non motor claims was also introduced during the year. The information is available to UA staff as well as customers so that both parties can monitor service standards.

Several modifications were also implemented to expedite processing of non motor related underwriting transactions. These changes will increase staff productivity and lead to improved customer service.

**Develop Alternative Distribution Channels**

UA continues to invest in alternative distribution channels to create a balance of traditional and non traditional channels in the long term. All products sold via the alternative distribution channels generated year on year growth. IT systems used to generate monthly motor policies at Keells supermarkets, Singer outlets, etc. was also revamped to make it more user friendly.

**Product Development**

UA launched two health insurance products to cater to the growing demand for affordable health insurance solutions from individual customers.

The Union Family Health Net policy offers a comprehensive cover against hospitalisation, OPD and critical illnesses for persons between the ages of 1 to 65 years on an individual basis or as a family unit. A key feature of the product is that an individual, whose insurance is

paid by the employer, could extend the coverage to his / her family at a discounted premium. In the case of critical illness, the payout is increased to 150% of the annual policy limit.

The Health Net insurance policy is designed to provide customers with medical care in India. The key features of the product include access to approximately 4,000 hospitals in India, cashless settlement options, coverage for over 150 named day-care procedures that do not require 24 hour hospitalisation etc. The product can be purchased without undergoing a medical checkup if the individual is below 45 years of age.

**Strengthen Underwriting and Claims**

The improved underwriting result in 2011 is a direct consequence of strengthening our underwriting and claims management procedures. The underwriting and claims management teams continued to roll out structured / modular training programmes for technical staff. UA's motor portfolio was re-priced in accordance with the risk profile of the vehicle / driver per international norms. The pricing model was developed by a team of in-house actuarial and underwriting resources and representations from a firm of external actuaries. Union Health Net, the health insurance solution for individuals is also priced on the risk profile of individual customers.

The company also increased the number of strategic alliance garage partners in a selective manner. These alliances are expected to create mutual value and reduce motor claims leakage. As at December 2011, UA had entered into agreements with nine partners spread throughout the island.

**Expenditure to Enhance Future Results**

	Rs. Mn
Sales staff	12.5
Support staff	5.3
Infrastructure	1.7
Learning and development	19.2
Brand development	19.0
<b>Total</b>	<b>57.7</b>

## 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% represent profits and vice versa.										
Profit for the year	The final bottom line result for the period.										
<p><b>Increase in Gross Written Premium</b></p> <table border="1"> <caption>Increase in Gross Written Premium (%)</caption> <thead> <tr> <th>Year/Type</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>10 Act</td> <td>14</td> </tr> <tr> <td>11 Obj</td> <td>12</td> </tr> <tr> <td>11 Act</td> <td>16</td> </tr> <tr> <td>12 Obj</td> <td>26</td> </tr> </tbody> </table>	Year/Type	Value (%)	10 Act	14	11 Obj	12	11 Act	16	12 Obj	26	<p>We exceeded the 2011 objective with both retail and corporate channels reporting growth. All classes of insurance, except property reported growth.</p>
Year/Type	Value (%)										
10 Act	14										
11 Obj	12										
11 Act	16										
12 Obj	26										
<p><b>Net Combined Ratio</b></p> <table border="1"> <caption>Net Combined Ratio (%)</caption> <thead> <tr> <th>Year/Type</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>10 Act</td> <td>108.2</td> </tr> <tr> <td>11 Obj</td> <td>103.7</td> </tr> <tr> <td>11 Act</td> <td>104.4</td> </tr> <tr> <td>12 Obj</td> <td>103</td> </tr> </tbody> </table>	Year/Type	Value (%)	10 Act	108.2	11 Obj	103.7	11 Act	104.4	12 Obj	103	<p>The net combined ratio reported a negative variance versus budget but an improvement compared with 2010. Both claims and expense ratios contributed to this positive development. The marginal negative variance versus budget was due to the expense ratio exceeding the budgeted level.</p>
Year/Type	Value (%)										
10 Act	108.2										
11 Obj	103.7										
11 Act	104.4										
12 Obj	103										
<p><b>Profit for the year</b></p> <table border="1"> <caption>Profit for the year (Rs. Mn.)</caption> <thead> <tr> <th>Year/Type</th> <th>Value (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>10 Act</td> <td>187</td> </tr> <tr> <td>11 Obj</td> <td>213</td> </tr> <tr> <td>11 Act</td> <td>267</td> </tr> <tr> <td>12 Obj</td> <td>277</td> </tr> </tbody> </table>	Year/Type	Value (Rs. Mn.)	10 Act	187	11 Obj	213	11 Act	267	12 Obj	277	<p>Profit for the year was higher than budget and the previous year. This was due to improved underwriting results as well as an increase in investment income.</p>
Year/Type	Value (Rs. Mn.)										
10 Act	187										
11 Obj	213										
11 Act	267										
12 Obj	277										

## Strategic Objectives – Highlights of 2011 Performance and 2012 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. 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>
2011 Key Points	2011 Key Points	2011 Key Points
<ul style="list-style-type: none"> <li>• Maintained growth momentum from retail channels</li> <li>• Expanded non permanent sales force</li> <li>• Revamped e-motor solution with new features / functionality</li> <li>• Leveraged relationships with brokers, leasing and other financial institutions to grow business</li> <li>• Launched e-learning platform to provide learning and development to larger number of staff in a cost effective manner</li> </ul>	<ul style="list-style-type: none"> <li>• Improved existing motor claims workflow system</li> <li>• Enhanced call centre technology</li> <li>• Implemented claims tracking system to monitor / manage claims from selected non motor classes of business</li> <li>• Implemented key modifications to improve staff productivity and thereby improve customer service</li> <li>• 90% of motor policyholders who claimed from their policies were satisfied with the service they received</li> </ul>	<ul style="list-style-type: none"> <li>• Recorded increased sales from all alternate channels</li> <li>• Expanded number of sales points for customers to purchase / renew Reload policies</li> <li>• Reload IT system modified with several user friendly features / functionality</li> </ul>
2012 Priorities	2012 Priorities	2012 Priorities
<ul style="list-style-type: none"> <li>• Expand non permanent sales force to target opportunities in retail segment</li> <li>• Leverage suite of e-based motor and non motor product solutions to provide convenience to sales staff and customers</li> <li>• Continuously provide learning and development for existing and new recruits</li> <li>• Expand corporate sales team in selected manner</li> </ul>	<ul style="list-style-type: none"> <li>• Use motor claims work flow system to improve service standards</li> <li>• Introduce similar system for health related claims</li> <li>• Set up processes to monitor and improve service standards</li> <li>• Implement IT related changes to non motor underwriting and operations to increase staff productivity and customer service</li> </ul>	<ul style="list-style-type: none"> <li>• Expand Reload sales points via new network partners</li> <li>• Increase sales of Reload products via existing channels</li> <li>• Increase sales from worksite marketing channel</li> </ul>

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>
2011 Key Points	2011 Key Points	2011 Key Points
<ul style="list-style-type: none"> <li>• Launched Union Health Net, a medical insurance product targeting individual customers</li> <li>• Revamped e-motor solution enabling faster processing of policies</li> <li>• Reviewed UA product portfolio vis-à-vis competition especially with regard to growth sectors of the economy</li> </ul>	<ul style="list-style-type: none"> <li>• Reported improvement in combined ratio</li> <li>• Conducted modular training programmes for head office and branch staff</li> <li>• Launched advanced underwriting training programme</li> <li>• Implemented risk based pricing for motor and individual health product</li> <li>• Simplified policy wording in line with underwriting guidelines and company risk appetite for 6 products</li> </ul>	<ul style="list-style-type: none"> <li>• Reported improvement in claims ratio</li> <li>• Increased number of strategic alliance partners to manage motor claim leakage and improve service provided to customers</li> <li>• Launched claims tracking system for selected non motor claims to monitor service and manage claims outgo</li> </ul>
2012 Priorities	2012 Priorities	2012 Priorities
<ul style="list-style-type: none"> <li>• Ensure full usage of e-motor and non motor solutions by sales staff</li> <li>• Increase usage of speed cash solution for motor claims settlements</li> <li>• Continuously monitor environment for new product idea that meet customer needs</li> <li>• Increase sales of Union Health Net</li> </ul>	<ul style="list-style-type: none"> <li>• Use risk based pricing methodology to manage profitability of motor portfolio</li> <li>• Set "walk away" pricing levels for property risks</li> <li>• Leverage risk based pricing methodology to grow individual health portfolio in profitable manner</li> <li>• Further simplify policy wordings in line with risk guidelines / appetite</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to focus on staff learning and development</li> <li>• Work with reinsurance partners to update knowledge</li> <li>• Expand relationships with motor repair shops in selective manner to manage motor claims leakage</li> <li>• Use non motor claims work flow system to monitor / manage claims service and outgo</li> </ul>

## Opportunities and Threats

The key opportunities identified for the general insurance businesses are summarised as follows;

Opportunity	UA's Response
Increased business confidence and positive business sentiments enabling corporate customers to consider value for money options rather than focusing on lowest price.	<ul style="list-style-type: none"> <li>• Use suite of value added services to compete for business rather than focusing on price as a key competitive tool</li> <li>• Leverage corporate image / reputation to acquire new business</li> <li>• Use risk based pricing as a competitive tool to offer value for money coverage</li> </ul>
Expansion / growth opportunities in retail / SME sector including North and East.	<ul style="list-style-type: none"> <li>• Use suite of e-based motor and non motor products to capitalise on opportunities</li> <li>• Leverage non permanent sales force cadre to tap new opportunities</li> </ul>
Generate business in light of relative under penetration via alternative distribution channels.	<ul style="list-style-type: none"> <li>• Enhance relationships with existing partners and expand distribution via new partnerships including bancassurance</li> </ul>

The threats faced by the business are outlined below;

Threat	UA's Response
Soft market cycle not taking account of increasing economic / insurance losses due to natural disasters.	<ul style="list-style-type: none"> <li>• Manage pricing in light of increased likelihood of natural disasters and attempt to compete on basis of "value for money" rather than price</li> </ul>
Uneven playing field with identified insurers monopolising state sector business and National Insurance Trust Fund acting as primary insurer, while accepting compulsory cessions from all companies.	<ul style="list-style-type: none"> <li>• Lobby relevant authorities to ensure level playing field</li> </ul>
Lack of distribution and technical expertise.	<ul style="list-style-type: none"> <li>• Increase learning and development initiatives and continue talent management programme to identify high potential employees and develop short / medium term strategies to bridge capability gaps</li> </ul>

## 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 some of 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 Condition

There were fifteen life insurance companies operating in Sri Lanka as at 31<sup>st</sup> December 2011. Three companies functioned 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 12% growth in 2011. Rising income levels across most segments of society, availability of unit linked products and increasing awareness regarding the benefits of insurance are likely to be the contributory factors of this growth.

Despite the industry recording a 14% CAGR over the past five financial years, life insurance premiums as a percentage of GDP is not expected to record a significant improvement in 2011. 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, 503,543 new life policies were sold during 2010 an increase of 8% compared with 2009. As at December 2010, 2.2 million life insurance policies were in force, compared with 2.1 million policies in 2009. Life insurance penetration as a percentage of the total labour force increased marginally from 26.4% in 2009 to 27.7% in 2010.

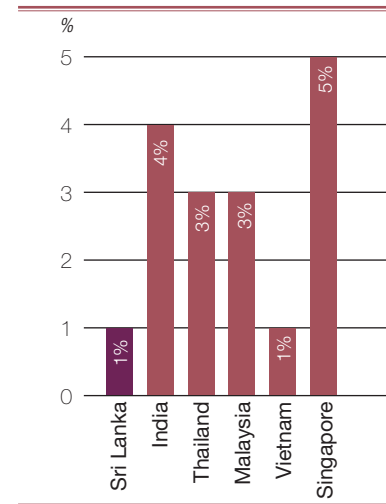
Life Insurance Statistics	2004	2005	2006	2007	2008	2009	2010
Number of new policies issued	304,639	366,132	409,933	527,385	555,886	467,249	503,543
Number of in force policies	1,490,191	1,629,061	1,740,648	1,923,550	2,103,809	2,131,947	2,244,245
Penetration as a % of the labour force	20.8	22.8	24.3	25.3	27.8	26.4	27.7

### Business Review

Life insurance premiums increased by 29% from Rs. 3.5 billion in 2010 to Rs. 4.5 billion in 2011. There was a noteworthy increase in the number of advisors, and the average case size per policy sold. Productivity of the sales force decreased as the company focused on transitioning the sales cadre to higher income segments (as witnessed by the increase in average case size). These factors resulted in an increase in the new business premium volume (on an annualised basis).









As in previous years, the life fund was actuarially valued in 2011. Following actuarial advice, Rs. 429 million was transferred to shareholders as profit from the life business. This is a 32% increase over the Rs. 325 million profits reported in 2010. The actuary approved an increase in the dividends to participating policyholders and declared the guaranteed rate for non participating dividend based products as well. Following these adjustments, the life fund increased by 14% from Rs. 11.8 billion in 2010 to Rs. 13.4 billion in 2011.











Life Insurance Penetration - 2010



**Progress against Strategic Objectives – Summary**





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

2011 Priority	Progress	Achievement
<b>Expand Distribution in Cost Effective Manner</b>		
Increase distribution points using the business development office (BDO) model backed by IT enabled processes and alternative premium collection points.	<ul style="list-style-type: none"> <li>Significantly increased number of distribution points using low cost IT enabled model</li> <li>Opened five window offices to tap potential in Northern peninsula</li> </ul>	
Focus on recruitment and retention as key drivers of a sustainable business.	<ul style="list-style-type: none"> <li>Reported an increase in the number of advisors selling UA products</li> <li>Leveraged web based sales force management system to improve productivity and thereby increasing income</li> <li>Enhanced learning and development initiatives including launching of e-learning solution</li> <li>Implemented sms and other IT related process improvements to increase productivity and enhance professional image of UA advisors</li> </ul>	
Increase usage of web based sales force management system to ensure consistent application and monitoring across the branch network.	<ul style="list-style-type: none"> <li>Enhanced features / functionality of system</li> <li>Implemented monitoring tools to review usage at all levels of the hierarchy</li> <li>Increased resources to further expand usage by conceptualising and implementing new modules i.e. performance appraisal, sales activity monitoring, bancassurance modules etc.</li> <li>Implemented specific learning and development module to increase usage of system</li> </ul>	
Revamp zonal distribution structure in line with business opportunities.	<ul style="list-style-type: none"> <li>Zonal distribution structure expanded in line with new business opportunities</li> <li>Distribution points expanded with combination of traditional branches and business development offices</li> </ul>	
<b>Improve Service Standards</b>		
Focus on ensuring high quality service, in light of increased business volumes.	<ul style="list-style-type: none"> <li>All service parameters monitored on a monthly basis</li> <li>Significant improvement noted in claims processing speed</li> <li>Launched sms based payment solutions for claims settlements</li> <li>Several process improvements launched during the year</li> <li>Expanded life call centre activities to include lapse management, welcome call process for new customers etc.</li> <li>Utilised sms platform to inform when services were delivered to customers / field staff e.g. processing claims, policy alterations etc.</li> </ul>	
Leverage IT based solutions to deliver benefit / claim payments speedily.	<ul style="list-style-type: none"> <li>Refer above</li> </ul>	
Use workflow process to monitor service standards.	<ul style="list-style-type: none"> <li>All service parameters monitored on a monthly basis via workflow</li> </ul>	
Develop web portal for unit linked customers to distribute up to date information / initiate service requests.	<ul style="list-style-type: none"> <li>Carried forward to 2012</li> </ul>	

2011 Priority	Progress	Achievement
<b>Enhance Learning and Development</b>		
Focus on leadership development for all supervisory staff.	<ul style="list-style-type: none"> <li>Conceptualised leadership academy programme to inculcate leadership traits among sales management staff</li> <li>Leadership modules in-built into existing certification programmes / modules</li> </ul>	
Continue to provide training inputs on traditional and unit linked products.	<ul style="list-style-type: none"> <li>On going</li> <li>Launched e-learning solution enabling instant access to learning and developing material</li> </ul>	
Develop / implement road map to move standard training to e-learning platforms.	<ul style="list-style-type: none"> <li>e-learning solution launched</li> <li>Existing modules being modified and new training modules to suite e-learning platform being developed</li> </ul>	
Link training and development initiatives to sales force management system.	<ul style="list-style-type: none"> <li>Carried forward to 2012</li> </ul>	
<b>Expand Alternative Distribution Channels</b>		
Increase bancassurance penetration.	<ul style="list-style-type: none"> <li>Bancassurance channel gathering momentum</li> <li>Currently working with four key partners</li> <li>Documented several key bancassurance related processes to benchmark with international standards</li> </ul>	
Explore opportunities to build relationships with unaffiliated non partner banks and financial institutions.	<ul style="list-style-type: none"> <li>Refer above</li> </ul>	
Increase outbound call centre operations.	<ul style="list-style-type: none"> <li>Entered into an agreement with a leading financial service institution to sell insurance products via telemarketing</li> </ul>	
<b>New Product Development</b>		
Launch improvements to health insurance covers.	<ul style="list-style-type: none"> <li>Cover enhanced to include most surgical procedures (previously surgeries were limited to specific list)</li> <li>Simplified definition of surgical procedures to enhance transparency for customers</li> </ul>	
Focus on developing simple / packaged products for new recruits.	<ul style="list-style-type: none"> <li>Advantage product re-packaged in line with need based selling process</li> <li>Sales persons and customers can choose from product options that cater to savings, education and protection needs</li> <li>Enhanced flexibility of Advantage product by allowing customers to vary the amount of life cover they require</li> </ul>	
Review options to launch products for corporate segment of market.	<ul style="list-style-type: none"> <li>On going</li> </ul>	

**Progress against Strategic Objectives – Summary Contd.**

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

2011 Priority	Progress	Achievement
<b>Strengthen Underwriting and Claims Management</b>		
Roll out modular training programme for technical staff.	<ul style="list-style-type: none"> <li>Basic level technical certification programme completed by 115 staff members</li> </ul>	
Utilise prophet system to implement actuarial control cycle.	<ul style="list-style-type: none"> <li>Actuarial control cycle implemented</li> </ul>	
Leverage reinsurance partnerships to update knowledge of internal staff.	<ul style="list-style-type: none"> <li>Reinsurers conducted knowledge sharing sessions at which 45 persons participated from UA</li> <li>Streamlined medical underwriting by utilising platform provided by reinsurance partner</li> </ul>	
Streamline unit linked / underwriting operational processes.	<ul style="list-style-type: none"> <li>Completed</li> </ul>	

**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 a significant number of business development offices (BDOs) across the island to augment the network of traditional branches. BDOs represent a conscious shift away from the high capital / operational cost model of traditional branches. In addition, the company opened five window offices in the Northern peninsula to tap the market potential of that area.

Several initiatives were launched to manage the growth in the sales force in a cost effective manner. The web based sales force management system was further enhanced and additional resources have been allocated to ensure that new features and functionality are added and the system is consistently used across the network.

Learning and development initiatives were also revamped with a greater emphasis on e-based learning, which would be augmented by face to face classroom training. This is expected to increase the knowledge of staff across the organisation, reduce training costs and enhance the level of convenience for trainees who can access material from any location at any time.

**Improve Service Standards**

All service parameters were monitored on a monthly basis and corrective action taken where appropriate. The company launched an sms based payment process to settle claims and maturity benefits whereby customers receive an sms indicating that the relevant payment can be collected from any Commercial Bank branch islandwide. Other sms based service improvements to enhance communications with customers and field sales staff was also implemented e.g. customers were informed via sms regarding prices of unit linked policies, policy alterations etc. Field staff members were informed via sms when policies were accepted or claims or benefit payments were made to their customers.

There was a noteworthy increase in the number of new policies issued during 2011. As a result small, but significant productivity improvements were implemented by the underwriting and operational teams to manage volume and maintain / improve service standards without a significant increase in resources.

**Enhance Learning and Development**

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 2011, 263 advisors and 69 unit leaders were granted the Certified Advisor / Unit Leader designation. As at December 2011, the company has 991 Certified Advisors and 297 Certified Unit Leaders. For the first time in UA's history, twelve Tamil speaking trainers were also certified in 2011.

A programme to accelerate the number of Certified Insurance Practitioners who are empowered to sell unit linked products was launched during the year. As a result, over 2,000 advisors and management staff members have been certified by end 2011.

A Leadership Academy has been conceptualised in order to inculcate leadership traits among sales staff members who perform supervisory functions. The programme will be a combination of sales management and soft skills training aligned with UA's competency framework. The Academy was formally launched in January 2012.

#### **Develop Alternative Distribution Channels**

The bancassurance channel gathered momentum during the year. As at December 2011, UA had strong relationships with four bank partners, to sell a variety of life and general insurance solutions. The company continues to actively pursue new bancassurance opportunities. Several key bancassurance processes were formalised and documented in order to roll out a consistently world class operation with all partners.

#### **New Product Development**

The range of surgical and hospitalisation policies were simplified to ensure that customers and sales persons had a clear idea of the coverage provided by the various insurance solutions. In addition, the surgical covers were expanded to include almost all surgeries rather than be limited to a specified set of procedures.

The Advantage product was repackaged to align with customers' needs e.g. protection, investment, education, etc. Product flexibility was also enhanced enabling customers to choose the value of life coverage they require, rather than limiting cover to specified amounts.

#### **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 leveraged our reinsurance partnerships to enhance the knowledge and skills of the technical staff by nominating selected staff to an advanced medical / financial underwriting programme conducted by one of our reinsurance partners, and utilising a platform provided by another reinsurer to streamline medical underwriting.

#### **Expenditure to Enhance Future Results**

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

	<b>Rs. Mn.</b>
Sales staff	13.26
Support staff	4.25
Infrastructure	28.74
Learning and development	40.80
Brand development	79.00
<b>Total</b>	<b>166.05</b>

### 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										
<p><b>Increase in Gross Written Premium</b></p> <table border="1"> <caption>Increase in Gross Written Premium (%)</caption> <thead> <tr> <th>Period</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>10 Act</td> <td>25</td> </tr> <tr> <td>11 Obj</td> <td>26</td> </tr> <tr> <td>11 Act</td> <td>29</td> </tr> <tr> <td>12 Obj</td> <td>33</td> </tr> </tbody> </table>	Period	Value (%)	10 Act	25	11 Obj	26	11 Act	29	12 Obj	33	Overall GWP exceeded the budget. Union Challenger product made a significant contribution to the favourable variance.
Period	Value (%)										
10 Act	25										
11 Obj	26										
11 Act	29										
12 Obj	33										
<p><b>Increase in New Business Premium on an Annualised Basis</b></p> <table border="1"> <caption>Increase in New Business Premium on an Annualised Basis (%)</caption> <thead> <tr> <th>Period</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>10 Act</td> <td>34</td> </tr> <tr> <td>11 Obj</td> <td>26</td> </tr> <tr> <td>11 Act</td> <td>27</td> </tr> <tr> <td>12 Obj</td> <td>31</td> </tr> </tbody> </table>	Period	Value (%)	10 Act	34	11 Obj	26	11 Act	27	12 Obj	31	Annualised new business premiums were below budget. There was a significant increase in the average premium per policy sold, but a lower than budgeted sales force and productivity hampered growth.
Period	Value (%)										
10 Act	34										
11 Obj	26										
11 Act	27										
12 Obj	31										
<p><b>Profit on Life Insurance</b></p> <table border="1"> <caption>Profit on Life Insurance (Rs. Mn.)</caption> <thead> <tr> <th>Period</th> <th>Value (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>10 Act</td> <td>325</td> </tr> <tr> <td>11 Obj</td> <td>397</td> </tr> <tr> <td>11 Act</td> <td>429</td> </tr> <tr> <td>12 Obj</td> <td>516</td> </tr> </tbody> </table>	Period	Value (Rs. Mn.)	10 Act	325	11 Obj	397	11 Act	429	12 Obj	516	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.
Period	Value (Rs. Mn.)										
10 Act	325										
11 Obj	397										
11 Act	429										
12 Obj	516										

29%

Growth in Life Insurance 2011

16%

Growth in General insurance 2011

13%

Growth in Overall Revenue 2011

Sustained revenue growth driven by  
double-digit growth in Life and General  
segments

## Strategic Objectives – Highlights of 2011 Performance and 2012 Priorities

Expand distribution network in a cost effective manner	Continuous improvements 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 rolling out cost effective business development offices (BDOs).</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, providing learning and development inputs of our field force is a key focus of our business.</p>	
2011 Key Points	2011 Key Points	2011 Key Points	
<ul style="list-style-type: none"> <li>• Rolled out significant number of new BDOs</li> <li>• Enhanced features / functionality of web based sales force management system</li> <li>• Opened low cost window offices to exploit opportunities in the North</li> <li>• Streamlined recruitment processes</li> </ul>	<ul style="list-style-type: none"> <li>• Launched sms based payment solution to settle life insurance claims in a speedy manner</li> <li>• Expanded life call centre activities</li> <li>• Leveraged sms technology to deliver service improvements</li> <li>• Continuous focus on productivity improvements across underwriting and claims functions</li> </ul>	<ul style="list-style-type: none"> <li>• Certified 263 life insurance advisors and 69 team leaders</li> <li>• Launched e-learning solution</li> <li>• Increased learning and development resources</li> <li>• Conceptualised leadership academy to build leadership competency among sales management staff</li> </ul>	
2012 Priorities	2012 Priorities	2012 Priorities	
<ul style="list-style-type: none"> <li>• Restructure distribution network to exploit new business opportunities</li> <li>• Continue cost effective expansion by opening new business development offices</li> <li>• Enhance features / functionality of web based sales force management systems</li> </ul>	<ul style="list-style-type: none"> <li>• Implement automated underwriting process for selected risk profiles</li> <li>• Implement web portal for customers with unit linked policies</li> <li>• Enhance initiatives to ensure transparency in sales process</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance features / functionality of e-learning solution</li> <li>• Streamline learning and development inputs in line with business performance</li> <li>• Focus on training the sales force on unit linked products</li> <li>• Roll out leadership academy for selected sales management staff</li> <li>• Streamline learning and development initiatives to fast track career and income of new recruits</li> </ul>	

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 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>
2011 Key Points	2011 Key Points	2011 Key Points
<ul style="list-style-type: none"> <li>• Increased sales from existing bancassurance relationships</li> <li>• Entered into partnership with multinational bank to sell traditional products to their customers</li> <li>• Revamped bancassurance structure for another bank partner</li> <li>• Streamlined key processes to benchmark with world class operations</li> </ul>	<ul style="list-style-type: none"> <li>• Significant volume of new business generated from unit linked products</li> <li>• Simplified / enhanced cover available under existing health insurance products</li> <li>• Streamlined Advantage product in line with customer needs</li> <li>• Enhanced flexibility of Advantage product by offering flexibility for customers to decide extent of cover</li> <li>• Maintained clear distinction between traditional and unit linked products</li> </ul>	<ul style="list-style-type: none"> <li>• Conducted experience investigations for hospital cash and critical illness products</li> <li>• Conducted lapse and mortality investigations</li> <li>• Reviewed and updated underwriting procedures</li> <li>• Conducted modular training programme covering basic aspects of underwriting and claims management for all staff</li> </ul>
2012 Priorities	2012 Priorities	2012 Priorities
<ul style="list-style-type: none"> <li>• Increase volumes from bancassurance channel</li> <li>• Increase productivity of sales force</li> <li>• Modify web based sales force management systems to suit bancassurance operations</li> <li>• Implement strategies to retain key staff</li> <li>• Increase learning and development resources for bancassurance staff</li> </ul>	<ul style="list-style-type: none"> <li>• Expand suite of unit linked products to cover health, protection and savings needs</li> <li>• Continue to maintain clear distinction between traditional and unit linked products</li> </ul>	<ul style="list-style-type: none"> <li>• Roll out advanced financial / medical underwriting programme for staff</li> <li>• Utilise Prophet system to implement actuarial control cycle</li> <li>• Leverage reinsurance partnerships to update knowledge of internal staff</li> <li>• Invest in IT platform to expand unit linked product range with adequate productivity and process controls</li> </ul>

## 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.	<ul style="list-style-type: none"> <li>Develop innovative investment and financial protection products to fulfill market needs</li> </ul>
Growth potential in North and East.	<ul style="list-style-type: none"> <li>Increase distribution, learning and development and communication resources to tap emerging business opportunities</li> </ul>
Low penetration levels and growth potential in mass affluent market segment.	<ul style="list-style-type: none"> <li>Introduce products specifically targeting this segment and improve acquisition and closing skills across all distribution channels</li> </ul>

The threats faced by the business are outlined below;

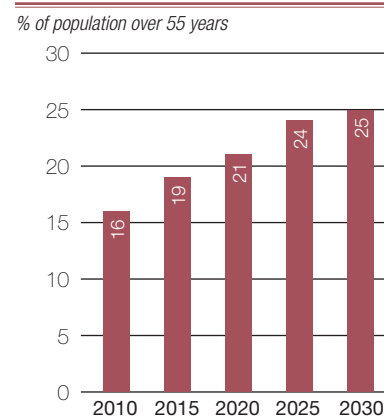
Threat	UA's Response
Inadequate long term assets to match long term liabilities.	<ul style="list-style-type: none"> <li>Selectively diversify into long term assets other than government bonds, corporate paper, etc. (e.g. property, equities)</li> </ul>
Threat of new entrants.	<ul style="list-style-type: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

## 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 increase 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 facilitate premium collections in a cost effective manner. Insurers will also have to focus on developing skills and competencies across distribution, underwriting and claims management functions.

**Ageing Population in Sri Lanka**



Source: World Bank

## Financial Review

### Overview of Financial Performance

#### A Robust Performance

#### Five Year Financial Highlights

Results Overview	2011 (Rs. Mn.)	2010 (Rs. Mn.)	2009 (Rs. Mn.)	2008 (Rs. Mn.)	2007 (Rs. Mn.)
Revenue	8,976	7,920	6,677	5,588	4,604
Net earned premium	7,351	5,961	4,882	4,339	3,675
Benefits losses and expenses	(6,044)	(5,365)	(4,439)	(3,718)	(3,079)
Investment results	1,624	2,229	1,795	1,249	929
Other activities	(2,169)	(1,962)	(1,772)	(1,512)	(1,273)
<b>Profit before taxation</b>	<b>762</b>	<b>593</b>	<b>467</b>	<b>357</b>	<b>252</b>
Taxation	(67)	(81)	(67)	(15)	-
<b>Profit for the year</b>	<b>696</b>	<b>512</b>	<b>401</b>	<b>342</b>	<b>252</b>
Shareholders' funds	3,228	2,633	2,305	1,487	1,153
Dividends	375	234	188	122	103

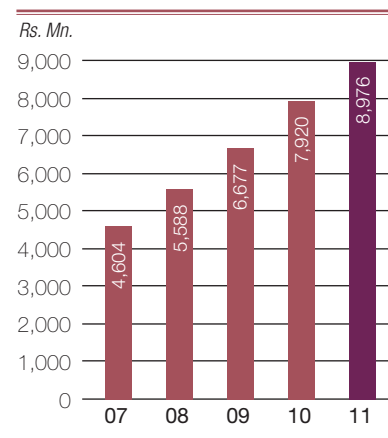
### Results Overview

In financial terms, the company enjoyed a very positive 2011, producing substantial top line growth, a significant rise in the number of customers and strong increases in profit after tax and dividends.

Overall, in the year under review, consolidated revenues of the company increased by 13% from Rs. 7.9 billion in 2010 to Rs. 9.0 billion in 2011 which is a strong top line performance with a premium growth of 22%.

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.

Company Revenue



Five year compound growth 18%.

Year-on-year growth 13%.

The strong growth is a result of concentrating on multiple distribution channels, maintaining effective pricing discipline and launching innovative products.

**Gross Written Premium**

The company wrote gross premiums totaling Rs. 8.7 billion in 2011 which increased by 22% from Rs. 7.1 billion in 2010. This was mainly due to a 29% growth in life insurance premiums, which increased from Rs. 3.5 billion in 2010 to Rs. 4.5 billion in 2011. In addition, general insurance premium grew by 16% from Rs. 3.7 billion in 2010 to Rs. 4.3 billion in 2011.

Premium ceded to reinsurers amounted to 13% of combined life and general insurance GWP in 2011, compared with 14% reported in 2010. 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.

**Net Written Premium**

Net written premium is up 25% to Rs. 7.6 billion. This is in line with our objective to expand lines of business which generate a higher revenue to UA.

**Net Earned Premium**

Rs. 261 million was transferred to the unearned premium reserve compared with Rs. 417 million transferred in 2010. 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. 759 million. This increase, combined with the growth of Rs. 902 million in life insurance net written premium, boosted net earned premium by 29%, from Rs. 5.7 billion in 2010 to Rs. 7.4 billion in 2011.

**Benefits Losses and Expenses**

Insurance claims and benefits increased by 10% from Rs. 4.5 billion in 2010 to Rs. 5.0 billion in 2011. Rs. 2.0 billion was transferred to the life fund in 2011, compared with Rs. 2.1 billion transferred in 2010. 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. 487 million and life insurance claims, benefits and maturity payments increased by Rs. 32 million. These factors contributed to the overall increase in insurance claims and benefits.

Underwriting and acquisition costs increased by 28%, mainly due to an increase in life insurance commission expenses on account of new business generated during the year.

The net premium less benefits losses and expenses increased by 301% from Rs. 0.3 billion to Rs.1.3 billion.

**Investment Results**

Investment Results	2011 (Rs. Mn.)	2010 (Rs. Mn.)	Movement %
Treasury bonds	1,458	1,361	7
Net realised capital gains	222	208	7
Debentures	220	223	(1)
Repurchase agreements	57	7	734
Fixed deposits	47	30	60
Treasury bills	31	8	296
Dividend income - quoted investments	27	15	83
Commercial paper	8	-	100
Asset backed notes	-	11	(100)
Unrealised gains / (losses)	(521)	267	(295)
Other income	74	100	(25)
<b>Total</b>	<b>1,624</b>	<b>2,229</b>	<b>(27)</b>

Investment portfolios are managed with the objective of maximising after-tax returns on a risk adjusted basis. Investment income decreased by 27% from Rs. 2.1 billion in 2010 to Rs. 1.5 billion in 2011 as the company was impacted by the fluctuation in market prices of equity investments during the year. Other income is Rs. 74 million in 2011 (2010 - Rs. 100 million).

**Other Activities**

Other activities primarily comprise other operating, investment related and administrative expenses totaling to Rs. 2 billion (2010 - Rs. 1.9 Billion) which increased by 10% in 2011 compared with the same period in 2010. The company has taken several steps to contain expenses by leveraging information technology to enhance productivity and changing existing operating models and business practices. As the capital expenditure of the company has increased year on year, the depreciation on property, plant and equipment has increased by 19% from Rs. 108 million in 2010 to Rs.129 million in 2011.

**Profit before Taxation**

Profit before taxation increased by 29%, from Rs. 593 million in 2010 to Rs. 762 million in 2011. Both life and general insurance segments contributed to this growth. Profit from life business increased from Rs. 325 million in 2010 to Rs. 429 million in 2011. Profit from general insurance also increased from Rs. 268 million to Rs. 333 million during the same period.

### Taxation

As per current tax regulations, life and general insurance businesses are taxed separately. The general insurance tax charge for 2011 has decreased by 18% mainly due to the reduction in corporate tax rate from 35% to 28%.

### Profit for the year

In the financial year 2011, UA's profit for the year increased by 36% from Rs. 512 million in 2010 to Rs. 696 million in 2011. As mentioned above, both life and general insurance segments contributed to the highest profit after tax recorded by the company. The underlying return on average equity is 28% which is the highest return on equity recorded by the company.



Five year compound growth 29 %.

Year-on-year growth 36% (2010: 28%)

UA's aim is to increase returns from its existing businesses. This is achieved through delivering operational excellence, improved customer loyalty and stronger employee engagement. UA will focus on increasing the company's overall return on equity over the long term.

### Dividends

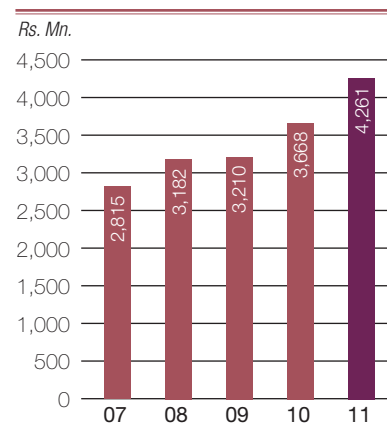
UA recognises the importance of a clear, stable and coherent dividend policy. Dividend payments to shareholders depend on the company's cash flow and capital position. The Directors declared a first and final dividend of Rs. 5.00 per share and the dividend payout amounted to Rs. 375 million for 2011. Dividend payout ratio is 54% in 2011 compared to 46% in 2010. The company's earnings per share increased by 36%, from Rs. 6.83 in 2010 to Rs. 9.27 in 2011.

### Segmental Performance - General Insurance

General Insurance Result	2011 (Rs. Mn.)	2010 (Rs. Mn.)	Movement %
Gross written premium	4,261	3,668	16
Net earned premium	3,083	2,323	33
Net claims incurred	2,165	1,678	29
Net commission	269	173	56
Other Activities	786	664	18
<b>Underwriting result</b>	<b>(137)</b>	<b>(191)</b>	<b>(28)</b>
Investment result	470	459	2
Income tax expense	67	81	(18)
<b>Profit for the year</b>	<b>267</b>	<b>187</b>	<b>43</b>

General GWP grew by 16% from Rs. 3.7 billion in 2010 to Rs. 4.3 billion in 2011. Retail and corporate distribution channels maintained a steady growth momentum in 2011. 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 16% and marine premiums also reported a 14% increase. Fire insurance premiums reported a marginal decline of 0.3%, mainly due to the drop in rates and demand for terrorism coverage.

### Gross Written Premium - General



Five year compound growth 11 %,

Year-on-year growth 16% (2010: 14%)

Premium ceded to reinsurers as a percentage of GWP declined from 25% in 2010 to 22% in 2011. As a result, net written premium

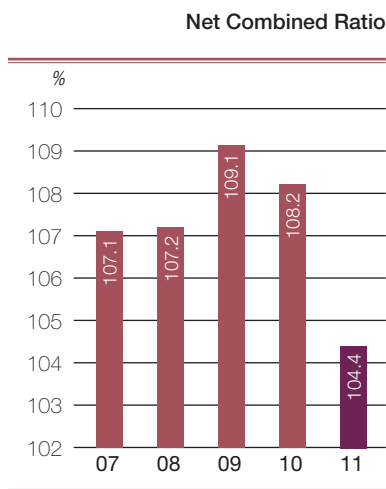
increased by 22% and was consistent with UA's strategy of growing retail business volumes and retaining more risk within the balance sheet.

Net written premium increased by Rs. 604 million, but Rs. 261 million was transferred to the unearned premium reserve as income to be accounted in 2012. In the previous year, the company transferred Rs. 417 million as unearned premiums. Following this adjustment, net earned premiums increased by 33% from Rs. 2.3 billion in 2010 to Rs. 3.1 billion in 2011.

The claims ratio (computed as a % of net claims over net earned premium) decreased from 72.2% in 2010 to 70.2% in 2011. Net claims expense includes Rs. 61 million charge on account of incurred but not reported (IBNR) claims which has been actuarially valued.

The net expense ratio of 32% in 2011 (computed as a % of commission and overhead expenses over net earned premium) was lower than the 36% reported in 2010.

Following these developments, the combined ratio which is the key measure of underwriting profitability (total of the claims and expense ratios) of 104.4 in 2011 was lower than the 108.3 reported in 2010.



The combined ratio in 2011 was 104.4%, an improvement over the 108.2 % reported in 2010

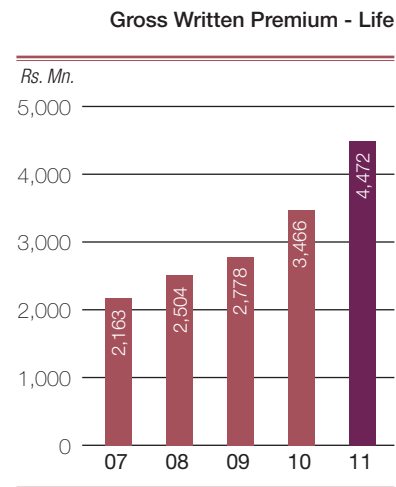
The decrease in underwriting losses and increase in investment income in 2011 resulted in the profit before tax from general insurance business increasing from Rs. 268 million in 2010 to Rs. 333 million in 2011 whereas profit after tax grew by 43% from Rs. 187 million to Rs. 267 million in 2011

## Management Discussion and Analysis Contd.

### Segmental Performance - Life Insurance

Life Insurance Result	2011	2010	Movement %
	(Rs. Mn.)	(Rs. Mn.)	
Gross written premium	4,472	3,466	29
Net written premium	4,269	3,367	27
Investment result	1,180	1,807	(35)
Increase in life insurance fund	(2,044)	(2,124)	(4)
Net benefits payable	(748)	(716)	4
Net commissions	(819)	(676)	21
Other activities	(1,409)	(1,334)	6
<b>Surplus from life insurance fund</b>	<b>429</b>	<b>325</b>	<b>32</b>

Life insurance premiums which generated revenues through sales of individual and group life insurance policies increased by 29% from Rs. 3.5 billion in 2010 to Rs. 4.5 billion in 2011. Regular premiums including unit linked products grew by 31%, while GWP from group life policies reported a marginal decline. Net written premium (after deducting premium due to reinsurers) increased by 27% from Rs. 3.4 billion in 2010 to Rs. 4.3 billion in 2011.



Five year compound growth 20 %,  
Year-on-year growth 29% (2010: 25%)

Following actuarial advice, Rs. 2 billion was transferred to the life fund (compared with Rs. 2.1 billion transferred in 2010), to reflect the liabilities to our life policyholders.

Claims, benefits and maturity payments increased from Rs. 716 million in 2010 to Rs. 748 million in 2011. This increase is mainly due to increase in maturity payments.

Underwriting and policy acquisition expenses increased by 21% in 2011, 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 which includes government securities, corporate securities, bank deposits and equity investments increased by 19% from Rs. 10.8 billion in 2010 to Rs. 12.9 billion in 2011.

Operating and administration expenses of Rs. 1.4 billion marginally increased in comparison to the 2010 figure.

As per independent actuarial advice, Rs. 429 million was transferred as surplus from the life fund, after providing for bonuses to policyholders. In 2010, Rs. 325 million was transferred as life surplus.



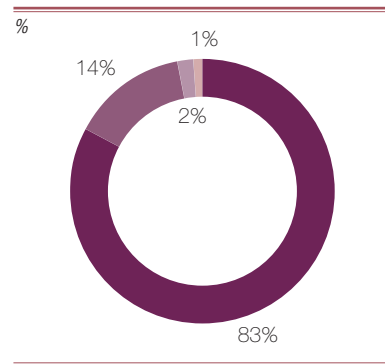
Five year compound growth 31 %,  
Year-on-year growth 32% (2010: 38%)

## Financial Position

### Investments

The investment portfolio which includes government securities, corporate securities, bank deposits and equity investments increased by 20%, from Rs. 13.0 billion in 2010 to Rs. 15.6 billion in 2011. The composition of the investment portfolio is provided below.

**Composition of Investments - 2011**



Government securities	83%
Corporate securities	14%
Bank deposits	2%
Equities	1%
Investments in unit linked fund	0%

Investments were Rs. 15.6 billion, up by 20% on 2011. 83% of investments are in government securities.

### Quoted Equities

In line with the strategy of matching long term liabilities with long term assets, investments in quoted equities increased from Rs. 767 million in 2010 to Rs. 921 million in 2011. As at December 2011, the portfolio is weighted mainly to the Banks, Finance & Insurance, Diversified Holdings and Manufacturing sectors, which together account for 68% of equity investments (on cost).

### Property, Plant and Equipment

Net book value of property plant and equipment in 2010 and 2011 were Rs. 1.11 billion and Rs. 1.30 billion respectively. Land and buildings account for 71% of this asset class, with computer equipment accounting for 17%.

### Reinsurance Receivable

Reinsurance receivables comprise Rs. 83 million receivable on paid claims (2010 - Rs. 124 million) and Rs. 419 million (2010 - Rs. 457 million) receivable on claims outstanding 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 decreased by 15% resulting from improvement in premium collection as at 31 December 2011.

Other assets amounting to Rs. 1.8 billion in 2011 has increased by 16% compared with Rs.1.5 billion reported in 2010. Loans to employees and interest receivable on life and general investment portfolios account for 25% and 35% of other assets respectively. Taxes receivable / recoverable accounted for a further 19% of other assets.

**Life Insurance Provision**

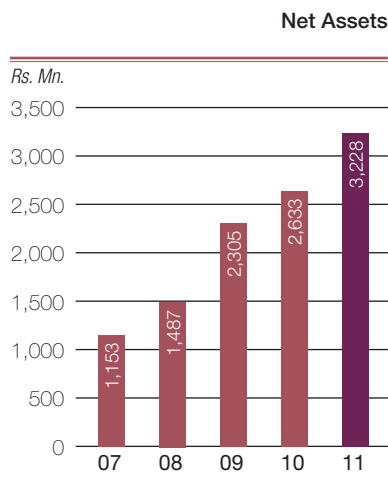
Following the annual valuation of life policyholder liabilities, the life insurance provision increased from Rs. 11.8 billion in 2010 to Rs. 13.4 billion in 2011. The life insurance provision includes Rs. 229 million unclaimed benefits due to policyholders.

**General Insurance Provision**

General insurance provisions, which include net (after reinsurance) unearned premiums, net deferred acquisition costs and gross (before reinsurance) outstanding claims increased by 8% from Rs. 2.7 billion in 2010 to Rs. 2.9 billion in 2011.

**Equity**

Improved profitability resulted in equity increasing from Rs. 2.6 billion in 2010 to Rs. 3.2 billion in 2011.



Net assets were Rs. 3.2 billion up by 18%, with after tax profits offset by the payment of dividends.

**Cash Flow Analysis**

The cash inflows from operating activities remained positive overall. Net cash from operating activities increased by 23%, from Rs. 2.8 billion in 2010 to Rs. 3.5 billion in 2011 mainly due to increased premium income.

The bulk of these funds (Rs. 3.3 billion) were channeled into investing activities offset by reduced investment cash flows to build a strong investment portfolio, compared with Rs. 2.6 billion utilised in investing activities in 2010.

Following this transfer and Rs. 213.1 million dividend payment to shareholders, cash and cash equivalents recorded a negative balance of Rs. 54 million as at December 2011.

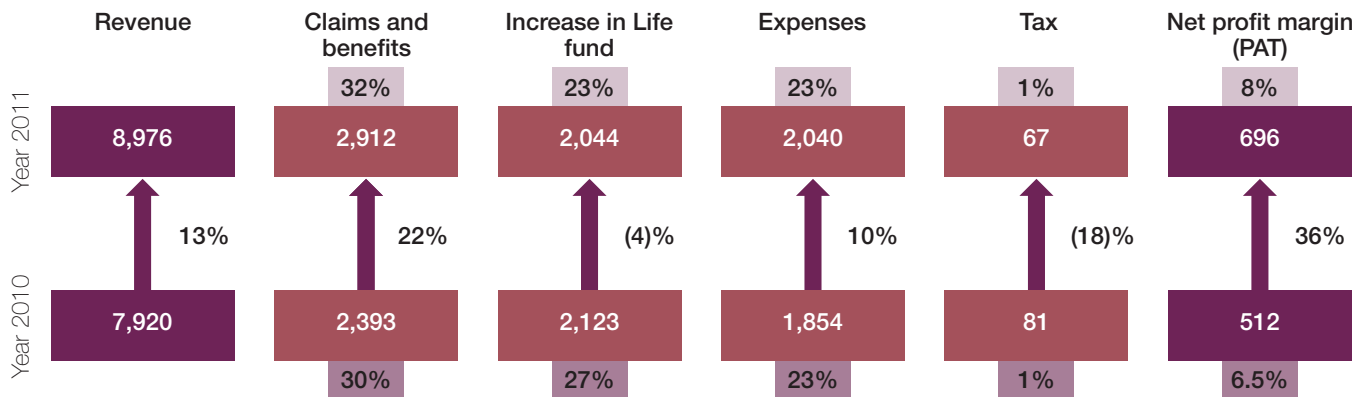
**Impact of Changes in Sri Lanka Accounting Standards**

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1<sup>st</sup> January 2012. These accounting standards comprise accounting standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). As shown on note no 5 on page 214, there are 20 SLFRS / LKAS that would be applicable to UA. However, only seven standards will have a material impact on UA's financial statements as shown in note no 5 to the financial statements. We are in the process of quantifying the impact of the above changes.

**Summary**

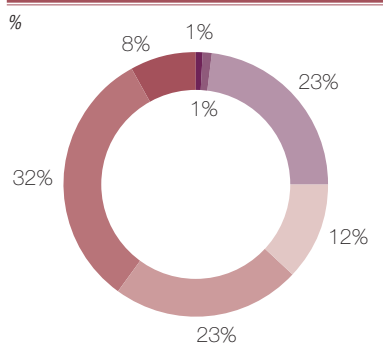
In what were competitive industry conditions, 2011 was a good year for the company. Looking forward to 2012, the company is confident of continuing to deliver premium growth and strong profitability.

Graphical presentation of Statement of Income - year on year comparison



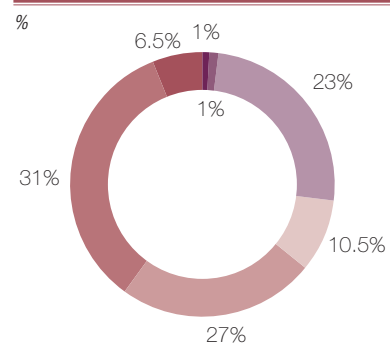
Where; ↑ Year on Year increase (2011 vs 2010)  
 Expense / profit as a % of revenue 2011  
 Expense / profit as a % of revenue 2010  
 Outgoing (Rs. Mn.)  
 Incoming / residual (Rs. Mn.)

Composition of revenue and expenses - 2011



■ Tax	1%
■ Depreciation	1%
■ Expenses	23%
■ Acquisition	12%
■ Increase in Life fund	23%
■ Claims and benefits	32%
■ Net profit margin (PAT)	8%

Composition of revenue and expenses - 2010



■ Tax	1%
■ Depreciation	1%
■ Expenses	23%
■ Acquisition	10.5%
■ Increase in Life fund	27%
■ Claims and benefits	31%
■ Net profit margin (PAT)	6.5%

## Management Discussion and Analysis Contd.

## Summary of Key Financial Data

The following table outlines the key financial numbers (as per the statement of income and balance sheet), the relative contributions from the life and general businesses, strategic issues which may impact these figures and the actions taken by UA to manage such issues.

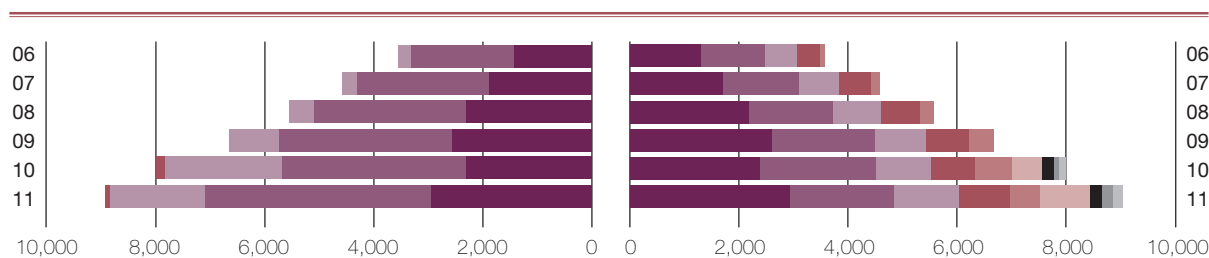
Financial Data (in Rs. bn)				Life Business		
Description	2011	2010	Change (%)	Contribution from Segment	Strategic Issues	
GWP	8.9	7.9	13%	Life contributes 51% of total GWP	<ul style="list-style-type: none"> <li>Limited awareness regarding the benefits of life insurance</li> <li>Lack of premium collection mechanisms resulting in high lapsation</li> </ul>	
Premium receivable	1.0	1.2	(15)%	N/A	N/A	
Premium ceded to reinsurers	1.1	1.0	9%	Life contributes 18% of total premium ceded to reinsurers	<ul style="list-style-type: none"> <li>Ensure high quality reinsurance support across business cycle</li> <li>Inadequate transfer of risk</li> </ul>	
Reinsurance receivables	0.4	0.5	(14)%	Life reinsurance receivables amount to 9% of the total	Inability of reinsurers to meet their commitments due to insufficient financial strength	
Insurance claims and benefits (net)	4.9	4.5	8%	Life insurance claims, benefits and maturity payments account for 56% of the total	<ul style="list-style-type: none"> <li>Ensure pricing is adequate to cover future claims payments</li> <li>Ensure delivery of guaranteed maturity value</li> <li>Minimise policy surrenders</li> </ul>	
Insurance provision - life	14	11.9	17%	N/A	Ensure value covers present and future life policyholder liabilities	
Insurance provision - general	2.9	2.7	8%	N/A	N/A	
Operating, investment related and administrative expenses	2.0	1.8	10%	Life related expenses account for 67% of the total	Manage expenses to ensure sustainability of business	

General Business				
	Action Plans	Contribution from Segment	Strategic Issues	Action Plans
	<ul style="list-style-type: none"> <li>Leverage distribution, actuarial, underwriting and marketing resources to grow volumes</li> <li>Lobby regulators and financial institutions to implement mechanisms to facilitate collections e.g. direct debit system</li> </ul>	General contributes 49% of total GWP	Intense price competition resulting in unviable pricing and UA having to walk away from business	<ul style="list-style-type: none"> <li>Offer differentiated products in terms of service</li> <li>Manage claims and expenses to deliver target price points</li> <li>Develop multiple distribution channels to compete for business</li> </ul>
	N/A	Premium receivable comprises amounts due on general insurance policies written during the year	<ul style="list-style-type: none"> <li>Risk of non payment of premium</li> <li>Cash flow implications of not receiving premiums on timely basis</li> </ul>	<ul style="list-style-type: none"> <li>Strict implementation of premium warranty clause</li> <li>Increase credit control resources</li> <li>Review and modify credit control practices in light of increased volumes</li> </ul>
	<ul style="list-style-type: none"> <li>Build relationships with reinsurers of international repute</li> <li>Formalise reinsurance arrangements based on business requirements and monitor implementation</li> </ul>	General contributes 82% of total premium ceded to reinsurers	<ul style="list-style-type: none"> <li>Ensure high quality reinsurance support across business cycle</li> <li>Inadequate transfer of risk</li> </ul>	<ul style="list-style-type: none"> <li>Manage underwriting and claims processes to ensure positive contribution to reinsurance partners.</li> <li>Formalise reinsurance arrangements based on business requirements and monitor implementation</li> </ul>
	<ul style="list-style-type: none"> <li>Build relationships only with reinsurers with minimum ratings</li> <li>Monitor ratings on a regular basis</li> </ul>	General reinsurance receivables amount to 91% of the total	Inability of reinsurers to meet their commitments due to insufficient financial strength	Refer life action plans
	<ul style="list-style-type: none"> <li>Implement actuarial control cycle</li> <li>Launch products with annual / minimal guarantees</li> <li>Ensure constant communication with customers to minimise lapsation</li> </ul>	General insurance claims account for 44% of the total	<ul style="list-style-type: none"> <li>Manage claims leakage</li> <li>Manage underwriting results by ensuring that pricing is adequate to cover ultimate losses</li> </ul>	<ul style="list-style-type: none"> <li>Set up audit function / review claims procedures to minimise leakage</li> <li>Develop management information to monitor pricing, claims experience</li> </ul>
	<ul style="list-style-type: none"> <li>Conduct independent actuarial valuation at year end</li> <li>Conduct mid year reviews internally</li> <li>Increase internal actuarial resources and IT capability</li> </ul>	N/A	N/A	N/A
	N/A	N/A	Ensure accuracy of reserves	Obtain actuarial sign off of unexpired risk reserve and incurred but not reported (IBNR) claims reserves
	<ul style="list-style-type: none"> <li>Leverage IT and implement cost effective business model</li> <li>Expand alternative distribution channels</li> <li>Develop benchmarks to monitor / manage expenses</li> </ul>	General related expenses account for 33% of the total	Manage expenses to ensure sustainability of business and deliver competitively priced solutions	Refer life action plans

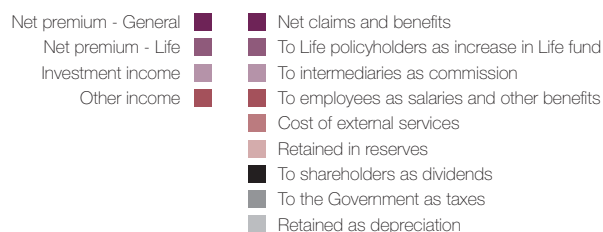
## Contribution to National Economy

Statement of Value Added	2011		2010		2009		2008		2007		2006	
	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%
Net premium	7,351		5,691		4,882		4,337		3,674		2,834	
Investment and other income	1,624		2,229		1,795		1,249		929		748	
Net claims and benefits	(2,912)		(2,393)		(2,204)		(1,861)		(1,458)		(1,108)	
Cost of external services	(791)		(833)		(664)		(524)		(421)		(330)	
<b>Total value added</b>	<b>5,273</b>		<b>4,694</b>		<b>3,809</b>		<b>3,201</b>		<b>2,724</b>		<b>2,144</b>	
To employees as salaries and other benefits	875	17	787	16	648	17	586	18	492	18	375	17
To intermediaries as commission	1,088	21	848	21	799	21	746	23	620	23	502	23
To the Government as taxes	67	1	81	2	67	2	23	1	1	0	23	1
To shareholders as dividends	375	7	234	5	188	5	122	4	103	4	50	2
To Life policyholders as increase in Life fund	2,044	39	2,123	44	1,619	43	1,318	41	1,192	44	992	46
Retained with the business												
- as depreciation	129	2	108	2	87	2	71	2	62	2	47	2
- in reserves	696	13	512	11	401	11	335	10	254	9	155	7
<b>Total value added</b>	<b>5,273</b>	<b>100</b>	<b>4,694</b>	<b>100</b>	<b>3,809</b>	<b>100</b>	<b>3,201</b>	<b>100</b>	<b>2,724</b>	<b>100</b>	<b>2,144</b>	<b>100</b>

## Source of Income      Distribution of Income



Rs. Mn.

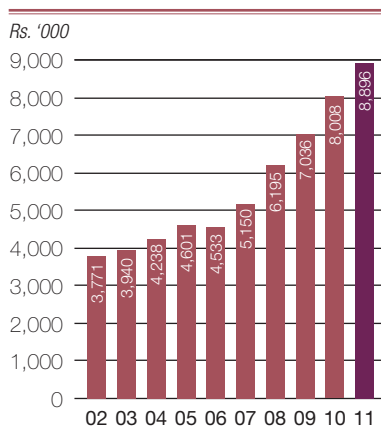


Staff Distribution by Province	2011		2010	
	No.	%	No.	%
Central	51	5	37	4
Eastern	29	3	42	4
North Central	40	4	46	5
North Western	49	5	39	4
Northern	22	2	14	1
Sabaragamuwa	20	2	22	2
Southern	64	6	63	6
Uva	32	3	43	4
Western	702	70	683	69
<b>Total</b>	<b>1,009</b>	<b>100</b>	<b>989</b>	<b>100</b>

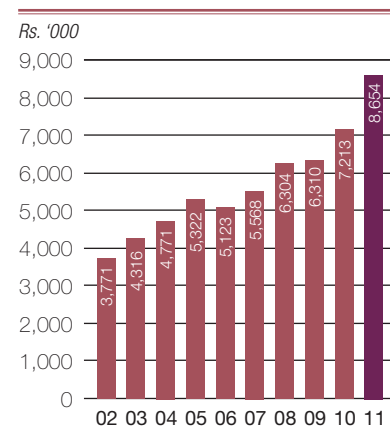
## Employee Productivity

Employee Productivity (Rs.'000)	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenue per employee	8,896	8,008	7,036	6,195	5,150	4,533	4,601	4,238	3,940	3,771
Gross written premium per employee	8,654	7,213	6,310	6,304	5,568	5,123	5,322	4,771	4,316	3,771
Profit per employee	689	518	422	379	282	201	436	(113)	238	72
Value added per employee	5,226	4,746	4,014	3,549	3,047	2,707	2,812	2,583	2,569	1,970
Number of employees	1,009	989	949	902	894	792	597	537	547	571

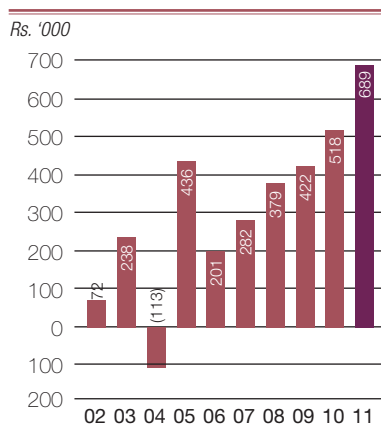
Revenue per employee



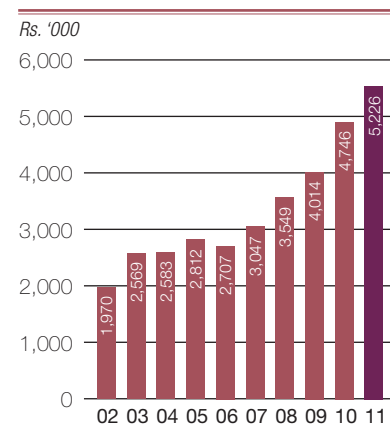
Gross written premium per employee



Profit per employee



Value added per employee



## Employee Indicators

## Staff Strength

As at 31 <sup>st</sup> December	2011	2010	2009	2008	2007
Executive Committee	9	9	9	10	10
Assistant general managers	7	7	8	9	10
Senior managers	33	31	29	27	32
Managers	338	332	315	264	251
Executives	330	340	300	279	293
Non executives	292	270	288	313	298
<b>Total</b>	<b>1,009</b>	<b>989</b>	<b>949</b>	<b>902</b>	<b>894</b>

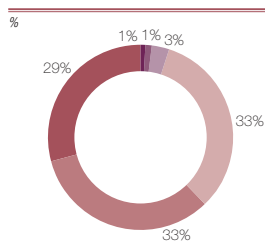
## Age Analysis of Staff - 2011

Age group (Years)	Executive Committee	Assistant General Managers	Senior Managers	Managers	Executives	Non Executives	2011 Total
19 - 20	-	-	-	-	1	5	6
21 - 30	-	-	-	49	134	195	378
31 - 40	2	-	8	179	140	47	376
41 - 50	5	7	20	98	47	45	222
51 - 60	2	-	5	12	8	-	27
<b>Grand Total</b>	<b>9</b>	<b>7</b>	<b>33</b>	<b>338</b>	<b>330</b>	<b>292</b>	<b>1,009</b>

## Service Analysis of Staff - 2011

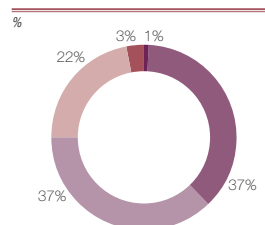
Years	Executive Committee	Assistant General Managers	Senior Managers	Managers	Executives	Non Executives	2011 Total
5 and below	5	1	16	224	253	206	705
6 - 10	4	3	4	41	34	19	105
11 - 15	-	2	5	33	15	17	72
16 - 20	-	-	1	19	12	20	52
Above 20	-	1	7	21	16	30	75
<b>Total</b>	<b>9</b>	<b>7</b>	<b>33</b>	<b>338</b>	<b>330</b>	<b>292</b>	<b>1,009</b>

Staff Strength - 2011



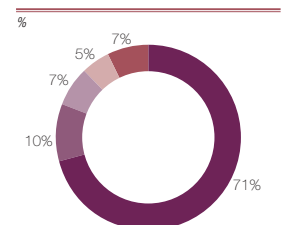
Executive Committee	1%
Assistant General Managers	1%
Senior Managers	3%
Managers	33%
Executives	33%
Non Executives	29%

Age Analysis of Staff - 2011



Age 19 - 20	1%
Age 21 - 30	37%
Age 31 - 40	37%
Age 41 - 50	22%
Age 51 - 60	3%

Service Analysis of Staff - 2011



Service 5 and below	71%
Service 6 - 10	10%
Service 11 - 15	7%
Service 16 - 20	5%
Service Above 20	7%

## Brand Valuation and Brand Building Process

### Brand Building Process

The UA brand is positioned on the basis of Trust i.e. being “convenient” to our general insurance customers’ “transparent” to our life insurance customers and being “respectful” to all stakeholders.

### 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	2011 Progress
Identify customer needs and sell products accordingly.	<ul style="list-style-type: none"> <li>• Products are sold based on a “fact find” of customer requirements</li> <li>• Union Challenger sales process has embedded fact find mechanisms to identify any gaps in investment / income requirements</li> </ul>
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"> <li>• Investments are in accordance with regulatory requirements</li> <li>• The company’s solvency position is published on page 114 of this report</li> <li>• 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</li> <li>• The following types of risks are monitored by the Board / BIC with regard to investments made. Further details are available on pages 121 to 122 <ul style="list-style-type: none"> <li>• Concentration risk</li> <li>• Liquidity risk</li> <li>• Credit risk</li> <li>• Market risk</li> </ul> </li> </ul>
Deliver high quality service.	<ul style="list-style-type: none"> <li>• Several initiatives have been taken to improve service levels as outlined on page 50</li> </ul>
Ensure transparency in all business documentation (e.g. training materials, marketing brochures, policy documents, etc.).	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Union Challenger product material designed to ensure maximum transparency</li> </ul>
Train sales / support staff to act with responsibility in a professional manner.	<ul style="list-style-type: none"> <li>• On-going initiative</li> </ul>

## 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 2011 is as follows.

Activity	2011 Progress
Sell products which meet customer needs i.e. in terms of coverage, value covered etc.	<ul style="list-style-type: none"> <li>Details of general insurance products are available on page 141. Details of new products and service improvements are detailed on pages 40 to 41</li> </ul>
Obtain reinsurance support form high quality reinsurers.	<ul style="list-style-type: none"> <li>The company's reinsurance panel is summarised on inner back cover</li> </ul>
Implement sound risk management practices to ensure that UA delivers on its commitments.	<ul style="list-style-type: none"> <li>Details of the company's risk management practices are provided on pages 118 to 123 of this report</li> </ul>
Offer convenience to customers when purchasing policies / lodging claims and deliver high quality service.	<ul style="list-style-type: none"> <li>Details of service improvements are available on page 40</li> </ul>
Train sales / support staff to act with responsibility.	<ul style="list-style-type: none"> <li>On-going initiative</li> </ul>

**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 150 to 158.

**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 159 to 162.

**Shareholders**

The sustainability report on pages 163 to 165 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 166 to 167 of this report.

**Brand Valuation**

The UA brand was valued at Rs. 1.4 billion in 2011 (2010 - Rs. 1.2 billion). 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 2011, 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 2011
Market share	It is estimated that UA has increased its market shares in both the life and general insurance industries by 12.8% and 9.5% respectively.
Sales growth	General insurance premium growth rate is 16% whereas industry growth rate is 21%. Life insurance premium grew by 29% and is expected to exceed the industry growth rate of 12%.
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. 91 million in advertising expenses in 2011.
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 4,432 (including development officers) as at December 2011. General insurance business is distributed via brokers, agents and UA staff. We also invest in alternative distribution channels and leverage cross marketing opportunities between the life and general businesses as well as within the group. As at December 2011, UA sold life and general insurance products through 102 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 Whittall 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.

**Intellectual Capital Report**

Intellectual capital is given high importance at UA as it is essential in order for UA to provide 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 they can be managed to generate more value.

For this purpose, we have created a set of indicators that visualise our performance in terms of intellectual capital management.

This in effect broadened and balanced the reported results to portray a more systematic description of the company's ability and potential to transform intellectual capital into financial capital.

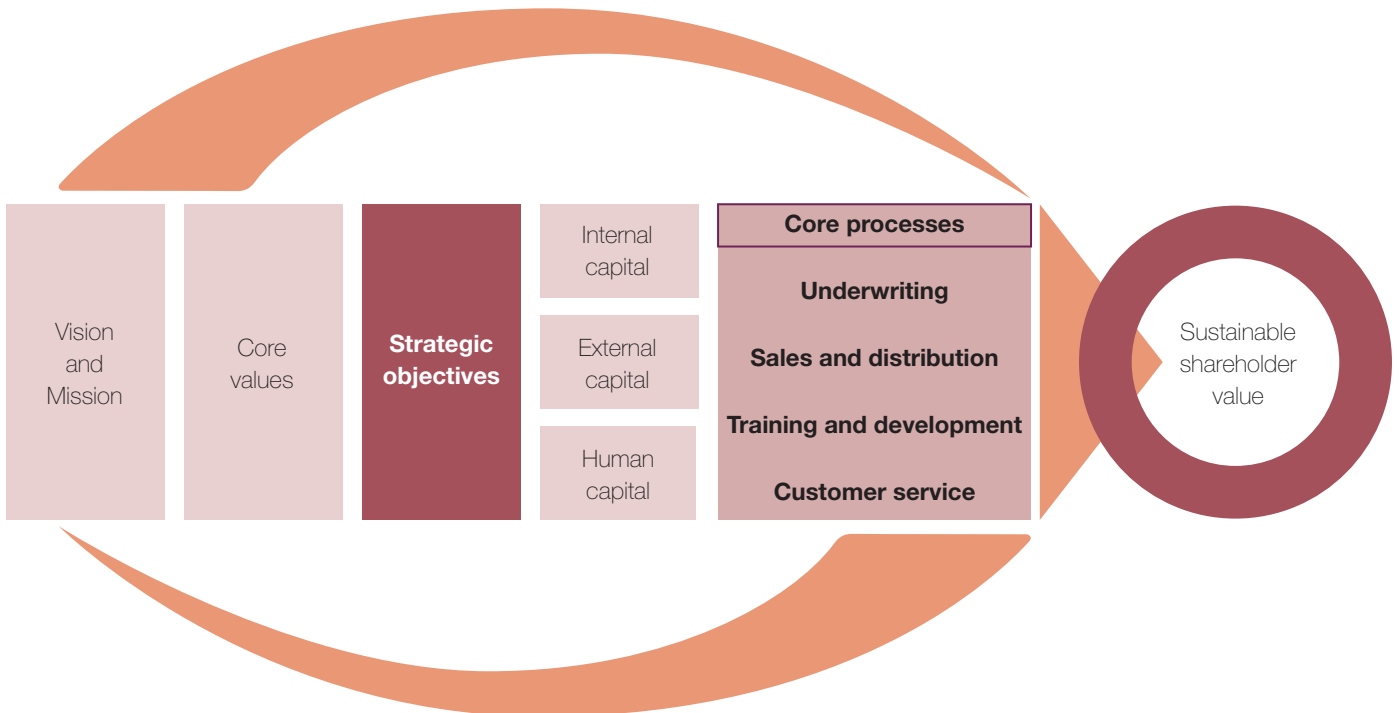
The starting point of UA's value creation process is the organisation's vision, mission and core values. These define the long term context of

our business and set the tone for our dealings with all stakeholders. The company's strategic objectives as outlined on pages 40 to 41 and pages 50 to 51 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 below, 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"> <li>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</li> <li>Restructured the Board and Board sub committees in compliance with the directive issued by the Insurance Board of Sri Lanka</li> <li>Streamlined compliance statement sign off process</li> <li>Implemented SAP financial system to enhance integrity of financial information and controls over financial reports</li> <li>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</li> </ul>
Constantly optimise business processes	<ul style="list-style-type: none"> <li>Launched "Union eMotor" a system which enables sales advisors to issue policies independently without waiting for underwriter's approval, at the customers' door-step, increasing customer convenience</li> <li>Implemented Integrated Claim Approval System, aimed at efficient servicing of motor claims by improving claims tracking and facilitating report generation to improve customer service standards</li> <li>A unique learning portal was launched named "Learn Easy" to convert approximately 70% of the training workload of the organisation to an e-based solution. The platform encompasses a digital library containing videos and external links and is accessible to all the field staff and office staff</li> </ul>

## Internal Capital Indicators

a. Organisational Framework	Indicators	Annual Report Reference	
	Formalised corporate governance structure	Corporate Governance (page 79)	
	Board Committees <ul style="list-style-type: none"> <li>Board Audit and Compliance Committee</li> <li>Board Remuneration Committee</li> <li>Board Nominations Committee</li> <li>Board Investment Committee</li> </ul>	Corporate Governance (page 105)	
	Separation of corporate management from the Board of Directors	Corporate Governance (page 79)	
	Branch network	Distribution network (pages 281 to 283)	
b. Technical Infrastructure	Indicators	Value 2011	Value 2010
	Number of IT applications	39	36
	Investment in IT infrastructure during the year	Rs. 93 million	Rs. 99 million
	Value of IT infrastructure as a percentage of long term assets	17%	19%
c. Philosophy and Culture	Indicators		
	Employee perception of philosophy and culture. <ul style="list-style-type: none"> <li>Employee satisfaction survey 2010</li> </ul>	In the employee satisfaction survey conducted during the 2010, the company scored 86% for the statement "We are proud to work for our company." This survey is conducted once every two years. The next survey will be conducted in 2012.	
d. Financial Relations	Indicators	Annual Report Reference	
	Company ownership	Shareholder Information (pages 265 to 270)	
	Reinsurer ratings	Panel of reinsurers (inner back cover) and ratings (Page 120)	
	Risk management initiatives	Risk Management report (pages 117 to 129)	

**Organisational Framework**

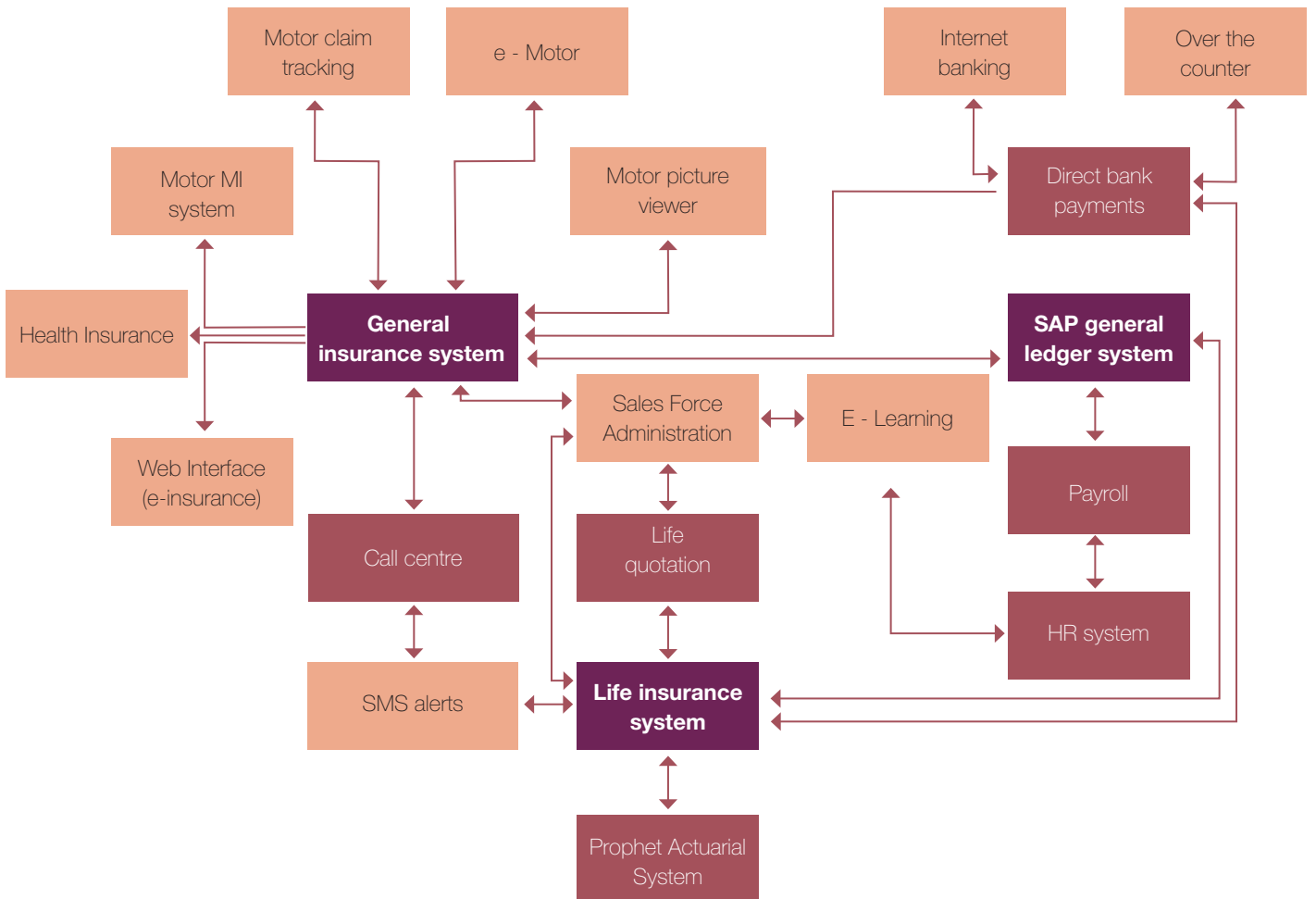
To handle UA's core tasks successfully and efficiently, the company continuously optimises its organisational framework and technical structure. The corporate governance framework ensures the highest standards of business integrity, ethical values and professionalism. Further details are available in the Corporate Governance report on pages 78 to 109.

**Technical Infrastructure**

The company operates two separate IT systems for life and general insurance underwriting, claims management and servicing. All UA locations have access to these IT systems ensuring convenient,

hassle free service to our customers. Both IT 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. 93 million in IT infrastructure.

Our IT infrastructure is diagrammatically presented as follows



IT infrastructure	Investment (Rs. Mn)	
	2011	2010
AS 400	15	14
Personal computers	40	19
Software	38	66
<b>Total</b>	<b>93</b>	<b>99</b>

## Philosophy and Culture

A good indicator of our organisational philosophy and culture is the response we received from the employee satisfaction survey which is conducted once every two years. In the latest survey which was 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 6<sup>th</sup> 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"> <li>The UA brand was valued in 2011 at Rs. 1.4 billion and the brand rating was AA-</li> </ul>
Build customer confidence through ethical business practices and prudent risk management	<ul style="list-style-type: none"> <li>The company adopts effective corporate governance practices</li> <li>The company strives to ensure transparency and accountability in all its dealings</li> <li>The company has a formal risk management process</li> </ul>
Maintain strong business relationships with external service providers	<ul style="list-style-type: none"> <li>UA has strong relationships with 38 financial institutions</li> <li>In the process of forming strategic alliances with garages in key locations</li> </ul>
Constantly improve service standards	<ul style="list-style-type: none"> <li>Corporate clients and insurance brokers were given the opportunity to view the progress of their claims on-line. This has been well received as it had delivered a great convenience</li> <li>During the year, selected travel agents were empowered with an on-line facility to issue travel policies for their customers</li> <li>Implemented Integrated Claim Approval System, geared for efficient servicing of motor claims by improving claims tracking and facilitating report generation to improve customer service standards</li> <li>Achieved 90% satisfaction among motor insurance customers who made claims on their policies</li> </ul>

## External Capital Indicators

	Indicators	Value 2011	Value 2010
<b>a. Brand Building</b>			
	Brand value	The UA brand was valued at Rs. 1.4 billion by Brand Finance (UK) in association with Sting Consultants	The UA brand was valued at Rs. 1.2 billion by Brand Finance (UK) in association with Sting Consultants
<b>b. Corporate Image Building</b>			
	Number of press releases	18	24
	Number of press conferences	1	1
<b>c. Internet Based Communication</b>			
	Number of visits to the web site	500,620	264,308
<b>d. Business Partnering</b>			
	Partnering with garages	Maintained strategic partnerships with 9 garages	Entered into strategic partnerships with 7 garages
	Partnering with pharmacies and hospitals	Maintained partnerships with over 43 hospitals, 2 opticians and a chain of pharmacies	Partnered with over 43 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
<b>e. Distribution Channels</b>			
	Field staff	We employ over 4,400 field staff members, refer page 173 for more details	We employ over 3,200 field staff members
	Brokers	We work with over 50 registered brokers	We work with over 40 registered brokers
<b>f. Market Share</b>			
	General	9.5% (e)	9.82%
	Life	12.8% (e)	11.12%
<b>g. Focus on Customer Satisfaction</b>			
	Motor insurance claimants satisfaction level.	90% (survey conducted by internal R&D division)	97% (survey conducted by internal R&D division)
<b>h. Addressing Customer Complaints</b>			
	Number of customer complaints received.	559	399
	Resolved	347	126
	Resolution in progress	212	273
<b>i. Service Enhancements</b>			
	Life	1	2
	General	4	5

## Brand Building

The UA brand was valued at Rs.1.4 billion in 2011 by Brand Finance (UK) in association with Sting Consultants using the “relief of royalty” approach. The brand rating received was AA-.

The UA brand was awarded Superbrand status for the year 2009, which was awarded after a rigorous selection process. Superbrands as per the official definition, must represent quality, reliability, distinction, reputation and prestige

## 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.unionassurance.lk](http://www.unionassurance.lk).

The company was 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

The company has entered into strategic alliances with 9 garages in order to ensure transparency in claim expenses and build relationships which could be leveraged to improve customer service.

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. UA maintains 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 9.5% of the general insurance market and 12.8% of the life insurance market. This makes UA the 4<sup>th</sup> 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 90% 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 559 customer complaints updated in the system. We have resolved 347 and 212 are being followed up.

## Service Enhancements

Details of our service enhancements are provided in the Management Discussion and Analysis (pages 40 and 50) as well as in the Sustainability Report (pages 146 to 149).

## Human Capital

Human Capital Goals	Commentary
Recruit, develop and retain employees with necessary skills.	<ul style="list-style-type: none"> <li>Review human resources in the context of strategic objectives</li> <li>Implement structured training programmes to constantly upgrade skills / competencies</li> <li>Implement remuneration policies which link fixed and variable remuneration to performance</li> <li>Develop formal communication channels</li> <li>Develop structured career progression opportunities</li> <li>Implement strategies to enhance the image of insurance advisors</li> <li>Implement strategies to reduce gap between permanent and non-permanent teams</li> </ul>
Foster a conducive working environment for all employees.	<ul style="list-style-type: none"> <li>The company conducts an employee satisfaction survey once every two years to identify any issues which require corrective action</li> <li>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</li> <li>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</li> </ul>
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"> <li>The company has implemented an online performance appraisal system. In 2011, 65% of employees completed their performance appraisals on-line</li> <li>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</li> <li>The company has several performance based incentive schemes to reward individuals. Variable pay opportunities include commissions for acquiring new business and annual bonuses</li> </ul>
Ensure an integrated and strategic training and development program that builds technical skills, soft skills and leadership competencies	<ul style="list-style-type: none"> <li>The company strives to ensure that all employees are provided with the necessary training to effectively discharge their duties</li> <li>Training needs are identified as part of the formal performance appraisal process and feed back from line management</li> <li>During the year UA continued with the talent management initiatives in place</li> <li>Details of training provided during the year are given below</li> </ul>

## Human Capital Indicators

Training and Development	Indicators	Value 2011	Value 2010
	Training days per employee	Managers 6.09 Executives 2.43 Non executives 4.94	Managers 5.46 Executives 2.06 Non executives 2.83
	Training days per field staff member	8.9	9.8
	Cost of training and education	Rs. 60 million	Rs. 49 million
	Number of employees with overseas training	41	26
<b>b. Employee Relations</b>		<b>Value 2011</b>	<b>Value 2010</b>
	Employee satisfaction survey	Conducted once every two years. Therefore not conducted in 2011	Overall employee satisfaction rating was 77% as per the employee satisfaction survey conducted in 2010
	Number of management meetings	5	4
	Number of "Union Shakthiya" magazines published	1	-

## Human Capital Indicators Contd.

Training and Development	Indicators	Value 2011	Value 2010
<b>c. Employee Welfare Indicators</b>		<b>Value 2011</b>	<b>Value 2010</b>
	Number of activities organised by the recreation club	11	13
	Number of staff members entitled to medical and insurance cover	1,009	989
	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
<b>d. Employee Know How</b>	<b>Indicators</b>	<b>Annual Report Reference</b>	
	Business and financial acumen of the Board of Directors	Corporate Governance - page 86	
	Business and financial acumen of the Executive Committee	Executive Committee - pages 18 to 21	
	Number of years of service analysis	Employee Indicators - page 64	
<b>e. Number of International Award Winners</b>	<b>Indicators</b>	<b>Value 2011</b>	<b>Value 2010</b>
	Number of LIMRA International Quality Award winners	34	4
	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 believe in internal training and development as well as 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 2010. 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 32% 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

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## New Ideas, New Ways

We believe in working together with you in order to provide all your insurance solutions under one roof. That is why we place such importance on the strength and ability of our team, empowering them to empower you.

# CORPORATE GOVERNANCE

## Chairman's Statement

Dear Stakeholder,

Over the past 25 years UA has maintained its reputation as a stable and professionally run insurance company. Despite constant changes and challenges from the external environment, the Board and management continues through a variety of actions to ensure that this reputation is maintained.

In addition to promulgating strong governance, compliance and risk management practices, the Directors are conscious that strategy formulation, effective execution and leadership development are key responsibilities of the Board. In this regard, a great deal of emphasis is placed on ensuring that UA remains focused on both the compliance and performance aspects of the business in order to add value to all its stakeholders on a sustainable basis.

UA's brand is based on the promise of trust which is delivered through convenience, transparency and being respectful to all stakeholders. The Board believes that these platforms will create a long term competitive differentiation for the company and keenly monitors progress in this regard through a formal bi-monthly review of achievements against financial budgets and key result areas.

During the year, the Board composition was changed with the introduction of three new Directors. On behalf of all stakeholders, I wish to place on record our sincere appreciation for the invaluable contribution made by the outgoing Directors and wish to reinforce the fact that the new Directors bring a wealth of knowledge and experience that complement UA's strategy and future direction.



**Ajit Gunewardene**  
Chairman

23<sup>rd</sup> February 2012

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.

UA's governance practices ensure that:

- The business is taken in the right strategic direction.
- Executives lead and manage effectively and are accountable.
- The company has appropriate controls in place and risks are managed.
- Employees "do the right thing" for the benefit of all stakeholders.

## Statement of Compliance

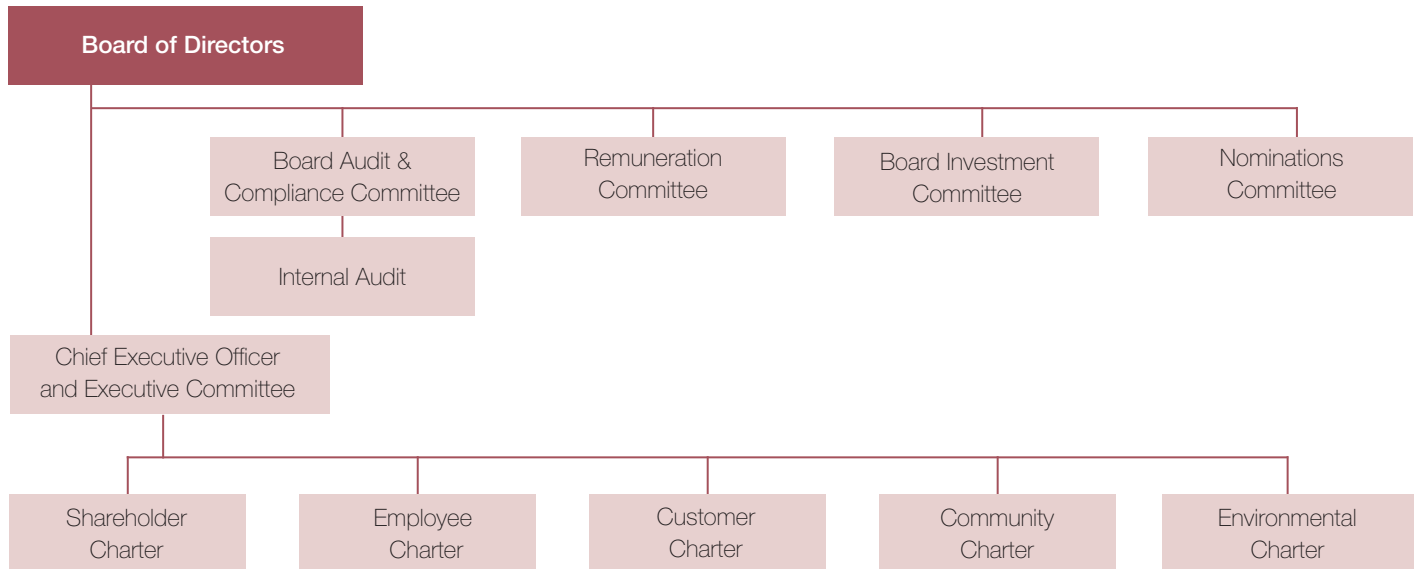
UA is fully compliant with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission (SEC) as well as the Rules on Corporate Governance published by the Colombo Stock Exchange (CSE).

The following developments which took place in 2011 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.
- Restructured the Board and Board sub committees in compliance with the directive issued by the Insurance Board of Sri Lanka.
- Streamlined compliance statement sign off process.
- Implemented SAP financial system to enhance integrity of financial information and controls over financial reports.
- 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.

## Governance Structure

As diagrammatically presented on the next page, 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 cooperation and communication between the two groups. The company's commitments to all stakeholder groups are formally documented in the stakeholder charters as depicted on the next page.



Main regulations which affect the governance of the company are summarised below.

External	Internal
<ul style="list-style-type: none"> <li>• Companies Act No. 07 of 2007</li> <li>• Regulation of Insurance Industry (RII) Act No. 43 of 2000 and subsequent amendments</li> <li>• Rules, regulations, determinations, directives and circulars issued by Insurance Board of Sri Lanka (IBSL)</li> <li>• Code of Best Practice on Corporate Governance issued jointly by CA Sri Lanka and SEC</li> <li>• Listing Rules of the Colombo Stock Exchange</li> <li>• Motor Traffic Act No. 14 of 1951 and subsequent amendments</li> <li>• Inland Revenue Act No. 10 of 2006 and subsequent amendments</li> </ul>	<ul style="list-style-type: none"> <li>• Articles of Association</li> <li>• Shareholder, employee, customer, community and environmental charters</li> <li>• Code of ethics</li> <li>• Manual of Financial Authority (MOFA)</li> <li>• Terms of reference of committees</li> <li>• Procedure manuals</li> </ul>

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 (CA Sri Lanka) 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 is 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 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 CA Sri Lanka and the SEC is as follows.

Principle	UA Action	2011 Update
<b>The Company</b>		
<b>Directors Board</b>		
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 comprises six members, who possess broad commercial knowledge and extensive business leadership experience.</p> <p>During the year, the composition of the Board was amended in compliance with the IBSL directives.</p> <p>The profiles of all Board members are provided on pages 16 to 17.</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 2012 - 2014.</p>
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"> <li>• Board Investment Committee</li> <li>• Board Audit and Compliance Committee</li> <li>• Remuneration Committee</li> <li>• Nominations Committee</li> </ul>	<p>During 2011 the Board met on seven occasions as detailed on page 107.</p> <p>The meetings convened by the Board sub committees during 2011 are also provided on page 107.</p>

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors Contd.</b> Board Contd.		
Responsibilities of the Board to ensure:		
<ul style="list-style-type: none"> <li>The formulation and implementation of a sound business strategy</li> </ul>	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"> <li>The CEO and management team possess the skills, experience and knowledge to implement the strategy</li> </ul>	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 18 to 21.
<ul style="list-style-type: none"> <li>Effective CEO and senior management succession planning</li> </ul>	Succession plans for all members of the Executive Committee, their direct reports and senior managers are 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.	The succession planning process was streamlined to cover all roles which require people management skills. Internal candidates were differentiated between immediate successors and those who required technical and / or soft skill training and development.
<ul style="list-style-type: none"> <li>Effective systems to secure integrity of information, internal controls and risk management</li> </ul>	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 191 to 193.</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> <p>SAP, one of the leading enterprise resource planning systems (ERP) was implemented during the year to enhance the integrity of financial information.</p>
<ul style="list-style-type: none"> <li>Compliance with laws, regulations and ethical standards</li> </ul>	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 2011 are provided on page 104.</p> <p>Details of the Code of Ethics are provided on page 79.</p>

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors Contd.</b> <b>Board Contd.</b>		
<ul style="list-style-type: none"> <li>All stakeholder interests are considered in corporate decisions</li> </ul>	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 secured the bronze award for corporate social responsibility at the Chartered Accountants of Sri Lanka's Annual Report Awards ceremony.
<ul style="list-style-type: none"> <li>The company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations</li> </ul>	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.	In view of the need to adopt International Financial Reporting Standards (IFRS) with effect from 1 <sup>st</sup> January 2012, the company conducted a comprehensive review of its current accounting practices and policies in terms of IFRS. This review included a gap analysis of all applicable accounting standards and an action plan to ensure smooth convergence.
<ul style="list-style-type: none"> <li>Fulfilling other Board functions as relevant to the organisation</li> </ul>	The Board makes every endeavour to fulfil their stewardship obligations on behalf of all stakeholders.	During the year, the Board made every endeavour to fulfil their stewardship obligations on behalf of all stakeholders.
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 2011.
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 continued to function as the Company Secretary during 2011.
Independent judgment	Each Director brings his / her independent judgment to bear on issues that are discussed at the Board.	None of the Non-Executive Directors have held executive positions in the recent past.

Principle	UA Action	2011 Update												
<b>The Company Contd.</b>														
<b>Directors Contd.</b> Board Contd.														
Dedication of adequate time and effort to matters of the Board and the company	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. In addition, the Board members have meetings and discussions with management when required.	<p>The Board met on seven occasions during the year. The Chairman attended all meetings and the attendance of the other Directors is detailed on page 107.</p> <p>Following diagram illustrates how the Board spent its time during 2011.</p> <table border="1"> <thead> <tr> <th>Topic</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Strategy</td> <td>50%</td> </tr> <tr> <td>Performance</td> <td>20%</td> </tr> <tr> <td>Finance</td> <td>10%</td> </tr> <tr> <td>Governance</td> <td>10%</td> </tr> <tr> <td>Succession planning</td> <td>10%</td> </tr> </tbody> </table> <p>The Board is satisfied that the Chairman and the Non-Executive Directors committed sufficient time during 2011 to fulfil their duties.</p>	Topic	Percentage	Strategy	50%	Performance	20%	Finance	10%	Governance	10%	Succession planning	10%
Topic	Percentage													
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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 training of Directors.</p>	<p>A formal training programme was conducted to appraise the new Directors of the following:</p> <ul style="list-style-type: none"> <li>• Overview of industry and competitors</li> <li>• Familiarisation with financial statements and specific accounting issues</li> <li>• Industry specific operations; e.g. underwriting, reinsurance etc.</li> <li>• Strategic plans and risks</li> <li>• Investment policies</li> <li>• Regulatory requirements</li> </ul> <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, convergence with international accounting standards and the impact of regulatory changes.</p>												

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors Contd.</b> 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.
<b>Chairman's Role</b>		
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.	A new Independent Non-Executive Director was appointed to the Board during the year in view of the resignation of an Independent Non-Executive Director.  Accordingly, the Board continued to have three independent Non-Executive Directors during 2011 in accordance with best practice.
Conducting Board proceedings in a proper manner	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.  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.	At each Board meeting, the CEO provides a detailed review of the business and financial performance.  In 2011 the range of subjects discussed included: <ul style="list-style-type: none"> <li>• Development and implementation of strategy including the company's people strategy</li> <li>• UA's financial results</li> <li>• Key business areas including underwriting, sales and distribution, customer service, etc.</li> <li>• IT infrastructure and platforms</li> <li>• Regulatory and governance issues</li> <li>• Market positions and branding</li> </ul>

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors Contd.</b>		
<b>Financial Acumen</b>		
Availability of sufficient financial acumen and knowledge	There are two Chartered / Management Accountants on the Board. In addition, all members of the Board have extensive experience in various aspects of financial management.	The following Directors provide the Board with the necessary degree of financial acumen and knowledge: <ul style="list-style-type: none"> <li>• Mr. H. A. J. De Silva Wijeyeratne</li> <li>• Mr. S. Rajendra</li> <li>• Mr. A. S. De Zoysa</li> </ul>
<b>Board Balance</b>		
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.	Mr. H. A. J. De Silva Wijeyeratne who is deemed to be an Independent Non-Executive Director was appointed to the Board in September 2011.  Mr. A. S. De Zoysa and Mr. G. F. C. De Saram continued to be Independent Non-Executive Directors during 2011.  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.
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 judgment.	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 judgment.
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 2011 as per the Code of Best Practices on Corporate Governance were obtained from all Non-Executive Directors.

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors Contd.</b>		
<b>Board Balance Contd.</b>		
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. S. De Zoysa, Mr. G. F. C. De Saram and Mr. H. A. J. De Silva Wijeyeratne 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>
<b>Supply of Information</b>		
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.

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors Contd.</b>		
<b>Supply of Information Contd.</b>		
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"> <li>Formally documented minutes of discussions.</li> <li>Separate discussions at start of meeting regarding matters arising from the previous meeting.</li> </ul>
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.
<b>Appointments to the Board</b>		
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 based on the recommendations of the Nominations Committee. 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.	The following Non-Executive Directors were appointed to the Board during the year. <ul style="list-style-type: none"> <li>Ms. D. C. Alagaratnam</li> <li>Mr. S. Rajendra</li> <li>Mr. H. A. J. De Silva Wijeyeratne</li> </ul> These appointments were purely based on merit and their profiles are provided on pages 16 to 17.
Establishment of a Nominations Committee	A Nominations Committee comprising three Non-Executive Directors has been appointed.	Details and composition of the Nominations Committee are provided on page 105.
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 current set of Directors (some of whom were appointed in 2011) are together, deemed to possess the required knowledge and experience to match 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.	All new appointments which were effected in 2011 were communicated to shareholders via the Colombo Stock Exchange. <p>The details of the current Board of Directors are provided on pages 16 to 17.</p>

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors Contd.</b>		
<b>Re-election</b>		
Re-election of Directors at regular intervals	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.  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.	In accordance with the Articles of Association, the following Directors who were appointed during the year are eligible for re-election. <ul style="list-style-type: none"> <li>• Ms. D.C. Alagaratnam</li> <li>• Mr. S. Rajendra</li> <li>• Mr. H. A. J. De Silva Wijeyeratne</li> </ul>
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 16 to 17.
<b>Appraisal of Board Performance</b>		
Board to periodically appraise their own performance	The Board commenced a process to evaluate its performance and effectiveness in 2008. The process is led by the Chairman.  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.  All submissions are collated by the Chairman and discussed with the Board. Specific actions to improve performance and effectiveness are implemented following this review.	As a part of annual process, the Board evaluated its performance and effectiveness during 2011.

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors Contd.</b>		
<b>Appraisal of Board Performance Contd.</b>		
Annual appraisal of Board performance in discharging its key responsibilities	The Board regularly evaluates its performance based on the following set of guidelines: <ul style="list-style-type: none"> <li>• Development and implementation of strategy</li> <li>• Competency and succession planning for the CEO and members of the Executive Committee</li> <li>• Effectiveness of systems to ensure integrity of information, internal controls and risk management</li> <li>• Compliance with laws, regulations and ethical standards and</li> <li>• Balancing the needs of all stakeholders</li> </ul>	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 2011.
<b>Disclosure of Information in Respect of Directors</b>		
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 16 to 17.
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.	The following information in relation to Directors is disclosed in the annual report. <p>The profiles of all Board members are provided on pages 16 to 17.</p> <p>Details of related party transactions are provided on pages 252 to 254.</p> <p>The composition of Board committees, attendance at Board meetings and Board sub committee meetings are provided on pages 105 to 107.</p>
<b>Appraisal of the Chief Executive Officer (CEO)</b>		
Appraisal of the CEO	The Board assesses the performance of the CEO on an annual basis.	The Board appraised the performance of the CEO.

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors Contd.</b>		
<b>Appraisal of the Chief Executive Officer (CEO) Contd.</b>		
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"> <li>• Achievement of turnover and profitability targets</li> <li>• Implementation of cost effective distribution models</li> <li>• Implementation of IT systems to improve underwriting and claims functions</li> <li>• Management of debtors</li> <li>• Brand development initiatives</li> <li>• Learning and development / talent management initiatives</li> <li>• New product development targeting mass affluent segments</li> </ul>
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.
<b>Directors' Remuneration</b>		
<b>Remuneration Procedure</b>		
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.	Mr. H. A. J. De Silva Wijeyeratne who is deemed to be an Independent Non-Executive Director was appointed to the Remuneration Committee in 2011.
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 105 to 106.
Determination of remuneration for Non Executive Directors	Non-Executive Directors who are part of the group remit their fees to the group. Other Non-Executive Directors are remunerated in line with market practices.	No change from previous year.

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors' Remuneration Contd.</b> 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.
<b>Level and make up of Remuneration</b>		
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 2011.
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 2011.
Share option schemes	The senior management is entitled to participate in the share option scheme initiated by the group.	Refer adjacent column.

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Directors' Remuneration Contd.</b>		
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>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> <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.
<b>Disclosure of Remuneration</b>		
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 page 116. The details of remuneration to the Board as a whole are disclosed on page 226.
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.	<p>Details of the Remuneration Committee are provided on pages 105 to 106.</p> <p>The information on page 226 provides a break up of remuneration paid to Executive and Non-Executive Directors.</p>

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Relations with Shareholders</b>		
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 24 <sup>th</sup> AGM was held on 31 <sup>st</sup> March 2011. The shareholders queries were answered by the Chairman. The Chief Executive Officer and the Chairmen of the Board sub committees 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 and Nominations Committee. He ensures that the Chairmen of the other sub committees are also available to answer any queries.	The Chairmen of the Board sub committees were present at the AGM held on 31 <sup>st</sup> March 2011. No queries were raised by shareholders to the Chairmen of the committees.
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 2011.
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.
<b>Major Transactions</b>		
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"> <li>• Chairman's Review page 10.</li> <li>• CEO's Review pages 14 to 15.</li> <li>• Management Discussion and Analysis pages 42 and 52.</li> </ul>

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Relations with Shareholders Contd.</b> Major Transactions Contd.		
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 2011.  Annual financial statements are provided on pages 184 to 264.
<b>Accountability and Audit</b> 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"> <li>• Chairman's Review pages 8 to 11.</li> <li>• CEO's Review pages 12 to 15.</li> <li>• Management Discussion and Analysis pages 35 and 43.</li> </ul>
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 2011. 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 271 to 272.  A section on "Understanding our Financials" is provided on pages 275 to 277.
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 185.
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 196 and 197 respectively.

Principle	UA Action	2011 Update																		
<b>The Company Contd.</b>																				
<b>Accountability and Audit Contd.</b>																				
Financial Reporting Contd.																				
Inclusion of a "Management Discussion and Analysis" report	The annual report contains a "Management Discussion and Analysis" report.	<p>The required information in the Management Discussion and Analysis is provided in this annual report as follows:</p> <table border="1"> <thead> <tr> <th>Information required</th> <th>Pages</th> </tr> </thead> <tbody> <tr> <td>Industry structure and developments</td> <td>28 to 29</td> </tr> <tr> <td>Opportunities and threats</td> <td>42 and 52</td> </tr> <tr> <td>Risks and concerns</td> <td>32 to 34</td> </tr> <tr> <td>Internal control systems and their adequacy</td> <td>96 to 98</td> </tr> <tr> <td>Social and environmental protection activities carried out by the company</td> <td>159 to 162</td> </tr> <tr> <td>Financial performance</td> <td>53 to 61</td> </tr> <tr> <td>Material developments in human resources</td> <td>150 to 155</td> </tr> <tr> <td>Prospects for the future</td> <td>42 and 52</td> </tr> </tbody> </table>	Information required	Pages	Industry structure and developments	28 to 29	Opportunities and threats	42 and 52	Risks and concerns	32 to 34	Internal control systems and their adequacy	96 to 98	Social and environmental protection activities carried out by the company	159 to 162	Financial performance	53 to 61	Material developments in human resources	150 to 155	Prospects for the future	42 and 52
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Financial performance	53 to 61																			
Material developments in human resources	150 to 155																			
Prospects for the future	42 and 52																			
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 188.																		
EGM if the net assets of the company falls below half of the shareholders funds	The situation has not arisen.	Not applicable.																		
<b>Internal Control</b>																				
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.																		

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Accountability and Audit Contd.</b> Internal Control Contd.		
Review of effectiveness of the system of internal controls by the Board	<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"> <li>• Internal audit plans are followed up, to ensure that audits are concluded on time</li> <li>• Internal and external audit reports are reviewed by management on a timely basis and control weaknesses are corrected</li> <li>• External auditors review the key reconciliations and report on any irregularities</li> <li>• Risks associated with all key processes are identified and control systems to mitigate such risks are reviewed to ensure that they are functioning smoothly</li> <li>• A formal delegation of financial authority from the CEO to the relevant management staff is available and adhered to in respect of all transactions</li> <li>• Procedure manuals for underwriting and claims are available for all staff and updated regularly</li> <li>• 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 have been implemented</li> <li>• A comprehensive compliance checklist and exception reporting procedure is in place</li> <li>• The company's business continuity plan is regularly updated and tested</li> <li>• A whistle blowing procedure is available to any employee who suspects wrongdoing at work</li> <li>• 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</li> <li>• A comprehensive quarterly sign off process culminating in a sign off from the CEO and CFO to the Board of Directors is available</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• Reports of both internal and external auditors were reviewed by the BACC and measures taken to correct control weaknesses.</li> <li>• All reconciliations connected with the financial statements were independently reviewed by the external auditors.</li> <li>• Internal audit programmes were designed to test adequacy of control systems to mitigate operational risks.</li> <li>• Procedure manuals covering life and general insurance related underwriting and claims functions were updated to cover new products / process changes etc.</li> <li>• The compliance checklist was reviewed and updated in line with changes in legal / regulatory requirements.</li> <li>• Employees made use of the whistle blowing procedure.</li> </ul>

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Accountability and Audit Contd.</b>		
<b>Internal Control Contd.</b>		
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>	Messrs. PricewaterhouseCoopers - a leading firm of Chartered Accountants who was appointed as the internal auditors in September 2010 continued to be internal auditors in 2011.
<b>Audit Committee</b>		
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. H. A. J. De Silva Wijeyeratne and Mr. S. Rajendra were appointed to the BACC as an independent Non-Executive Director and a Non-Executive Director respectively.</p> <p>Mr. H. A. J. De Silva Wijeyeratne who is a member of The Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK was appointed as the Chairman of the BACC during the year.</p> <p>Mr. A. S. De Zoysa continued to serve on the BACC as an independent Non-Executive Director during 2011.</p>

Principle	UA Action	2011 Update
<b>The Company Contd.</b>		
<b>Accountability and Audit Contd.</b> 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 &amp; 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 CA Sri Lanka and Code of Best Practice on Corporate Governance jointly issued by the CA Sri Lanka 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 105 to 106 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 2011 is available on pages 191 to 193.
<b>Code of Business Conduct and Ethics</b>		
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"> <li>• Exercise honesty, objectivity and diligence when performing their duties</li> <li>• 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</li> <li>• Maintain confidentiality of commercial and price sensitive information</li> <li>• Work within applicable laws and regulations</li> <li>• Safeguard the company's assets</li> <li>• Avoid conduct that will reflect badly on them or on the company's image</li> </ul> <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	2011 Update
<b>The Company Contd.</b>		
<b>Accountability and Audit Contd.</b> 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 2011 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 CA Sri Lanka 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 CA Sri Lanka 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 CA Sri Lanka and SEC.
<b>Shareholders</b>		
<b>Institutional Investors</b> 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.
<b>Evaluation of Governance Disclosures</b>		
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.

Principle	UA Action	2011 Update
<b>Shareholders Contd.</b>		
<b>Other Investors</b>		
<b>Investing / Divesting Decisions</b>		
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"> <li>• Chairman's Review pages 8 to 11.</li> <li>• CEO's Review pages 12 to 15.</li> <li>• Management Discussion and Analysis pages 24 to 67.</li> <li>• Annual financial statements pages 184 to 264.</li> </ul>
<b>Shareholder voting</b>		
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"> <li>• Improve overall productivity, efficiency and effectiveness across distribution and service functions</li> <li>• Improve quality of management information</li> <li>• Provide secured and uninterrupted IT facilities and</li> <li>• Ensure IT resource readiness for future advancements, while optimising the usage of existing IT resources</li> </ul>
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.

**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 processes that should be followed in application system development. 'Software Change Management' document defines change processes

During the year UA implemented SAP financial module which enhanced operational efficiency and IT controls over financial reporting.

**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 1<sup>st</sup> 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 judgment 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 194. The report also certifies that the unearned premium reserve is adequate in relation to the future liabilities arising from unexpired risks as at 31<sup>st</sup> December 2011. 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 195.

**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 114 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 114, total admissible assets were Rs. 18.9 billion compared with total liabilities (including solvency margin) of Rs. 17.7 billion, resulting in a solvency position of Rs. 1.2 billion.

### 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 2011	Compliances
Inland Revenue	82
Ministry of Transport	24
RMV	12
IBSL Directives and RII Act	67
National Insurance Trust Fund	25
EPF and ETF	28
Gratuity	1
Registrar of Companies	27
CSE	30
SLAAS Monitoring Board	1
Central Bank of Lanka	12
Municipal Council	4
<b>Total Compliances 2011</b>	<b>313</b>
<b>Non Compliances 2011</b>	<b>Nil</b>

### 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 scheme, heads of departments 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 117 to 129.

### 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 122, 79% 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 2011 is provided on pages 134 to 139.

## Board Committees

Details	Board Audit and Compliance Committee	Remuneration Committee	Board Investment Committee	Nominations Committee
Chairman (Non-Executive)	H. A. J. De Silva Wijeyeratne	A. D. Gunewardene	K. N. J. Balendra (By invitation)	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	A. S. De Zoysa S. Rajendra	G. F. C. De Saram H. A. J. De Silva Wijeyeratne	A. S. De Zoysa	A.S. De Zoysa G. F. C. De Saram
Management			CEO GM Finance and Planning GM Actuarial Head of Investments	
Invitees	CEO GM Finance and Planning EVP & CFO Financial Services Group - JKH AVP Group Risk and Control Review - JKH External auditors Internal auditors	CEO EVP & CFO Financial Services Group - JKH	EVP & CFO Financial Services Group - JKH Group Treasurer - JKH	No invitees
Professional advice	Actuarial, technical and legal specialists	Chartered Accountants, professional HR firms	Investment and economic consultants	N/A
Secretary	EVP & 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"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Set the compensation for the CEO and senior management</li> <li>Maintain a competitive remuneration package linked to performance</li> <li>Establish appropriate salary packages and incentives for management and employees at all levels</li> </ul>	<ul style="list-style-type: none"> <li>Review and develop broad investment policies and guidelines for implementation</li> <li>Monitor performance against agreed benchmarks</li> <li>Review risk exposures and ensure compliance with all internal investment procedures and external regulations</li> </ul>	<ul style="list-style-type: none"> <li>Identify suitable persons for appointment to the Board</li> <li>Consider the appointment or reappointment of any Director to the Board</li> </ul>

Details	Board Audit and Compliance Committee	Remuneration Committee	Board Investment Committee	Nominations Committee
Objectives of the committee Contd.	<ul style="list-style-type: none"> <li>• Review the company's risk assessment process and organisational risk profile (An overview of the company's risk management processes is available on pages 117 to 129)</li> <li>• Ensure that systems of internal control are soundly conceived and effectively administered</li> <li>• Ensure that applicable laws and regulations have been complied with</li> <li>• Assess the independence and evaluate the performance of internal and external auditors</li> </ul>	<ul style="list-style-type: none"> <li>• Approve annual increments, bonuses and changes in perquisites and incentives</li> </ul>		

## 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		Board Investment Committee Meetings	
			A	B	A	B	A	B	A	B
Total number of meetings			7		5		4		12	
Meeting status			A	B	A	B	A	B	A	B
A. D. Gunewardene <sup>1</sup>	RC, BIC	Non-Executive Director	7	7	-	-	4	4	3	3
J. R. F. Peiris <sup>2</sup>	BACC	Non-Executive Director	5	4	3	3	-	-	-	-
K. N. J. Balendra <sup>2</sup>	BIC	Non-Executive Director	5	4	-	-	-	-	8	8
A. K. Gunaratne <sup>3</sup>	BACC, RC	Independent Non-Executive Director	5	4	3	3	3	2	-	-
A. S. De Zoysa	BACC, BIC	Independent Non-Executive Director	7	6	5	5	-	-	12	11
G. F. C. De Saram	RC	Independent Non-Executive Director	7	3	-	-	4	3	-	-
D. C. Alagaratham <sup>4</sup>		Non-Executive Director	2	2	-	-	-	-	-	-
S. Rajendra <sup>4</sup>	BACC	Non-Executive Director	2	2	2	2	-	-	-	-
H. A. J. De Silva Wijeyeratne <sup>5</sup>	BACC, RC	Independent Non-Executive Director	2	2	2	2	2	2	-	-
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										
BIC - Board Investment Committee										
1 - Resigned as Chairman of Board Investment Committee 1 <sup>st</sup> April 2011										
2 - Resigned 16 <sup>th</sup> August 2011										
3 - Resigned 7 <sup>th</sup> September 2011										
4 - Appointed 16 <sup>th</sup> August 2011										
5 - Appointed 7 <sup>th</sup> September 2011										

### 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 16 to 17.
7.10.3 (d)	Provide a brief resume of any new Director appointed to the Board	Compliant	Three Directors were appointed to the Board during the year. Please refer pages 16 to 17.
7.10.5	A listed company shall have a Remuneration Committee	Compliant	Please refer the Remuneration Committee report on page 116.
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 page 116.
7.10.5 (c)	The annual report shall set out:		
	The names of the Directors that comprise the Remuneration Committee	Compliant	Please refer page 105.
	A statement of remuneration policy	Compliant	Please refer the Remuneration Committee report on page 116.
	Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer page 226.

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 191 to 193.
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. H. A. J. De Silva Wijeyeratne 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 191 to 193.
7.10.6 (c)	The annual report shall set out:		
	The names of the Directors who comprise the Audit Committee	Compliant	Please refer page 105.
	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 191 to 193.
	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 191 to 193.

# 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

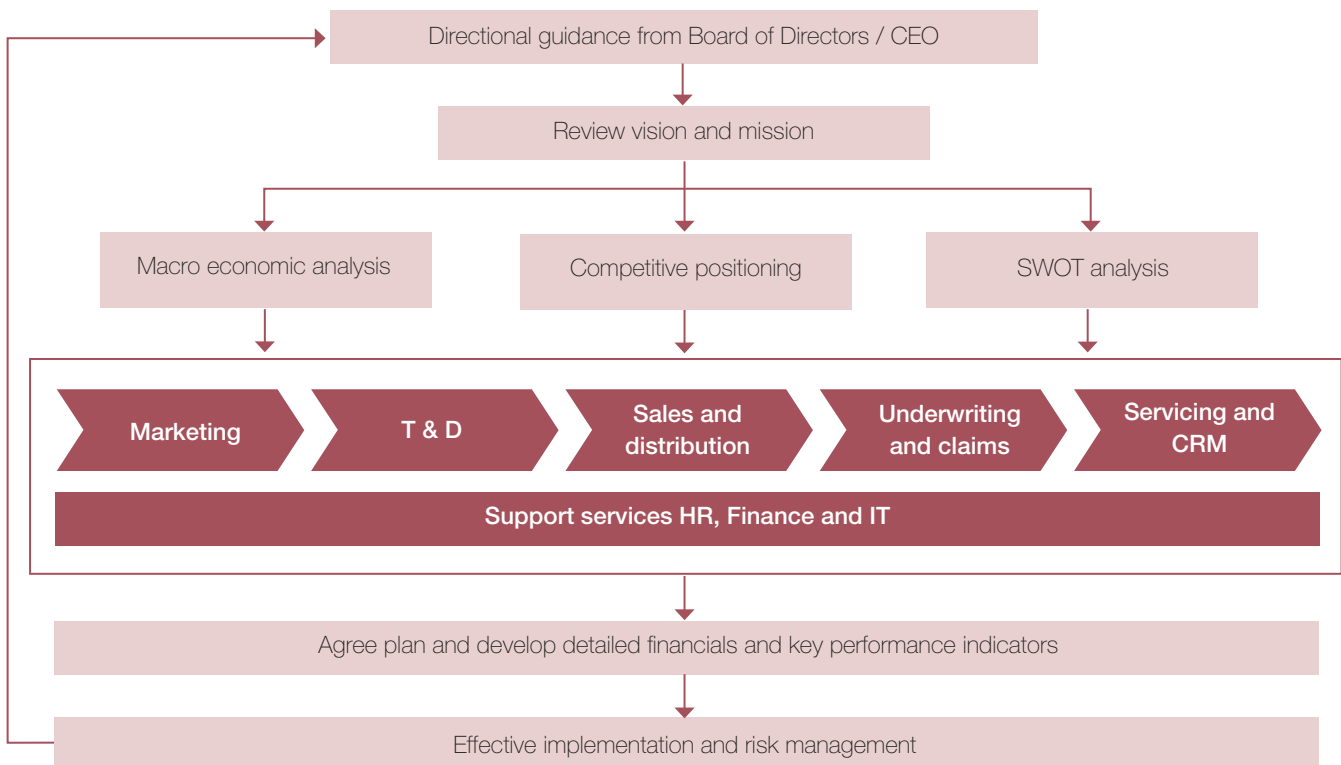
Strategic planning is a bottom up process, involving staff at all levels, creating ownership and commitment, as well as harnessing their creative potential. The process commences with the Board setting the broad objectives for the year from a top line and profitability perspective. Based on these requirements,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



## 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	2011 Update
Expand distribution capability especially in retail segment	<ul style="list-style-type: none"> <li>Channel wise GWP</li> </ul>	<ul style="list-style-type: none"> <li>Measures GWP generated from specific channels in line with expectations and investments made</li> </ul>	<ul style="list-style-type: none"> <li>Maintained growth momentum from retail channels</li> <li>Expanded non permanent sales force</li> <li>Revamped e-motor solution with new features / functionality</li> <li>Leveraged relationships with brokers, leasing and other financial institutions to grow business</li> <li>Launched e-learning platform to provide learning and development to larger number of staff in a cost effective manner</li> </ul>
Continuous improvements in service standards	<ul style="list-style-type: none"> <li>Customer satisfaction results with regard to motor claims settlement process</li> <li>Number and value of claims outstanding over agreed time frames</li> </ul>	<ul style="list-style-type: none"> <li>Direct feedback from customers regarding end to end service delivery</li> <li>Claims settlement time is a key indicator of our service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Improved existing motor claims workflow system.</li> <li>Enhanced call centre technology</li> <li>Implemented claims tracking system to monitor / manage claims from selected non motor classes of business</li> <li>Implemented key modifications to improve staff productivity and thereby improve customer service</li> <li>90 % of motor policyholders who claimed from their policies were satisfied with the service they received</li> </ul>
Develop alternative distribution channels	<ul style="list-style-type: none"> <li>GWP generated from alternative channels</li> </ul>	<ul style="list-style-type: none"> <li>Measures GWP generated from specific initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Recorded increased sales from all alternate channels</li> <li>Expanded number of sales points for customers to purchase / renew Reload policies</li> <li>Reload IT system modified with several user friendly features / functionality</li> </ul>
New product development	<ul style="list-style-type: none"> <li>GWP generated from new products</li> </ul>	<ul style="list-style-type: none"> <li>Ultimate measure of success of a new product</li> </ul>	<ul style="list-style-type: none"> <li>Launched Union Health Net, a medical insurance product targeting individual customers</li> <li>Revamped e-motor solution enabling faster processing of policies</li> <li>Reviewed UA product portfolio vis-à-vis competition especially with regard to growth sectors of the economy</li> </ul>
Strengthen underwriting processes	<ul style="list-style-type: none"> <li>GWP mix</li> <li>Combined ratio</li> <li>General insurance underwriting profits</li> </ul>	<ul style="list-style-type: none"> <li>Measures GWP generated from various classes of business, as risk / pricing / claims experience vary by class of business</li> <li>Reflects the total margin generated by the business</li> <li>Measures profits generated from the core function of the business</li> </ul>	<ul style="list-style-type: none"> <li>Reported improvement in combined ratio</li> <li>Conducted modular training programmes for head office and branch staff</li> <li>Launched advanced underwriting training programme</li> <li>Implemented risk based pricing for motor and individual health product</li> <li>Simplified policy wording in line with underwriting guidelines and company risk appetite for 6 products</li> </ul>

## General Insurance Strategic Objectives and Key Performance Indicators Contd.

Strategic Objective	Key Performance Indicator	Relevance	2011 Update
Strengthen claims management processes	<ul style="list-style-type: none"> <li>Claims ratio</li> </ul>	<ul style="list-style-type: none"> <li>Amount of claims paid as a % of income - the ultimate measure of claims management capability</li> </ul>	<ul style="list-style-type: none"> <li>Reported improvement in claims ratio</li> <li>Increased number of strategic alliance partners to manage motor claim leakage and improve service provided to customers</li> <li>Launched claims tracking system for selected non motor claims to monitor service and manage claims outgo</li> </ul>

## Life Insurance Strategic Objectives and Key Performance Indicators

Strategic Objective	Key Performance Indicator	Relevance	2011 Update
Expand distribution network in cost effective manner	<ul style="list-style-type: none"> <li>GWP generated from regular business</li> <li>Location wise expense ratios / benchmarks</li> <li>Lapse information</li> </ul>	<ul style="list-style-type: none"> <li>Investments to expand distribution are mainly to drive growth in regular premium business</li> <li>Manage expenses</li> <li>Manage GWP growth by ensuring renewal premiums are consistently paid</li> </ul>	<ul style="list-style-type: none"> <li>Rolled out significant number of new BDOs</li> <li>Enhanced features / functionality of web based sales force management system</li> <li>Opened low cost window offices to exploit opportunities in the North</li> <li>Streamlined recruitment processes</li> </ul>
Continuous improvements in service standards	<ul style="list-style-type: none"> <li>Review actual versus benchmark for selected services</li> <li>Number and value of claims outstanding over agreed time frames</li> </ul>	<ul style="list-style-type: none"> <li>Ensure service delivery is in line with pre-agreed standards</li> <li>Claims settlement time is a key indicator of our service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Launched sms based payment solution to settle life insurance claims in a speedy manner</li> <li>Expanded life call centre activities</li> <li>Leveraged sms technology to deliver service improvements</li> <li>Continuous focus on productivity improvements across underwriting and claims functions</li> </ul>
Improve / enhance learning and development	<ul style="list-style-type: none"> <li>Training hours by staff category</li> <li>GWP achieved vs. plan</li> </ul>	<ul style="list-style-type: none"> <li>Measures training inputs received</li> <li>Ultimate measure of success for investment in training and development</li> </ul>	<ul style="list-style-type: none"> <li>Certified 263 life insurance advisors and 69 team leaders</li> <li>Launched e-learning solution</li> <li>Increased learning and development resources</li> <li>Conceptualised leadership academy to build leadership competency among sales management staff</li> </ul>
Develop alternative distribution channels	<ul style="list-style-type: none"> <li>GWP generated from alternative channels</li> </ul>	<ul style="list-style-type: none"> <li>Measures GWP generated from specific initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Increased sales from existing bancassurance relationships</li> <li>Entered into partnership with multinational banks to sell traditional products to their customers</li> <li>Revamped bancassurance structure for another bank partner</li> <li>Streamlined key processes to benchmark with world class operations</li> </ul>

## Life Insurance Strategic Objectives and Key Performance Indicators Contd.

Strategic Objective	Key Performance Indicator	Relevance	2011 Update
New product development	<ul style="list-style-type: none"> <li>GWP generated from new products</li> </ul>	<ul style="list-style-type: none"> <li>Ultimate measure of success of a new product</li> </ul>	<ul style="list-style-type: none"> <li>Significant volume of new business generated from unit linked products</li> <li>Simplified / enhanced cover available under existing health insurance products</li> <li>Streamlined Advantage product in line with customer needs</li> <li>Enhanced flexibility of Advantage product by offering flexibility for customers to decide value of life cover</li> <li>Maintained clear distinction between traditional and unit linked products</li> </ul>
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> <li>Life surplus and embedded value</li> </ul>	<ul style="list-style-type: none"> <li>Measures current and future profitability of the business</li> </ul>	<ul style="list-style-type: none"> <li>Conducted experience investigations for hospital cash and critical illness products</li> <li>Conducted lapse and mortality investigations</li> <li>Reviewed and updated underwriting procedures</li> <li>Conducted modular training programme covering basic aspects of underwriting and claims management for all staff</li> </ul>

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

## 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. In 2010, the risk management process was revamped from a top down approach to a bottom up approach. Under this 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 117 to 129.

# 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 (and subsequent amendments) respectively and is disclosed below on a composite basis.

For the year ended 31 <sup>st</sup> December	2011 Rs. Mn	2010 Rs. Mn
Value of admissible assets maintained in life and general	18,879	16,116
Total liabilities including technical reserves (general) and life fund	16,454	14,169
<b>Net admissible assets</b>	<b>2,425</b>	<b>1,947</b>
Required solvency margin (life and general)	1,249	1,031
<b>Excess over required solvency margin</b>	<b>1,176</b>	<b>916</b>

## 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 <sup>st</sup> December	2011 Rs. Mn	2010 Rs. Mn
<b>General Insurance Business</b>		
Approved assets maintained in general	3,744	3,095
Technical reserves	2,553	2,289
<b>Excess in approved assets</b>	<b>1,191</b>	<b>806</b>
<b>Life Insurance Business</b>		
Approved assets maintained in life	13,971	11,981
Life insurance fund liability under solvency valuation basis	11,609	9,668
<b>Excess in approved assets</b>	<b>2,362</b>	<b>2,313</b>

# BOARD INVESTMENT COMMITTEE REPORT

## Composition of the Board Investment Committee

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

- Krishan Balendra (Chairman)
- Ashan De Zoysa (Non-Executive Director)
- Dirk Pereira (Chief Executive Officer)
- Indika Prematunga (General Manager Finance and Planning)
- Pushpakumar Gunasekera (General Manager Actuarial)
- Jeyamehala Haridas (Head of Investments)

## 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.

## Terms of Reference

The Committee is guided by the Board approved Investment Policy Statements (IPS) for the life and general funds and the purpose of the 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 Chairman 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.
- The Committee reviewed the IFRS impact on the investment portfolio in detail during the year.

## Conclusion

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



**Krishan Balendra**

*Chairman - Board Investment Committee*

23<sup>rd</sup> February 2012

# REMUNERATION COMMITTEE REPORT

## Composition and Charter of the Remuneration Committee

The Remuneration Committee comprises the following Non-Executive Directors.

A. D. Gunewardene (Chairman)  
G. F. C. De Saram  
H. A. J. De Silva Wijeyeratne

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.

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. Other Executive Committee members may be invited as and when required.

## 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 travelling allowances, 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. No Director is involved in determining his or her own remuneration.

### Remuneration for Directors

The fees paid to the Directors are disclosed on page 226. 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 252 to 254.

### Share Plans for Directors

The company does not have a share plan for Directors.

### Directors' Shareholding

The shareholdings of Directors are provided on page 188.

### 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 their purview whenever required.



**A. D. Gunewardene**  
Chairman - Remuneration Committee

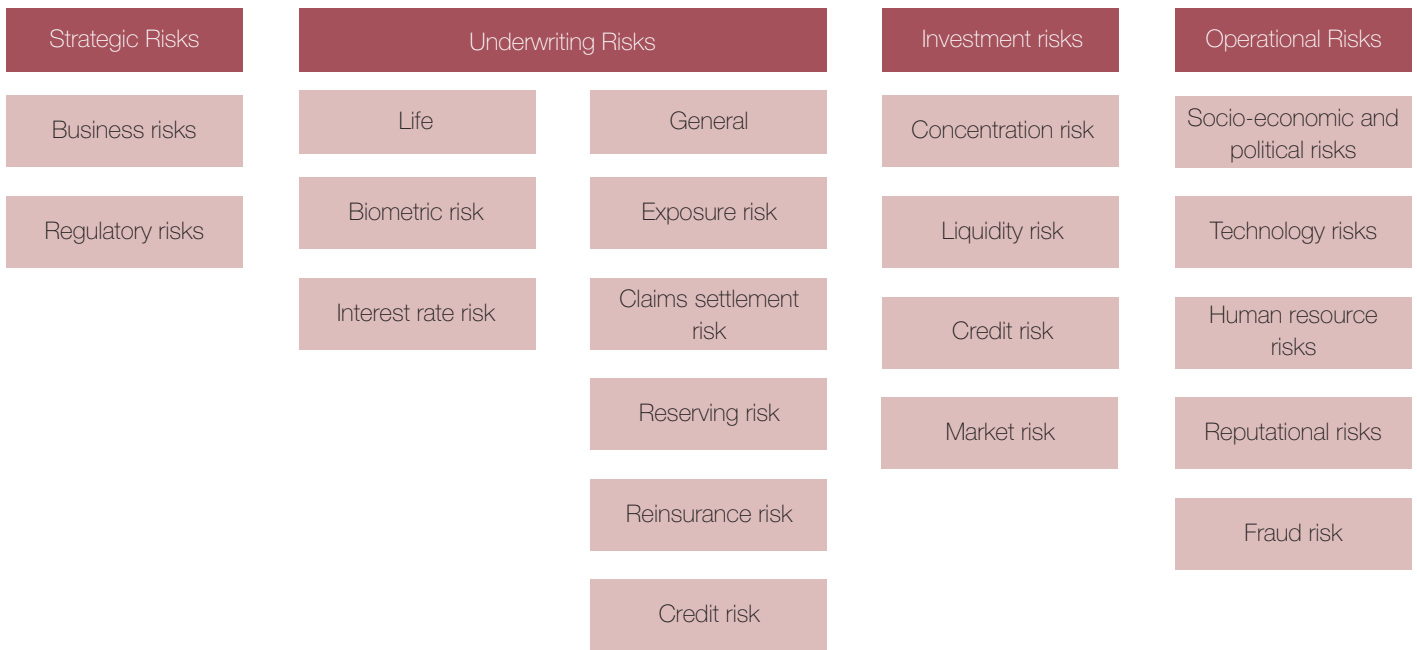
23<sup>rd</sup> February 2012

# RISK MANAGEMENT

## Overview of Generic and Insurance Specific Risks

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.

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 Category / Risk Description	Controls in Place to Mitigate Risks
<b>Strategic Risks</b>	
<p><b>Business Risk</b> 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 socioeconomic/ political parameters</p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• As reflected in figure 1 on page 125, there is a constant scan of the internal and external environment e.g. to identify factors which may impede the achievement of organisational objectives</li> <li>• The company's strategic plans are updated on an annual basis and formally approved by the Board</li> <li>• The Board reviews the strategic plans on an ongoing basis as well</li> </ul>
<p><b>Regulatory Risk</b> 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"> <li>• Company representatives are actively involved in reviewing regulatory changes and assessing the business impact of such proposals</li> <li>• 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</li> <li>• A comprehensive compliance checklist has been developed (Refer page 104), which is signed off by the relevant management on a monthly basis. A summary of the checklist is presented at every Board meeting</li> </ul>
<b>Underwriting Risks</b>	
<p><b>Risk of Change</b> Changing risk parameters and unforeseen factors may result in unexpectedly large claims</p>	<ul style="list-style-type: none"> <li>• The company makes significant investments to improve the knowledge and skills of underwriting staff. During the year, the company continued with its certification course for both life and general technical staff and case study based training programme for general sales staff</li> <li>• The company also maintains statistical databases and regularly reviews premium versus sums assured by location to identify accumulation impact</li> <li>• 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</li> <li>• The company also reviews the adequacy of reinsurance support for catastrophe / extreme events on a regular basis</li> </ul>
<p><b>Biometric Risk</b> 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"> <li>• 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</li> <li>• The Prophet actuarial system has enabled the company to monitor trends and review pricing in a proactive manner</li> </ul>
<p><b>Interest Rate Risk</b> 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"> <li>• The company uses prudent assumptions regarding probable interest rates when computing future liabilities</li> <li>• The Board Investment Committee members keep a regular track of macro economic scenarios and their likely impact on interest rates</li> <li>• Life insurance products are profit tested by qualified actuaries to confirm that the company will be able to meet its obligations to life policyholders</li> <li>• Union Life "Advantage," UA's flagship life product which provides a guarantee limited to a one year period</li> <li>• "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</li> </ul>

Risk Category / Risk Description	Controls in Place to Mitigate Risks
<b>Underwriting Risks Contd.</b>	
<p><b>Exposure Risk</b> Exposure risk may arise when an underwriter accepts a risk for a price which is insufficient to meet the cost of claims</p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Underwriting staff are expected to scrutinise all relevant information including proposal forms, broker information (if any) and risk assessment reports before granting cover</li> <li>• In addition to training and development opportunities provided to the underwriting staff, procedure manuals are available and updated as required</li> <li>• The company ensures adequate segregation of duties and underwriters work within formally documented limits of authority</li> <li>• If reinsurance support is required, cover is confirmed to customers only once confirmation from the reinsurer is received</li> <li>• A geo-coding process has been initiated to monitor accumulation exposures</li> <li>• The company has also invested in IT systems to monitor / manage pricing of motor and surgical lines of business</li> </ul>
<p><b>Claims Settlement Risk</b> 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"> <li>• Customers are advised of any deductibles, adequacy of sum insured, whether the required covers have been obtained and any risk prevention / minimisation strategies</li> <li>• Claims manuals are available and updated regularly</li> <li>• 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</li> <li>• There is adequate segregation of duties in the claims payment function and payments are recommended and approved based on authority limits</li> <li>• The company also avails itself of third party specialists to validate claims if required</li> </ul>
<p><b>Reserving Risk</b> 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"> <li>• Claims handlers are expected to create the necessary reserves as soon as information is received based on a Board approved claims reserving policy</li> <li>• Reserves are updated on a timely basis for all information received as at period end</li> <li>• Claims reserves are reviewed and signed off on a quarterly basis to further emphasise the need to maintain accurate reserves</li> <li>• The company has also implemented an internationally accepted actuarial basis for valuing the IBNR claims provision</li> <li>• Reserving risk is also applicable to the life business. Hence the life fund is subject to a biannual actuarial review. The mid year review is conducted by the in-house actuary and the year end review is conducted by an independent actuary</li> </ul>

Risk Category / Risk Description	Controls in Place to Mitigate Risks																		
<b>Underwriting Risks contd.</b>																			
<p><b>Reinsurance Risk</b> 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"> <li>As at 31<sup>st</sup> December 2011, 79% of our reinsurance receivables were due from reinsurers with a rating of "A-" or better and from the National Insurance Trust Fund</li> <li>The company reviews past trends and conducts "what if" scenario testing before finalising the reinsurance arrangements for the year</li> <li>The reinsurance panel is formally approved by the Board on an annual basis</li> <li>A provisioning policy has been implemented for outstanding reinsurance receivables</li> <li>Reinsurer ratings are reviewed on a regular basis and appropriate action is taken if ratings decline</li> </ul> <div data-bbox="868 814 1242 1423" style="text-align: center;"> <p><b>Reinsurance Receivables by Rating Class</b></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <caption>Reinsurance Receivables by Rating Class (Rs. Mn.)</caption> <thead> <tr> <th>Rating Class</th> <th>Value (Rs. Mn.)</th> </tr> </thead> <tbody> <tr> <td>AA</td> <td>2</td> </tr> <tr> <td>AA-</td> <td>69</td> </tr> <tr> <td>A+</td> <td>57</td> </tr> <tr> <td>A</td> <td>31</td> </tr> <tr> <td>A-</td> <td>99</td> </tr> <tr> <td>BBB+</td> <td>3</td> </tr> <tr> <td>NITF</td> <td>134</td> </tr> <tr> <td>Not Assigned</td> <td>101</td> </tr> </tbody> </table> </div>	Rating Class	Value (Rs. Mn.)	AA	2	AA-	69	A+	57	A	31	A-	99	BBB+	3	NITF	134	Not Assigned	101
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<p><b>Credit Risk</b> Credit risk may arise if policyholders or intermediaries cannot settle their dues to the company</p>	<ul style="list-style-type: none"> <li>In life insurance, credit risk is minimal, since premium is accounted on a cash basis and typically paid before the liability is assumed</li> <li>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"> <li>Customers are informed on a regular basis regarding the premium warranty clause</li> <li>Outstanding credit is followed up on a daily basis. Policies which are not settled within a reasonable period are routinely cancelled</li> <li>Outstanding debts are checked and confirmed before settling claims</li> <li>A temporary certificate for 60 days was introduced for motor insurance in 2011. Cover for the full period is granted only upon receipt of the payment</li> <li>A provisioning policy has been implemented for long outstanding premium receivables</li> </ul> </li> </ul>																		

Risk Category / Risk Description	Controls in Place to Mitigate Risks																										
<b>Investment Risks</b>																											
<p><b>Concentration Risk</b> Concentration risk may arise when the investment portfolio is not sufficiently diversified</p>	<ul style="list-style-type: none"> <li>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</li> <li>The BIC has set sectoral asset allocation limits for equity investments as well as related party exposure limits</li> <li>The asset allocation of consolidated investments and the sectoral allocation of equity investments as at 31<sup>st</sup> December 2011 are given below</li> </ul> <div style="display: flex; justify-content: space-around;"> <div data-bbox="662 825 992 1333"> <p style="text-align: center;"><b>Asset Allocation of Investments</b></p> <table border="1"> <thead> <tr> <th>Asset Class</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Government securities</td> <td>83%</td> </tr> <tr> <td>Corporate securities</td> <td>14%</td> </tr> <tr> <td>Bank deposits</td> <td>2%</td> </tr> <tr> <td>Equities</td> <td>1%</td> </tr> </tbody> </table> </div> <div data-bbox="1117 825 1446 1417"> <p style="text-align: center;"><b>Sectorial Allocation of Equity Investments</b></p> <table border="1"> <thead> <tr> <th>Sector</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Banks Finance and Insurance</td> <td>19%</td> </tr> <tr> <td>Beverage Food and Tobacco</td> <td>9%</td> </tr> <tr> <td>Diversified Holdings</td> <td>22%</td> </tr> <tr> <td>Manufacturing</td> <td>27%</td> </tr> <tr> <td>Construction &amp; Engineering</td> <td>7%</td> </tr> <tr> <td>Telecommunications</td> <td>3%</td> </tr> <tr> <td>Motors</td> <td>13%</td> </tr> </tbody> </table> </div> </div>	Asset Class	Percentage	Government securities	83%	Corporate securities	14%	Bank deposits	2%	Equities	1%	Sector	Percentage	Banks Finance and Insurance	19%	Beverage Food and Tobacco	9%	Diversified Holdings	22%	Manufacturing	27%	Construction & Engineering	7%	Telecommunications	3%	Motors	13%
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<p><b>Liquidity Risk</b> Liquidity risk may arise from larger than expected cash outflows or smaller than expected cash inflows</p>	<ul style="list-style-type: none"> <li>The BIC manages this risk by diversifying investment durations and reviewing cash flow projections</li> <li>Maturity analysis of Corporate Securities is given below</li> </ul> <div style="text-align: center;"> <p><b>Maturity Analysis of Corporate Securities</b></p> <table border="1"> <thead> <tr> <th>Maturity Period</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Less than 1 year</td> <td>24%</td> </tr> <tr> <td>1 - 5 years</td> <td>68%</td> </tr> <tr> <td>Over 5 years</td> <td>8%</td> </tr> </tbody> </table> </div>	Maturity Period	Percentage	Less than 1 year	24%	1 - 5 years	68%	Over 5 years	8%																		
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Risk Category / Risk Description	Controls in Place to Mitigate Risks																
<b>Investment Risks Contd.</b>																	
<p><b>Credit Risk</b> 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"> <li>The creditworthiness of a potential investment is assessed mainly through ratings assigned to the issuing institution or the ratings assigned to an issue</li> <li>In the event the investments are guaranteed by a banking institution, the rating of the bank is considered</li> <li>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</li> <li>As at 31<sup>st</sup> December 2011, 81% of our corporate debt investments had a rating of "A" or better or were guaranteed by banking institutions with ratings of "A" or better</li> </ul> <div data-bbox="906 835 1203 1297" style="text-align: center;"> <p><b>Corporate Debt Investments By Rating class</b></p> <table border="1"> <caption>Corporate Debt Investments by Rating class</caption> <thead> <tr> <th>Rating class</th> <th>Rs. Mn.</th> </tr> </thead> <tbody> <tr> <td>AAA</td> <td>300</td> </tr> <tr> <td>AA</td> <td>345</td> </tr> <tr> <td>AA-</td> <td>626.3</td> </tr> <tr> <td>A+</td> <td>148.3</td> </tr> <tr> <td>A</td> <td>600</td> </tr> <tr> <td>BBB+</td> <td>60</td> </tr> <tr> <td>Not Rated</td> <td>424.3</td> </tr> </tbody> </table> </div>	Rating class	Rs. Mn.	AAA	300	AA	345	AA-	626.3	A+	148.3	A	600	BBB+	60	Not Rated	424.3
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<p><b>Market Risk</b> Loss of value of investments due to adverse movements in assets prices</p>	<ul style="list-style-type: none"> <li>Investment decisions are based on fundamentals rather than on speculative bets</li> <li>Decisions are based on in depth macroeconomic and industry analysis as well as company research</li> <li>A model to review the market prices of certain asset classes has been developed and is referred to the BIC on a monthly basis</li> </ul>																
<b>Operational Risks</b>																	
<p><b>Socio-economic and Political Risk</b> 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"> <li>Strengthen underwriting and claims management processes to monitor issues arising from under insurance, fictitious claims etc.</li> <li>Review pricing in light of inflation</li> <li>Compete on service by continuously upgrading service standards</li> <li>Monitor causation of life policies</li> <li>Develop alternative distribution channels</li> </ul>																

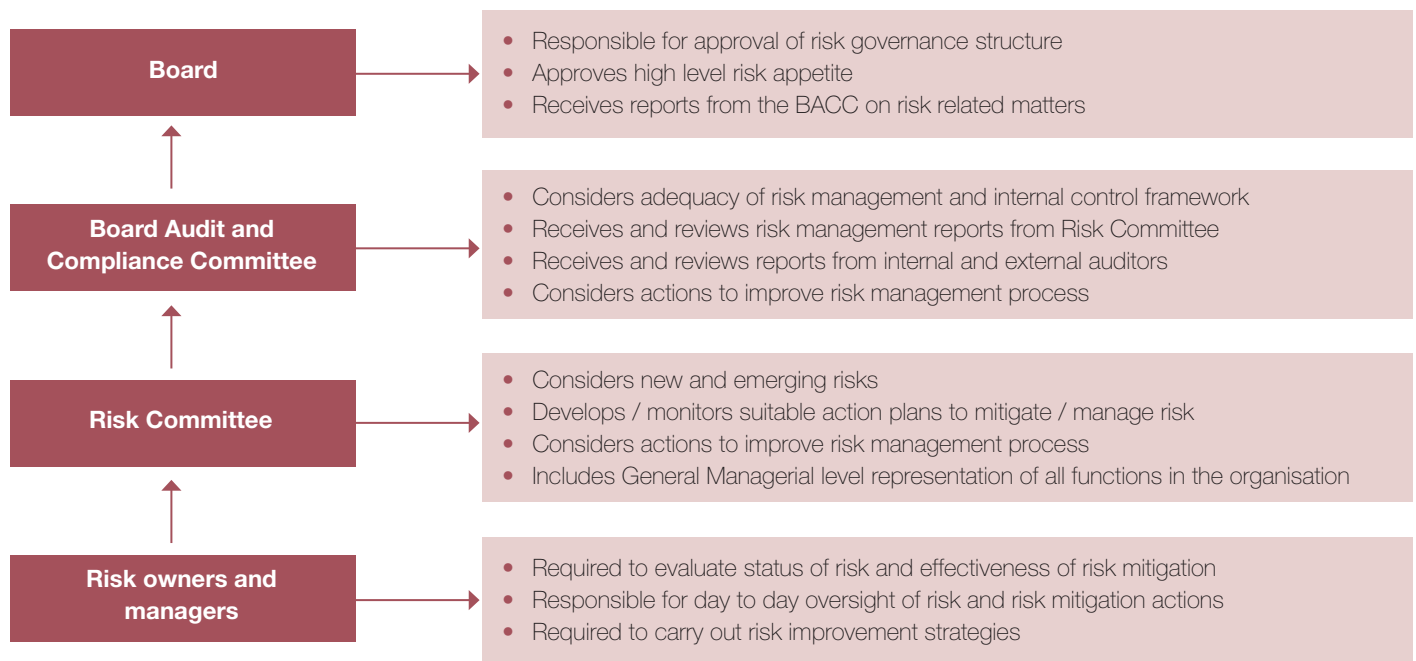
Risk Category / Risk Description	Controls in Place to Mitigate Risks
<b>Operational Risks Contd,</b>	
<p><b>Technology Risk</b> The company operates in a fully integrated system and networked environment The organisational and technical measures needed to protect the confidentiality, availability and integrity of these data and systems 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"> <li>• The company has invested in the security infrastructure appropriate for the scale of operations</li> <li>• Security arrangements cover both physical infrastructure and information and are constantly updated to take account of the latest knowledge and technical enhancements</li> <li>• Security regulations cover technical aspects as well as organisational measures including tracking, staff training, end user computer policies etc.</li> <li>• The disaster recovery plan has been tested in the live environment within the stipulated time and confirmed to be satisfactory</li> <li>• The disaster recovery machine mirrors day to day transactions on a real time basis</li> <li>• IT conducts regular IT audits covering the systems, network, web related services and all other infrastructure. This includes vulnerability assessments as well</li> </ul>
<p><b>Human Resource Risk</b> The main human resource risks are the shortage of qualified personnel and loss of staff</p>	<ul style="list-style-type: none"> <li>• HR policies are geared to encourage continuous education for all levels of staff</li> <li>• Managers are required to identify / provide relevant training and development opportunities</li> <li>• Foster a culture where all employees, regardless of rank, can actively contribute to the business</li> <li>• Provide adequate monetary and non monetary incentives</li> <li>• Implement a succession plan for senior level staff</li> <li>• Identify opportunities for job rotation</li> <li>• Review remuneration vis-à-vis industry norms</li> <li>• A talent management initiative was implemented in 2010 to identify and nurture high potential employees and groom them to take additional responsibilities</li> <li>• Three programmes titled Top Gun (for managers and above), Union Warriors (for executives, up to manager grades) and Union Braves (for non-executives) were launched and these have yielded positive outcomes</li> </ul>
<p><b>Reputational Risk</b> Reputational risk could be defined as the risk that a particular event or behavior could affect the company and negatively impact stakeholders' perceptions, thus impairing its ability to operate effectively</p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> <li>• Company representatives work closely with regulators, industry players, accounting standards committees etc. to ensure that all regulatory issues are fully understood and complied with</li> <li>• The company has also implemented a Board approved media policy</li> </ul>
<p><b>Fraud Risk</b> The risk that internal control weaknesses may lead to misappropriation of assets or fraudulent financial reports</p>	<ul style="list-style-type: none"> <li>• Authority limits segregation of duties and access controls have been implemented for all critical functions of the company</li> <li>• 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</li> <li>• 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</li> <li>• The company launched a comprehensive complaint management system during 2011. All the complaints lodged in the system are reviewed on a regular basis</li> <li>• 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</li> </ul>

### 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

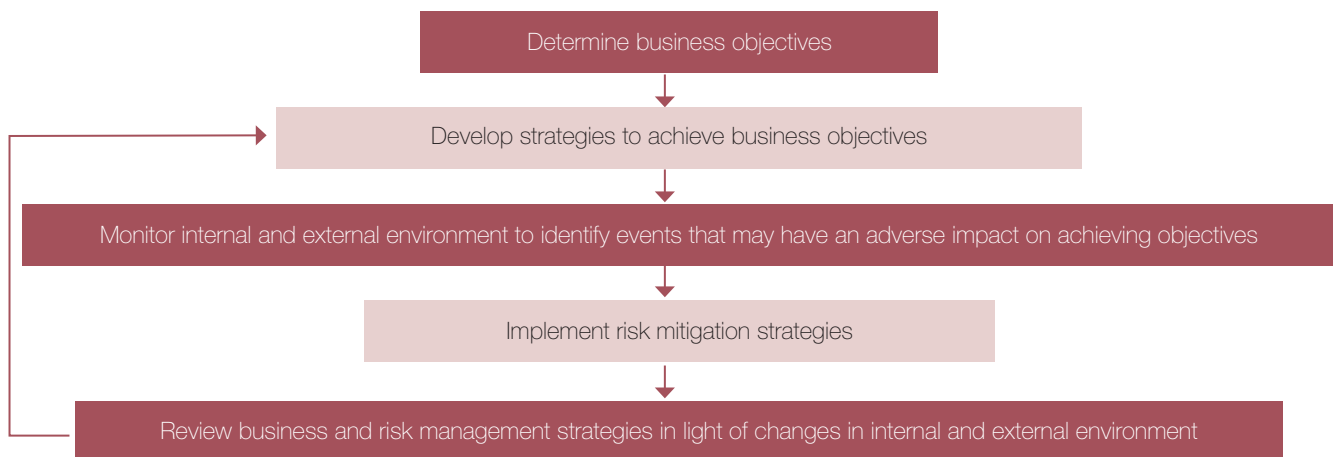
The company continued with the bottom up process introduced in 2010, with the Risk Committee finally reviewing divisional risk grids to summarise key risk for BACC review.

Senior teams in each division identify risks in their 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 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 summarises these risks to prepare the company risk grid. Divisional and company risk grids are updated on pre-agreed time frames.

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).






**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					
	4	Major / very high impact		1			
	3	Moderate / high impact		5	2		
	2	Minor impact		1	4	1	
	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
			Occurance / likelihood ranking				

Figure 6: Summary of Divisional Risk Grids

Impact / severity ranking	5	Catastrophic / extreme risk	2	1			
	4	Major / very high impact	15	8	7	1	
	3	Moderate / high impact	10	18	25	3	
	2	Minor impact		9	5	3	
	1	Low / insignificant impact			4		
			Rare / remote to occur	Unlikely to occur	Possible to occur	Likely to occur	Almost certain to occur
			1	2	3	4	5
			Occurance / likelihood ranking				

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
		2011	2010	
Catastrophe risk	Risk associated with a large scale event e.g. tsunami			<ul style="list-style-type: none"> <li>• Ensure adequate reinsurance arrangements to cover such eventuality</li> <li>• Periodically test and update the business continuity plan</li> <li>• Monitor accumulation</li> </ul>
Credit risk	Refer previous section on insurance specific risks			<ul style="list-style-type: none"> <li>• Refer previous section</li> </ul>
Distribution risk	Dependence on traditional distribution channels, poaching of key sales staff etc.			<ul style="list-style-type: none"> <li>• Leverage broker / leasing / finance company relationships</li> <li>• Constantly review incentive, motivation and remuneration strategies</li> <li>• Develop career paths for high potential staff</li> <li>• Invest to develop alternative channels</li> </ul>
HR risk	Refer previous section on insurance specific risks			<ul style="list-style-type: none"> <li>• Refer previous section</li> </ul>
Interest rate risk	Refer previous section on insurance specific risks			<ul style="list-style-type: none"> <li>• Refer previous section</li> </ul>
Internal process risk	Errors or omissions resulting in financial losses			<ul style="list-style-type: none"> <li>• Ensure adequate systems support</li> <li>• Review underwriting, claims management processes</li> <li>• Ensure adequate staffing</li> <li>• Update skills and knowledge based on current events</li> </ul>
Legal and regulatory risk	Changes to insurance regulations, tax laws etc.			<ul style="list-style-type: none"> <li>• Lobby via appropriate channels</li> <li>• Work with industry participants</li> </ul>
Market risk	Intense price competition, threat of new entrants etc.			<ul style="list-style-type: none"> <li>• Improve marketing strategies</li> <li>• Continuously enhance service standards</li> <li>• Reduce dependence on single channel / line of business</li> <li>• Implement cost effective distribution models</li> <li>• Strengthen CRM activities</li> <li>• Leverage strong reinsurance arrangements</li> <li>• Focus on profitable segments of the market</li> <li>• Ensure renewal retention</li> </ul>
Reinsurance risk	Refer previous section on insurance specific risks			<ul style="list-style-type: none"> <li>• Refer previous section</li> </ul>
Socio political risk	Refer previous section on insurance specific risks			<ul style="list-style-type: none"> <li>• Refer previous section</li> </ul>
Technology risk	Refer previous section on insurance specific risks			<ul style="list-style-type: none"> <li>• Refer previous section</li> </ul>
Underwriting risk	Refer previous section on insurance specific risks			<ul style="list-style-type: none"> <li>• Refer previous section</li> </ul>

### 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

Divisional risk grids will be further strengthened with the participation of the divisional managers in 2012. 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 and the executive development initiatives will be enhanced as key strategies to manage the intense poaching and lack of technically competent, experienced staff in the industry.

The proposed regulatory changes introducing risk based capital and requiring composite companies to separate their life and general businesses will be the key regulatory challenges over the next few years.

We believe that a risk based capital approach will lead to the betterment of the industry and discourage irrational price based competition. Prolonged soft market cycle in the general insurance industry continued to be the biggest risk faced by the company. Prudent risk management practices, implementing walk away pricing and conscious focus on service enhancement are the key strategies we adopt in mitigating this risk.



# SUSTAINABILITY REPORT

## About this Report

Sustainability lies at the every 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 2011 is our sixth step in sustainability reporting. It summarises the actions we have taken during 2011 to ensure we engage all our stake holders. It also indicates the progress we have made with regard to the sustainability goals we published in 2010. We also have disclosed our sustainability objectives for 2012.

We have compiled our 2011 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.

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The first tri-lingual insurance website, the most innovative products and an expert team, we are always equipped to serve you, the customer in the best ways possible.

# SUSTAINABILITY REPORT

## Chief Executive Officer's Statement

It is my pleasure to report on our performance over the past 12 months. I am particularly pleased with the good progress we have made in implementing the sustainability goals we had set for the year 2011. 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.

### 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

#### General Insurance

Two general insurance products catering to the growing demand for affordable health insurance solutions from individual customers were launched during the year.

Union Family Health Net offers a comprehensive cover against hospitalisation, OPD and critical illnesses for persons between the ages of 1 to 65 years on an individual basis or as a family unit. A key feature of the product is that an individual, whose insurance is paid by the employer, could extend the coverage to his / her family at a discounted premium. In the case of critical illness, the payout is increased to 150% of the annual policy limit.

The second product, Union Health Net caters to customers who require medical care in India. The key features of the product include access to approximately 4,000 hospitals in India, cashless settlement options, coverage for over 150 named day-care procedures that do not require 24 hour hospitalisation etc. The product can be purchased without undergoing a medical checkup if the individual is below 45 years of age.

The motor claims work flow system was improved with additional features / functionality including management information capability to ensure that claims are settled in a speedy and accurate manner. A work flow system to monitor and manage selected types of non motor claims was also introduced during the year.

#### Life Insurance

The range of life insurance related surgical and hospitalisation policies were simplified and expanded to include almost all surgeries, rather than a specified set of procedures. UA's flagship life insurance product

- Union Life Advantage was repackaged to align with customers' needs e.g. protection, investment, education etc.

The company launched an sms based payment process to settle claims and maturity benefits whereby customers receive an sms indicating that the relevant payment can be collected from any Commercial Bank branch islandwide. Other sms based service improvements to enhance communications with customers and field sales staff were also implemented e.g. customers were informed via sms regarding unit prices on unit linked products, policy alterations etc. Field staff members were informed via sms when policies were accepted or claims / benefit payments were made to their customers.

### Engaging our People

Based on the employee satisfaction survey conducted in the year 2010, the least rated areas were discussed with focus groups with representation from all divisions. Progressing from these discussions, the most common areas of concern were selected by the Executive Committee members to implement remedial action.

In line with the company's promise to enable employees to reach their full potential, "Union Warriors" and "Union Braves" were unique talent management programmes launched during the year 2011. "Top Gun 1" and "Top Gun 2" which targeted high performing employees, who have the potential to reach senior management positions in a relatively short period of time were concluded successfully during the year adding greater value to the participants as well as to the company.

In order to enhance the productivity and professionalism of the field staff, UA continued to invest in internal certification programmes. "Certificate in General - Underwriting Practice," "Certificate in Life Insurance Practice" and "Certified Insurance Practitioner" were three such certification programmes launched during the year.

An e-learning solution was launched during the year. Material is available in three languages and field and office staff, have access to a wide variety of training material which they could refer at any time from any location convenient to them.

### 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 and maintain crime prevention hoardings across the island.

During the year, we concluded the final round of the “Pasalen Karaliyata” programme with the participation of more than 800 students.

We also leveraged our resources and expertise to respond to national level issues, and conducted a series of dengue awareness campaigns throughout the island.

### Managing our Environmental Impact

We continued our efforts to reduce carbon emissions through various initiatives. We strengthened our panel of regional trainers and optimised the use of video conferencing facilities as alternatives to travelling. Our agreement with R&G Toners to recycle printer cartridges allowed us to buy back 320 toners manufactured with used cartridges. The Central Environmental Authority has appreciated the initiatives we have taken to ensure an e-waste free 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 to be complacent, but always look to the future to 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

23<sup>rd</sup> February 2012

# 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 2011 as well.

### Sustainability Committee and Charters

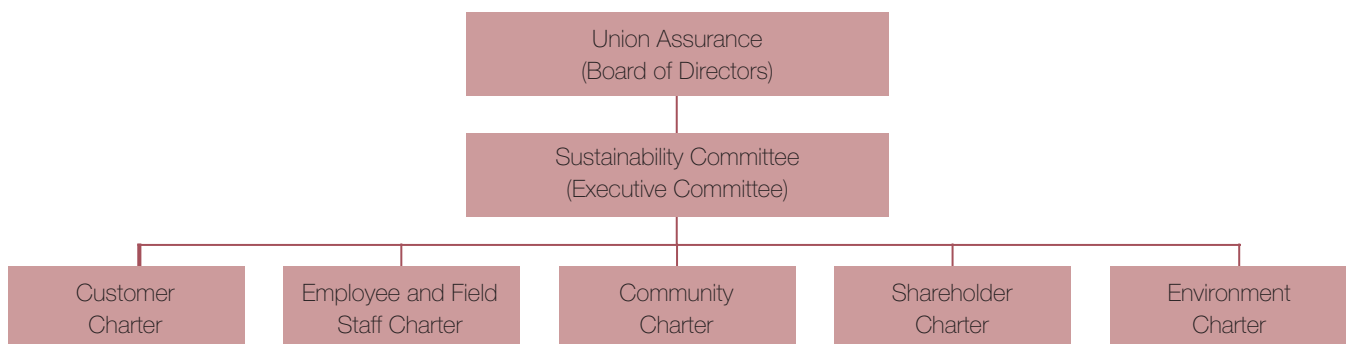
The Executive Committee led by the Chief Executive Officer is responsible for managing the business in a sustainable fashion. The Executive / Sustainability Committee meets on a regular basis, and decisions with regard to strategic initiatives and formulation of company policies are based on a careful 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 102 branches from 68 branches in 2010.

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 process with them and our responses to issues highlighted during the process.



## 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 an unbroken 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"> <li>Customer satisfaction survey for motor insurance customers</li> <li>Out-bound call centre processes to obtain direct feedback from life insurance customers</li> <li>Regular formal interaction with intermediaries / corporate customers</li> <li>Formalised complaint management process</li> </ul>	<ul style="list-style-type: none"> <li>Settle claims in a speedy and fair manner</li> <li>To provide insurance coverage in line with changing business requirements and asset values / income levels</li> <li>Deliver superior customer service</li> </ul>
People (employees and field staff)	<ul style="list-style-type: none"> <li>Biennial employee satisfaction survey</li> <li>Formal review meeting with distribution channel representatives and technical staff</li> <li>Skip level meetings for all staff to elicit their ideas to improve service / productivity</li> </ul>	<p><b>Staff</b></p> <ul style="list-style-type: none"> <li>Capability of the staff not fully utilised by the company</li> <li>Recognition by supervisors regarding job role and performance</li> <li>Decision making authority</li> <li>Equality when recognising employees</li> <li>Understanding of important procedures</li> <li>Compensation package to be in line with market</li> </ul> <p><b>Field Staff</b></p> <ul style="list-style-type: none"> <li>Access to information and latest technology</li> <li>Opportunities to obtain housing loan facilities</li> <li>Health insurance facilities</li> <li>Awareness created by company to promote life / general insurance products</li> <li>Long term savings mechanism</li> </ul>
Community	<ul style="list-style-type: none"> <li>Regular, formal interaction with community representatives</li> <li>Interaction with community members as part of community programmes</li> <li>Interactions with community activity partners e.g. representatives from Sri Lanka Police, Ministry of Education</li> <li>Corporate web site</li> </ul>	<ul style="list-style-type: none"> <li>Support specific community activities which vary based on geographic location / priorities in the area</li> </ul>

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

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
<b>Customers</b>	
Need to settle claims in a speedy and fair manner	<ul style="list-style-type: none"> <li>Leverage technology, technical knowledge / competencies of internal staff and 3<sup>rd</sup> party service providers to achieve this requirement</li> <li>Introduced an online claims tracking system to monitor / manage service related to selected non motor claims</li> <li>Improved paperless work flow process to settle motor claims in a speedy manner</li> <li>Expanded general insurance receipting process to commercial banks</li> <li>Claims payments through Commercial Bank branches for general and life policyholders</li> </ul>
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"> <li>Develop technical competencies of staff through structured internal training programmes and overseas assignments to keep abreast of latest regional / international developments</li> <li>Leverage relationships with regional / international reinsurance brokers and reinsurance companies to enhance knowledge and skills</li> <li>Conduct risk surveys, portfolio reviews to ensure that general insurance coverage has been adequately obtained</li> <li>Conduct fact finding / financial underwriting processes to ensure that life insurance coverage is obtained in line with customers' income / lifestyle requirements</li> </ul>
Deliver superior customer service	<ul style="list-style-type: none"> <li>Leverage technology and competencies of the staff and sales force to achieve this requirement</li> </ul>

Key Issues from Stakeholders Perspective	Company Response
<b>People</b>	
Capability of the staff not fully utilised by the company	<ul style="list-style-type: none"> <li>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 function</li> </ul>
Recognition by supervisors regarding job role and performance	<ul style="list-style-type: none"> <li>Introduced a reward scheme which encourages line managers to identify employees who make a significant contribution and reward them instantly</li> <li>Schemes to formally recognise sales and non sales staff individual and team performance / contribution also in place</li> <li>Recognition scheme for persons involved in support service activities launched during the year</li> </ul>
Decision making authority	<ul style="list-style-type: none"> <li>Decision authority levels are reviewed based on performance / participation at certification programmes mentioned above</li> </ul>
Equality when recognising employees	<ul style="list-style-type: none"> <li>Criteria for employee recognition schemes are clearly articulated to all managers, who are actively encouraged to nominate staff</li> <li>All nominees are reviewed by the Executive Committee to minimise any bias</li> </ul>
Understanding of important processes	<ul style="list-style-type: none"> <li>As mentioned above, regular training and development initiatives will reduce any knowledge gaps in this regard</li> </ul>
Compensation package to be in line with the market	<ul style="list-style-type: none"> <li>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</li> <li>Steps have been taken to align compensation with the company's relative performance in relation to other industry participants as well</li> </ul>
<b>Field Staff</b>	
Access to information and latest technology	<ul style="list-style-type: none"> <li>Provide financial assistance to purchase laptops and tabs and invest on technology to make information readily available for field staff</li> </ul>
Opportunities to obtain housing loan facility	<ul style="list-style-type: none"> <li>Entered into agreements with several banks to facilitate housing loans for life field force</li> </ul>
Health insurance facilities	<ul style="list-style-type: none"> <li>Health insurance facilities provided based on experience / performance of field staff members</li> </ul>
Awareness created by company to promote life / general insurance products	<ul style="list-style-type: none"> <li>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</li> </ul>
Long term saving mechanism	<ul style="list-style-type: none"> <li>Implemented a process whereby company contributes to a long term savings scheme</li> </ul>
<b>Community</b>	
Requests to support specific community activities which vary based on geographic location / priorities in area	<ul style="list-style-type: none"> <li>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</li> </ul>

Key Issues from Stakeholders Perspective	Company Response
<b>Shareholders</b>	
Increase return on investment and delivery of sustainable business performance in light of competitive business environment	<ul style="list-style-type: none"> <li>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</li> </ul>
<b>Reinsurance Partners</b>	
Soft market cycle in general insurance industry and lack of profitability in sector	<ul style="list-style-type: none"> <li>Implement disciplined underwriting and walk away from business opportunities which do not generate sufficient premiums to meet claims expenses</li> <li>Focus on providing superior service and value added benefits to overcome soft market conditions</li> </ul>
<b>Suppliers</b>	
<ul style="list-style-type: none"> <li>Speedy settlement of invoices for goods / services provided / rendered</li> <li>Adequate lead time between placing order for goods / services and delivery date</li> </ul>	<ul style="list-style-type: none"> <li>Implement processes to ensure UA meets contractual obligations</li> <li>Attempt to develop long term relationships with key suppliers based on quality, price and related considerations</li> </ul>

### Risk Management - Stakeholder Perspective

The following table identifies the risks that are likely to arise as the company interacts with its key stakeholders 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 78 to 109 and pages 117 to 129.

Stakeholder Group	Risk	UA Action
Customers	<ul style="list-style-type: none"> <li>Inability for 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</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>Ensure adequate reinsurance support with financially stable reinsurance partners</li> <li>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</li> </ul>

Stakeholder Group	Risk	UA Action
People (employees and field staff)	<ul style="list-style-type: none"> <li>Lack of experienced / qualified staff in industry and intense poaching especially as new entrants enter the insurance space</li> <li>Inability to keep pace with changing consumer needs due to lack of knowledge</li> <li>Mis-selling / lack of skill in identifying customer needs and resultant consequences</li> </ul>	<ul style="list-style-type: none"> <li>Continue to focus on technical training for distribution and support services staff to enhance the skills levels across the organisation</li> <li>Review compensation and benefit packages and ensure adequate alignment with company performance and industry norms</li> <li>Implement complaint management / internal review processes to identify instances of mis-selling and / or gaps in coverage to take appropriate corrective action</li> </ul>
Community	<ul style="list-style-type: none"> <li>Demand for multi-pronged initiatives which may not be aligned with company's business strategy</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>Focus on year on year improvement in results / dividend payout without compromising long term sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Maintain continuous dialog with shareholders to inform them regarding industry dynamics business opportunities and financial performance</li> </ul>
Reinsurance partners	<ul style="list-style-type: none"> <li>Soft market conditions may reduce reinsurance options for company / industry</li> </ul>	<ul style="list-style-type: none"> <li>Focus on maintaining pricing discipline, so that premiums are sufficient to generate a positive contribution to UA and reinsurance partners</li> <li>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 120</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>Inability to form long term partnerships with high quality, reliable suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Invest time and effort at appropriate levels to build sustainable relationships and ensure that contractual obligations are fulfilled</li> </ul>

# SUSTAINABILITY

## REPORT

### Customers

Sri Lanka has emerged as a high growth economy in the region. Hence, to be the front runner in the industry, it is vital 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 quality products and services, delivering superior customer service and paying claims fairly and speedily. Our performance against the charters applicable to our customers is summarised below.

Customers	Commitments	Progress During the Year
Provide products and services that customers require in a convenient manner	<ul style="list-style-type: none"> <li>Conduct formal and informal research to understand customer requirements</li> <li>Introduce new products which meet evolving customer needs</li> <li>Augment existing products in line with customer requirements</li> <li>Enhance convenience by expanding distribution network</li> <li>Manage 3<sup>rd</sup> party supplier relationships e.g. motor garages, financial institutions to enhance customer convenience</li> </ul>	<ul style="list-style-type: none"> <li>Launched "Union Health Net" and "Union Family Health Net"</li> <li>Revamped e-motor solution enabling faster processing of policies</li> <li>Revamped "Union Relief" and "Union Life Advantage"</li> <li>Enhanced health insurance riders linked to life insurance policies</li> </ul>
Deliver superior customer service	<ul style="list-style-type: none"> <li>Regularly review service standards and aim to exceed industry benchmarks</li> <li>Invest in process improvements to enhance customer service</li> <li>Monitor external delays and minimise via training and relationship building</li> </ul>	<ul style="list-style-type: none"> <li>"Union eMotor" empowers sales staff to issue policies at customers' door-step without waiting for underwriting input / approval</li> <li>Selected travel agents were given on-line facility to issue travel policies</li> <li>The bancassurance network was further expanded by partnering with an established multinational bank</li> <li>A hot line (0112429099) was setup for customers to log complaints regarding the service they receive</li> <li>Enhanced call centre technology</li> <li>Continued the customer satisfaction survey to obtain feedback regarding our motor claims settlement process</li> <li>Ensured adherence to pre-agreed service benchmarks</li> </ul>

Customers	Commitments	Progress During the Year
Settle claims fairly and speedily	<ul style="list-style-type: none"> <li>Invest in process improvements to ensure speedy settlement of claims</li> <li>Develop the technical competencies of claims management staff</li> <li>Leverage technology to enhance efficiency and effectiveness</li> <li>Work with Insurance Ombudsman to settle claims fairly</li> </ul>	<ul style="list-style-type: none"> <li>Introduced an on-line claims tracking system (non motor) for corporate customers and insurance broker firms</li> <li>Implemented Integrated Claim Approval System (ICAS), workflow system for motor claims</li> <li>"Motor Center" was restructured setting up a separate unit to follow up outstanding motor claims with customers</li> <li>Claims payments through Commercial Bank branches extended to life policy holders</li> <li>Increased number of strategic alliance partners to manage motor claim leakage and improve service provided to customers</li> </ul>

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

### New Products and Improvements – General

Our thrust at Union Assurance is to satisfy our customers. With this in mind, UA launched several new products during the year.

#### Union Health Net

Even though medical care facilities in Sri Lanka are improving rapidly, many prefer to obtain specialised treatment from overseas hospitals for certain critical medical conditions and emergencies.

With this need in mind, UA launched Health Net, a low-premium medical insurance policy that covers costs of hospitalisation and medical care incurred in India. This insurance policy exclusively covers expenses incurred by Sri Lankans who travel to India for medical treatment.

#### Union Family Health Net

Union Family Health Net offers a comprehensive cover against hospitalisation, OPD and critical illnesses for persons between the ages of 1 to 65 years on an individual basis or as a family unit. A key feature of the product is that an individual, whose insurance is paid by the employer, could extend the coverage to his / her family at a discounted premium. In the case of critical illness, the payout is increased to 150% of the annual policy limit.

#### Product Re-launches - Union Relief

Union Relief was relaunched as a personal accident policy to cater to the protection need of the individuals who cannot afford to pay a high premium. The policy was re-launched providing an opportunity for policyholders to purchase cover for a premium of one rupee per day. This also covers funeral expenses and hospital charges in addition to the death cover provided to policyholders.

#### 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.

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"> <li>Unit linked investment solution allowing the customer to choose his / her investment option</li> <li>Ability to customise solution to suit individual risk appetite and market conditions</li> <li>Linked to three unique investment funds, offering flexibility in terms of investment options and premium payment terms</li> <li>Regular premium payments, premium top up and waiver of premium benefit options available</li> </ul>
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"> <li>Unit linked investment solution allowing the customer to choose his / her investment option</li> <li>Ability to customise solution to suit individual risk appetite and market conditions</li> <li>Premium payment term limited only to 3 or 5 years. Premium top up option available</li> </ul>
Union Challenger – Provider Plan	For individuals who are approaching retirement and have a need for a regular income	<ul style="list-style-type: none"> <li>A unit linked product with a single premium investment option.</li> <li>Ability to generate a regular income for a specified period while providing life protection</li> <li>Special options available to invest in additional funds to increase the pension benefit</li> </ul>

Name of Product	Target Market	Special Features
Union Life Advantage	A generic life insurance product which can be catered for all customer segments	<ul style="list-style-type: none"> <li>• Universal life type plan with dividend accumulation mechanism with individual investment account maintained for each policyholder</li> <li>• The policy provides a minimum guaranteed dividend at the start of each year with actual dividends accumulated at end of each year</li> <li>• By adding rider covers this plan could be further enhanced</li> </ul>
Union Sisumaga	Parents with young children and potential parents	<ul style="list-style-type: none"> <li>• 124% of the sum assured is paid as an educational annuity</li> <li>• 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</li> <li>• Else, twice the sum assured is paid along with the bonuses</li> </ul>
Union Jayamaga	Investors who look for steady / secure financial returns coupled with life cover	<ul style="list-style-type: none"> <li>• Sum assured increases by 5% every year during the policy term</li> <li>• Double the increased sum assured and bonuses are paid in the event of death</li> </ul>
Union Jayamaga Plus	Investors who look for a guaranteed financial return coupled with life cover	<ul style="list-style-type: none"> <li>• Sum assured increases by 10% every year during the policy term which is guaranteed</li> <li>• Double the increased sum assured is paid in the event of death</li> </ul>
Union Parithyaga	Individuals who look for an investment opportunity along with a life cover for an affordable premium	<ul style="list-style-type: none"> <li>• An endowment type product which is flexible enough to customised to the premium payment capacity of a customer</li> <li>• Premium paying terms available from 5 to 30 years</li> <li>• All additional rider benefits can be added to this policy</li> </ul>
Union Super Benefit	Individuals who wish to have periodical payments instead of waiting until maturity	<ul style="list-style-type: none"> <li>• Part payments are made every three years while providing protection for the full sum assured in case of a death of the life assured</li> </ul>
Union Loan Protection	Individuals who obtain credit facilities from financial institutions	<ul style="list-style-type: none"> <li>• Affordable once and for all premium</li> <li>• Settlement of capital outstanding on death</li> <li>• Payment of loan installments in the event of total and permanent disability</li> </ul>

### 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 policyholders 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.
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.

Description	Details
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.
Comprehensive surgery benefit	This benefit covers all surgeries for the life assured and spouse. In the event of a surgery, the benefit is paid as a percentage of the sum insured and calculated depending on the severity of the surgery.
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

The re-launch of Union Life Advantage product was a result of research and feedback received through the sales channels. The purpose of re-launching the product was to further simplify and align product features with customer needs. The communication and sales processes were also simplified by introducing needs based brochures and sales aids for the sales channels to better explain the product according to customer need / preferences. In addition the product structure was changed to provide greater flexibility to customers to purchase the value of coverage they require.

In addition, the surgical rider was restructured to provide benefits based on the severity of the surgery rather than limiting the benefit to specific procedures. Further, the increase in critical illness cover limits and hospital cash benefits was to ensure that these solutions are in line with the increasing medical expenses required by a patient when seeking treatment.

### 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 is not a long term differentiator, but that consumers will look to partner with an insurance company which offers them convenience and transparency.

## Geared for Performance

During the year there were several customer service enhancement programmes which were attended by more than 225 staff members. The table below summarises these programmes and the number of hours spent on them.

Customer Service Programmes	2011		2010	
	Number of persons	Number of hours	Number of persons	Number of hours
Life and general underwriters	118	2,136	70	2,100
Public relations officers	30	240	54	432
Call center staff	40	320	23	184
Motor claims assessors	37	296	5	36
<b>Total</b>	<b>225</b>	<b>2,992</b>	<b>152</b>	<b>2,752</b>

## General Insurance Related Service Enhancements *Customer Satisfaction Survey*

A customer satisfaction survey was conducted throughout 2011 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 receiving the settlement cheque.

73% of the customers surveyed have rated their satisfaction level as good, while 17% customers recorded an average level of satisfaction. A summary of the findings is provided below.

Satisfaction Level	%	
	2011	2010
Good	73	82
Average	17	15
Poor	10	3
<b>Total</b>	<b>100</b>	<b>100</b>

Intention to Renew	%	
	2011	2010
Yes	80	91
No	7	9
Decide later	13	0
<b>Total</b>	<b>100</b>	<b>100</b>

## Leveraging Technology to Improve Service *Union eMotor*

Union eMotor was an award winning initiative taken by Union Assurance to provide customers and sales staff with ultimate convenience. With this system, sales staff are able to issue policies independently at customers' door-step without waiting for underwriters' approval. This solution has significantly enhanced the level of convenience for sales staff and customers alike.

### *Integrated Claim Approval System (Motor)*

This system enables UA to manage motor claims in a more efficient manner, delivering a speedier service to customers. Dash board formats have been developed to indicate pending claims to relevant parties and indicate the point at which the claim is pending. The system also generates reports comparing actual versus targeted service standards.

### *On-line Claim Tracking System (Non Motor)*

This system enables corporate clients and insurance brokers to view the progress of claims on-line. They can log in to the relevant web site and check the status of their claims when required. This has been well received as it has delivered a greater lever of convenience for clients and intermediaries to monitor and manage their claims settlements.

### *Travel Policies through Travel Agents*

During the year, selected travel agents were empowered with an on-line facility to issue travel policies for their customers.

### 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.

In “delivering the promise of trust” our motor assessors play a very pivotal role. In order to equip them with the required skills to provide a better service for motor insurance customers, a series of skills development programmes were conducted during 2011. Negotiation skills, emotional intelligence, stress management and soft skills development were the some of the key aspects covered in these sessions.

### Life Insurance Related Service Enhancements

#### “Union Pay Easy” Scheme

“Union Pay Easy” scheme now comprises 11 banks, Keells chain of 42 supermarkets and 380 Abans stores islandwide. UA customers have more than 2,800 possible locations to pay their life premiums (2010 - 2,400).

Payment options available for our life policyholders 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					✓			

## 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 actual versus expected services standard during 2011 is as follows.

Department		Function	Expected Service Standard	Achievement
New Business	1	Underwriting decision making - new proposals	100 % by 3 days	87%
	2	Policy dispatching	80 % by 7 days	93%
	3	Policy dispatching	100 % by 14 days	100%
Policyholder Servicing	1	Minor alterations	100% by 1 day	99%
	2	Policy assignment and reassignment	100% by 2 days	98%
	3	Bank standing orders	100% by 2 days	99%
	4	Revivals	100% by 2 days	94%
	5	Major alterations	100% by 2 days	91%
	6	Responding to customer letters	100% by 2 days	96%
Claims	1	Maturities and advance payments	100% by 2 days	96%
	2	Death, disability and hospital cash claims	100% by 3 days	82%
	3	Policy loans	100% by 1 day	97%
	4	Queries on claims	100% by 2 days	80%

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

### Branch Development and Expansion

By the end of 2011, UA has a network of 102 branches to provide more convenience for our customers and field staff. In line with our strategy of expanding our branch network, the company opened 34 new locations during the year. The majority of these locations were set up as business development offices (BDOs), which require less capital / operating expenses than traditional branches.

### Leveraging Technology to Improve Service

UA has gone one step further in using technology to provide convenience to its customers by facilitating life insurance claim payments from any Commercial Bank branch. The claimant can walk into any Commercial Bank branch to get his or her claim in cash by proving the identity, or to collect a cheque drawn to his or her account of any bank. In the alternative the claimant can opt for a direct transfer of his claim entitlement to his or her account maintained at any bank.

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.

Several productivity improvements (e.g. introduction of a common standing order form, pre-printed signature facility, etc.) were implemented by the underwriting and operational teams to manage volumes and maintain / improve service standards without a significant increase in resources.

### 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 and experiences the quality of service.

#### Paying Claims Speedily

**Integrated claim approval system (Motor)** enables UA to manage motor claims in a more efficient manner delivering a speedier service to customers. Further, the system provides a "dash board" view of pending claims and indicates at what point a claim is pending.

**Online claim tracking system (Non Motor)** allows corporate clients and insurance broker firms to check the status of their claims without having to contact the claims division. Further, they can ensure that all required documents are submitted for speedier settlement of claims.

**A fast track mechanism** was introduced during 2011, to settle claims related to fire, electronic and general accident classes below Rs. 50,000 within 24 hours. Further, personal accident and workman

compensation claims of any value (excluding death and permanent disability) are also settled within 24 hours once the required documentation is submitted.

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 58 persons with a wide range of experience, competency and specialisations.

For motor claims below Rs. 50,000, the company encouraged customers to opt for the "Speed Cash" process launched in 2010. As per the scheme, once the claim value is agreed 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.

#### 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. The motor claims department was restructured and a separate unit was formed to follow up on outstanding motor claims with customers.

#### 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, 35 cases were referred to the Insurance Ombudsman. In 16 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. In addition, the company formed alliances with selected garages in order to manage claims costs in a transparent manner.

#### Customer Feedback System

A hot line (0112428099) was set up during the year for customers to log any complains regarding the service they receive. Our on-line customer feedback system is used to monitor the progress of such complaints. As at December 2011, there were 559 complaints updated on the system, and the status of these is summarised below.

Description	No.
Received	559
Resolved	(347)
In progress	212

#### 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 by updating UA's motor claims statistics to a common database accessed by all insurers.

We continued to use the services of external actuaries to ensure that our life fund is able to meet its obligations to policyholders. Further, we have commenced a risk based pricing mechanism for general insurance, and continued with the quarterly IBNR valuation process 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 in the following page.

## Customer Relationship Management

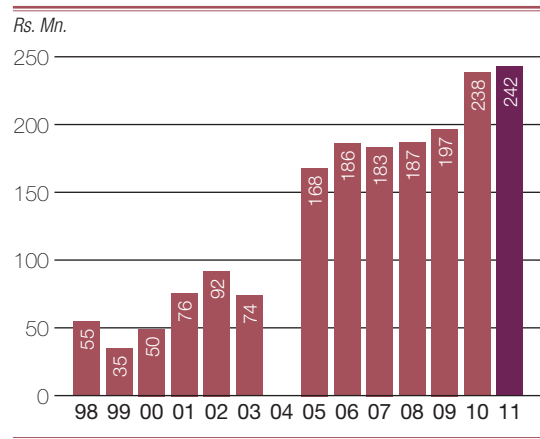
### Safety Check Lists / Safety Tips

Safety check lists were distributed among corporate customers to increase awareness on potential risk and safety areas. This initiative gained much emphasis as it helped companies to enhance safety measures to guard against risks which were not focused on earlier. The general public too was educated by distributing check lists and safety tips on issues such as prevention of dengue, regulations regarding wearing seat belts and driving in rainy conditions.

### Occupational Safety

Union Assurance in association with Seethawaka Export Processing Zone held a safety week to educate approximately 30,000 employees in the zone. Media coverage was provided for this event to increase awareness among the general public as well. Seminars and awareness campaigns regarding occupational safety and health were conducted and an art competition was held to increase the awareness among employees.

History of Bonuses to Life Policyholders



## Case Study



### Union eMotor – Empowerment for greater customer convenience

Union eMotor System empowers our entire sales force to issue motor insurance quotations, policies and cash receipts through their laptops instantaneously without having to visit a branch.

With this new system, sales advisors are able to issue policies independently at customers' door-step without waiting for underwriter's approval.

# 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 are summarised below.

Employees	Commitments	Progress During the Year
Build ownership by engaging employees in our business	<ul style="list-style-type: none"> <li>Ensure information regarding company activities and results are cascaded to all levels of staff</li> <li>Ensure adequate participation at strategic and operational planning events</li> <li>Engage employees in cross functional activities</li> </ul>	<ul style="list-style-type: none"> <li>Extensively used sms to convey important messages to staff</li> <li>Over 100 employees directly participated in strategic planning process</li> <li>Five management meetings were held during the year providing an opportunity to discuss business developments, company performance etc.</li> </ul>
Provide a rewarding career	<ul style="list-style-type: none"> <li>Ensure recruitment, promotions and rewards are based on qualifications, merit and capability, regardless of race, religion or gender</li> <li>Invest in training and development infrastructure and resources</li> <li>Deliver training and development for all levels of staff in line with benchmarks</li> <li>Encourage professional education by offering loan schemes, study leave arrangements, etc</li> <li>Ensure fair evaluation and reward for performance</li> <li>Provide job enrichment and career progression opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Implemented leadership development programmes for all levels of management and non executive staff</li> <li>A programme on ethics, morals, values and etiquette for staff under the age of 23 titled "Young UA Forum" was conducted for staff members in that age category</li> <li>Executive coaching sessions for 12 GMs, AGMs and senior managers concluded successfully</li> <li>Enhanced e-learning capabilities with launch of Learn Easy web portal</li> <li>Career committees were appointed to finalise the ratings of senior managers and above</li> <li>Provided overseas training opportunities for 41 staff members</li> </ul>
Ensure a healthy work life balance	<ul style="list-style-type: none"> <li>Organise recreational activities for staff members on a regular basis</li> <li>Encourage sporting activities</li> <li>Ensure the health and safety of our workforce</li> </ul>	<ul style="list-style-type: none"> <li>Conducted a "BMI" (Body Mass Index) Challenge contest to the staff to encourage staff to be mindful of their health</li> <li>A beach party for all staff and their family members was held at Mount Lavinia Hotel</li> <li>Actively participated in mercantile sports tournaments (cricket, basketball, swimming, badminton etc.)</li> <li>Conducted karaoke and barbecue nights to foster camaraderie among staff</li> </ul>

## Key Workplace Indicators

As at 31<sup>st</sup> December 2011, the company employed 1,009 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.

Men and Women in the Work Place	2011		2010	
	Men	Women	Men	Women
CEO and General Managers	7	2	7	2
Assistant General Managers	7	-	7	-
Senior Managers	27	6	25	6
Managers and Assistant Managers	288	50	283	49
Executives	263	67	262	78
Non Executives	165	127	158	112
<b>Total</b>	<b>757</b>	<b>252</b>	<b>742</b>	<b>247</b>
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 which require improvement.

### Employee Satisfaction Survey

Based on the employee satisfaction survey conducted in year 2010, the least rated areas were discussed with focus groups representing all divisions. Progressing from these discussions, the most common areas of concern were selected and these were deliberated at the Executive Committee level for implementation / rectification. Key actions implemented during the year are summarised below.

Areas for Improvements	Actions taken
Capability of the staff not fully utilised by the company	<ul style="list-style-type: none"> <li>• Launch of "Learn Easy" system to help employees access a wealth of knowledge from any location at any the time</li> <li>• Launch of "Union Warriors" and "Union Braves" to develop UA's leadership pipeline</li> <li>• Comprehensive succession planning has been implemented providing opportunities for internal talent</li> <li>• Management has implemented a policy to encourage internal promotions rather than hiring from out side the organisation</li> </ul>
Recognition by supervisors regarding job role and performance	<ul style="list-style-type: none"> <li>• Introduction of a spot recognition scheme "SPAR"</li> <li>• Service Champions Award for support services was launched w.e.f 1<sup>st</sup> January 2012</li> </ul>
Decision making authority	<ul style="list-style-type: none"> <li>• ICAS (motor claims workflow system) and eMotor (motor underwriting system) have empowered employees to make decisions</li> </ul>
Equality when recognising employees	<ul style="list-style-type: none"> <li>• Criteria for employee recognition schemes are clearly articulated to all managers, who are actively encouraged to nominate staff</li> <li>• All nominees are reviewed by the Executive Committee to minimise any bias</li> <li>• Career committees were appointed to finalise the ratings of senior managers and above</li> </ul>
Understanding of important processes	<ul style="list-style-type: none"> <li>• Developed internal certification programmes to enhance knowledge on key processes (e.g. life insurance / general insurance underwriting processes)</li> <li>• Process documents have been uploaded to the e-learning portal / intranet</li> </ul>
Compensation package to be in line with the market	<ul style="list-style-type: none"> <li>• Steps have been taken to align compensation in line with the company's relative performance in relation to other industry participants</li> </ul>

### Engaging through Communication

Open, transparent communication plays a vital role in our strategy to engage with 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 enable the management to gather insights from staff on the issues and opportunities they believe need to be addressed. During the year the company utilised video conferencing infrastructure to link staff from 12 branches to the management meeting conducted at head office on a real time basis.

We continued the practice of conducting an interactive strategic planning process involving representatives from all functional areas. This year too, 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 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

UA provides a career journey of continuous value addition for each employee. Employees are our competitive advantage and improving their performance is the 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 2011, 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 increased the number of training hours during the year.

Comparison of Training Programmes and Hours	2011	2010
Number of programmes	261	321
Number of hours	31,299	28,165

### Talent Management

Talent management refers to the process of developing and integrating new employees, developing and retaining current employees and attracting highly skilled employees. Such an endeavor 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 employees from Assistant Manager to Senior Manager level and commenced a long term leadership development programme, titled "Top Guns." During the year twelve employees were selected as the 2<sup>nd</sup> batch of Top Guns to receive extensive leadership training.

"Union Warriors" and "Union Braves" were unique talent management programmes launched in line with the company's promise to continue to invest in talent management initiatives. "Union Warriors" is a six month programme for executive to manager grade and "Union Braves" which is a four month programme targets non-executive employees who have the talent to progress to the next level in a relatively short period of time.

Another very efficient program on ethics, morals, values and etiquette for staff under the age of 23 titled "Young UA Forum" was conducted for 72 staff members in that age category.



### Internal Certification Programmes

In order to enhance the knowledge and capabilities of the staff on key processes, UA launched two internal certification programmes during the year as outlined below,

#### Certificate in Life Insurance Practice

"Certificate in Life Insurance Practice" (CILIP) was launched for life technical sales support staff to enhance their knowledge of life insurance practices. To be certified, each person has to pass a written exam and participate in group assignments. Forty six life technical staff members have already been certified as CILIP's and a batch of 65 branch sales support staff members sat for the final exam in February 2012.

#### Certificate in General Underwriting Practice

This is a certification process for the general insurance technical and underwriting staff, designated "Certificate in General Underwriting Practice" (CIGUP). The certification is awarded upon completion of specified training modules. During the year 80 staff members have been certified as CIGUPs.

### E-Learning

"Learn Easy" is a blended learning system made available to each and every Union Assurance field staff and office staff member. This web portal provides access to a wealth of knowledge which will help the company to produce highly skilled and competent employees.

### Toastmasters Club

The Toastmasters Club which was formed in 2009, with 20 charter members and 20 other members has been fully embedded into 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

We believe in infusing new blood at every level in order to generate new thinking. This policy however does not inhibit the career progression of good performers. An important feature in this process is to ensure that the new recruits acquire the necessary technical knowledge, competencies, skills and most importantly the company's values in order to reach peak performance within a short time period. This enables them to respond rapidly to the needs of the organisation. New recruits undergo a two day induction programme, which is mandatory. Recruits to senior management levels go through a learning arrangement which is spread over five days. On a needs basis, a further nine days of familiarisation on life and general insurance is provided to equip recruits with foundation inputs to get started on the job. The "Buddy" concept is practiced 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 significant increase in the number of hours per programme during the year, as the contents of some of the programmes have been restructured based on the feedback received.

Induction Programmes	2011		2010	
	Number of Programmes	Number of Hours	Number of Programmes	Number of Hours
Induction	12	3,016	12	1,744

### Overseas Exposure

UA continued to provide overseas exposure to staff members as an essential element of the training and development process. Forty one employees attended overseas training programmes during the year.

International Programmes	2011	2010
Technical	14	16
Marketing and Distribution	5	4
Finance	5	1
Human Resources	5	1
Information Technology	3	1
General Management	5	1
Actuarial	4	2
<b>Total</b>	<b>41</b>	<b>26</b>

**Learning Benchmarks**

A total of 161 in-house training programmes and 143 external programmes (including 41 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	2011		2010	
	Benchmark	Actual	Benchmark	Actual
Managers	6	6.09	6	5.49
Executives	4	2.43	4	2.06
Non Executives	3	4.94	3	2.83

**Measure Effectiveness of Training Programmes**

During 2011, 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

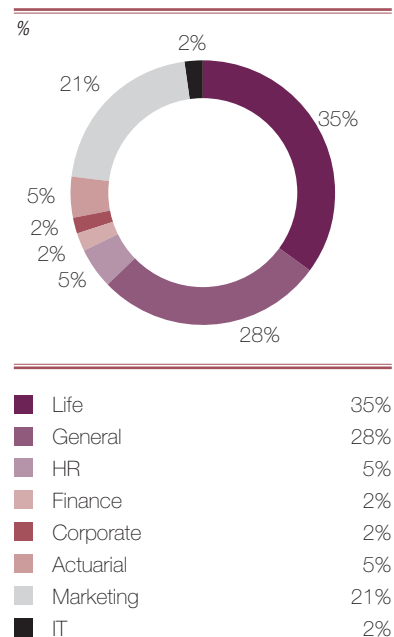
**Investment in Training and Development**

The total training and development expense for 2011 is tabulated below. These costs include the expense on behalf of our office staff as well as field staff. In-house training expenses include the remuneration and related costs of our in-house panel of trainers.

Investment in Training and Development	2011 Rs. Mn.	2010 Rs. Mn.
In-house training	14	18
External training	7	6
Conference	3	14
Overseas training	14	6
Insurance and professional education	21	3
Professional membership	1	2
<b>Total</b>	<b>60</b>	<b>49</b>

**Support for Professional Education**

We have created a conducive environment for our staff to pursue professional education in insurance and other job related courses. The professional examinations assistance scheme supported 127 staff members in 2011 (50 - 2010).

**Distribution of Investments in Professional Learning****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.

### Variable Bonus Scheme

UA has implemented a variable bonus scheme to duly recognise the relative contribution of all staff to achieve corporate objectives. Under this scheme, staff involved in the life or general business would receive their year end bonuses based on the achievements of that particular line of business as well as their individual performance. Staff members involved in support service activities would receive half their bonus from each line of business.

### Employee Recognition Scheme

The company has implemented several schemes to recognise sales staff and non sales staff. Recognition 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, 54 non sales staff members (2010 - 83) 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.

Superior Performance and Recognition (SPAR), UA's spot recognition programme provides line managers with the opportunity to grant instant rewards to their staff whenever an action deemed "worthy"

and "rewardable" is observed. It is the quickest, easiest and most convenient way to reward employees when there is a need to make a visible acknowledgement of their contribution. This scheme was launched in January 2011 in addition to the existing Employee Recognition Scheme. In the year 2011 we recognised 106 employees on 21 occasions under SPAR. The amounts were revised in November 2011 to be more appealing to staff.

### Managing a Healthy Work Life Balance

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

A flexi-hours arrangement is in place for employees to best manage their personal commitments without impacting on service standards or official responsibilities. During the year the company supported several employees to take part in cricket, basketball, swimming and badminton mercantile tournaments.

UA's Recreation Club organised several events including karaoke, barbecue, calypso nights etc. A beach party for all staff members and their families was held providing an opportunity for staff from various parts of the country to join together as one family.

### Case Study



### UA nurture high talent!

Talented Thiviya Rajendran joined Union Assurance in August 2009 as a Management Trainee. Having been an excellent student at Colombo International School, Thiviya obtained a BSc. Degree in Actuarial Science from The London School of Economics, UK. She continued her actuarial studies at Union Assurance and was fully assisted by the company throughout. In recognition of her talent and potential she was promoted as an Assistant Manager in 2010 and was selected to attend the 16<sup>th</sup> East Asian Actuarial conference in Kuala Lumpur, Malaysia. Thiviya has progressed in her actuarial studies in record time and was adjudged the best actuarial student in Sri Lanka in 2010 and was awarded the A.S. Mani Memorial Gold Award.

# 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 structured, sales tools and techniques that enhance their productivity and professionalism.

### Training and Development Activities

As indicated in the table below, we have significantly increased the number of training hours for our field staff and their line management.

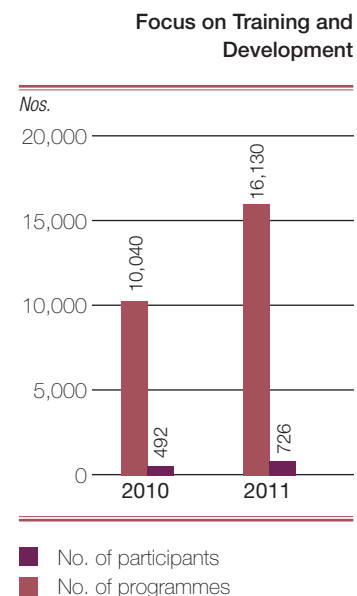
Training for Field Staff and Management	2011			2010		
	Average Cadre	Total Training Hours	Per Capita Training Hours	Average Cadre	Total Training Hours	Per Capita Training Hours
Regional and life sales managers	166	4,982	30.1	128	5,360	41.9
General sales staff	207	8,234	39.9			
Bancassurance	65	7,388	114.5			
Unit leaders	486	49,334	101.6	415	37,339	90.0
Advisors - Life	3,286	233,409	71.0	2,755	216,464	78.6
Advisors - General	302	19,062	63.2			
<b>Total</b>	<b>4,512</b>	<b>322,409</b>	<b>71.5</b>	<b>3,298</b>	<b>259,163</b>	<b>78.6</b>

The total training hours increased from 259,163 hours to 322,409 hours and even though the per capita training hours have reduced compared to 2010, a minimum of four training days has been achieved across all categories. The field staff members who require the most amount of training (ranging from technical, soft skills, motivational and professional coaching) were allocated an average of ten per capita training days. The increase in cadre is significant and a focused strategy including the recently implemented e-learning solution enabled the trainers to cater to the increased demand.

Training resources were aligned with the distribution structure which was expanded in 2011 (with the creation of additional zones), thus providing everyone easy and quick access to learning and development solutions. The table below details the programmes conducted at zonal level for life and general field staff.

Zone	No. of Programmes	No. of Participants
North	97	2,016
North Central	86	1,739
Kurunegala	44	1,047
Western	115	2,367
Colombo Metro	116	2,201
Uva	65	1,557
Eastern	51	820
Southern	75	1,940
Combined zones	77	2,443
<b>Total</b>	<b>726</b>	<b>16,130</b>

The total number of programmes conducted during the year has increased significantly indicating UA's commitment to training and developing the field sales force. More prominently, programmes conducted in the North and East increased with the expansion of business activities.



### Regional Panel of Trainers

As per Insurance Board of Sri Lanka (IBSL) regulations, all life insurance advisers joining the industry after 23<sup>rd</sup> September 2002 must pass a licensing examination conducted by the Sri Lanka Insurance Institute. Hence, a "Train the Trainer" initiative was launched in 2010 for sales management staff to certify themselves as regional trainers to conduct training up to the IBSL licensing examination.

The initial programmes only certified trainers in Sinhala and English languages. However, in 2011 this programme certified 12 trainers in Tamil language as well. During 2011 the regional trainers trained over 2,000 new recruits in all three languages.

### Leveraging Training Infrastructure

Our Kurunegala regional training centre was used optimally during 2011 to conduct various training sessions for regional field staff members. In total 158 programmes were conducted for 5,372 participants spanning over 181 days.

### Initiatives to Enhance Productivity and Professionalism

In order to enhance the productivity and professionalism of the field sales force, we have developed an internal certification programmes, launched IT based applications, provided financial assistance to purchase latest technology and encouraged our field staff to qualify for LIMRA (Life Insurance Market and Research Association) USA awards.

### Internal Certification Programmes

In order to enhance the productivity and professionalism of the field force, UA has developed various internal certification programmes as outlined below.

#### **Certified Insurance Advisors and Unit Leaders**

UA launched an internal certification programme in 2008 for insurance advisors and unit leaders. The certificate 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 advisors increased from 728 in 2010 to 991 in 2011, and the number of certified unit leaders also increased from 228 in 2010 to 297 in 2011.

#### **Certified Investment Planner**

This internal certification programme was developed to enhance technical knowledge and professionalism of field staff members in relation to unit linked products. Potential candidates were chosen based on business performance and sales experience. The certification is awarded upon successful completion of an examination

after attending a two day training programme. In total 2,265 CIPs have been certified (including regional managers) by the end of 2011.

#### **Certified Sales Professional**

This certification programme was introduced for general sales advisors to recognise their business performance. Achieving sales targets for a period of six consecutive months is the criterion to be honored as a "Certified Sales Professional."

#### **Certified Insurance Practitioner**

A certification programme entitled "Certified Insurance Practitioner" was launched in order to strengthen the knowledge and skills on technical aspects of general insurance of the corporate distribution team. Each participant needs to undergo twelve training modules covering all classes of general insurance to be eligible to sit for the final evaluation test and receive the certificate.

#### **e-Learning**

"Learn Easy" is a blended learning system made available to each and every Union Assurance field and office member. The Learn Easy system is set to take over almost 70% of the training workload of the organisation. Field staff can access the system at anytime from anywhere and have access to various courses created by trained professionals. Various reading material is available on the system's digital library in text, audio and video form. The system provides an e-learning workshop and case study based learning system and includes all variety of knowledge enhancing information that is useful for a person engaged in an industry that is fast becoming integrated. Having an adviser base of over 750 using lap tops, usage of e-learning has increased at a considerable rate.

The system provides an e-learning, workshop and case study based learning system and includes all other kinds of knowledge enhancing information that is useful for a person engaged in an industry that is fast becoming integrated

#### **e-Magazine "SALES MASTER"**

We have launched a monthly e-magazine namely "Sales Master," focusing on personal development of sales staff members. This type of e-magazine for personal development through light reading is unique in the insurance industry. There is an increase in the readership, feedback, suggestions and contributions for the magazine which now has completed one year of successful circulation.

#### **eMotor - Empowerment of the Sales Force**

Union eMotor system allows sales advisors to issue motor insurance quotations, policies and cash receipts through their laptops instantaneously without having to visit a branch.

A suite of pre-underwritten non motor solutions enabled sales staff to issue quotations for specified types of risks without underwriting input.

Union Assurance is probably the only insurance company in the country to empower sales staff to issue policies without waiting for underwriter feedback. This has speeded up the sales process and has provided the sales staff with greater convenience.

#### **Leveraging Technology to Improve Productivity**

UA continued with its endeavor to encourage field sales staff to use novel technology to enhance their productivity and provide a better service for their customers. Financial assistance is provided based on their business performance and achievements to purchase tablet computers and laptops. The number of field staff members using such tools has increased up to approximately 750 persons in 2011.

#### **International Recognition Schemes**

Union Assurance is driven by the theme “Delivering the Promise of Trust” which is extended through three pillars; Transparency, Convenience and Respect. To achieve this task, maintaining and enhancing the quality of our sales team is of paramount importance. We continually encourage the field staff to qualify for LIMRA (Life Insurance Market and Research Association) USA awards. In 2011, we were able to produce 78 winners of LIMRA International Award for Productivity (IAP) and 34 winners of LIMRA International Quality Award (IQA). Further, five Quality Management Award winners were recognised in the LIMRA International Awards Seminar held in Colombo. Over the last nine 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 2011.

LIMRA Awards	2011	2010
Number of LIMRA International Quality Award winners	34	4
Number of LIMRA Productivity Award winners	78	34
Number of International Quality Management Awards	5	3
MDRT participants	2	2

### Case Study



#### Learn at your own convenience with “Learn Easy”

“Learn Easy” is a blended learning system made available to each and every Union Assurance field and office staff member. As the system is web based, field staff can log on to the system at anytime from anywhere and access various courses created by trained professionals in all three languages.

Reference material is available in text, audio and video form. With over 750 advisors currently using laptop computers, the usage of e-learning has increased at a considerable rate.

# SUSTAINABILITY

## REPORT

### Community

As the trend setter in the insurance industry, we make every effort to create a positive contribution to the society of 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.

Community	Commitments	Progress During the Year
Improve the welfare of the community	<ul style="list-style-type: none"> <li>Ensure compliance with all legal / regulatory requirements relevant to our business operations</li> <li>Partner with local and national authorities to implement projects to improve the welfare of communities and enhance their quality of life</li> <li>Provide opportunities for persons to interact with subject matter experts in areas which have a positive impact on the well being of the community</li> </ul>	<ul style="list-style-type: none"> <li>"Pasalen Karaliyata" final round was successfully conducted with the participation of more than 800 students</li> <li>Continued with the white cane donations and blood donation campaigns</li> <li>A dengue awareness campaign was carried out islandwide</li> <li>Continued with the pre-school teachers training programme</li> </ul>

### Our Partners in Community Service

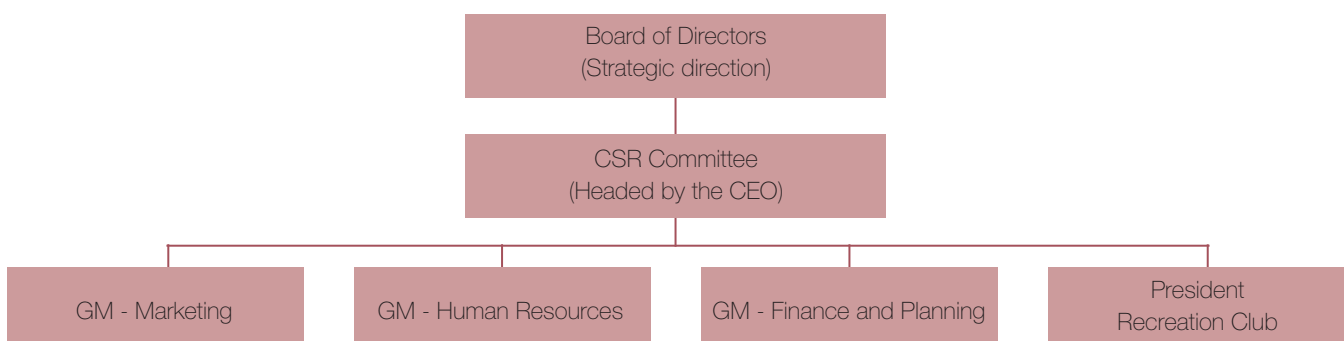
As a responsible business, we have partnered with government institutions in delivering sustainable value to the community. The Sri Lanka Police is our partner in a crime prevention hoarding project. We coordinate with the Ministry of Education in our "Pasalen Karaliyata" programme. We also have a long 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:

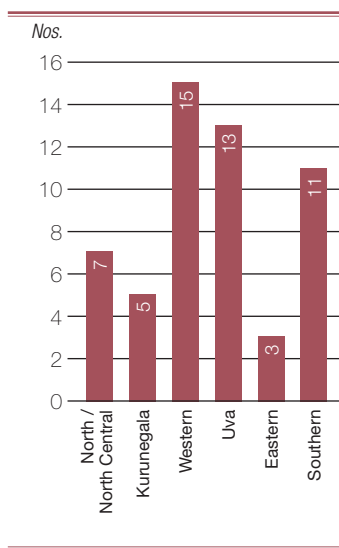
- Proactively align business initiatives with CSR guidelines.
- Develop and ensure adherence to set standards.
- Ensure continuous communication with the communities within which we operate.

The structure of our CSR committee is given below.



Union Assurance community activities are based on building respectful citizens for the community. The CSR activities are based on the platforms of security, education and health which have a direct link to the company's business objectives.

**Geographical Distribution of Community Activities**



## Security

Insurance is a mechanism whereby the losses suffered by a few, are settled with nominal premiums collected from a large number of individuals and organisations. Security is therefore a key element when it comes to insurance. As such it is apt that CSR activities encompass the safety and security of neighborhoods and business establishments. Union Assurance has undertaken projects that enhance the level of security within the communities that the company operates. These projects have been very successful, as they benefit all stake holders within the community.

### Crime Prevention Hoardings

UA has been conducting crime prevention projects in partnership with the Sri Lankan Police since 2005, in line with the greater goal of security and building respectful citizens. The objective of this project is to reduce the crime rate in the country. This objective is achieved by activities such as erecting display boards carrying telephone numbers of district police stations, and promoting and educating the general public on emergency police numbers eg: 1-1-9. Hoardings also keep motorists advised as to which police jurisdiction they are travelling through.

As at date, the project has covered the entire island and more than 300 hoardings have been erected carrying telephone numbers of relevant police stations. The company invests to maintain the hoardings at the required standard.

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

Province	Number of Hoardings
Western	48
Central	38
Eastern	48
North	28
North Central	38
North Western	53
Sabaragamuwa	24
Southern	26
Uva	29
<b>Total</b>	<b>332</b>

## Education

Whilst Sri Lanka's literacy rate is quite high, there is a lack of awareness when it comes to the benefits of insurance among the general public. Compared to western countries, where insurance policies are an essential item, Sri Lankans have not yet appreciated the benefits of insurance. Life and general insurance penetration is comparatively lower in Sri Lanka in comparison to other countries, and one of the main reasons for this is the lack of awareness.

With this in mind, UA conducts education related community activities, for students, teachers and the community at large, providing them with tools and techniques to ensure long term success and security for the future. It also uses these education tools as an opportunity to educate the public on the nature and benefits of insurance policies, thus increasing awareness at grass root levels.

### Union "Pasalen Karaliyata"

In addition to projects focusing on security, education and health, one of the main projects of the company, "Pasalen Karaliyata" continued with much success for the fourth consecutive season. This project is run in partnership with the Ministry of Education. The main objective of this project is to highlight the aesthetic talents of students and provide them with a stage to showcase their talents.

In line with our core brand value of being respectful, this national level programme was re-launched under the theme of “creating respectful citizens.”

This CSR initiative has been well received by both the Ministry of Education and national schools as this is the only programme which encourages children to demonstrate their aesthetic skills in folk dancing, folk singing individually or as groups as well as providing them with an incentive to earn extra marks for admission to universities.

During the year, we concluded the final round of the fourth season of competitions. More than 800 students participated in the final competition representing 22 districts. The programme was conducted in both Sinhala and Tamil mediums.

Sri Lanka is well known for its rich heritage of dance, music, drama and creative arts. Being a Sri Lankan company, UA believes it's apt to help promote, foster and preserve such activities. “Pasalen Karaliyata” is UA's attempt to foster and help nurture local talent, and pave the way for the future.



“Pasalen Karaliyata” concert

#### Pre-School Teachers Training Programme

Specific focus was given to pre-school teachers, as UA identified that pre-school teachers play an important role in the molding of a child at the beginning of his / her school career. As such UA updated the knowledge of pre-school teachers on the latest teaching techniques, child psychology and emphasised how to identify and nurture the inherent talents and skills children possess. This programme is facilitated by Mr. Vimal Udupila, and the programmes were conducted in the North Central and Western Provinces.

#### Health

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.

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.

Some of the CSR projects launched by UA in this regard include dengue awareness programmes, blood donation camps, pamphlets on awareness.

#### Dengue Awareness Campaign

Dengue became a burning medical crisis in the country in 2011, which was evident in the statistics which were published on a regular basis. As one of the most trusted insurance companies in the country, UA took the first step to create awareness on how to identify, prevent and deal with the illness. As part of this campaign, brochures were distributed and e-flyers were used to disseminate information islandwide. We received encouraged feedback from the community with requests to conduct such programmes at regular intervals.

#### 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 directly 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 13<sup>th</sup> consecutive year. It was well attended by UA staff and well wishers.

### Staff Volunteerism

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

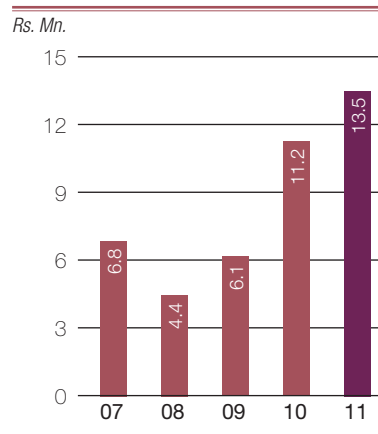
Objective	Number of Volunteers
Nature conservation	1
HIV / AIDS awareness programme	6
School development projects	2
English language education	2

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

Programme Type	2007	2008	2009	2010	2011
Union Sisumaga (childrens' programme)	✓	✓	✓	✓	✓

Programme Type	2007	2008	2009	2010	2011
Teachers' training programme	✓	✓	✓	✓	✓
Special education programme	✓	✓	✓	✓	✓
Parent education programme	✓	✓	✓	✓	✓
Pasalen Karaliyata	✓	✓	✓	✓	✓
Flood / dengue awareness campaign				✓	✓
Crime prevention programme	✓	✓	✓	✓	✓
Blood donation campaign	✓	✓	✓	✓	✓
Donation of white canes	✓	✓	✓	✓	✓

### Investment on Community Activities



# 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 shareholders is summarised below

Shareholders	Commitments	Progress During the Year
Sustain and enhance shareholder value	<ul style="list-style-type: none"> <li>Manage business performance to consistently deliver GWP and profitability targets</li> <li>Implement a robust risk management system.</li> <li>Embed effective internal controls into key operational processes</li> <li>Comply with all relevant regulatory / statutory requirements</li> <li>Obtain reinsurance arrangements with reinsurers whose financial stability is confirmed by ratings which are in line or exceed IBSL regulations</li> </ul>	<ul style="list-style-type: none"> <li>Market capitalisation increased to Rs. 8.1 billion from Rs. 4.6 billion</li> <li>Recorded a robust growth in total of general and life GWP</li> <li>Achieved the largest profit figure in the company's history</li> <li>Reinsurance programme continues to be led by reinsurers who have been assigned at least an "A" rating by international rating agencies</li> </ul>

### Financial performance

Total of general and life premiums increased by 22% from Rs. 7.1 billion in 2010 to Rs 8.7 billion in 2011. Profit after tax for the company increased from Rs. 512 million in 2010 to Rs. 696 million in 2011. This is a growth of 36% and the highest ever profit achieved in the company's history.

### Earning Value

Earnings per share (EPS) in 2011 amounted to 9.27 giving a price earnings ratio of 11.66. An investment of Rs. 1,000 at UA's IPO is now valued at Rs. 96,605.

### Dividends Recommended and Paid

The Board of Directors has recommended a dividend of Rs. 5.00 per share for approval by the shareholders at the AGM. The dividend payout from 2011 profits will amount to Rs. 375 million.

### Financial Performance Indicators

Economic	2011	2010
<b>Gross written premium</b> Total amount we receive from life and general customers as payments for their insurance policies	Rs. 8.7 billion	Rs. 7.1 billion
<b>Net written premium</b> Gross written premium minus the amount ceded to reinsurers	Rs. 7.6 billion	Rs. 6.1 billion
<b>Net profit</b> Profit after tax attributable to our ordinary shareholders from life and general insurance businesses	Rs. 696 million	Rs. 512 million
<b>Return on net assets</b> Net profit attributable to our ordinary shareholders as a percentage of net assets as at year end	22%	19%

Shareholders	2011	2010
Earnings per share*	Rs. 9.27	Rs. 6.83
Share price (year end)	Rs. 108.10	Rs. 122.10
Dividends per share*	Rs. 5.00	Rs. 3.13
Market capitalisation (Rs. Bn.)	Rs. 8.10	Rs. 4.60
Price earnings ratio	11.66 times	8.95 times

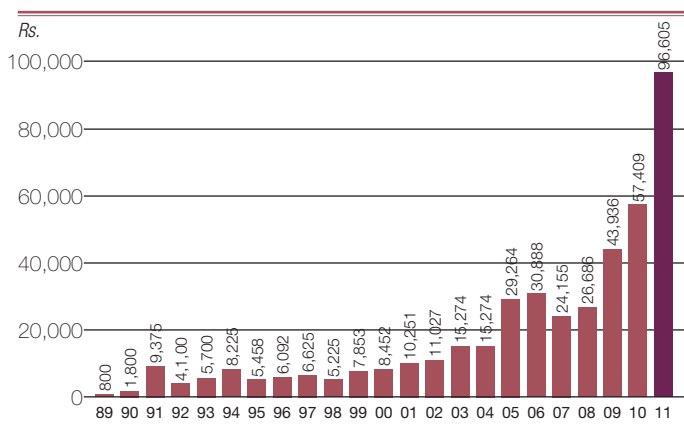
\* Information for the last year has been restated to reflected the sub division of shares.

### 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.

Manage claims expenses	<ul style="list-style-type: none"> <li>Improved paperless workflow process to settle motor claims in more efficient manner</li> <li>Strengthened the claims inspection process increasing the number of technical executives responsible for conducting inspections at accident site</li> <li>Expanded the scope of the motor claims audit process</li> </ul>
Leverage IT to improve people productivity, distribution effectiveness and customer service	<ul style="list-style-type: none"> <li>Revamped e-motor solutions enabling faster access / additional features and functionality. Union "eMotor" system enables sales advisors to issue policies independently at customers' door-step, without waiting for underwriters approval</li> <li>Implemented claims tracking system to monitor service / progress of selected non motor claims.</li> <li>Expanded pre-underwritten general insurance products</li> <li>Selected travel agents were empowered them with an on-line facility to issue travel policies</li> <li>Enhanced functionality of web based sales force management system</li> </ul>
Expand alternate distribution channel	<ul style="list-style-type: none"> <li>Bancassurance network was further expanded partnering with an established multinational bank</li> <li>Expanded Reload sales outlets via Singer sales outlets in Western Province</li> <li>Expanded relationships with financial institutions</li> </ul>
Manage overheads	<ul style="list-style-type: none"> <li>Continued with expense bench marking process</li> <li>Consciously rationalised discretionary expenses</li> <li>Continued with the strategy of opening new business development offices which require less capital and operating expenses than a traditional branch</li> </ul>

Rs. Thousand Invested in UA IPO



National Business Excellence Awards

## 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.
- Restructured the Board and Board sub committees in compliance with the directive issued by the Insurance Board of Sri Lanka.
- Streamlined compliance statement sign off process.
- Implemented SAP financial system to enhance integrity of financial information and controls over financial reports.
- 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.

The details of these improvements as well as the overall structure are provided on pages 78 to 109 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.

The company's overall risk grid was compiled by summarising the divisional risk grids. The objective of this bottom up approach was to obtain feedback from the staff involved in operations as they have a better understanding of risks associated with our business practices.

The Risk Management Committee provides detailed information regarding the company 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 117 to 129.

## Business Continuity Planning

The company's 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 110 to 113 of this report.

For the third consecutive year Union Assurance clinched the Gold Award in the insurance sector and the award for Excellence in Performance Management Practices at the National Business Excellence Awards, conducted by the National Chamber of Commerce of Sri Lanka. The award for Excellence in Performance Management in Practices was made more significant as Union Assurance was the only insurance company to be recognised under this category.

## Awards and Recognitions

Union Assurance continues to be recognised both nationally and internationally.

UA brought honour to Sri Lanka again winning two awards at the annual report awards ceremony conducted by the South Asian Federation of Accountants. Our 2010 annual report was judged among the best reports in the South Asian region receiving 1<sup>st</sup> place in the Insurance sector and joint 1<sup>st</sup> place for corporate governance disclosures.

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

As mentioned above, UA was the only insurer to clinch two awards at the National Business Excellence awards 2011.



ICASL Annual Report Awards 2012

# SUSTAINABILITY

## REPORT

### Environment

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.

Environment	Commitments	Progress During the Year
Minimise waste and environmental impact	<ul style="list-style-type: none"> <li>Train employees to be aware of the environmental impact of our operations</li> <li>Integrate environmental considerations into business decisions</li> </ul>	<ul style="list-style-type: none"> <li>Extensively used alternatives to travelling to reduce fuel consumption and carbon emission</li> <li>Leveraged IT to develop paperless workflow systems to minimise usage of paper</li> <li>Continued initiative to recycle used papers</li> </ul>

### Carbon Footprint

A summary of the initiatives taken to reduce our carbon footprint is as follows.

Category	Action Taken
Employee commuting	<p>Strengthen the panel of regional trainers to fulfill regional training requirements to avoid trainers being sent from head office.</p> <p>Extensively used video conferencing facilities for management meetings and sales meetings.</p> <p>These initiatives have reduced the travelling requirements significantly.</p>
Company vehicles	Vehicle usage is monitored and vehicles are serviced to ensure optimal fuel efficiency.
Recycle and re-use	Continued with the efforts to recycle used paper and used cartridges thus contributing to energy saving.

### Conserving Energy

Various initiatives have been taken to conserve energy. However, there is an increase in per capita electricity consumption mainly due to the increase in number of business activities during the year.

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
2011	735,750	410	1,794

## 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.

Union “eMotor” system allows sales advisors to issue policies independently at customers’ door-step. This new process has reduced paper consumption, compared with the previous process, thus reducing the strain on resources.

Strengthened the panel of regional trainers and optimised the use of video conferencing facilities as alternatives to travelling, conducting face to face meetings / classroom training programmes, involving training for head office which in turn resulted in less fuel consumption and lower carbon emissions.

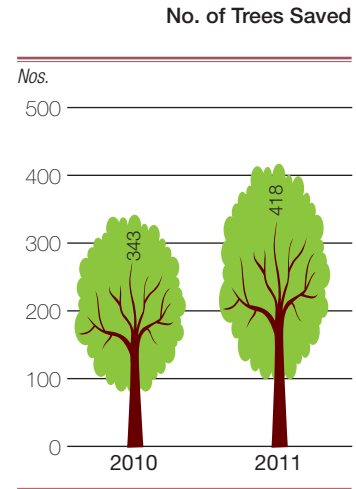
### Recycle and Re-Use

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

Description	Savings (Units)	
	2011	2010
Trees	418	343
Water (litres)	78,064	64,462
Electricity (Kilowatts)	98,256	80,612
Oil (litres)	43,110	35,369
Land fill (cubic meters)	73.69	60.46

Our agreement with R&G Toners to recycle printer cartridges also continued. The company brought back 320 (2010 -182) toners manufactured using used cartridges. This is another useful initiative which ensures that plastics are reused and environmentally hazardous chemicals are not disposed of irresponsibly.

During the year we have decomposed / recycled approximately 1,216 kilograms of electronic waste through Man Hing International (Asia) Ltd. The Central Environment Authority has appreciated the initiative UA has taken to ensure an e-waste free environment.



# 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 dealers. 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 is to be used
- Operational simplicity including ease of maintenance, disposal
- Durability
- Energy consumption
- Upgradability
- Reusability

# SUSTAINABILITY REPORT

## Performance Summary and Goals for 2012




### Customers - At the Forefront of Everything We Do - General insurance

Goals set for 2011	Commentary	Achievement
Launch risk based pricing model	Risk based pricing model was introduced for motor and health policies	
Revamp motor call center	Motor claims department was restructured by setting up a separate unit to follow on up outstanding claims with customers	
Review motor insurance pricing model	Motor insurance pricing model was revised in October to reflect the risk associated with such policies	
Improve motor and non motor claims service standards	On-line non motor Claims Tracking System (CTS) and motor Integrated Claim Approval System (ICAS) implemented	
Enhance IT infrastructure to support pre-underwritten products	<ul style="list-style-type: none"> <li>“Union eMotor” empowers sales force to issue policies at customers’ door-step</li> <li>Selected travel agents were given online facility to issue travel policies</li> </ul>	

### Goals for 2012

<ul style="list-style-type: none"> <li>Significantly increase the customer satisfaction level in claims servicing</li> <li>100% usage of e-motor and pre-underwritten solutions</li> <li>Simplify policy documents to enhance transparency</li> </ul>
---

### Customers - At the Forefront of Everything We Do - Life insurance

Goals set for 2011	Commentary	Achievement
Enhance health insurance riders	Launched the comprehensive surgery benefit cover, enhanced benefit limits of suwamaga benefit and hospital cash benefit riders	
Maintain life service standards	Service standards met during the year	
Grow “Union Challenger” volumes.	“Union Challenger” volumes increased during the year	


### Goals for 2012

<ul style="list-style-type: none"> <li>Expand unit linked product portfolio</li> <li>Maintain life service standards</li> <li>Implement customer portal to access details of unit linked products</li> </ul>
--

### Status Key

Achievement	Colour
Achieved satisfactory	
Partly achieved	
Not achieved	




**People – The Secret behind our Success**

Goals set for 2011	Commentary	Achievement
Extend talent management programme to include non executive and executive staff as well	Successfully concluded Top Gun 1, Top Gun 2, Union Warriors, Union Braves and Executive coaching sessions	
Develop leadership skills among sales management staff	The Leadership Academy for sales staff inaugurated in January 2012	
Roll out certification programme for life and general technical staff	126 staff members completed certification programmes	

**Goals for 2012**

	<ul style="list-style-type: none"> <li>• Introduce behavioral / roof competencies</li> <li>• Introduce Executive Development programme</li> <li>• Introduce Service Champions Award to recognise staff members involved in support services</li> </ul>
--	--



**Field Staff – Enabling Professionalism and Productivity**

Goals set for 2011	Commentary	Achievement
Increase the number of certified advisors	263 sales advisors were certified during the year	
Certify general trainers to conduct IBSL and adviser induction training	12 trainers were certified during the year	
Certify unit linked product experts (Certified Investment Planner)	2,265 CIPs have been certified including regional managers by the end of 2011	

**Goals for 2012**

	<ul style="list-style-type: none"> <li>• Enhance new adviser productivity</li> <li>• Promote e-learning to significantly enhance the per capita learning</li> </ul>
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## Community – Earning Community Trust

Goals set for 2011	Commentary	Achievement
Conduct final round of “Pasalen Karaliyata” programme	Concluded the final round of “Pasalen Karaliyata” programme. More than 800 students took part in the final competition representing 22 districts	
Maintain the police hoardings and center island huts in an organised manner	Maintained 332 police hoardings throughout the country	

### Goals for 2012

	<ul style="list-style-type: none"> <li>Enhance awareness among the general public on preventable diseases.</li> <li>Maintain police hoardings in an organised manner</li> </ul>
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## Shareholders – Sustaining Shareholder Value

Goals set for 2011	Commentary	Achievement
Grow general insurance premium by 10%	General insurance premium grew by 16%	
Grow life insurance premium by 14%	Life insurance premium grew by 29%	
Grow PAT at least by 12%	Profit after tax grew by 36%	

### Goals for 2012

	<ul style="list-style-type: none"> <li>Grow general insurance premium by 26%</li> <li>Grow life insurance premium by 33%</li> <li>Grow PAT by 14%</li> </ul>
--	--

## Environment – Managing environmental impact

Goals set for 2011	Commentary	Achievement
Implement actions to further minimise “carbon footprint”	Video conferencing and panel of regional trainers reduced travelling requirements significantly	
Use IT to further reduce paper usage	Union “eMotor” system allows sales advisors to issue policies at customers’ door-step reducing the paper work involved	

### Goals for 2012

	<ul style="list-style-type: none"> <li>Implement actions to reduce electricity usage at head office</li> <li>Continue with recycling and re-use practices to reduce the burden on resources</li> </ul>
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# SUSTAINABILITY REPORT

## Performance Snapshot

Customers	2011	2010
Number of life customers	207,220	198,983
Number of general customers	82,462	69,283
Number of life insurance policies	244,343	221,982
Number of general insurance policies	131,221	91,348
<b>Insurance claims and benefits (net)</b> 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. 5.0 billion	Rs. 4.4 billion
Number of new products	2	2
Number of claims assessors	58	48
Number of branches	102	68
Number of staff trained in customer care	225	152
Number of disputes referred to insurance Ombudsman	Referred 35 Settled 16	Referred 09 Settled 06

Employees - Key Work Place Indicators	2011	%	2010	%
Non Sales	613	61	638	65
Sales	396	39	351	36
Total	1,009	100	989	100

Representation of Men and Women	2011		2010	
	Women	Men	Women	Men
Board positions	17%	83%	14%	86%
Management positions	15%	85%	15%	85%
Executives	20%	80%	23%	77%
All levels	25%	75%	25%	75%
Staff turnover	19%		18%	

Employees - Employee Engagement	2011	2010
Number of "Shaktiya" magazines	1	-
Number of management meetings	5	4

Employees - Providing a Rewarding Career	2011	2010
<b>Local</b>		
No. of programmes	261	298
No. of hours	31,299	28,165
<b>Foreign</b>		
No. of programmes	41	23

Employees - Providing a Rewarding Career contd.	2011		2010	
	Benchmark	Actual	Benchmark	Actual
<b>Number of training days</b>				
Managers	6	6.09	6	5.46
Executives	4	2.43	4	2.06
Non Executives	3	4.94	3	2.83
<b>Training and development</b>	<b>Number</b>	<b>Amount (Rs. Mn)</b>	<b>Number</b>	<b>Amount (Rs. Mn)</b>
Number of employees on education support scheme	130	2.4	50	1.8
Number of employees on support for professional memberships	173	1.1	59	0.6
Total training and development expenditure	60		49	
<b>Number of employee recognition awards</b>	<b>Number</b>	<b>Amount (Rs. Mn)</b>	<b>Number</b>	<b>Amount (Rs. Mn)</b>
Sales	343	23.4	163	15.7
Non Sales	54	0.3	83	0.5
<b>Performance appraisals</b>	<b>Number</b>	<b>% of total staff</b>	<b>Number</b>	<b>% of total staff</b>
Performance appraisals conducted via PAMS	655	65%	495	50%

Field Staff	2011	2010
Number of LIMRA International Quality Award winners	34	4
Number of LIMRA Productivity Award winners	78	34
Number of International Quality Management Awards	5	3
MDRT participants	2	2
Pass rate for life insurance technical competency test	73%	70%
Number of field staff	4,442	3,173
Per capita training hours	71.5	79
Commission paid to field staff (Rs. Mn.)	1,284	995

Community	2011	2010
Pasalen Karaliyata programmes	2 (Final round)	3,351
Number of crime prevention hoardings	1	25
Number of Sisumaga programmes	9	58
Number of pre-school teacher training / parent education programmes	45	22
Hospital upgrades	-	1
All island art competitions	1	-
Union Day events	1	-

Industry	2011	2010
Members serving SLII council	-	2

Environment	2011	2010
Electricity use at UA Centre	735,750 kwh	668,040 kwh



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# SUSTAINABILITY REPORT Assurance Report

## 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 2011 ("Report") for the year ended 31 December 2011:

- Reasonable assurance on Financial Performance Indicators, as reported on pages 163 to 164 of the Report 2011;
- Limited assurance on Performance Snap Shot for 2011 as specified on pages 172 to 173 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 134 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 pages 163 to 164 of the Report involves verification that they were properly derived from the audited financial statements of the Company for the year ended 31 December 2011.

### 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 reported on pages 163 to 164 of the Report 2011 are properly derived from the financial statements of the Company for the year ended 31 December 2011 for which the independent auditors have issued an unqualified audit opinion dated 23 February 2011 on page 197 of this Annual Report;
- Nothing has come to our attention that causes us to believe that the Performance Snap Shot for 2011 specified on pages 172 to 173 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 134 of the Report.

*Ford Rhodes Thornton & Co.*

### CHARTERED ACCOUNTANTS

Colombo  
23 February 2012

KPMG Ford, Rhodes, Thornton & Co., a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

A.N. Fernando FCA	M.R. Mihular FCA	Ms. M. P. Perera FCA
P.Y.S. Perera FCA	C.P. Jayatilake FCA	T.J.S. Rajakarier FCA
W.W.J.C. Perera FCA	Ms. S. Joseph FCA	Ms. S.M.B. Jayasekara ACA
W.K.D.C. Abeyrathne ACA	S.T.D.L. Perera FCA	G.A.U. Karunaratne ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA



# SUSTAINABILITY REPORT

Global Reporting Initiative Index

GRI Indicator		Report Section	Page No
<b>1. Strategy and Analysis</b>			
1.1	Statement from the most senior decision-maker of the organisation	Sustainability report - CEO's statement	132
1.2	Description of key impacts, risks, and opportunities	Management discussion and analysis / Risk management	42 / 52 117 - 129
<b>2. Organisational Profile</b>			
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	30 - 31 141 - 144
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	Management discussion and analysis	68 - 75 79
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	30 -31
2.8	Scale of the reporting organisation	Management discussion and analysis	30 -31
2.9	Significant changes during the reporting period	None	N/A
2.10	Awards received in the reporting period	Sustainability report – Shareholders	165
<b>3. Report Parameters</b>			
3.1	Reporting period	1 <sup>st</sup> January 2011 to 31 <sup>st</sup> December 2011	N/A
3.2	Date of most recent previous report	December – 2010	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	175
3.5	Process for defining report content	Sustainability report - Sustainability Committee and charters	134
3.6	Boundary of the report	Sustainability report - Report scope and boundary	134
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	Sustainability report – Shareholders (share sub division)	164
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	176
3.13	External assurance for the report	Independent assurance report from KPMG	174

GRI Indicator		Report Section	Page No
<b>4. Governance, Commitments and Engagement</b>			
4.1	Governance structure of the organisation	Corporate governance	78 - 109
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Corporate governance	81
4.3	Highest governance body that are independent and / or non-executive members	Corporate governance	81
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	BACC report / Sustainability report - Investor feedback form	175 / 192
4.5	Compensation and performance	Remuneration committee report	116
4.6	Avoiding conflicts of interest	Annual report of the Board of Directors	185 - 189
4.7	Expertise of the governance body	Board of Directors	16 - 17
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	24 - 27
4.10	Processes for evaluating the highest governance body's own performance	Corporate governance	89 - 90
4.11	Precautionary approach or principle is addressed by the organisation	Risk management	117 - 129
4.12	Externally developed principles or other initiatives	Sustainability report – Community	159
4.13	Memberships in associations (such as industry associations)	Sustainability report – Performance Snapshot	173
4.14	List of stakeholder groups engaged by the organisation	Sustainability report – What Sustainability Means to Our Stakeholders	134 - 139
4.15	Basis for identification and selection of stakeholders with whom to engage	Sustainability report – What Sustainability Means to Our Stakeholders	134 - 139
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Sustainability report – What Sustainability Means to Our Stakeholders	134 - 139
4.17	Key topics and concerns raised through stakeholder engagement	Sustainability report – What Sustainability Means to Our Stakeholders	134 - 139
<b>Economic</b>			
<b>Economic performance</b>			
EC1	Direct economic value generated and distributed	Management discussion and analysis	62
EC2	Financial implications due to climate change	Risk management	128
EC3	Coverage of the organisation's defined benefit plan obligations	Financial information – Note No. 28	248
EC4	Significant financial assistance received from government	None	N/A
<b>Market presence</b>			
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Corporate governance	102 - 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	74 - 75

GRI Indicator		Report Section	Page No
<b>Indirect economic impacts</b>			
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	159 - 162
<b>Environmental</b>			
<b>Materials</b>			
EN1	Materials used by weight or volume	Not applicable	N/A
EN2	Percentage of materials used that are recycled input materials	Sustainability report – Environment	166 - 167
<b>Energy</b>			
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	166 - 167
<b>Water</b>			
EN8	Total water withdrawal by source	Not reported	N/A
<b>Biodiversity</b>			
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
<b>Emissions, effluents and waste</b>			
EN16	Total direct and indirect greenhouse gas emissions by weight	Not reported	N/A
EN17	Other relevant indirect greenhouse gas emissions by weight	Not reported	N/A
EN19	Emissions of ozone-depleting substances by weight	Not reported	N/A
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
<b>Products and services</b>			
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
<b>Compliance</b>			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None	N/A

GRI Indicator		Report Section	Page No
<b>Transport</b>			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	Not reported	N/A
<b>Overall</b>			
EN30	Total environmental protection expenditures and investments by type	Not reported	N/A
<b>Social: Labour Practices and Decent Work</b>			
<b>Employment</b>			
LA1	Total workforce by employment type, employment contract, and region	Management discussion and analysis	64
LA2	Total number and rate of employee turnover	Sustainability report - Performance snapshot	172
<b>Labour / management relations</b>			
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
<b>Occupational health and safety</b>			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	A 10 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 programmes in place to assist workforce members, their families, or community members regarding serious diseases	Not applicable	N/A
<b>Training and education</b>			
LA10	Average hours of training per year per employee by employee category	Sustainability report - People / Field staff	154 / 156/ 173
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	152 - 153 157 - 158
<b>Diversity and equal opportunity</b>			
LA13	Employees per category according to diversity	Sustainability report - People	151
LA14	Ratio of basic salary of men to women by employee category	Not reported	N/A
<b>Social: Human Rights</b>			
<b>Diversity and equal opportunity</b>			
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

GRI Indicator		Report Section	Page No
<b>Social: Human Rights Contd.</b>			
<b>Diversity and equal opportunity Contd.</b>			
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Not reported	N/A
<b>Non-discrimination</b>			
HR4	Total number of incidents of discrimination and actions taken	None	N/A
<b>Freedom of association and collective bargaining</b>			
HR5	Freedom of association and collective bargaining and actions taken to support these rights	Sustainability report - People	151
<b>Child labour</b>			
HR6	Child labour and measures taken to contribute to the elimination of child labour	Avoided at the recruitment	N/A
<b>Forced and compulsory labour</b>			
HR7	Forced or compulsory labour and measures to contribute to the elimination of forced or compulsory labour	None	N/A
<b>Social: Society</b>			
<b>Community</b>			
SO1	Impacts of operations on communities, including entering, operating, and exiting	Not reported	N/A
<b>Corruption</b>			
SO2	Percentage and total number of business units analysed 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
<b>Public policy</b>			
SO5	Public policy positions and participation in public policy development and lobbying	No significant involvement during the year	N/A
<b>Compliance</b>			
SO8	Monetary value of significant fines	Not reported during the year	N/A
<b>Social: Product Responsibility</b>			
<b>Marketing communications</b>			
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
<b>Compliance</b>			
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



# Creating Connections

The bonds we create with our clients and stakeholders are an integral part of our work. Through the varied avenues presented by Union Assurance, we are ensuring that our relationships last well into the future.

## Financial Calendar - 2011

Audited Financial Statements signed on	-	23 <sup>rd</sup> February 2012
25 <sup>th</sup> Annual General Meeting to be held on	-	30 <sup>th</sup> March 2012
The first and final dividend for the 2011 financial year will be paid on	-	15 <sup>th</sup> March 2012

Interim financial statements published in terms of rule 8.3 of the Colombo Stock Exchange;

Interim results for the three months ended 31.03.2011	-	12 <sup>th</sup> May 2011
Interim results for the six months ended 30.06.2011	-	2 <sup>nd</sup> August 2011
Interim results for the nine months ended 30.09.2011	-	8 <sup>th</sup> November 2011
Interim results statements for the year ended 31.12.2011	-	23 <sup>rd</sup> February 2012

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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 31<sup>st</sup> December 2011 of Union Assurance PLC, a public limited liability company incorporated in Sri Lanka on 8<sup>th</sup> 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 7<sup>th</sup> June 2007. The audited financial statements were approved by the Board of Directors on 23<sup>rd</sup> February 2012.

## 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 11), Chief Executive Officer's Review (pages 12 to 15) and the Management Discussion and Analysis (pages 24 to 67) 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 203 of the financial statements.

## Financial Statements and Auditors' Report

The financial statements duly signed by the Directors is provided on pages 198 to 264 and Auditors' Report on the financial statements is provided on page 197 of this annual report.

## Future Developments

An overview of the future developments of the company is presented in the Chairman's Review (page 10), Chief Executive Officer's Review (page 58) and the Management Discussion and Analysis (pages 24 and 67).

## 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 78 to 109.

## 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 42 to 52 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 105. 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 191 to 193 of this report.

## Vision, Mission and Corporate Conduct

The company's vision and mission are provided on the 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.

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

**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 117 to 129.

**Auditors' Report**

Auditors' Report on the financial statements is given on page 197 of this annual report.

**Accounting Policies**

The accounting policies adopted in preparation of the financial statements are given on pages 205 to 218. 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. 8,732 million in 2011 (Rs. 7,133 million in 2010) as total premium.

**Financial Results**

The company recorded a net profit of Rs. 696 million for the year. A synopsis of the company's performance is presented below.

Financial Results	2011 Rs. '000	2010 Rs. '000
Profit after taxation	695,585	511,971
Profit brought forward from previous year	1,660,498	1,332,359
Profit available for appropriation	2,356,083	1,844,330

**Appropriations**

Dividend paid for previous year	(234,375)	(187,500)
Transfer from revaluation reserve	3,668	3,668
<b>Unappropriated profit carried forward</b>	<b>2,125,376</b>	<b>1,660,498</b>

**Dividends**

The Directors have declared a first and final dividend of Rs.5 per share for the year 2011 (Rs. 6.25 per share in 2010). 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 226 to 228) to the financial statements.

**Property, Plant and Equipment**

The details of property, plant and equipment are shown in note 20 (pages 237 to 239).

**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 31<sup>st</sup> December 2011 to reflect its market value.

The revaluation was performed by Mr. P. B. Kalugalagedera and Associates, Chartered Valuation Surveyor. The details of the revaluation and relevant accounting policies are provided in note 20 and 3.5.4 (pages 237 and 207) respectively.

**Reserve**

The movement in reserves during the year is set out in the statement of changes in equity on page 200, 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 230 to 236) 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. 3,228 million as at 31<sup>st</sup> December 2011 (Rs. 2,633 million as at 31<sup>st</sup> December 2010), details of which are provided in notes 31 and 32 (pages 250 to 252) to the financial statements.

At an Extraordinary General Meeting held on 23<sup>rd</sup> June 2011, the shareholders approved a sub division of the company shares, whereby one (1) existing share was sub divided to two (2), thereby increasing the ordinary shares in issue from 37,500,000 to 75,000,000 ordinary shares.

**Share Information**

Information relating to earnings, dividends, net assets and market value per share is given in the Ten Year Summary on page 273. Information on share trading is given on page 265 and 270 of this report.

## Shareholdings

There were 1,358 registered shareholders, holding ordinary voting shares as at 31<sup>st</sup> December 2011 (1,335 registered shareholders as at 31<sup>st</sup> December 2010). The distribution of shareholdings including the percentage held by the public is given on page 269 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 269 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 31<sup>st</sup> December 2011 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 16 to 17 of this report. The following persons were Directors of the company as at 31<sup>st</sup> December 2011.

### A. D. Gunewardene - Chairman

*(Non-Executive Director)*

Appointed as alternate Director on 1<sup>st</sup> May 1992

Appointed to the Board on 24<sup>th</sup> February 2004

Appointed Chairman on 1<sup>st</sup> January 2006

### J. R. F. Peiris

*(Non-Executive Director)*

Appointed to the Board on 1<sup>st</sup> January 2006

Resigned from the Board with effect from 16<sup>th</sup> August 2011

### K. N. J. Balendra

*(Non-Executive Director)*

Appointed to the Board on 1<sup>st</sup> April 2009

Resigned from the Board with effect from 16<sup>th</sup> August 2011

### A. K. Gunaratne

*(Non-Executive Director)*

Appointed to the Board on 1<sup>st</sup> April 2009

Resigned from the Board with effect from 7<sup>th</sup> September 2011

### A. S. De Zoysa

*(Non-Executive Director)*

Appointed to the Board on 1<sup>st</sup> April 2009

### G. F. C. De Saram

*(Non-Executive Director)*

Appointed to the Board on 1<sup>st</sup> April 2009

### D. C. Alagaratnam

*(Non-Executive Director)*

Appointed to the Board on 16<sup>th</sup> August 2011

### S. Rajendra

*(Non-Executive Director)*

Appointed to the Board on 16<sup>th</sup> August 2011

### H. A. J. De Silva Wijeyeratne

*(Non-Executive Director)*

Appointed to the Board on 7<sup>th</sup> September 2011

In terms of Article 83 of the Articles of Association of the Company, there are no directors eligible for retirement by rotation.

## 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 252 to 254, under related party transactions.

## Share Dealings

There have been no share dealings by the Directors during the year ended 31<sup>st</sup> December 2011. Therefore, there have been no further entries in the interests register of the company for the year ended 31<sup>st</sup> December 2011.

## 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 (other than due to share split) after the requirement relating to entries in the Interests Register came into force.

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

The Directors' individual shareholdings in the company as at 31<sup>st</sup> December 2011 and 31<sup>st</sup> December 2010 were as follows.

Name of Director	No. of shares as at 31.12.2011	No. of shares as at 31.12.2010
A. D. Gunewardene	7,492	3,746
A. S. De Zoysa	Nil	Nil
G. F. C. De Saram	Nil	Nil
D. C. Alagaratnam	Nil	Nil
S. Rajendra	Nil	Nil
H. A. J. De Silva Wijeyeratne	Nil	Nil

### Remuneration to Directors

Executive Directors' remuneration is established within a framework approved by the Board 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 as follows.

	2011 Rs. '000	2010 Rs. '000
Executive Directors' fees and emoluments	-	-
Non-Executive Directors' fees and emoluments	4,050	6,000

### Directors' Meetings

Details of Directors' meetings are presented on page 107 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 104 for a list of compliances.

### Environment

Initiatives taken by the company to preserve the environment are presented on pages 166 to 167 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 37 (page 256) 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/- (2010 - Rs.1,700,000/-) was paid to them as audit fees during the year under review and a sum of Rs. 1,810,000/- (2010 - 2,004,000/-) 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, Messes. 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 of Union Assurance PLC, No. 20, St. Michael's Road, Colombo 3, on Friday 30<sup>th</sup> March 2012 at 9.00 a.m. The notice of the Meeting relating to the twenty fifth Annual General Meeting is given on page 284.

This Annual Report is signed for and on behalf of the Board of Directors by:



**A. D. Gunewardene**  
*Chairman*



**S. Rajendra**  
*Director*



**Keells Consultants (Private) Limited**  
*Secretaries*

23<sup>rd</sup> February 2012

# 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.

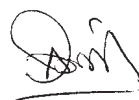
The financial statements were audited by Messrs. KPMG Ford, Rhodes, Thornton & Co. (KPMG)

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 company has complied with all the legal and regulatory provisions of the RII Act.
- b) The company has 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 the applicable regulations.
- e) The company has implemented the necessary processes to implement the premium warranty clause.



**Dirk Pereira**  
*Chief Executive Officer*



**Indika Prematunga**  
*Chief Financial Officer*

23<sup>rd</sup> February 2012

# 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.

- H. A. J. De Silva Wijeyeratne (Chairman)
- A. S. De Zoysa
- S. Rajendra

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. H. A. J. De Silva Wijeyeratne is an Associate Member of both the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK. He has over 23 years experience in the fields of general management, financial management and auditing.

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.

Mr. S. Rajendra is a Fellow of the Chartered Institute of Management Accountants, UK. He has over 20 years of experience in the fields of finance, travel and tourism, and business development acquired both in Sri Lanka and overseas.

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 five meetings during the year under review which were attended by the external auditors and internal auditors as required. 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 is outsourced to Pricewaterhouse Coopers, a 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.

## Board Audit and Compliance Committee Report Contd.

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 48 internal audit reports covering the operations of 39 branch locations and several head office functions, i.e. underwriting, claims, reinsurance, credit control, finance, investments, information technology 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 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, Thornton & 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 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 31<sup>st</sup> December 2012 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.

### 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

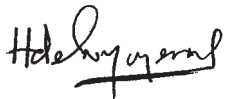
The BACC has conducted its affairs in compliance with the requirements of the above code.

### Evaluation of Committee

The BACC formally evaluated the performance of the Committee as well as the individual contribution of each member. Steps have been taken to address the matters highlighted following such evaluation.

## 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.



**H. A. J. De Silva Wijeyeratne**

Chairman - Board Audit and Compliance Committee

23<sup>rd</sup> February 2012

# CERTIFICATION OF INCURRED BUT NOT REPORTED (IBNR) CLAIMS



We hereby certify that the IBNR provision of Rs. 311,035,000 is adequate in relation to the claims liabilities of UA as at 31 December 2011, net of reinsurance. This provision applies to claims from all accident year through 2011. 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 2011, in many but not all scenarios of future experience.

We also certify that the UPR provision of Rs. 1,979,246,000 set by the company net of reinsurance is adequate in relation to the future liabilities of the unexpired risks as at 31 December 2011, 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.

A handwritten signature in black ink, appearing to read 'Matthew Maguire', written in a cursive style.

**Matthew Maguire**

Fellow of the Institute of Actuaries of Australia (FIAA)

Fellow of the Institute of Actuaries (FIA)

For and on behalf of NMG Financial Services Consulting

Date: 15 February 2012

# ACTUARY'S REPORT - LIFE



1st Floor, 434, R.A. De Mel Mawatha, Colombo 03, Sri Lanka. Telephone (94)112575280/ (94)112301079 Fax: (94) 112301079

15 February 2012

**To the Shareholders of Union Assurance PLC**

## **ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER 2011**

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December 2011. We hereby certify that, in our opinion,

- 1) Proper records have been kept by the Company, which are appropriate for the purpose of the actuarial valuation of the liabilities of the Long Term Insurance Fund;
- 2) Adequate and proper reserves have been provided as at 31 December 2011, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date;
- 3) The Long Term Insurance Fund, 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 2011, by Rs. 1,208.956 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 73.484 million.
- 5) The solvency margin required under the Regulation of Insurance Industry Act No. 43 of 2000 is Rs. 580.447 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2011 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 197 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. 5 per share for the year ended 31<sup>st</sup> December 2011, to be paid on 15<sup>th</sup> March 2012.

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

23<sup>rd</sup> February 2012

# REPORT OF THE AUDITORS



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

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Internet : [www.lk.kpmg.com](http://www.lk.kpmg.com)

## 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, 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 198 to 264 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, 2011 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of 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

23<sup>rd</sup> February 2012

KPMG Ford, Rhodes, Thornton & Co., a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

A.N. Fernando FCA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA

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

Ms. M. P. Perera FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

# STATEMENT OF INCOME

For the year ended 31 December

	Note	Page no.	Sustainability report page no.	2011 Rs. '000	2010 Rs. '000	Change %
<b>Revenue</b>	6	219		<b>8,975,572</b>	<b>7,919,528</b>	<b>13</b>
Gross written premium	7	220	140	<b>8,732,176</b>	7,133,375	22
Less: Premium ceded to reinsurers			168	<b>(1,119,502)</b>	(1,025,924)	9
Net written premium				<b>7,612,674</b>	6,107,451	25
Net change in reserve for unearned premium				<b>(261,420)</b>	(416,944)	(37)
<b>Net earned premium</b>				<b>7,351,254</b>	<b>5,690,507</b>	<b>29</b>
<b>Benefits, losses and expenses</b>						
Insurance claims and benefits (net)	8	221	140	<b>(2,912,078)</b>	(2,393,149)	22
Increase in provision for life business			140	<b>(2,044,118)</b>	(2,123,447)	(4)
Underwriting and net acquisition costs (including reinsurance)			150	<b>(1,087,919)</b>	(848,296)	28
<b>Total benefits, losses and expenses</b>				<b>(6,044,115)</b>	<b>(5,364,892)</b>	<b>13</b>
<b>Net premium less benefits, losses and expenses</b>				<b>1,307,139</b>	<b>325,615</b>	<b>301</b>
<b>Other revenue</b>						
Income from investments	9	223		<b>1,549,949</b>	2,129,425	(27)
Other income	10	224		<b>74,369</b>	99,596	(25)
<b>Expenses</b>						
Other operating, investment related and administrative expenses	11	225		<b>(2,040,423)</b>	(1,853,829)	10
Depreciation on property, plant and equipment				<b>(128,694)</b>	(107,766)	19
<b>Profit before income tax</b>	12	226		<b>762,340</b>	<b>593,041</b>	<b>29</b>
Income tax expense	13	226		<b>(66,755)</b>	(81,070)	(18)
<b>Profit for the year</b>			163	<b>695,585</b>	<b>511,971</b>	<b>36</b>
Basic earnings per share (Rs.)*	14	228	163	<b>9.27</b>	6.83	
Dividend per share (Rs.)*	15	229	163	<b>5.00</b>	3.13	

\* Information for the previous year has been restated to reflect the sub division of shares.

The above Statement of Income is to be read in conjunction with the notes to the financial statements from pages 205 to 264 which form an integral part of the financial statements.

The Report of the Auditors' is on page 197.

**BALANCE**  
SHEET

As at 31 December	Note	Page no.	Risk management page no	2011 Rs. '000	2010 Rs. '000
<b>Assets</b>					
Investments	16	229	121	15,009,473	12,817,417
Investments - life - unit linked	17	232		549,823	168,109
Quoted equities at market value	18	235	121	920,993	767,431
Intangible assets	19	236		49,500	49,500
Property, plant and equipment	20	237		1,298,380	1,108,723
Loans to life policyholders	21	239		246,674	232,618
Reinsurance receivable	22	240	120	495,776	579,009
Premiums receivable	23	240	120	1,056,375	1,237,594
Other assets	24	241		1,787,023	1,540,932
Other assets - life - unit linked				8,705	11,157
Cash and cash equivalents	25	242		373,413	390,138
<b>Total assets</b>				<b>21,796,135</b>	<b>18,902,628</b>
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
Insurance provision - life - conventional	26	243		13,440,459	11,769,308
Insurance provision - life - unit linked				555,541	165,835
Insurance provision - non life	27	244		2,942,950	2,716,888
Reinsurance payable			120	441,567	405,764
Employee benefits	28	248		154,702	132,422
Other liabilities	29	248		825,263	898,429
Other liabilities - life - unit linked				3,344	13,672
Current tax liabilities				67,549	81,558
Deferred tax liabilities	30	249		28,161	13,948
Bank overdraft				108,734	71,695
<b>Total liabilities</b>				<b>18,568,270</b>	<b>16,269,519</b>
<b>Equity</b>					
Stated capital	31	250		388,433	388,433
Capital reserves	32	251		714,056	584,178
Retained earnings				2,125,376	1,660,498
<b>Total equity</b>				<b>3,227,865</b>	<b>2,633,109</b>
<b>Total liabilities and equity</b>				<b>21,796,135</b>	<b>18,902,628</b>

The above Balance sheet is to be read in conjunction with the notes to the financial statements from pages 205 to 264 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.



**Indika 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

Colombo  
23 February 2012

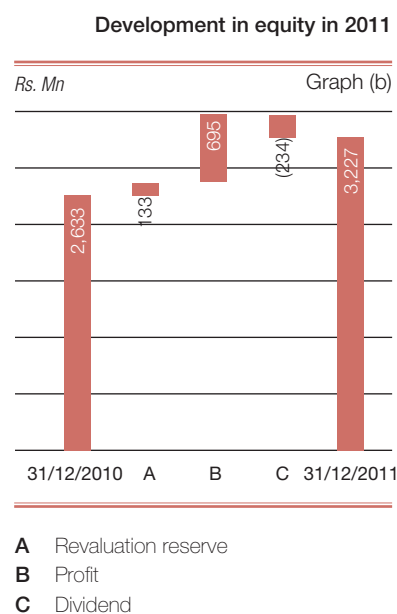
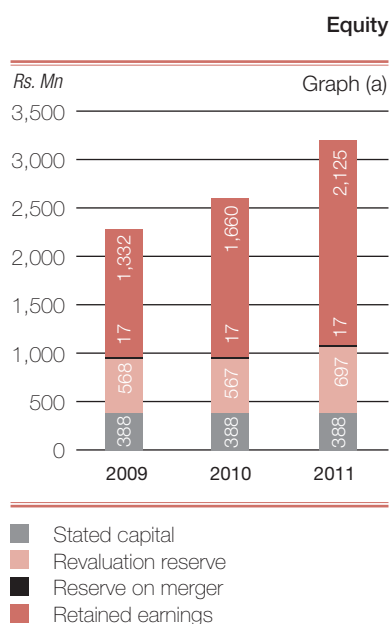


**S. Rajendra**  
Director

# 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		
<b>Balance as at 1 January 2010</b>	<b>388,433</b>	<b>567,607</b>	<b>16,752</b>	<b>1,332,359</b>	<b>2,305,151</b>
Final dividend 2009	-	-	-	(187,500)	(187,500)
Transfer from revaluation reserve to retained earnings	-	(3,668)	-	3,668	-
Tax effect of revaluation recognised in equity	-	3,487	-	-	3,487
Net profit for the year	-	-	-	511,971	511,971
<b>Balance as at 31 December 2010</b>	<b>388,433</b>	<b>567,426</b>	<b>16,752</b>	<b>1,660,498</b>	<b>2,633,109</b>
Final dividend 2010	-	-	-	(234,375)	(234,375)
Transfer from revaluation reserve to retained earnings	-	(3,668)	-	3,668	-
Surplus on revaluation	-	147,759	-	-	147,759
Tax effect of revaluation recognised in equity	-	(14,213)	-	-	(14,213)
Net profit for the year	-	-	-	695,585	695,585
<b>Balance as at 31 December 2011</b>	<b>388,433</b>	<b>697,304</b>	<b>16,752</b>	<b>2,125,376</b>	<b>3,227,865</b>

As of December 31, 2011, shareholders' equity amounted to Rs. 3.2 billion an increase of 22.6 % from previous year. The increase was mainly driven by net profit during the period and surplus on revaluation (net of deferred tax) which amounted to Rs. 695 million and Rs. 133 million respectively. The dividend for 2010 paid in the first quarter of 2011. Graph (a) depicts the composition of equity for three years and graph (b) illustrates the development of equity in 2011.



The above statement of changes in equity is to be read in conjunction with the notes to the financial statements from pages 205 to 264 which form an integral part of the financial statements.

The Report of the Auditors' is on page 197.

# CASH FLOW STATEMENT

For the year ended 31 December

	2011 Rs. '000	2010 Rs. '000
<b>Cash flow from operating activities</b>		
Premium received from customers	8,913,395	6,741,538
Reinsurance premium paid	(881,163)	(799,902)
Claims paid	(3,066,944)	(2,739,862)
Reinsurance receipts in respects of claims	308,008	390,453
Cash paid to and on behalf of employees	(860,168)	(691,375)
Interest received	1,740,415	2,078,762
Dividends received	27,070	14,828
Other operating cash payments	(2,593,688)	(2,059,096)
<b>Cash flow from operating activities (note A)</b>	<b>3,586,925</b>	<b>2,935,346</b>
Retiring gratuity paid	(9,262)	(14,505)
Income tax and ESC paid	(69,828)	(73,872)
<b>Net cash from operating activities</b>	<b>3,507,835</b>	<b>2,846,969</b>
<b>Cash flow from investing activities</b>		
Acquisition of liquid investments (other than cash equivalents)	(1,887,440)	(890,708)
Acquisition of other investments (other than cash equivalents)	(5,476,914)	(3,669,031)
Proceeds from sale from liquid investments (other than cash equivalents)	1,840,688	586,263
Proceeds from sale from other investments (other than cash equivalents)	2,341,417	1,524,859
Acquisition of property, plant and equipment	(170,626)	(146,514)
Proceeds on sale of property, plant and equipment	3,992	4,426
<b>Net cash used in investing activities</b>	<b>(3,348,884)</b>	<b>(2,590,705)</b>
<b>Net cash inflow before financing activities</b>	<b>158,952</b>	<b>256,264</b>
<b>Cash flow from financing activities</b>		
Dividends paid	(213,057)	(187,500)
<b>Net cash used in financing activities</b>	<b>(213,057)</b>	<b>(187,500)</b>
<b>(Decrease) / increase in cash and cash equivalents (note B)</b>	<b>(54,105)</b>	<b>68,764</b>

## Notes to the cash flow statement

### A. Reconciliation of profit before taxation with cash from operating activities

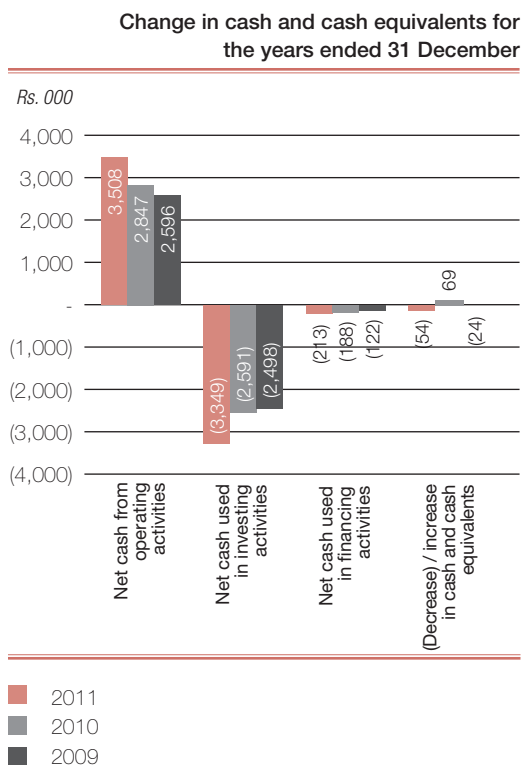
Profit before income tax	762,340	593,041
Depreciation on property, plant and equipment	128,694	107,766
Change in debtors	(38,516)	(33,704)
Change in life insurance fund	2,044,118	2,122,445
Change in unearned premiums and deferred acquisition costs	259,687	387,190
Change in claims provisions	(33,625)	(278,051)
Change in creditors	(83,789)	257,123
Exchange (gain) / loss	(341)	34
Gain on sale of property, plant and equipment	(3,959)	(4,341)
Unrealised loss / (gain) on equities at market value	520,775	(267,129)
Change in provision for employee benefits	31,542	50,972
<b>Cash from operating activities</b>	<b>3,586,925</b>	<b>2,935,346</b>

For the Year ended 31 December	2011 Rs. '000	2010 Rs. '000
<b>B. Increase in cash and cash equivalents</b>		
Cash and cash equivalents	373,413	390,138
Bank overdraft	(108,734)	(71,695)
Net cash at bank and in hand and cash equivalents	264,679	318,443
Effect of exchange rate fluctuations on cash held	(341)	34
Net cash and cash equivalents for the current year	264,338	318,477
Net cash and cash equivalents previous year	318,443	249,713
<b>(Decrease) / increase in cash and cash equivalents</b>	<b>(54,105)</b>	<b>68,764</b>

**Net cash flow from operating activities** amounted to Rs. 3.5 billion in 2011, increasing by Rs. 661 million compared to the previous year. This increase was mainly driven by the incremental revenue reported in both life and general insurance segments.

**Net cash outflow used in investing activities** increased from Rs. 2.6 billion to Rs. 3.3 billion.

**Net cash from financing activities** changed as a result of the dividend payout.



The above statement of changes in equity is to be read in conjunction with the notes to the financial statements from pages 205 to 264 which form an integral part of the financial statements.

The Report of the Auditors' is on page 197

# SCHEDULE OF INDUSTRY SEGMENT DATA 2011

For the year ended 31 December 2011

	General insurance Rs. '000	Life insurance Rs. '000	Elimination Rs. '000	Total Rs. '000
Gross written premium	4,260,549	4,471,627	-	8,732,176
Less: Premium ceded to reinsurers	(916,595)	(202,907)	-	(1,119,502)
Net written premium	3,343,954	4,268,720	-	7,612,674
Net change in reserve for unearned premium	(261,420)	-	-	(261,420)
<b>Net earned premium</b>	<b>3,082,534</b>	<b>4,268,720</b>	-	<b>7,351,254</b>
<b>Benefits, losses and expenses</b>				
General insurance losses and loss adjustment expenses	(2,164,561)	-	-	(2,164,561)
Increase in provision for life business	-	(2,044,118)	-	(2,044,118)
Life insurance claims, benefits and maturity payments	-	(747,517)	-	(747,517)
Underwriting and policy acquisition costs (including reinsurance)	(268,843)	(819,076)	-	(1,087,919)
<b>Total benefits, losses and expenses</b>	<b>(2,433,404)</b>	<b>(3,610,711)</b>	-	<b>(6,044,115)</b>
<b>Net premium less benefits, losses and expenses</b>	<b>649,130</b>	<b>658,009</b>	-	<b>1,307,139</b>
<b>Other revenue</b>				
Income from investments	417,183	1,132,766	-	1,549,949
Other income	53,087	47,484	(26,202)	74,369
<b>Expenses</b>				
Other operating, investment related and administrative expenses	(702,549)	(1,364,076)	26,202	(2,040,423)
Depreciation on property, plant and equipment	(83,510)	(45,184)	-	(128,694)
<b>Profit before income tax</b>	<b>333,340</b>	<b>429,000</b>	-	<b>762,340</b>
Income tax expense	(66,755)	-	-	(66,755)
<b>Profit for the year</b>	<b>266,585</b>	<b>429,000</b>	-	<b>695,585</b>
Net cash from operating activities	1,107,978	2,399,858	-	3,507,836
Net cash used in investing activities	(889,918)	(2,458,966)	-	(3,348,884)
Net cash used in financing activities	(213,057)	-	-	(213,057)
Acquisition of property, plant and equipment	(115,624)	(55,002)	-	(170,626)
Investments	3,623,101	12,857,189	-	16,480,289
Total segment assets	6,970,157	15,290,944	(464,966)	21,796,135
Total segment liabilities	3,980,488	15,052,748	(464,966)	18,568,270

The above schedule of industry segment data is to be read in conjunction with the notes to the financial statements from pages 205 to 264 which form an integral part of the financial statements.

The Report of the Auditors' is on page 197.

## 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)
<b>Net earned premium</b>	<b>2,323,328</b>	<b>3,367,179</b>	<b>-</b>	<b>5,690,507</b>
<b>Benefits, losses and expenses</b>				
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)
<b>Total benefits, losses and expenses</b>	<b>(1,850,160)</b>	<b>(3,514,732)</b>	<b>-</b>	<b>(5,364,892)</b>
<b>Net premium less benefits, losses and expenses</b>	<b>473,168</b>	<b>(147,553)</b>	<b>-</b>	<b>325,615</b>
<b>Other revenue</b>				
Income from investments	384,425	1,745,000	-	2,129,425
Other income	74,840	61,873	(37,117)	99,596
<b>Expenses</b>				
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)
<b>Profit before income tax</b>	<b>268,041</b>	<b>325,000</b>	<b>-</b>	<b>593,041</b>
Income tax expense	(81,070)	-	-	(81,070)
<b>Profit for the year</b>	<b>186,971</b>	<b>325,000</b>	<b>-</b>	<b>511,971</b>
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	-	13,752,956
Total segment assets	6,325,329	12,982,843	(405,545)	18,902,627
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 205 to 264 which form an integral part of the financial statements

# 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 03. 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 Keells 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 (CA).

The financial statements were authorised for issue by the Directors on 23 February 2012.

### 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 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 within the financial year are included in the following notes:

Critical Accounting Estimate / Judgment	Disclosure Reference	
	Note	Page
Intangible assets	19	236
Insurance provision - life	26	243
Insurance provision - non life	27	244
Unearned premium reserve	27(a)	244
Deferred acquisition cost	27(b)	244
Gross outstanding claims	27(c)	244
Employee benefits	28	248
Deferred tax assets / liabilities	30	249
Valuation of property plant and equipment	20	237
Impairment of assets	19,20	236,237

### 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 258 which represent assets and liabilities of the life insurance fund. The statement of income reflects the underwriting results, surplus from long term insurance business and 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 trading.

**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 mainly 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 bonds systematically amortised 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 purchasing treasury bills and treasury bonds from the public, 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 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 amortisation 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 / revaluation 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 costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as 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 revalue assets are sold, any related amount included in the revaluation surplus reserve are 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 measured at revalued amount 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.

The 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 surplus is debited to the extent of any credit balance existing in the revaluation surplus 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.

### 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 asset 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 to it under the terms of the contract, and the event has a reliably measurable impact on the amount that the company will receive from the reinsurer.

### 3.7 Premiums receivable

Collectability of premiums and other debts are reviewed on an ongoing basis. Policies issued on debt basis and known to be uncollectible are cancelled and the respective gross written premium is reversed accordingly. 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 statement of income.

An impairment loss in respect of goodwill is not reversed. 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 recognised 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 treated as the revaluation increase.

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 net unearned premium, reserve for deferred acquisition costs (net), reserve for gross outstanding claims and incurred but not reported (IBNR) claims provision.

Unearned premium, deferred acquisition cost and the reserve for gross outstanding claims are stated according to 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 into 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 profit and loss in the periods during 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 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 16 - Employee Benefits. Any actuarial gains and losses are recognised in profit and loss 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 1/24<sup>th</sup> basis except for the marine policies which are 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 inwards 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 to ensure a more realistic estimation of the future liability based on past experience and trends.

Actuarial valuations are performed on an annual basis. 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.

### 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, gains / 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 profit or loss 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 property plant and equipment, gain on foreign currency translations, and interest on policy loans.

Gain on property plant and equipment and gain on foreign currency translation are recognised on a net basis whereas the interest income on loans granted to life policyholders is accounted on accrual basis.

## EXPENSES AND TAXATION

### 3.27 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 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 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 Nation Building Tax (NBT)**

As per the provisions of the Nation Building Tax Act No. 9 of 2009 and the amendments thereto, NBT should be payable at the rate of 2% with effect from the 1 May 2009 on the liable turnover as per the relevant provisions of the Act.

**3.30 Earnings per share (EPS)**

The company presents basic earnings per share 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 Dividends declaration**

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 risks falling within credit, liquidity, market, and insurance risk.

The company has exposure to the following risks from its use of financial instruments;

- Credit risk
- Liquidity risk
- Market risk
- Insurance risk

**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 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 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 an issue.

Maximum exposure to credit risk of the investments made by company is as follows;

Maximum Exposure	2011 Rs. '000	2010 Rs. '000
<b>Corporate securities:</b>		
• Quoted securities	1,561,522	959,300
• Unquoted securities	592,369	270,000
<b>Bank deposits</b>	350,000	300,000

The above investments do not include unit linked investments.

##### 4.3.2 Premium receivable

The company has established a credit policy under which new customers are analysed for creditworthiness before the company's standard payment and delivery terms and conditions are offered. The

company grants credit as per its credit policy and outstanding credit is followed up on a daily basis. Policies which are not settled within a reasonable period are routinely cancelled.

Maximum exposure to credit risk for trade receivables is as follows;

Maximum Exposure	2011 Rs. '000	2010 Rs. '000
Premium receivable from related parties	737	31,563
Premium receivable from others	1,055,638	1,206,031

##### 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 assesses the creditworthiness of reinsurers to update the reinsurance purchase strategy and ascertain the suitable allowance for impairment of reinsurance assets.

The following credit risk table in respect of reinsurance receivables and investments provides information regarding the credit risk exposure of the company by classifying assets according to the credit ratings of the counterparties.

Rating	Reinsurance Receivable (Rs. Mn)	Corporate Debt Investments (Rs. Mn)
AAA	-	300.0
AA	2.0	345.0
AA -	69.0	626.3
A +	57.0	148.3
A	31.0	600.0
A -	99.0	-
BBB +	3.0	60.0
NITF	134.0	-
Not rated	100.8	424.3
<b>Total</b>	<b>495.8</b>	<b>2,503.9</b>

However 59% (Rs. 250 million) of the non rated investments have issue ratings even though there are no ratings to the issuer of the instrument. The relevant information is summarised overleaf.

Rating	Corporate Debt (Rs. Mn)
AA	100.0
A	150.0
<b>Total</b>	<b>250.0</b>

#### 4.3.4 Cash and cash equivalents

The company held cash and cash equivalents of Rs. 373 million at 31 December 2011. (2010 - Rs. 390 million). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AAA to BB+ based on Fitch Ratings.

#### 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 asset.

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.

#### 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 constructed based on institutional rating (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 BIC members keep a regular track of macro-economic scenarios and their likely impact on interest rates.

The following table shows the sectoral allocation of quoted equity investments which provides information regarding, how the company has responded to market risk exposure which may arise in a case of an adverse movements of the asset prices.

Sector	As a Percentage of Total Quoted Equity Investment
Banks, Finance & Insurance	22%
Beverage, Food & Tobacco	9%
Diversified Holding	15%
Motors	11%
Manufacturing	32%
Construction & Engineering	7%
Telecommunications	4%

#### 4.6 Insurance risk

By the very nature of an insurance contract, risk is based on fortuity and is therefore unpredictable.

##### 4.6.1 Introduction

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 underwrite.

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 plan is monitored on a regular basis by the Executive Management Committee and the Board of Directors.

##### 4.6.2 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;

- Risk excess of loss reinsurance purchased to protect a range of individual inwards contracts which could give rise to individual large claims.
- Facultative reinsurance purchased to reduce risk relating to an individual specific inwards contract.

## 5. NEW STANDARDS AND INTERPRETATIONS NOT ADOPTED

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1<sup>st</sup> January 2012. Accordingly, these Standards have not been applied in preparing these financial statements as they were not effective for the period

ended 31<sup>st</sup> December 2011. These Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). The company is currently in the process of quantifying the possible effects of these standards on its financial statements. The following table summarises the financial statement impact on convergence to SLFRS with their corresponding significance;

SLFRS / LKAS	Financial Statement Impact due to Adoption of Revised SLFRS / LKAS				
	Income Statement	Balance Sheet	Changes in Equity	Cash Flow Statement	Disclosure
SLFRS 1 First-time Adoption of International Financial Reporting Standards					
SLFRS 4 Insurance Contracts					
SLFRS 7 Financial Instruments: Disclosures					
SLFRS 8 Operating Segments					
LKAS 1 Presentation of Financial Statements					
LKAS 7 Statement of Cash Flows					
LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors					
LKAS 10 Events After the Reporting Period					
LKAS 12 Income Taxes					
LKAS 16 Property, Plant and Equipment					
LKAS 18 Revenue					
LKAS 19 Employee Benefits					
LKAS 21 The Effects of Changes in Foreign Exchange Rates					
LKAS 24 Related Party Disclosures					
LKAS 32 Financial Instruments: Presentation					
LKAS 33 Earnings Per Share					
LKAS 34 Interim Financial Reporting					
LKAS 36 Impairment of Assets					
LKAS 37 Provisions, Contingent Liabilities and Contingent Assets					
LKAS 39 Financial Instruments: Recognition and Measurement					

	No impact		Low		Medium		High
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### 5.1 SLFRS 4 Insurance Contracts

An entity shall apply this SLFRS to;

- (a) Insurance contracts (including reinsurance contracts) that it issues and reinsurance contracts that it holds.
- (b) Financial instruments that it issues with a discretionary participation feature. SLFRS 7 Financial Instruments: Disclosures requires disclosure about financial instruments, including financial instruments that contain such features.

SLFRS 4 specifies the financial reporting for insurance contracts by any entity that issues such contracts (described in this SLFRS as an insurer) until the second phase of the project on 'insurance contracts' is completed. In particular, this SLFRS requires;

- (a) Limited improvements for accounting by insurers for insurance contracts.
- (b) Disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

SLFRS 4 applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other SLFRSs. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of LKAS 39 Financial Instruments: Recognition and Measurement. Furthermore, it does not address accounting by policyholders.

The SLFRS exempts an insurer temporarily from some requirements of other SLFRSs, including the requirement to consider the Framework in selecting accounting policies for insurance contracts. However, the main requirements of this standards are summarised in Table 1:

**Table 1**

Requirement	Detailed Explanation
Product classification	SLFRS 4 clearly defines an insurance contract as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
Discretionary Participation Feature (DPF)	Requirement on identification, treatment and liability valuation for financial instruments that a company issues with a discretionary participation feature.
Unbundling deposit component	(a) Unbundling is required if both the following conditions are met; <ul style="list-style-type: none"> <li>(i) The insurer can measure the deposit component (including any embedded surrender options) separately (i.e. without considering the insurance component).</li> <li>(ii) The insurer's accounting policies do not otherwise require it to recognise all obligations and rights arising from the deposit component. Unbundling is permitted, but not required, if the insurer can measure the deposit component separately as in (a) (i) but its accounting policies require it to recognise all obligations and rights arising from the deposit component, regardless of the basis used to measure those rights and obligations.</li> </ul>
	Unbundling is prohibited if an insurer cannot measure the deposit component separately as in (a) (i).

Requirement	Detailed Explanation
Liability Adequacy Test (LAT)	An insurer shall assess at the end of each reporting period whether the recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.
Embedded derivatives	Identification, measurement and disclosure requirements.
Catastrophe and equalisation provisions	Prohibits provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions).
Reinsurance	<ul style="list-style-type: none"> <li>Requires an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.</li> <li>If a cedant's reinsurance asset is impaired, the cedant shall reduce its carrying amount accordingly and recognise that impairment loss in profit or loss.</li> </ul>

#### SLFRS 4 - Impact on Union Assurance financial statements

Based on current understanding UA does not have a material financial statement impact arising from SLFRS 4. However SLFRS 4 requires qualitative and quantitative disclosures for insurance and investment contracts. However, UA has already disclosed some of the requirements in note 34 and page no 254 covering the risk relating to the insurance contracts. In addition to above some of the main disclosures are as follows;

- Explanation of reported results, amount, timing and uncertainty.
- Claims development triangles.
- Sensitivity analysis.
- Increase in qualitative and quantitative disclosures for insurance and investment contracts.

#### 5.2 LKAS 39 Financial Instruments: Recognition and Measurement

Provides principles for recognising and measuring financial assets, financial liabilities. However the scope of LKAS 39 excludes the application to rights and obligations arising under an insurance contract as defined in SLFRS 4 insurance contracts, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract, or a contract that is within the scope of SLFRS 4 because it contains a discretionary participation feature. However, this Standard applies to a derivative that is embedded in a contract within the scope of SLFRS 4, if the derivative is not itself a contract within the scope of SLFRS 4.

#### LKAS 39 - Impact on Union Assurance financial statements

LKAS 39 will have a material impact on the investments since UA has a significant portfolio of investments. Material impact may arise from investments in treasury bills, bonds and debentures. This area has been identified as a critical piece of UA's IFRS convergence project and special attention was paid to this area. UA is in the process of quantifying the impact of the above. However, Table 2 shows the financial statement impact in summarised form.

Table 2

Class of Investment	UA Proposed Policy / Classification	LKAS 39 Requirement	Financial Statement Impact due to Adoption of LKAS 39				
			Income Statement	Balance Sheet	Changes in Equity	Cash Flow Statement	OCI
Treasury bonds	Available For Sale (AFS).	Initial recognition requires to be done at fair value (FV) and subsequent recognition should be either FV or amortised cost based on the classification of investments.	Green	Red	Green	Green	Red
Treasury bills			Green	Red	Green	Green	Red
Quoted debentures			Green	Yellow	Green	Green	Yellow
Unquoted shares			Green	Yellow	Green	Green	Yellow
Quoted shares	Fair value through profit and loss (FVTPL)	Can be categorised as AFS or FVTPL.	Green	Green	Green	Green	Green
Unquoted debentures	Loans and receivable (LR).	Initial recognition requires to be done at fair value (FV) and subsequent recognition should be at amortised cost.	Green	Yellow	Green	Green	Yellow
Reverse repurchase agreements			Green	Yellow	Green	Green	Yellow
Quoted shares - Unit linked	Fair value through profit and loss (FVTPL).	Initial recognition requires to be done at fair value (FV) and subsequent recognition should be done either at FV or amortised cost based on the classification of investments.	Green	Green	Green	Green	Green
Treasury bonds and bills - Unit linked			Green	Green	Green	Green	Green

Green	No impact	Yellow	Low	Orange	Medium	Red	High
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### 5.3 SLFRS 7 Financial Instruments: Disclosures

SLFRS 7 provides guidelines in disclosures in their financial statements that enable users to evaluate:

- The significance of financial instruments for the entity's financial position and performance; and
- 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. The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

- When this SLFRS requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments.
- Provide sufficient information to permit reconciliation to the line items presented in the balance sheet.

### 5.4 SLFRS 8 Operating Segments

This SLFRS applies to the individual or consolidated financial statements;

- Whose debt or equity traded in a public market or
- That files or in the process of filing its financial statements with a regulatory body for the purpose of issuing any class of instrument in the public market.

- An operating segment is a component of an entity
  - (a) That engages in business activities from which it may earn revenue and expenses.
  - (b) Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions regarding resources to be allocated to the segment and assess its performance and.
  - (c) For which discrete financial information is available.
- An entity needs to carefully determine the Chief Operating Decision Maker (CODM) whether it be an individual or a committee for each reporting entity. The CODM is responsible for allocating resources and assessing performance of the operating segments.
- In providing disclosures under IFRS 8 - Operating Segments, entities need to evaluate disclosures made are in line with the information that is reviewed by the CODM to allocate resources and assess performance of the segments. Information disclosed should be measured in terms of how the CODM looks at such information.

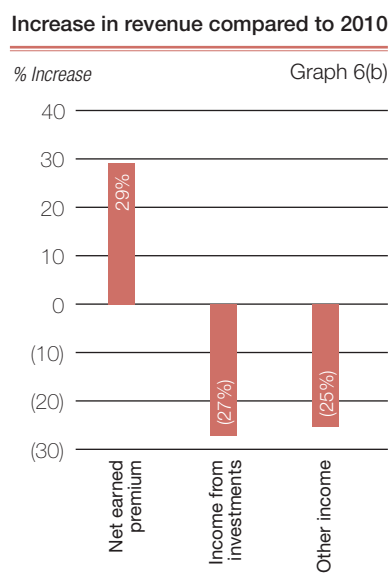
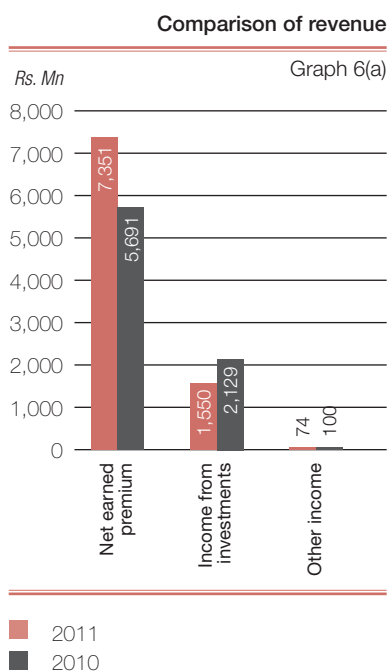
## 6. Revenue

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

	2011 Rs.'000	2010 Rs.'000
Net written premium	7,612,674	6,107,451
Net change in reserve for unearned premium (Note 27a.)	(261,420)	(416,944)
Net earned premium	7,351,254	5,690,507
Income from investments	1,549,949	2,129,425
Other income	74,369	99,596
<b>Total revenue</b>	<b>8,975,572</b>	<b>7,919,528</b>

Graph no. 6 (a) analyses the comparison of 2011 revenue categories (consolidated revenue) and 2010 revenue categories where as graph no. 6 (b) illustrates the change in 2011 consolidated revenue compared to 2010. During the year 2011, Union Assurance reported 13% growth in consolidated revenue compared to 2010.



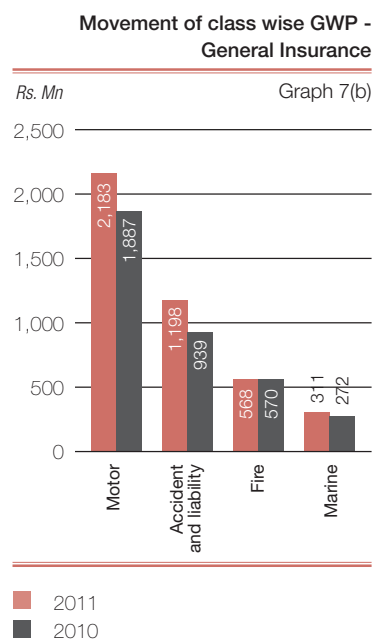
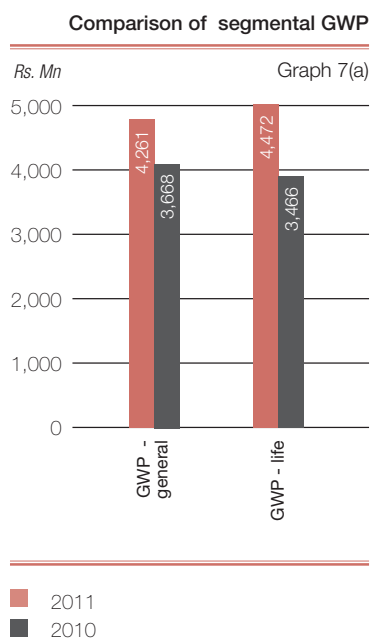
## 7. Gross written premium

Gross written premium (GWP) represents the 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 209 (Note no. 3.15). The accounting policy regarding life insurance GWP is provided on page 210 (note no. 3.21).

The premium income for the year by major classes of business is as follows;

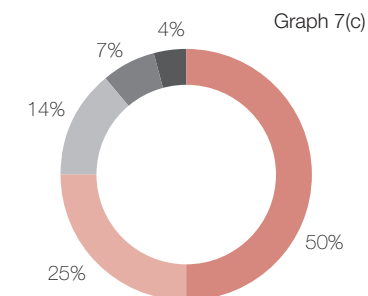
For the year ended 31 December	2011 Rs. '000	2010 Rs. '000
<b>General insurance</b>		
Accident and liability	1,198,293	938,887
Fire	568,300	570,172
Marine	310,749	271,987
Motor	2,183,207	1,886,824
	<b>4,260,549</b>	<b>3,667,870</b>
<b>Long term insurance</b>		
Life insurance - conventional	3,776,357	3,261,346
Life insurance - unit linked	695,270	204,159
	<b>4,471,627</b>	<b>3,465,505</b>
	<b>8,732,176</b>	<b>7,133,375</b>

Graph 7(a) provides a comparison of 2011 segmental gross written premium (GWP) versus 2010. Consolidated GWP increased by 22% from Rs. 7.1 billion in 2010 to Rs. 8.7 billion in 2011. This was mainly due to a 29% growth in life insurance premiums, which increased from Rs. 3.5 billion in 2010 to Rs. 4.5 billion in 2011. General insurance premium also grew by 16% from Rs. 3.7 billion in 2010 to Rs. 4.3 billion in 2011. Graph 7(b) shows the movement in general insurance class wise GWP.



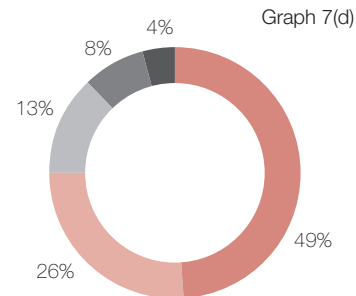
Graphs 7(c) and 7(d) illustrate the composition of non life GWP in 2011 and 2010 respectively.

Gross written premium 2011 - non life



Life insurance	50%
Motor	25%
Accident and liability	14%
Fire	7%
Marine	4%

Gross written premium 2010 - non life



Life insurance	49%
Motor	26%
Accident and liability	13%
Fire	8%
Marine	4%

## 8. Insurance claims and benefits (net)

General insurance net claims incurred 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 insurers as at the date of the balance sheet. Such claims are commonly referred to as incurred but not reported (IBNR) claims, and is computed based on internationally accepted actuarial principles.

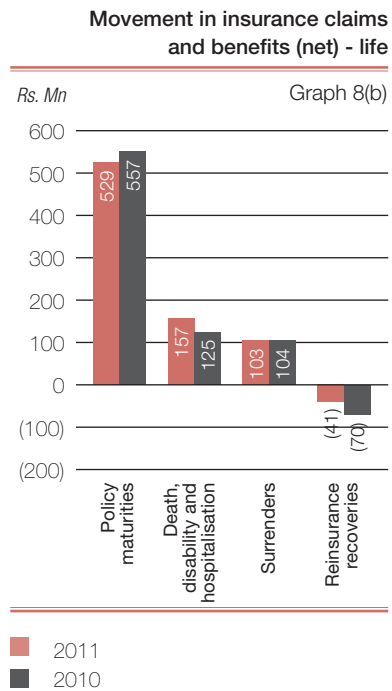
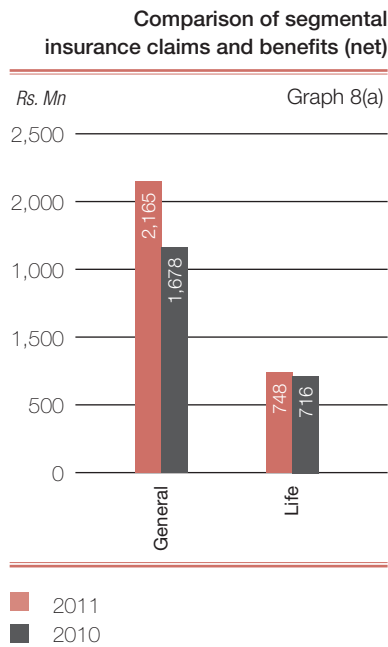
Life insurance policyholders are entitled to maturity proceeds, interim payments (e.g. payments made before the expiry of the policy) etc. They may also require to surrender their policies or make claims on account of death, disability or hospitalisation. These amounts net of reinsurance receivable are recorded under insurance claims and benefits.

Accounting policies for life and general claims are provided on page 210 (Note no. 3.20 and 3.24.)

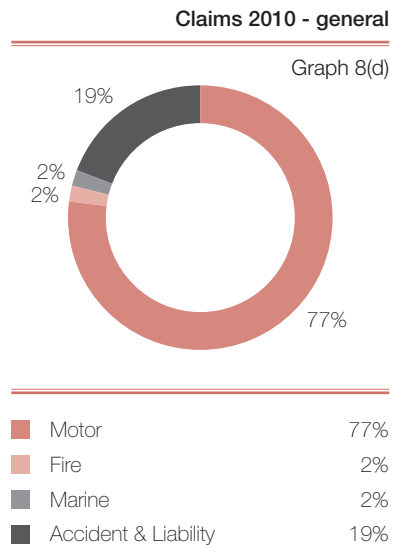
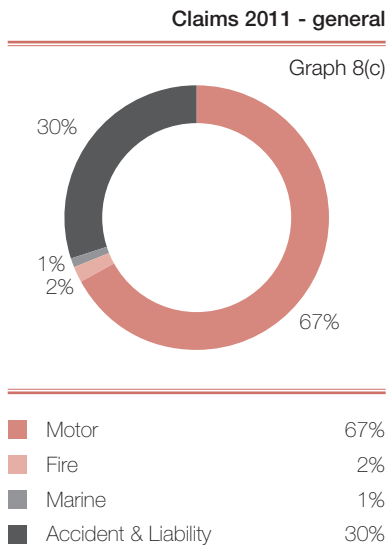
For the year ended 31 December

	2011 Rs. '000	2010 Rs. '000
<b>General insurance</b>		
Gross claims incurred	2,344,222	1,727,913
Reinsurance recoveries	(179,661)	(50,375)
<b>General insurance net claims incurred</b>	<b>2,164,561</b>	<b>1,677,538</b>
<b>Life insurance</b>		
Death, disability and hospitalisation claims	156,762	124,993
Surrenders	103,494	103,984
Policy maturities	528,575	556,721
Reinsurance recoveries	(41,314)	(70,087)
<b>Life insurance net claims and benefits</b>	<b>747,517</b>	<b>715,611</b>
<b>Total insurance claims and benefits (net)</b>	<b>2,912,078</b>	<b>2,393,149</b>

Graph 8 (a) provides a comparison of segmental net claims and benefits in 2011 and 2010. Graph 8 (b) illustrates the movement in net insurance claims and benefits in 2011 and 2010. General insurance claims (net of reinsurance recoveries) increased by Rs. 487 million and life insurance claims, benefits and maturity payments increased by Rs. 32 million. The claims ratio in general insurance decreased from 72% in 2010 to 70% in 2011.



Graph 8 (c) and 8 (d) depict the composition of general insurance claims in 2011 and 2010 respectively.

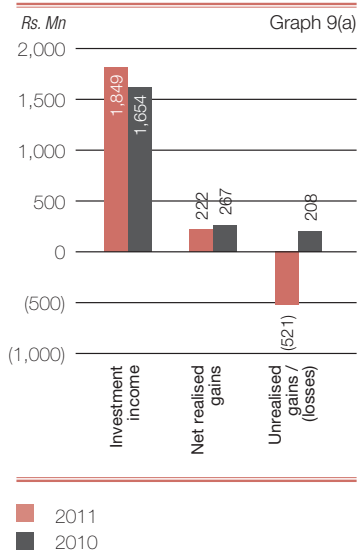
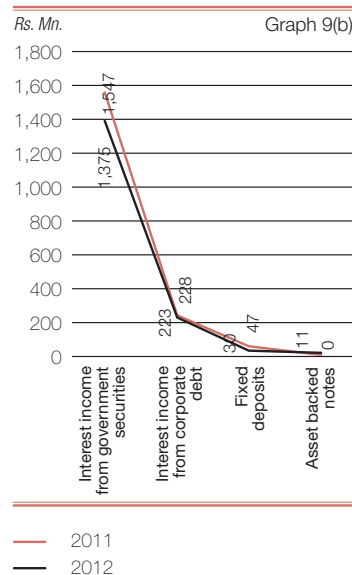


**9. Income from investments**

For the year ended 31 December

		2011 Rs. '000	2010 Rs. '000
Investment income	9a	1,848,762	1,654,167
Net realised capital gains		221,962	208,129
Unrealised (losses) / gains		(520,775)	267,129
		<b>1,549,949</b>	<b>2,129,425</b>

Comparison of the income from investment is reflected in graph 9 (a). Graph 9 (b) reflects the comparison of interest income. Investment income decreased by 27% from Rs. 2.1 billion in 2010 to Rs. 1.5 billion in 2011 due to unfavourable fluctuations in the equity market.

**Comparison of income from investment****Comparison of interest income****9a. Investment income**

For the year ended 31 December

		2011 Rs. '000	2010 Rs. '000
Interest income	9b	1,821,692	1,639,339
Dividend income - Quoted investments		27,070	14,828
		<b>1,848,762</b>	<b>1,654,167</b>

**9b. Interest income**

For the year ended 31 December

		2011 Rs. '000	2010 Rs. '000
<b>Interest income from government securities</b>			
Treasury bills		31,338	7,920
Treasury bonds		1,457,892	1,360,599
Repurchase agreements		57,322	6,876
		<b>1,546,552</b>	<b>1,375,395</b>

**9b. Interest income Contd.**

For the year ended 31 December

	2011 Rs. '000	2010 Rs. '000
<b>Interest income from corporate debt</b>		
Debentures	219,757	222,951
Commercial papers	7,936	-
	<b>227,693</b>	<b>222,951</b>
Asset backed notes	-	11,358
Fixed deposits	47,447	29,634
<b>Total interest income</b>	<b>1,821,692</b>	<b>1,639,339</b>

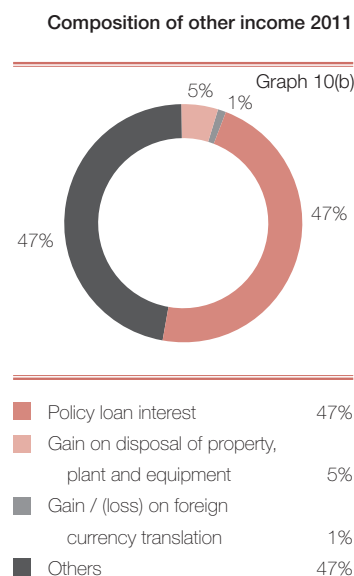
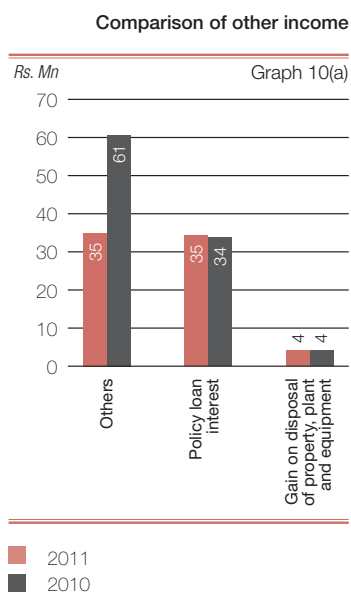
**10. Other income**

This note provides details of UA's other income.

For the year ended 31 December

	2011 Rs. '000	2010 Rs. '000
Gain on disposal of property, plant and equipment	3,959	4,341
Gain / (loss) on foreign currency translation	341	(34)
Policy loan interest	34,745	33,978
Others	35,324	61,311
	<b>74,369</b>	<b>99,596</b>

Graph 10 (a) reflects the year on year comparison of other income. Graph 10 (b) illustrates the composition of other income in percentages for the year 2011. During the year 2011, Union Assurance reported a 25% decrease in other income compared to 2010.



## 11. Other operating, investment related and administrative expenses

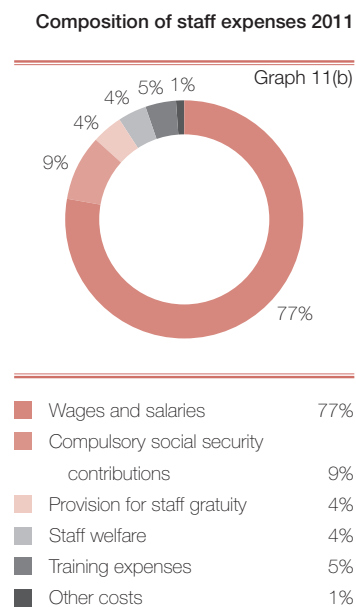
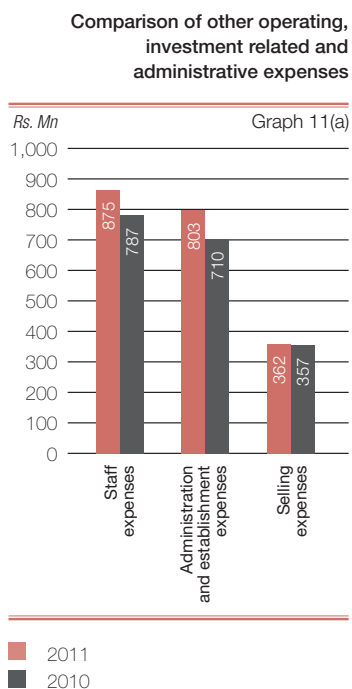
This note provide details of UA's expenses.

For the year ended 31 December		2011 Rs. '000	2010 Rs. '000
Staff expenses	11a	874,794	786,744
Administration and establishment expenses		803,256	709,900
Selling expenses		362,373	357,185
		<b>2,040,423</b>	<b>1,853,829</b>

### 11a. Staff expenses

For the year ended 31 December		2011 Rs. '000	2010 Rs. '000
Wages and salaries		682,658	618,361
Compulsory social security contributions		78,275	66,657
Provision for employee benefits		31,542	50,972
Staff welfare		31,468	25,100
Training expenses		40,863	21,020
Other costs		9,988	4,634
		<b>874,794</b>	<b>786,744</b>

Category wise movement of operating, investment related and administrative expenses is reflected in graph 11(a). Graph 11(b) illustrates the composition of staff expenses in 2011.



**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	2011 Rs. '000	2010 Rs. '000
Auditors remuneration		
Statutory audit services	1,700	1,700
Audit related services	785	730
Non audit services	1,025	1,274
Legal fees	622	744
Depreciation on property, plant and equipment	128,694	107,766
Remuneration to Executive Directors	-	-
Remuneration to Non-Executive Directors	4,050	6,000

**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. (note no. 3.29)

Taxation charge is made up as follows.

**Current income tax expense**

For the year ended 31 December	2011 Rs. '000	2010 Rs. '000
Income tax on current year profit	66,597	79,913
Social responsibility levy	-	1,200
	66,597	81,113
Under / (over) provision in respect of previous year	158	(43)
<b>Total income tax expense</b>	<b>66,755</b>	<b>81,070</b>

**13a. Numerical reconciliation between tax charge and the product of accounting profit multiplied by the applicable tax rate**

For the year ended 31 December	2011 Rs. '000	2010 Rs. '000
Accounting profit before income tax	762,340	593,041
Aggregate net allowable income	(1,226,885)	(970,175)
Aggregate disallowed expenditure	375,452	469,306
Aggregate allowed expenditure	(290,989)	(279,756)
Notional tax credit added for tax purposes	172,154	158,768
Tax losses incurred during the year which is carried forward	573,846	380,082
Tax losses brought forward and utilised	(128,071)	(122,943)
<b>Taxable profit</b>	<b>237,847</b>	<b>228,323</b>
Statutory tax rate	28%	35%
Current income tax expense	66,597	79,913
Under / (over) provision in respect of previous year	158	(43)
Social responsibility levy	-	1,200
	<b>66,755</b>	<b>81,070</b>

Union Assurance PLC is liable to income tax at 28% (2010 - 35%) in terms of Inland Revenue Act No. 10 of 2006 and amendments thereto. Current year income tax charge consists of income tax charge on general insurance business. However, there is no payment due to the Department of Inland Revenue as the tax liability is fully absorbed by payments made in lieu of economic service charge and credit available on the notional withholding tax from government securities. The tax loss carried forward as at 31 December 2011 is Rs. 2,246 million (2010 - Rs. 1,801 million) which is made up as follows.

As at 31 December	2011 Rs.'000	2010 Rs.'000
Loss brought forward	1,800,714	1,546,267
Tax loss utilised during the year	(128,071)	(122,943)
	1,672,643	1,423,324
Loss incurred in the business of life insurance	573,846	380,082
Over recognition of tax losses in respect of previous year	(415)	(2,692)
<b>Loss carried forward</b>	<b>2,246,074</b>	<b>1,800,714</b>

**13b. Movement in temporary differences during the year**

	Balance 1 Jan 2010 Rs.'000	Recognised in statement of income Rs.'000	Recognised / (reversed) in equity Rs.'000	Balance 31 Dec 2010 Rs.'000	Recognized in Statement of Income Rs.'000	Recognised in equity Rs.'000	Balance 31 Dec 2011 Rs.'000
Property, plant and equipment	17,435	-	(3,487)	13,948	-	14,213	28,161

**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 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	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	613,755	454,987
Tax credit for the year	172,154	158,768
Set off against tax liability	-	-
	<b>785,909</b>	<b>613,755</b>

#### 14. Basic earnings per share

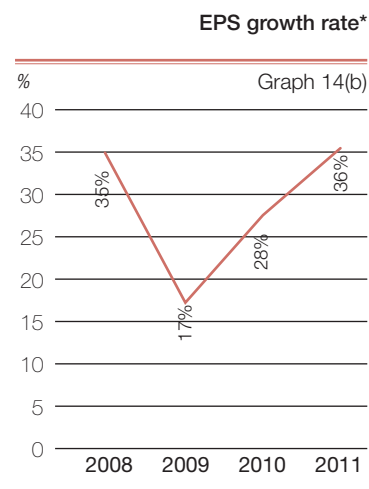
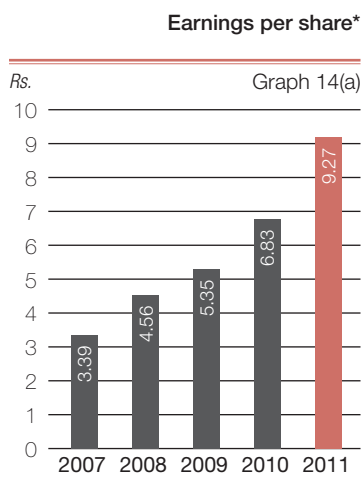
This note indicates how earnings per share is computed.

The calculation of basic earnings per share as at 31 December 2011 was based on the profit attributable to ordinary shareholders of Rs. 696 million (2010 - Rs. 512 million) and the number of ordinary shares outstanding for the year ended 31 December 2011 of 75,000,000. Number of ordinary shares for the year ended 31 December 2010 has been adjusted to reflect the increase in number of shares consequent to the subdivision of 23 June 2011. Accordingly earning per share has been adjusted retrospectively as per SLAS 34-Earning per Share (Revised 2005).

For the year ended 31 December	2011	2010
Profit for the year (Rs. '000)	695,585	511,971
Number of ordinary shares ('000)	75,000	*75,000
Earnings per share (Rs.)	9.27	*6.83

\* Information for the previous years has been restated to reflect the subdivision of shares.

The following graphs depict the growth in earning per share over the previous five years.



\* Information for the previous years have been restated to reflect the subdivision of shares.

## 15. Dividend per share

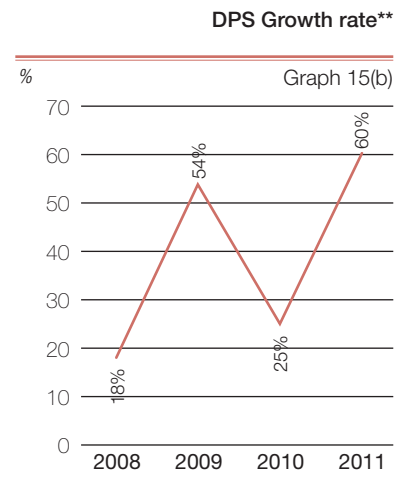
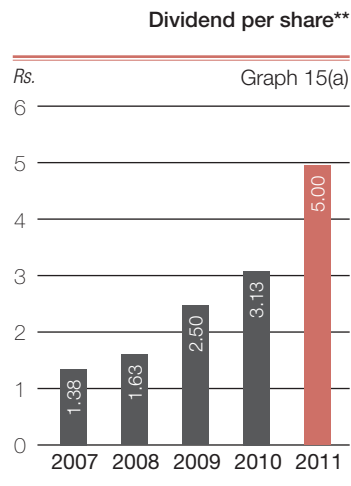
This note indicates how dividend per share computed.

15a The Board of Directors of the company has declared a first and final dividend of Rs. 5.00 per share for the financial year ended 31 December 2011. As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the company satisfied the solvency test in accordance with the section 57, prior to declaring the final dividend. A statement of solvency duly completed and signed by the Directors on 23 February 2012 has been audited by Messrs KPMG Ford, Rhodes, Thornton & Co.

	2011	2010
Dividend declared (Rs. 000)	375,000	234,375
Number of ordinary shares ('000)	75,000	*75,000
Dividend per share (Rs.)	5.00	*3.13

\* Information for the previous year has been restated to reflect the subdivision of shares.

The following graphs depict the growth in dividend per share over the previous five years.



\*\* Information for the previous years have been restated to reflect the subdivision of shares.

## 16. Investments

This note provides details of how life policyholder funds and general insurance funds have been invested. The relevant accounting policies are detailed on note no 3.3. The risk management practices adopted by UA in relation to the investment portfolio is outlined on page 121. The decision making process adopted by the Board Investment Committee with regard to which assets / classes / durations to invest is detailed on page 115. The bulk of UA's investments i.e. 83 % (2010 - 87%) are in government securities. Corporate securities (which comprise quoted and unquoted debentures) account for a further 14 % of investments (2010 - 10%).

**16. Investments Contd.**

		2011 Rs. '000	2010 Rs. '000
Government securities	16a	12,394,065	11,176,746
Corporate securities	16b	2,153,891	1,229,300
Bank deposits		350,000	300,000
Unquoted equities	16c	100,625	100,625
Investments in unit linked fund	16f	10,892	10,746
		<b>15,009,473</b>	<b>12,817,417</b>

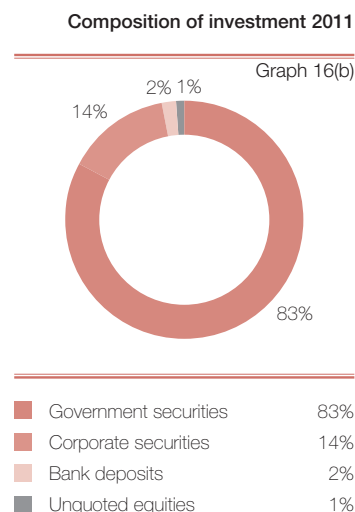
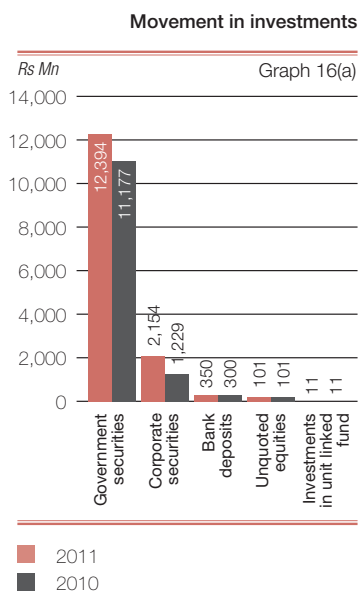
**16a. Government securities**

		2011 Rs. '000	2010 Rs. '000
Treasury bonds	16aa	11,255,560	10,147,603
Treasury bills		61,549	194,112
Reverse repurchase agreements		1,076,956	835,031
		<b>12,394,065</b>	<b>11,176,746</b>

**16aa. Assets pledged as security**

Assets	Liability		
Government treasury bonds	Secured against repurchase agreements	-	-

Union Assurance's investments portfolio mainly derives from our core business of insurance. The graph 16(a) reflects the movements in the portfolio from 2010 to 2011 and graph 16(b) depicts the composition of investment in 2011. As depicted below, investments in government securities increased from Rs. 11.2 billion to Rs. 12.4 billion. As per the composition of investments the majority (83%) of investments were in government securities (2010 - 87%).



**16b. Corporate securities**

		2011 Rs. '000	2010 Rs. '000
Quoted debentures	16d	1,561,522	959,300
Unquoted debentures	16e	345,000	270,000
Commercial papers		247,369	-
		<b>2,153,891</b>	<b>1,229,300</b>

**16c. Unquoted shares**

	2011			2010		
	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		-	-		-	-
		<b>100,625</b>	<b>100,625</b>		<b>100,625</b>	<b>100,625</b>

**16d. Quoted debentures**

Issuer	Maturity date	No. of debentures	2011			2010			
			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	250,000	250,000	250,000	14.00	250,000	250,000	250,000	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	9,971	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	177,000	19.75
Urban Development Authority	10/5/2015	1,743,000	174,300	174,143	11.00	1,743,000	174,300	174,300	11.00
Nations Trust Bank PLC	8/4/2016	2,750,000	275,000	275,000	11.50	-	-	-	-
DFCC Vardhana Bank PLC	8/30/2016	2,222,222	222,222	222,222	11.50	-	-	-	-
Merchant Bank of Sri Lanka	11/15/2015	1,050,000	105,000	105,000	11.80	-	-	-	-
			<b>1,561,522</b>	<b>1,588,336</b>			<b>959,300</b>	<b>986,300</b>	

**16e. Unquoted debentures**

Issuer	Maturity date	No. of debentures	2011			2010			
			Cost Rs. '000	Directors' valuation Rs. '000	Coupon rate %	No. of debentures	Cost Rs. '000	Directors' valuation Rs. '000	Coupon rate %
Aitken Spence PLC	10/25/2012	1,000,000	100,000	100,000	13.75	2,000,000	175,000	175,000	13.75
Commercial Bank of Ceylon PLC	5/16/2016	95,000	95,000	95,000	13.25	95,000	95,000	95,000	13.25
People's Leasing Company PLC	6/30/2015	1,500,000	150,000	150,000	11.70				
			<b>345,000</b>	<b>345,000</b>			<b>270,000</b>	<b>270,000</b>	

**16f. Investments - Unit linked**

	2011 Rs. '000	2010 Rs. '000
Unit linked life insurance fund - managed fund	5,456	5,606
Unit linked life insurance fund - fixed income fund	5,436	5,140
	<b>10,892</b>	<b>10,746</b>

**16g. Contractual period to maturity of fixed - interest securities**

	2011	2010
Up to one year	4,760,827	1,785,963
Over one year and up to two years	2,503,155	3,887,688
Over two years and up to three years	896,058	2,407,979
Over three years and up to four years	1,616,870	894,198
Over four years and up to five years	1,270,236	1,271,084
Over five years and up to ten years	2,627,474	2,259,133
Over ten years	1,223,335	200,000
	<b>14,897,956</b>	<b>12,706,046</b>

**16h. Analysis of issue ratings of corporate debt securities**

	2011	2010
AA	100,000	175,000
AA -	450,000	345,000
A +	422,222	200,000
A	300,000	150,000
A -	450,000	175,000
BBB	10,000	
BBB -	-	10,000
F1	148,331	
P1	99,037	-
Unrated	174,300	174,300
	<b>2,153,891</b>	<b>1,229,300</b>

**17. Investments - life - unit linked**

This note provide the details of investments made under the unit linked product. As per note no. 3.3.5 on page 206, unit linked investments are stated at market value.

As at 31st December		2011 Rs.'000	2010 Rs.'000
Government securities at market value	17.a	169,768	45,116
Quoted equities at market value	17.b	380,055	122,993
		<b>549,823</b>	<b>168,109</b>

**17a. Government securities at market value**

As at 31 December

	2011 Rs.'000	2010 Rs.'000
Treasury bills	31,983	8,700
Reverse repurchase agreements	137,785	36,416
	<b>169,768</b>	<b>45,116</b>

**17b. Quoted equities at market value**

As at 31 December

	2011			2010		
	No of shares	Cost Rs.'000	Market value Rs.'000	No of shares	Cost Rs.'000	Market value Rs.'000
<b>Banks Finance and Insurance</b>						
Commercial Bank of Ceylon PLC*	406,262	49,355	40,626	43,600	11,123	11,332
Commercial Bank of Ceylon PLC - Non Voting	54,216	4,297	4,039	6,600	999	1,069
DFCC Bank PLC	-	-	-	32,500	6,637	6,507
Hatton National Bank PLC*	165,300	37,376	25,010	23,400	9,108	9,358
Janashakthi Insurance PLC*	191,400	3,028	2,871	46,100	718	738
Merchant Bank of Sri Lanka PLC*	70,500	2,991	2,792	18,400	829	843
National Development Bank PLC	-	-	-	11,000	3,881	3,845
Nations Trust Bank PLC*	122,200	8,714	6,965	27,700	2,291	2,310
Pan Asia Banking Corporation PLC*	156,400	4,059	3,973	20,400	1,058	1,061
Sampath Bank PLC*	83,589	20,603	16,300	18,628	4,839	5,065
Seylan Bank PLC*	92,300	6,975	6,239	16,500	1,604	1,614
AVIVA NDB Insurance PLC	15,800	4,491	3,909	7,000	2,033	1,960
LB Finance PLC*	36,700	5,706	5,087	-	-	-
<b>Beverage Food and Tobacco</b>						
Distilleries Company of Sri Lanka*	183,500	31,828	26,993	49,200	8,407	8,753
Ceylon Tobacco Company PLC	6,300	2,456	3,088	-	-	-
<b>Chemicals and Pharmaceuticals</b>						
Chemical Industries Colombo PLC	-	-	-	8,700	1,098	1,224
<b>Construction and Engineering</b>						
Colombo Dockyard PLC	9,400	2,644	2,245	10,600	3,026	2,915
<b>Diversified Holdings</b>						
John Keells Holdings PLC*	446,833	94,263	76,051	76,400	22,795	22,798
Richard Pieris and Company PLC*	1,028,600	11,393	9,257	232,200	2,356	2,438
Aitken Spence PLC*	215,900	29,943	25,994	-	-	-
Expolanka Holdings PLC	191,000	2,539	1,719	-	-	-
Softlogic Holdings PLC	46,600	1,351	839	-	-	-
Hemas Holdings PLC*	276,500	11,992	9,125	-	-	-
Colombo Land & Development Company PLC*	97,400	6,415	4,773	-	-	-

**17b. Quoted equities at market value Contd.****As at 31 December**

	2011			2010		
	No of shares	Cost Rs.'000	Market value Rs.'000	No of shares	Cost Rs.'000	Market value Rs.'000
<b>Health Care</b>						
Nawaloka Hospitals PLC*	717,600	2,867	2,799	170,600	689	631
The Lanka Hospital Corporation PLC*	118,700	5,592	6,184			
<b>Hotels and Travels</b>						
Asian Hotels and Properties PLC	-	-	-	26,500	5,012	5,141
Keells Hotels PLC*	780,100	13,651	10,531	173,800	3,577	3,476
<b>Investment Trusts</b>						
Environmental Resources Investments PLC*	167,100	11,692	6,701	37,400	3,109	3,213
<b>Land and Property</b>						
Overseas Reality Ceylon PLC	-	-	-	106,300	1,709	1,626
<b>Manufacturing</b>						
ACL Cables PLC	-	-	-	5,500	500	468
Chevron Lubricants Lanka PLC	26,100	4,257	4,437	16,300	2,642	2,600
Lanka Tiles PLC	18,500	2,532	1,486	3,000	382	403
Tokyo Cement Company Lanka PLC	71,800	2,061	2,190	71,800	2,061	2,894
Royal Ceramics Lanka PLC*	82,600	12,575	11,688	-	-	-
Piramal Glass Ceylon PLC*	497,600	4,307	3,931	-	-	-
Ceylon Grain Elevators PLC*	32,200	3,571	3,397	-	-	-
<b>Power and Energy</b>						
Lanka IOC PLC	-	-	-	46,800	884	885
Laugfs Gas PLC*	177,700	7,344	6,753	3,500	81	91
Laugfs Gas PLC - Non Voting	-	-	-	4,200	63	78
<b>Telecommunication</b>						
Dialog Axiata PLC*	4,258,100	41,991	33,213	1,160,900	13,516	13,699
Sri Lanka Telecom PLC	-	-	-	32,000	1,481	1,568
<b>Trading</b>						
Browns and Company PLC*	37,700	10,201	8,850	9,700	2,235	2,395
		<b>465,061</b>	<b>380,055</b>		<b>120,739</b>	<b>122,993</b>

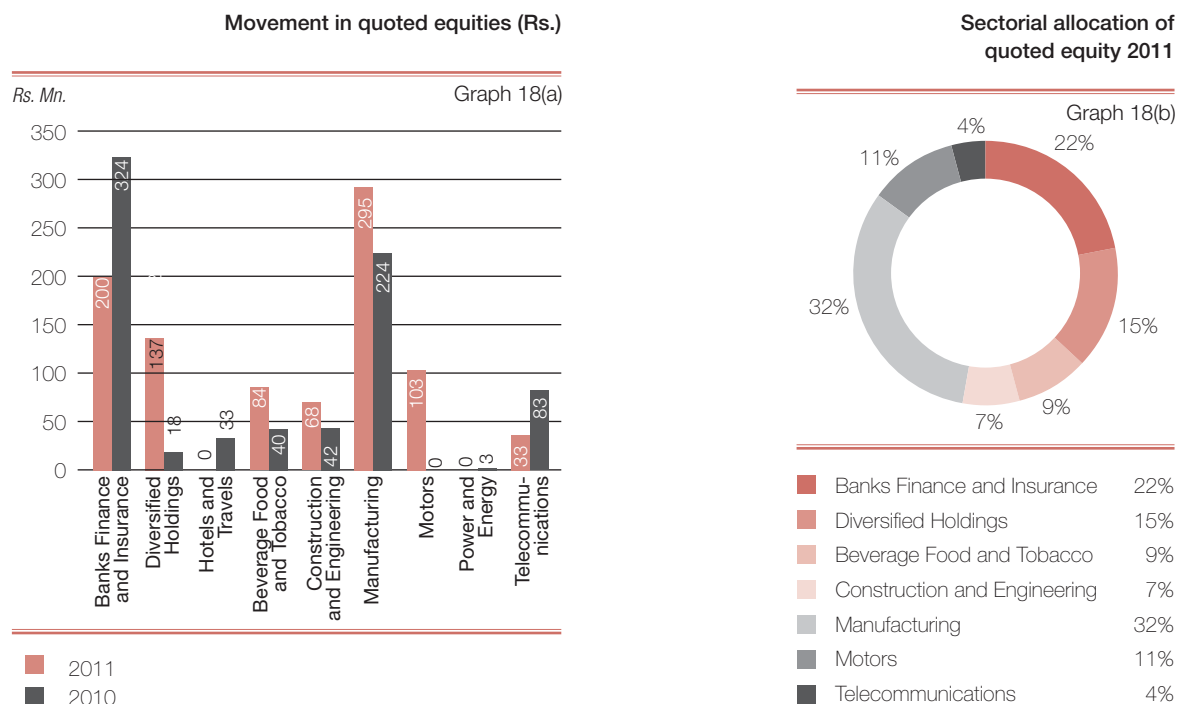
\* Investments made by Union Assurance PLC under the unit linked equity tracker fund, which invests in the 25 companies that comprise the Milanka price index.

## 18. Quoted equities at market value

This note indicates our investments in quoted equities. As per accounting policy in note no. 3.3.4 on page 206, quoted equities are stated at market value. Approximately 22% of quoted equities are invested in the banks, finance and insurance sector. The manufacturing and diversified holding sectors account for 32% and 15% of the portfolio respectively.

	2011			2010		
	No. of shares	Cost Rs. '000	Market value Rs. '000	No. of shares	Cost Rs. '000	Market value Rs. '000
<b>Banks Finance and Insurance</b>						
Central Finance Company PLC	-	-	-	99,800	31,640	81,686
Commercial Bank PLC (Non-Voting)	856,346	52,958	63,798	206,050	14,991	33,380
Commercial Bank PLC	-	-	-	135,000	13,752	35,087
Hatton National Bank PLC (Non-Voting)	609,050	51,943	50,673	297,900	28,495	63,929
Sampath Bank PLC	261,158	36,027	50,926	370,582	35,554	100,761
Aviva NDB Insurance PLC	62,000	17,677	15,339	33,300	9,092	9,324
Singer Finance (Lanka) PLC	-	-	-	18,100	272	272
HNB Assurance PLC	336,266	23,645	19,134	-	-	-
<b>Diversified Holding</b>						
Hemas Holdings PLC	405,750	6,708	13,390	405,750	6,708	18,056
Expolanka Holdings PLC	6,376,700	89,589	57,390	-	-	-
Softlogic Holdings PLC	3,693,200	107,103	66,478	-	-	-
<b>Hotels and Travels</b>						
Aitken Spence Hotel Holdings PLC	-	-	-	310,800	6,722	32,852
<b>Beverage Food and Tobacco</b>						
Distilleries Company Of Sri Lanka PLC	405,000	63,890	59,576	225,000	30,525	40,028
Ceylon Tobacco Company PLC	50,000	19,454	24,505	-	-	-
<b>Construction &amp; Engineering</b>						
Colombo Dockyard PLC	286,800	66,814	68,488	152,000	31,168	41,800
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC	272,200	35,927	46,274	102,000	7,503	16,269
Royal Ceramics Lanka PLC	620,000	46,394	87,730	310,000	21,404	94,519
Tokyo Cement Company (Lanka) PLC (Voting)	582,525	7,817	25,631	582,525	7,817	32,039
Tokyo Cement Company (Lanka) PLC (Non Voting)	2,757,500	84,147	84,104	1,607,500	30,481	64,782
Lanka Floortiles PLC	455,200	61,211	36,553	124,700	15,015	16,747
Piramal Glass PLC	1,874,100	16,585	14,805	-	-	-
<b>Motors</b>						
Diesel and Motor Engineering PLC	43,962	66,436	57,243	-	-	-
United Motors Lanka PLC	312,500	53,978	45,625	-	-	-
<b>Power &amp; Energy</b>						
Laugfs Gas PLC (Voting)	-	-	-	58,000	1,334	1,502
Laugfs Gas PLC (Non Voting)	-	-	-	79,800	1,197	1,476
<b>Telecommunication</b>						
Dialog Axiata PLC	2,500,000	17,801	19,500	5,000,000	35,603	59,000
Sri Lanka Telecom PLC	288,200	13,844	13,831	488,200	23,452	23,922
		939,948	920,993		352,725	767,431

Graph 18(a) depicts the year on year increase and graph 18(b) illustrates the composition in the quoted equity portfolio in 2011.



## 19. Intangible assets

This note analyses the change in carrying amount of goodwill during the year, and details the assumptions used to conduct the impairment test as per accounting policy note no. 3.4 on page 206.

As at 31 December	2011 Rs. '000	2010 Rs. '000
<b>Acquisition cost</b>		
Balance as at 1 January	110,000	110,000
Additions	-	-
Balance as at 31 December	<b>110,000</b>	110,000
<b>Amortisation</b>		
Balance as at 1 January	60,500	60,500
Amortisation charge for the year	-	-
Balance as at 31 December	<b>60,500</b>	60,500
<b>Carrying Amount</b>		
As at 31 December	<b>49,500</b>	<b>49,500</b>

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.

- (a) 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.
- (b) Gross margins: Gross margins are budgeted on a realistic basis considering the company's business model, cost structure and projected market conditions.
- (c) 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 2011.

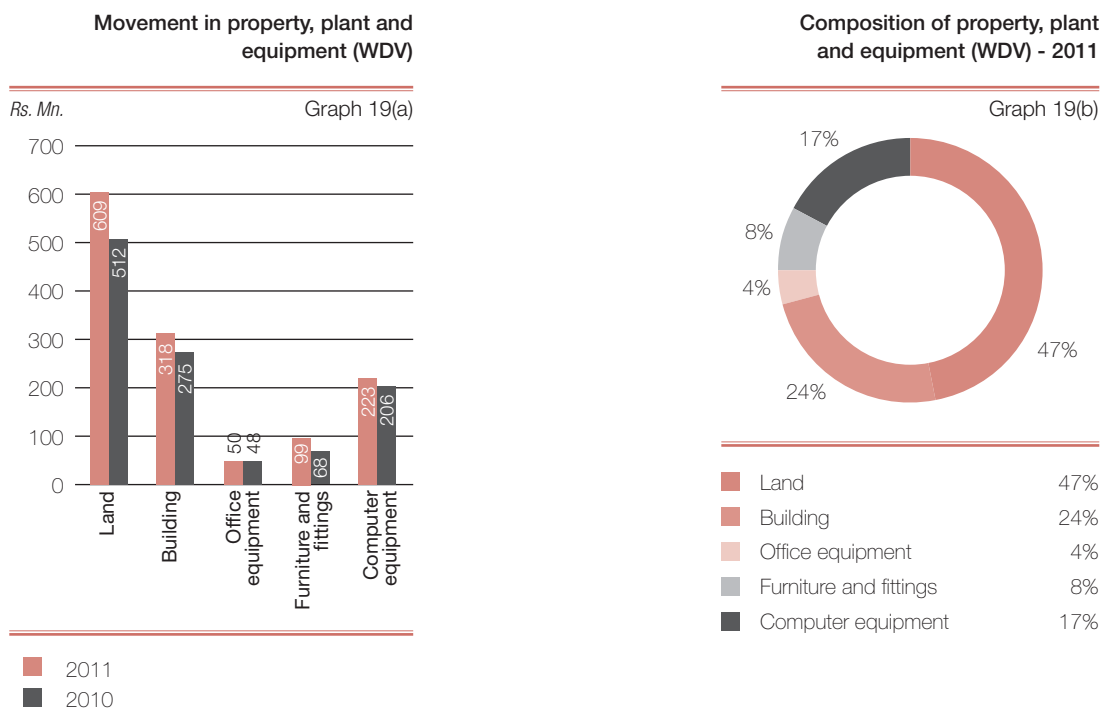
Based on the above the Board of Directors conclude that there is no adjustment for impairment required.

## 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 207) outlines the accounting treatment when purchasing fixed assets and the depreciation rates used for each class of assets. There is a substantial increment in land and building by Rs. 147 million due to gain in revaluation of land and building.

	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
<b>Cost</b>							
Balance as at 1 January 2011	512,000	282,408	145,190	200,496	622,278	32,101	1,794,473
Additions during the year	-	-	20,124	57,946	92,555	-	170,625
Surplus on revaluation	97,000	35,592	-	-	-	-	132,592
Disposals during the year	-	-	(168)	(383)	(2)	(6,967)	(7,520)
<b>Balance as at 31 December 2011</b>	<b>609,000</b>	<b>318,000</b>	<b>165,146</b>	<b>258,059</b>	<b>714,831</b>	<b>25,134</b>	<b>2,090,170</b>
<b>Depreciation and impairment losses</b>							
Balance as at 1 January 2011	-	7,485	97,254	132,591	416,629	31,791	685,750
Depreciation charge for the year	-	7,682	18,002	27,265	75,594	151	128,694
Transferred accumulated depreciation	-	(15,167)	-	-	-	-	(15,167)
Accumulated depreciation on disposals	-	-	(168)	(383)	(2)	(6,934)	(7,487)
<b>Balance as at 31 December 2011</b>	<b>-</b>	<b>-</b>	<b>115,088</b>	<b>159,473</b>	<b>492,221</b>	<b>25,008</b>	<b>791,790</b>
<b>Carrying amount</b>							
<b>Balance as at 31 December 2011</b>	<b>609,000</b>	<b>318,000</b>	<b>50,058</b>	<b>98,586</b>	<b>222,610</b>	<b>126</b>	<b>1,298,380</b>
<b>Balance as at 31 December 2010</b>	<b>512,000</b>	<b>274,923</b>	<b>47,936</b>	<b>67,905</b>	<b>205,649</b>	<b>310</b>	<b>1,108,723</b>

The following graphs depict the breakdown of property, plant and equipment on a written down value basis. As per graph 19(a) there is a substantial increase in land and buildings due to Rs. 147 million revaluation of this asset class. Graph 19(b) depicts the composition of property plant and equipment in 2011.



**20a. The details of freehold land and buildings which are stated at valuation are as follows:**

Company Property	Method of valuation	Date of valuation	Valuer	Revalued amount Rs.'000
Land and building situated at No. 20 St. Michaels Road , Colombo 3 owned by Union Assurance PLC	Investment method	31 December 2011	Mr. P. B. Kalugalagedera and Associates Chartered valuation surveyor	785,000
Land & building situated at No. 6 Rajapihilla Road, Kurunegala, owned by Union Assurance PLC	Investment method	31 December 2011	Mr. P. B. Kalugalagedera and Associates Chartered valuation surveyor	142,000

**20b. If land and buildings were stated at historical cost, the amounts would have been as follows**

As at 31 December	2011 Rs.'000	2010 Rs.'000
Cost	251,124	251,124
Accumulated depreciation	(57,519)	(53,505)
<b>Carrying amount</b>	<b>193,605</b>	<b>197,619</b>

**20c. The effect of revaluation of freehold buildings on the profit or loss in the subsequent period is as follows**

As at 31 December	2011 Rs.'000
Depreciation charge per annum prior to revaluation	4,014
Depreciation charge per annum after revaluation	7,682
Decrease in profit in subsequent period	<b>3,668</b>

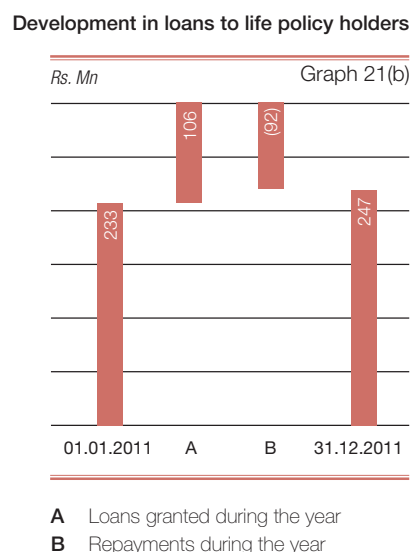
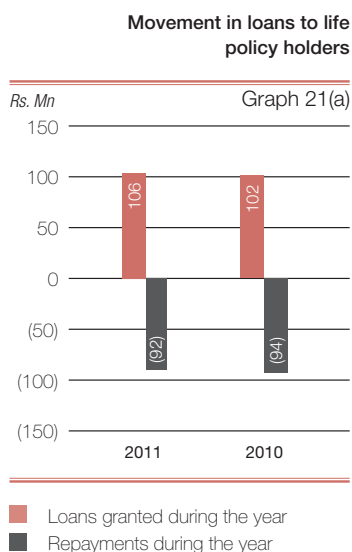
The effect of revaluation on the profit is reflected in the current year due to the previous revaluation done on 31 December 2009.

**21. Loans to life policyholders**

This note analyses the movement in loans granted to life insurance policyholders.

As at 31 December	2011 Rs. '000	2010 Rs. '000
Balance as at 1 January	232,618	224,325
Loans granted during the year	106,084	102,185
Repayments during the year	(92,028)	(93,892)
<b>Balance as at 31 December</b>	<b>246,674</b>	<b>232,618</b>

The graph 21(a) depicts the movement in loans granted to life insurance policyholders. Graph 21(b) illustrates the development of employee loans during the year 2011.



## 22. Reinsurance receivable

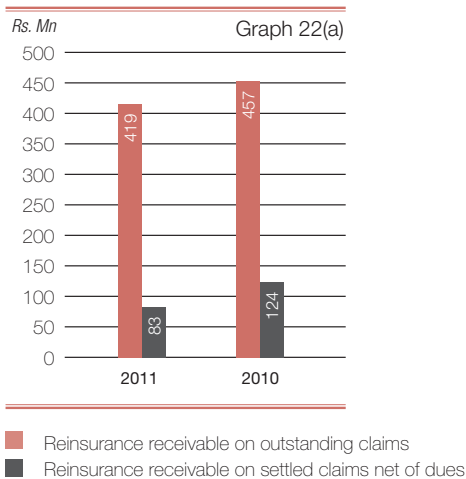
This note analyses the amounts due from reinsurers between receivables on account of outstanding claims (i.e. claims which have been reserved, but not paid to policyholders) and receivables on account of claims which have already been paid. The relevant accounting policies are detailed on page 208. The risk management initiatives taken to ensure recoverability of reinsurance receivables is detailed on page 120.

As at 31 December

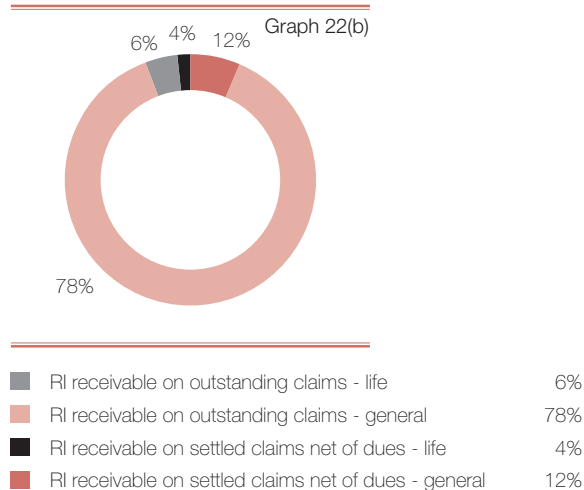
	2011 Rs. '000	2010 Rs. '000
Reinsurance receivable on outstanding claims	418,742	456,569
Reinsurance receivable on settled claims net of dues	83,067	124,127
Provision for doubtful receivable	(6,033)	(1,687)
	<b>495,776</b>	<b>579,009</b>

The graph 22(a) reflects the movement in reinsurance receivable compared to the previous year. In 2011, reinsurance receivable on outstanding claims and settled claims decreased. Graph 22(b) illustrates the composition of reinsurance receivables in 2011.

**Movement in reinsurance receivables**



**Composition of reinsurance receivables 2011**



## 23. Premium receivable

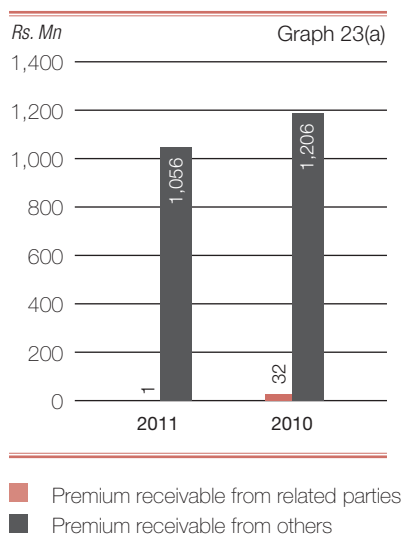
This note details the general insurance premium receivable from customers and intermediaries.

As at 31 December

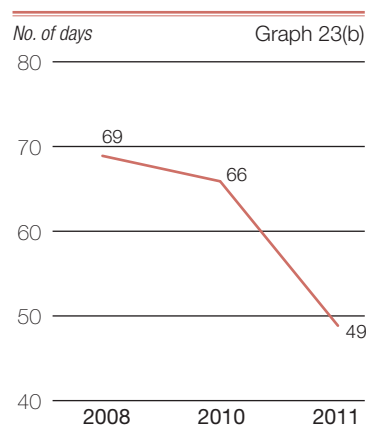
	2011 Rs. '000	2010 Rs. '000
Premium receivable	1,064,406	1,245,625
Less: Provision for bad debts		
As at the beginning of the year	8,031	8,031
Provision made for the year	-	-
Bad debts written off during the year	-	-
As at the end of the year	8,031	8,031
Premium receivable net of provision	<b>1,056,375</b>	<b>1,237,594</b>
Premium receivable from related parties	737	31,563
Premium receivable from others	1,055,638	1,206,031
	<b>1,056,375</b>	<b>1,237,594</b>

As at December 31, 2011, premium receivable amounted to Rs. 1 billion which was a decrease of Rs. 181 million from 31 December 2010. The reduction was mainly due to the efficient credit management policy and implementation of premium warranty clause during the year. The risk management initiatives taken to ensure recoverability of premium receivables is detailed on page no. 120. As reflected in the following graph of premium receivables (non related party receivables and related party receivables) has not changed significantly. Graph 23(b) illustrates the movement in average credit period in number of dates during past three years.

**Movement in composition of premium receivable**



**Average credit period - no of days**



## 24. Other assets

This note provides details of assets other than those mentioned above. Loans to employees - 25% (2010 - 26%) and interest income receivable - 35% (2010 - 36%) form the largest components of other assets. Taxes receivable / recoverable accounted for a further 19% (2010 - 22%) of other assets.

As at 31 December

	2011 Rs. '000	2010 Rs. '000
Inventories	19,638	9,257
Interest income receivable	629,340	547,656
ACT recoverable	92,296	92,296
WHT recoverable	207,702	159,029
ESC receivable	44,339	89,613
Refundable deposits and prepayments	110,886	63,344
Other debtors and receivables	240,284	178,936
Loans to employees	442,538	400,801
	<b>1,787,023</b>	<b>1,540,932</b>

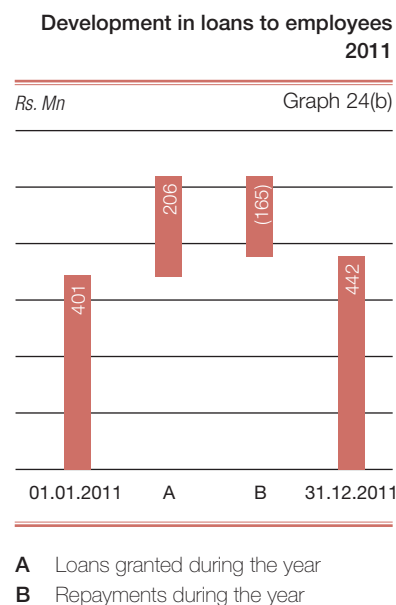
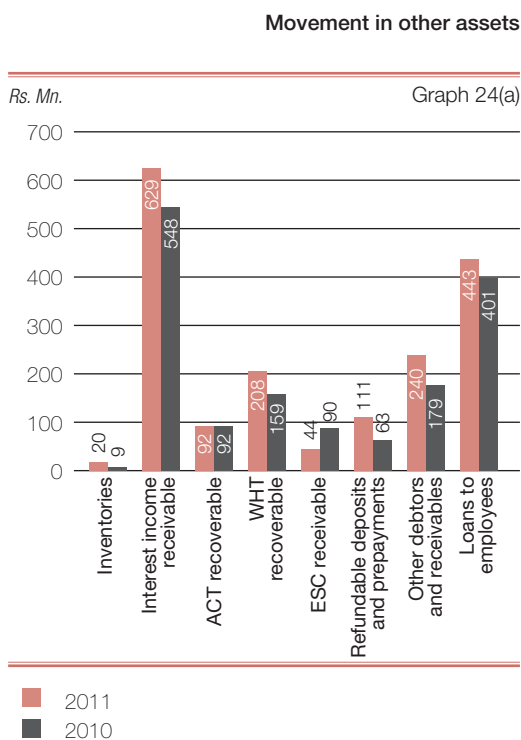
**24a. Loans to employees**

As at 31 December

	2011 Rs. '000	2010 Rs. '000
Balance as at 1 January	400,801	358,589
Loans granted during the year	206,452	199,217
Repayments during the year	(164,715)	(157,005)
<b>Balance as at 31 December</b>	<b>442,538</b>	<b>400,801</b>

No loans have been granted to the Directors of the company.

The following graph depicts the composition of other assets in 2011 comparing with 2010. UA's other assets base amounted to Rs. 1.8 billion as at December 31 2011. Graph 24(b) shows the development of loans during the year 2011. During the year, the value of loans granted to employees and repayments had increased compared to the previous year.

**25. Cash and cash equivalents**

As at 31 December

	2011 Rs. '000	2010 Rs. '000
Cash in hand and at bank	373,056	389,896
Cash in hand and at bank - life - unit linked	357	242
	<b>373,413</b>	<b>390,138</b>

## 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 209.

As at 31 December		2011 Rs. '000	2010 Rs. '000
Insurance provision - life	26a, 26b	13,211,359	11,579,108
Unclaimed benefits		229,100	190,200
<b>Total</b>		<b>13,440,459</b>	<b>11,769,308</b>

### 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 2011 was made by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd, who recommended a sum of Rs. 419 million to be transferred from conventional life insurance fund to the shareholders fund for the year 2011. Subsequent to the transfer the conventional life fund stands as Rs. 13,141 million, including the liability in respect of bonuses and dividends declared up to and including for the year 2011.

Similarly the non unit fund of linked long term business valuation was made by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd, who recommended a sum of Rs. 10 million to be transferred from the non unit fund of the linked long term fund to shareholders fund for the year 2011. Subsequent to the transfer the fund stands at Rs. 70 million as at 31 December 2011.

In establishing the valuation, a reserve of Rs. 548 million for conventional life insurance fund and Rs. 63 million for non unit fund of linked long term business have been created by the actuary to counter any further 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 2011 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 Movement in life insurance fund

As at 31 December		2011 Rs. '000	2010 Rs. '000
Life fund - conventional		13,559,952	11,900,014
Transfer to shareholders		(429,000)	(325,000)
Non unit fund of linked long term business		80,407	4,094
		<b>13,211,359</b>	<b>11,579,108</b>

**27. Insurance provision - non life**

This note analyses the general insurance related provisions. Refer note no. 3.17, 3.19 and 3.20 on pages 209 and 210.

- The reserve for net unearned premium indicates the amount of premium (net of reinsurance) which is attributable to policies written as at 31 December 2011, but covering periods after 31 December 2011.
- 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 2011. This reserve includes a reserve for claims Incurred But Not Reported (IBNR) claims.

The general insurance provision as shown in the balance sheet represents the following:

As at 31 December		2011 Rs. '000	2010 Rs. '000
Reserve for net unearned premiums	27a	1,979,246	1,717,826
Reserve for net deferred acquisition cost	27b	(48,741)	(47,009)
Reserve for gross outstanding claims	27c	1,012,445	1,046,071
		<b>2,942,950</b>	<b>2,716,888</b>

**27a. Reserve for net unearned premiums**

As at 31 December		2011 Rs. '000	2010 Rs. '000
Balance as at 1 January		1,717,826	1,300,881
Increase during the year (Note 06)		261,420	416,945
<b>Balance as at 31 December</b>		<b>1,979,246</b>	<b>1,717,826</b>

**27b. Reserve for net deferred acquisition cost**

As at 31 December		2011 Rs. '000	2010 Rs. '000
Balance as at 1 January		(47,009)	(17,255)
Increase / (decrease) during the year		(1,732)	(29,754)
<b>Balance as at 31 December</b>		<b>(48,741)</b>	<b>(47,009)</b>

**27c. Reserve for gross outstanding claims**

As at 31 December		2011 Rs. '000	2010 Rs. '000
Balance as at 1 January		795,870	1,121,709
Claims incurred during the year		2,283,388	1,709,148
Payments during the year		(2,377,848)	(2,034,987)
<b>Balance as at 31 December</b>		<b>701,410</b>	<b>795,870</b>
IBNR claim reserve as at 1 January		250,201	231,437
Increase in IBNR		60,834	18,764
IBNR reserve as at 31 December		311,035	250,201
		<b>1,012,445</b>	<b>1,046,071</b>

**27d. Reserve for Incurred But Not Reported (IBNR) claims**

Generally there are significant delays in the notification and settlement of claims. A substantial measure of experience and judgment is involved in assessing the outstanding liabilities. The ultimate cost of these outstanding liabilities cannot be known with certainty as of the balance sheet date. The reserves are determined based on the information currently available. However, it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent developments.

The Incurred But Not Reported (IBNR) claims reserve has been actuarially computed by Mr. Matthew Maguire of NMG Consulting (NMG). The valuation is determined using internationally accepted actuarial reserving techniques coupled with reasonable and appropriate judgment of the actuary.

**Process used to decide on assumptions required**

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate the quantitative sensitivity analysis. NMG use several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. The two methods more commonly used are the Chain-Ladder and the Bornhuetter - Ferguson methods.

The Chain-Ladder methods may be applied to premiums, paid claims or reported claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of development factors based on this historical pattern. The selected development factors are then applied to the cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year. Chain-ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter-Ferguson (BF) method uses a combination of a benchmark or market-based estimates and an estimate based on the claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or reported claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique is used in situations in which developed claims experience is not available for the projection such as recent accident years or new classes of business.

Generally, NMG has given higher credibility to the Chain-Ladder method on a cumulative claims reported basis for each class of business. In general, the reported basis would display more stability relative to the paid basis, especially for more recent accident years. To increase consistency, the BF method uses results from the 31 December 2010 analysis as the seed loss ratio for each accident year and a projected loss ratio for the latest accident year.

**Changes in assumptions**

NMG did not change its estimation techniques for IBNR reserve during the year.

**Loss development factors**

NMG has used loss development factors based on weighted averages except where:

- The weighted average is contrary to a trend in the recent ratios. For some classes, the trend in loss development factors applies only to certain development years.
- Payments in particular years are clearly out of line relative to those in other years, in which case such outliers have been disregarded in selecting the loss development factors.

The following table (a) shows the cumulative reported claims, for each accident year at the end of each year, together with cumulative paid claims as at the end of the current year where as table (b) shows the IBNR reserve (net of reinsurance) by accident years for the year ended 31 December 2011.

Table (a)

Cumulative Claims Reported (Rs. '000)											
AY/DY	1	2	3	4	5	6	7	8	9	10	11
1999	190,103	231,687	234,703	237,722	238,177	238,834	239,306	241,563	242,540	243,576	256,120
2000	240,466	306,191	316,244	318,675	317,296	318,645	318,453	326,667	327,684	328,250	329,284
2001	280,078	365,903	363,649	362,495	362,341	362,786	363,715	364,817	367,032	367,132	366,436
2002	340,098	347,335	343,847	345,064	342,812	345,395	350,271	349,675	351,160	351,080	
2003	306,757	319,624	314,446	315,062	316,551	316,447	316,724	316,534	316,417		
2004	277,656	248,505	244,750	245,017	247,885	247,946	249,327	249,356			
2005	463,527	473,210	474,784	478,828	484,007	486,365	488,740				
2006	845,645	894,328	901,726	905,367	911,792	917,829					
2007	1,104,357	1,171,202	1,181,733	1,189,040	1,203,549						
2008	1,337,332	1,457,010	1,468,034	1,474,783							
2009	1,452,529	1,501,136	1,507,297								
2010	1,710,799	1,721,654									
2011	2,092,748										

Table (b)

Amount in (Rs. '000)							
Accident year	Fire	Motor	Workmen's compensation	Accident	Marine	Liability	Total
1999	-	(369)	-	-	-	-	(369)
2000	-	(142)	-	-	-	-	(142)
2001	-	(111)	-	-	-	-	(111)
2002	-	912	-	-	-	-	912
2003	-	1,006	-	-	-	-	1,006
2004	-	1,371	-	-	-	-	1,371
2005	-	3,715	-	-	-	-	3,715
2006	-	7,588	-	-	-	-	7,588
2007	-	15,408	2	-	-	21	15,431
2008	(92)	25,825	51	-	-	94	25,878
2009	(111)	41,224	222	-	-	80	41,414
2010	280	60,866	449	677	-	138	62,410
2011	(7,558)	127,252	2,521	30,864	(1,119)	(28)	151,932
<b>Total</b>	<b>(7,481)</b>	<b>284,545</b>	<b>3,245</b>	<b>31,540</b>	<b>(1,119)</b>	<b>306</b>	<b>311,035</b>

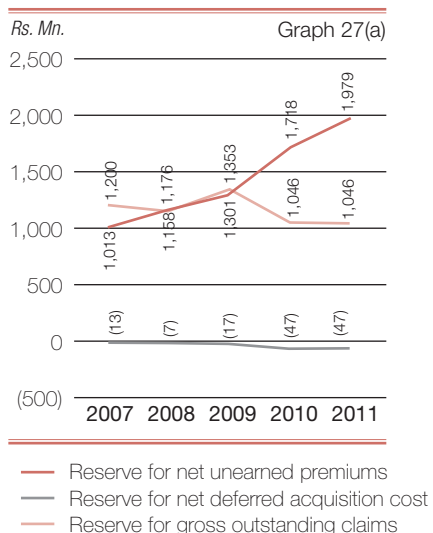
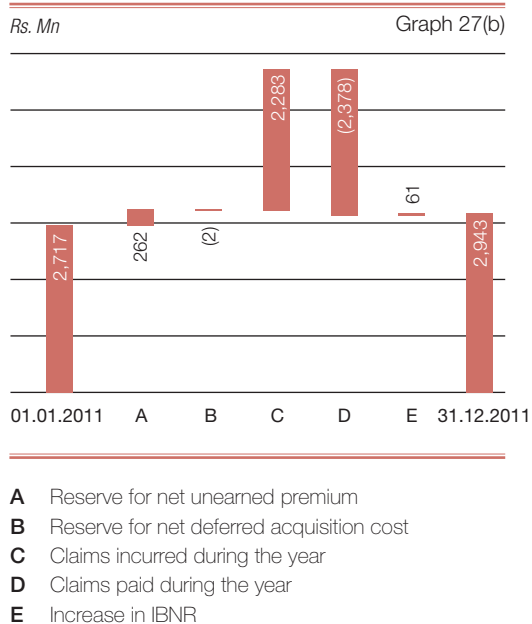
\*Figures may not add due to rounding

**27e. General insurance technical reserves**

As at 31 December

	2011 Rs. '000	2010 Rs. '000
General insurance provision	2,942,952	2,716,888
Reinsurance receivable on outstanding claims	(390,234)	(456,569)
	<b>2,552,718</b>	<b>2,260,319</b>

The following graph reflects the movement in general insurance provisions. Graph 27(a) and graph 27(b) illustrates the movement and the development in general insurance provision in 2011 respectively

**Movement in insurance provision - general****Development in insurance provision - general**

**28. Employee benefits**

This note indicates the assumptions used and the movement in the employee benefits which is actuarially valued. Refer note no. 3.13 page 209.

As at 31 December	2011 Rs. '000	2010 Rs. '000
Balance as at 1 January	132,422	95,955
Provision for the year	31,542	50,972
	163,964	146,927
Payments during the year	(9,262)	(14,505)
<b>Balance as at 31 December</b>	<b>154,702</b>	<b>132,422</b>
<b>Expenses recognised in statement of income</b>		
Current service costs	18,446	15,742
Interest on obligation	13,242	11,515
Actuarial (gain) / loss recognised during the year	(146)	23,715
	<b>31,542</b>	<b>50,972</b>

As at 31 December 2011 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 in determining the cost are given below:

	% Per annum
(a) Discount rate	10
(b) Incidence of withdrawal	3
(c) Salary increase	10

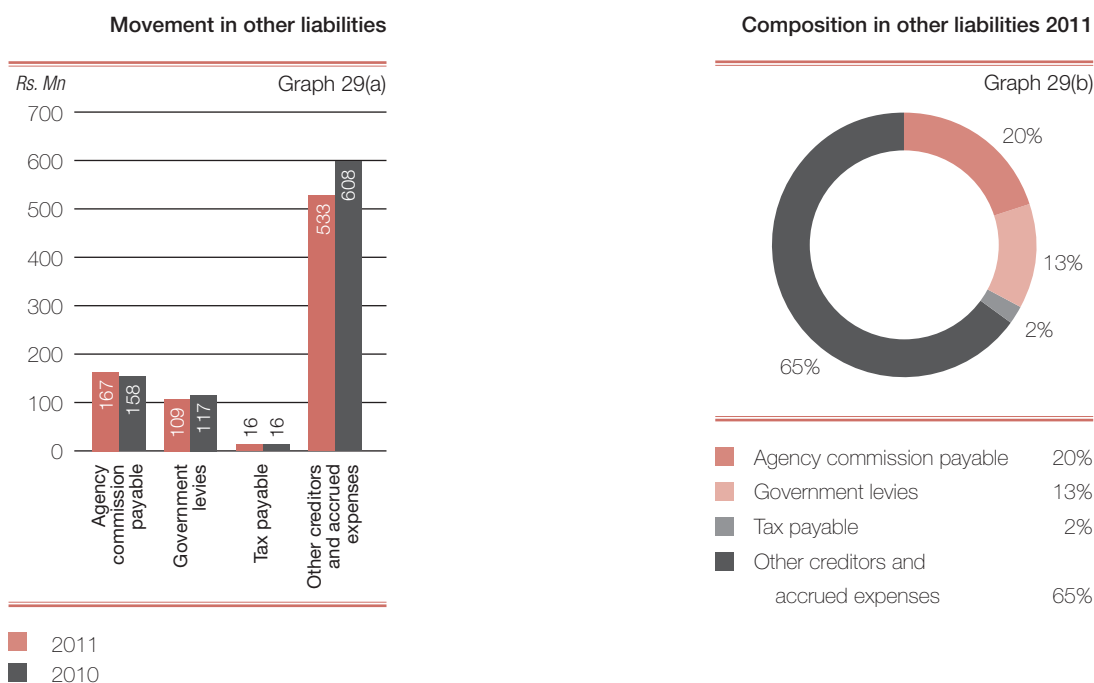
Assumptions regarding future mortalities are based on published statistics and mortality tables.

**29. Other liabilities**

This note analyses the other liabilities as at the end of the year.

As at 31 December	2011 Rs. '000	2010 Rs. '000
Agency commission payable	166,855	157,976
Government levies	109,173	116,530
Tax payable	16,293	16,316
Other creditors and accrued expenses	532,942	607,607
	<b>825,263</b>	<b>898,429</b>

UA's other liabilities amounted to Rs. 825 million as at 31 December 2011. Graph 29(a) depicts the movements in other liabilities in 2011, compared to 2010. There was no significant movements in each category of other liabilities except for other creditors and accrued expenses. Graph 29(b) illustrates the composition of other liabilities in 2011.



### 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 211 (Note no. 3.29.2).

As at 31 December

	2011 Rs. '000	2010 Rs. '000
<b>Deferred income tax related to items charged or credited directly to equity:</b>		
Net gain on revaluation of building	100,574	49,815
Tax rate	28%	28%
	<b>28,161</b>	<b>13,948</b>

The amount reflects the liability that may arise on the revaluation impact when the property situated at No. 6, Rajapihilla Road, Kurunegala is disposed.

#### 30b. Movement in unrecognised deferred tax liabilities / (assets)

As at 31 December

	2011 Rs. '000	2010 Rs. '000
Unrecognised deferred tax assets brought forward	30.b.1 (424,424)	(498,048)
Movement during the year	30.b.2 (177,211)	73,624
<b>Unrecognised deferred tax assets carried forward</b>	<b>(601,635)</b>	<b>(424,424)</b>

**30.b.1 Analysis of deferred tax liabilities / (assets)**

As at 31 December	2011		2010	
	Temporary difference Rs.'000	Deferred tax Rs.'000	Temporary difference Rs.'000	Deferred tax Rs.'000
<b>Deferred tax - liability</b>				
Property, plant and equipment	357,430	100,080	548,300	153,524
<b>Deferred tax - assets</b>				
Retirement benefit obligation	(154,702)	(43,316)	(132,422)	(37,078)
Staff bonus	(105,349)	(29,498)	(130,963)	(36,670)
Unutilised tax losses	(2,246,074)	(628,901)	(1,800,714)	(504,200)
<b>Net deferred tax assets - (note 30.b.2)</b>	<b>(2,148,696)</b>	<b>(601,635)</b>	<b>(1,515,799)</b>	<b>(424,424)</b>

**30.b.2 Movement in temporary differences**

As at 31 December	2011			2010		
	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
<b>Deferred tax - liability</b>						
Property, plant and equipment	548,300	(190,870)	357,430	310,599	237,701	548,300
<b>Deferred tax - assets</b>						
Employee benefits	(132,422)	(22,280)	(154,702)	(96,339)	(36,083)	(132,422)
Provision for bonuses	(130,963)	25,614	(105,349)	(90,988)	(39,975)	(130,963)
Unutilised tax losses	(1,800,714)	(445,360)	(2,246,074)	(1,546,267)	(254,447)	(1,800,714)
	<b>(1,515,799)</b>	<b>(632,896)</b>	<b>(2,148,696)</b>	<b>(1,422,995)</b>	<b>(92,804)</b>	<b>(1,515,799)</b>

As at 31 December 2011, total carried forward tax loss is Rs.2,246 million (2010 - Rs. 1,800 million). The company has utilised such tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences. Thus, no deferred tax asset is recognised in the financial statements as it is not probable that future taxable profits will be available against which the company can utilise the benefits there from.

**31. Stated capital**

This note provides details of UA's stated capital.

As at 31 December	2011 Rs. '000	2010 Rs. '000
<b>Issued and fully paid</b>		
At the beginning of the year - 37,500,000 and during the year increased to 75,000,000)*	375,000	375,000
Share premium	16,667	16,667
Share issue expenses (incurred prior to 3 May 2007)	(3,234)	(3,234)
	<b>388,433</b>	<b>388,433</b>

\* At an Extraordinary General Meeting held on 23 June 2011, the shareholders approved a sub division of the company shares, whereby one (1) existing share was sub divided to two (2), thereby increasing the ordinary shares in issue from 37,500,000 to 75,000,000 ordinary shares. For the purpose of calculating Earnings Per Share (EPS), the increased number of ordinary shares has been considered for all periods.

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

As at 31 December

		2011 Rs.'000	2010 Rs.'000
Unrealised gain reserve	32a	475,860	475,860
Life policy holder's revaluation reserve	32b	221,444	91,566
Reserve on merger Cornhill (Private) Limited	32c	16,752	16,752
		<b>714,056</b>	<b>584,178</b>

### 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 policyholders in 2007, and the gain on transferring the land and building in Kurunegala in 2008. These gains will be realised to shareholder when the properties are disposed.

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	475,860	479,528
Transfer from unrealised gain reserve to retained earnings	-	(3,668)
	<b>475,860</b>	<b>475,860</b>

### 32b. Life policy holders revaluation reserve

This note provides details of the movement in the revaluation reserve during the year.

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	91,566	88,079
Adjustment for deferred tax due to change in tax rates	-	3,487
Surplus on revaluation during the year, net of deferred tax liability	133,546	-
Transfer from unrealised gain reserve to retained earnings	(3,668)	-
	<b>221,444</b>	<b>91,566</b>

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 2011 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 policyholders balance sheet.

	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	16,752	16,752
Net assets of Cornhill (Private) Limited	-	-
Investment	-	-
	<b>16,752</b>	<b>16,752</b>

**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 its Directors and their immediate family members.

**Transactions with key management personnel**

Union Assurance PLC, considers its Board of Directors and their immediate family members 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 2011.

The Directors fees and emoluments for the year ended 31 December 2011 amounted to Rs. 4.05 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	Deputy Chairman	John Keells Holdings PLC and its subsidiaries own 95.65% 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.
Keells Consultants (Pvt) Ltd.	A. D. Gunewardene D. C. Alagaratnam	Director Director	Keells Consultants (Private) Ltd is the Secretary of Union Assurance PLC.	Union Assurance has transactions in the normal course of business as secretaries to the company with Keells Consultants (Private) Ltd.

**33b. Transactions with companies significantly influenced by key management personnel**

Company	Name of Director	Position	Relationship	Details of financial dealings
Kalutara Bodhi Trust Union Bank of Colombo PLC	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 PLC.
Nations Trust Bank PLC	A. D. Gunewardene	Chairman	No relationship with Union Assurance PLC.	Union Assurance has transactions in the normal course of business with Nations 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.

**For the year ended 31 December**

	2011 Rs.'000	2010 Rs.'000
<b>Premium received</b>		
John Keells Holdings PLC and its subsidiaries and associates	362,077	373,720
Kalutara Bodhi Trust	125	129
Union Bank of Colombo PLC	1,790	1,201
Central Finance Company PLC	-	1,024
Nations Trust Bank PLC	1,127	428
Central Industries PLC	-	100
	<b>365,119</b>	<b>376,602</b>

**For the year ended 31 December**

	2011 Rs.'000	2010 Rs.'000
<b>Net claims incurred</b>		
John Keells Holdings PLC and its subsidiaries and associates	189,825	212,572
Kalutara Bodhi Trust	10	58
Union Bank of Colombo PLC	5	37
Central Finance Company PLC	-	427
Nations Trust Bank PLC	137	1,287
Central Industries PLC	-	-
	<b>189,977</b>	<b>214,381</b>

**Premium receivable from related parties**

John Keells Holdings PLC and its subsidiaries and associates	737	30,213
Central Finance Company PLC	-	1,350
	<b>737</b>	<b>31,563</b>

**Amounts paid**

Keells Consultants (Private) Ltd	389	-
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These insurance contracts have been entered into on normal terms, in the ordinary course of business. Also refer note 23 (page 240) for details of premium receivable.

Company	Relationship with John Keells Holdings PLC	Investment / Transaction	2011 Rs.'000	2010 Rs.'000
Central Hospital (Pvt) Ltd.	Associate	Equity	100,000	100,000
Nations Trust Bank PLC	Associate	Corporate debt	450,000	175,000
John Keells Residential Properties (Pvt) Ltd.	Subsidiary	Advance paid for investment property	24,420	-
Nations Trust Bank PLC	Associate	Reverse repurchase agreement - overnight	214,084	95,586
Nations Trust Bank PLC	Associate	Reverse repurchase agreement - term	350,000	350,000

### 34. Disclosures on risks from insurance contracts and investments

UA's reporting is based on various legal regulations governing risks it is exposed to as a result of its business operations:

Risk reporting concerns not only accounting but also the activities of risk management at Union Assurance PLC. To take both perspectives into account, information on risks is provided in the risk management report and risks from insurance contracts and investments are disclosed in the notes to the financial statements.

To obtain a complete overview of the risks to which Union Assurance is exposed, please refer the disclosures on risks from insurance contracts and investments in the notes to the financial statements, along with further information in the individual notes.

#### 34a. Risks from life insurance business

The risks presented in this section concern the life segment. Of primary importance for these insurance contracts are biometric risks, interest rate risks and lapse 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.

#### Biometric risks table

Characteristics	Important Risks
Largely long-term contracts under which mainly mortality and disability risks are assumed from cedants	<b>Mortality (short term):</b> Increase in claims expenditure due to exceptional, one-off circumstances
	<b>Mortality (long term):</b> Increase in claims expenditure due to sustained rise in mortality in cedants' portfolios
	<b>Disablement:</b> Increased expenditure for disability insurances in cedants' portfolios

#### Interest-rate risks

A distinction must be made between risks of changes in interest rates on the one hand and interest-rate guarantee risks on the other. Risks of changes in interest rates would result from the discounting of the provision for future policy benefits.

Economically, however, an interest-rate risk derives in principle from the need to earn a return on the investments covering the provision that is commensurate with the discount rate used in measuring the provision.

Average 12 month treasury bill rate issued by the Central Bank of Sri Lanka is disclosed below.

Year	2011	2010	2009	2008	2007
Interest rate	7.53%	9.39%	12.93%	18.91%	16.51%

In life primary insurance, an implicit or explicit interest-rate guarantee is granted for some of the contracts over their whole duration, based on a fixed interest rate applying at the time the contract is concluded. The discount rate used to calculate the provision for future policy benefits is identical with this interest rate for the majority of contracts in our portfolios. An appropriate minimum return needs to be earned in the long term from the investment result for the contractually guaranteed benefits.

### Liquidity risks

For Union Assurance, there could be a liquidity risk if the cash outflow for insurance claims payments and the costs related to the business were to exceed the cash inflow from premiums and investments. We therefore analyse the expected future balance from cash inflows due to premium payments and outflows for payment of insurance claims and benefits plus costs.

### 34b. Risks from general insurance business

Of particular importance for these insurance contracts is the estimation risk with regard to the amount of the expected claims expenditure for future claims from current insurance contracts (premium risk) and for claims already incurred (reserve risk). In estimating claims expenditure, we also take cost increases into account. There is an interest-rate risk for parts of the portfolio. Besides this, the liquidity risk has to be taken into account.

### Premium risks

The degree of exposure to estimation risks differs according to class of business such as Motor, Fire, Accident, Liability and Workmens' Compensation. On the basis of the loss ratios and combined ratios of past years, conclusions could be drawn regarding the historical volatilities in the different classes of business and of possible interdependencies. The differences in volatility are due both to fluctuations in claims burdens and to fluctuations in the respective market price level for the covers granted.

Premium income, loss ratios and combined ratios for 2011 to 2007 is summarised below.

Year	2011	2010	2009	2008	2007
Gross written premium	4,260,549	3,667,870	3,210,217	3,182,236	2,814,654
Loss ratios	70.20%	72.2%	74.6%	72.5%	71.4%
Combined ratios	104.40%	108.2%	109.1%	107.2%	107.0%

### Reserve risks

The provision for outstanding claims is subject to the risk that actual claims settlement may be less than or exceed the amount reserved. Particular attention is given to those situations where the funds dedicated to future claim payments may be inadequate.

The measurement of the provision for outstanding claims is based on an analysis of the historical loss development data for the different classes of business. UA uses a range of well-established actuarial methods for this purpose, which embed various pricing, coverage and benefit / inflation levels. In so doing, we draw on the specialist knowledge present in our claims and underwriting departments and take all foreseeable future trends into account. As part of our regular results monitoring process, UA keeps a close eye on trends to ensure that the assumptions underlying the measurement of the provisions always reflect the latest developments. Consequently, in the course of reserve run-off, it may be necessary to revise the original estimates of the claims expenditure required and to adjust the provisions accordingly.

**34 (c) Risks from ceded reinsurance business**

UA 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 are as follows:

- Proportional treaty reinsurance is purchased to ensure protection against claims arising either from individual large claims or aggregations.
- Facultative reinsurance is purchased to reduce risk relating to individual risks that exceed treaty limits or special risks
- Risk excess of loss treaty reinsurance is purchased to protect a range of individual contracts which could give rise to individual claims
- Catastrophic excess of loss treaty reinsurance is purchased to provide protection from aggregation of losses, arising from events

All treaty reinsurance purchasing is approved by the Board on annual basis. Other arrangements are based on company and IBSL guidelines. Decisions are supported by historical underwriting experience and analysis.

**Market risks from investments**

This analysis shows the effect of capital market events on the value of investments and the corresponding impact on the income statement.

**Market risk - Share prices**

The impact of a change on the stock markets in terms of absolute amounts decreased in the year under review. In December - 2010 the All Share Price Index stood at 6,635.87 points and in December 2011 it decreased to 6,074.42 points. This has adversely effected the investments in listed shares including unit linked investments and resulted in an unrealised loss of Rs. 521 million.

**35. Number of employees**

The total number of employees as at 31 December 2011 amounted to 1,009 (2010 - 989).

**36. Capital commitments**

The company has no capital commitments as at the balance sheet date.

**37. 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. 5.00 per share for the financial year ended 31 December 2011.

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 the 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 2011.

**38. 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.

**39. Comparative information**

Comparative information has not been restated except for as shown in note no. 14 and 15.

**40. 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

	2011 Rs. '000	2010 Rs. '000
<b>General Insurance</b>		
Gross written premium	4,260,549	3,667,870
Outward reinsurance	(916,595)	(927,598)
Net written premium	3,343,954	2,740,272
Net change in reserve for unearned premium	(261,420)	(416,944)
<b>Net earned premium</b>	<b>3,082,534</b>	<b>2,323,328</b>
Net claims incurred	(2,164,561)	(1,677,537)
Net commission	(268,843)	(172,623)
Expenses	(786,060)	(664,392)
<b>Underwriting loss</b>	<b>(136,930)</b>	<b>(191,224)</b>
Net loss ratio	70.2%	72.2%
Net expense ratio	34.2%	36.0%
Net combined ratio	104.4%	108.2%
<b>Life Insurance</b>		
Gross written premium	4,471,627	3,465,505
Outward reinsurance	(202,907)	(98,326)
Net written premium	4,268,720	3,367,179
Investment and other income	1,180,250	1,806,873
Increase in life insurance fund	(2,044,118)	(2,123,447)
Net benefits payable	(747,517)	(715,612)
Net commissions	(819,076)	(675,673)
Expenses	(1,409,259)	(1,334,319)
<b>Surplus from Life insurance fund</b>	<b>429,000</b>	<b>325,000</b>
<b>Reconciliation of segmental data and insurance revenue account</b>		
<b>General insurance</b>		
Underwriting loss	(136,930)	(191,224)
Investment and other income	470,270	459,265
Income tax expense	(66,755)	(81,070)
<b>Profit for the year</b>	<b>266,585</b>	<b>186,971</b>
<b>Life Insurance</b>		
Surplus from life insurance fund	429,000	325,000
<b>General and life profit for the year</b>	<b>695,585</b>	<b>511,971</b>

# SUPPLEMENTARY INFORMATION

## Balance sheet of the life insurance fund

As at 31st December	Note	Page no.	2011 Rs. '000	2010 Rs. '000
<b>Assets</b>				
Investments	1	260	11,450,651	9,840,485
Investments - life - unit linked	2	261	549,823	168,109
Quoted equities at market value	3	261	856,715	766,291
Property, plant and equipment	4	262	1,069,577	912,001
Loans to life policyholders			246,674	232,618
Reinsurance receivable	5	263	46,879	49,785
Other assets	6	263	850,637	738,270
Other assets - life - unit linked			8,705	11,157
Cash and cash equivalents	7	263	211,283	269,127
<b>Total assets</b>			<b>15,290,944</b>	<b>12,987,842</b>
<b>Reserves</b>				
Reserve on Cornhill merger			16,752	16,752
Revaluation reserve	8	263	221,444	91,566
<b>Total reserves</b>			<b>238,196</b>	<b>108,318</b>
<b>Liabilities</b>				
Insurance provision - life - conventional	9	264	13,440,459	11,769,308
Insurance provision - life - unit linked			555,541	165,834
Reinsurance creditors			68,489	42,681
Employee benefits	10	264	99,124	81,949
Other liabilities	11	264	855,418	776,969
Other liabilities - life - unit linked			3,344	13,672
Bank overdraft			30,373	29,109
<b>Total liabilities</b>			<b>15,052,748</b>	<b>12,879,522</b>
<b>Total liabilities and reserves</b>			<b>15,290,944</b>	<b>12,987,842</b>

# CASH FLOW STATEMENT

## Life insurance cash flow statement for the year ended 31 December

	2011 Rs. '000	2010 Rs. '000
<b>Cash flow from operating activities</b>		
Premium received from customers	4,471,628	3,465,505
Reinsurance premium paid	(137,240)	(166,939)
Claims paid	(749,931)	(704,876)
Reinsurance receipts in respects of claims	44,220	7,327
Cash paid to and on behalf of employees	(533,828)	(426,808)
Interest received	1,333,232	1,670,898
Dividends received	25,998	14,662
Other operating cash payments	(1,669,348)	(1,528,195)
Cash paid to life insurance fund	(369,579)	(441,245)
<b>Cash flow from operating activities (Note A)</b>	<b>2,415,151</b>	<b>1,890,330</b>
Retiring gratuity paid	(2,693)	(5,610)
Income tax and ESC paid	(12,600)	(18,590)
<b>Net cash from operating activities</b>	<b>2,399,858</b>	<b>1,866,131</b>
<b>Cash flow from investing activities</b>		
Acquisition of liquid investments (other than cash equivalents)	(892,784)	(241,148)
Acquisition of other investments (other than cash equivalents)	(3,575,736)	(3,029,472)
Proceeds from sale from liquid investments (other than cash equivalents)	212,310	124,502
Proceeds from sale from other investments (other than cash equivalents)	1,850,622	1,499,776
Acquisition of property, plant and equipment	(55,002)	(96,800)
Proceeds on sale of property, plant and equipment	1,623	-
<b>Net cash used in investing activities</b>	<b>(2,458,966)</b>	<b>(1,743,142)</b>
<b>Increase / (decrease) in cash and cash equivalents (Note B)</b>	<b>(59,108)</b>	<b>122,989</b>

### Notes to the cash flow statement

#### A. Reconciliation of profit before taxation with cash from operating activities

Profit before income tax	429,000	325,000
Depreciation on property, plant and equipment	45,184	30,556
Change in debtors	(142,091)	125,200
Increase in life insurance fund	2,044,118	2,122,445
Change in amount owed by long term fund	(369,579)	(441,245)
Change in claims provisions	38,900	29,023
Change in creditors	(152,716)	(67,907)
Gain on sale of property, plant and equipment	1,623	-
Unrealised loss on equities at market value	500,846	(267,129)
Provision for employee benefits	19,868	34,387
<b>Cash from operating activities</b>	<b>2,415,151</b>	<b>1,890,330</b>

#### B. Increase in cash and cash equivalents

Cash at bank and in hand and cash equivalents	211,283	269,127
Bank overdraft	(30,373)	(29,109)
Net cash and cash equivalents for the current year	180,910	240,018
Net cash and cash equivalents for the previous year	240,018	117,030
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>(59,108)</b>	<b>122,989</b>

# NOTES TO THE SUPPLEMENTAL INFORMATION

## 1. Investments

As at 31 December

		2011 (Rs.'000)	2010 (Rs.'000)
Government securities	1a	9,359,871	8,391,185
Corporate securities	1b	1,690,779	1,049,300
Bank deposits		300,000	300,000
Unquoted equities		100,000	100,000
		<b>11,450,651</b>	<b>9,840,485</b>

### 1a. Government securities

As at 31 December

		2011 (Rs.'000)	2010 (Rs.'000)
Treasury bonds	1aa	8,588,132	8,017,595
Treasury bills		61,549	144,767
Reverse repurchase agreements		710,190	228,823
		<b>9,359,871</b>	<b>8,391,185</b>

### 1aa. Assets pledged as security

Assets	Liability		
Government treasury bonds	Secured against repurchase agreements	-	-
		-	-

### 1b. Corporate securities

As at 31 December

		2011 (Rs.'000)	2010 (Rs.'000)
Quoted debentures	1c	1,287,448	834,300
Unquoted debentures	1d	255,000	215,000
Commercial papers		148,331	-
		<b>1,690,779</b>	<b>1,049,300</b>

### 1c. Quoted debentures

As at 31 December

Issuer	Maturity date	No. of debentures	2011			No. of debentures	2010		
			Cost Rs. '000	Market value Rs. '000	Coupon rate %		Cost Rs. '000	Market value Rs. '000	Coupon rate %
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	9,971	24.00	10,000	10,000	10,000	24.00
Nations Trust Bank PLC	8/19/2013	1,500,000	150,000	150,000	21.00	1,500,000	150,000	150,000	21.00
Nations Trust Bank PLC	8/4/2016	2,000,000	200,000	200,000	11.50	-	-	-	-
DFCC Vardhana Bank PLC	8/30/2016	1,481,481	148,148	148,148	11.50	-	-	-	-
Singer Sri Lanka PLC	9/30/2013	1,000,000	100,000	118,000	19.75	1,000,000	100,000	118,000	19.75
Urban Development Authority	10/5/2015	1,743,000	174,300	174,143	11.00	1,743,000	174,300	174,300	11.00
Merchant Bank of Sri Lanka	11/15/2015	1,050,000	105,000	105,000	11.80	-	-	-	-
			<b>1,287,448</b>	<b>1,305,262</b>			<b>834,300</b>	<b>852,300</b>	

**1d. Unquoted debentures  
As at 31 December**

	Maturity date	No. of debentures	2011			2010			
			Cost Rs. '000	Directors' valuation Rs. '000	Coupon rate %	No. of debentures	Cost Rs. '000	Directors' valuation Rs. '000	Coupon rate %
<b>Issuer</b>									
Aitken Spence PLC	10/25/2012	1,400,000	80,000	80,000	13.75	140,000	140,000	140,000	13.75
Commercial Bank PLC	5/16/2016	75,000	75,000	75,000	13.25	75,000	75,000	75,000	13.25
People's Leasing Company PLC	6/30/2015	1,000,000	100,000	100,000	11.70	-	-	-	-
			<b>255,000</b>	<b>255,000</b>		<b>215,000</b>	<b>215,000</b>		

**2 Investments - life - unit linked**

	2011 Rs. '000	2010 Rs. '000
Government securities	169,768	45,116
Quoted equities	380,055	122,993
	<b>549,823</b>	<b>168,109</b>

**3. Quoted equities at market value  
As at 31 December**

	No. of shares	2011		No. of shares	2010	
		Cost Rs. '000	Market value Rs. '000		Cost Rs. '000	Market value Rs. '000
<b>Banks Finance and Insurance</b>						
Aviva NDB Insurance PLC	62,000	17,677	15,339	33,300	9,092	9,324
Central Finance Company PLC	-	-	-	99,800	31,640	81,686
Commercial Bank Ceylon PLC (Non-Voting)	824,846	50,179	61,451	206,050	14,991	33,380
Commercial Bank Ceylon PLC	-	-	-	135,000	13,752	35,087
Hatton National Bank PLC (Non-Voting)	506,850	37,140	42,170	297,900	28,495	63,929
Sampath Bank PLC	261,158	36,027	50,926	370,582	35,554	100,761
Singer Finance (Lanka) PLC	-	-	-	11,600	174	174
HNB Assurance PLC	336,266	23,645	19,134	-	-	-
<b>Diversified Holding</b>						
Hemas Holdings PLC	405,750	6,708	13,390	405,750	6,708	18,056
Expolanka Holdings PLC	6,376,700	89,589	57,390	-	-	-
Softlogic Holdings PLC	3,693,200	107,103	66,478	-	-	-
<b>Hotels and Travels</b>						
Aitken Spence Hotel Holdings PLC	-	-	-	310,800	6,722	32,852
<b>Beverage Food and Tobacco</b>						
Distilleries Company of Sri Lanka PLC	325,000	48,727	47,808	225,000	30,525	40,028
Ceylon Tobacco Company PLC	50,000	19,454	24,505	-	-	-

## Notes to the Supplemental Information Contd.

**3. Quoted equities at market value Contd.**

As at 31 December

	No. of shares	2011		No. of shares	2010	
		Cost Rs. '000	Market value Rs. '000		Cost Rs. '000	Market value Rs. '000
<b>Construction &amp; Engineering</b>						
Colombo Dockyard PLC	227,000	50,507	54,208	152,000	31,168	41,800
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC	272,200	35,927	46,274	102,000	7,503	16,269
Royal Ceramics Lanka PLC	500,000	27,287	70,750	310,000	21,404	94,519
Tokyo Cement Company (Lanka) PLC (Voting)	582,525	7,817	25,631	582,525	7,817	32,039
Tokyo Cement Company (Lanka) PLC (Non Voting)	2,416,500	68,109	73,703	1,607,500	30,481	64,782
Lanka Floortiles PLC	455,200	61,211	36,553	124,700	15,015	16,747
Piramal Glass PLC	1,874,100	16,585	14,805	-	-	-
<b>Power &amp; Energy</b>						
Laugfs Gas PLC (Voting)	-	-	-	37,700	867	976
Laugfs Gas PLC (Non Voting)	-	-	-	51,900	779	960
<b>Motors</b>						
Diesel and Motor Engineering PLC	43,962	66,436	57,243	-	-	-
United Motors Lanka PLC	312,500	53,978	45,625	-	-	-
<b>Telecommunication</b>						
Dialog Axiata PLC	2,500,000	17,801	19,500	5,000,000	35,603	59,000
Sri Lanka Telecom PLC	288,200	13,844	13,834	488,200	23,452	23,922
		<b>855,751</b>	<b>856,715</b>		<b>351,741</b>	<b>766,291</b>

**4. Property, plant and equipment**

	Land	Building	Office	Furniture	Computer	Motor	Total
	Rs. '000	Rs. '000	equipment Rs. '000	and fittings Rs. '000	equipment Rs. '000	vehicles Rs. '000	
<b>Cost</b>							
Balance as at 1 January 2011	512,000	282,412	29,591	38,573	142,663	5,692	1,010,931
Additions during the year	-	-	2,951	28,854	23,197	-	55,002
Surplus on revaluation	97,000	35,592	-	-	-	-	132,592
Disposals during the year	-	-	-	-	-	(3,500)	(3,500)
<b>Balance as at 31 December 2011</b>	<b>609,000</b>	<b>318,004</b>	<b>32,542</b>	<b>67,427</b>	<b>165,860</b>	<b>2,192</b>	<b>1,195,025</b>
<b>Depreciation</b>							
Balance as at 1 January 2011	-	7,485	19,196	15,416	51,336	5,496	98,930
Depreciation charge for the year	-	7,682	3,886	9,065	24,480	72	45,185
Accumulated depreciation on revaluation	-	(15,167)	-	-	-	-	(15,167)
Accumulated depreciation on disposals	-	-	-	-	-	(3,500)	(3,500)
<b>Balance as at 31 December 2011</b>	<b>-</b>	<b>-</b>	<b>23,082</b>	<b>24,481</b>	<b>75,816</b>	<b>2,068</b>	<b>125,447</b>
<b>Carrying amount</b>							
<b>Balance as at 31 December 2011</b>	<b>609,000</b>	<b>318,004</b>	<b>9,460</b>	<b>42,946</b>	<b>90,044</b>	<b>124</b>	<b>1,069,577</b>
<b>Balance as at 31 December 2010</b>	<b>512,000</b>	<b>274,927</b>	<b>10,395</b>	<b>23,157</b>	<b>91,327</b>	<b>196</b>	<b>912,001</b>

**5. Reinsurance receivable**

As at 31 December	2011 Rs.'000	2010 Rs.'000
Reinsurance receivable on outstanding claims	28,509	28,730
Reinsurance receivable on settled claims net of dues	18,370	21,159
Provision for doubtful receivable	-	(104)
	<b>46,879</b>	<b>49,785</b>

**6. Other assets**

As at 31 December	2011 Rs.'000	2010 Rs.'000
Inventories	10,485	7,588
Interest receivable	495,272	441,917
WHT recoverable	143,990	106,889
ESC receivable	21,956	40,078
Refundable deposit and prepayments	11,818	5,569
Other debtors and receivables	167,115	136,230
	<b>850,637</b>	<b>738,270</b>

**7. Cash and cash equivalents**

As at 31 December	2011 Rs.'000	2010 Rs.'000
Cash in hand and at bank	210,925	268,885
Cash and cash equivalents - life - unit linked	357	242
	<b>211,283</b>	<b>269,127</b>

**8 Revaluation reserve**

As at 31 December	2010 Rs.'000	2010 Rs.'000
Balance as at 1 January	91,566	88,079
Adjustment for deferred tax due to change in tax rates	-	3,487
Surplus on revaluation during the year, net of deferred tax liability	133,546	-
Transfer from unrealised gain reserve to retained earnings	(3,668)	-
	<b>221,444</b>	<b>91,566</b>

The revaluation relates to land and building as indicated in Note 20.

The revaluation was performed on freehold land and building as at 31 December 2011 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.

**9. Insurance provision - life - conventional**

As at 31 December	2011 Rs.'000	2010 Rs.'000
Insurance provision - life	13,211,359	11,579,107
Unclaimed benefits	229,100	190,201
	<b>13,440,459</b>	<b>11,769,308</b>

**10. Employee benefits**

As at 31 December	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	81,949	53,172
Payments during the year	(2,693)	(5,610)
Provision for the year	19,868	34,387
<b>Balance as at 31 December</b>	<b>99,124</b>	<b>81,949</b>

**11. Other liabilities**

As at 31 December	2011 Rs.'000	2010 Rs.'000
Agency commission payable	67,003	50,834
Government levies	2,024	1,546
ESC payable	2,818	3,006
Other creditors and accrued expenses	318,607	316,038
Current account with general business	464,966	405,545
	<b>855,418</b>	<b>776,969</b>

# SHAREHOLDER INFORMATION

## Stock Exchange Listing

Union Assurance PLC is a public quoted company, the ordinary shares of which are listed with the Colombo Stock Exchange (CSE). The audited statement of income for the year ended 31<sup>st</sup> December 2011 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'.

## Share Market Performance

The Colombo Stock Exchange suffered from a myriad of challenges during 2011 ranging from excessive speculation, regulatory changes and credit restrictions leading to liquidity issues and forced selling. The All Share Price Index (ASPI) ended the year down 8.5% to 6,074 points and the more liquid Milanka Price Index (MPI) closed significantly lower by 25.9% to 5,229 points. The average daily turnover level was maintained at Rs. 2.3 billion, similar to the 2010 figure. However, there was significant selling by foreign investors with a net foreign outflow of Rs. 19 billion for the year. Turmoil in their home economies kept foreigners away from frontier markets such as the CSE.

## UA Share

Adequate corporate disclosures are provided to the financial community by Union Assurance in order to allow optimum pricing of UA securities. UA share price shows a decrease from Rs. 122.10 in 2010 to Rs. 108.10 in 2011.

The decrease was due to the sub division of the company's shares which was approved by the shareholders at an Extraordinary General Meeting held on 23 June 2011, whereby one (1) existing share was sub divided to two (2), thereby increasing the ordinary shares in issue from 37,500,000 to 75,000,000 ordinary shares. The growth in the share price after adjusting for the above split was 77% from the split adjusted price of Rs. 61.05 as at the end of 2010 to a closing price of Rs. 108.10 for 2011.

The UA Share was traded between a low of Rs. 87.00 and high of Rs. 299.00 during the year 2011.

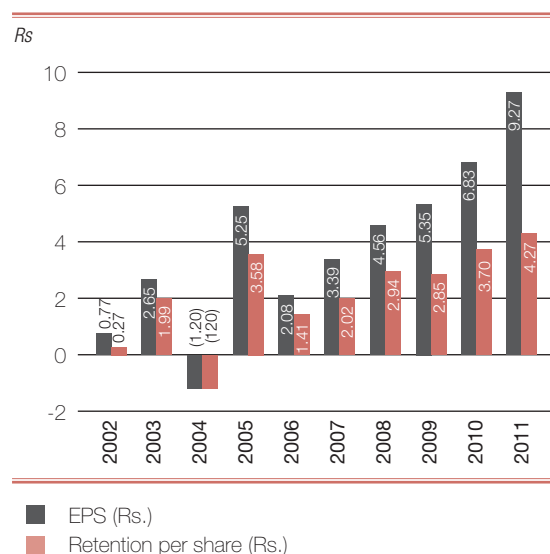
## Earnings Per Share

The earnings per share (EPS) for the year ended 31<sup>st</sup> December 2011 was Rs. 9.27, an increase from Rs. 6.83 (restated) recorded in 2010. This was due to Rs. 183.6 million (36%) increase in the profit in 2011, compared with 2010.

## EPS Vs Retention Ratio\*

Year	EPS (Rs.)	Retention per Share (Rs.)	Retention Ratio
2002	0.77	0.27	35%
2003	2.65	1.99	75%
2004	(1.20)	(1.20)	100%
2005	5.25	3.58	68%
2006	2.08	1.41	68%
2007	3.39	2.02	59%
2008	4.56	2.94	64%
2009	5.35	2.85	53%
2010	6.83	3.70	54%
2011	9.27	4.27	46%

Earnings per share (EPS) vs. Retention per share\*



## Price Earnings Ratio

The price earnings ratio (PER) as at 31<sup>st</sup> December 2011 increased to 11.66 times from 8.95 times (restated) as at 31<sup>st</sup> December 2010. The UA shares were trading at a 26.3 % discount to the market PER which on 31<sup>st</sup> December 2011 was estimated at 15.82 times.

\* Information for the previous years have been restated to reflect the subdivision of shares.

### Price to Book Ratio

The price to book ratio as at 31<sup>st</sup> December 2011 was 2.51 times, a significant increase of 44% from 1.75 times recorded in 2010.

### Total Shareholder Returns

Total shareholder returns (TSR) of UA share were 85.3% in 2011 compared with 41.4% recorded in the previous year. Dividend yield of 4.6% and capital gain of 77.1% contributed to this positive TSR in 2011.

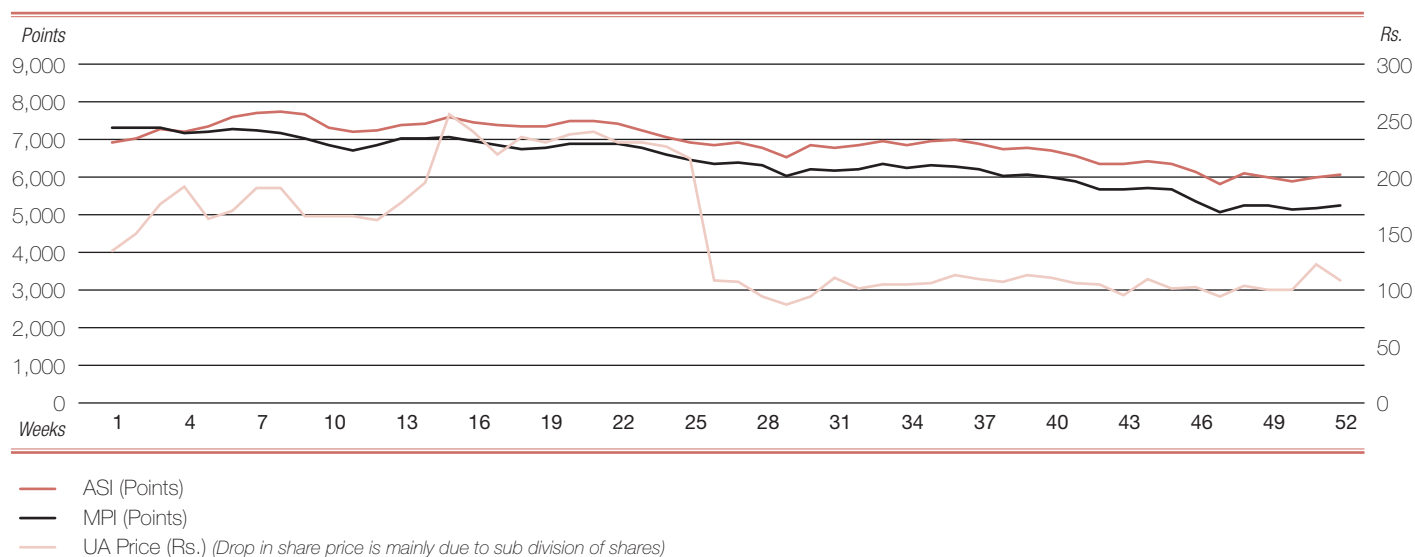
### Valuation\*

31 December	2011	2010
Earnings per share (Rs.)	9.27	6.83
Price earnings ratio (Times)	11.66	8.95
Price / book value (Times)	2.51	1.75
Dividend yield (%)	4.6	5.1
Total shareholder returns (%)	85.3	41.4

### Market Capitalisation and Market Price

The market capitalisation of Union Assurance Share as at 31<sup>st</sup> December 2011 was Rs 8.1 billion, valued at the year end price of Rs. 108.10 per share. UA's main benchmark indices - the All Share Price Index (ASPI) and the Milanka Price Index (MPI) - decreased by 8.5% and 25.9% respectively. In the same period, the UA share price ranged between a low of Rs. 87.00 and a high of Rs. 299.00, closing the year at Rs.108.10.

UA Share Price Movement vs. Stock Market Performance



\* Information for the previous years have been restated to reflect the subdivision of shares.

## Market Information On Ordinary Shares of the Company

Market value	2011		2010	
Highest price (Rs.)	299.00	(10 May 2011)	198.00	(23 Sep. 2010)
Lowest price (Rs.)	87.00	(27 July 2011)	90.75	(04 Jan. 2010)
Year end price (Rs.)	108.10		122.10	

Trading statistics	2011		2010	
Number of transactions	1,307		789	
Number of shares traded	6,499,600		392,600	
Value of shares traded (Rs.)	985,051,500		46,011,015	
Percentage of total shares in issue (%)	8.7		1.0	
Market capitalisation (Rs.)	8,107,500,000		4,578,750,000	
Percentage of total market capitalisation (%)	0.4		0.2	

## 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 of Rs. 5.00 per share, based on the profits of 2011. Accordingly, the dividend per share (DPS) in the current year increased by Rs. 1.87 per share (60%) compared with Rs. 3.13 per share (restated) in the previous year. The gross dividend payable out of the profits for the year ended 31<sup>st</sup> December 2011 will be Rs. 375 million compared to the dividend of Rs. 234.4 million in the previous year. UA pays its dividend annually.

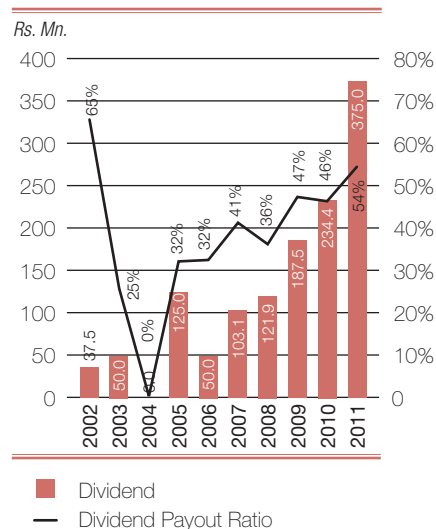
## Gross Dividend Vs. Dividend Payout\*

Year	Dividend per Share (Rs.)	Dividends (Rs. '000)	Dividend Payout Ratio
2002	0.50	37,500	65%
2003	0.67	50,000	25%
2004	-	-	0%
2005	1.67	125,000	32%
2006	0.67	50,000	32%
2007	1.38	103,125	41%
2008	1.63	121,875	36%
2009	2.50	187,500	47%
2010	3.13	234,375	46%
2011	5.00	375,000	54%

\* Diluted for subsequent bonus issues

\* Information for the previous years have been restated to reflect the subdivision of shares.

## Gross dividend vs Dividend payout\*



**Free Float**

The Colombo Stock Exchange (CSE) defines the free float of a company as the percentage of shareholders, excluding Directors' shareholdings, who hold less than 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 1,335 as at 31<sup>st</sup> December 2010 to 1,358 as at 31<sup>st</sup> December 2011. On 31<sup>st</sup> December 2011, UA had 1,280 registered individual shareholders, representing 94% of the shares registered; 68% 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 97.5% of UA's shares. The Directors hold 0.01% of the total outstanding shares in their individual capacity.

**Distribution of Shareholders**

Range of shareholding	31 December 2011				31 December 2010			
	No. of shareholders	%	No. of shares*	%	No. of shareholders	%	No. of shares	%
Less than 1,000	928	68.34	285,936	0.38	1,056	79.10	277,228	0.74
1,001 - 10,000	383	28.20	1,212,332	1.62	255	19.10	674,921	1.80
10,001 - 100,000	41	3.02	1,001,146	1.33	17	1.27	328,029	0.87
100,001 - 1,000,000	3	0.22	760,102	1.01	1	0.07	328,780	0.88
Over - 1,000,001	3	0.22	71,740,484	95.65	6	0.46	35,891,042	95.71
<b>Total</b>	<b>1,358</b>	<b>100.00</b>	<b>75,000,000</b>	<b>100.00</b>	<b>1,335</b>	<b>100.00</b>	<b>37,500,000</b>	<b>100.00</b>

**Composition of shareholders**

	31 December 2011				31 December 2010			
	No. of shareholders	%	No. of shares*	% shareholders	No. of shareholders	%	No. of shares	%
Directors and spouses:	1	0.07	7,492	0.01	2	0.15	5,346	0.01
Resident:								
Individuals	1270	93.52	2,315,872	3.09	1249	93.56	1,181,356	3.15
Institutions	76	5.60	8,961,824	11.95	76	5.69	10,063,992	26.84
Non Resident:								
Individuals	9	0.66	17,282	0.02	6	0.45	4,741	0.01
Institutions	1	0.07	2,000	0.00	1	0.07	1,000	0.01
Shareholders holding more than 10%	1	0.07	63,695,530	84.93	1	0.08	26,243,565	69.98
<b>Total</b>	<b>1,358</b>	<b>100.00</b>	<b>75,000,000</b>	<b>100.00</b>	<b>1,335</b>	<b>100.00</b>	<b>37,500,000</b>	<b>100.00</b>

\* Increase is due to subdivision of shares

## Public Shareholding

As at 31 December	2011		2010	
	No. of shares	(%) of shares	No. of shares	(%) of shares
Public Shareholding	3,252,024	4.34	7,228,612	19.28

## Twenty Largest Shareholders

Name of Shareholder	31 December 2011		31 December 2010	
	No. of shares*	%	No. of shares	%
1. John Keells Holdings PLC	63,695,530	84.93	26,243,565	69.98
2. Whittall Boustead Limited	5,552,618	7.40	2,776,309	7.40
3. Mackinnons & Keells Financial Services Limited	2,492,336	3.32	1,246,168	3.32
4. Waldock Mackenzie Ltd / HI-Line Trading (Pvt) Ltd	329,400	0.44	-	0.00
5. Waldock Mackenzie Ltd / Mr. and Mrs. S. N. P. Palihena	300,000	0.40	-	0.00
6. Corporate Holdings (Private) Limited	130,702	0.17	-	0.00
7. A. C. Visvalingam	74,900	0.10	-	0.00
8. J. D. Bandaranayake	65,400	0.09	16,500	0.04
9. H. A. D. Ratnapala	56,250	0.08	28,125	0.08
10. J. W. Nanayakkara	56,250	0.08	28,125	0.08
11. R. Z. Wikramanayake	48,364	0.06	24,182	0.06
12. N. I. Wikramanayake	47,978	0.06	23,989	0.06
13. A. A. Mashoor	45,600	0.06	-	0.00
14. G. M. Abdulhussein	41,810	0.06	20,905	0.06
15. T. G. Perera	39,000	0.05	19,500	0.05
16. L. Amaradasa	33,750	0.05	16,875	0.05
17. H. A. Rehmanjee	32,022	0.04	17,228	0.05
18. S. Nishyanthan	30,300	0.04	15,150	0.04
19. M. R. Wijetunga	28,124	0.04	14,062	0.04
20. S. Vasudevan	25,200	0.03	-	0.00
	73,125,534	97.50	30,490,683	81.31
Other shareholders	1,874,466	2.50	7,009,317	18.69
<b>Total</b>	<b>75,000,000</b>	<b>100.00</b>	<b>37,500,000</b>	<b>100.00</b>

\* Increase is due to subdivision of shares

**Directors' Shareholdings**

31 December	2011	2010
Mr. A. D. Gunewardene	7,492	3,746
Mr. A. S. De Zoysa	Nil	Nil
Mr. G. F. C. De Saram	Nil	Nil
Mrs. D. C. Alagaratnam	Nil	Nil
Mr. S. Rajendra	Nil	Nil
Mr. H. A. J. De Silva Wijeyeratne	Nil	Nil

**CEO's Shareholding**

Mr. A. D. Pereira	Nil	Nil
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**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	3:1	3,333,333	33,333,333
1999	Bonus	2:1	6,666,667	66,666,667
2002	Bonus	4:1	5,000,000	50,000,000
2007	Bonus	2:1	12,500,000	125,000,000
2011	Share Split	1:2	37,500,000	-
			<b>75,000,000</b>	<b>375,000,000</b>

# QUARTERLY ANALYSIS 2011

	1 <sup>st</sup> Quarter Jan-March 11 Rs.' 000	2 <sup>nd</sup> Quarter Apr-Jun 11 Rs.' 000	3 <sup>rd</sup> Quarter Jul-Sept 11 Rs.' 000	4 <sup>th</sup> Quarter Oct-Dec 11 Rs.' 000	Total Jan-Dec 11 Rs.' 000
<b>Statement of Income</b>					
<b>Revenue</b>	2,212,074	2,095,614	2,286,939	2,380,945	8,975,572
Gross written premium	2,074,563	1,899,386	2,170,836	2,587,391	8,732,176
Less: Premium ceded to reinsurers	(317,729)	(233,924)	(259,966)	(307,883)	(1,119,502)
Net written premium	1,756,834	1,665,462	1,910,870	2,279,508	7,612,674
Net change in reserve for unearned premium	(63,662)	54,632	(8,763)	(243,627)	(261,420)
<b>Net earned premium</b>	<b>1,693,172</b>	<b>1,720,094</b>	<b>1,902,107</b>	<b>2,035,881</b>	<b>7,351,254</b>
<b>Benefits, losses and expenses</b>					
Insurance claims and benefits (net)	(1,412,351)	(1,235,926)	(1,340,341)	(967,578)	(4,956,196)
Underwriting and net acquisition costs (Including reinsurance)	(259,126)	(267,808)	(287,663)	(273,322)	(1,087,919)
<b>Total benefits, losses and expenses</b>	<b>(1,671,477)</b>	<b>(1,503,734)</b>	<b>(1,628,004)</b>	<b>(1,240,900)</b>	<b>(6,044,115)</b>
<b>Net premium less benefits, losses and expenses</b>	<b>21,695</b>	<b>216,360</b>	<b>274,103</b>	<b>794,981</b>	<b>1,307,139</b>
<b>Other revenue</b>					
Income from investments	494,672	354,835	367,662	332,780	1,549,949
Other income	24,230	20,685	17,170	12,284	74,369
<b>Expenses</b>					
Other operating, investment related and administrative expenses	(439,218)	(483,066)	(555,279)	(562,860)	(2,040,423)
Depreciation on property, plant and equipment	(29,442)	(32,752)	(32,681)	(33,819)	(128,694)
<b>Profit before taxation</b>	<b>71,936</b>	<b>76,062</b>	<b>70,975</b>	<b>543,366</b>	<b>762,340</b>
Income tax expense	(13,128)	(11,515)	(12,767)	(29,345)	(66,755)
<b>Profit after taxation</b>	<b>58,808</b>	<b>64,547</b>	<b>58,208</b>	<b>514,020</b>	<b>695,585</b>

# QUARTERLY ANALYSIS 2010

	1 <sup>st</sup> Quarter Jan-March 10 Rs.' 000	2 <sup>nd</sup> Quarter Apr-Jun 10 Rs.' 000	3 <sup>rd</sup> Quarter Jul-Sept 10 Rs.' 000	4 <sup>th</sup> Quarter Oct-Dec 10 Rs.' 000	Total Jan-Dec 10 Rs.' 000
<b>Statement of Income</b>					
<b>Revenue</b>	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)
<b>Net earned premium</b>	<b>1,287,617</b>	<b>1,289,856</b>	<b>1,397,634</b>	<b>1,715,399</b>	<b>5,690,507</b>
<b>Benefits, losses and expenses</b>					
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)
<b>Total benefits, losses and expenses</b>	<b>(1,264,977)</b>	<b>(1,334,592)</b>	<b>(1,688,335)</b>	<b>(1,076,989)</b>	<b>(5,364,892)</b>
<b>Net premium less benefits, losses and expenses</b>	<b>22,640</b>	<b>(44,736)</b>	<b>(290,700)</b>	<b>638,410</b>	<b>325,615</b>
<b>Other revenue</b>					
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
<b>Expenses</b>					
Other operating, investment related and administrative expenses	(387,070)	(404,916)	(431,214)	(630,630)	(1,853,829)
Depreciation on property, plant and equipment	(23,865)	(26,071)	(26,146)	(31,685)	(107,766)
<b>Profit before taxation</b>	<b>70,120</b>	<b>78,690</b>	<b>53,254</b>	<b>390,974</b>	<b>593,041</b>
Income tax expense	(18,993)	(25,325)	(13,704)	(23,047)	(81,070)
<b>Profit after taxation</b>	<b>51,127</b>	<b>53,365</b>	<b>39,550</b>	<b>367,927</b>	<b>511,971</b>

# TEN YEAR SUMMARY

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Statement of Income (Rs. '000)</b>										
Revenue	8,975,572	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
Net earned premium	7,351,254	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
Insurance claims and benefits (net)	(4,956,196)	(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)
Underwriting and net acquisition costs (including reinsurance)	(1,087,919)	(848,296)	(615,535)	(546,405)	(426,885)	(320,819)	(219,871)	(229,445)	(167,212)	(143,580)
Net premium less benefits, losses and expenses	1,307,139	325,615	443,714	619,905	596,092	414,524	508,179	97,533	254,752	192,677
Investment and other income	1,624,318	2,229,021	1,795,414	1,249,036	928,837	754,816	523,116	471,982	468,335	401,432
Expenses	(2,169,117)	(1,961,595)	(1,771,746)	(1,511,571)	(1,272,770)	(988,556)	(756,108)	(621,469)	(592,689)	(553,072)
<b>Profit before income tax</b>	<b>762,340</b>	<b>593,041</b>	<b>467,382</b>	<b>357,370</b>	<b>252,159</b>	<b>180,784</b>	<b>275,187</b>	<b>(51,954)</b>	<b>130,398</b>	<b>41,037</b>
Income tax expense	(66,755)	(81,070)	(66,511)	(15,286)	(227)	(21,866)	(14,695)	(8,646)	-	-
<b>Profit after taxation</b>	<b>695,585</b>	<b>511,971</b>	<b>400,871</b>	<b>342,084</b>	<b>251,932</b>	<b>158,918</b>	<b>260,492</b>	<b>(60,600)</b>	<b>130,398</b>	<b>41,037</b>

## Insurance revenue accounts

General										
Gross written premium	4,260,549	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
Net earned premium	3,082,534	2,323,328	2,203,397	1,966,419	1,608,756	1,231,145	807,005	594,410	625,299	635,854
Net claims incurred	(2,164,561)	(1,671,537)	(1,643,287)	(1,425,748)	(1,147,955)	(820,783)	(441,141)	(446,560)	(315,916)	(434,148)
Net commissions	(268,843)	(172,623)	(112,386)	(88,974)	(47,238)	(57,505)	6,187	9,466	11,247	(371)
Expenses	(786,060)	(664,392)	(648,905)	(593,450)	(526,582)	(411,912)	(333,956)	(320,877)	(307,616)	(314,763)
<b>Underwriting profit / (loss)</b>	<b>(136,930)</b>	<b>(191,224)</b>	<b>(201,180)</b>	<b>(141,753)</b>	<b>(113,019)</b>	<b>(59,055)</b>	<b>38,095</b>	<b>(163,561)</b>	<b>13,014</b>	<b>(113,428)</b>

## Life

Gross written premium	4,471,627	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
Net written premium	4,268,720	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
Investment and other income	1,180,250	1,806,873	1,361,853	934,913	707,659	590,477	430,024	360,375	383,951	262,467
Increase in life fund	(2,044,118)	(2,123,447)	(1,617,768)	(1,311,420)	(1,194,516)	(992,083)	(699,885)	(747,220)	(701,686)	(607,532)
Net benefits payable	(747,517)	(715,612)	(561,576)	(435,316)	(309,816)	(287,019)	(354,491)	(283,186)	(247,114)	(139,796)
Net commissions	(819,076)	(675,673)	(503,150)	(457,431)	(379,647)	(263,314)	(226,058)	(238,911)	(178,459)	(141,182)
Expenses	(1,409,259)	(1,334,320)	(1,122,842)	(918,122)	(746,188)	(576,644)	(422,152)	(300,592)	(285,073)	(236,399)
<b>Surplus from life insurance fund</b>	<b>429,000</b>	<b>325,000</b>	<b>235,000</b>	<b>185,000</b>	<b>144,000</b>	<b>75,500</b>	<b>144,000</b>	<b>-</b>	<b>33,000</b>	<b>21,000</b>

## Balance sheet

Assets										
Investments	15,930,466	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
Investments - unit linked	549,823	168,109	-	-	-	-	-	-	-	-
Intangible assets	49,500	49,500	49,500	49,500	49,500	49,500	49,500	55,000	60,500	66,000
Property plant and equipment	1,298,380	1,108,723	1,070,060	353,725	328,622	250,078	180,976	118,718	142,052	158,653
Other assets and receivables	3,585,848	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
Other assets - unit linked	8,705	11,157	-	-	-	-	-	-	-	-
Cash and cash equivalents	373,413	390,138	313,855	272,080	244,301	152,515	167,741	330,148	286,505	357,358
<b>Total assets</b>	<b>21,796,135</b>	<b>18,902,628</b>	<b>16,645,230</b>	<b>13,163,375</b>	<b>11,483,753</b>	<b>9,591,725</b>	<b>8,527,447</b>	<b>8,118,335</b>	<b>6,091,832</b>	<b>5,245,518</b>

## Liabilities and equity

Liabilities										
Insurance provision - life - conventional	13,440,459	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
Other liabilities - unit linked	555,541	165,835	-	-	-	-	-	-	-	-
Provision for life fund solvency	-	-	-	-	95,323	67,849	-	-	-	-
Insurance provision - general	2,942,950	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
Other liabilities and creditors	1,629,320	1,617,488	1,919,631	1,216,924	1,228,531	814,117	624,519	747,392	1,078,702	940,465
<b>Total liabilities</b>	<b>18,568,270</b>	<b>16,269,519</b>	<b>14,340,079</b>	<b>11,675,907</b>	<b>10,330,567</b>	<b>8,613,798</b>	<b>7,515,589</b>	<b>7,412,677</b>	<b>5,275,574</b>	<b>4,438,412</b>

## Equity

Stated capital	388,433	388,433	388,433	388,433	388,433	266,667	266,667	266,667	266,667	266,667
Capital reserves	714,056	584,178	584,359	47,958	48,633	45,048	45,708	-	-	-
Retained earnings	2,125,376	1,660,498	1,332,359	1,051,077	716,120	666,212	699,483	438,991	549,591	540,439
<b>Total equity</b>	<b>3,227,865</b>	<b>2,633,109</b>	<b>2,305,151</b>	<b>1,487,468</b>	<b>1,153,186</b>	<b>977,927</b>	<b>1,011,858</b>	<b>705,658</b>	<b>816,258</b>	<b>807,106</b>

<b>Total liabilities and equity</b>	<b>21,796,135</b>	<b>18,902,628</b>	<b>16,645,230</b>	<b>13,163,375</b>	<b>11,483,753</b>	<b>9,591,725</b>	<b>8,527,447</b>	<b>8,118,335</b>	<b>6,091,832</b>	<b>5,245,518</b>
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## Investor information

Return on net assets (%)	21.5	19.4	17.4	23.0	21.8	16.3	25.7	-8.6	16.0	5.1
Earnings per share (Rs.)*	9.27	6.83	5.35	4.56	3.39	2.08	3.50	-0.80	1.77	0.52
Dividend per share (Rs.)*	5.00	3.13	2.50	1.63	1.38	0.67	1.67	0.00	0.67	0.50
Net assets per share (Rs.)*	43.04	35.11	30.74	19.84	15.38	19.56	20.24	14.12	16.33	16.14
Market price per share (Rs.)	108.10	122.10	90.75	49.75	46.25	102.50	96.00	45.00	45.00	31.00
Market capitalization (Rs. Mn.)	8,108	4,575	3,403	1,866	1,734	2,563	2,400	1,125	1,125	775
Price earnings ratio (times)	11.66	8.95	8.49	5.46	6.88	16.12	9.21	(18.56)	8.63	18.89

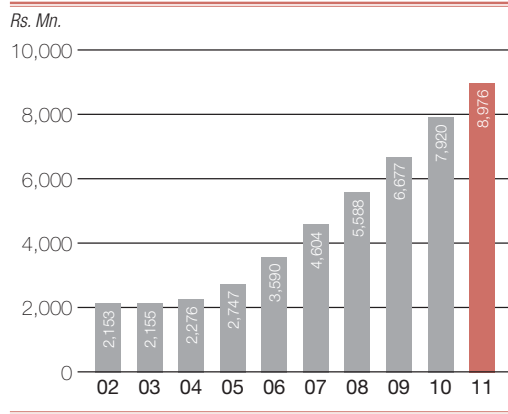
\* Information for the previous years have been restated to reflect the sub division of shares.

## Other information

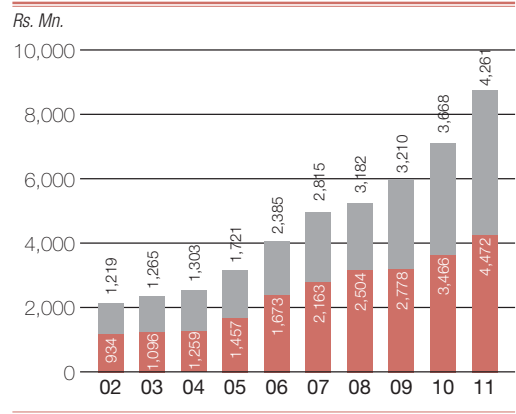
Number of employees	1,009	989	949	902	897	792	597	547	551	571
No of Shares ('000)	75,000	37,500	37,500	37,500	37,500	25,000	25,000	25,000	25,000	25,000

# TEN YEAR GRAPHICAL REVIEW

Revenue

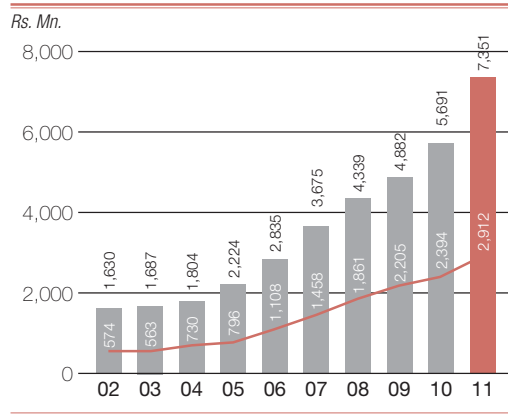


Gross Written Premium - General and Life



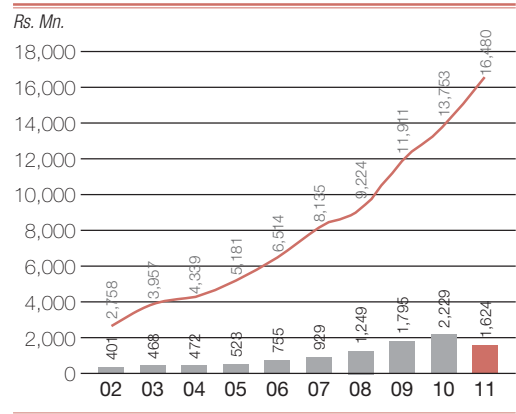
■ General  
■ Life

Net Earned Premium Vs. Life and General Net Claims



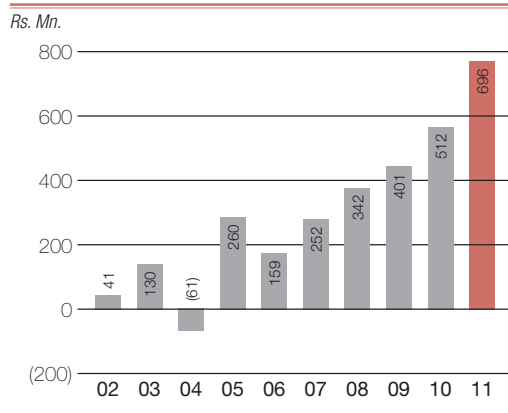
■ Life and General NEP  
— Life and General Net Claims

Investment and Other Income

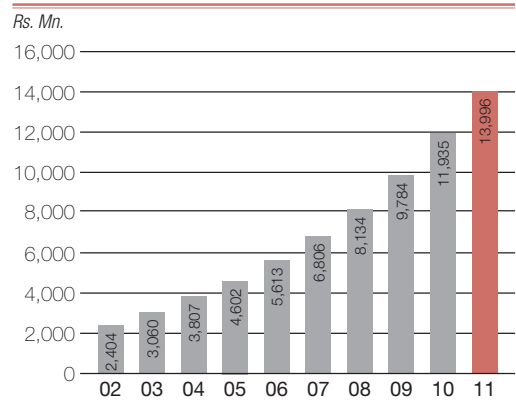


■ Investment and Other Income  
— Investments (Including unit linked)

Profit / (Loss) After Taxation



Life Fund (Including Unit Linked)



# 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	4,260,549
Less: Premium ceded to reinsurers	2	(916,595)
Net written premium	3	3,343,954
Net change in reserve for unearned premium	4	(261,420)
<b>Net earned premium</b>	<b>5</b>	<b>3,082,534</b>
Benefits, losses and expenses		
Insurance claims and benefits (net)	6	(2,164,561)
Underwriting and net acquisition costs (including reinsurance)	7	(268,843)
<b>Total benefits, losses and expenses</b>		<b>(2,433,404)</b>
<b>Net premium less benefits, losses and expenses</b>		<b>649,130</b>
<b>Other revenue</b>		
Income from investments	8	417,183
Other income		53,087
<b>Expenses</b>		
Other operating, investment related and administrative expenses	9	(702,549)
Depreciation on property, plant and equipment		(83,510)
<b>Profit before income tax</b>		<b>333,340</b>
Income tax expense		(66,755)
<b>Profit for the year</b>		<b>266,585</b>

## Comments

- 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.
- 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.
- Premium received from customers less the amount paid to reinsurers is referred to as "Net written premium."
- 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."
- 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 1<sup>st</sup> of April 2011 and expires on the 31<sup>st</sup> of March 2012. In such instance the premium may be received on 1<sup>st</sup> 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

## Understanding Our Financials Contd.

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.

## Life Insurance Statement of Income

	Comment	Rs.'000
Gross written premium	1	4,471,627
Less: Premium ceded to reinsurers	2	(202,907)
<b>Net written premium</b>		<b>4,268,720</b>
<b>Benefits, losses and expenses</b>		
Increase in provision for life business	3	(2,044,118)
Life insurance claims, benefits and maturity payments	4	(747,517)
Underwriting and policy acquisition costs (including reinsurance)	5	(819,076)
<b>Total benefits, losses and expenses</b>		<b>3,610,710</b>
<b>Net premium less benefits, losses and expenses</b>		<b>658,010</b>
<b>Other revenue</b>		
Income from investments	6	1,132,766
Other income		47,484
<b>Expenses</b>		
Other operating, investment related and administrative expenses	7	(1,364,076)
Depreciation on property, plant and equipment		(45,184)
<b>Profit before taxation</b>	8	<b>429,000</b>
Taxation		-
<b>Profit after taxation</b>		<b>429,000</b>

## Comments

1. 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.
2. Bears the same meaning as for general insurance.
3. 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.
4. 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.
5. Bears the same meaning as for general insurance.
6. Similar to general insurance.
7. Similar to general insurance.
8. Profit represents the difference between the provisions 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.

**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

33, St. Michael's Road,  
 Colombo 3.  
 General Line: 011-2462462, 011-2462100  
 Fax: 011-2462222

## 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

## Anamaduwa

No 88, Chilaw Road,  
 Anamaduwa.  
 Tel: 032-2263838

## Anuradhapura

280A, 1<sup>st</sup> 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

## Bakamuna

No.37, Near Bank of Ceylon,  
 Hospital Road, Bakamuna.

## Balangoda

164, Thumbagoda Junction, Balangoda.  
 Tel: 045-3603111  
 Fax: 0453603111

## Bandaragama

55 1/1, Horana Road,  
 Bandaragama.  
 Tel: 011-2343064

## 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

## Bibila

'Isuru Traders', Monaragala Junction,  
 Bibila.  
 Tel: 055-3051532

## Chawakachcheriya

Kandy Road, Chawakachcheriya.  
 Tel / Fax: 021-2270073

## Chenkalady

No.191, Main Street,  
 Chenkalady.  
 Tel: 065-5611422

## Chilaw

87, Puttalam Road, Chilaw.  
 Tel: 011-2428120  
 Tel / Fax: 032-2222104

## Chunnakam

160, Sir Pon Ramanathan Road,  
 Chunnakam.  
 Tel: 021-2241844

## 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

## Dehiwala - Rathmalana

No 218/A/2/1, Galle Road,  
 Rathmalana.  
 Tel: 011-2710105

## Deniyaya

211, Viharahena Road, Main Street,  
 Deniyaya.  
 Tel / Fax: 041-3003457

## Digana

36B, Victoria Golf Road,  
 Digana, Rajawella.

## Divulapitiya

101, Meerigama Road,  
 Divulapitiya.  
 Tel: 011-2343061

## Elpitiya

44A1/1, Ambalangoda Road,  
 Elpitiya.

## Embilipitiya

Main Street, Pallegama, Embilipitiya.  
 Tel: 047-2230463  
 Fax: 047-2261946

## Galewela

324B, Dambulla Road,  
 Galewela.  
 Tel: 066-2288264

## 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

**Godakawela**

186, Main Street,  
Godakawela.  
Tel: 011-2343063, 045-2240715

**Hatton**

199/B/2/1, Dimbulla Road,  
Hatton.  
Tel: 015-2223820

**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

**Horana**

161, Ratnapura Road, Horana.  
Tel: 011-2428237, 034-2265217  
Tel / Fax: 034-2264182

**Ingiriya**

3, Main Street,  
Ingiriya.  
Tel: 011-2343091

**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

**Kalawana**

No.46/1/1, Mathugama Road,  
Kalawana.  
Tel: 045-2255772

**Kalmunai**

74, 1<sup>st</sup> 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

**Kaluvanchikudy**

No.46 1/1, Main Street,  
Kaluvanchikudy.  
Tel: 065-2251089

**Kandy**

28, Hill Street, Kandy.  
Tel: 011-2428156-7, 081-2227443,  
081-2232731  
Tel / Fax: 081-2233291

**Katugastota**

185/4, Galagedara Road,  
Katugastota.  
Tel: 081-2500286

**Katunayake**

16, 2 A, Plaza Complex, Phase 1, IPZ,  
Katunayake.  
Tel: 011-2251131  
Fax: 011-2251132

**Kegalle**

134, 1<sup>st</sup> Floor, Kalugalle Mawatha,  
Kegalle.  
Tel: 035-2232829  
Tel / Fax: 035-2230363

**Kelaniya**

338/1/2, Kandy Road,  
Dalugama, Kelaniya.  
Tel: 011-2905583

**Kiribathgoda**

94, 2<sup>nd</sup> Floor, Makola Road,  
Kiribatgoda.  
Tel: 011-2916924, 011-2916925  
Fax: 011-2916852

**Kirindiwela**

153, Gampaha Road,  
Kirindiwela .  
Tel: 033-2247411

**Kolonnawa**

250/1/1, Kotikawatta Road,  
Gothatuwa, New Town.

**Kotahena**

76/1/1, Srimath Bandaranayake Mawatha,  
Colombo 12 .  
Tel: 011-3135427

**Kottawa**

197/1/E, Horana Road,  
Kottawa.  
Tel: 011-2178008

**Kuliyapitiya**

245 A, Hettipola Road, Kuliyapitiya.  
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

**Madirigiriya**

417, Main Street,  
Madirigiriya.  
Tel: 027-2248310

**Maharagama**

139, Elhena Road,  
Maharagama.

**Mahiyangana**

5, Kandy Road, Mahiyangana.  
Tel: 055-2258244, 055-2258255  
Fax: 055-2258200

**Mannar**

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**

13, 1<sup>st</sup> Floor, Station Road,  
Matara.  
Tel: 041-2223024, 041-2222953  
Fax: 041-2223026

**Mathugama**

Agalawattha Road, Mathugama.  
Tel / Fax: 034-3944339

**Mawanella**

156/1/1, New Kandy Road,  
Mawanella.  
Tel: 035-2247351

**Minuwangoda**

88/1, Veyangoda Road,  
Minuwangoda.  
Tel: 034-2281923

**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

**Narammala**

209, Kuliyaipitiya Road,  
Narammala.  
Tel: 037-2248511

**Nawalapitiya**

31/A, Dolosbage Road,  
Navalapitiya.  
Tel: 054-2224088

**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

**Nittambuwa**

538/3, Near the 38 k.m Post,  
Malwatta, Nittambuwa.  
Tel: 033-2293924

**Nugegoda**

376, High Level Road,  
Gangodawilla Nugegoda.  
Tel: 011-2815511-3, 011-2815588,  
011-815599  
Fax: 011-2815515

**Nuwara Eliya**

36, 2<sup>nd</sup> Floor, Park Road,  
Nuwara Eliya.  
Tel: 011-2428272, 052-2223341  
Tel / Fax: 052-2223017

**Padaviya**

2, New Town, Padaviya.  
Tel / Fax: 025-3770758

**Panadura**

571/3, Galle Road, Panadura.  
Tel / Fax: 038-3392217

**Passara**

203/A2, Main Street  
Passara

**Piliyandala**

48/1 1/1, Colombo Road,  
Piliyandala.  
Tel: 011-2619550

**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

**Pottuvil**

2/1, Market Road,  
Pottuvil.  
Tel: 067-3696286

**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

**Ruwanwella**

185/1/2, Avissawella Road,  
Ruwanwella.  
Tel / Fax: 036-2268747

**Thalawathugoda**

1114/1, Wickramasinghepura Junction,  
Thalawathugoda.  
Tel: 011-2796321-2, 011-2796311-2  
Fax: 011-2796310, 011-2796370

**Tambuttegama**

319, Rajina Junction, Tambuttegama.  
Tel / Fax: 025-2276060

**Tangalle**

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, 1<sup>st</sup> Floor, Anguruwella Road,  
Warakapola.  
Tel: 011-2428152  
Tel / Fax: 035-2267441

**Wariyapola**

273/3, Chilaw Road,  
Wariyapola.

**Wattala**

146 3/2, 2<sup>nd</sup> floor,  
Pearl Park Shopping Complex, Market Junction,  
Negombo Road, Wattala.  
Tel: 011-3037591

**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 25<sup>th</sup> Annual General Meeting of Union Assurance PLC, will be held at the Auditorium of Union Assurance PLC, No. 20, St. Michael's Road, Colombo 3 on Friday 30<sup>th</sup> March 2012 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 Financial Statements of the company for the year ended 31<sup>st</sup> December 2011 with the Report of Auditors thereon
3. To re-elect as a Director, Mr. S. Rajendra who retires in terms of Article 90 of the Articles of Association of the Company
4. To re-elect as a Director, Ms. D. C. Alagaratnam who retires in terms of Article 90 of the Articles of Association of the Company
5. To re-elect as a Director, Mr. H. A. J. De Silva Wijeyeratne who retires in terms of Article 90 of the Articles of Association of the Company
6. To re-appoint auditors and authorise the Directors to fix their remuneration
7. Any other business of which due notice has been given

**BY ORDER OF THE BOARD  
UNION ASSURANCE PLC**



**KEELLS CONSULTANTS (PRIVATE) LIMITED**  
*Secretaries*

23<sup>rd</sup> February 2012

**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. Gerald Fredrick Christopher De Saram	of Colombo, or failing him
Mr. Ashan Suresh De Zoysa	of Colombo, or failing him
Mr. Suresh Rajendra	of Colombo, or failing him
Ms. Dilani Champika Alagaratnam	of Colombo, or failing her
Mr. Harin Amendra Joseph De Silva Wijeyeratne	of Colombo, or failing him

as my/our proxy to represent me/us and vote on my/our behalf at the 25<sup>th</sup> Annual General Meeting of the Company to be held on Friday 30<sup>th</sup> March 2012 at 9.00 a.m. and at any adjournment thereof, and at every poll which maybe 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;

	<b>For</b>	<b>Against</b>
To re-elect as a Director, Mr. S. Rajendra who retires in terms of Article 90 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as a Director, Ms. D. C Alagaratnam who retires in terms of Article 90 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as a Director, Mr. H. A. J De Silva Wijeyeratne who retires in terms of Article 90 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint the retiring Auditors, KPMG Ford, Rhodes, Thornton & Co. Chartered Accountants, and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this.....day of..... Two Thousand and Twelve

.....  
Signature/s of Shareholder/s

**NOTE:** INSTRUCTIONS AS TO COMPLETION OF PROXY FORM ARE NOTED ON THE REVERSE HEREOF

**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 8<sup>th</sup> 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  
D. C. Alagaratnam  
A. S. De Zoysa  
G. F. C. De Saram  
S. Rajendra  
H. A. J. De Silva Wijeyeratne

## 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, 1<sup>st</sup> 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 PLC  
Hatton National Bank PLC  
Housing Development Finance Corporation Bank of  
Sri Lanka  
National Development Bank PLC  
National Savings Bank  
Nations Trust Bank PLC  
Pan Asia Banking Corporation PLC  
Peoples Bank  
Sampath Bank PLC  
Seylan Bank PLC  
Standard Chartered Bank  
The Hongkong and Shanghai Banking Corporation  
Union Bank of Colombo PLC

## 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 011-2428502



**Union Assurance Centre**  
20, St. Michael's Road, Colombo 3,  
Sri Lanka.  
[www.unionassurance.lk](http://www.unionassurance.lk)