

# IDEAS CONNECTED





*A comma is a “soft stop”. It’s not final as a period. It’s used to connect new ideas to old ones, and to tell the reader when to pause a moment in their thinking (or in their speaking, if they’re reading out loud). In long sentences it’s also used to separate clauses, so the reader understands which modifiers apply to which words.*

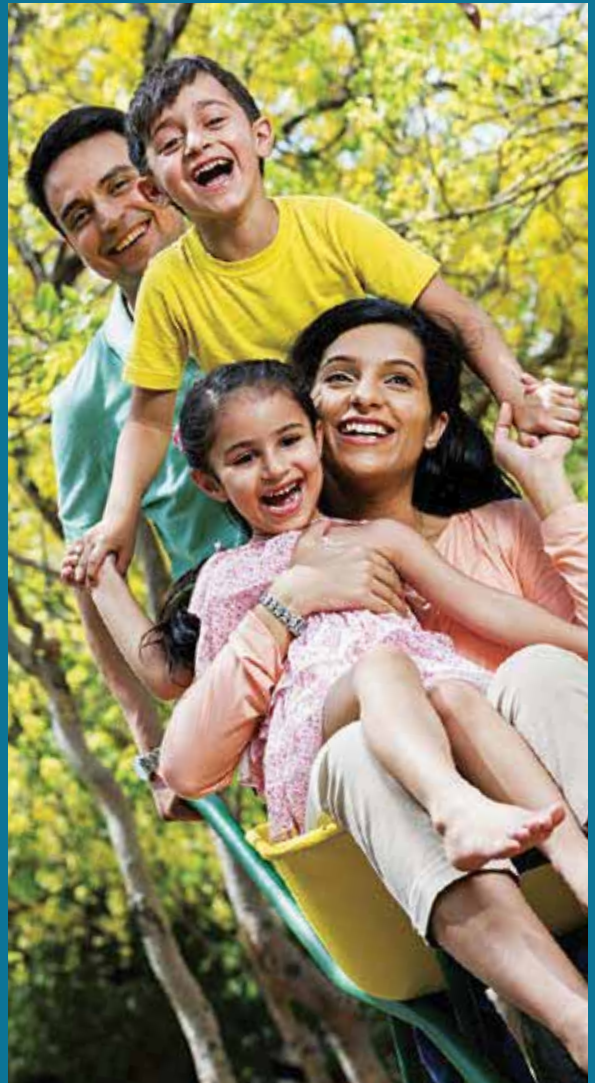
# IDEAS CONNECTED

Union Assurance has always been renowned as a reliable, trustworthy and well governed insurer with sound fundamentals and a reputation for integrity that is second to none. These valuable characteristics remain inherent in our corporate DNA, even as we focus on redefining ourselves through a new vision and strategy designed to take us into the future.

While we are proud of what we have achieved in twenty nine energetic years, it's not where we want to stop. Our vision is much more ambitious than that and our achievements up to now have simply been the punctuations in the story that we continue to tell. Today, we are proud to be headed by the youngest leadership team in the industry, bringing fresh ideas and new perspectives to the work that we do and ensuring that your company remains vibrant, progressive and relevant.

We're also focusing even more on being one of the most accessible and customer friendly insurers in the industry. Customer service and superior digital technology remain continuing priorities and our products and services are now accessible on a range of online platforms that eliminate the limitations of time and place.

We're streamlining processes, fine tuning our delivery and making sure that every stakeholder receives the year on year value they have come to expect. Read this report for a detailed description of how we have been connecting new ideas to old ones; expanding our vision, looking at different strategies and adding significant value to everything we do.



READ THIS REPORT

**ONLINE**



Annual Report  
Union Assurance PLC

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# ABOUT UNION ASSURANCE

Union Assurance PLC (UA) is one of Sri Lanka's largest providers of life insurance solutions. Anchored by a team of experienced, young and dynamic professionals, a strong capital base and reinsurance partnerships with highly rated global reinsurers, UA offers a wide range of tailor-made insurance products and services that are of international standards and serves insurance needs of all segments of the market.

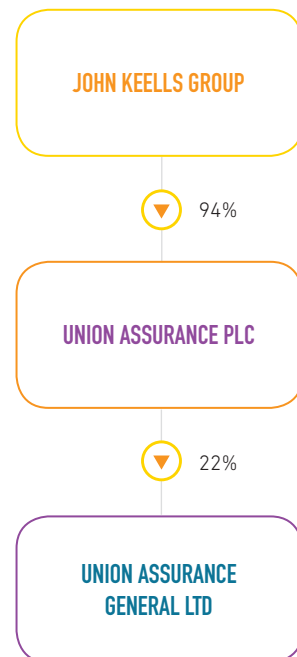
UA operations are founded on the principle of 'Trust' and the company strives to provide all stakeholders with transparency, convenience, and guarantees a respectful service for all. By championing these values, UA has managed to revolutionise the insurance industry in Sri Lanka. As a result, the company has gained recognition throughout the nation, as well as abroad – laying claim to a number of prestigious awards and achievements.

# 29

## YEARS OF OPERATIONS

**UA OPERATIONS ARE  
FOUNDED ON THE  
PRINCIPLE OF 'TRUST'  
AND THE COMPANY  
STRIVES TO PROVIDE  
ALL STAKEHOLDERS  
WITH TRANSPARENCY,  
CONVENIENCE, AND  
GUARANTEES A  
RESPECTFUL SERVICE  
FOR ALL.**

## OWNERSHIP STRUCTURE



# OUR INTEGRATED ANNUAL REPORT

## INTRODUCTION TO THE REPORT

We are pleased to present our fourth integrated report in accordance with the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC).

This report reflects on:

- The value creation model of the company combining the different forms of capitals in the short, medium and long term.
- Governance, risk management and sustainability framework entrenched within Union Assurance PLC.
- Financial, operational, environmental and social review and results of the company.

In order to keep the report concise and pertinent to the year under review, while being comprehensive and detailed, we have ensured that the commentaries in certain sections are limited to a high level view of the events and progress within the year.

## STANDARDS AND PRINCIPLES REPORTING

- Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)

## GOVERNANCE, RISK MANAGEMENT AND OPERATIONS

- Laws and Regulations of the Companies Act No. 7 of 2007
- Listing Rules of the Colombo Stock Exchange (CSE) and subsequent revisions to-date
- Insurance Industry Act No. 43 of 2000 and subsequent amendments to-date
- Guidelines, Determinations, Rules and Regulations issued by the Insurance Board of Sri Lanka (IBSL)
- Code of Best Practices on Corporate Governance jointly advocated by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL)

## FINANCIAL REPORTING

- Sri Lanka Accounting Standards (SLFRS / LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL)

## SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY REPORTING

- "In Accordance" - Core of Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines

## SCOPE AND BOUNDARY

The Union Assurance Annual Report 2016 is a reflection of the company's integrated approach of management (during the period 1 January 2016 to 31 December 2016) and strives to deliver a balanced and relevant report that will bring clarity and detail of its business during the year under review. Material events post this reporting period, up to the sign off date by the Board of Directors on 27 February 2017, have been included, ensuring a more relevant and up to date report.

## ADOPTION OF THE INTEGRATED REPORTING GUIDELINES

Towards our continuous stride in achieving a more cohesive and efficient approach to corporate reporting, the company voluntarily adopted the Integrated Reporting Framework of the IIRC. Given the complex task of reporting a year of operations of an insurance business, the company has strived to deliver a comprehensive, balanced and relevant report, while adhering to the recommendations of the IIRC.

The seven guiding principles in integrated reporting; strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness, consistency and comparability; have been given due consideration when preparing and presenting this report.

## CONTACT WITH STAKEHOLDERS



This report has been prepared with stakeholders expectations in mind in order to improve transparency, accountability and disclose material information. Feedback is gathered through stakeholder feedback forms, a dedicated mail box, one-on-one meetings and stakeholder engagement fora.

## DETERMINING MATERIALITY

Materiality analysis is a key process that enables the company to define key triple bottom line issues that are of greatest significance to our business and stakeholders, both internal and external, in the short, medium and long term. Our focus on materiality, through emphasis on 32 material aspects recognised by both internal and external stakeholders, is vital as we drive performance, improve our sustainability framework and institutionalise the company's corporate governance philosophy at all levels.

The company conducts an independent external stakeholder engagement every three to four years in ascertaining aspects material to its significant stakeholders. In addition, materiality is also assessed internally in ascertaining the aspects material to the company and to fine tune and streamline its strategy and processes to manage these material issues.

The outcome of these studies is prioritised using a materiality matrix, representing the level of significance to the company and its external stakeholders, and is then disclosed as per clearly defined aspects under the GRI G4 guidelines, as further described in the Material Aspects section of this report.

While the matrix, as illustrated below, indicates material aspects, the company continues to assess its internal and external materiality and disclose the performance of such aspects. Its reporting scope will be expanded as and when an aspect becomes material to the company and its stakeholders.

## DISCLAIMER FOR THE PUBLICATION OF FORECAST DATA

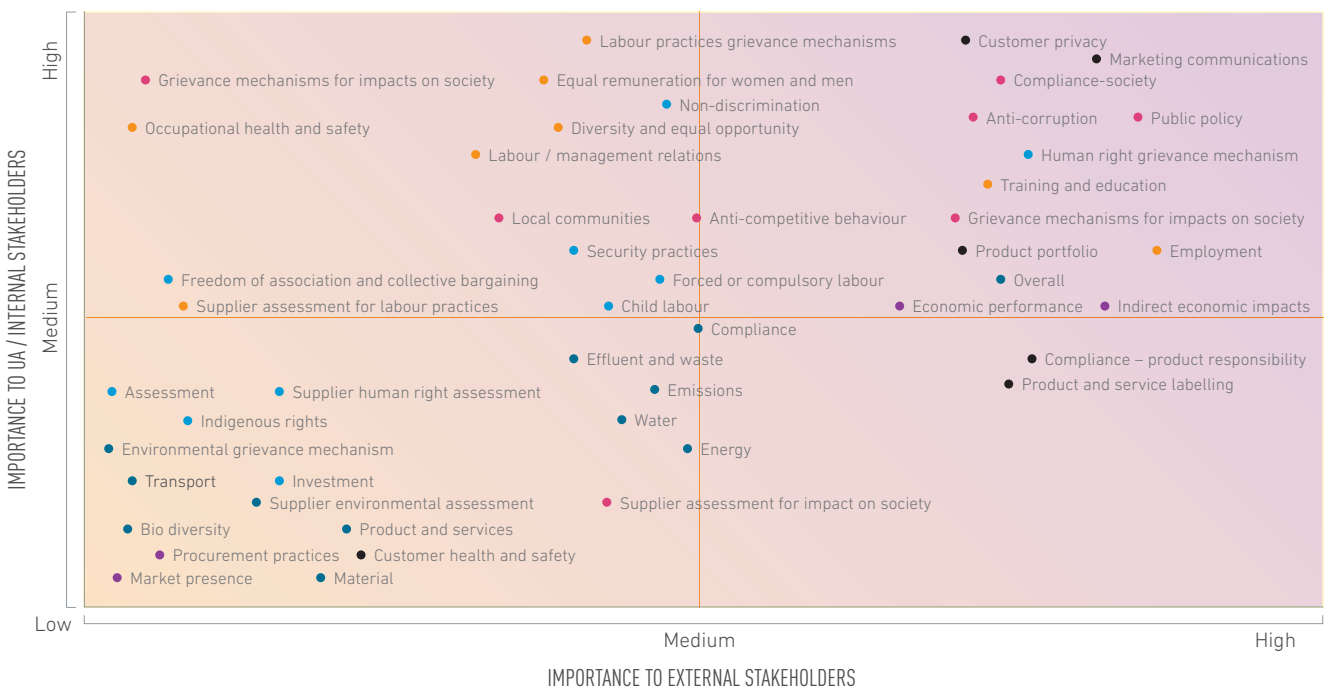
The report contains information regarding the plans and strategies of the company over the medium and long term and represents management views. The plans are forward looking in nature and their feasibility depends on a number of economic, political and legal factors which are outside the influence of the company such as the global and domestic financial, economic and political situation, the situation of key markets, changes in tax, environmental legislation and so forth. Given this, the actual performance of indicators in future years may differ from the forward looking statements published in this report. The reader is advised to seek expert professional advice in all such respects.

As you flip through the pages of this report, we trust you will find a relevant, transparent and noteworthy value proposition entrenched within Union Assurance PLC that strives to achieve the highest form of stakeholder satisfaction.

## INFORMATION VERIFICATION

The information contained in this report has been reviewed, as applicable, by

- The Board of Directors
- The Executive Committee
- The Board Audit and Compliance Committee
- An independent auditor confirming the accuracy of the annual financial statements
- An independent assurance engagement for the non-financial information prepared "In accordance" – Core of Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines.



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# OUR VALUE CREATION MODEL PROVIDES THE FRAMEWORK FOR US TO WIN FOR OUR STAKEHOLDERS

## OUR RESOURCES



### FINANCIAL CAPITAL

- Rs. 3.4 billion shareholder funds
- Rs. 5 billion operating cash flow

(Shareholders)

Pages 50 to 58



### HUMAN CAPITAL

474 permanent staff, 295 fixed term contract employees

Over 4,000 field sales staff

(Employees)

Pages 67 to 79



### MANUFACTURED CAPITAL

Rs. 1.5 billion investment in property, plant & equipment

107+ locations islandwide

(Customers)

Pages 59 to 60



### SOCIAL AND RELATIONSHIP CAPITAL

Business and social relationships built over 29 years

(Customers, Suppliers, Community, Government and Regulators)

Pages 80 to 92



### NATURAL CAPITAL

Energy derived mainly from renewable and non-renewable sources

(Environment, Government and Regulators)

Pages 61 to 66



### INTELLECTUAL CAPITAL

A strong brand built over 29 years that serves the life insurance needs of all customer segments in Sri Lanka

(Customers and Community)

Pages 93 to 99

## VISION

## MISSION

### STRATEGIC PRIORITIES

Pages 46 to 49

#### EARNINGS GROWTH

Improving performance through increasing market share and diversifying geographical presence and distribution platforms. Ensuring sustainable shareholder wealth creation.

#### OPERATIONAL EFFICIENCIES

Optimising operational efficiencies.

#### PRODUCT DEVELOPMENT

Product development focus on evolving customer needs and demographic trends.

#### LEVERAGE HUMAN CAPITAL

Transforming human capital to achieve excellent organisational results.

#### CREATE A STRONG BRAND

Differentiate UA brand among competitors.



#### DEVELOP PRODUCTS

Pages 95 to 97



#### BUILD DISTRIBUTION NETWORK

Pages 82 to 83



#### ACQUIRING AND SERVICING CUSTOMERS

Pages 84 to 89



#### PRUDENT INVESTMENTS

Pages 50 to 58



#### MANAGE PAYOUTS AND LIABILITIES

Pages 102 to 111

## HOW WE CREATE VALUE

THROUGH OUR BUSINESS MODEL

### OUR SUSTAINABILITY PRIORITIES

Pages 46 to 49

#### SOUND GOVERNANCE

Strong governance culture is embedded in all business activities.

#### PEOPLE DEVELOPMENT

Recruit and retain high quality people by developing their talent and creating opportunities for career progression

#### RESPONSIBLE PRODUCTS AND SERVICES

Developing products that provide protection and wealth creation opportunities for customers while enhancing stakeholder value

#### PROSPEROUS SOCIETY

Managing policyholder funds in a responsible manner, and promoting healthy and active lifestyles within communities (to ensure economic development and social wellbeing)

#### ENVIRONMENTAL FOOTPRINT

Actively work to reduce environmental impacts caused by business activities (and enhance reputation as a responsible corporate citizen)

### OUR IMPACT

#### FINANCIAL CAPITAL

**Rs.8.3Bn**

Gross written premium

**Rs.1.3Bn**

Operating profits

**Rs.10.50**

Dividend per share

**411%**

Capital adequacy ratio

Pages 50 to 58

#### MANUFACTURED CAPITAL

**107+**

Locations across the country

**Rs.394Mn**

Revenue from new locations

**38,233**

Square feet of training space

Pages 59 to 60

#### NATURAL CAPITAL

**2.6 Mn**

Litres of water saved

**394**

Numbers of trees saved

**232,457kwh**

Energy saved

**1,642tCO<sub>2</sub>e**

Carbon Footprint  
▼ 11%

Pages 61 to 66

#### HUMAN CAPITAL

**4th**

Consecutive year as a Great Place To Work

**26%**

Productivity increase during the year

**12%**

Reduction in attrition

**29**

MDRT members produced

Pages 67 to 79

#### SOCIAL AND RELATIONSHIP CAPITAL

**15%**

Growth in lives covered

**2**

New propositions for health and pension needs

**46%**

Reduction in customer complaints

**123,000+**

Lives touched through Dengue, Thalassaemia and Diabetes awareness campaigns

Pages 80 to 92

#### INTELLECTUAL CAPITAL

**Rs.1.2Bn**

Brand value

**56%**

of life insurance proposals received digitally

Proposition Beyond Protection



**147,735+**

Fan base Largest Facebook fan base in the industry

Pages 93 to 99

Further details on our value creation model can be found on supplementary information on page 296

# YEAR AT A GLANCE 2016

## JANUARY

Adjudged the 2nd Runner Up – Corporate Governance Disclosures 2014 at SAFA Best presented Annual Report Awards, conducted by South Asian Federation of Accountants.

## MARCH

Launched the very first 'Women's Day' recruitment campaign.

## APRIL

Conducted an MDRT grooming program for 1st quarter top achievers.

## FEBRUARY

Adjudged the winner in the Finance and Insurance sector for the 8th time at the Sustainability Reporting Awards conducted by the Association of Chartered Certified Accountants (ACCA).

## MAY

- Launched an innovative health rider, "Union Smart Health."
- Partnered with a 3rd party service provider, for efficient medical claims settlement.

## JUNE

- Held the Annual Awards 2015 to recognise and motivate high performing life insurance advisors.
- Recognised for the 4th consecutive year as one of the great places to work in Sri Lanka by the Great Place to Work® Institute in partnership with LMD and The Ceylon Chamber of Commerce.

## JULY

- Upgraded the web based Financial Advisor Management Explorer System (FAME)
- Adjudged Industry Technology Leader and Industry Claims Leader at the inaugural Sri Lanka Insurance Industry Awards jointly organised by Fintelekt and Insurance Association of Sri Lanka.

## OCTOBER

- Launched "Sarthakathwaye Piyawara", a national lead generation campaign.
- Appointed the life insurance partner for the Sri Lanka Bar Association.

## SEPTEMBER

- Participated in the industry awareness campaign to highlight the value of life insurance to the general public.
- Launched "Union 60 plus", a unique product catering to the protection and health insurance needs of senior citizens.
- Relaunched Unit Linked products.

## AUGUST

- Launched 55 awareness programs on dengue prevention day.
- Launched the 2nd mid-year convention to recognise, motivate and enhance the knowledge of high performing life insurance advisors.

## NOVEMBER

- UA received six awards including the Silver award for overall performance at the National Business Excellence Awards conducted by the National Chamber of Commerce.
- Only Sri Lankan insurer to be shortlisted for two awards at the Asia Sustainability Awards.
- Became the No. 1 Facebook page in the insurance industry of Sri Lanka.
- Partnered with National Youth Development Bureau to highlight employment opportunities at UA for Sri Lankan youth.

## DECEMBER

- The 2015 annual report received the Bronze award in the Insurance category at the Annual Report awards conducted by the Institute of Chartered Accountants of Sri Lanka.
- Achieved the highest ever premium volume in the company's history.
- UA brand valued at Rs. 1.2 Bn with a rating AA- by Brand Finance (UK).

### FINANCIAL ACHIEVEMENTS AND GOALS

INDICATOR	GOALS	ACHIEVEMENT	2015	2014
	2016	2016		
GWP growth	17%	19%	17%	8%
Reinvestment rate	9.50%	9.55%	7.52%	7.15%
Growth in profit from operations	20%	26%	18%	11%
Growth in life fund	15%	15%	14%	19%
Return on equity (Average)	20%	36%	23%*	16%

\* Excluding gain on disposal of UAG shares in 2015.

# PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS		2016	2015	%	2014
<b>RESULTS OF THE YEAR</b>					
Revenue	Rs. million	8,271	6,964	19 ▲	5,945
Paid in benefits and claims to policyholders	Rs. million	1,524	1,448	5 ▲	1,238
Profit from operations	Rs. million	1,313	1,039	26 ▲	881
Profit after tax <sup>1</sup>	Rs. million	1,313	1,125	17 ▲	1,203
Earning per share	Rs.	22.27	31.2	-29 ▼	14.05
Recurrent Earning per share	Rs.	22.27	14.96	49 ▲	14.05
Dividend	Rs. million	619	501	23 ▲	557
Average annual premium per policy (Rs.)	Rs.	48,312	44,482	9 ▲	37,011
Persistency - Year 1	%	76	78	-3 ▼	72
- Year 2	%	70	67	4 ▲	61
Investment yield	%	11.56	11.36	2 ▲	14.54
Total expenses ratio	%	66	70	-6 ▲	73
Return on equity	%	36	23	56 ▲	16
Return on total assets <sup>1</sup>	%	3.7	3.6	3 ▲	2.5
<b>FINANCIAL POSITION AT THE YEAR END</b>					
Total assets	Rs. million	35,693	31,014	15 ▲	35,603
Financial investments	Rs. million	30,847	26,541	16 ▲	24,039
Life fund	Rs. million	30,267	26,272	15 ▲	23,054
Total shareholder funds	Rs. million	3,866	3,465	12 ▲	6,210
Net asset per share	Rs.	65.6	58.8	12 ▲	72.5
<b>MARKET / SHAREHOLDER INFORMATION</b>					
Market price of a share as at 31st December	Rs.	143	165	-13 ▼	164
Market capitalisation	Rs. million	8,427	9,723	-13 ▼	14,057
Total shareholder return	%	(9.4)	4.6	-304 ▼	63.5
Price earning ratio	times	6.4	5.3	21 ▲	11.7
Dividend per share	Rs.	10.5	8.5	24 ▲	6.5
Dividend payout <sup>1</sup>	%	47	45	4 ▲	46
Dividend yield	%	5.9	3.9	51 ▲	3.7
<b>STATUTORY REQUIREMENTS / RATIOS</b>					
Excess in approved assets	Rs. million	1,856	1,723	8 ▲	2,471
Capital Adequacy Ratio (CAR)	%	411	N/A	N/A	N/A
Solvency ratio	times	N/A	2.73	N/A	4.74

<sup>1</sup> Excluding gain on disposal of UAG shares in 2015

## NON-FINANCIAL HIGHLIGHTS

INDICATOR			2016	2015	2014
<b>FINANCIAL CAPITAL</b>					
EC1	Direct economic value added	Rs. million	8,134	7,930	6,793
<b>MANUFACTURED CAPITAL</b>					
	Total number of Branches / Business development offices	Number	107	107	122
<b>NATURAL CAPITAL</b>					
EN3	Energy consumption within the organisation	Gigajoules	7,874	6,971	7,933
	Direct energy consumption per Rs. 1 million of revenue	Gigajoules	0.95	1.00	1.33
EN5	Energy intensity (in Gigajoules)	- Per area	0.03	0.03	0.04
		- Per full time employees	1.61	1.41	1.36
		- Per branch	74	65	65.02
EN8	Total water withdrawal	Cubic metres	24,116	18,244	22,121
	Water withdrawal (m3) per Rs. 1 million of revenue	Cubic metres	2.92	2.62	3.72
EN10	Percentage and total volume of water recycled and reused	%	1	1	1
EN11	Operational sites owned, leased, managed in, or adjacent to, protected /high bio-diversity areas	Count	Nil	Nil	Nil
EN15	Direct greenhouse gas (ghg) emissions (scope 1)	tonnes CO <sub>2</sub> e	3.95	1.56	221.86
EN16	Indirect greenhouse gas (ghg) emissions (scope 2)	tonnes CO <sub>2</sub> e	1,071	953	1,077
EN17	Other indirect greenhouse gas (ghg) emissions (scope 3)	tonnes CO <sub>2</sub> e	567	883	2,959
EN18	Greenhouse gas (ghg) emissions per Rs. 1 million of revenue	tonnes CO <sub>2</sub> e	0.20	0.26	0.38
EN19	Total emissions	tonnes CO <sub>2</sub> e	1,642	1,838	4,258
EN23	Weight of waste recycle through 3rd party contractors	Kgs	17,773	30,066	2,730
EN29	Significant environmental fines	Rs. million	Nil	Nil	Nil
<b>HUMAN CAPITAL</b>					
EC2	Coverage of organisations defined benefit plan	Rs. million	108	100	90
LA1	<b>Total workforce</b>				
	Permanent cadre	Number	474	450	445
	Non-permanent cadre	Number	4,406	4,488	4,706
	Total number of new employees hired during the reporting period	Number	434	479	456
	Employee turnover during the period	Number	72	77	84
	Attrition of new hires (as a percentage of total new hires)	%	4	9	16
LA5	Percentage of workforce represented in management worker health and safety committees	%	3	3	5
LA6	Number of injuries	Number	32	37	47
LA9	Training per permanent staff member	No of hours	38	24	17
	Training per non-permanent staff member	No of hours	57.4	47.9	60.1
LA11	Percentage of employees receiving performance reviews	%	100	100	100
HR5	Operations and suppliers identified as having significant risk for incidents of child labour	Count	Nil	Nil	Nil
HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour	Count	Nil	Nil	Nil
HR7	Percentage of security personnel trained in the organisation's human rights policies or procedure	%	100	100	100
HR10	Percentage of new suppliers that were screened using human rights criteria	%	100	100	100
<b>SOCIAL AND RELATIONSHIP CAPITAL</b>					
EC7	Investment in community and infrastructure projects	Rs. million	7	7	12
SO1	<b>Community engagement (No of persons impacted)</b>				
	Dengue awareness programs	Number	107,139	2,382	2,275
	Thalassaemia awareness programs	Number	14,761	11,975	7,860
	Diabetes Prevention awareness programs <sup>1</sup>	Number	1,169	200,839	-
	Health awareness campaigns	Count	140	89	59
	Staff volunteerism	Count	2014	240	186
SO3	Proportion of business analysed for risk of corruption	%	100	100	100
SO8	Significant fines for violation of laws / regulations	Rs. million	Nil	Nil	Nil
PR7	Voluntary standards relating to advertising		Group policy / Internal code of conduct		
PR8	Number of customer complaints received	Number	503	938	1,198
	Number of customer complaints resolved	Number	194	822	1,043
	Disputes referred to Insurance Ombudsman		Referred 26	Referred 29	Referred 53
		Number	Settled 7	Settled 16	Settled 12
PR9	Significant fines for product / service issues	Rs. million	Nil	Nil	Nil
<b>INTELLECTUAL CAPITAL</b>					
	Brand value <sup>2</sup>	Rs. billion	1.23	2.15	2.36

<sup>1</sup> Conducted an islandwide awareness campaign together with the launch of CSR week in 2015

<sup>2</sup> Brand value in 2016 represents only life insurance business. Previous values include general insurance business as well

# CHAIRMAN'S MESSAGE

GRI-G4 G4-1

I am pleased to present the Integrated Annual Report and financial statements of your company for the financial year ended 31 December 2016.

## BUSINESS PERFORMANCE

UA reported strong revenue and profit growth in the year under review.

Insurance premiums increased by 19% during the year to Rs. 8.3 billion. Growth was due to improved customer service, revamping existing products and introducing innovative life insurance solutions to cater to the changing needs of customers.

The company profit after tax of Rs. 1.3 billion was a 17% increase over the profit after tax of Rs. 1.1 billion recorded in the previous year excluding the one off gain from the sale of Union Assurance General Limited.

The Life fund increased by 15% to Rs. 30 billion. Claims and benefits increased marginally compared to previous year. UA

improved operating earnings by growing the pool of funds under management.

## LIFE INSURANCE INDUSTRY

The life insurance industry in Sri Lanka is expected to report a 19% growth in 2016 (as against a 20% growth in 2015). The significant growth in premiums is attributable to increased awareness and demand for health and retirement solutions.

As per the latest figures published by the Insurance Board of Sri Lanka (IBSL), the life insurance industry has recorded a CAGR of 11% over the past five years up to 2015. This growth momentum is expected to continue as life insurance penetration in Sri Lanka is significantly lower compared to regional markets. For example, as per statistics published by the IBSL, only 33% of the working population have some form of insurance (30% in 2014).

## STRENGTH AND STABILITY

UA's Capital Adequacy Ratio (CAR) under the Risk Based Capital (RBC) regime was 411% which is significantly higher than the minimum required by the regulatory authorities. This reflects the strong financial position of the company which will enable UA to deliver sustainable value to all stakeholders in the short term as well as on a long term basis.

UA's insurance liabilities are backed by reinsurers who have credit ratings of 'A' or above from international rating agencies.

## REGULATORY FRAMEWORK AND GOVERNMENT POLICIES

We work closely with the Insurance Board of Sri Lanka to implement regulations that enable industry growth while safeguarding policyholder interests. Considering the significant under penetration in the country and potential to provide an adequate financial safety net to many more customers, we earnestly request the government to enact tax policies which foster growth and long term economic development, rather than achieve short term revenue objectives.

## CORPORATE GOVERNANCE

I am pleased to state that UA is compliant with the Code of Best Practice on Corporate Governance jointly advocated by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. Further details can be found in the Corporate Governance Commentary on page 125.

## EMPLOYEES

The value creation process of the company has been built around our loyal and committed employees, and I wish to pay tribute to them for their contribution and commitment. We continue to engage and encourage our employees to perform to the best of their ability through a performance oriented culture founded on ethical and transparent behaviour. The Corporate Governance Commentary and the Human Capital section of this report explain in further detail the best practices, policies and procedures that are in place to ensure that Union Assurance is a "Great Place to Work."



## SUSTAINABILITY

This Report has been prepared "In accordance" - Core of the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines and has obtained the GRI 'Materiality Disclosures Service' check. The report contains the overall sustainability strategy, framework and performance of the company and an independent assurance report has been provided by Messer. KPMG.

I am pleased to announce that this year too we have made significant progress on the objectives reported in last year's Integrated Annual Report. During the year, the company's carbon footprint decreased by 11% to 1,642 Tonnes, due to various energy saving and emission management initiatives which were commissioned over the years. Our activities to add value to customers, employees, field staff, suppliers, community and shareholders is reflected on page 67 to 92 of the report.

## CORPORATE SOCIAL RESPONSIBILITY

The company's CSR initiatives are centred on one strongly championed objective - creating healthy communities around the country as there is a strong linkage between this objective and UA's life insurance operations.

Accordingly, we work together with the Ministry of Health to create awareness regarding critical health concerns such as dengue, diabetes and thalassaemia.

During 2016, with the support of the Public Health Department of the Colombo Municipal Council and the Public Health Inspector, UA successfully conducted a total of 57 dengue awareness campaigns, over 60 thalassaemia awareness programs and 14 diabetes prevention programs impacting more than 123,000 people.

## BUSINESS STRATEGIES AND FUTURE OUTLOOK

UA will leverage the significant investments made in people, brand, service, products and technology to target both retail and corporate customer segments. The agency channel is expected to generate a significant share of our revenue and profit and we will continue to focus on quality and consistent delivery from this channel. We also aim to further grow the bancassurance channel by investing and improving our service delivery, product offerings and distribution capabilities.

We will continue to focus our product development on retirement and health solutions as these remain significant needs in the market and there is much scope to offer innovative solutions to meet this demand. UA will also invest in a new IT platform which will enable us to develop and launch new products across multiple distribution channels in a speedy and cost effective manner.

The outlook for the life insurance industry is extremely positive. Rising consumer wealth as a result of economic growth and an ageing population will drive demand for protection and retirement solutions which life insurers are well positioned to provide. Campaigns conducted by all industry stakeholders to raise awareness regarding the benefits and value of life insurance would further help to improve penetration levels. Projects by the Ministry of Telecommunication and Digital Infrastructure to improve information and communication technology literacy will lead to increased public awareness, confidence and usage of such services. UA continues

**THE OUTLOOK FOR THE LIFE INSURANCE INDUSTRY IS EXTREMELY POSITIVE. RISING CONSUMER WEALTH AS A RESULT OF ECONOMIC GROWTH AND AN AGEING POPULATION WILL DRIVE DEMAND FOR PROTECTION AND RETIREMENT SOLUTIONS WHICH LIFE INSURERS ARE WELL POSITIONED TO PROVIDE.**

# CHAIRMAN'S MESSAGE

to make significant investments in multiple digital initiatives and is well positioned to capitalise on these opportunities.

## DIVIDENDS

Your Board declared a first and final dividend of Rs. 10.50 per share compared to the dividend of Rs. 8.50 per share declared for 2015. The total pay-out will be Rs. 619 million compared to Rs. 501 million in the previous financial year.

## ACHIEVEMENTS

UA continues to garner national and regional recognition for our sustainability, corporate governance, financial reporting, HR practices and overall business operations.

We were adjudged winners in the Finance and Insurance sector at the Sustainability Awards conducted by the Association of Chartered Certified Accountants (ACCA). This was the 8th time the company's activities were recognised at this prestigious event. We were also shortlisted at the Asia Sustainability Awards forum, as the only Sri Lankan insurer, for two awards.

The company's corporate governance disclosures were recognised by the South Asian Federation of Accountants (SAFA) with a 2nd runner up award. Our reporting practices were also recognised by the Institute of Chartered Accountants of Sri Lanka, with the 2015 annual report receiving a bronze award in the insurance category.

We were recognised as a "Great Place to Work" for the 4th consecutive year by the Great Place to Work Institute® reflecting the consistent emphasis UA has placed on attracting and retaining the best talent in the industry.

UA secured six awards including the overall Silver Award in the extra Large Business Category at the National Business Excellence

Awards ceremony conducted by the National Chamber of Commerce. In addition to overall business excellence, UA's corporate governance practices, business and financial results and capacity building initiatives were recognised at this event. UA also won gold (1st place) in the Insurance Sector.

## CONCLUSION

We place on record our appreciation to the Chairperson, Director General and their team at the Insurance Board of Sri Lanka for the consultative approach they continue to adopt in balancing the interests of all stakeholders involved in this dynamic industry.

On behalf of the Board we also appreciate the efforts of the Insurance Ombudsman and his untiring commitment to build public confidence and trust by providing an efficient, independent grievance handling mechanism.

I also take this opportunity to thank the Chief Executive Officer, the management team and the UA staff for their continuing commitment to achieving the company's objectives.

My fellow Directors have played a pivotal role in the success of UA, and deserve my gratitude.

Last but by no means least, I also thank all stakeholders for being an integral part of UA's journey.



AJIT D. GUNewardENE  
Chairman

27 February 2017

# STRATEGIC REVIEW BY THE CHIEF EXECUTIVE OFFICER

“WE BELIEVE THAT THE SRI LANKAN LIFE INSURANCE MARKET PRESENTS A UNIQUE, LONG-TERM GROWTH OPPORTUNITY. OUR STRONG FUNDAMENTALS WILL PROVIDE A SIGNIFICANT COMPETITIVE ADVANTAGE TO EXPLOIT THIS OPPORTUNITY AND DELIVER SUSTAINABLE VALUE TO ALL OUR STAKEHOLDERS.”

STRATEGIC REVIEW  
BY THE CHIEF  
EXECUTIVE OFFICER

ONLINE



UA has a solid strategy supported by a strong and capable executive team, strengthened by several new appointments, and we have plans to further grow and expand the company over the medium term.

#### STRATEGY PROCESS AND OVERVIEW

The company strategy was reviewed and approved by the Board in December 2016. This followed a three-month process driven by the Executive Committee who identified refinements and shifts in some of the underlying plans. In essence the strategy remains unchanged and focuses on three broad initiatives:

- Transform the agency sales force to improve productivity and quality
- Focus on key customer segments through bancassurance channel
- Leverage digital resources to increase customer service and engagement

# STRATEGIC REVIEW BY THE CHIEF EXECUTIVE OFFICER

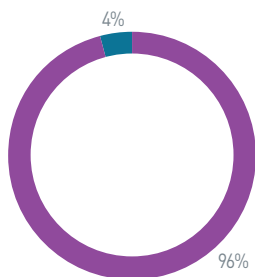
## HIGHLIGHTS

- GWP crossed Rs. 8 billion
- ROE of 36% exceeded hurdle of 20%
- Life Fund increased by 15%
- Launched innovative health and protection solutions

## CHALLENGES

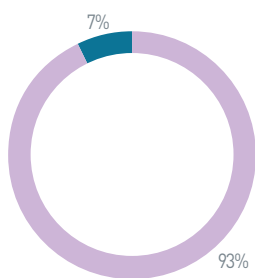
- Negative growth in unit linked product sales due to negative capital market performance
- Less than anticipated growth in corporate segment due to intense price competition

### GWP COMPOSITION - 2016



● Conventional GWP ● Unit Linked GWP

### GWP COMPOSITION - 2015



● Conventional GWP ● Unit Linked GWP

### THE FIVE PILLARS OF OUR STRATEGY REMAIN CONSTANT

#### EARNINGS GROWTH

Improving performance through top-line earnings growth by increasing market share and diversifying geographical presence and distribution platforms. Ensuring sustainable shareholder wealth creation.

#### OPERATIONAL EFFICIENCIES

Optimising operational efficiencies

#### PRODUCT DEVELOPMENT

Product development focused on evolving customer needs and demographic trends

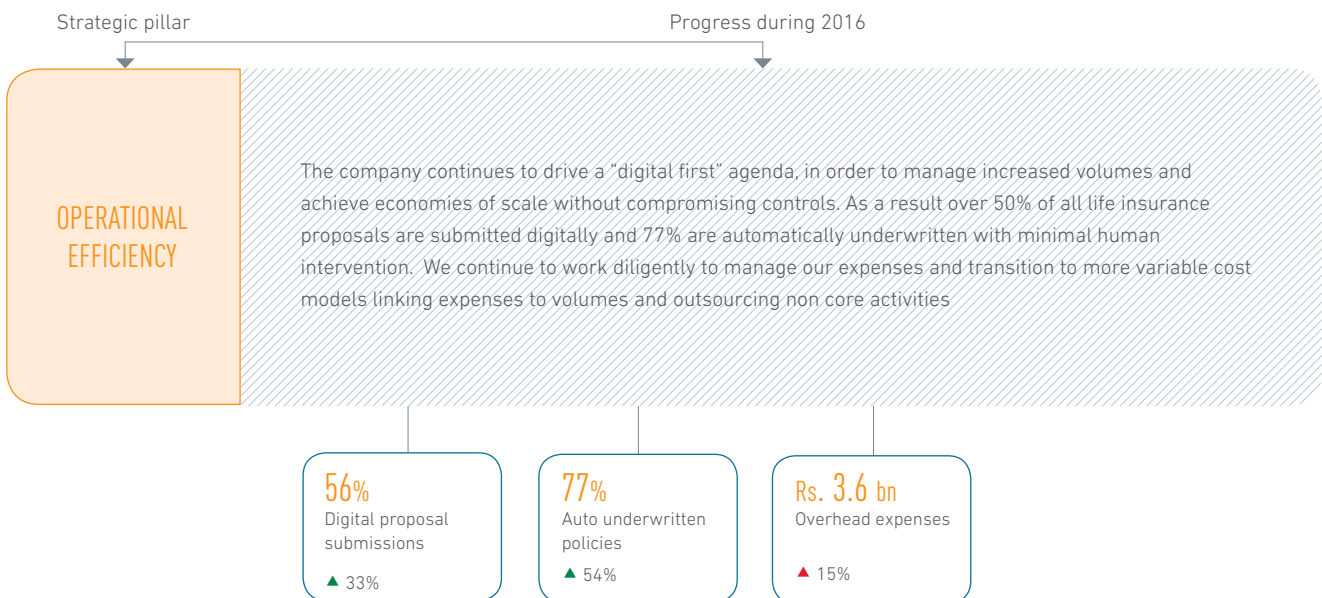
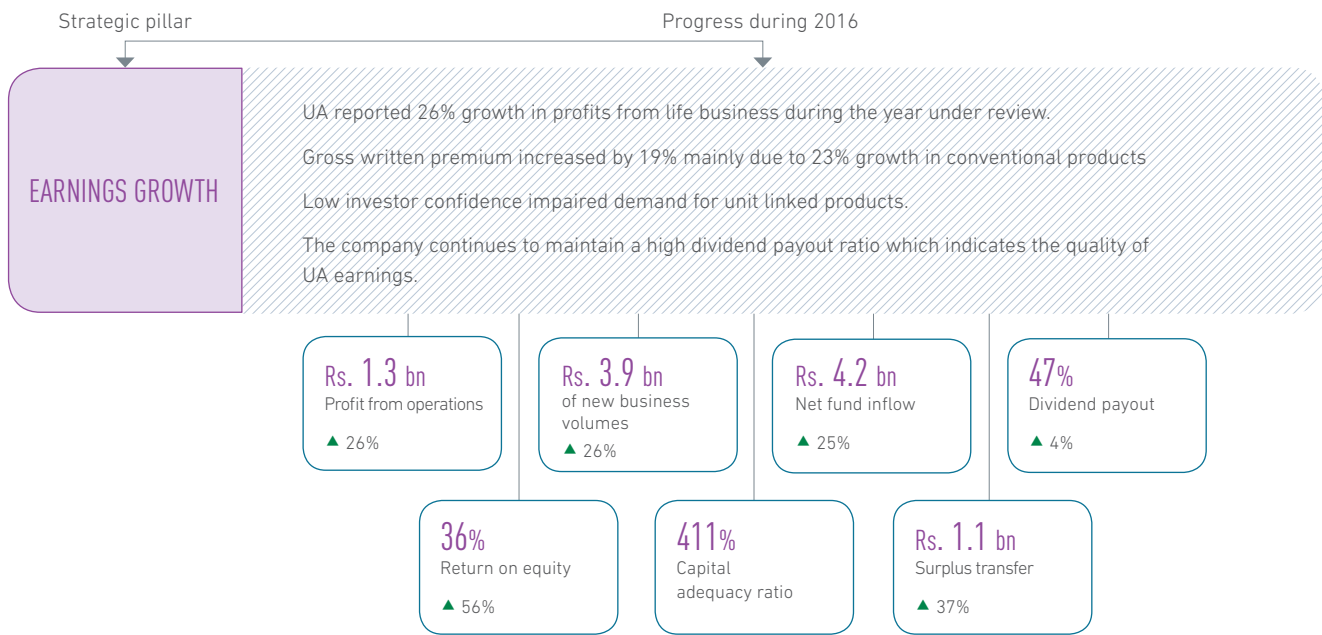
#### LEVERAGE HUMAN CAPITAL

Transforming human capital to achieve excellent organisational results

#### CREATE A STRONG BRAND

Differentiate UA brand from competitors

We have made good progress in implementing action plans aligned with the above pillars. We have summarised below some of the highlights of 2016 and areas for improvement.



# STRATEGIC REVIEW BY THE CHIEF EXECUTIVE OFFICER

Strategic pillar: **PRODUCT DEVELOPMENT**

Progress during 2016

The following life insurance solutions were launched in 2016.

**Union Smart Health:** An innovative health rider that provides coverage for the policyholder as well as their dependents. The product introduced several innovative features to the Sri Lankan market including an automatic increase in limits (subject to use) and a revive benefit allowing the customer to claim the annual limit on the policy twice in one year provided the second incident is unrelated to the first.

**Union 60 Plus:** Provides protection and health insurance for customers aged between 50 and 75 years.

**GOYO:** A wellness solution combining a wearable device which is linked to an App. The App is a "personal health advisor" motivating the user to achieve targeted goals by offering rewards and benefits from a host of local and international partners, thus encouraging people to lead an active lifestyle.

The company also relaunched Union Challenger to provide sophisticated customer protection combined with investment returns which are linked to selected Sri Lankan equities.

Strategic pillar: **LEVERAGE HUMAN CAPITAL**

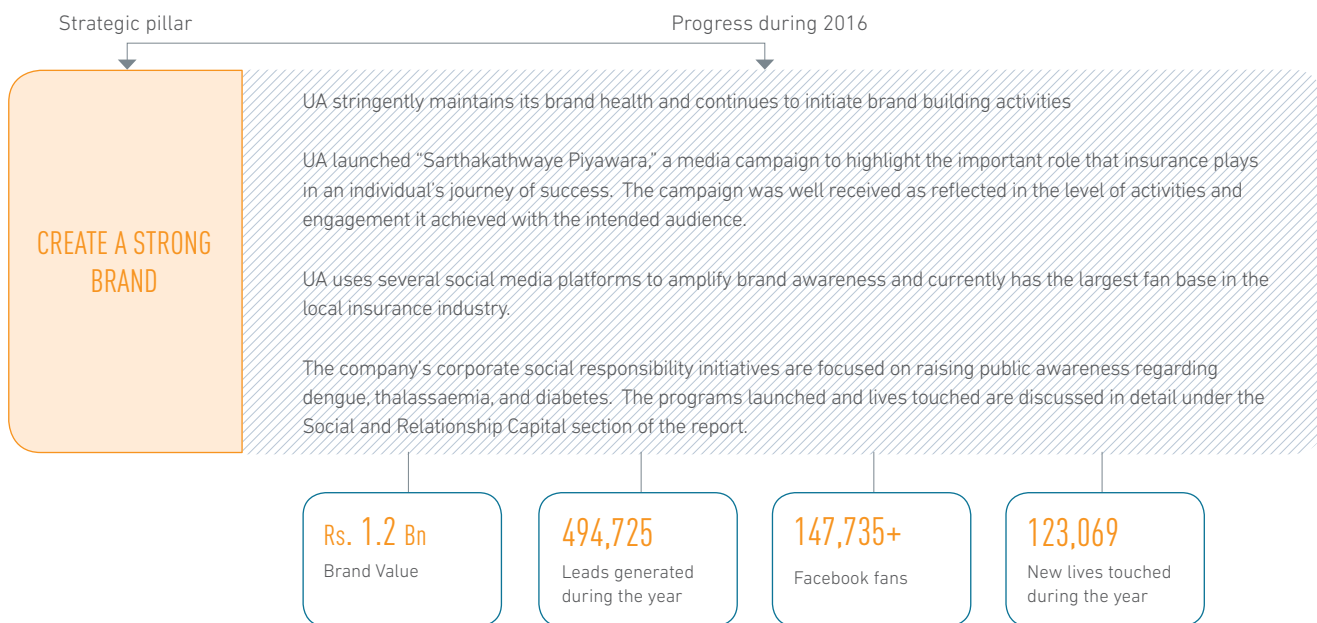
Progress during 2016

The agency force contributes 92% to the GWP of the company. Several initiatives such as assessment centre based recruitment, learning and development interventions and active field coaching were implemented during the year to improve their quality in terms of persistency, case size and productivity.

UA was recognised as a Great Place to Work for the 4th consecutive year by the GPTW Institute. Several initiatives were launched to address the improvement areas highlighted from the survey.

We continued to invest in structured training for all levels of staff from distribution, operations and support services and launched several video based training modules as well.

Succession planning has been identified as a strategic priority, and the company continues to invest in building a strong talent pipeline by developing internal candidates and actively seeking and grooming external candidates into key roles.



## STRATEGIC RISKS

To ensure value creation, the company balances risks with earnings to deliver an appropriate risk-adjusted return to shareholders. All decision making is based on a risk appetite set by the Board

and implemented through the company's governance structure. The Board risk appetite determines the markets in which the company operates, the products and services that are provided and minimum profit margins to be achieved.

The company is proactive in understanding and managing the risks it is exposed to and ensures that capital is allocated in an optimal manner.

The company's key strategic risks are as follows:

RISK DESCRIPTION	COMPANY RESPONSE
Recruitment and retention of talent specifically for distribution related activities	<p>UA has implemented several initiatives to attract high quality candidates and offers a variety of training and development programs to enhance the quality and productivity of the sales force.</p> <p>Compensation / benefits and rewards and recognition schemes have also been updated to align individual and organisation objectives.</p> <p>In addition to traditional distribution channels, UA constantly evaluates new distribution channels as well.</p>
Decline in the market value of financial instruments in which the company invests its funds	<p>The company has appropriate investment policies, determined by the Board Investment Committee. These investment policies specify among others, the investment classes in which funds can be invested, minimum credit quality for interest bearing investments etc. Liabilities are matched as far as possible with assets that have a similar investment return profile taking cognisance of customers' reasonable expectations.</p> <p>Funds related to linked products are invested in line with client preference and instructions. Therefore the company is not impacted by changes in the market value of linked funds under management. No minimum investment guarantees are offered for linked funds.</p>

# STRATEGIC REVIEW BY THE CHIEF EXECUTIVE OFFICER

RISK DESCRIPTION	COMPANY RESPONSE
Regulatory changes and interventions	<p>The company takes a proactive approach in investigating and formulating views on all applicable issues facing the insurance industry. The company monitors and influences events to the extent possible by engaging in direct dialogue with legislators or by participating in industry level discussions</p> <p>The risk is also managed as far as possible through clear contracting with customers that allows for changes to policy terms in line with changing regulatory requirements. Read more on the regulatory environment on page 36.</p>
Increasing market share in light of increasing competition and managing margins due to upward pressure on the cost base	<p>The company relies on its culture of customer-centricity and innovativeness, its well-established brand and technical expertise to maintain and grow revenue and margins.</p> <p>Cost efficiencies and improvements are key focus areas and are managed through the annual budgeting and monthly operating performance review and reporting processes.</p>

## OPPORTUNITIES AND PRIORITIES

The growth momentum of the life insurance industry in Sri Lanka is expected to continue as life insurance penetration is significantly lower in Sri Lanka compared to regional markets.

UA will continue to implement strategies to develop the agency cadre as customers prefer to deal with trusted, professional advisors. We will also focus on growing the bancassurance distribution channel, which we believe has significant growth potential.

Changing demographics and rising income levels have created opportunities to provide health and retirement solutions. Hence UA's product development initiatives will be focused on launching innovative products that meet the above needs.

In the next few years, digital tools such as big data and advanced analytics will enable a wide range of new business opportunities based on collecting, analysing and operationalising vast amounts of customer data. UA has already digitally enabled our sales force, streamlined operations to suit a digital environment and leveraged technology to increase customer service and engagement levels. We intend to further develop these aspects of the business.

## CONCLUSION

We have ended 2016 on a strong note and we expect this momentum to continue to 2017 as well. UA has a strong brand, reputation for good governance, a professional team and a performance driven culture. These aspects combined with our financial strength and customer focus positions UA to deliver sustainable value to all stakeholders in the years to come.



**DIRK PEREIRA**  
Chief Executive Officer

27 February 2017

# MANAGEMENT DISCUSSION & ANALYSIS



## IDEAS CONNECTED

Our achievements are punctuations in a story that we continue to tell...

# MANAGEMENT DISCUSSION AND ANALYSIS

## STAKEHOLDER RELATIONSHIPS AND MATERIALITY

“WE STRIVE TO BE AN EVEN BETTER COMPANY TOMORROW THAN WE ARE TODAY BY EARNING THE SUPPORT OF ALL STAKEHOLDERS AND MANAGING OUR OPERATIONS SUCCESSFULLY ON A DAY TO DAY BASIS.”

At UA, our ambition is to become the most sought after provider of insurance solutions, as measured by our customers, employees, investors and others who have an interest in our business or interacts with our company.

We strive to be an even better company tomorrow than we are today by earning the support of all stakeholders and managing our operations successfully on a day to day basis. We believe success can be achieved only if we create value both internally and externally, maintaining an effective governance system and a sustainability framework that fulfils the economic, social and environmental needs of our key stakeholders without compromising our triple bottom line approach.

### OUR SUSTAINABILITY PRINCIPLES



## SUSTAINABILITY MANAGEMENT FRAMEWORK

The company's Sustainability Management Framework (SMF) includes strategies for the enrichment of sustainability, sustainability organisation structure, management approach to sustainability and sustainability reporting as well as awareness creation.

We function through an operating structure under which every aspect of the operations focus on sustainability. The executive committee provides significant guidance on emphasising the importance of implementing various initiatives. Given the nature of the functions, Logistics, Marketing and Communication, and Human Resource Management departments are the key responsible units for sustainability initiatives as it has direct links to various material aspects. We have sustainability champions from each of these departments who are directly involved with implementing various initiatives within the company and also coordinate with the JKH Group for group level initiatives. However, sustainability is the responsibility of the entire organisation where every employee is expected to contribute.

We have also given considerable attention to material aspects identified during the annual planning cycle, and where relevant budgets have been allocated to facilitate various initiatives. In addition, during the year under review we have implemented multiple mechanisms to improve employee awareness regarding sustainability initiatives carried out by the company.



One of the E – Flyers sent to employees to create awareness.

## REPORT CONTENT

Through this Integrated Annual Report we aim to communicate to our stakeholders how we create and sustain value and work towards ensuring the long term viability of the business.

The reporting boundary of this report covers the entire company including the Head Office, Zonal Offices, Regional Offices, Branches and Business Development Offices (BDOs) totalling a 107 locations spread throughout the country.

This report is the company's fourth Integrated Report in accordance with the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC). It strives to discuss the inter connections between the six forms of capitals. This report provides a holistic overview including the Company's Overall Strategy, Corporate Governance Framework, Risk Management Process and Financial Performance covering all aspects of the triple bottom line. This Report too, was prepared "In accordance" – Core of the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines.

Capital Management Review strives to capture the interrelationships between identified material aspects and the significance of these aspects in areas such as financial performance, Human Capital and relationship with community and the environment, with a view to providing information with regards to risks / challenges, opportunities and strategy going forward.

Messrs. KPMG, an independent assurance provider, has verified all sustainability related aspects of this report and has provided an assurance report which is given on pages 302 to 304. The company uses actual data to measure the performance against the GRI G4 Content Index guidelines. Assumptions have mainly been used in calculating carbon footprint of the operations. Being a subsidiary of John Keells Holdings PLC, we use infrastructure developed by the group to capture and monitor sustainability data on a monthly basis.

**SUSTAINABILITY IS THE RESPONSIBILITY OF THE ENTIRE ORGANISATION WHERE EVERY EMPLOYEE IS EXPECTED TO CONTRIBUTE.**

## STAKEHOLDERS

It is of paramount importance to have a continuous dialogue with our stakeholders and be responsive to their expectations / material issues to ensure sustainability of the operations and achieve triple bottom line performance objectives. UA is also mindful of the risk of not meeting their needs and aspirations and have mitigation strategies in place to ensure that there is an unbroken relationship between the company and its stakeholders.

### THE POWER, LEGITIMACY AND URGENCY MODEL

The model maps stakeholder behaviour according to its balance of three characteristics.

- Power of stakeholders to influence the company
- Legitimacy of the relationship in terms of desirability and appropriateness
- Urgency i.e. expectations of stakeholders in terms of criticality and time - sensitivity.

Stakeholders have been plotted based on power, legitimacy and urgency in the diagram given overleaf.

Stakeholder Relationships and Materiality	22
External Environment	34
Competitive landscape	40
Strategy and Resource Allocation	46

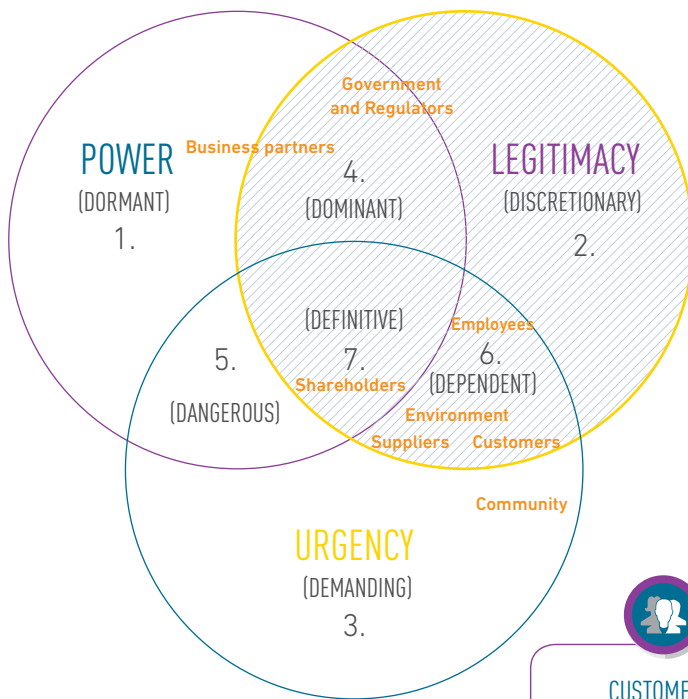
Capital Management Review	
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Manufactured Capital	59
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Social and Relationship Capital	80
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# MANAGEMENT DISCUSSION AND ANALYSIS

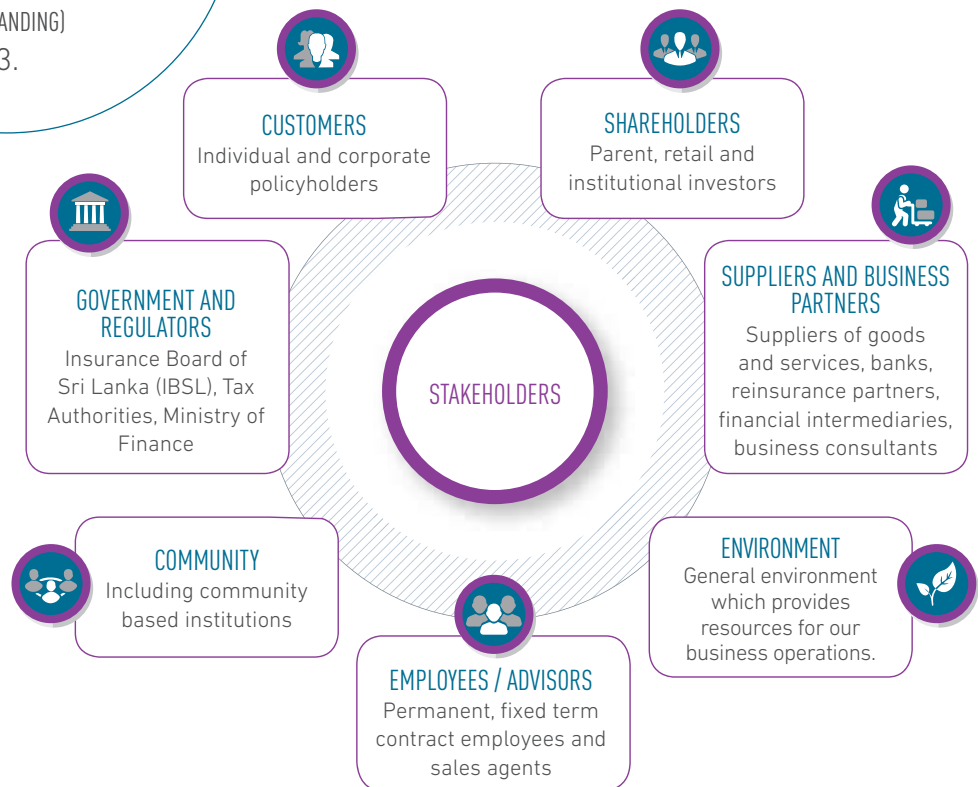
GRI-G4 G4-24 G4-25

## POWER, LEGITIMACY, URGENCY (MITCHELL, AGLE, WOOD (1997))



IT IS OF PARAMOUNT IMPORTANCE TO HAVE A CONTINUES DIALOGUE WITH OUR STAKEHOLDERS AND BE RESPONSIVE TO THEIR EXPECTATIONS / MATERIAL ISSUES TO ENSURE SUSTAINABILITY OF UA'S OPERATIONS AND ACHIEVE TRIPLE BOTTOM-LINE PERFORMANCE OBJECTIVES.

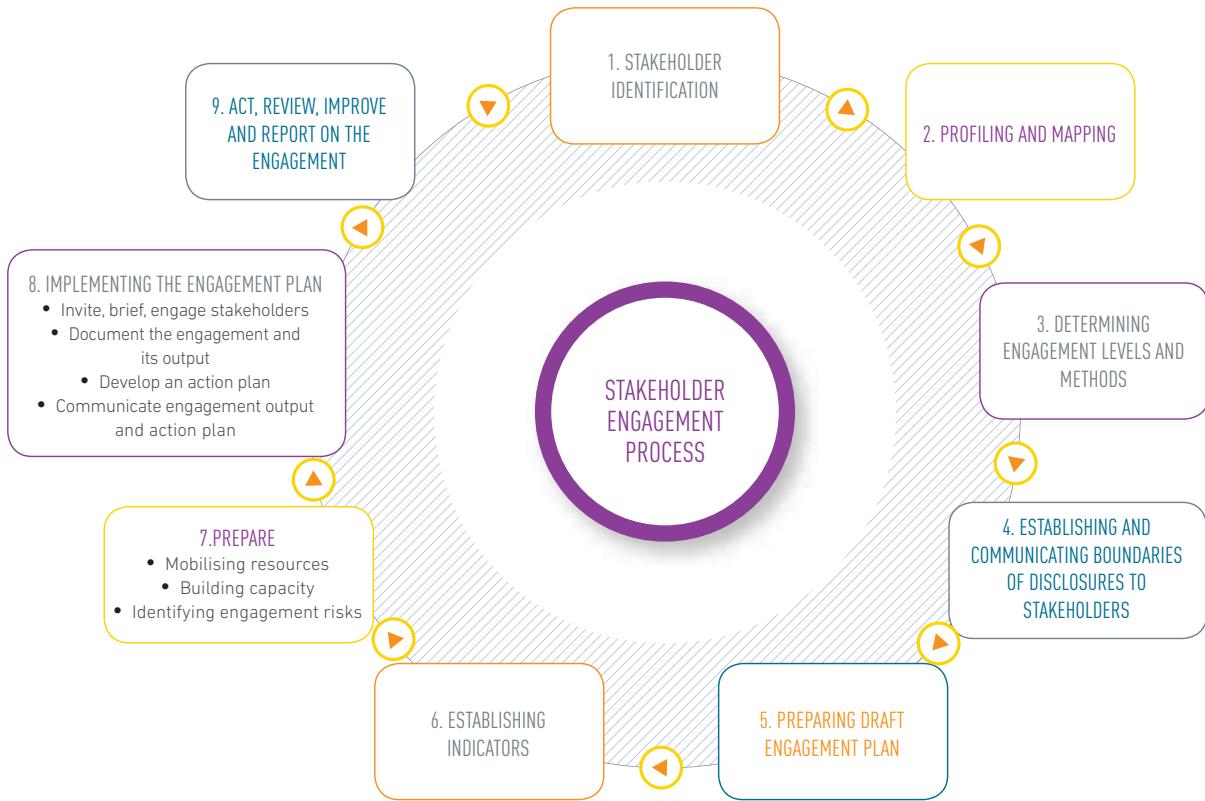
Based on power, legitimacy and urgency as indicated above we have identified that we need to have constant dialogue and engagement with the following stakeholder groups.



Stakeholder Relationships and Materiality	22	Capital Management Review		Social and Relationship Capital	80
External Environment	34	Financial Capital	50	Intellectual Capital	93
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## THE STAKEHOLDER ENGAGEMENT PROCESS

UA has aligned our stakeholder engagement process to AA 1000 stakeholder engagement standards. It is a generally applicable, open-source framework for designing, implementing, assessing, and communicating the quality of stakeholder engagement. The steps of the stakeholder engagement process are as follows;



## OUTCOME OF THE STAKEHOLDER ENGAGEMENT PROCESS

### 1. CUSTOMERS

LEVELS OF ENGAGEMENT	MODE OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	KEY TOPICS AND CONCERNS RAISED	OUR COMMITMENT TO MEET THEIR EXPECTATIONS
Consult	Formal and informal research	As and when required	<ul style="list-style-type: none"> <li>Inability of the company to meet its long term promise of protection and wealth accumulation</li> <li>Inability to meet the demand for prompt, convenient and high quality service</li> </ul>	<ul style="list-style-type: none"> <li>Leverage technology and technical knowledge of internal staff and third party service providers</li> <li>Fact finding and need analysis to ensure insurance coverage is in line with customer requirements</li> <li>Expanding distribution network and customer service points</li> <li>Regular service standard review</li> <li>Fair pricing of products</li> <li>Increasing the effectiveness of the claims management process</li> <li>Training front line staff</li> </ul>
Consult	Customer satisfaction surveys	Monthly		
Consult	Formal interactions by sales managers with intermediaries	Monthly and as and when required		
Consult	Sales manager visits to corporate clients	As and when required		
Involve	Customer welcome calls	All new policies issued		
Involve	Complaint management process via a dedicated hotline	On going		
Passive	Corporate website	On going		
Advocate	Social media	On going		
Passive	Media advertisements	As and when required		

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# MANAGEMENT DISCUSSION AND ANALYSIS

GRI-G4 G4-26 G4-27

## 2. SHAREHOLDERS

LEVELS OF ENGAGEMENT	MODE OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	KEY TOPICS AND CONCERNS RAISED	OUR COMMITMENT TO MEET THEIR EXPECTATIONS
Inform	Annual report	Annually	<ul style="list-style-type: none"> <li>Focus on year on year improvement of performance</li> <li>Sustainable returns to shareholders</li> <li>Healthy liquidity position</li> </ul>	<ul style="list-style-type: none"> <li>Growing premiums in a sustainable manner</li> <li>Regular review and update of corporate governance practices</li> <li>Implementation of effective performance management systems</li> </ul>
Inform	Interim financial statements	Quarterly		
Consult	Annual general meetings	Annually		
Consult	Extraordinary general meetings	As and when required		
Inform	Announcements through the CSE	As and when required		
Inform	Media releases and press conferences	As and when required		
Involve	Dedicated investor relation hotline	On going		
Passive	Corporate website	On going		
Consult	One to one discussions	As and when required		

## 3. EMPLOYEES

LEVELS OF ENGAGEMENT	MODE OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	KEY TOPICS AND CONCERNS RAISED	OUR COMMITMENT TO MEET THEIR EXPECTATIONS
Consult	Employee satisfaction surveys (GPTW survey)	Annually	<ul style="list-style-type: none"> <li>Demand for attractive remuneration packages</li> <li>Demand for job security</li> <li>Personal development and career progression</li> <li>A sound social environment</li> </ul>	<ul style="list-style-type: none"> <li>Ensure recruitment, promotions and rewards are based on qualifications, merit and capability</li> <li>Invest in learning and development infrastructure and resources</li> <li>Ensure proper work life balance</li> <li>Ensure health and safety at workplace</li> <li>Establish proper 'whistle blowing' policy, codes of conduct and grievance handling processes</li> <li>Ensure accessibility to senior executives</li> <li>Review compensation and benefit packages and ensure adequate alignment with company performance and industry norms</li> </ul>
Involve	Skip level meetings for all staff	On going		
Empower	Brainstorming sessions with all business units when reviewing medium to long term strategies	Annually		
Inform	Corporate communication via emails, intranet, newsletters, etc;	On going		
Consult	Management meetings	Quarterly		
Collaborate	Events organised by company recreation club	On going		

#### 4. SUPPLIERS AND BUSINESS PARTNERS

LEVELS OF ENGAGEMENT	MODE OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	KEY TOPICS AND CONCERNS RAISED	OUR COMMITMENT TO MEET THEIR EXPECTATIONS
Consult	On site visits and meetings with suppliers	As and when required	<ul style="list-style-type: none"> <li>Inability to form long term, high quality, and reliable partnerships</li> <li>Contractual performance</li> </ul>	<ul style="list-style-type: none"> <li>Maintaining pricing discipline</li> <li>Effective risk management</li> <li>Invest time and effort at appropriate levels to build sustainable relationships</li> <li>Annual review of registered vendors</li> <li>Take maximum effort to limit transactions only with registered vendors</li> </ul>
Consult	Formal interactions with reinsurance partners	On going		

#### 5. COMMUNITY

LEVELS OF ENGAGEMENT	MODE OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	KEY TOPICS AND CONCERNS RAISED	OUR COMMITMENT TO MEET THEIR EXPECTATIONS
Collaborate	Formal interactions with community representatives	On going	<ul style="list-style-type: none"> <li>Demand for multi-pronged community development initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Partnerships with national level institutions such as Ministry of Health and Public Health Department</li> <li>Awareness campaigns through CSR activities addressing local issues</li> <li>Constant communication on health awareness platform</li> </ul>
Collaborate	Interaction with community activity partners such as Ministry of Health, Public Health Department etc.	On going		
Passive	Corporate website and social media	On going		
Collaborate	CSR activities such as dengue prevention campaigns, thalassaemia campaigns and diabetics awareness campaigns	On going		
Passive	Press releases	As and when required		
Collaborate	Public events	As and when required		

#### 6. ENVIRONMENT

LEVELS OF ENGAGEMENT	MODE OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	KEY TOPICS AND CONCERNS RAISED	OUR COMMITMENT TO MEET THEIR EXPECTATIONS
Passive	Integrating environmental considerations into business decisions	On going	<ul style="list-style-type: none"> <li>Impact on the environment could be overlooked as core business operations do not have a direct impact on the environment</li> </ul>	<ul style="list-style-type: none"> <li>Regular monitoring of carbon emissions</li> <li>Extensively use alternative energy sources to reduce fuel consumption and carbon emissions</li> <li>Recycle used items</li> <li>Leverage Information Technology to minimise the impact on environment</li> </ul>
Passive	Employee training on environmental impact of business operations	On going		
Passive	Careful consumption of renewable and non-renewable resources	On going		

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# MANAGEMENT DISCUSSION AND ANALYSIS

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## 7. GOVERNMENT AND REGULATORY INSTITUTIONS

LEVELS OF ENGAGEMENT	MODE OF ENGAGEMENT	FREQUENCY OF ENGAGEMENT	KEY TOPICS AND CONCERNS RAISED	OUR COMMITMENT TO MEET THEIR EXPECTATIONS
Consult	During on-site surveillances	As and when required	<ul style="list-style-type: none"> <li>Frequent changes in regulations and differences in interpretation</li> </ul>	<ul style="list-style-type: none"> <li>Proactive communication with government and regulatory institutions</li> <li>External consultation support to keep abreast of the changing regulations</li> <li>Compliance with all applicable regulations and guidelines issued</li> <li>Active contribution to develop / implement policies impacting the insurance industry and economy.</li> </ul>
Inform	Filing of various returns	As and when required		
Passive	Directives and circulars	As and when required		
Passive	Press releases	As and when required		

# "WE MAINLY CONSIDER WHAT MATTERS AND HOW IT MATTERS TO THE BUSINESS. REPORTING ON THESE MATTERS IS CRITICAL IN ENABLING STAKEHOLDERS AND MANAGEMENT TO MAKE SOUND JUDGEMENTS AND TAKE DECISIVE ACTIONS."

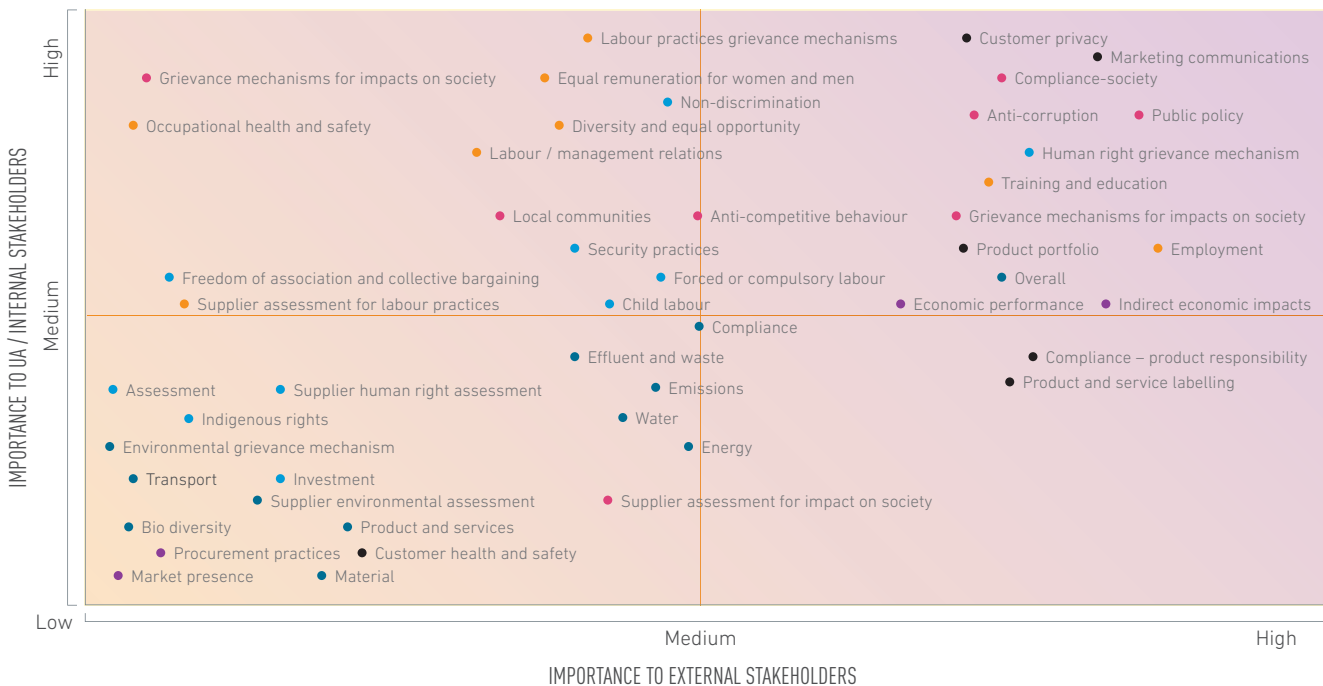
## MATERIALITY

Defining materiality is critical to ensuring UA understands its significant economic, environmental and social impacts of conducting business. Material issues are defined as those that could make a major impact on the company's ability to deliver its promise to various stakeholders. We mainly consider what matters and how it matters to the business. Reporting on these matters is critical in enabling stakeholders and management to make sound judgments and take decisive actions.

## MATERIAL ASPECTS

Identification, prioritisation and validation of material issues are in line with GRI G4 guidelines and therefore reflective of best practice in defining report content. Under this method if the impact in any of the aspects is significant, it is considered to be material.

In determining report content, the company sought to prioritise the material impacts based on their relative importance to internal and external stakeholders



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# MANAGEMENT DISCUSSION AND ANALYSIS

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## MATERIALITY ASSESSMENT

NO	ASPECT	BOUNDARY	IMPACT		MATERIALITY	REPORTED YES / NO
			INTERNAL	EXTERNAL		
<b>ECONOMIC</b>						
1.	Economic performance	UA	High	High	High	Yes
2.	Market presence	UA	Low	Low	Low	No
3.	Indirect economic impacts	Community	High	High	High	Yes
4.	Procurement practices	Suppliers	Low	Low	Low	No
<b>ENVIRONMENT</b>						
5.	Material	UA	Low	Low	Low	No
6.	Energy	UA	Medium	Medium	Medium	Yes
7.	Water	UA	Medium	Medium	Medium	Yes
8.	Bio diversity	UA	Low	Low	Low	No
9.	Emissions	UA	Medium	Medium	Medium	Yes
10.	Effluent and waste	Environment	Medium	Medium	Medium	Yes
11.	Products and services	UA	Low	Low	Low	No
12.	Compliance	UA	Medium	Medium	Medium	Yes
13.	Transport	Environment	Low	Low	Low	No
14.	Overall	UA	High	High	High	Yes
15.	Supplier environmental assessment	Suppliers	Low	Low	Low	No
16.	Environmental grievance mechanism	UA	Low	Low	Low	No
<b>SOCIAL</b>						
<b>LABOUR PRACTICES AND DECENT WORK</b>						
17.	Employment	UA	High	High	High	Yes
18.	Labour / management relations	UA	High	Medium	High	Yes
19.	Occupational health and safety	UA	High	Low	High	Yes
20.	Training and education	UA	High	High	High	Yes
21.	Diversity and equal opportunity	UA	High	Medium	High	Yes
22.	Equal remuneration for women and men	UA	High	Medium	High	Yes
23.	Supplier assessment for labour practices	Suppliers	Medium	Low	Medium	Yes
24.	Labour practices grievance mechanisms	UA	High	Medium	High	Yes

NO	ASPECT	BOUNDARY	IMPACT		MATERIALITY	REPORTED YES / NO
			INTERNAL	EXTERNAL		
<b>• HUMAN RIGHTS</b>						
25	Investment	UA and Community	Low	Low	Low	No
26	Non-discrimination	UA	High	Medium	High	Yes
27	Freedom of association and collective bargaining	UA	Medium	Low	Medium	Yes
28	Child labour	UA	Medium	Medium	Medium	Yes
29	Forced or compulsory labour	UA	Medium	Medium	Medium	Yes
30	Security practices	UA	Medium	Medium	Medium	Yes
31	Indigenous rights	UA	Low	Low	Low	No
32	Assessment	UA	Low	Low	Low	No
33	Supplier human right assessment	Suppliers	Low	Low	Low	No
34	Human right grievance mechanism	UA	High	High	High	
<b>• SOCIETY</b>						
35	Local communities	Community	Medium	Medium	Medium	Yes
36	Anti-corruption	UA	High	High	High	Yes
37	Public policy	UA and Government	High	High	High	Yes
38	Anti-competitive behaviour	UA and Competitors	Medium	Medium	Medium	Yes
39	Compliance-society	UA	High	High	High	Yes
40	Supplier assessment for impact on society	Suppliers	Low	Medium	Low	No
41	Grievance mechanisms for impacts on society	UA	Medium	High	High	Yes
<b>• PRODUCT RESPONSIBILITY</b>						
42	Customer health and safety	Customers	Low	Low	Low	No
43	Product and service labelling	UA	Medium	High	High	Yes
44	Marketing communications	UA and Community	High	High	High	Yes
45	Customer privacy	Customers	High	High	High	Yes
46	Compliance – product responsibility	UA	Medium	High	High	Yes
47	Product portfolio	UA	Medium	High	Medium	Yes

There was neither material reinstatement of information or material changes in the scope and aspect boundaries with regard to sustainability reporting.

# MANAGEMENT DISCUSSION AND ANALYSIS

GRI-G4 G4-19 G4-20 G4-21

## MANAGEMENT APPROACH TO IDENTIFIED MATERIAL ASPECTS

A summary of management approach to the Company Financial Capital, Manufactured Capital, Natural Capital, Human Capital, Social and Relationship Capital and Intellectual Capital is given below

### FINANCIAL CAPITAL

The company is committed to delivering sustainable financial performance and growth to all its diverse stakeholders. Accordingly the company strategically manages its Financial Capital base, to provide economic value addition, long-term financial security and stability to its policyholders and benefits to its employees, among others, whilst also maintaining its social license to operate.

The company's Financial Capital consists of the pool of funds that is available for use in the provision of insurance solutions.

Furthermore, the company's financial management is aiming to increase economic value while ensuring stringent internal controls and robust Risk Management processes.

For further details, refer the Financial Capital section of this report.

### MANUFACTURED CAPITAL

The company is committed to provide better customer experience and reach, through its branch network. Eventually it will create wealth to the company.

The company's Manufactured Capital consists of physical infrastructure that are available for use in the provision of service. The logistics department targets cost reduction initiatives while improving

Material aspects have been categorised into Capitals as follows.

MATERIAL ASPECTS	MANAGEMENT APPROACH
Economic	Financial capital
Environment	Natural capital
Labour practices and decent work	Human capital
Human rights	Social and relationship capital
Society	Social and relationship capital
Product responsibility	Social and relationship capital

branch outlook, customer experience and ensuring quality through better supply chain management practices.

For further details, refer the Manufactured Capital section of this report.

### NATURAL CAPITAL

The company's operations have environmental impacts stemming from energy consumption, water consumption, emissions, waste and effluents as well as impact bio diversity. The company is mindful of the future generations and makes every effort to minimise negative environmental impacts and comply with all applicable laws and regulations.

The company is committed to promoting sound environmental practices that enable it to conduct operations in a sustainable and environmentally sound manner.

The company places great importance on the management and reduction of energy, water consumption, carbon footprint, waste generation and effluent discharge within its areas of operations.

For further details, refer the Natural Capital section of this report.

### HUMAN CAPITAL

We are mindful that the key to sustained success is the quality and commitment of our people. The company has continuously invested in developing skills and competencies of the team, to meet current as well as future business opportunities and challenges.

The company is committed to being a "Great Place to Work" while the foundation of its HR philosophy is to be an equal opportunity employer.

The company has in place policies with regard to human resources which cover all aspects of employment.

- The company adheres to all relevant local labour laws and regulations.
- The company does not discriminate on the basis of gender, race, nationality, age, social origin, disability, religion, or on any other basis.
- The company recognises the rights of employees and provides forums, support groups and policies and address their concerns and resolve issues and conflicts in a fair and transparent manner.

## MANAGEMENT APPROACH TO EACH MATERIAL ASPECTS HAS BEEN DISCUSSED UNDER SIX CAPITALS.

The company is committed to upholding the universal human rights of all its stakeholders while maintaining the highest ethical standards in its operations. The company places the highest value on ethical practices and has promulgated a zero tolerance policy towards corruption and bribery in all its transactions.

For further details, refer the Human Capital section of this report.

### SOCIAL AND RELATIONSHIP CAPITAL

The CSR initiatives of UA are centred on one strongly championed objective - creating healthy communities in Sri Lanka. Therefore the company has clearly defined its CSR platform as "health awareness" which has a direct link with the life insurance businesses. We continue to invest in health awareness in a manner which provides valuable benefits to our society.

The company engages with a large number of business partners and recognises the importance of entrenching sustainability across its value chain towards promoting responsible business while reducing risks.

The company ensures that its significant suppliers' working conditions are safe, workers are treated with respect and dignity and operations are carried out in an environmentally responsible manner.

- Most of the company inputs are sourced through JKH Group sourcing. The Group has introduced a comprehensive Supplier Management Framework including a Supplier Code of Conduct. Significant suppliers are assessed annually based on labour practices, human rights and environmental impacts through an internationally developed supplier checklist at JKH Group level

- Awareness creation and engagement of suppliers is carried out through supplier forums.

The company focuses on creating sustainable value to its shareholder in the short term as well as in the long term. While maintaining a strong financial position the company ensures financial security and long term returns to its shareholders. By maintaining a higher dividend payout ratio the company satisfies short term needs of the shareholders. The higher dividend payout ratio also reflects the quality of earnings of the company.

For further details, refer the Social and Relationship Capital section of this report.

### INTELLECTUAL CAPITAL

The company believes that Intellectual Capital is a vital source of competitive advantage. This in the long term, will result in a value premium for UA through innovation and disruption of business models and ultimately serving the needs of an evolving and emerging customer.

Furthermore, ensuring maximum satisfaction to all its customers has always been imperative and material to the company.

- Digital Advisor Toolkit and GOYO were the two innovative initiatives which were nominated for the JKH Group Chairman's Awards during the year under review.
- The company was recognised as the Technology Leader in the insurance industry at the first industry awards jointly organised by the IASL and Fintalekt.
- The company embarked on a journey of engagement of its employees to provide their suggestions to improve the performance of the organisation. Union Brainwave provides a spark to employees to be innovative and creative. Employees can provide their suggestions in the areas of new product / service development, business development activities, productivity improvement, cost minimisation / value addition, leverage on technology, process improvement and sustainability and growth. The best three ideas are rewarded with gifts to encourage and motivate participation by all.

- The company has enabled its sales force digitally and focuses on developing a digital customer model.
- UA has collaborated with an ecosystem of partners and launched GOYO, a wellness platform in January 2017 to provide a customer experience which goes beyond the protection need of customers.
- The company follows the IBSL stipulated regulations in all its products.

For further details, refer the Intellectual Capital section of this report.

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# MANAGEMENT DISCUSSION AND ANALYSIS

## EXTERNAL ENVIRONMENT

### THE ECONOMY

The Sri Lanka economy grew by 4% in the first nine months of 2016, 0.8% below the 4.8% GDP growth recorded in 2015. Economic growth was mainly supported by the expansion of industry and services related activities. Due to the dry weather conditions from October 2015 to May 2016 and high rain falls in the upcountry and in wet zone areas agricultural activities reported a negative growth.

Following are notable developments in the year under review.

- In June 2016, the International Monetary Fund (IMF) approved a 36-month extended arrangement under the Extended Fund Facility (EFF) for an amount equivalent to USD 1.5 billion to support Sri Lanka economic reform agenda. The IMF arrangement aims to meet balance of payment needs arising from a deteriorating external environment and pressures that may persist until macroeconomic policies can be adjusted. It is also expected to catalyse an additional USD 650 million in other multilateral and bilateral loans, bringing total support to around USD 2.2 billion. The main efforts are to boost

the tax ratio, reduce the budget deficit, rebuild foreign exchange reserves, and improve public financial management, including of state-owned enterprises.

- Central Bank of Sri Lanka (CBSL) policy rates (the Standing Deposit Facility Rate and the Standing Lending Facility Rate) were increased by 50 basis points each to 7% and 8.5%. The CBSL stated the soaring credit growth as the key driver for the move.

The following is a discussion on the movement of the primary macroeconomic variables during the year under review and the resultant impacts on the performance of UA.

MACRO ECONOMIC VARIABLE	MOVEMENT	CAUSE	IMPACT TO UA
<p><b>GDP GROWTH</b></p> <p>Rs. Bn</p> <p>8,000 7,000 6,000 5,000 4,000 3,000 2,000 1,000 0</p> <p>2014 2015 2016(F)</p> <p>■ Agriculture ■ Services ■ Industry — GDP Growth</p>	<p>The Sri Lankan economy grew by 4% during the first nine months of 2016, 0.8% below the 4.8% GDP growth recorded in 2015.</p>	<p>The growth is mainly attributable to 4.8% growth in services activities and 5.7% growth in industry activities while agriculture activities contracted by 2.5%, in value added terms. Sri Lanka sustained its economic growth momentum despite a challenging global environment which resulted in reduced exports, remittances and significant capital outflows.</p>	<p>The growth in GDP enhanced the sentiment of both customers and business alike, which positively impacted the performance of UA.</p>

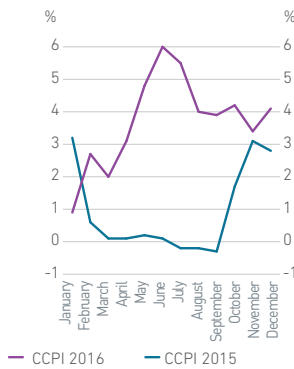
**MACRO ECONOMIC VARIABLE**

**MOVEMENT**

**CAUSE**

**IMPACT TO UA**

**INFLATION**



Year on year headline inflation measured by the Colombo Consumer Price Index (CCPI) increased to 4.1% in December 2016 from 2.8% last year.

Year on year core inflation based on CCPI core, inflation increased to 6.3% in December from 4.5% last year.

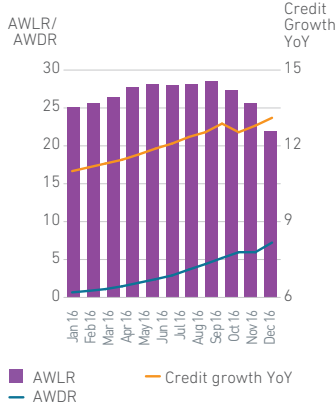
In 2016 headline inflation remained at controllable levels with some upward pressures. Revision in government's direct and indirect tax policies and adverse weather conditions contributed to increase in inflation during the year. Increased interest rates contributed to reduce inflation during the second half of the year.

Rising core inflation indicates that there is upward pressure on domestically driven inflation.

The CBSL targets to maintain inflation at its current levels between 4.0%-6.0% in the medium term.

The rising inflationary trend had an adverse impact on the company's cost structure.

**INTEREST RATES**



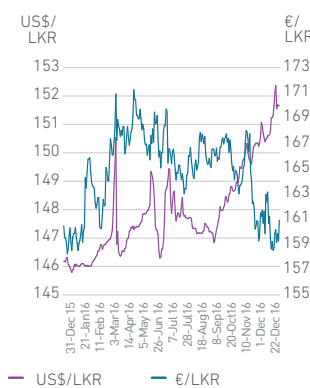
The average weighted lending rate (AWLR) increased by 211bps to 13.11% in December 2016 from 11.0% last year. Average weighted deposit rate (AWDR) ascended by 197 bps in December 2016 to 8.17% compared to 6.20% last year.

Credit growth (credit granted to private sector by commercial banks) that increased during the early and mid-parts of 2016 declined to 22.0% in October 2016.

The CBSL implemented monetary tightening measures through increasing policy rates and reducing money supply to curb credit growth.

Increase in interest rates supported higher investment income for UA.

**EXCHANGE RATE FLUCTUATION**



During 2016 the rupee depreciated by 3.75% against the U.S Dollar to Rs.151.66.

Falling exports caused the exchange rate to depreciate in 2016. The decline of cumulative imports upto September 2016 by 1.7% YoY, and increase in inflows to the government by 62.2% YoY through treasury securities, international sovereign bonds and loans prevented the exchange rate from significant depreciation.

Depreciation of Rupee has negatively impacted payments to reinsurers and other overseas suppliers. Ultimately this had a negative impact on the margins of the company.

**SHARE MARKET**



The ASPI closed at 6,228.26 falling by 9.66% while the S&PSL20 index fell by 3.56% to 3,496.44.

The market capitalisation stood at Rs. 2.75 trillion at the end of year 2016 against Rs. 2.94 trillion last year.

Responding to various internal and external uncertainties the benchmark indices of the CSE performed unfavourably.

Further, the increase in interest rates, high tax burden on corporates, high foreign outflows and uncertainties in matured markets caused high volatility and negative returns on equities.

Falling equity market returns negatively impacted UA's realised and unrealised returns from equity investments.

However, portfolio rationalisation reduced losses to a greater extent.

Nevertheless, a bearish equity market provides opportunities for new investments.

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# MANAGEMENT DISCUSSION AND ANALYSIS

## REGULATORY ENVIRONMENT

We operate in a highly regulated industry and maintaining good relationships with all regulators is critical. UA works through the Insurance Association of Sri Lanka (IASL) to lobby regulators and other policy

makers (including the Ministry of Finance) to implement rules which will develop the market while safe guarding policyholders interests. Such discussions help us emphasise the key industry concerns relating to proposed regulatory changes

and any challenges with regards to the existing laws and regulations. UA places on record our appreciation to the IBSL for the consultative approach they continue to adopt in balancing the interests of all stakeholders involved in this dynamic industry.

During the year under review, we observed the following changes in the regulatory environment.

AREA	CHANGE	UA RESPONSE
RISK BASED CAPITAL (RBC)	RBC framework came into effect from 1 January 2016.	The company actively participated in the parallel run since 2014, where capital adequacy was reported to the IBSL under both RBC regime and the previous solvency regime. UA's proactive approach enabled a smooth transition and implementation of this complex regulation.
ONE OFF SURPLUS	IBSL has mandated that all life insurance companies maintain the one off surplus arising from change in policy liability valuation method separately within the long term insurance fund. This will be termed as "Surplus created due to change in valuation method from NPV to GPV". Further the IBSL prohibit any transfer / distribution of any part of the said surplus until specific instructions are issued by them.	The one off surplus of the company amounts to Rs. 5.8 billion. It is disclosed as a line item within the Insurance fund as stipulated by the IBSL. Refer page 279.
FUND UNDER MANAGEMENT	IBSL has issued draft guidelines on segregation of participating, non participating and unit linked funds.	UA is currently reviewing this proposal.
LIFE INSURANCE COMPANY TAXATION	The 2016 budget proposals called for defining of "E" in the "I-E" (Income - Expenses) calculation which is used for taxing life insurance companies.	The IASL has proposed a profit based income tax basis to the Ministry of Finance.
FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA)	As per the FATCA, the company is required to provide details of customers who are US citizens to the US Inland Revenue Services (IRS).	As required by the FATCA the company registered with the US IRS.  The company has redesigned its documents to capture relevant information when issuing new policies to comply with this requirement.

**"UA WORKS THROUGH THE INSURANCE ASSOCIATION OF SRI LANKA (IASL) TO IMPLEMENT POLICIES WHICH WILL DEVELOP THE INSURANCE INDUSTRY WHILE SAFEGUARDING POLICYHOLDERS INTERESTS."**

AREA	CHANGE	UA RESPONSE
2017 BUDGET PROPOSALS	<p><b>I. REMOVAL OF THE TAX CREDIT ON WITHHOLDING TAX / NOTIONAL TAX</b> It has been proposed to remove the withholding tax / notional tax credit available on interest income derived from fixed income instruments (treasury bonds, treasury bills, corporate securities, bank deposits, etc.) when an insurer pays the income tax to the IRD.</p> <p>If this proposal is implemented, the effective tax rate on interest income will increase to 38% from the current 28%.</p> <p><b>II. REMOVAL OF THE TAX EXEMPTION ON LISTED DEBENTURES</b> It has been proposed to remove the income tax exemption available on listed debentures issued on or after 01/01/2013.</p>	<p>The IASL has requested the Ministry of Finance to consider the business impact of these proposals and defer implementation / seek alternative routes to increase government revenue.</p>

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# MANAGEMENT DISCUSSION AND ANALYSIS

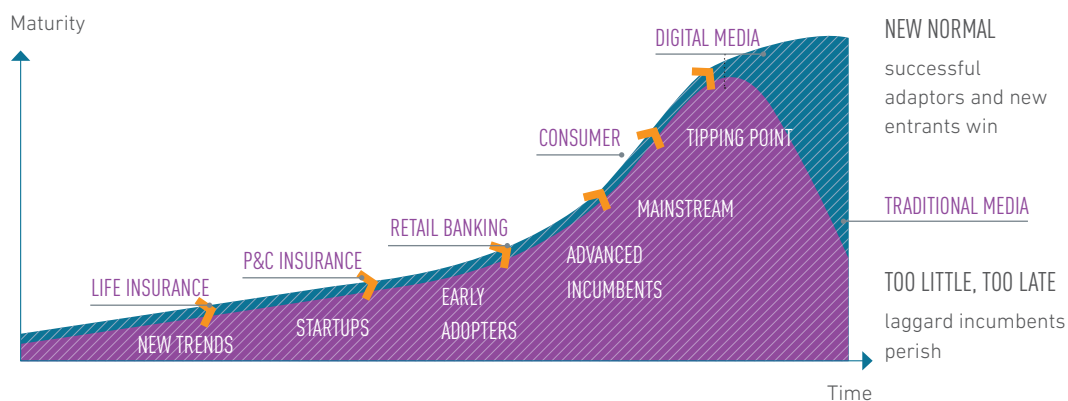
## TECHNOLOGICAL ENVIRONMENT

The digital revolution that has transformed the way consumers buy music, hail taxis and communicate with each other is catching up to the life insurance industry. In the next few years, digital tools such as big data and advanced analytics will enable a wide range of new business applications by collecting, analysing and operationalising vast amounts

of data for improved marketing, underwriting and customer retention. Leading digital insurers will go further by digitally enabling their sales forces, interacting with consumers and intermediaries in real time omni channel environments and offering remote and robo advice at any hour on any platform.

Insurers can also use digital technology to increase customer engagement by integrating traditional protection products with platform that support financial wellness and physical well-being.

## LIFE INSURANCE LAGS OTHER SECTORS IN DIGITAL MATURITY



- **65%** of traditional European insurers plan to professionalise their online marketing (e.g., purchase of keywords) and 45% aim to improve their social media presence.
- **20%** of U.S. direct channel quotes for direct carriers are mobile quotes.
- **65%** of the physical channel centric insurers plan to switch to a customer centric model.
- **93%** of digital leaders rate digital as very important for their organisation in the next three years.
- **75%** of traditional European insurers plan to install multi access training programs for their physical sales channel.

Source: McKinsey Insurance Multi-Access Benchmark

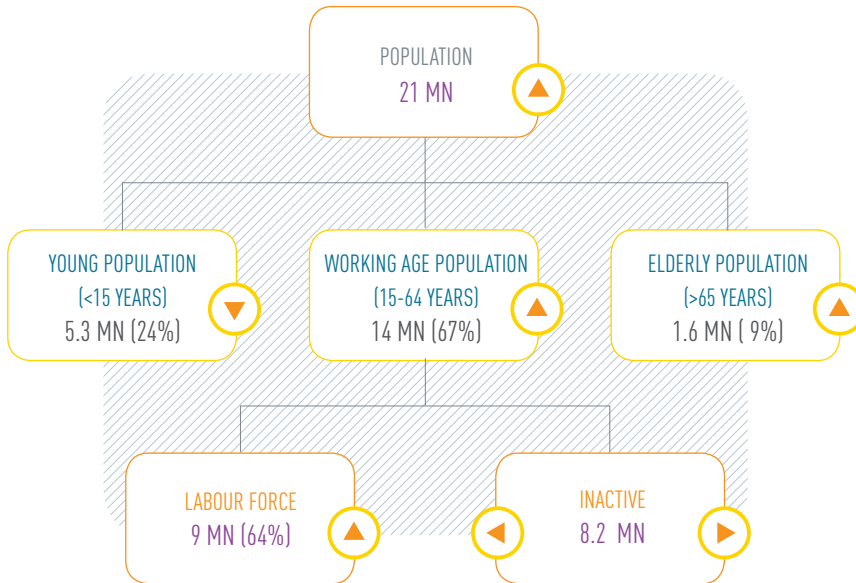
UA has made significant investment in digital tools to enhance the sales process, increase customer engagement and improve productivity.

In line with the thinking that embedding products into a broader ecosystem which can add value beyond protection is the key to winning new customers. UA has collaborated

with an ecosystem of partners and launched GOYO a digital wellness platform to motivate people to lead an active life style.

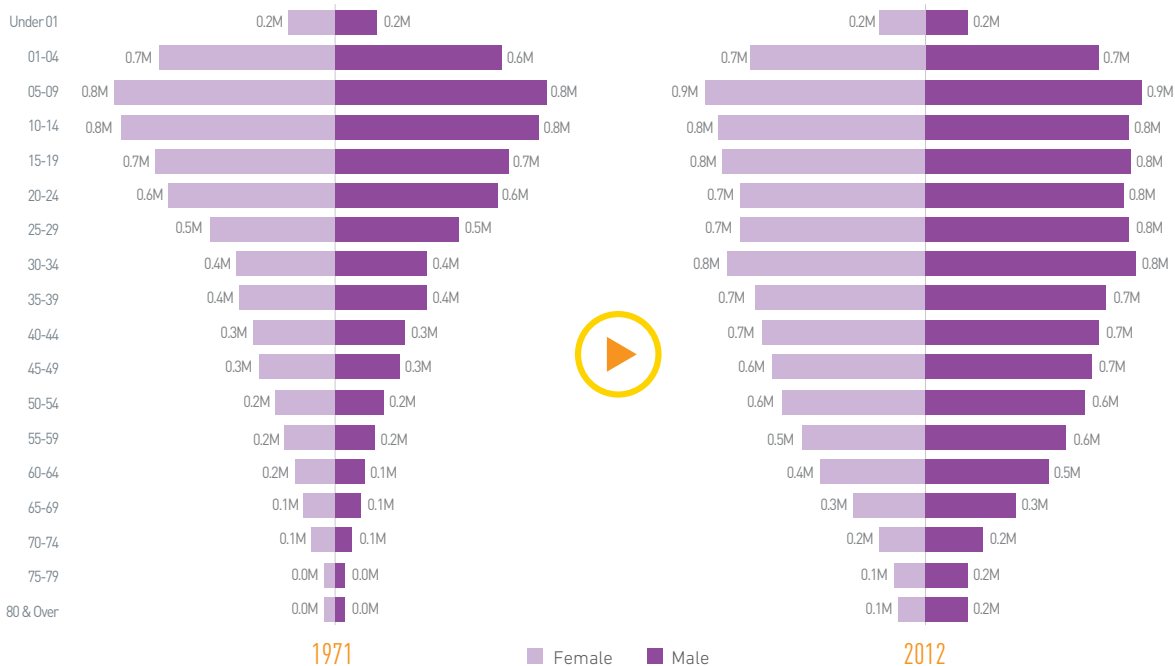
## SOCIAL ENVIRONMENT

Overview of key demographic trends in Sri Lanka is given below.



Source: Central Bank Annual Report 2015

**CHANGING DEMOGRAPHIC TRENDS HAVE CREATED DEMAND FOR HEALTH, PENSION AND RETIREMENT PRODUCTS. UNION 60+ IS ONE INITIATIVE WHICH HAS LEVERAGED THIS OPPORTUNITY.**



Source: Population.lk

### THE WORKING AGE POPULATION BULGE

The proportion of the young population is on the decline in line with the dip in the number of births. However the share of elderly population is rising at a faster pace in line with greater life expectancy and better access to health care.

This change will place a greater burden on the working population as they will have to support an increasing number of dependents.

These changes create demand for health, pension and retirement products. Union 60+ which is a protection and health insurance

solution for senior citizens has leveraged this opportunity. In addition UA will upgrade and launch pension / retirement products in the near future.

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**UNION ASSURANCE PLC**  
 ANNUAL REPORT 2016

# MANAGEMENT DISCUSSION AND ANALYSIS

## COMPETITIVE LANDSCAPE

### GLOBAL LIFE INSURANCE INDUSTRY

Life premiums are expected to grow in both the advanced and emerging markets in 2016. Growth is forecast to accelerate slightly in the advanced but decelerate in the emerging countries. The small improvement in the advanced markets will come from an expected recovery in Oceania and modest acceleration in Western Europe. In North America, growth will remain roughly stable. In the emerging markets, the pace of growth reflects sustained strong performance in emerging Asia. Premium growth in China, though slowing, is expected to remain strong in 2016. The fast growing sharia compliant / takaful business in Indonesia and Malaysia is expected to further benefit the life sector. In contrast, growth in Latin America will remain below recent trend levels due to price competition, demand weakness and heightened financial and economic volatility. Life premiums will also remain under pressure in most CEE EU countries, and are expected to decline in Russia due to the ongoing economic difficulties there. In Africa, life insurance penetration is still very low, so there is ample potential for growth.

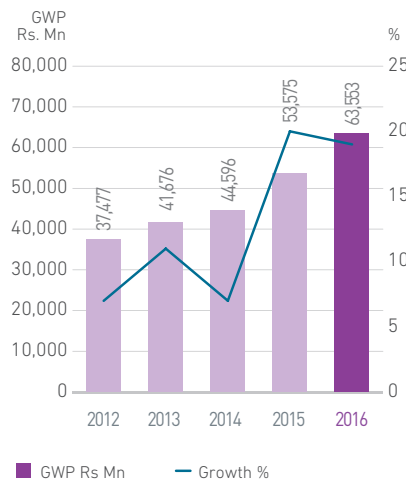
### SRI LANKAN LIFE INSURANCE INDUSTRY

Year 2016 was another successful year for the Sri Lankan life insurance industry which posted a commendable growth rate of 19% in Gross Written Premium (GWP) comparable to the 20% growth recorded in 2015. Life insurance business generated premiums amounting to Rs. 63,553 million in 2016 compared with Rs. 53,575 million recorded in 2015. The increased performance of the life insurance sector was mainly due to insurers efforts to improve operational processes to assure quality service to customers, revamping existing products



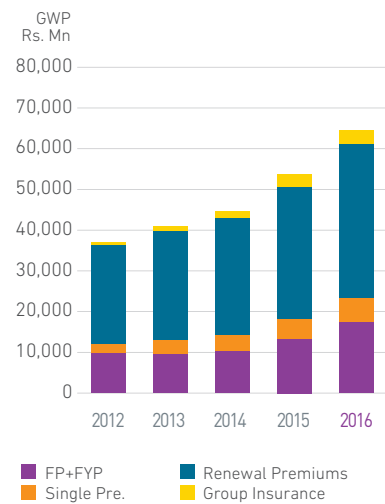
while introducing innovative products to cater to changing needs of customers and improved customer awareness through national level campaigns and upliftment in socio economic conditions of the country which in turn increased the demand for life insurance products.

### GROWTH IN LIFE INSURANCE INDUSTRY



Source: Insurance Association of Sri Lanka

### COMPOSITION OF INDUSTRY GWP



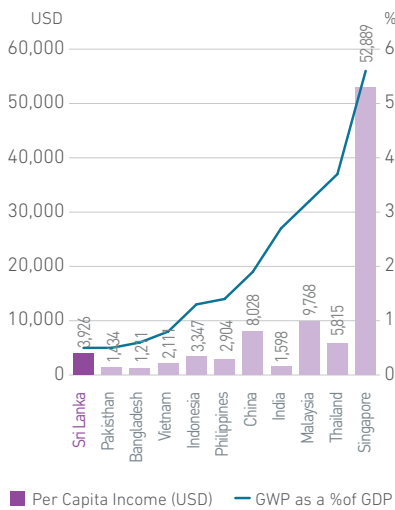
Source: Insurance Association of Sri Lanka

### LIFE INSURANCE PENETRATION

Insurance penetration reflects insurance premium as a percentage of GDP. In 2015, penetration ratio of life insurance business was recorded as 0.48% (2014: 0.43%) reflecting

improvement in penetration level. Insurance penetration in Sri Lanka is low compared with many other economies in the Asian region, which indicates that there is significant growth opportunities in the industry.

### PER CAPITA

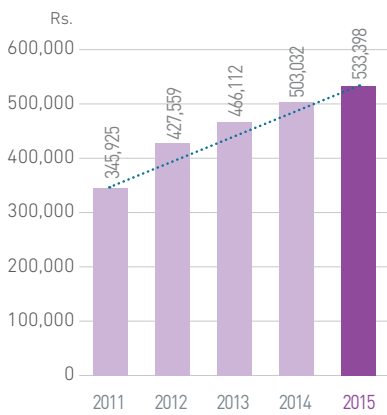


Source: Swiss Re Economic Research and Consulting 2015

### PER CAPITA INCOME

Rising per capita income over the years has impacted to increase the insurance penetration in the country.

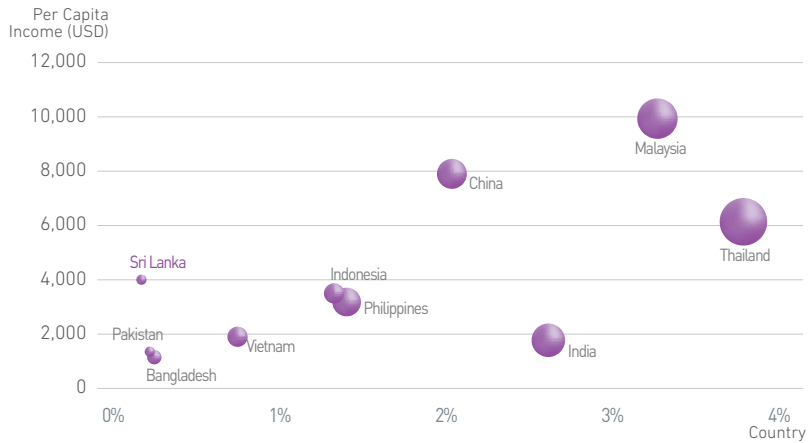
### PER CAPITA GDP AT MARKET PRICE (RS.)



### INSURANCE DENSITY

Insurance density reflects the premium income per person of the population and amounts to Rs. 5,838 in 2015. Insurance density has grown by 15% in 2015 compared to Rs. 5,074 recorded in 2014. This growth was due to increased premium income against the insignificant growth in the population. Insurance density of Sri Lanka is lower compared to the regional markets. This indicates the greater potential for the life insurance industry.

### INSURANCE DENSITY



Source: Swiss Re Economic Research and Consulting 2015

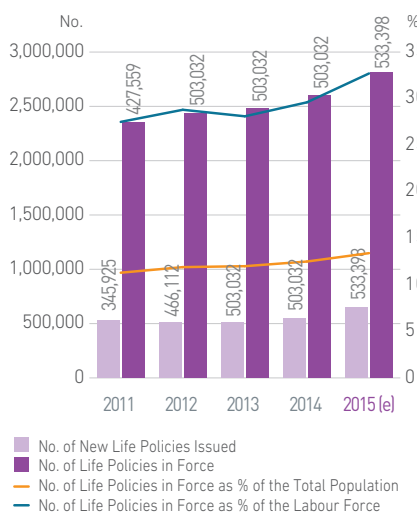
Bubbles reflect the insurance density

### LIFE INSURANCE PENETRATION IN TERMS OF POPULATION AND WORKFORCE

In 2016, life insurance companies have taken several initiatives to develop business by expanding and improving the quality of their distribution network especially by way of enhancing the quality of the agency force and strengthening their relationships with banks. With these efforts, new policies issued by insurers have considerably increased by 3% to 665,253 during the year 2016 compared to 645,596 in 2015.

The number of policies in force as a percentage of total population was 13% in year 2015. Further, long term insurance policies in force as a percentage of labour force increased to 33% compared to 30% recorded in 2014. These statistics indicate the higher potential of Sri Lankan life insurance industry.

### LIFE INSURANCE PENETRATION

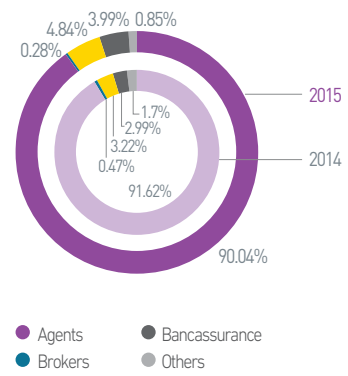


Source: IBSL Annual Report 2015

### DISTRIBUTION CHANNELS OF INSURANCE COMPANIES

The main distribution channels adopted by insurers to reach their customers are agents, brokers, direct marketing and bancassurance. Similar to 2014, agents continued to be the main distribution channel of life insurance business in 2015 and generated 90% of total GWP (2014: 92%) reflecting their dominance in the market. Direct marketing and bancassurance were the other important distribution channels of life insurance business and generated 5% and 4% of GWP respectively in 2015.

### DISTRIBUTION CHANNELS OF INSURANCE



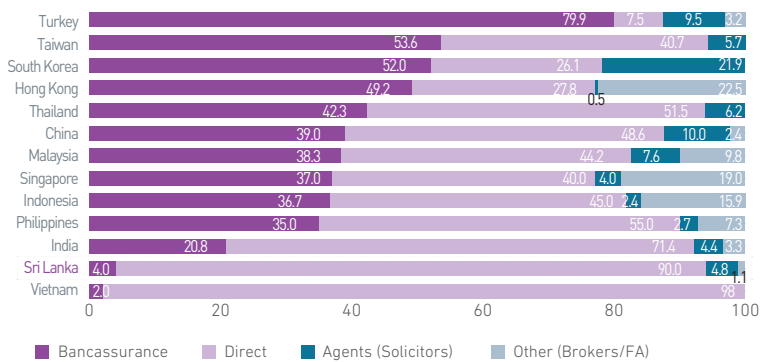
Source: IBSL Annual Report 2015

# MANAGEMENT DISCUSSION AND ANALYSIS

## BANCASSURANCE PENETRATION

Sri Lanka has a higher banking penetration (69% of adults in 2012, Source: IFC Mobile Money Scoping Country Report: Sri Lanka). However, the bancassurance penetration in Sri Lanka is low compared to regional markets, this indicating a high growth potential for this channel.

## BANCASSURANCE'S MARKET SHARE FOR LIFE INSURANCE IN THE ASIA PACIFIC REGION - PREMIUM INCOME



Source: Industry Associations and Regulatory Bodies / Axco Market Report

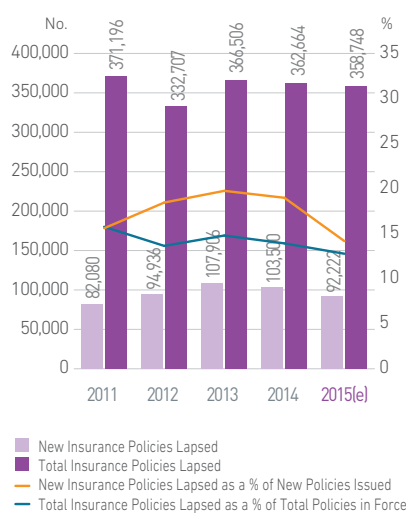
## INDUSTRY ISSUES

### NUMBER OF POLICIES LAPSED

Number of policies lapsed is a key issue in the local insurance industry compared to developed markets. Policy lapses are due to many reasons and some of them include lack of servicing and wrong selling. During the year under review insurance companies educated their sale force through training and development and improved service standards. Also the insurance industry conducted an islandwide awareness campaign on need for protection during the month of September 2016. As a result lapse rates are expected to come down during the year.

**14%** NEW INSURANCE POLICIES LAPSED AS A PERCENTAGE OF NEW POLICIES ISSUED

### NUMBER OF POLICIES LAPSED

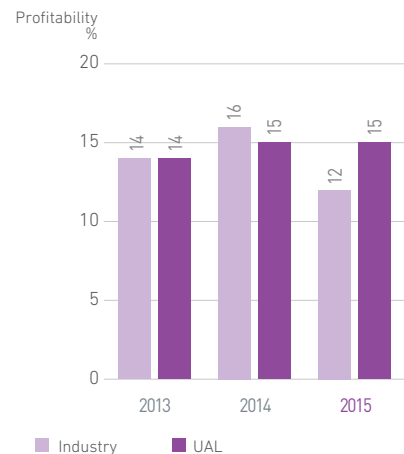


Source: IBSL Annual Report 2015

## PROFITABILITY

Comparing the profitability of UA against the industry, UA has maintained its profitability at 14% to 15%. In 2015, UA profitability was above the industry and UA accounted for 15% of the industry operating profits.

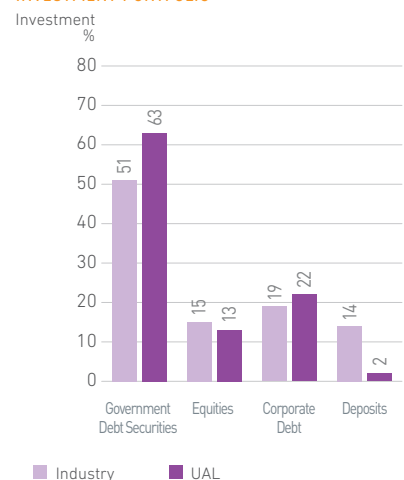
### PROFITABILITY - INDUSTRY VS UAL



## INVESTMENT PORTFOLIO

In 2015 UA invested a higher proportion of funds in government securities and corporate debt compared with the industry.

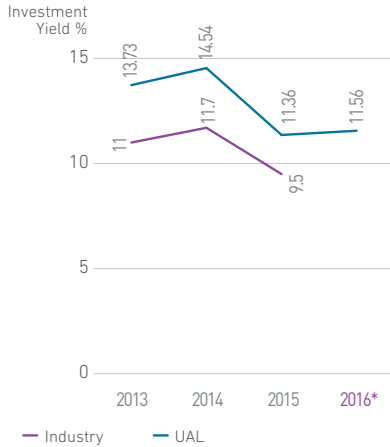
### INVESTMENT PORTFOLIO



## INVESTMENT YIELD

It is noteworthy to mention that UA accounts for interest income from government debt securities and debentures net of withholding tax. Nevertheless UA's investment yield is above industry over the past few years.

### INVESTMENT YIELD

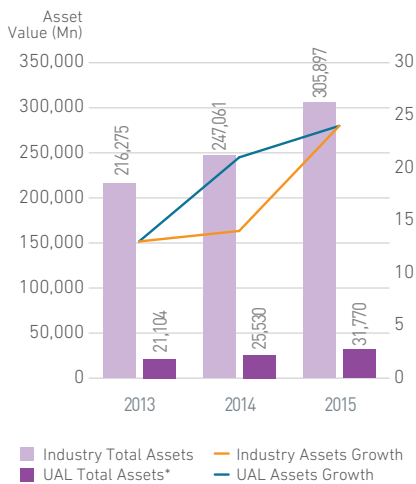


\*2016 industry investment yield is not available.

## TOTAL ASSETS

Total assets held by life insurance companies amounted to Rs. 305,897 million as at 31st December 2015 (2014 : Rs. 247,061 million) and recorded a significant growth of 24% compared to previous year. UA growth in assets is in line with the industry in 2015 and contributes 10% to the total assets of the industry.

### TOTAL ASSETS



## LIFE INSURANCE INDUSTRY OUTLOOK

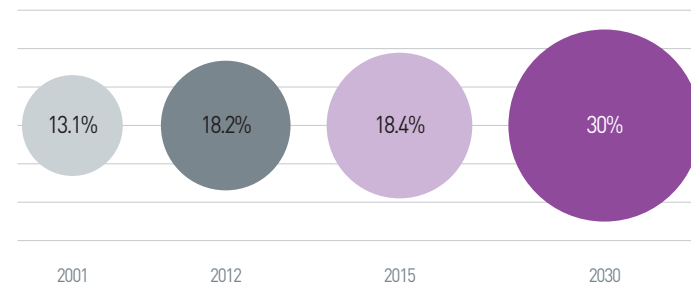
Global life real premium income is forecast to rise by 4.8% and 4.2% in 2017 and 2018 respectively. In the emerging markets, the growth forecast would be 14.9% in 2017

and 10.9% in 2018. The major driver for the global life sector will be the emerging markets, where stabilising economic growth, growing population, urbanisation and rising middle class underpin the positive outlook for insurers and insurance penetration.

Sri Lankan life insurance industry outlook for 2017 is positive due to the lower penetration level, urbanisation, rising per capita income, rising middle class and demographic trends.

### TREND OF URBANISATION IN SRI LANKA AND FORECAST FOR 2030

Urban population as a % of total population



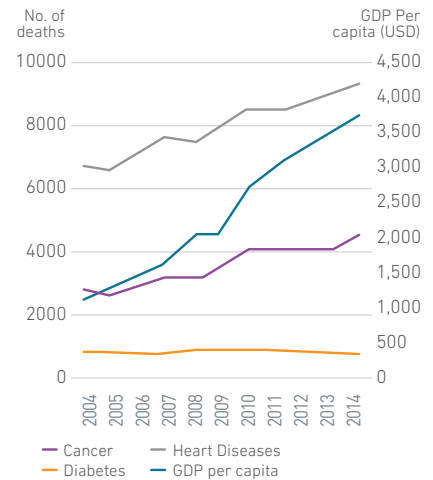
Source: World Bank, CBSL

### RAPID EXPECTED GROWTH OF AGEING POPULATION



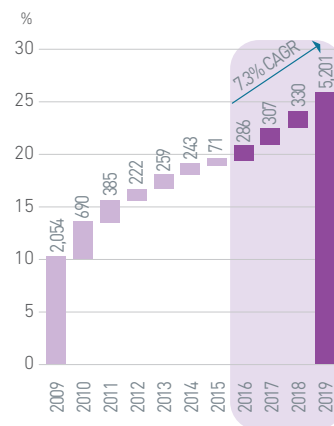
Source: Sri Lanka Paradigm shifts in population

### INCREASING TREND IN DEATHS DUE TO NCDs



Source: Health Ministry, World Bank

### GDP PER CAPITA TO RECORD A CAGR OF 7.3% FOR 2015-19



Source: CBSL, SEC Estimates

Stakeholder Relationships and Materiality 22  
External Environment 34  
Competitive landscape 40  
Strategy and Resource Allocation 46

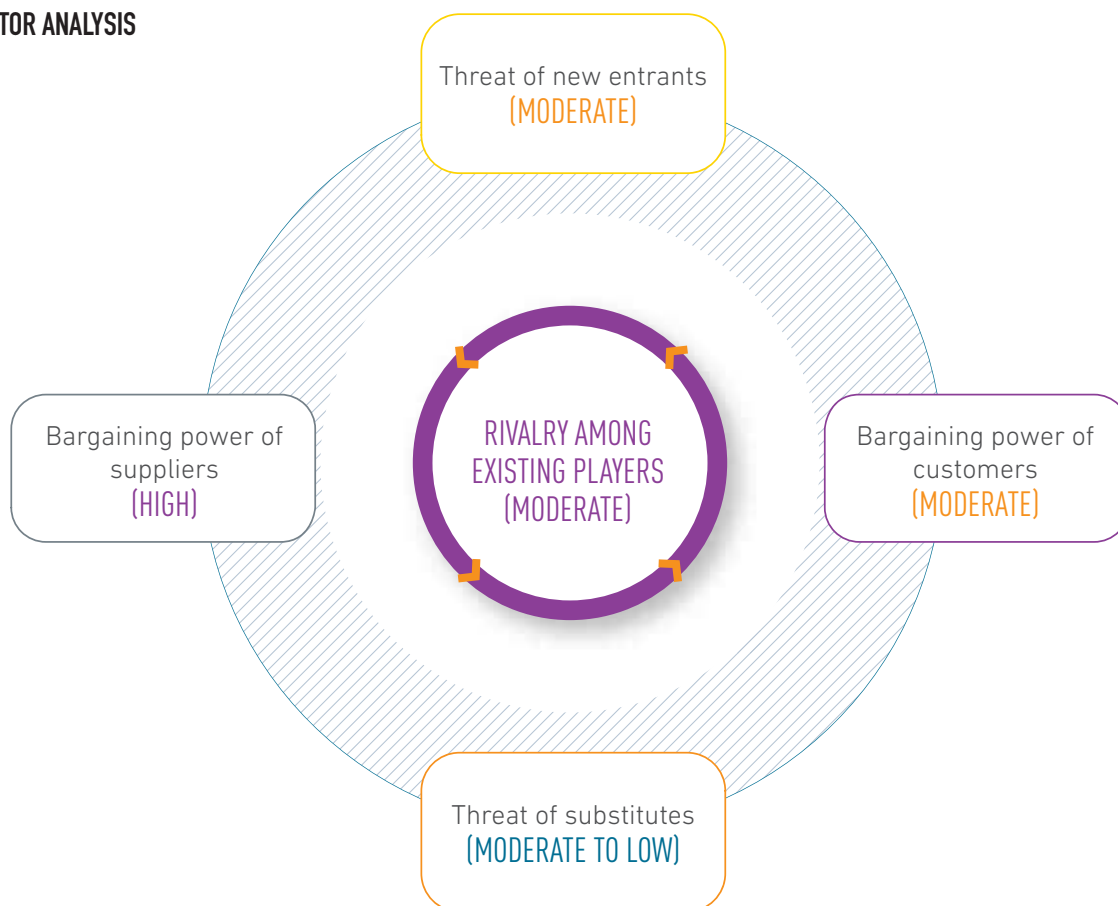
Capital Management Review  
Financial Capital 50  
Manufactured Capital 59  
Natural Capital 61  
Human Capital 67

Social and Relationship Capital 80  
Intellectual Capital 93  
Outlook 100  
Risk and Opportunities 102  
Share Information 112

UNION ASSURANCE PLC  
ANNUAL REPORT 2016

# MANAGEMENT DISCUSSION AND ANALYSIS

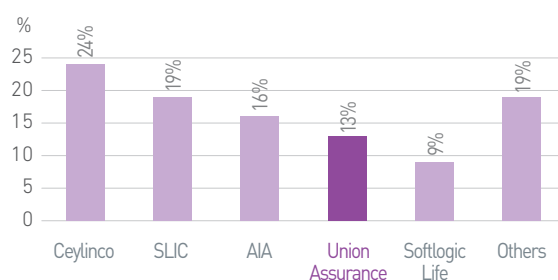
## COMPETITOR ANALYSIS



FACTOR	INFLUENCE / BARGAINING POWER	COMMENTARY
Rivalry among existing players	Moderate	<p>Rivalry among existing players is moderate due to;</p> <ul style="list-style-type: none"> <li>The life insurance industry comprises of 15 players 2 of which are multinationals. Nine of these insurers are listed on the Colombo Stock Exchange. The industry is dominated by the 5 largest players accounting for approximately 86% of total industry assets and over 80% of market share.</li> <li>Relatively low penetration level indicates that the market is far from saturated and that there is significant growth opportunities for all insurers.</li> <li>This is reflected in the 19% to 20% growth rate the industry has achieved in the past two years.</li> </ul>

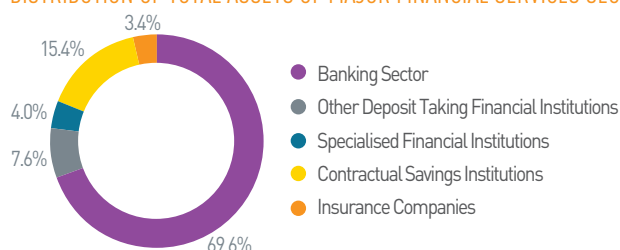
FACTOR	INFLUENCE / BARGAINING POWER	COMMENTARY
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### MARKET SHARE 2016 (e)



Threat of new entrants	Moderate	<p>Threat of new entrants is moderate due to;</p> <ul style="list-style-type: none"> <li>High cost of entry with the introduction of a minimum capital requirement of Rs. 500 million under Risk Based Capital framework introduced by the Insurance Board of Sri Lanka (IBSL).</li> <li>The complexity of the business</li> <li>The requirement to attract / recruit, retain and administer a large agency force.</li> <li>Size of the market may not be attractive to foreign insurers in terms of relatively lower population of 20.9 million and life insurance premiums of Rs. 63,553 million (USD 412 million) in 2016.</li> </ul>
Bargaining power of customers	Moderate	<p>Bargaining power of customers is moderate due to;</p> <ul style="list-style-type: none"> <li>Customers having a wide range of insurance providers to choose from.</li> <li>Higher switching costs for customers once they enter into a contract.</li> <li>Life insurance being sold mainly to individual customers and the impact of switching may not be significant to the insurer.</li> </ul>
Bargaining power of suppliers	High	<p>Bargaining power of suppliers is high due to;</p> <ul style="list-style-type: none"> <li>The primary suppliers to the insurance industry being reinsurers.</li> <li>The regulatory guidelines encouraging all insurance companies to partner with rated reinsurance companies.</li> <li>Rated insurers being multinationals and size of the Sri Lankan market being relatively small.</li> <li>Highly rated reinsurers could have an impact on adding / amending clauses contained in existing insurance contracts / products.</li> </ul>
Threat of substitutes	Moderate to Low	<p>Threat of substitutes is moderate to low as;</p> <ul style="list-style-type: none"> <li>There is no direct substitute for life insurance products.</li> <li>Products such as investment plans, pension schemes, child education plans and other long term financial solutions offered by non-insurance companies that address the need for savings, annuities and investment plans may be viewed as indirect substitutes to insurance products.</li> <li>Banks issuing complementary insurance covers for certain deposits through an insurance partner could be considered as a positive development.</li> <li>Insurance companies account for only 3% of the financial services sector assets.</li> </ul>

### DISTRIBUTION OF TOTAL ASSETS OF MAJOR FINANCIAL SERVICES SECTORS



Stakeholder Relationships and Materiality	22	Capital Management Review	50	Social and Relationship Capital	80	<b>UNION ASSURANCE PLC</b> ANNUAL REPORT 2016 <b>45</b>
External Environment	34	Financial Capital	59	Intellectual Capital	93	
<b>Competitive landscape</b>	<b>40</b>	Manufactured Capital	61	Outlook	100	
Strategy and Resource Allocation	46	Natural Capital	67	Risk and Opportunities	102	
		Human Capital	67	Share Information	112	

# MANAGEMENT DISCUSSION AND ANALYSIS

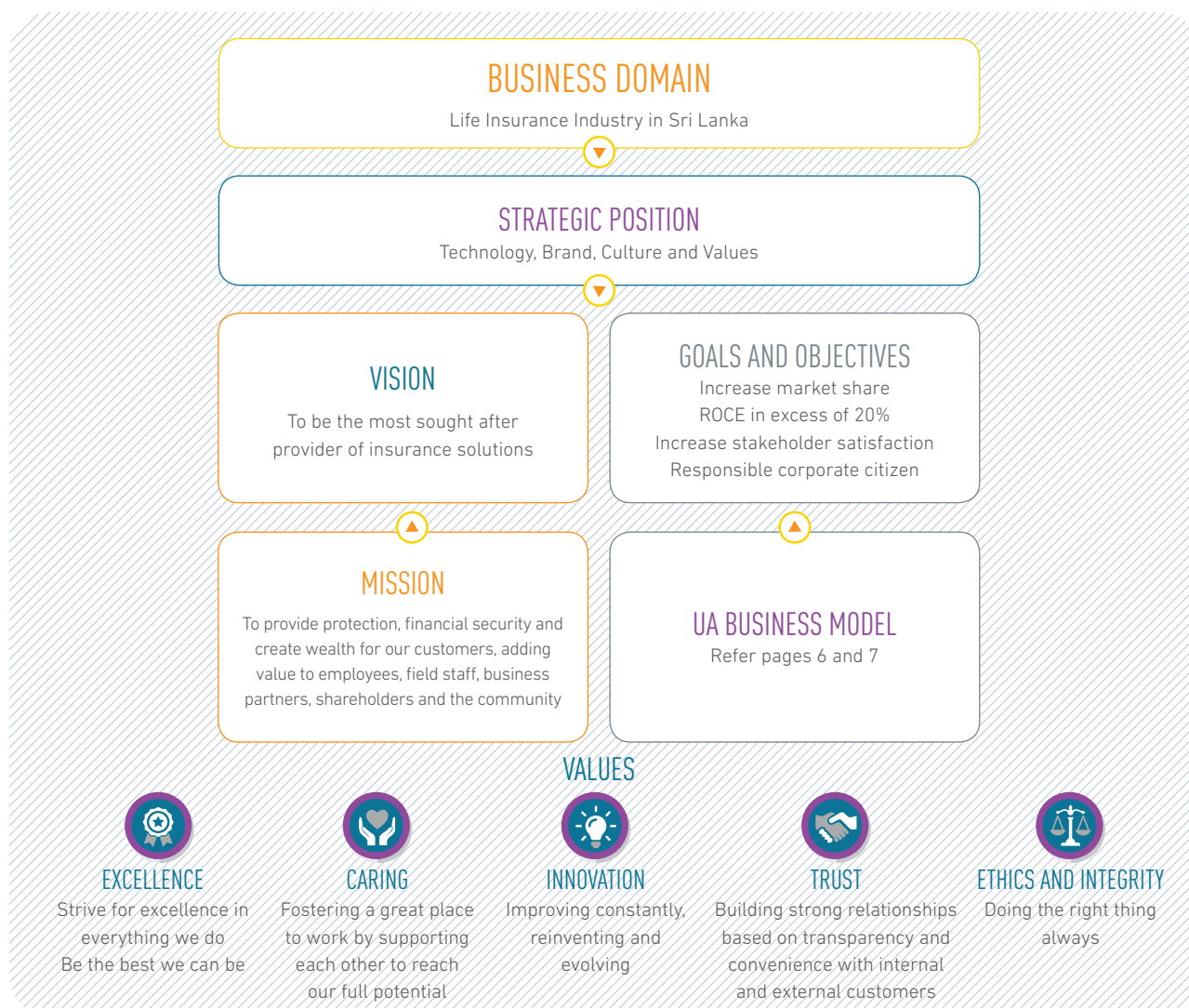
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## STRATEGY AND RESOURCE ALLOCATION

### STRATEGY AT A GLANCE

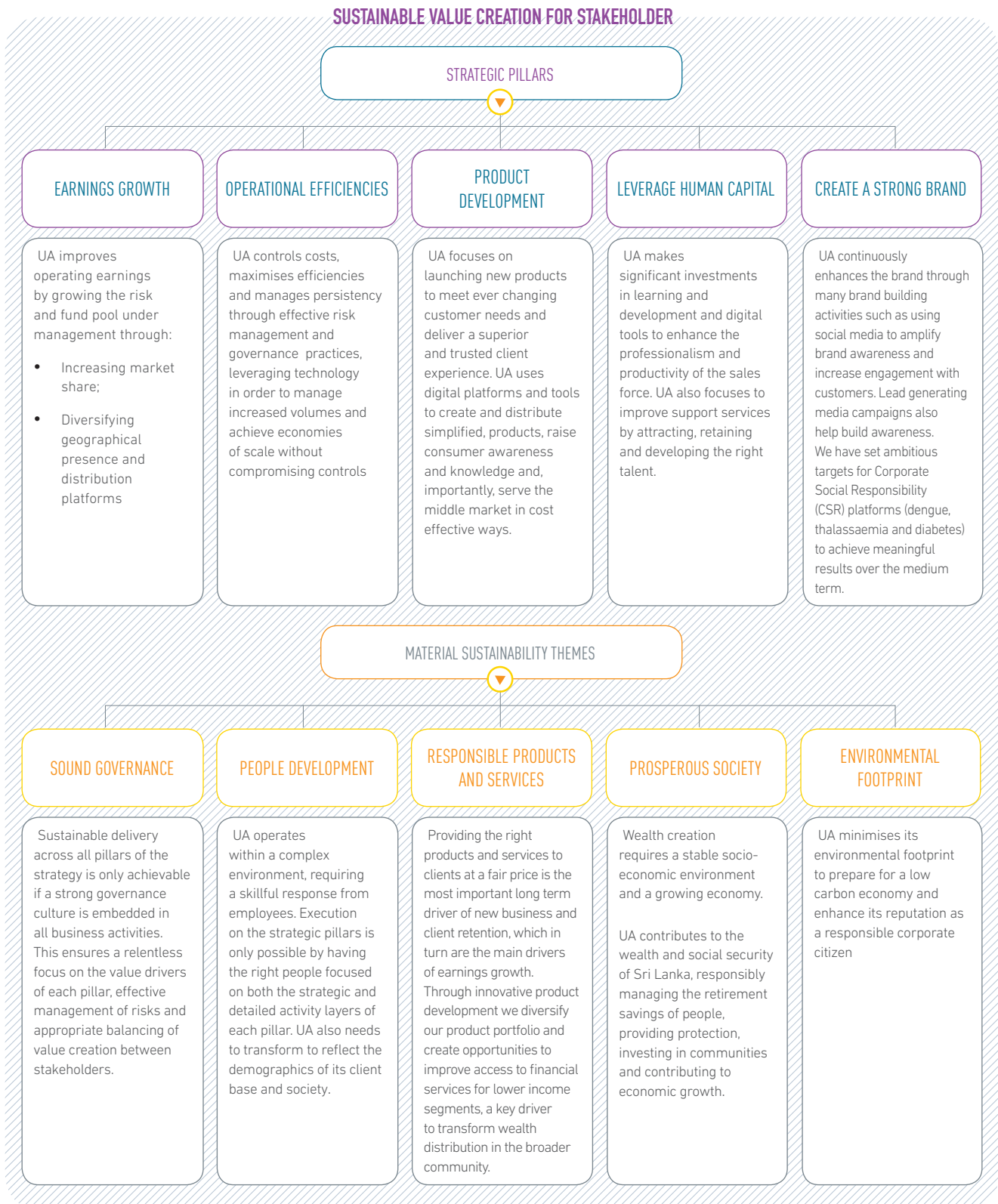
#### ELEMENTS OF THE COMPANY'S STRATEGIC FRAMEWORK

Key elements of our strategic framework is shown below. We are in the life insurance business domain and our strategic position is differentiated by Technology, Brand, Culture and Values. We are guided by our values to achieve our vision and objectives through our mission and business model.



## STRATEGIC PILLARS

The company's key objective is to create sustainable value for shareholders over the long term. This is achieved by optimising Return on Capital (ROE) through a continued focus on the five strategic pillars of the company. The five material sustainability themes are entrenched within the company's operations and decision making to ensure that the company's strategic decisions are tested against those key principles that will ensure long term thinking and sustainability.



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# MANAGEMENT DISCUSSION AND ANALYSIS

## RESOURCE ALLOCATION

The company's vision of "To be the most sought after provider of insurance solutions" is the cornerstone of our resource allocation and operational decisions. Resource allocation is a part and parcel of UA's strategic planning process.

## STRATEGIC PLANNING PROCESS – SETTING THE TONE FROM THE TOP

At UA, strategic planning is a top down-bottom up process. The prime focus is to enhance value of all stakeholders in the short, medium and long term.

The process commences with the Chairman and Board setting the broad strategy for the next five years and objectives for the planning year from the perspective of all stakeholders. Based on these requirements, the executive committee reviews the relevance to the company's vision and mission and analyses the competitive landscape, macro environment, UA strengths, weaknesses, opportunities and threats (SWOT analysis). Based on the findings, the executive committee identifies the issues and challenges for the plan period and formulates broad strategies and objectives.

## BOARD PARTICIPATION AND COLLABORATION

These broad strategies and objectives are brainstormed at a broader planning forum comprising the executive committee and key representatives from the functional / distribution channels to derive broad strategic themes for each of the identified critical areas of the business giving due consideration to issues, challenges, opportunities and threats along with the resources required to meet the set objectives.

Subsequently, the company conducts planning meetings at regional / distribution channel level as well as with all support functions. The strategic action plans derived from these workshops are synchronised with the objectives determined by the executive committee and key representatives from the functional / distribution channels at the broader planning forum.

## PLAN APPROVAL

Once agreed, strategies and financial budgets are set and presented to the Board for approval.

## PLAN ROLL OUT

The approved strategy and plans are subsequently communicated across the company. The distribution detailed plans are communicated by the senior distribution team with representation from functional units.

## PROGRESS TRACKING

The CEO and the executive committee review the strategic plan action items and budgets on a monthly basis and analyse variances between expected and actual results. The same information is also reviewed by the Board of Directors. Both parties use a dashboard with key performance indicators (KPIs) to monitor progress.

## FEEDBACK AND LEARNING

The issues faced while implementing the strategy, the achievements and learning outcomes of this year's planning process which emerges from the bottom up strategy sessions will be used in the next years' planning process.

The progress against strategic objectives of 2016 and objectives for 2017 and beyond are discussed under each capital.

SWOT ANALYSIS

MACRO-ECONOMIC ANALYSIS

COMPETITIVE LANDSCAPE

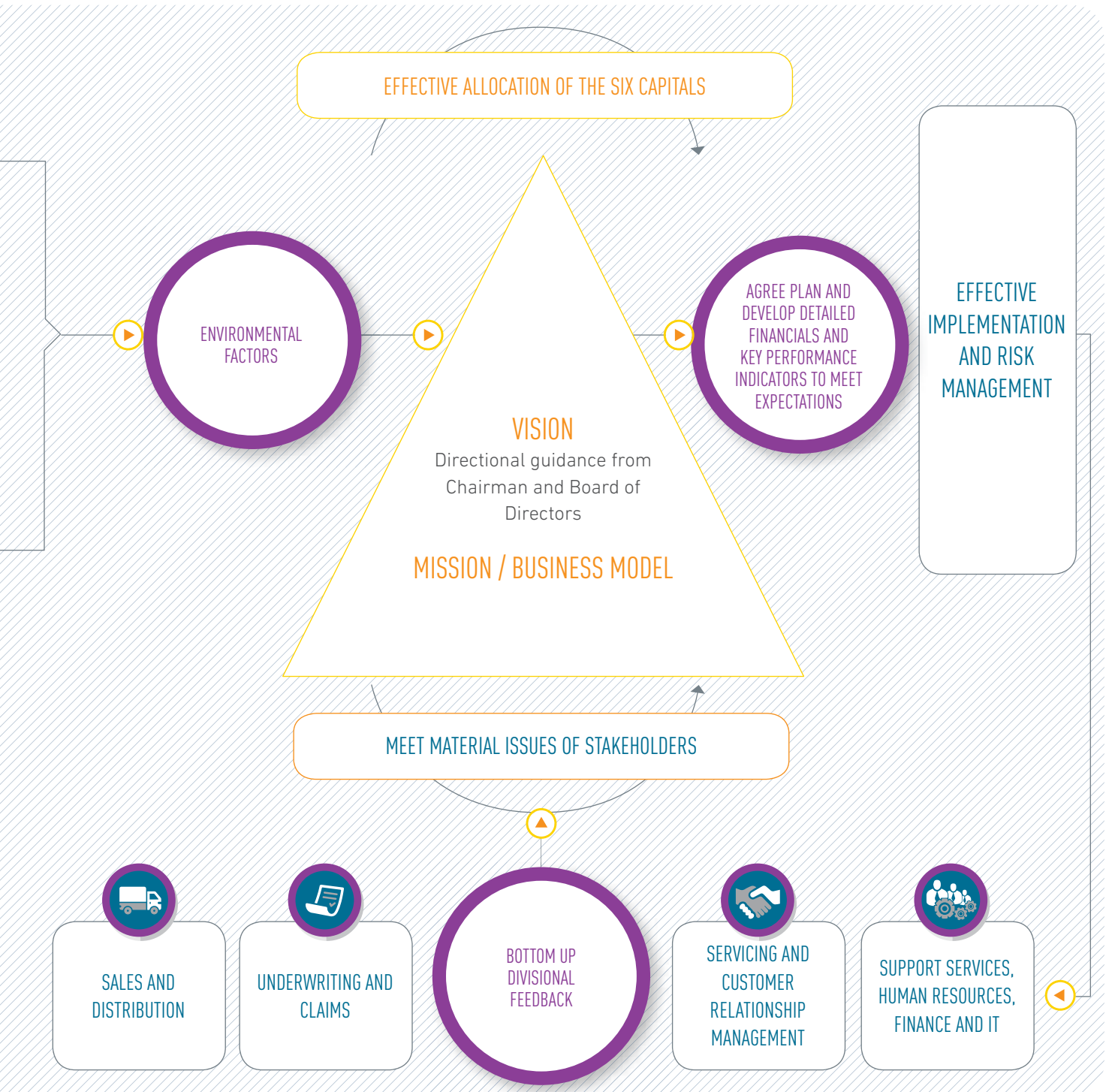


MARKETING



LEARNING AND DEVELOPMENT

**"AT UA, STRATEGIC PLANNING IS A TOP DOWN – BOTTOM UP PROCESS. THE PRIME FOCUS IS TO ENHANCE VALUE TO ALL STAKEHOLDERS ON THE SHORT, MEDIUM AND LONG TERM."**



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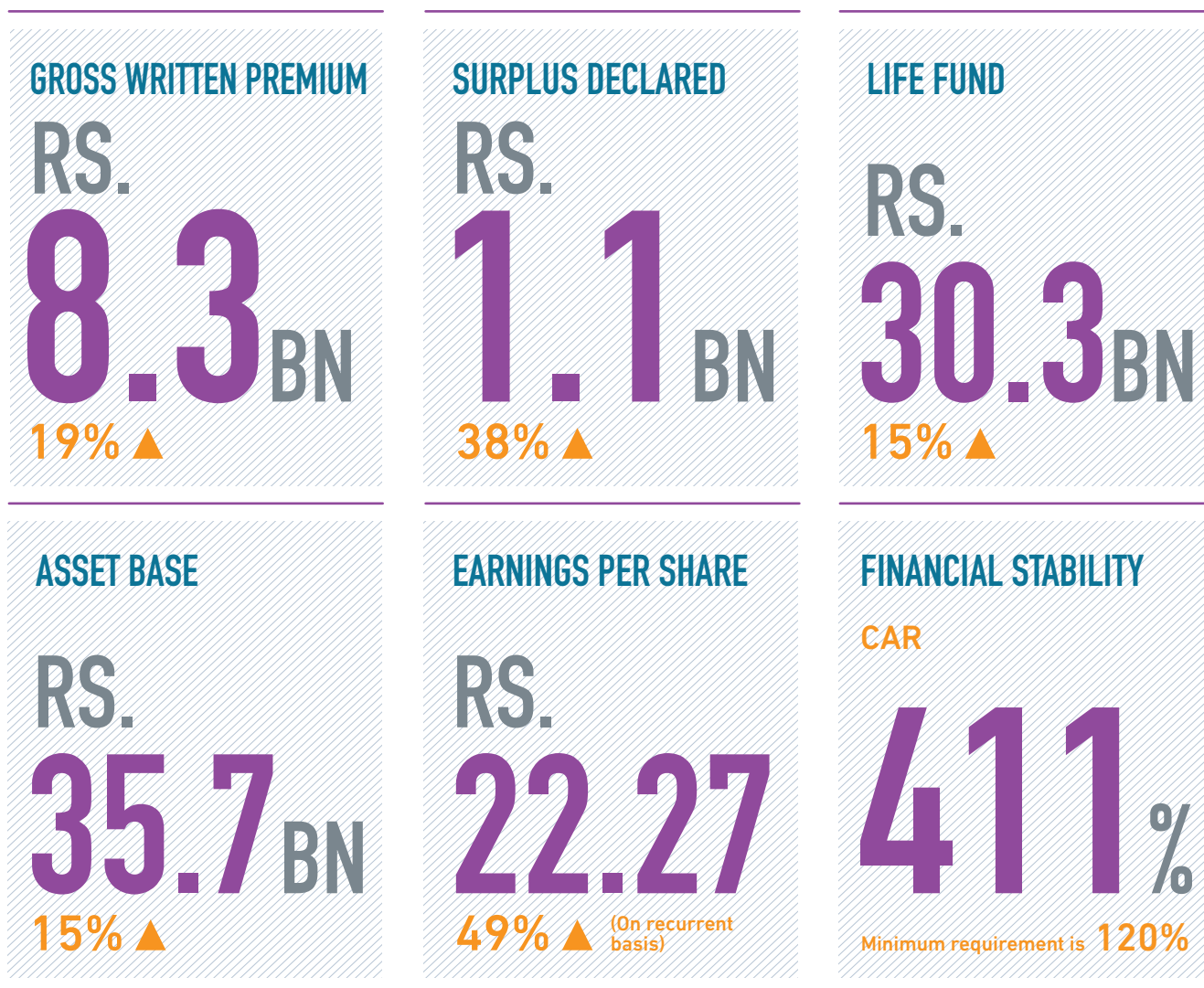
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# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL MANAGEMENT REVIEW

### FINANCIAL CAPITAL

#### KEY HIGHLIGHTS



## 2016 PROGRESS TOWARDS OBJECTIVES

OBJECTIVES	STATUS
17% growth in GWP	Achieved 19% ▲
20% growth in profit from operations	Achieved 26% ▲
Maintained less than 17% YoY growth in expenses	Not achieved. Expenses increased by 18% due to increase in variable costs ▼
Achieve excellence in financial reporting	Three Awards
Achieve above 9.5% re-investment rate	Achieved 9.55% ▲

## OBJECTIVES 2017 AND BEYOND

OBJECTIVE	TARGET YEAR
Achieve GWP of Rs.10 billion	2017
Profits to grow at 20% over the period	2017
Achieve 15% increase in life fund	2017

## CHALLENGES

- Volatility in macroeconomic conditions (Page 34)
- Managing risk and regulatory complexities (Page 102)
- High competition in the life insurance industry (Page 100)

Year 2016 was a challenging year for UA in terms of a slowdown of economic growth, negative performance in the capital market, depreciation of the rupee and managing escalation of costs. Nevertheless, our strong fundamentals and strategy guided us to achieve steady growth in profits. Our higher dividend payout ratio reflects the quality of earnings. Our healthy financial position will deliver sustainable value to all our stakeholders in short term as well as long term. Pages to follow provides an in-depth analysis of our financial performance and position.

## ANALYSIS OF FINANCIAL PERFORMANCE

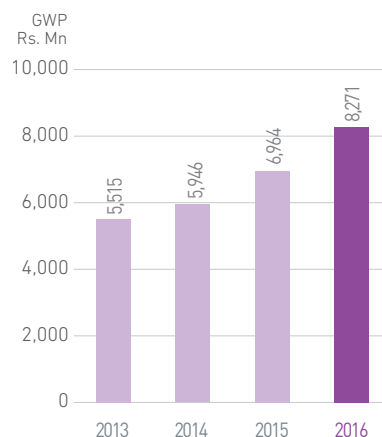
### GROSS WRITTEN PREMIUM (GWP) / REVENUE

In a challenging environment, GWP which is the main source of income grew by 19% during the year by reaching Rs. 8,271 million in 2016 from Rs. 6,964 million recorded in 2015. We were also able to strengthen our market presence in the life insurance

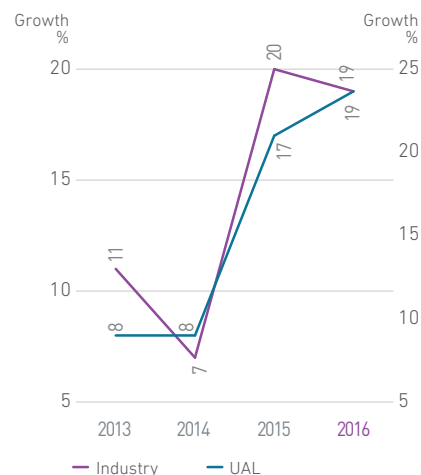
**OUR STRONG FUNDAMENTALS AND STRATEGY GUIDED US TO ACHIEVE STEADY GROWTH IN PROFITS.**

industry and successfully maintained our rank as the 4th largest life Insurance provider in the country. UA GWP growth rate is in line with the industry growth rate.

### GROSS WRITTEN PREMIUM (GWP) / REVENUE



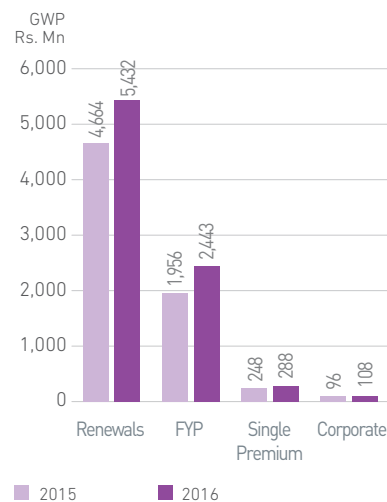
### GWP GROWTH UAL VS INDUSTRY



## COMPOSITION OF GWP

GWP growth was supported by a 25% year on year growth in first year premiums and a 16% year on year growth in renewal premiums. GWP from unit linked policies recorded a decline of 39% due to negative performance of the capital market. UA is the 4th largest new business producer in 2016.

### COMPOSITION OF THE GWP – 2015 AND 2016

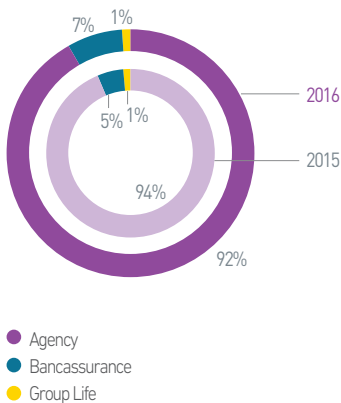


# MANAGEMENT DISCUSSION AND ANALYSIS

## GWP – DISTRIBUTION CHANNELS

In terms of distribution, the agency channel brought in 92% of the GWP while bancassurance and group life contributed 7% and 1% respectively. It is noteworthy to mention that the bancassurance channel recorded a year on year GWP growth of 48%. UA has recognised bancassurance as one of the channels which will drive future market share growth. During the year under review bancassurance leadership was restructured and compensation and benefits for the sale force was revised to enable aggressive growth.

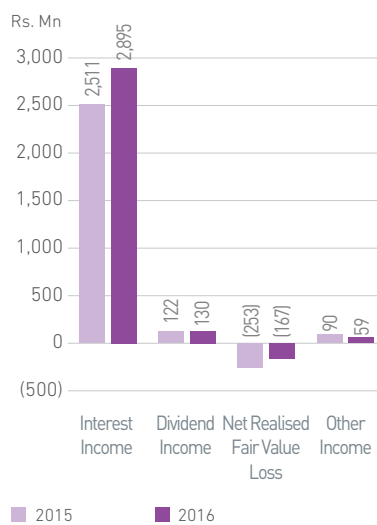
## GWP – DISTRIBUTION CHANNELS



## INVESTMENTS AND OTHER INCOME

During the year under review, the investment income of the company increased by 18% amounting to Rs. 2,917 million. Increase in interest income was due to increased interest rates of government securities and prudent investment strategies. Equity portfolio rationalisation resulted in reduction of net realised and fair value losses against previous year despite negative performance of the capital market.

## INVESTMENTS AND OTHER INCOME



## NET REVENUE

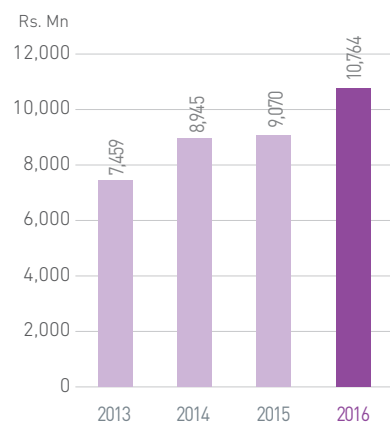
Overall, total net revenue of the company increased by 19% from Rs. 9,070 million in 2015 to Rs. 10,764 million in 2016. Total net revenue consists of net earned premium, income from investments and other operating income.

The continuous strong growth in net revenue is a result of strategic investments made over the years in terms of developing innovative products, attractive marketing campaigns, maintaining effective pricing discipline, harnessing technology in operations, and structured training of the sales force together with sensible management of the investment portfolio.

## REDUCTION IN TOTAL EXPENSES RATIO

70% TO 66%

## NET REVENUE

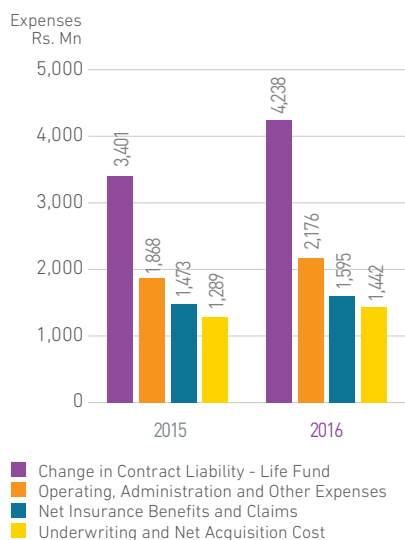


## OPERATIONS MANAGEMENT

### BENEFITS, CLAIMS AND EXPENSES

Insurance claims and benefits of the company increased by 18% from Rs. 8,031 million in 2015 to Rs. 9,451 million in 2016. These benefits, claims and expenses consist of total expenses pertaining to day-to-day operations, insurance benefits, claims payments and changes in contract liability – life fund.

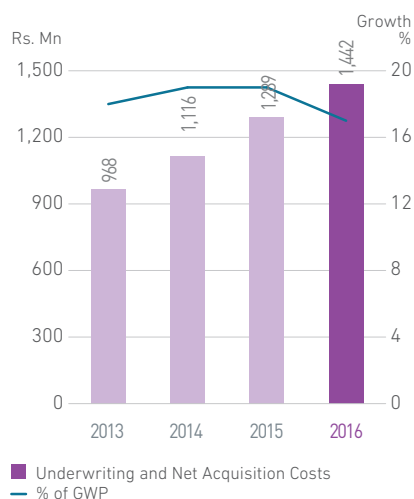
## BENEFITS, CLAIMS AND EXPENSES



## UNDERWRITING AND NET ACQUISITION COSTS

During the year net acquisition costs of the company increased by 12% to Rs. 1,442 million. This is in line with the GWP growth. This is a trend we have noted throughout the industry as life insurance is dependent on business intermediaries resulting in high sales commission structures. However, it is noteworthy to mention that net acquisition cost as a percentage of GWP has dropped from 2015 to 2016.

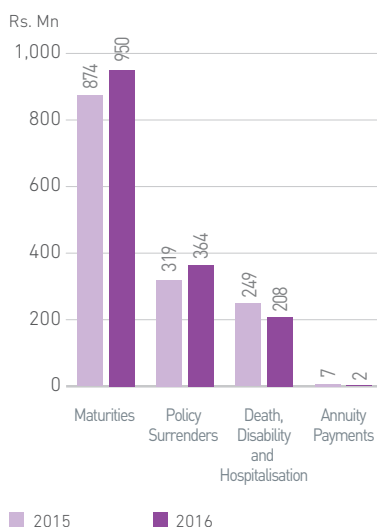
## NET ACQUISITION COST (NAC) & NAC AS A % OF GWP



## NET INSURANCE BENEFITS AND CLAIMS PAID

During the year, company paid net insurance benefits and claims amounting to Rs. 1,524 million an increase of 5% compared to the year 2015. Net insurance benefits and claims paid as a percentage of net written premium (2016: 19%, 2015:22%) declined mainly due to reduction in death, disability and hospitalisation claims.

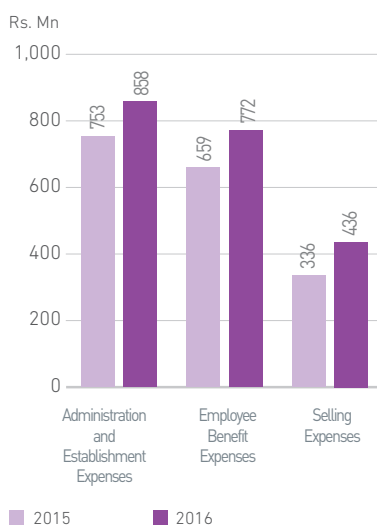
## INSURANCE CLAIMS



## OPERATING, ADMINISTRATION AND OTHER EXPENSES

The company spent 25% of its GWP as operational and administration expenses, which amounted to Rs. 2,065 million. Despite the cost escalation during the year, effective cost management strategies helped the company to maintain year on year expense growth at 18%.

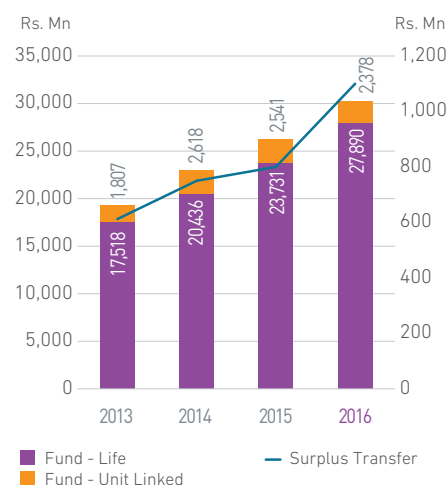
## OPERATING, ADMINISTRATION AND OTHER EXPENSES



## SURPLUS TRANSFER

The surplus from life policyholders fund increased by 38% to Rs. 1,100 million from Rs. 800 million last year.

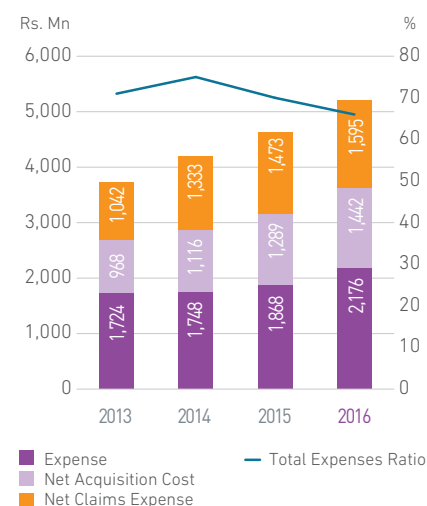
## LIFE FUND VS SURPLUS TRANSFER



## TOTAL EXPENSES RATIO

Detailed expense analysis and budgeting was carried out by the during corporate planning and a comprehensive monitoring mechanism was established to minimise non-value adding expenses and to exercise cash outflows only for essential activities. Due to the careful implementation of these strategies company was able to reduce the total expenses ratio from 70% to 66% during the period.

## TOTAL EXPENSES RATIO



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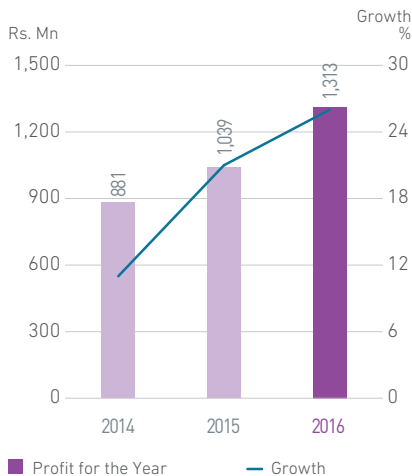
# MANAGEMENT DISCUSSION AND ANALYSIS

RS.  
**1.3** BN  
PROFIT FOR THE YEAR  
26% ▲

## PROFIT FROM LIFE OPERATION

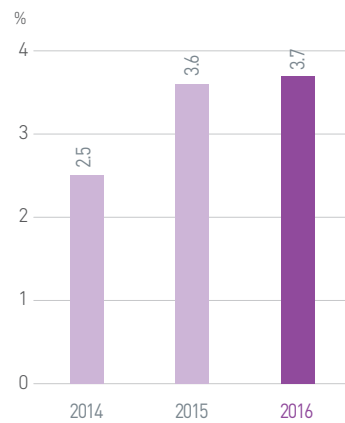
The company generated a profit of Rs. 1.3 billion for the year from life insurance operations. This is a 26% increase compared to last year. The growth in profits had a positive impact on profitability ratios. Accordingly, the company recorded ROA and ROE of 3.7% and 36% against 3.6% and 23% in 2015 respectively. Significantly, the company's performance in both ROA and ROE is well above the industry average.

## PROFIT FROM LIFE OPERATIONS

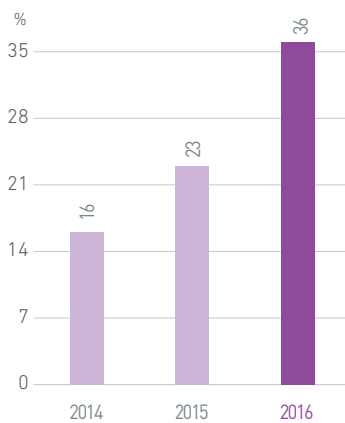


■ Profit for the Year — Growth

## RETURN ON ASSETS (ROA)



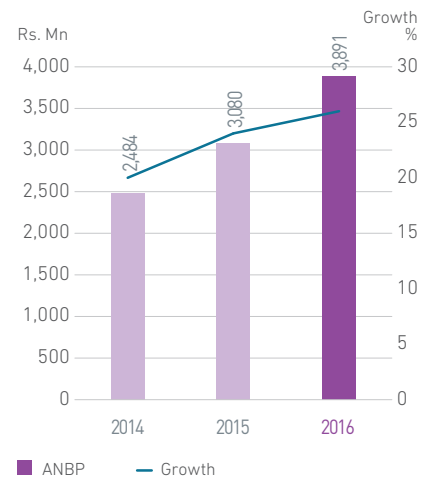
## RETURN ON EQUITY (ROE)



## KEY VALUE DRIVERS

Our strategies as always were focused on continuously improving the performance of key value drivers i.e. annualised new business premium, persistency, average premium per policy and reinvestment rates.

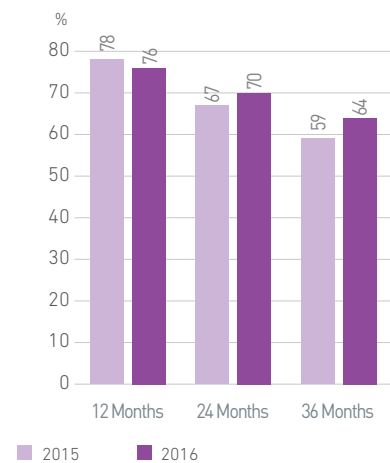
## ANNUALISED NEW BUSINESS PREMIUM



■ ANBP — Growth

Annualised new business premiums (ANBP) grew by 26% and reached Rs. 3,891 million for the year in review.

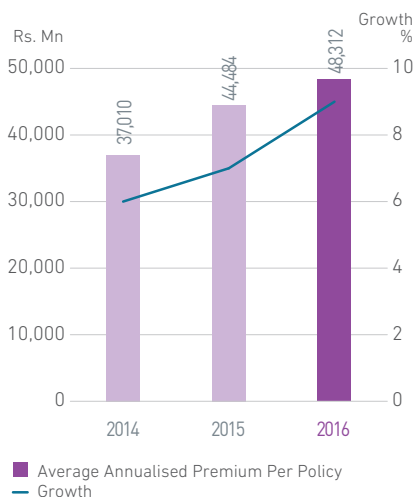
## PERSISTENCY RATIO



■ 2015 ■ 2016

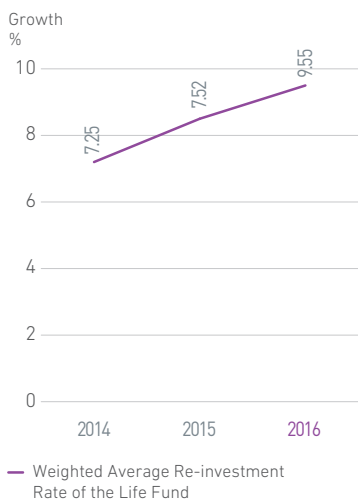
First 12 months premium persistency declined although 24 and 36 months persistency improved.

### AVERAGE ANNUALISED PREMIUM PER POLICY



Annualised average premium per policy continued to increase and crossed Rs. 48,312 during year 2016 where the industry average was between Rs. 35,000 to Rs. 45,000.

### WEIGHTED AVERAGE REINVESTMENT RATE OF THE LIFE FUND



Weighted average reinvestment rate of the life fund increased to 9.55% at the end of the year.

### ANALYSIS OF FINANCIAL POSITION

As an insurance company, financial strength reflects our ability to meet ongoing obligations to our policyholders. Thus, we have a strategy to maintain a strong financial position to ensure the stability of the company which is in excess of regulatory guidelines.

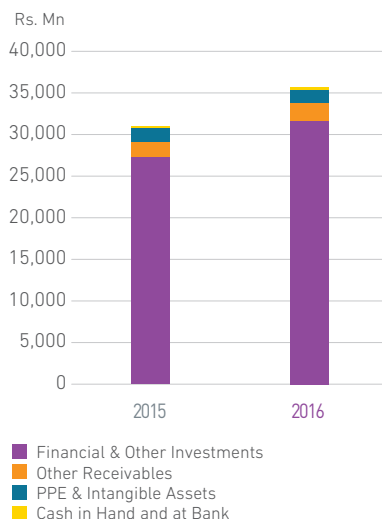
**RS. 35.7 BN**  
**TOTAL ASSETS**  
**15% ▲**

### FINANCIAL POSITION STRUCTURE

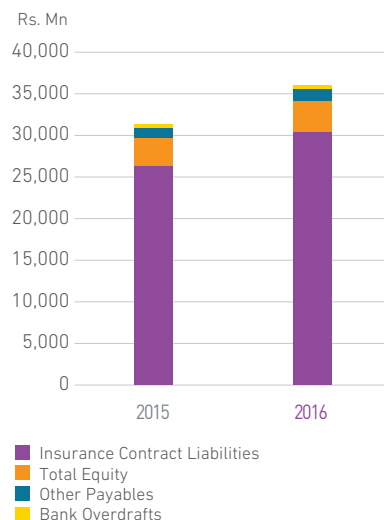
For the year under review, the company's total assets increased by Rs. 4,680 million to Rs. 35,694 million (2015: Rs. 31,014 million) mainly on account of increases in financial and other investments of the company.

Considering its strong financial position, the company is confident of its ability to comfortably meet short and medium term funding and insurance repayment obligations.

### TOTAL ASSETS



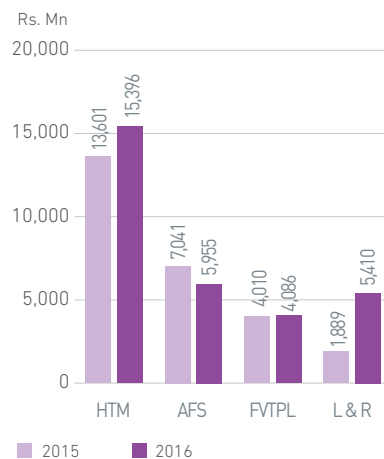
### TOTAL EQUITY & LIABILITIES



### FINANCIAL INVESTMENTS

It is our aim to maintain financial investments as a relatively high portion of total assets in order to earn the highest possible returns to the company. Accordingly, 86% of the total assets have been maintained as financial investments and have recorded a 16% growth which is similar to the growth in total assets of the company.

### FINANCIAL INVESTMENTS



HTM - Held to maturity  
 AFS - Available for sale  
 FVTPL - Fair value through profit or loss  
 L&R - Loans and receivables

Stakeholder Relationships and Materiality	22
External Environment	34
Competitive landscape	40
Strategy and Resource Allocation	46

Capital Management Review	
Financial Capital	50
Manufactured Capital	59
Natural Capital	61
Human Capital	67

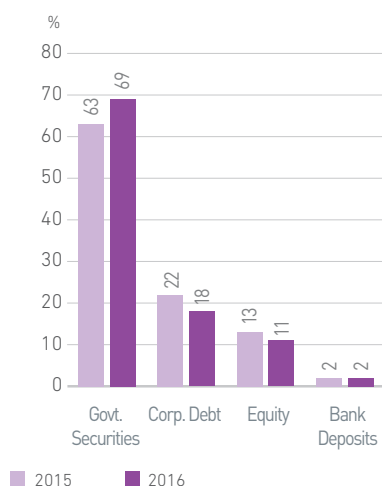
Social and Relationship Capital	80
Intellectual Capital	93
Outlook	100
Risk and Opportunities	102
Share Information	112

# MANAGEMENT DISCUSSION AND ANALYSIS

## INVESTMENT CONCENTRATION

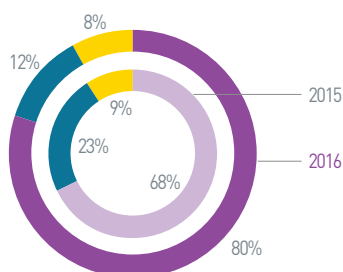
Investment concentration related to financial investments is given below. 69% of financial investments were made in government securities which is significantly above the minimum requirement of 30% as per Section 25 of the Regulation of Insurance Industry Act No 43 of 2000 and subsequent amendments.

### CONCENTRATION OF INVESTMENTS



The credit risk profile of the company reflects the quality of our investment portfolio and complete security of our policyholders money.

### CREDIT RATING - INVESTMENT PORTFOLIO

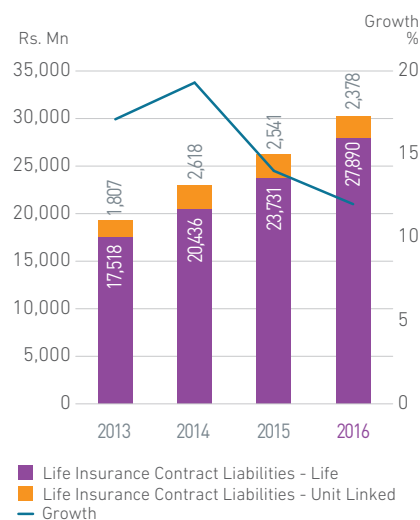


- Government Guaranteed
- AA+ to AA-
- A+ to A-

## INSURANCE CONTRACT LIABILITIES

Life insurance contract liabilities, refer to the reserves set aside to meet the future claims and maturities of life insurance policyholders. The life fund stood at Rs. 30 billion at the end of the year with a growth of 15.2% in comparison with the previous years. Life insurance contract liabilities represent 95% of total liabilities. As depicted in the graph, UA's life fund reflects a steady growth. UA risk and fund pool under management has grown reflecting the steady growth in our operating results.

## INSURANCE CONTRACT LIABILITY (LIFE FUND) – CONVENTIONAL & UNIT LINKED



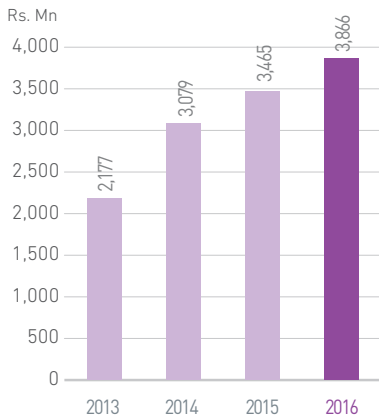
## SHAREHOLDERS' FUNDS

### SHAREHOLDERS' FUNDS COMPOSITION

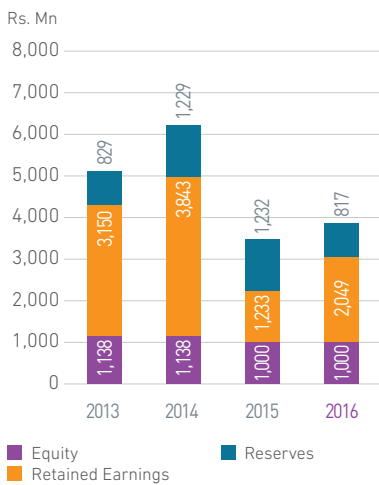
During the year, the company notched a landmark achievement, by recording the highest ever profit after tax of Rs. 1.3 billion from life insurance operations which boosted shareholders' funds by 12% to Rs. 3.9 billion compared to Rs. 3.5 billion in the previous year. The company's internal capital generation has maintained a steady growth momentum as evidenced by the impressive compounded annual growth rate of profit after tax of 20% over 5 years.

UA is a fully equity funded company and retained earnings is the main source of capital for future strategic investments.

## NET ASSETS



## SHAREHOLDERS' FUNDS COMPOSITION

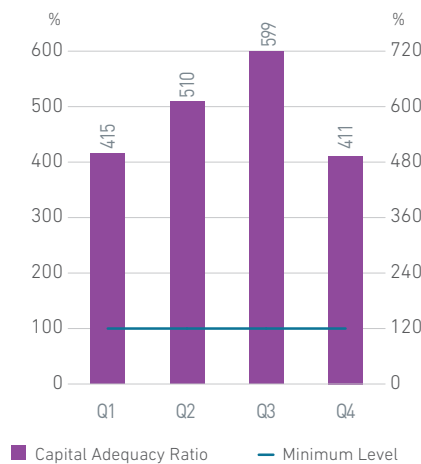


## CAPITAL ADEQUACY RATIO (CAR) UNDER RBC REGIME

The capital adequacy ratio reflects UA's total available capital as against risk capital required at a particular date. The capital adequacy ratio is higher than the minimum regulatory requirement, which indicates a healthy financial position. The ratio is enhanced by the difference in liability valuations between the previous and current basis. UA is awaiting regulatory instructions relating to one-off-release of surplus stemming from changing the basis of valuing life policyholder liabilities.

**CAPITAL ADEQUACY RATIO**  
**411%**  
**THE MINIMUM REGULATORY REQUIREMENT 120%**

## CAPITAL ADEQUACY RATIO



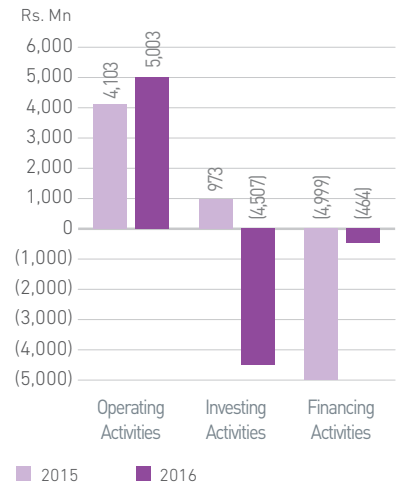
## ANALYSIS OF CASH FLOW

Cash in hand and at banks net of bank overdraft balance stood at Rs. 229 million as at 31st December 2016 compared to Rs. 208 million of last year.

During the period under review net cash generated from operating activities was Rs. 5,003 million. The majority of these funds were channelled from insurance premiums.

Cashflow management is key to UA since it has assets with short term tenures and liabilities with long term tenures. The investments team, actuarial team and the Investment Committee of UA regularly review the maturity profiles of assets and liabilities and necessary action is taken to minimise the impact of asset liability cashflow mismatches.

## CASH FLOWS GENERATED BASED ON ACTIVITIES



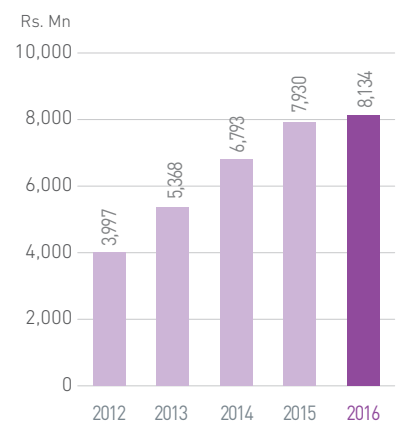
Significant outflow arising from financing activities in 2015 reflects the share repurchase of the company.

Significant outflow relating to investment mainly reflects the investment of net fund inflow from the life business.

## CONTRIBUTION TO THE SRI LANKAN ECONOMY

Our economic value added statement reflects the manner in which the company has created and distributed wealth among various stakeholders throughout the value chain. The total value generated for the current year is Rs. 8,134 million. The total value addition has increased by 3% compared to the preceding year and recorded a compounded average growth of 15% over the last 5 years.

## ECONOMIC VALUE ADDITION



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# MANAGEMENT DISCUSSION AND ANALYSIS

GRI-G4 G4-9 G4-EC1 G4-EC8

## STATEMENT OF VALUE ADDED

RS. MILLION	2016	2015	2014	2013	2012
Net written premium	7,847	6,600	5,617	5,235	4,857
Investment and other income	2,977	3,749	3,328	2,225	1,745
Net claims	(1,524)	(1,448)	(1,238)	(1,142)	(1,767)
Cost of external services	(1,166)	(971)	(914)	(950)	(838)
<b>Total value added</b>	<b>8,134</b>	<b>7,930</b>	<b>6,793</b>	<b>5,368</b>	<b>3,997</b>
<b>DISTRIBUTION OF VALUE ADDED</b>					
To employees as salaries and other benefits	848	732	718	687	685
To intermediaries as commission	1,442	1,289	1,116	968	891
To Life policyholders as increase in Life fund	4,309	3,425	3,963	2,835	1,806
To Government as taxes	51	46	23	23	25
<b>RETAINED WITH THE BUSINESS</b>					
as depreciation / amortisation	111	120	93	64	58
in reserves	872	1,761	518	543	308
To shareholders as dividends	501	557	362	248	224
<b>Total value added</b>	<b>8,134</b>	<b>7,930</b>	<b>6,793</b>	<b>5,368</b>	<b>3,997</b>

## QUARTERLY PERFORMANCE AT A GLANCE

RS. MILLION	FINANCIAL YEAR 2016				
	Q1	Q2	Q3	Q4	TOTAL
GWP	1,933	1,935	2,144	2,259	8,271
Other revenue	215	834	1,122	746	2,917
Profit before tax	61	58	71	1,123	1,313
Total assets	31,141	32,978	34,718	35,693	35,693
Insurance contract liability	27,205	28,591	30,285	30,267	30,267
<b>Total equity</b>	<b>2,759</b>	<b>2,900</b>	<b>3,180</b>	<b>3,866</b>	<b>3,866</b>

# MANUFACTURED CAPITAL

## KEY HIGHLIGHTS

### REVENUE FROM ACROSS THE COUNTRY

107<sup>+</sup>

107 locations and 23 virtual offices across the island

Rs. 60.8 million and Rs. 9.7 million of revenue and profit per location

### REVENUE FROM NEW LOCATIONS

RS. 394<sub>MN</sub>

of new business

8 new locations

### TRAINING LOCATIONS

38,233

Square Feet of training space

Rs. 9.7 million of rent expenses

## 2016 PROGRESS TOWARDS OBJECTIVES

OBJECTIVES	STATUS
Consolidate our presence in the country	Optimise presence in all provinces – Ongoing ▲
Create efficient and customer friendly branch layouts	All new branches and relocations – Ongoing ▲

### OBJECTIVES 2017 AND BEYOND

Use energy efficient equipment and renewable energy for branches	2017 and beyond
Roll-out fully fledged virtual branches	2017 and beyond

### CHALLENGES

Cost implications of new branches, branch upgrading and relocations

Finding strategic locations for further expansion

### RESOURCE ALLOCATION

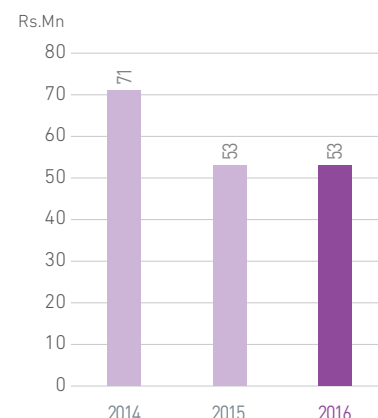
Gross written premium (GWP), annualised new business premium (ANBP) and active advisor cadre are the main criteria considered when capital is allocated for branch expansions. Decisions relating to manufactured capital is governed by a framework which seeks to achieve value for money rather than cost reduction alone. UA strives to optimise the allocation of resources, to serve customers best while minimising cost, enhancing efficiency and profitability.

### VALUE ADDITION DURING THE YEAR

When investing in infrastructure relating to manufactured capital, UA takes a long term view and future potential of the investment. ROI as well as other qualitative factors are considered when evaluating an investment decision.

**THE COMPANY INVESTED IN EXPANDING, REPOSITIONING AND UPGRADING EXISTING BRANCHES TO OPTIMISE GEOGRAPHICAL REACH WHILE ENHANCING CUSTOMER CONVENIENCE.**

## INVESTMENT IN MANUFACTURED CAPITAL



During the year under review, the company invested Rs. 53 million on manufactured capital.

### BRANCH NETWORK

92% of the company GWP is generated through the agency channel which operates through the branch network. The company reaches every corner of Sri Lanka through this branch network. In the year under review the company invested in expanding, repositioning and upgrading existing branches to optimise geographical reach while enhancing customer convenience.

Stakeholder Relationships and Materiality	22
External Environment	34
Competitive landscape	40
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# MANAGEMENT DISCUSSION AND ANALYSIS

Business Development Offices (BDO) are small locations which facilitates meetings, discussions and training of advisors. BDOs are required to achieve a certain level of GWP and advisor cadre to be upgraded to a branch.

## BRANCHES AND BDO EXPANSIONS

	2016	2015
New BDOs	2	1
Upgrades	6	1
Strategic relocations	6	5
Closed down	1	10

During the year 6 BDOs were upgraded to branches in Baddegama, Padaviya, Madampe, Medirigiriya, Elpitiya and Mathugama. New BDOs were opened in Kotte and Nelliady.

In addition to traditional branches, the company is in the process of creating fully fledged virtual branches. Fundamental tools are in place to operate in a virtual branch environment such as the Digital Advisor Toolkit for digital proposal submission, auto underwriting mechanism, online / mobile premium payment options and Skype for business meetings.

**THE COMPANY IS IN THE PROCESS OF CREATING FULLY FLEDGED VIRTUAL BRANCHES.**

## INTERACTION BETWEEN CAPITALS



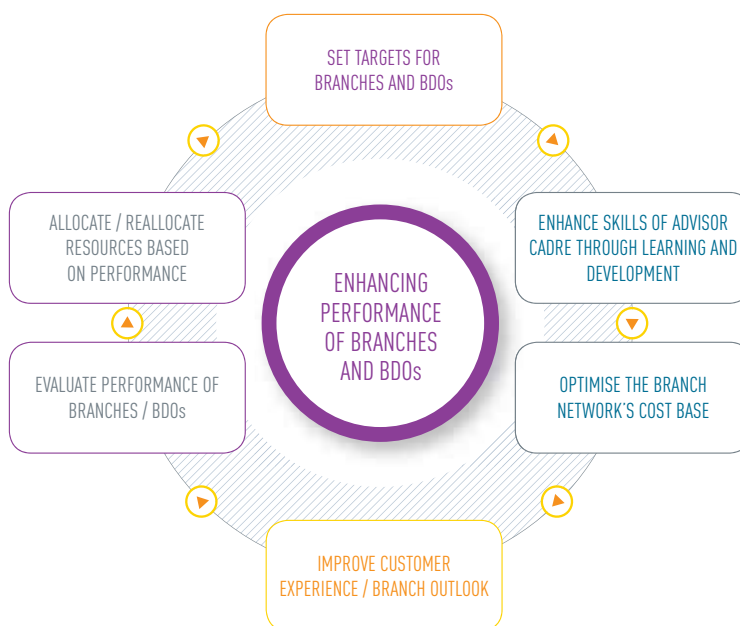
When UA invest in branches and BDOs, the company expends financial capital to build manufactured capital. Manufactured capital builds relationship capital through better customer experience. Relationship capital in turn builds shareholder capital in which eventually translate to higher shareholder returns.

company medium term goals. Each branch and BDO is given a GWP, ANBP and persistency target. The Learning and Development Division carries out various training activities to improve skills of the advisor cadre to enable them sell more. Each branch cost base is monitored against the budget and corrective action taken for budget overruns. Branch outlook is regularly reviewed by head office and zonal managers and branch layouts and appearances are revisited to improve customer experience. Branches are evaluated and ranked on a monthly basis based on performance. Resource allocation to branches is based on branch ranking. Rewards and recognition is provided to branches which excel vs their peers.

## ENHANCING PERFORMANCE OF BRANCHES AND BDOs

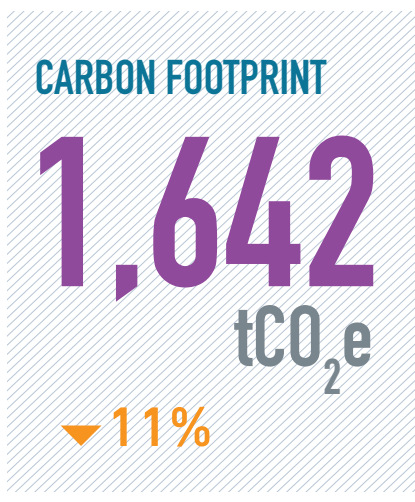
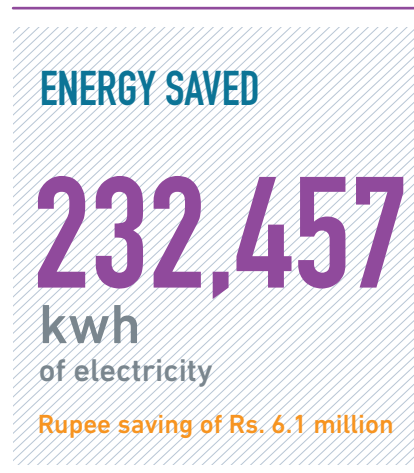
The process of enhancing the performance of our branches and BDOs is shown below.

The company GWP target has been cascaded down to branches and BDOs. The company GWP target has been determined based on the economic outlook, industry outlook and



# NATURAL CAPITAL

## KEY HIGHLIGHTS



## 2016 PROGRESS TOWARDS OBJECTIVES

In achieving our goal of responsible consumption of natural capital, we set following objectives for 2016.

OBJECTIVES	STATUS
Recycling of waste to minimise impact on environment	Achieved ▲
Save water consumption by 25%	Not Achieved ▼
Save energy consumption by 20%	Not Achieved ▼

## OBJECTIVES 2017 AND BEYOND

Arrange safe disposal of all used LED and florescent tube lights to prevent mercury being released to the environment

To promote hybrid and electrical car usage by employees to reduce GHG emissions

## CHALLENGES

We face the following challenges with regard to achieving our sustainability goals.

Reduction of carbon footprint while the company is in a growth trajectory.

Securing employee engagement for sustainability initiatives.

Ensuring the effectiveness of sustainability initiatives with the company's geographical spread. (Page 83)

Natural resources exist in the environment which we operate in, and act as enablers for UA to create value. These resources are mainly categorised as renewable and non-renewable resources. Consumption of non-renewable resources by business may cause permanent reduction. UA's main goal is responsible consumption of these resources while ensuring the sustainable growth of the business.

Stakeholder Relationships and Materiality	22
External Environment	34
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# MANAGEMENT DISCUSSION AND ANALYSIS

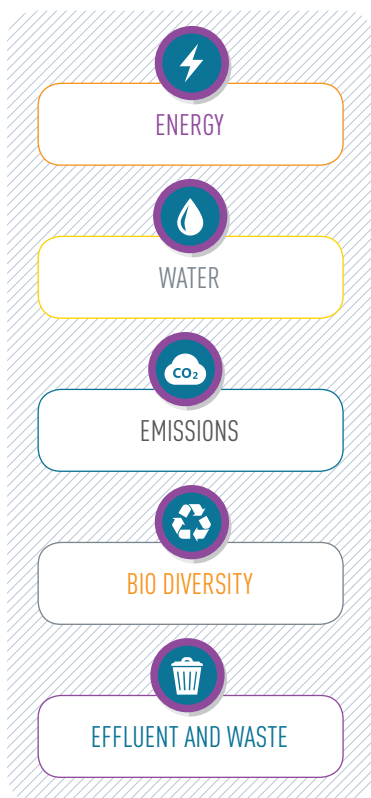
GRI-G4 G4-EN3 G4-EN5 G4-EN6

Key natural capitals that we utilise for operational activities are as follows;

NATURAL RESOURCE	USE TO THE BUSINESS
<b>NON-RENEWABLE</b>	
Petroleum	For transportation, electricity generated from fuel for cooling, lighting, office operations
Minerals and chemicals	For building, office equipment, printing, building maintenance
<b>RENEWABLE</b>	
Water	For staff consumption, cooling and cleaning and hydro power for cooling, lighting and office operations
Wood	For paper, furniture and buildings
Air	For pleasant and liveable operating environment

We are mindful of consuming natural resources and continuously strive to use efficient methods and technologies to reduce the carbon footprint of the organisation.

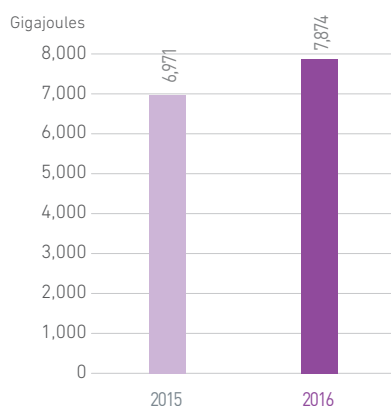
Our natural capital management system mainly focuses on five key areas as indicated below.



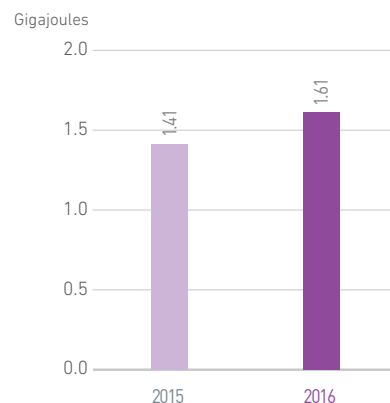
## ENERGY

### ENERGY INTENSITY

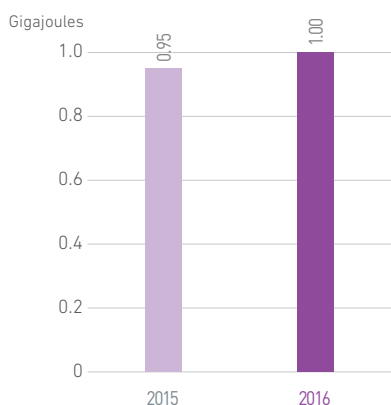
#### TOTAL ENERGY CONSUMPTION



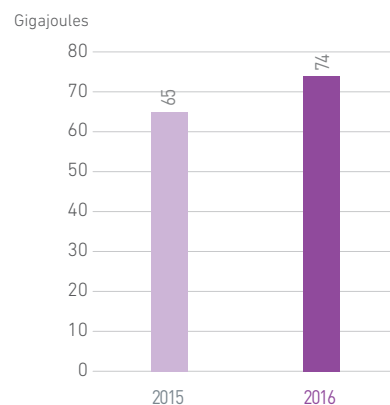
#### ENERGY CONSUMPTION PER FULL TIME EMPLOYEE



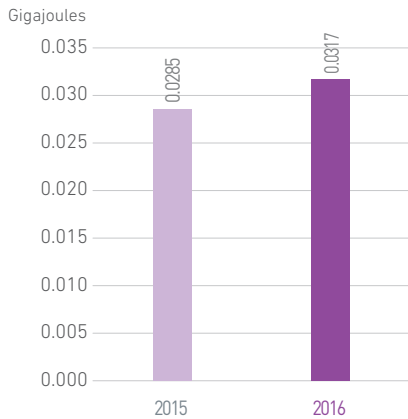
#### ENERGY CONSUMPTION PER RS. 1 MILLION OF REVENUE



#### ENERGY CONSUMPTION PER BRANCH



### ENERGY CONSUMPTION PER AREA



Energy consumption has increased with the expansion of the branch network.

We use energy derived mainly from renewable and non-renewable sources for consumption within the organisation. Energy is generated mainly from the national grid electricity using fossil fuel, coal power and hydro power. This energy source is mainly used for lighting the premises, power supply and air conditioning.

We use petroleum fuel for energy consumption outside the office complexes. This is mainly used for staff transport entitlements, employee travel for field visits and business meetings, managing logistics, movement of technicians for branch maintenance and use of propaganda vehicles for business promotion purposes. During the year under review, we consumed 55,485 litres of fuel for such purposes.

As almost all UA business activities involve consumption of energy, there are various initiatives we have taken at head office and branch level to minimise energy consumption. In 2016, we undertook the following activities to reduce our energy consumption. These initiatives were highly result oriented and savings per annum are also indicated:

- INSTALLATION OF AIR CONDITIONER (AC) TIMER SWITCHES**

We have installed AC timer switches to split type air conditioners at 33 branches, which were designed, built, tested and installed by our own technical team. By this we saved 145,333kwh per annum.

- INSTALLATION OF MASTER KEY SWITCHES**

We have installed master key switches at all floors of the Head Office building to control wastage of electricity after working hours which has resulted in saving of 12,492Kwh per annum.

- INSTALLATION OF LED LIGHTS AT COMMON AREAS**

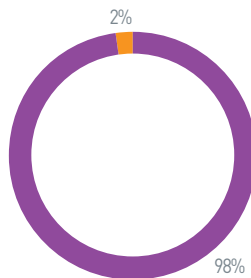
We have installed customised LED lights at all our common areas such as passages, stairway and wash rooms at the head office building and branches, enabling saving of 4,224 Kwh per annum.

### WATER

As water is becoming a scarce resource, we have recognised the importance of effective water management. Employing 474 permanent cadre and 4,406 non permanent cadre has resulted in significant consumption of water. At head-office and branch level, we mainly withdraw pipe-borne water provided by the National Water Supply and Drainage Board and purchase drinking water from third party vendors. Withdrawal of water during the year amounts to 24,116 m<sup>3</sup>.

### WITHDRAWAL OF WATER BY SOURCE

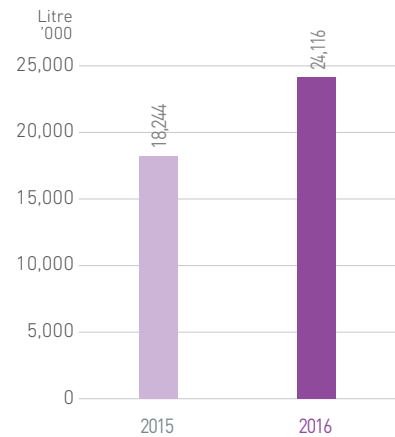
#### WATER SOURCE



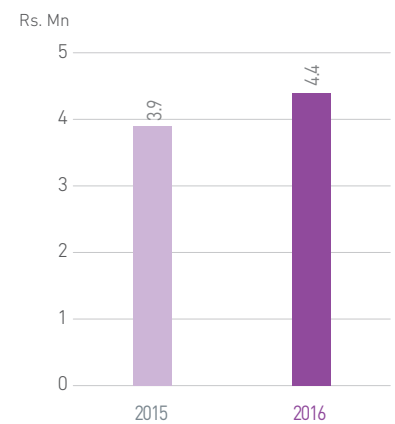
- Pipe-Borne Water from the National Water Supply and Drainage Board
- Drinking Water from 3rd Party Vendors

Surface water and inland ground sources have been affected through water withdrawal. Total water consumption from our daily operations are indicated as per the following graphs.

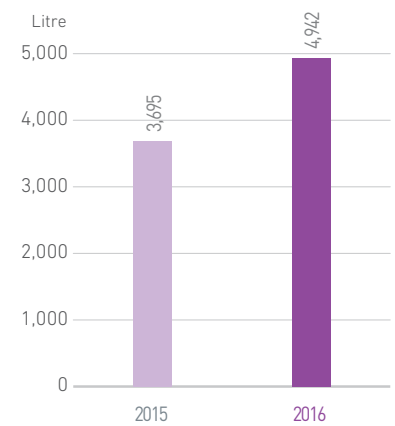
### TOTAL WATER CONSUMPTION



### TOTAL WATER CONSUMPTION COST



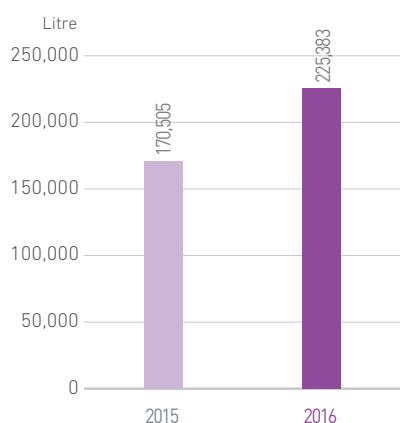
### WATER CONSUMPTION PER EMPLOYEE



# MANAGEMENT DISCUSSION AND ANALYSIS

GRI-G4 G4-EN10 G4-EN15 G4-EN16 G4-EN17 G4-EN18

## WATER CONSUMPTION PER BRANCH



Despite the targeted saving and saving effects, water consumption increased with the expansion of the branch network and due to the drought Sri Lanka experienced during the year.

UA has taken following initiatives to ensure effective water management;

- **INSTALLATION OF WATER STABILISERS**

We have installed water stabilisers to control water usage at washing sinks at head office and branches. This provides us with a saving of approximately 1,848,000 litres per annum.

- **REUSE OF WASTE WATER**

We continued with the initiative of reusing water discharged by the cooling units of air conditioning units. We currently use the discharged water to wash company vehicles and for other cleaning requirements. A total of approximately 180,000 litres per annum is reused through this initiative.

## EMISSIONS

We take necessary steps to measure and reduce what we discharge to the atmosphere. As part of this process, we have partnered with Carbon Consulting Company (Pvt) Ltd for the fifth consecutive year. Carbon Consulting Company (Pvt) Ltd has computed the carbon footprint of our operations in accordance with the Greenhouse Gas Protocol – Corporate Accounting and Reporting Standard (GHG Protocol) developed in partnership with the World Business Council for Sustainable Development and the World Resources Institute. As per the framework carbon

dioxide and other greenhouse gases emitted have been summarised under three main scopes;

Scope 1 - Direct emission released from sources that are owned or controlled by the company

Scope 2 - Indirect emission associated from the generation of imported energy (e.g. grid electricity)

Scope 3 - All other indirect emission sources that are not released from sources mentioned under scope 1 and 2.

## OUR CARBON FOOTPRINT

SOURCE	2016		2015	
	EMISSIONS (TONNES CO2E)	%	EMISSIONS (TONNES CO2E)	%
<b>Scope 01</b>	3.95	0.24%	1.56	0.08%
On-site energy generation	3.95	0.24%	1.56	0.08%
<b>Scope 02</b>	1,071.47	65.24%	953.29	51.87%
Purchased electricity	1,071.47	65.24%	953.29	51.87%
<b>Scope 03</b>	566.81	34.51%	883.16	48.05%
Electricity transmission and distribution losses	107.04	6.52%	115.82	6.30%
Recycled waste	0.32	0.02%	8.6	0.47%
Employees commuting	325.46	19.82%	590.52	32.13%
Long-term lease vehicles (operational)	133.99	8.16%	168.22	9.15%
<b>Total</b>	<b>1,642.22</b>	<b>100%</b>	<b>1,838.01</b>	<b>100%</b>

## EMISSION PER EMPLOYEE

**2.14 TC02e PER YEAR 2016**

**2.33 TC02e PER YEAR 2015**

Carbon footprint (tCO2e) per Rs. millions of revenue

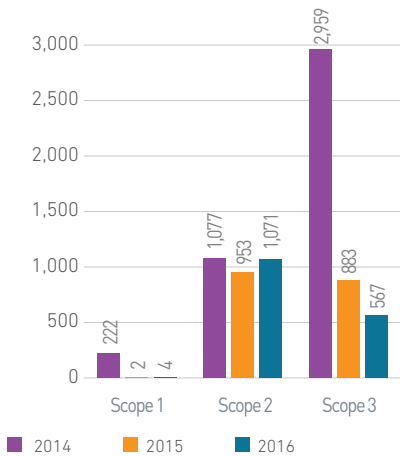
0.20

0.26

**DURING THE YEAR UNDER REVIEW THE COMPANY'S CARBON FOOTPRINT DECREASED BY 11% TO 1,642T DUE TO VARIOUS ENERGY SAVING AND EMISSION MANAGEMENT INITIATIVES.**

Our Green House Gas (GHG) emission has reduced gradually from 2014-2016 as indicated below;

**GHG EMISSION COMPARISON**



We witnessed an overall reduction in the carbon footprint from 2014 to 2016 mainly due to the size of the operations reducing post sale of the non-life business in January 2015 and the various energy saving and emission management initiatives which we have taken over the years.

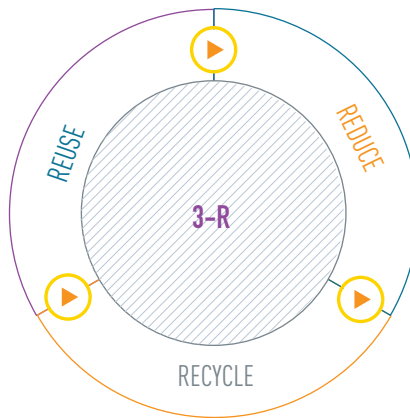
The complete carbon footprint certificate is given in page 312.

**BIO DIVERSITY**

UA's operations do not directly affect bio diversity. However, when planning for new branches, business development offices (BDO) and relocations, we ensure that environmentally friendly approaches are taken to avoid disturbance.

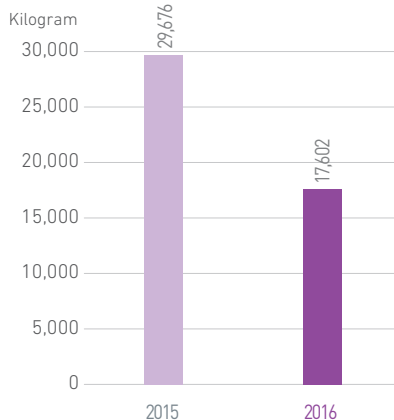
**EFFLUENTS AND WASTE**

Effective management of waste has been considered as a material aspect in respect of UA's operations. Our waste management approach is mainly based on the 3R concept i.e. reduce, reuse and recycle.

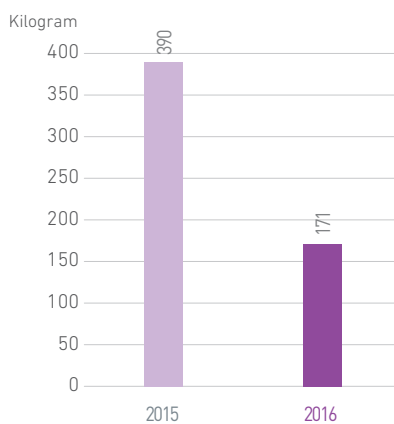


The information on weight of waste by type is indicated below;

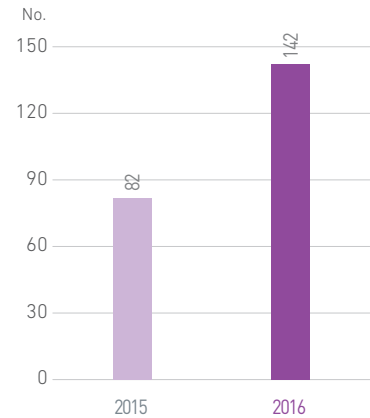
**PAPER**



**E-WASTE**



**PRINTER CARTRIDGES**



During the year under review, we undertook the following initiatives to manage waste.

• **RECYCLE AND REUSE PAPER**

In partnership with Neptune Papers (Private) Limited and National Paper Company (Private) Limited, we continued to recycle used paper. This initiative helped UA to make a positive contribution to the environment by saving 299 trees and 559,392 litres of water during the year under review.

• **E-WASTE MANAGEMENT**

We have partnered with Think Green (Pvt) Ltd which is an electronic and hazardous waste management entity approved by the Central Environmental Authority of Sri Lanka to manage e-waste. We have contributed to their latest campaign - E-waste Green Icon and they have used the waste collected from UA for land filling. This has prevented 1,928 lbs of carbon emission entering the atmosphere which is equivalent to saving 95 trees.

• **RECYCLING PRINTER CARTRIDGES**

Our agreement with Ewis Peripherals to recycle printer cartridges continued in 2016. The company bought back 142 toner cartridges manufactured from used cartridges (82 toner cartridges in 2015). During the year under review, the cartridge collection process was expanded to cover the branch network as well. Employees have been educated on this initiative.

• **INSTALLATION OF A WASTE WATER TREATMENT PLANT**

During the year under review a waste water recycling plant was installed at our building in Kurunegala. Treated and discharged water is being used for ablutions.

# MANAGEMENT DISCUSSION AND ANALYSIS

**UA LAUNCHED SEVERAL CAMPAIGNS TO INCREASE AWARENESS AMONG STAFF MEMBERS IN TERMS OF THEIR RESPONSIBILITIES AND CONSEQUENCES OF THEIR ACTIVITIES ON THE ENVIRONMENT.**



Tree 1 - Made out of waste paper items disposed by mail department  
 Tree 2 - Made out of used bottles and newspapers.  
 Tree 3 - Made out of toilet paper holders and news papers

## COMPLIANCE WITH ENVIRONMENTAL REGULATIONS

UA complies with all relevant standards relating to environmental regulations and confirms that the company did not have any incidents of non compliance with environmental regulations during the year under review.

## COMMON INITIATIVES ON NATURAL CAPITAL MANAGEMENT

### • EMPLOYEE AWARENESS PROGRAMS

In the year under review, UA launched several campaigns to increase awareness among staff members in terms of their responsibility and consequences of their actions in order to minimise the impact of their activities on the environment.

In addition, this year, we conducted the inter-divisional Christmas tree and Wesak lantern competitions on the theme of 'reduce, recycle, reuse' to increase employee awareness on reuse of waste.

### • AWARDS / RECOGNITIONS

UA was adjudged the 'Winner' in the "Finance Services and Insurance' category of ACCA Sri Lanka Sustainability Reporting Awards 2016. This was the eighth consecutive year that we were recognised as the 'winner' for our sustainability initiatives in the industry category.

UA was the only Sri Lankan company shortlisted for two Awards (Asia's Best Integrated Report and Asia's Best Sustainability Report within the Annual Reports) at the Asia Sustainability Reporting Awards 2016 as well.

Stakeholder Relationships and Materiality	22	Capital Management Review		Social and Relationship Capital	80
External Environment	34	Financial Capital	50	Intellectual Capital	93
Competitive landscape	40	Manufactured Capital	59	Outlook	100
Strategy and Resource Allocation	46	<b>Natural Capital</b>	<b>61</b>	Risk and Opportunities	102
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# HUMAN CAPITAL

## KEY HIGHLIGHTS

### GREAT PLACE TO WORK®

4<sup>th</sup>

Consecutive year

Attracted 24 talented new permanent staff

### PRODUCTIVITY

26%

Increase during the year

Rs. 3.9 billion of new business during the year

### ATTRITION

12%

Reduction during the year

Consistent customer contacts and enhanced staff morale

### MILLION DOLLAR ROUND TABLE MEMBERS

29

MDRT members

15 more members produced in 2016

## 2016 PROGRESS TOWARDS OBJECTIVES

OBJECTIVES	STATUS
Continue to work on improvement areas identified through the GPTW survey	Several initiatives were taken - Ongoing ▲
Work life balance initiatives	6 initiatives - Achieved ▲
Continue and enhance leadership development programs and technical training interventions	113 training programs - Achieved ▲
Facilitate introduction of a coaching card for advisors	Implemented - Achieved ▲
Use "career progression system" to ensure advisors / team leaders follow designated training paths	Implemented - Achieved ▲
Review options to align / combine internal and external resources to provide segmental training for specific market segments	Specific trainings were carried out targeting specific markets - Achieved ▲

## OBJECTIVES 2017 AND BEYOND

- Transform the sales force for higher productivity and persistency
- Ensure an appropriate remuneration structure and long-term incentive model for high performing sales staff
- Define career development opportunities for all staff
- Continue to work on improvement areas identified through the GPTW survey

## CHALLENGES

- Employee attrition (page 69)
- Performance driven training (Page 76)
- Retention of key staff (page 99)

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# MANAGEMENT DISCUSSION AND ANALYSIS

GRI-G4 G4-9 G4-10 G4-LA12

At UA, we recognise that the human capital we possess is fundamental to creating sustainable value to all stakeholders. Therefore we continuously strive to invest in the human capital we have, enhancing it through training, development and appropriate recruitment decisions to enable this capital to continuously create value within a strong ethical and governance framework.

People are at the heart of everything we do at UA. Providing a great place to work is a critical component of our journey towards sustainable performance. We want to foster an open, safe, inclusive and stimulating working environment for our employees. We also have the ambition to be the preferred employer for existing and potential employees. We aim to consistently provide our people with the tools they need to be successful and to create a work environment that supports their physical and mental well-being. We seek to empower our people to make a positive difference to our customers and we encourage them to develop and advance in their careers and contribute positively to the society.

To develop a sustainable business, it is important to attract, retain and develop the appropriate skills. In doing so, proper understanding of needs of the business and the expectations of our employees is paramount. Every possible effort is made to reasonably meet their needs while supporting the requirements of the business.

Being a life insurance company, our human capital consists of two main categories;

1. Employees
2. Field staff

# 4,880

WORKFORCE

## EMPLOYEES



## EMPLOYEE DIVERSITY

Diversity brings innovative ideas, perspectives and experiences in a welcoming environment where everyone has the opportunity to fully participate. We consider it is vital to respect the individuality of every person working with us and to embrace the opportunities that diversity in the workplace brings. Diversity and an inclusive workplace are critical to our company and we are taking extensive measures to ensure that the attitudes of openness and inclusivity are embedded at every level of UA. The workforce as at 31 December 2016 was 4,880, of which 474 were employees, 295 were fixed term contract (FTC) employees and 4,111 were sales advisors.

This is why at UA we;

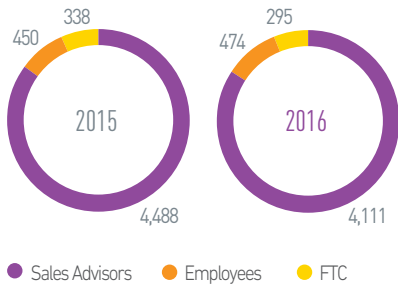
- Treat others the way we want to be treated,

- Promote a workforce, in which diverse thinking and free expression of personal values are genuinely appreciated,
- Stand for equal treatment and work opportunities for everyone at UA and
- Work closely together in the recognition that collaboration leads to better results

Diversity goes beyond the male / female ratio. We want to be inclusive in our hiring process across race, age, sexual orientation, physical abilities and personal philosophies. However, we mainly report on gender equality due to different legal definitions in measuring diversity.

The company monitors the diversity of its workforce based on age and gender as illustrated by the following diagrams.

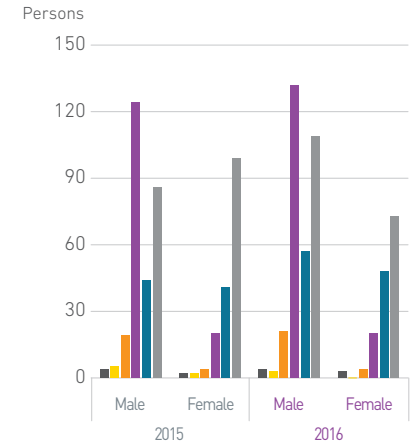
### WORKFORCE BY TYPE OF EMPLOYMENT



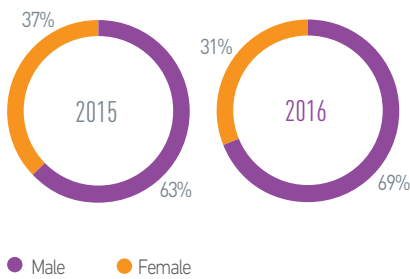
Of the 7 Executive Committee members, 3 members are females, whilst 4 members are between the ages of 40-50 years and 3 members are between the ages of 30 to 40 years.

More than two thirds of the employees are less than forty years old. Our youth population has been given many opportunities and they have a considerable representation in the executive and managerial levels. UA has maintained a healthy balance between youth and experienced staff while creating opportunities for both segments to grow with UA.

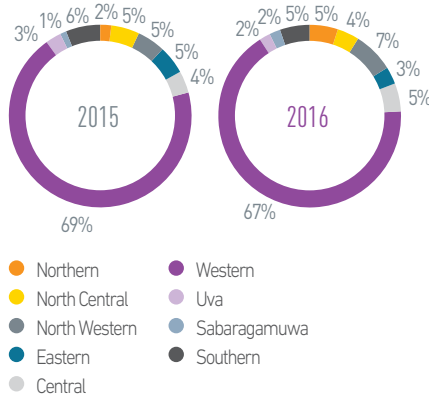
### EMPLOYEE CATEGORY BY GENDER



### EMPLOYEES BY GENDER

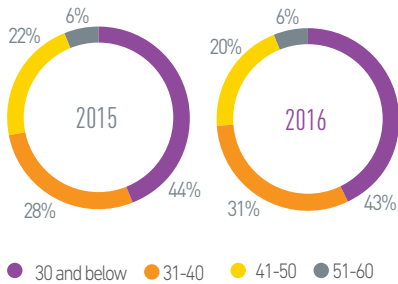


### EMPLOYEES BY PROVINCE



Legend for Employee Category by Gender:  
 ■ CEO and General Managers  
 ■ Assistant General Managers  
 ■ Senior Managers  
 ■ Managers and Assistant Managers  
 ■ Executives  
 ■ Non Executives

### EMPLOYEES BY AGE

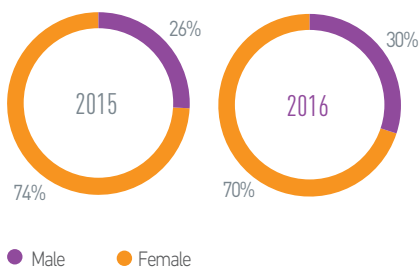


Our staff are concentrated in the western province. This is due to the head office being located in the Western province and much of our support services being centralised at this location.

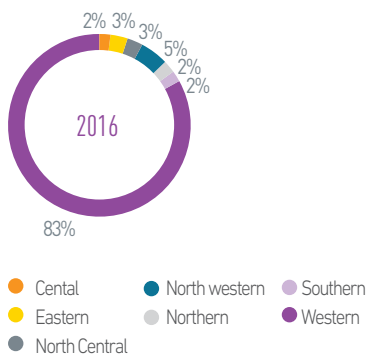
### TALENT MANAGEMENT

The company continuously monitors its employee retention and, in particular, seeks to address staff attrition in typically high attrition departments through proactive initiatives that engage employees. These include surveys such as the Voice of Employee (VOE) which allows employees to rate the company's performance on key attributes such as credibility, caring, fairness, pride and camaraderie.

### NEW EMPLOYEES BY GENDER

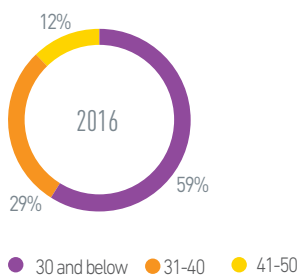


### NEW HIRES BY PROVINCE



The company attrition rate (for executive and non-executive) and new hire attrition rate were 15% and 4% respectively. However, the company has seen insignificant turnover in staff identified as talent, with senior management placing extra emphasis on developing and nurturing them with many one-on-one interactions during the year. The executive level attrition is relatively lower than attrition at non-executive levels. Further, recruitment based on profile mapping was introduced in certain business segments to ensure a better fit with the needs of the organisation. A survey of millennials' aspirations to understand their needs better has assisted the company in identifying actions to be taken in an effort to retain employees of this age group.

### NEW HIRES BY AGE GROUP



As part of the talent development strategy of UA, a new development platform in the form of a group monitoring has been introduced. The overarching objectives are to enable the Executive Committee and other identified Assistant General Managers within the 'A-team' to interact / engage with identified talent pools covering executive to senior manager level employees within the organisation in sharing their knowledge

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# MANAGEMENT DISCUSSION AND ANALYSIS

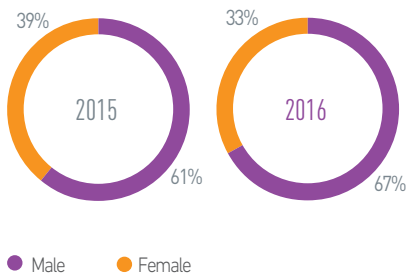
GRI-G4 G4-LA11



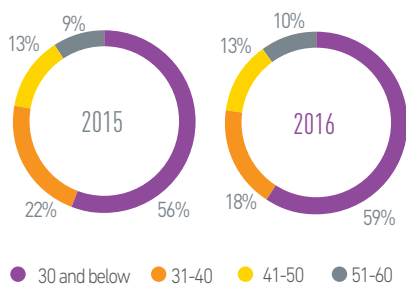
Culture of Appreciation

relating to a predefined set of management disciplines. The mentoring sessions take the form of a knowledge sharing forum where the management team members share their tacit and explicit knowledge in an engaging manner.

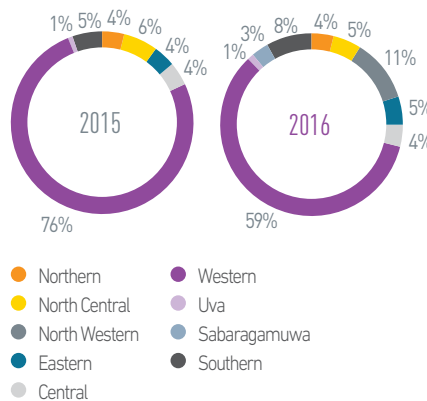
## ATTRITION BY GENDER



## ATTRITION BY AGE



## ATTRITION BY PROVINCE



## PERFORMANCE APPRAISAL

UA has implemented a robust performance management system where each employee's performance is assessed in a fair and equitable manner.

Employees' performance against the set objectives is first self assessed by his / her immediate supervisor and recommendations provided. A 360 degree feedback from peers and subordinates is also obtained. In 2016, this feedback process was extended to cover all managers at UA.

All recommendations and 360 degree feedback (where relevant) are presented to a career committee comprising senior management from different departments. Based on the recommendations received, the respective committee assesses the performance of employees and provides final recommendations on performance along with their feedback as a committee. This ensures that employee evaluations are fair and consistent across the organisation.

## PERFORMANCE FEEDBACK

Subsequently, individual feedback sessions are held to communicate the final performance rating and career committee feedback to staff members. Feedback sessions are conducted by the individual's immediate supervisor in the presence of an independent member from the respective career committee in which his / her performance was discussed. Constructive feedback will be given so that the staff could develop their careers further.

## APPEALS PROCESS

UA also has a grievance handling and appeals process if the employee is not satisfied or disagree with the performance rating.

## REWARDS AND RECOGNITION

UA has initiated several reward and recognition schemes to motivate staff to achieve even higher standards of performance.

## TRAINING AND DEVELOPMENT

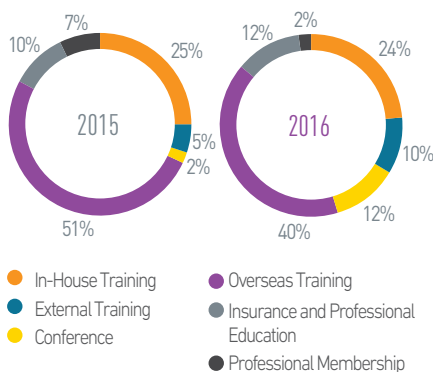
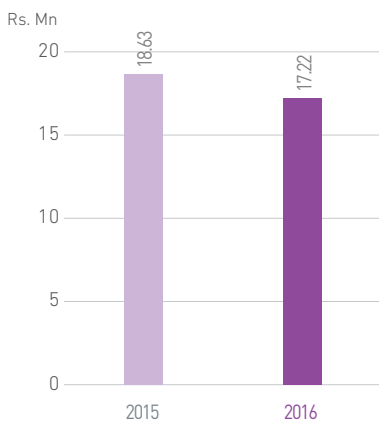
The company's training and development programs are key policy components of talent retention and ensuring a sustainable competitive advantage. Hence, UA invests heavily in learning and development initiatives. Our approach covers a range of technical, functional, language, information technology and general management skills with a wide range of resources and programs established for learning and development (L&D) purposes.

# RS. 17.22 MN

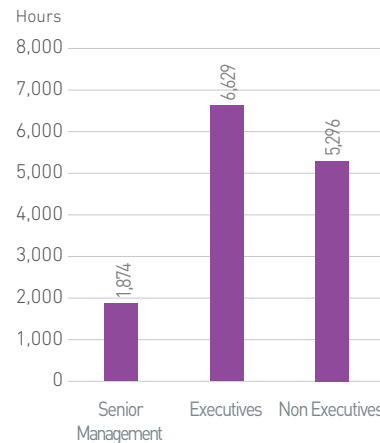
## INVESTMENT IN TRAINING AND DEVELOPMENT OF STAFF

In 2016, we conducted 53 in-house training programs and 60 external programs including 21 overseas programs. Our unique training programs are created based on the existing talent management process. It is designed to build capacities of employees, in all categories.

### INVESTMENT IN LEARNING AND DEVELOPMENT



### TOTAL TRAINING HOURS



**MANAGER PAR EXCELLENCE:** This program guides Managers and Assistant Managers towards professional development. During a span of five months, participants engage in classroom based learning. At the end of which, an urban outbound training session is conducted, where employees are able to practice concepts discussed in the class room.

**THE LADDER PROJECT:** The program is a four month learning endeavour for non-executives. They are educated on a wide range of concepts, useful in their professional work.

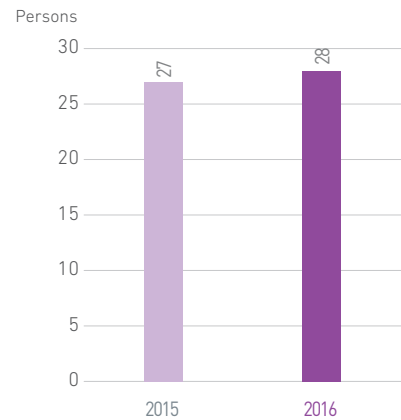
**UNION TRANSFORMERS:** Employees of 'Gen Y' are given a special training program, based on ethics, morals and etiquette; conducted by external and internal facilitators.

**EXECUTIVE DEVELOPMENT PROGRAM:** This program is designed to provide executives with the knowledge and tools to enhance their managerial skills. The training prepares them to face corporate challenges and also encourages them to adopt advanced technologies. The program concludes with a tailor-made outbound training (OBT) session which enables participants to put their classroom learning into practical use.

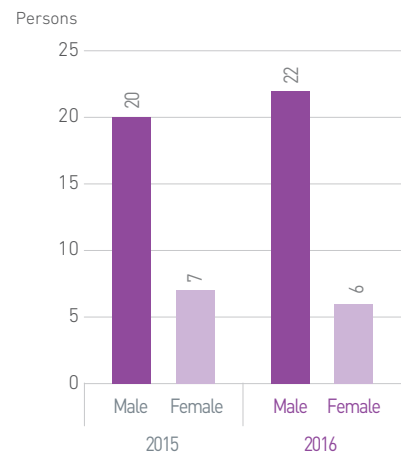
**BUSINESS ENGLISH:** The program is conducted for employees to enhance their English speaking, writing, and presentation skills. 10 classroom sessions are conducted over a period of 3 months, using professional trainers. Participants were evaluated and structured feedback is provided for further improvements.

**OVERSEAS TRAINING:** UA continued to provide overseas training to staff members (for technical knowledge) as an essential element of the L&D process. In 2016, 28 employees attended overseas training programs and an investment of over Rs. 10 million was made for this purpose.

### NO OF INTERNATIONAL TRAINING PROGRAMMES



### OVERSEAS TRAINING BY GENDER



**TOASTMASTERS ACHIEVEMENTS:** The Union Assurance Toastmasters Club, (UATMC) has won numerous accolades in the recent past. The members have an exceptional level of commitment, which has enabled them to achieve the highest accolade from Toastmasters International - the 'Golden Gavel Plus', at the District 82 Toastmasters Conference in 2015 and 2016.

UATMC ExCo, provides leadership in honing the skills of its 54 active members. They are trained on leadership and communication skills as per internationally proven methodologies. The company sponsors members, to compete and to receive training both here and overseas.

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# MANAGEMENT DISCUSSION AND ANALYSIS

GRI-G4 G4-LA5

**TECHNICAL AND SALES TRAINING:** In addition to soft skills training, UA conducts multiple initiatives to enhance the technical and sales skills of our employees. During the year 6 regional managers were provided a comprehensive 14 days training to familiarise them in the technical aspects of the business.

We continue to invest in developing the sales skills of our bancassurance staff. For new advisors joining the system, a 'Sales Academy' was introduced in order to properly acclimatise them. Many manual and digital sales tools were introduced to support the sales team with planning and implementation. Training is an integral part of creating a winning sales personality and understanding the core requirements. Therefore, UA introduced the, 'Fast Starter', initiative for new staff. Outward-bound training programs for leaders and glamorous certification ceremonies for top achievers are conducted to uplift sales operations. These are intended to motivate employees and ensure development of skills.

**DIGITALISATION AND LEARNING INTERVENTIONS:** In line with our business objectives UA's L&D activities have been digitalised to provide 24 x 7 access to any one who is keen to enhance their knowledge and skills.

Our L&D process has been adapted into an online platform. Branded as, 'Learn easy', it contains a variety of learning materials in EST; to be accessed and used by all stakeholders in the form of eBooks, presentations, magazines and videos.

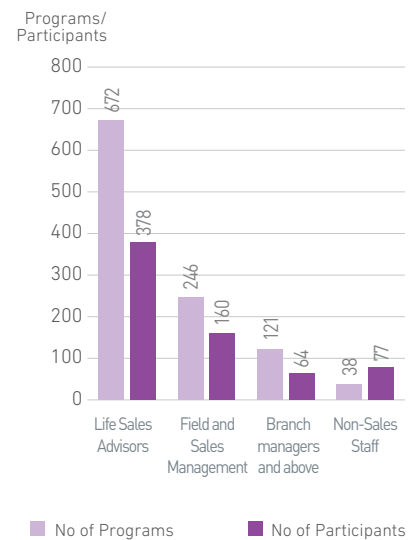
## TRAINING FOR BANCASSURANCE SALES STAFF

A structured training program was launched with dedicated training resources to enhance the product knowledge and sales skills of bancassurance sales staff. This resulted in improvement in all key value drivers of the business including the use of digital tools.

## HEALTH AND SAFETY

UA follows various national and international guidelines on workplace health and safety. These directives set out general principles to maintain and enhance workers' occupational safety and health. We have initiated a range of activities related to health and safety to ensure we have a very safe place to work.

## NUMBER OF TRAINING PROGRAMS AND PARTICIPANTS





**FIRE DRILLS:** Abrupt fire drills are initiated to educate employees on how such a situation should be handled



**VITALITY AND WORK:** Various initiatives launched to ensure proper work-life balance as indicated under "Great Place to Work" section



**WORKING ENVIRONMENT:** We have provided our employees proper workplace layouts and other facilities in compliance with accepted health and safety measures



**INCIDENTS AT WORK:** We have a very systematic process in place to record and monitor occupational incidents and to take preventive actions



Safe work environment

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### UNION HEALTH CAMP

A health camp was conducted for all employees at head office. Employees above forty years had the opportunity to get a free medical check-up sponsored by the company while other employees received a special discount on the fee.

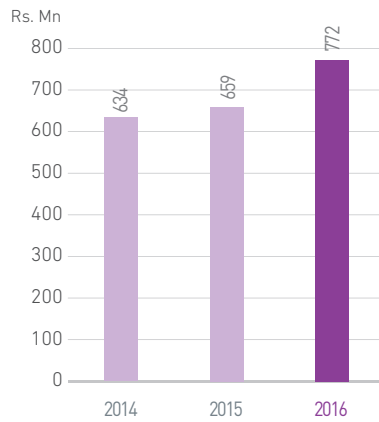
Further UA conducts selective programs to educate and create awareness on serious diseases such as HIV / AIDS. UA also has engaged an institute to provide confidential counselling support should any employee require this service.

### EMPLOYEE BENEFITS

Employees are eligible for the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF) contributions. The total contribution made to the trust fund for the reporting year was Rs. 13 million while the total contribution made to the provident

fund was Rs. 52 million. Employees are also entitled to retirement gratuity. The employee benefit liability as at 31 December 2016 was Rs. 108 million.

### EMPLOYEE BENEFITS EXPENSES



### WORK LIFE BALANCE

UA strives to promote the concept of prioritising between 'work', (career and ambition) and "lifestyle", (health, pleasure, leisure, family and spiritual development etc.) among our employees. With work-life balance, we believe that employee well-being will be supported and it will constantly keep employees in a more positive state of mind towards the company and towards their personal commitments.

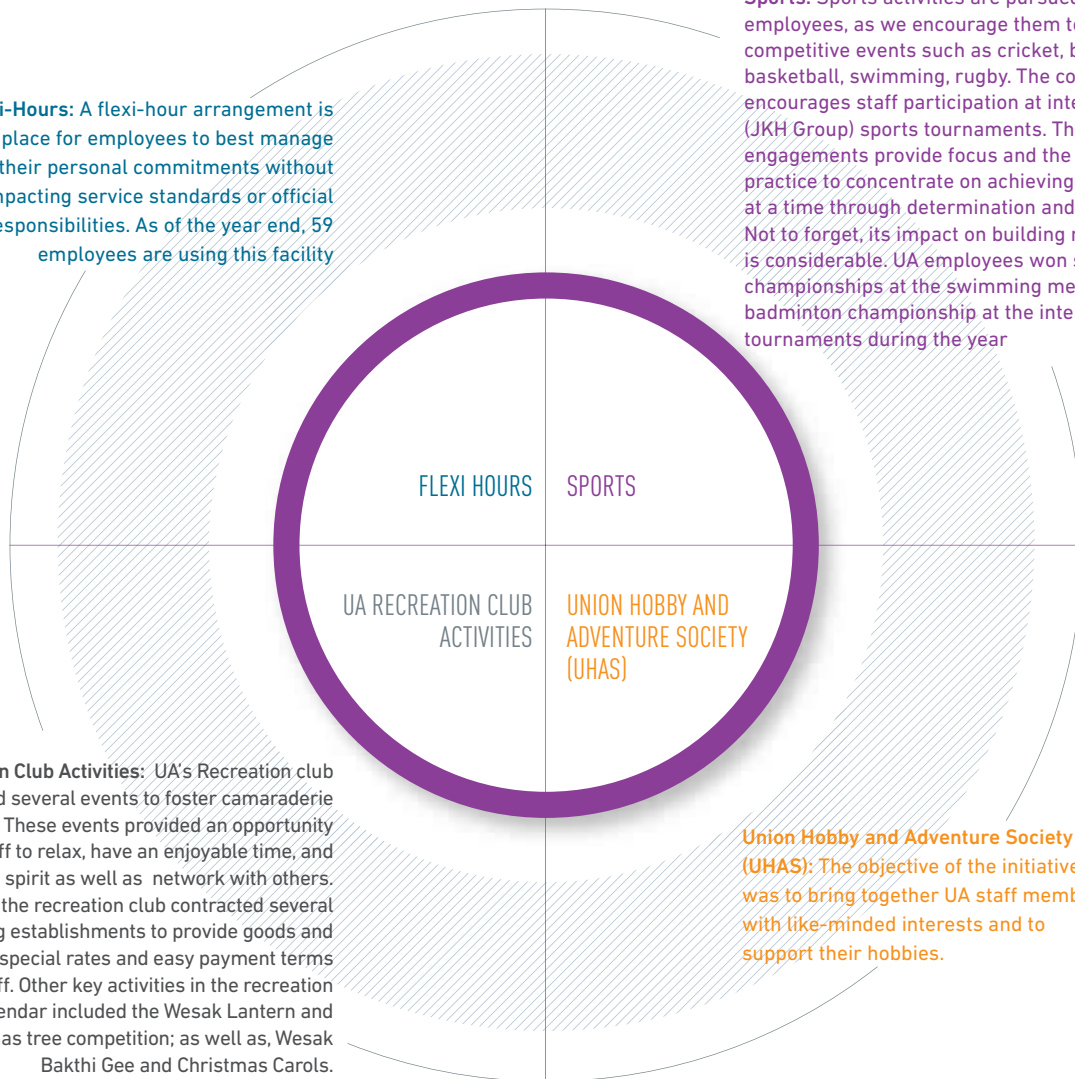
The following are initiatives, internalised for supporting work-life balance among employees.

**Flexi-Hours:** A flexi-hour arrangement is in place for employees to best manage their personal commitments without impacting service standards or official responsibilities. As of the year end, 59 employees are using this facility

**Sports:** Sports activities are pursued by employees, as we encourage them to take part in competitive events such as cricket, badminton, basketball, swimming, rugby. The company encourages staff participation at inter-company (JKH Group) sports tournaments. These sports engagements provide focus and the mental practice to concentrate on achieving one goal at a time through determination and patience. Not to forget, its impact on building morale is considerable. UA employees won several championships at the swimming meet and badminton championship at the inter company tournaments during the year

**UA Recreation Club Activities:** UA's Recreation club organised several events to foster camaraderie among staff. These events provided an opportunity for our staff to relax, have an enjoyable time, and develop team spirit as well as network with others. In addition, the recreation club contracted several leading establishments to provide goods and services at special rates and easy payment terms to our staff. Other key activities in the recreation club calendar included the Wesak Lantern and Christmas tree competition; as well as, Wesak Bakthi Gee and Christmas Carols.

**Union Hobby and Adventure Society (UHAS):** The objective of the initiative was to bring together UA staff members with like-minded interests and to support their hobbies.



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# MANAGEMENT DISCUSSION AND ANALYSIS

GRI-G4 G4-LA4

In addition, UA encompasses a set of unique and enjoyable initiatives ensuring mental well-being, which is directly linked to work-life balance. These multiple initiatives are presented in the infographic in the opposite column.

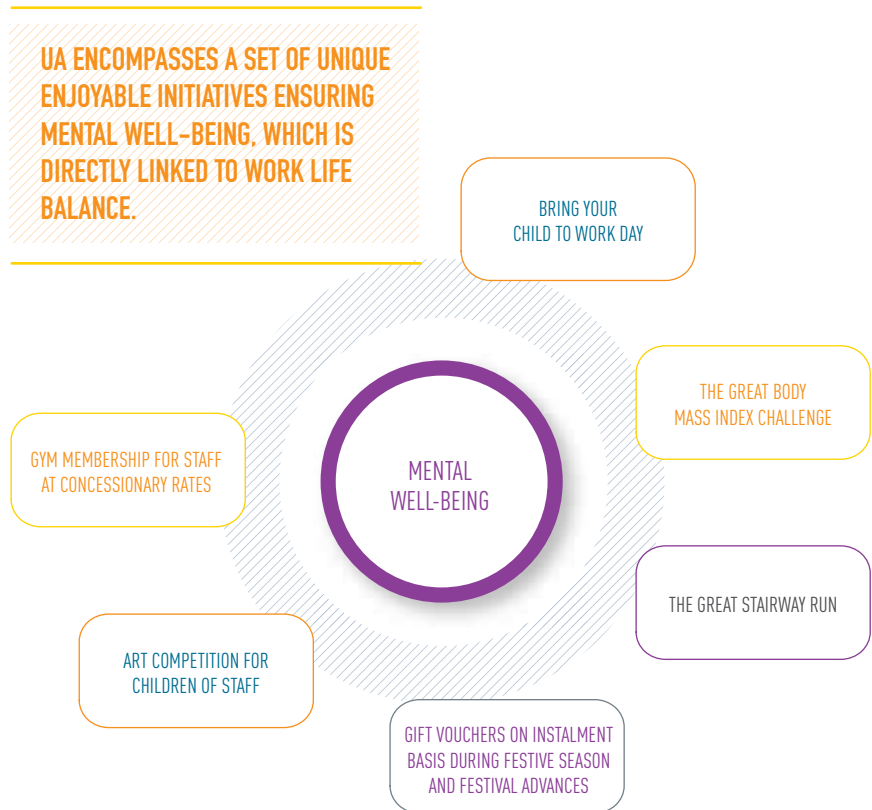
## HR POLICIES AND PROCESSES

### RESIGNATIONS, TERMINATIONS AND TRANSFER POLICY

UA has a comprehensive HR manual which addresses resignation, termination and transfer of employees. Employees may resign from the company subject to the terms and conditions set in their appointment letters, while retirement of employees would be at the age of 55. The company conducts exit interviews prior to employees leaving the company, in order to identify reasons for their exit and to strengthen HR practices if necessary. Where applicable relevant compensation is provided based on existing labour regulations and company policies.

### HUMAN RIGHTS AT THE WORKPLACE

We have integrated human rights policies into our everyday governance and business practices through training, workshops, assessments, grievance mechanisms, audits and reporting. Our human rights policy draws on all labour standards and laws of the country and the UN Global Compact principles. It includes commitments to our workforce, local communities and business partners, and covers health and safety, labour rights and the rights of indigenous people. UA upholds the elimination of all discrimination based on race, religion, gender, age, nationality, social origin, disability, sexual orientation, gender identity, political affiliation or opinion and any form of forced labour and child labour.



All security personnel engaged are from reputed security firms and they have been inducted on best practices with respect to human rights by their respective firms.

### NON DISCRIMINATION, CHILD LABOUR, FORCED AND COMPULSORY LABOUR

The company has a strong mechanism to avoid discrimination when recruiting, promoting and granting recognitions. During the period, there were no incidents reported on such cases. At UA, our policy is to recruit employees above 18 years and to comply with local regulations on child labour. No incidents were reported on forced labour.

### GRIEVANCE MANAGEMENT PROCESS

UA has a very effective grievance handling process in place. UA acknowledges that as an equal opportunity employer, a grievance handling procedure will provide opportunities to employees who are aggrieved by alleged unfair, unjust or inequitable practice to seek redress without prejudice to the complainant. The company has implemented an online grievance handling system where employees could present their case in an anonymous manner. This will trigger a notice in the form of an email to the relevant officers. After careful evaluation of the issue it is communicated to

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the individual/s affected and solutions are provided in an effective and efficient manner.

### OPEN DOOR POLICY

Open door policy has become an integral part of UA's culture and creates a very conducive atmosphere for employees to openly express their concerns. This allows people inside and outside the company to report any concerns about possible alleged unfair, unjust or inequitable practices.

### WHISTLE BLOWING

The company has set up a formal procedure as well as confidential hot line capabilities to encourage whistle blowing in respect of mismanagement, corruption, illegality, or some other wrong doing. The whistle blowing policy is reviewed regularly and actively communicated to all members of staff to enable any employee to raise issues with the management and / or the Board, in order to identify and resolve potential issues at an early stage.

### ETHICS AND ANTI-CORRUPTION BEHAVIOUR

We aim to be respectful of local customs and circumstances wherever we operate, while ensuring that we maintain very high standards of integrity and business ethics. We believe that all business contracts should be awarded on merit, that corruption is not acceptable, and that improper influence should not be exerted when transacting business.

**ANTI-CORRUPTION PROCEDURE:** Our anti-corruption procedure is designed to ensure that everyone at UA observes the highest levels of integrity and are not involved in any corrupt activity. The guidelines make it clear that the company and its individual Directors, officers and employees, could be held liable for any direct or indirect involvement in corrupt practices.

All employees are expected to understand and adhere to the code of ethics and standards in their respective area of work. Similarly anti-corruption procedures defined by the company contain the following main guidelines.

- Each member of UA is responsible individually to set up and maintain a high standard of business conduct in compliance with anti-corruption practices specified by applicable laws and regulations.

- Every manager has a deep understanding in respect of the content, scope and importance of this policy.
- They should exhibit adherence of the policy in their behaviour.

There were no misconduct reported during the period in review.

### EMPLOYEE ENGAGEMENT

We have developed several communication channels and forums to ensure that our employees are fully informed regarding the company's operations, strategies, progress against objectives and any other areas which directly impact them. Employee satisfaction surveys are conducted every year to allow employees to air any grievances in an anonymous fashion and identify any areas which require improvement.

**VALUES WALKWAY:** UA's management firmly believes that core values are central to the long term success of the organisation. Hence, proactive steps are taken to ensure that all staff members live by the corporate values at all times. With the re-enforcement of UA values, a "Values Walkway" was created along the 6th floor to the rooftop at UA head office. The main objective of this was to inspire the UA staff with the corporate values, "ExCITE" – Excellence, Caring, Innovation, Trust and Ethics & Integrity

**MANAGEMENT MEETINGS:** Open and transparent communication plays a vital role in our strategy to engage with our employees. The company conducts management meetings on a quarterly basis to discuss business developments, company activities and progress against plans. This information is then cascaded to every employee by the respective departmental / branch manager. This forum allows employees to raise questions and concerns and make suggestions, as well as enables the management to gather insights from staff on the issues and opportunities they believe need to be addressed.

**STRATEGIC PLANNING PROCESS:** We continued the practice of conducting an interactive strategic planning process involving representatives from all functional areas including the head office and distribution network across the country. Planning sessions were initiated from the 3rd quarter of 2016 in order to prepare

the plans for the year 2017. Over 500 persons directly participated in the planning discussions which included the sales staff from the branch network.

Strategic and tactical action plans prepared based on these discussions and meetings are ratified by the Executive Committee and formally presented for approval by the Board of Directors.

**COFFEE WITH CEO:** This initiative was launched to provide an opportunity for staff to directly interact with the CEO and discuss any matters related to their area of work.

It is also an opportunity for staff to interact with team members from other functions to clarify any issues and appreciate their points of view. Staff are encouraged to share their ideas regarding new products and service enhancements as well.

Matters discussed are referred to relevant divisions for successful closure and is subject to a close follow-up process to ensure that employee comments and concerns (voice of the employee) is given due consideration.

**USE OF TEXT MESSAGES (SMS):** UA continued to use text messages to update employees with company news, events and product launches, UA also operates an email account where any employee can send in suggestions / ideas.

### REWARDS AND RECOGNITION

UA has implemented multiple rewards and recognition programs to recognise staff achievements including Employee(s) / Team(s) of the Year Awards, recognition of Service Champions and instant rewards entitled 'Bravo' where a peer or superior can nominate an employee for an instant reward in appreciation of work performed.

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# MANAGEMENT DISCUSSION AND ANALYSIS

GRI-G4 G4-LA9 G4-LA10

## FIELD STAFF

Our field staff members are an integral part of the Union family. Currently 92% of the company GWP is contributed by field staff. Hence, we provide them with adequate training and development opportunities and structured sales tools and techniques that enhance their productivity and professionalism. We also strive to create a rewarding career with local and international rewards and recognition schemes and well defined career paths. The following diagram demonstrates our approach to addressing key material issues applicable to our field staff.



## RECRUITMENT

We firmly believe that life insurance advisors will play a pivotal role in the development of the life insurance industry in the foreseeable future. However it will be increasingly difficult to attract and retain high quality talent. Hence UA initiatives are focused on

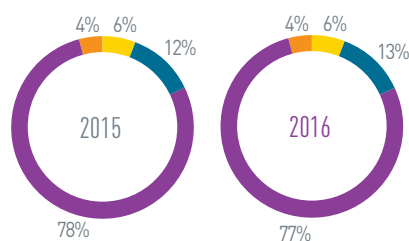
developing a smaller but more productive advisor force. During the year under review following key initiatives were executed to achieve that objective:

- Implemented assessment centre based recruitment processes for all regions including the bancassurance channel. This has enabled us to recruit better quality advisors.
- Feedback from the assessment centres are being used for better screening.
- Selective hiring of graduates commenced during the year, targeting certain market segments.
- Recruitment has been opened to include a part time work force.
- Brochures / videos were developed for target hiring of part time advisors.
- New channels to generate recruitment leads were established.

## LEARNING AND DEVELOPMENT

We continue to develop our field staff by providing training and development opportunities. During the year under review,

## AGENCY FORCE COMPOSITION



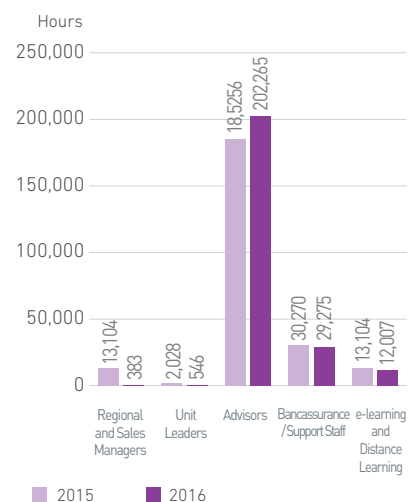
- Regional and Sales Managers\*
- Unit Leaders
- Advisors
- Bancassurance / Support Staff

\* Regional and sales managers are employees in the sales force.

following key initiatives were carried out:

- Technical training for sales leadership and branch support staff;
- Training carried out at branch level to reduce / minimise proposals getting into pending status due to incomplete information.
- Digital Advisor Toolkit (DAT) training video was introduced to achieve 100% digital submissions of proposals. Digital proposal submission achieved 56% crossing the 50% milestone in December.
- We have implemented a coaching card for field coaching by team leaders. The coaching card helps to monitor field coaching for poor performing advisors.
- Career progression system has been implemented. This has facilitated visibility to field staff on their progress to next level.
- Training has been conducted targeting specific market segments.

## TOTAL TRAINING HOURS



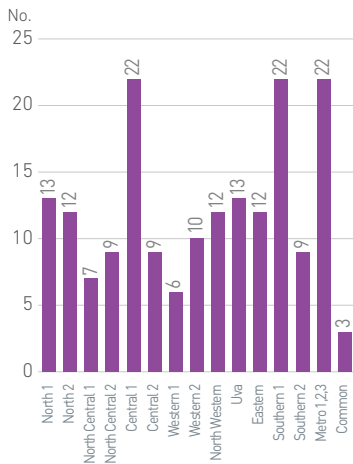
Training resources were aligned with the distribution structure, thus providing everyone easy and quick access to learning and development opportunities. Following graphs provide further details on training conducted.

Training programs were focused on technical, soft skills, motivational and professional coaching, and a minimum of four days of training is required to be completed by field staff in each category.

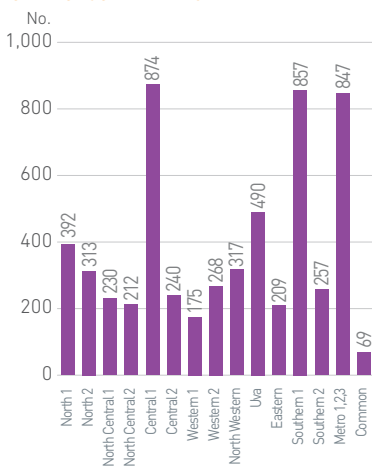
### PRODUCT TRAINING

Product training is an essential element required in sales training for the field sales staff. The L&D unit conducted product training as well as special refresher sessions to improve product knowledge of sales staff.

#### NUMBER OF PROGRAMS BY REGION FOR PRODUCT TRAINING



#### NUMBER OF PARTICIPANTS BY REGION FOR PRODUCT TRAINING

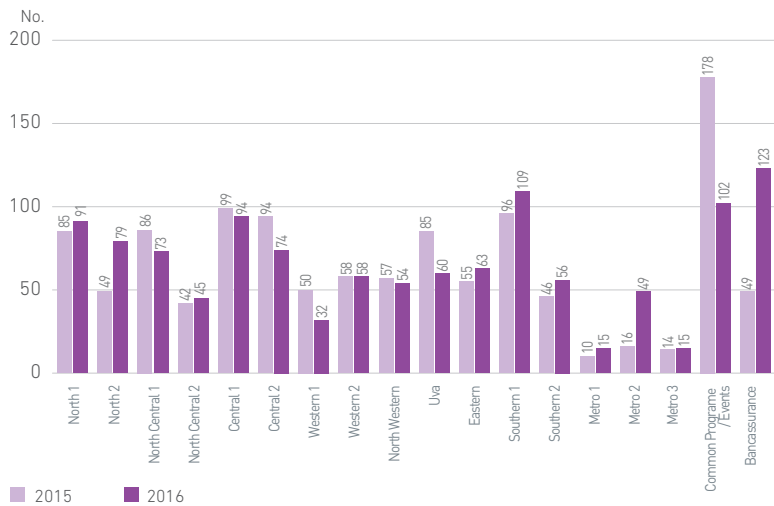


## TRAINING RESOURCES WERE ALIGNED WITH THE DISTRIBUTION STRUCTURE, THUS PROVIDING EVERYONE EASY AND QUICK ACCESS TO LEARNING AND DEVELOPMENT OPPORTUNITIES.

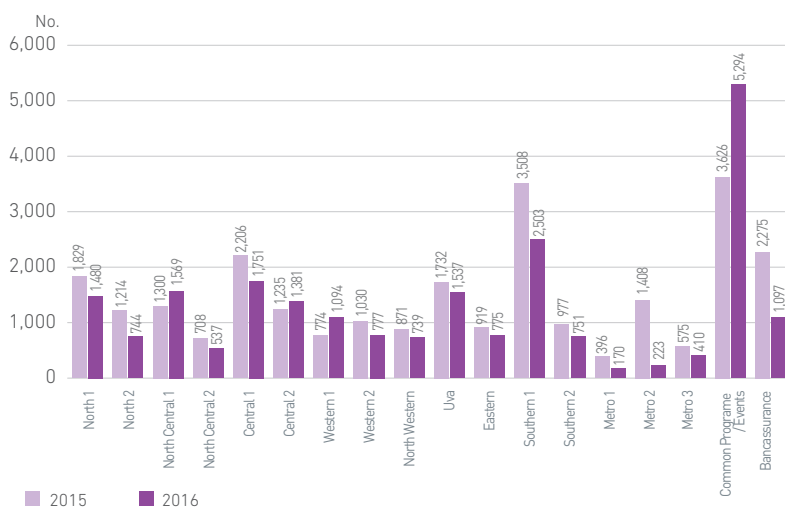
### SALES TRAINING

In order to enhance the selling skills of our field sales staff, we have conducted continuous development programs on selling skills. During the year 920 field staff members have undergone sales skills development programs.

#### NUMBER OF PROGRAMS BY REGION FOR SALES TRAINING



#### NUMBER OF PARTICIPANTS BY REGION FOR SALES TRAINING



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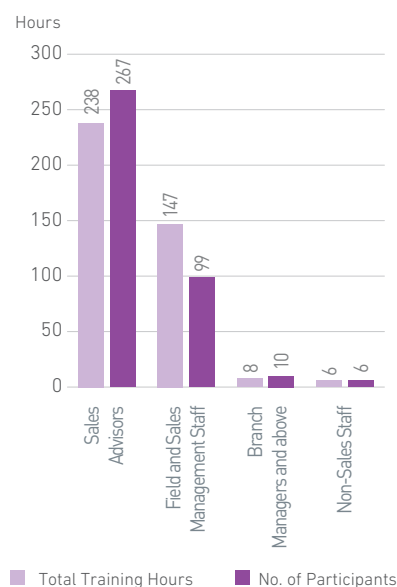
# MANAGEMENT DISCUSSION AND ANALYSIS

## ENHANCED TRAINING STRUCTURE THROUGH E-LEARNING

“Learn Easy” is an e-learning system made available to each and every UA field and office staff member. Field staff can access the system at anytime from anywhere and utilise courses created by training professionals. Various reading materials are made available on the system’s digital library in text, audio and video form in all three languages.

The system provides an e-learning workshop and case study based platform for learning and includes a variety of knowledge enhancing information that is useful for persons engaged in this fast evolving industry.

## E-LEARNING AND DISTANCE LEARNING



## TRAINING ON DIGITAL ADVISOR TOOLKIT (DAT)

During the year, 480 advisors and 313 leaders have successfully completed the required training and are now using the DAT in the field. Many new modules were included and updated to the DAT during the year to enhance its usability.

During the year 383 learning hours were successfully completed by Advisors, Field Managers, Branch Managers, Sales and Non-Sales Staff using the e-learning modules. As a result of the above e-learning and distance learning, field staff was able to produce 48% (2015 – 32%) of new life proposals in 2016 using the DAT.

## ROAD SAFETY PROGRAMS FOR SALES FORCE

It was identified that there were days of work lost due to road accidents. As a result road safety programs were conducted for the sales force on rules and safety measures that needs to be followed as motorists and pedestrians when using the roads.

## REWARD AND RECOGNITION SCHEMES

UA has initiated multiple reward and recognition programs to motivate the sales staff to achieve their personal goals and fulfil the company business objectives. Considering the significant opportunities to grow the life insurance business, UA incorporated productivity based incentives into the reward and recognition criteria.

Incentives for sales management both permanent and non permanent (e.g. Zonal Managers, Regional Managers, Sales Managers and Unit Development Managers), and non sales staff were also revised accordingly.

## BRILLIANT STARTER

This initiative was launched in 2012 by L&D unit with the intention of enhancing

the confidence and competencies of new recruits. The objectives of this initiative are to develop new advisors to work independently and to maintain productivity from the beginning of their career and to inculcate the habit of need-based selling. During the year 445 life advisors were recognised as Brilliant Starters.

## BRILLIANT STARTER LEADER

This initiative was launched to motivate Unit Development Officers to focus on quality recruitment and to develop new advisors to become Brilliant Starters. The selection criteria to be recognised as a Brilliant Starter Leader, is to recruit five new advisors during the first six months and develop them to achieve the assigned minimum targets. During the year, 09 leaders were recognised as Brilliant Starter Leaders, and 44 leaders were recognised as Brilliant Starter Coaches.

## MILLIONAIRE CIRCLE

The “Millionaire Circle” continued to groom life advisors with high potential to achieve new business premiums over one million per annum. During the year the company was able to conduct 29 training and coaching programs for prospective advisors and as a result 1,012 advisors qualified as “Millionaire circle” members for the year 2016.

## CERTIFICATION PROGRAMS

These programs began in 2008 with the intention of issuing certificates to advisors and unit leaders who completed specified training modules and maintained consistent business performance. During the year 36 advisors and 11 unit leaders were certified.

## SALES AWARDS

UA paid tribute to 104 top achievers in 2016 for their 2015 performance at the annual awards night, the most anticipated and

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spectacular event in the UA calendar. The year's event was themed "The Mission for Excellence." The winning sales professionals met stringent sales objectives as well as service standards and emerged as the best of the very best. As part of the recognition, all the annual award top achievers with their family members were felicitated with a family outing organised at Cinnamon Bey Beruwala.

#### OVERSEAS TOURS

UA offers overseas tour opportunities for top performing sales staff based on targets achieved. During the year 119 life sales staff members were offered three tour destinations namely France, Hong Kong and Bangkok.

#### LIFE INSURANCE MARKETING AND RESEARCH ASSOCIATION (LIMRA) WINNERS

We continue to encourage field staff to qualify for Life Insurance Marketing and Research Association - USA : LIMRA Awards. In 2016, 17 advisors were recognised with the LIMRA International Award for Productivity (IAP) while 10 advisors were recognised with the LIMRA International Quality Award (IQA).

#### MILLION DOLLAR ROUND TABLE (MDRT)

UA has been continuously promoting the prestigious Million Dollar Round Table (MDRT) Award to our sales force. In 2016, the company was able to produce 29 MDRT qualifiers. MDRT members demonstrate exceptional professional knowledge, strict ethical conduct and outstanding client service while being recognised internationally as "the standard of sales excellence" in the life insurance and financial services business.

#### SALES FORCE SATISFACTION SURVEY

UA conducts a sales force satisfaction survey every two years. The last such survey was done in 2015. An islandwide survey was carried out to assess the satisfaction level of the existing sales force. The research was conducted at two stages focusing on quality of their work, income and benefits, career progression, team work, support services, communication, leadership and the company's image. In the first stage, 10 focus group discussions were carried out with a sample of 80 advisors and 20 team leaders. In the second stage, a trilingual "online survey" was carried out targeting all advisors and team leaders. This research was conducted by an independent



MDRT qualifiers in 2015

research agency in order to maintain the confidentiality and integrity of the process. An action plan was prepared based on the findings of the survey and we have commenced the process of implementing the same for further improvement.

#### CAREER PROGRESSION / DEFINED CAREER PATH

UA provides a transparent career path for sales staff to achieve personal and professional success. A system has also been implemented enabling advisors to track their career path and target the next level of achievement which is generally based on achieving business volumes and participating in relevant training programs.

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# MANAGEMENT DISCUSSION AND ANALYSIS

## SOCIAL AND RELATIONSHIP CAPITAL

### KEY HIGHLIGHTS

#### EXPANSION OF PROTECTION

15%

Growth in lives covered

Rs. 3.9 billion of new business during the year

#### MEETING EMERGING CUSTOMER NEEDS

2

New propositions for health and pension need

Union Smart Health and Union 60+

#### CUSTOMER SATISFACTION

46%

Reduction in customer complaints

39% complaints settled by end of the year

#### BENEFITS AND CLAIMS PAID

RS.

1.5 BN

Benefits and claims settled

#### MEETING SOCIETY NEEDS

123,069<sup>+</sup>

Lives touches

Through Dengue, Thalassaemia and Diabetes awareness campaigns

#### SUPPLIER RELATIONS

RS.

2.05 BN

On time settlements

22% increase in sourcing from suppliers

## 2016 PROGRESS TOWARDS OBJECTIVES

OBJECTIVES	STATUS
Continue to expand the reach of ongoing CSR campaigns on health awareness with 90 programs	140 programs carried out during the year ▲
Improve customer service	▲
<ul style="list-style-type: none"> <li>Implement processes to improve premium persistency.</li> <li>Encourage submission of proposals digitally</li> <li>Adjust performance measurement and training for customer service staff to better align with continuous service improvements</li> </ul>	<ul style="list-style-type: none"> <li>12 month persistency declined from 78% to 76% in 2016. However 24 months and 36 months persistency increased by 3% and 5% to 70% and 64% respectively.</li> <li>Achieved 56% in digital proposal submissions by December</li> <li>Training conducted for customer service staff and revised performance criteria – Ongoing</li> </ul>
Enhance leadership capabilities to build relationships with bank partners at all levels	<ul style="list-style-type: none"> <li>Partnered with Sampath Bank. ▲</li> </ul>

## OBJECTIVES 2017 AND BEYOND

Minimise lead time between proposal submission and policy issuance	2017
Enable work from home processes for working mothers and part time job seekers	2017
Lean initiatives to optimise life operation processes for better customer service	2017
Improve persistency	2017 and beyond
Use CSR platforms (dengue, thalassaemia and diabetes awareness campaigns) to achieve meaningful results over the medium term	2017 and beyond

## CHALLENGES

Intense market competition (page 40)  
 Change in customer needs (page 101)  
 Volatility in the market (page 34)  
 Digitisation / Disruptive innovation (page 101)

Social and Relationship capital is made up of customers, business partners and community. The social and relationship capital has a vital role in UA value creation model.

**THE CUSTOMER IS AT THE CENTRE OF OUR VALUE CREATION MODEL AND SERVICING THEM IS AN IMPORTANT ACTIVITY OF OUR BUSINESS.**

## CUSTOMERS

The customer is at the centre of our value creation model and servicing them is an important activity of our business. Servicing customers is carried out by our agency force as well as our support staff. Key units that service customers are the policyholder servicing staff, call centre and the underwriting staff located at the head office and branches.

The following diagram illustrates our approach towards addressing material issues of our customers.



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# MANAGEMENT DISCUSSION AND ANALYSIS

GRI-G4    G4-8    G4-FS6

## PROVIDE AFFORDABLE, QUALITY PRODUCTS AND SERVICES

Our customers have their own unique needs, which require us to develop close relationships in order to understand and respond to them. In each of the markets and regions that we are present, we take into account the market forces which cover both economic and sustainability factors in developing the product mix we offer. Our unique insurance propositions are detailed in pages 84 and 85.

## PRODUCT RESPONSIBILITY

The company strives to ensure and maintain the highest standards for its products through adhering to all statutory and regulatory requirements, both local and international, as well as global best practices. As such, the company ensures the highest quality in processes and responsible marketing and communication. The head office call centre contacts new customers and provides products information to ensure that customers have a proper understanding of the insurance policy contracted with the company.

## DISTRIBUTION CHANNELS

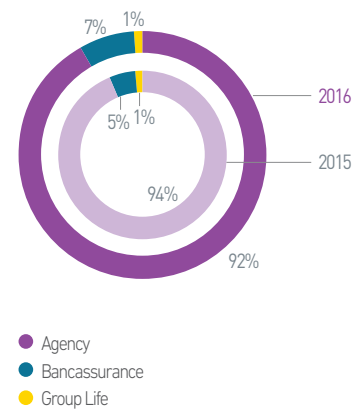
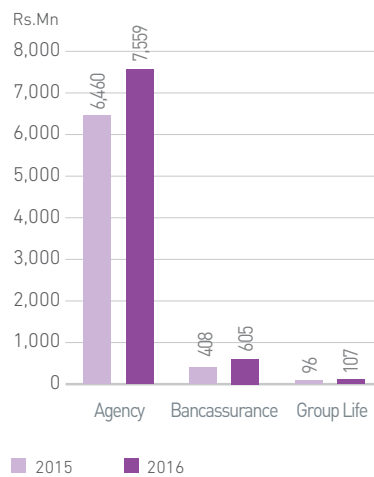
UA uses following channels to reach customers.

1. Agency
2. Bancassurance
3. Group life

## AGENCY

The key distribution channel for the company is the Agency channel. As at 31 December 2016, UA had a 4,100+ strong agency force which contributed 92% of GWP (94% in 2015). There was a 2% reduction in the agency channel contribution and it has been captured mainly by the bancassurance channel. The key challenge with regard to developing this channel is the difficulty to attract and retained quality staff.

## CONTRIBUTION TO GWP

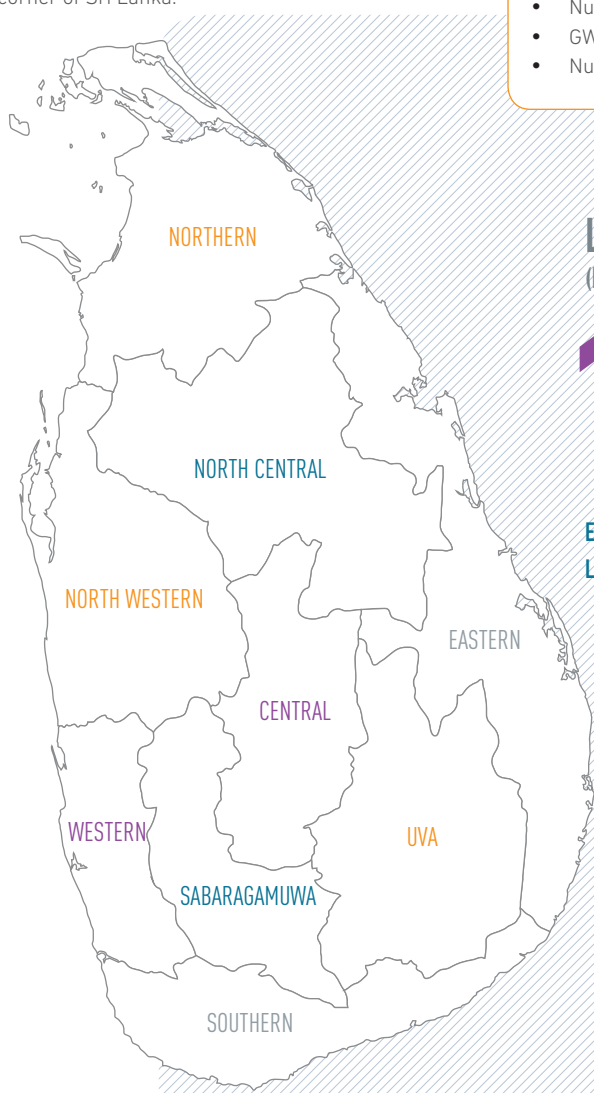


**WE TAKE INTO ACCOUNT THE MARKET FORCES WHICH COVER BOTH ECONOMIC AND SUSTAINABILITY FACTORS IN DEVELOPING THE PRODUCT MIX THAT WE OFFER TO OUR CUSTOMERS.**

**92%**  
**AGENCY CHANNEL CONTRIBUTION TO GWP**

## OUR CUSTOMER TOUCH POINTS

Our distribution network reaches to every corner of Sri Lanka.



### NORTH CENTRAL PROVINCE

- Number of Branches: **08**
- GWP (Rs. '000) : **667,731**
- Number of Agents : **315**

### NORTHERN PROVINCE

- Number of Branches: **08**
- GWP (Rs. '000) : **704,128**
- Number of Agents : **316**

## LOCATIONS (EXCLUDING VIRTUAL LOCATIONS)

# 107<sup>+</sup>

ENABLING ALL OF SRI LANKA TO  
LOOK AT LIFE DIFFERENTLY

### CENTRAL PROVINCE

- Number of Branches: **11**
- GWP (Rs. '000) : **594,834**
- Number of Agents : **288**

### EASTERN PROVINCE

- Number of Branches: **06**
- GWP (Rs. '000) : **301,939**
- Number of Agents : **152**

### UVA PROVINCE

- Number of Branches: **06**
- GWP (Rs. '000) : **348,089**
- Number of Agents : **172**

### SABARAGAMUWA PROVINCE

- Number of Branches: **12**
- GWP (Rs. '000) : **579,159**
- Number of Agents : **206**

### NORTH WESTERN PROVINCE

- Number of Branches : **14**
- GWP (Rs. '000) : **1,275,041**
- Number of Agents : **520**

### WESTERN PROVINCE

- Number of Branches : **28**
- GWP (Rs. '000) : **3,007,808**
- Number of Agents : **849**

### SOUTHERN PROVINCE

- Number of Branches: **14**
- GWP (Rs. '000) : **792,022**
- Number of Agents : **518**

## BANCASSURANCE

Bancassurance penetration is still low in Sri Lanka compared to the rest of the world. UA has recognised bancassurance as a key channel to drive market share growth in the future. Hence the leadership of the bancassurance channel has been restructured and compensation and benefits of the bancassurance sales force has been revised to enable aggressive growth. In 2016, Bancassurance contribution to GWP

increased from 5% to 7%. During the year under review the company partnered with Sampath Bank and discontinued the partnership with DFCC Bank since the latter signed an exclusive bancassurance partnership with a different insurer.

## GROUP LIFE

The Group life channel generated 1% of UA's GWP in 2016. The company has planned strategies to increase the channel's contribution to GWP in the future.

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# MANAGEMENT DISCUSSION AND ANALYSIS

GRI-G4 G4-4 G4-PR3

## OUR UNIQUE LIFE INSURANCE PROPOSITIONS

INVESTMENT PLANS COUPLED WITH LIFE COVER	RETIREMENT PLANS	EDUCATION PLANS	PROTECTION PLANS	HEALTH PLANS
<p><b>UNION LIFE ADVANTAGE</b></p> <p>A generic life insurance product that can cater to the needs of all customer segments.</p>	<p><b>UNION CHALLENGER – BUILDER PLAN</b></p> <p>For individuals with long term aspirations and / or commitments towards loved ones, having the potential to build a substantial fund over a period of time.</p>	<p><b>UNION SISUMAGA</b></p> <p>For parents with young children and aspiring parents.</p>	<p><b>UNION LOAN PROTECTION</b></p> <p>For individuals who obtain credit facilities from financial institutions.</p>	<p><b>UNION SUWAMAGA STANDALONE</b></p> <p>For individuals who wish to cover the risk of critical illnesses and his / her own life risk.</p>
<p><b>UNION SUPER INVESTOR</b></p> <p>For individuals who opt for a short term premium paying plan.</p>	<p><b>UNION CHALLENGER – BOOSTER PLAN</b></p> <p>For individuals who intended to retire within 5 to 10 years and need to build a fund to generate sufficient income by the time they retire.</p>		<p><b>UNION FAMILY BENEFIT</b></p> <p>A simple term insurance policy which provides financial assistance to dependents on the unfortunate demise of the breadwinner during the term of the policy. The policy provides protection for an affordable annual premium</p>	<p><b>UNION 60 PLUS</b></p> <p>A 5 year term insurance plan coupled with a health insurance solution for senior citizens.</p>
<p><b>UNION JAYAMAGA AND UNION JAYAMAGA PLUS</b></p> <p>For investors who look for steady / secure financial returns coupled with life cover.</p>	<p><b>UNION CHALLENGER – PROVIDER PLAN</b></p> <p>For individuals who are approaching retirement and require a regular income.</p>			
<p><b>UNION PARITHYAGA</b></p> <p>For individuals who look for an investment opportunity along with a life cover for an affordable premium.</p>				
<p><b>UNION SUPER BENEFIT</b></p> <p>For individuals who wish to have periodical payments instead of waiting until maturity.</p>				
<p><b>UNION SINGLE PREMIUM ADVANTAGE</b></p> <p>For individuals who are keen on investing lump sums.</p>				

### CUSTOMER TESTIMONIALS

“You come to realise just how valuable an insurance policy is, when you see how tailored it is for the lifestyle and needs of the modern world. I consider Union Assurance to be a company that has always been at the forefront of building custom tailored insurance products to suit our ever changing lifestyles. This is why many people across the island have placed their trust in Union Assurance. I am proud to be able to say that I too am one of the many.”

**MR. W.H.U.I DE SILVA**  
(Panadura)

“The best thing about Union Assurance, that sets it apart from everyone else, is how friendly they are. The insurance advisors, call centre personnel, officers, and management of the company are always ready to help you in any way possible. They really provide excellent guidance in order to fulfil our needs. Until these needs are fulfilled, they always inquire after you. This is why our choice has always been Union Assurance. I believe that Union Assurance will never let us down.”

**MR. W.T.D. GANEGAMA**  
(Moratuwa)

## OUR UNIQUE LIFE INSURANCE PROPOSITIONS

### RIDERS

Additional covers with benefits can be bundled with the policy to match the policyholders' additional requirements

#### ACCIDENTAL DEATH BENEFIT

A benefit which is paid in the event of an 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 a 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

This benefit provides cover to waive the future premiums on the main benefits of the policy in the event of a total and permanent disability due to sickness or accident.

#### EXTENDED PARTIAL AND PERMANENT DISABILITY BENEFIT

This benefit provides an additional payment, if the life assured becomes disabled partially and permanently as a result of an accident.

#### LEVEL TERM BENEFIT

This is an additional protection benefit that could be added to the basic policy by paying a relatively lesser premium. The sum assured is paid on death of the life assured (in addition to the basic sum 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 dependents of a deceased policyholder by paying a sum immediately on the death of the life assured.

#### FAMILY HOSPITAL CASH BENEFIT

This family cover provides a daily benefit in the event of a hospitalisation of a family member. If the family member 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 to dependents, in the form of an annuity until the expiry of the policy term.

#### UNION SUWAMAGA

In the event of death of the life assured, this benefit provides a regular income to dependents, in the form of an annuity until the expiry of the policy term.

#### UNION SMART HEALTH

A rider to main plan Union Advantage that provides indemnity cover for hospitalisation cost due to illness or surgery. This covers hospitalisation cost of an individual or in a family as a whole which is known as 'Floater Cover'.

"Just like every other sector, insurance services also have to change according to time. Today Union Assurance has gone beyond the simple provision of insurance solutions, and has taken steps to introduce a policy with elements of an investment account. This is an excellent move, in line with what we can expect from the future. This is the reason that those who are loyal Union Assurance customers are achieving ever greater success, year on year. I feel that this is an excellent benchmark to set for the success of the insurance sector of Sri Lanka in the future."

**MR. K. WICKNESHARA**  
(Mattakkuliya)

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# MANAGEMENT DISCUSSION AND ANALYSIS

## DELIVER SUPERIOR CUSTOMER SERVICE

In the life insurance business, customer service is of high importance. From initiation of a policy to the event of a claim or maturity, we strive to provide customers with best in class service. To this end we harness the latest technology to make our offering more convenient and efficient from a customer perspective. These aspects are further discussed under intellectual capital section.

The following service enhancements were implemented during the year.

1. Following careful analysis of underwriting risk, non-medical limits were revised from the beginning of the year. This has improved the speed of service and customer convenience.
2. Financial underwriting limits for decreasing term assurance policies were enhanced.
3. Enhanced regional managers and unit development managers technical knowledge.

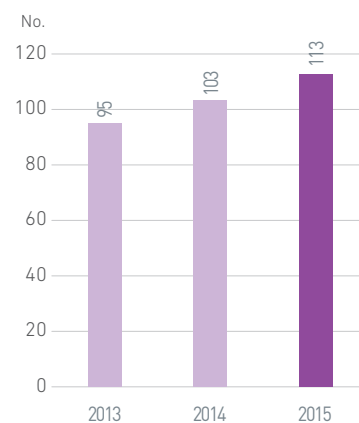
4. Extended tele-underwriting facility for all Union 60+ policies.
5. Head Office underwriting staff were evaluated on proposal completion ratio and quality standards to minimise turn around times for new policy issuance.

## MULTIPLE PAYMENT CHANNELS

With customer convenience in mind, we have tied up with multiple service providers to open a wide array of payment channels to our customers. During the year under review, UA has taken various measures to increase usage of alternative payment channels including mobile cash. The company focused on the mobile payment channel to leverage the mobile phone penetration in Sri Lanka. Further steps have been taken to increase standing order payments. At the end of the year standing order usage has increased to 13% in agency and 22% in bancassurance channel. These payment modes are not only more

convenient for customers but also improve premium persistency enabling customers to continue their insurance policies with minimum disruption.

## MOBILE CELLULAR SUBSCRIPTIONS (PER 100 PEOPLE)



Source: databank.worldbank.org

The following table gives a list of payment channels available to our customers.

	STANDING ORDERS	INTERNET BANKING	ATM	TELE BANKING	OVER THE COUNTER	CREDIT CARD	MOBILE CASH	PAYEASY
<b>BANKING INSTITUTIONS</b>								
Sampath Bank	✓	✓	✓	✓	✓	✓		✓
Nations Trust Bank	✓	✓	✓	✓	✓	✓		
Hong Kong and Shanghai Banking Corporation		✓	✓	✓		✓		
Hatton National Bank	✓	✓			✓			
Bank of Ceylon	✓	✓			✓	✓		
People's Bank	✓	✓			✓			
Commercial Bank	✓	✓	✓		✓			
DFCC Vardhana Bank	✓				✓			
National Saving Bank	✓	✓			✓			
Union Bank	✓	✓		✓	✓			
Standard Chartered Bank	✓	✓						
<b>NON-BANKING INSTITUTIONS</b>								
Mobitel							✓	
Dialog							✓	
Keells Super					✓	✓		
Abans					✓			

**CUSTOMER PORTAL**

The online customer portal enables customers to access most of their insurance needs at the click of a button. The portal is currently accessible to all existing life insurance policyholders and an array of personalised services is available to them.

**MAINTAINED SERVICE STANDARDS THROUGH CUSTOMER SERVICE UNIT (CSU)**

To ensure that UA continuously provides best in class service, pre-agreed service standards are constantly monitored via a workflow system which is integrated

with the core life insurance system. The workflow based system was extended for unit linked products and operations. The CSU established in 2014 operates in line with the service standards applicable for that operation.

A summary of the actual against expected service standards during 2016 is provided in the table below and overleaf.



Snapshot of customer portal

**FOLLOW UP ON LAPSED POLICIES**

We strive to ensure that customers continue to maintain policies so that they could avail of the benefits or protection which they have contracted for. We have invested time and resources to follow up to understand the reasons for discontinuing policies and encourage revival of policies where possible. During the year under review, UA recruited 4 personnel to actively follow up on lapsed policies. Progress with this initiative is being monitored.

CUSTOMERS	FUNCTION	EXPECTED SERVICE STANDARDS	ACHIEVEMENT IN 2016	ACHIEVEMENT IN 2015	CHANGE
New business	Underwriting decision making – new proposals	100% by 2 days	98%	95%	●
	Policy dispatching	100% by 8 days	99%	97%	●
Policyholder servicing	Minor alterations	100% by 1 day	100%	100%	●
	Policy assignment and reassignment	100% by 1 day	100%	100%	●
	Bank standing orders	100% by 2 days	100%	100%	●
	Revivals	100% by 2 days	97%	98%	●
	Major alterations	100% by 2 days	96%	99%	●
	Responding to customer letters	100% by 2 days	92%	93%	●
Claims	Maturities and advance payments	100% by 2 days	99%	100%	●
	Death, disability and hospital cash claims (No further investigation required)	100% by 3 days	98%	98%	●
	Death, disability and hospital cash claims (Further investigation required)	100% by 14 days	95%	95%	●
	Policy loans	100% by 2 day	99%	100%	●
	Queries on claims	100% by 2 days	83%	93%	●
Call centre	Handling of inbound calls	97% from presented calls	90%	98%	●
	Answering calls (within service level)	96% of the inbound calls to be answered within 20 seconds	87%	96%	●
	Abandoned calls	Total abandoned calls to be below 3%	10%	2%	●
Customer service unit	Meeting the needs of walk – in customers	15 minutes	98%	95%	●
Group life	New business quotations – employer / employee groups	Data given in soft format – same day	100%	99%	●
		Data given in hard format – 2 days	100%	95%	●

● Dropped by >3%    ● Same or higher    ● Dropped by <3%

# MANAGEMENT DISCUSSION AND ANALYSIS

CUSTOMERS	FUNCTION	EXPECTED SERVICE STANDARDS	ACHIEVEMENT IN 2016	ACHIEVEMENT IN 2015	CHANGE
	New business quotations – affinity and other special groups	4 days	95%	95%	●
	Completion of cover for large groups	3 days	100%	95%	●
	Issue of the policy	3 days	100%	96%	●
	Commission payments to agents / brokers	7 days of receipt of premium	100%	92%	●
Unit linked operations	Underwriting decision making – new proposals	100% by 2 days	98%	96%	●
	Policy Issue	100% by 5 days	98%	94%	●
	Fund switching	100% by 3 days	97%	100%	●
	Premium redirection	100% by 2 days	100%	100%	●
	Benefit changes / inclusions	100% by 2 days	100%	98%	●
	Minor alterations	100% by 2 days	100%	99%	●
	Bank standing orders	100% by 1 day	100%	100%	●
	Responding to customer letters	100% by 2 days	98%	86%	●
	Surrenders	100 %by 4 days	88%	93%	●
	Partial withdrawals	100 %by 4 days	90%	99%	●

● Dropped by >3%    ● Same or higher    ● Dropped by <3%

## SETTLE CLAIMS FAIRLY AND SPEEDILY

Systems and procedures are constantly being streamlined to ensure that claims are processed speedily. Our achievement of this goal is reflected in the service standards reflected in the table above. During the year under review, we have worked with a third party service provider (TPA) to ensure faster / efficient settlement of health claims.

In the insurance business one finds situations where some claims do not fall within the framework of the terms and conditions of the policy and must then be

repudiated. In such instances the company clearly states the reasons for the repudiation and informs the customer in writing. If the customer does not agree with the decision he / she has the option of referring the case to the Insurance Ombudsman or the Insurance Board of Sri Lanka.

UA won the Claims Leader award at the first Insurance industry awards ceremony conducted jointly by the Insurance Association of Sri Lanka and Fintelekt in July 2016 recognising the excellent service delivery to customers.



## OBTAIN TIMELY FEEDBACK

At UA, we have consistently improved the quality of our customer service and strive to be the benchmark of the industry. We firmly believe that price is not a long term differentiator, and that customers will partner with an insurance company which consistently offers them trust, convenience, respect and transparency.

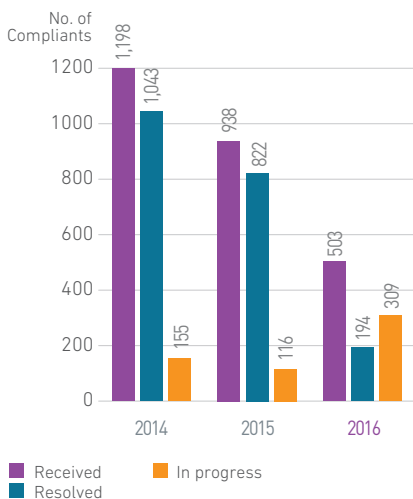
## COMPLAINT MANAGEMENT PROCEDURE

In our commitment to deliver superior customer service we place high importance to all customer complaints that we receive. Customers are able to send their feedback / complaints in writing or call on our customer service hotline +94 112990990 or lodge the complaint in writing or verbally at any of our branch locations. All such feedback is uploaded to our online customer feedback system (CFS).

These complaints are then reviewed at a weekly CFS committee meeting with the participation of senior management and necessary action is taken. The committee physically met 14 times during the year to discuss and address customer complaints.

The graph below portrays the total customer complaints received over the past 3 years and the progress on resolving the complaints.

### STATUS OF CUSTOMER COMPLAINTS



## BUSINESS PARTNERS

In creating value, UA maintains relationships with an array of counterparties who function as an ecosystem in which the company operates.

The key counterparties that we have developed relationships over time are listed below;

- Suppliers
- Reinsurers

## SUPPLIERS

Recognising the benefits of collaborative relationships within and beyond UA, our appreciation of supply chain management has steadily increased over the years. Our suppliers contribute to the quality of delivery that we have promised our customers.

For us, supply chain is the total system of products, services and information from suppliers, right through to our people, including activities, information, and resources involved in designing, developing and delivering our products to our customers. Therefore suppliers are a critical link in our supply chain. The following diagram illustrates our approach to address key material issues of our suppliers.



### FAIR AND UNBIASED VENDOR SELECTION PROCESS

UA has developed a formal process to evaluate suppliers annually and ensures that all suppliers have an equal opportunity to present their products or services. As a responsible corporate citizen, we take every endeavour to work only with ethical business partners and our supplier selection criteria takes into account ethical business practices that we expect to witness in their business practices. The supplier selection process considers the following attributes when short-listing suppliers to be recommended to the supplier approval committee.

#### SUPPLIER SELECTION CRITERIA

- Company profile and service record
- Financial stability
- Governance process
- Environmental practices
- Labour practices
- Human rights practices / diversity and equal opportunities
- Anti-corruption policy

#### PRODUCTS / SERVICE SELECTION CRITERIA

- Fitness - fit for the purpose the product / service is to be used
- Operational simplicity including ease of maintenance and disposal

- Durability and quality
- Energy consumption, upgradability and reusability
- Price competitiveness

Certain products and services we procure are from vendors registered by the JKH Group and are selected based on the same stringent criteria. UA is represented in the category management committees which select such vendors.

#### ON-TIME SETTLEMENT FOR SUPPLIES

As an ethical business organisation, we are conscious of the working capital requirements of our suppliers. We ensure that our suppliers are paid within the agreed time lines in order to maintain a collaborative relationship which is beneficial to both parties.

#### SUPPLY CHAIN MANAGEMENT

At UA, we regularly engage with our suppliers to improve our service to our customers. We

believe maintaining good relationships with our suppliers will ensure uninterrupted supply, quality and reasonable pricing.

The entire supply chain of the organisation has been designed covering three criteria i.e. local sourcing, international sourcing and 3PL functions (outsourced operations).

The local supply chain consists of 35 active suppliers specialised in various fields of supplies where sourcing is done as per the consumption and needs of the company. All suppliers are scrutinised covering their quality of work, customer base, price, reliability, market reputation, lead time, expertise, environmental best practices and employees safety practices.

Thereafter all suppliers are evaluated by an independent body to ensure impartiality and transparency. Suppliers who meet the criteria outlined by the organisation are selected and registered in the field of specialisation for sourcing.

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# MANAGEMENT DISCUSSION AND ANALYSIS

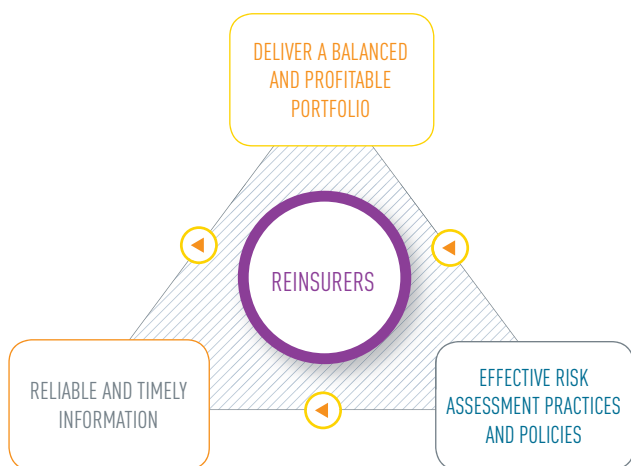
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## REINSURERS

Our reinsurance partners play a crucial role in our operations as they allow us to transfer part of the risk that exceeds our risk appetite (our underwriting capacity). We only 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. Details of our reinsurance panel including their ratings are given below.

REINSURER	RATING AGENCY	RATING
Munich Reinsurance Company	Standard & Poor's	AA-
Hannover Re	Standard & Poor's	AA-
Partner Re	Standard & Poor's	A+
RGA	Standard & Poor's	AA-

In view of protecting both customer and the company, the additional risk taken by reinsurers can have a significant impact on the product pricing in a highly competitive market. The following diagram illustrates the key material issues which impact our reinsurance partners in the ordinary course of business.



### DELIVER A BALANCED AND PROFITABLE PORTFOLIO

UA has a balanced insurance portfolio including diversified risks. In this way, losses can be balanced collectively which enable us to better negotiate with our reinsurers.

UA is equipped with a well experienced and well qualified underwriting team who ensures risks are underwritten in line with

globally accepted underwriting practices, in turn delivering a well balanced portfolio to our reinsurance partners.

### RELIABLE AND TIMELY INFORMATION

Providing and receiving the right information to and from reinsurers at the right time help us to make better business decisions. Therefore, corporate agility and the ability

to analyse information speedily are viewed as core competencies and a source of competitive differentiation by our reinsurers.

### EFFECTIVE RISK ASSESSMENT PRACTICES AND POLICIES

Risk assessment provides a mechanism to identify which risks represent opportunities and which represent potential pitfalls for both parties. The right risk assessment provides a clear view of variables to which UA and the reinsurers may be exposed, whether internal or external, retrospective or forward looking.

UA risk assessment is anchored in the company's defined risk appetite and tolerance and provides a basis for selecting appropriate risk. A robust risk assessment process, applied consistently throughout the underwriting process, empowers UA underwriting staff to better identify, evaluate and exploit the right risks.

## SOCIETY

At Union Assurance we believe that the society we operate in is our backbone of strength. As a responsible organisation we strive to improve the health and safety of the society that we serve. Our Corporate Social Responsibility (CSR) committee outlines CSR strategies of the company in line with the expectations of various stakeholders and ensures that business activities are focused on improving the well-being of society.

### STRUCTURE OF THE CSR COMMITTEE AND THE LEVEL OF ACTIVITIES

The society centric activities of UA are based on the strategically thought through CSR platform of 'Health Awareness' and projects are carried out with the Ministry of Health focusing on creating awareness related to national concerns. The following table demonstrates our approach on addressing key material issues applicable to the community

Board of Directors	<ul style="list-style-type: none"> <li>Provide strategic direction on the company's CSR activities.</li> <li>Include the entire Board in CSR decisions.</li> <li>Delegate CSR responsibilities to the management team.</li> </ul>
Management Team (Chaired By the CEO)	<ul style="list-style-type: none"> <li>Members of executive committee are tasked with CSR oversight.</li> <li>Assigns CSR responsibilities to sub committees.</li> <li>Provides guidance on CSR initiatives and activities.</li> </ul>
CSR Sub Committee	Overall responsibility for implementation of CSR initiatives and report on progress.

Manushyathwaya CSR activities achieved several milestones that positively impacted multiple communities.

## DENGUE AWARENESS

UA launched an islandwide dengue awareness campaign including house-to-house visits, dengue prevention-shramadhana campaigns and information leaflet distributions in order to encourage dengue prevention across the country. As a result of these efforts, 55 dengue prevention programs were carried out simultaneously on a single day which was a significant achievement.

During the year under review, with the support of the Public Health Department of the Colombo Municipal Council and the Public Health Inspector, UA was able to successfully conduct a total of 57 dengue awareness campaigns.



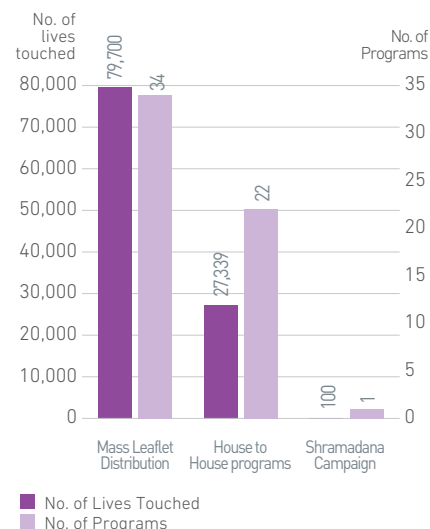
Union Manushyathwaya

### INITIATIVES UNDER THE HEALTH AWARENESS PLATFORM:

- Prevention of epidemic diseases - e.g: dengue awareness programs across the island
- Awareness on the prevention of thalassaemia
- Awareness on diabetes prevention

Being continuously sensitive to the communities which we operate in, Union Manushyathwaya: the CSR brand of Union Assurance was able to continue its efforts and spread awareness on health, wellness and goodness for people across the island. As the year 2016 concludes, Union

### DENGUE PROGRAMS



## HEALTH AWARENESS PLATFORM

The 'Health Awareness' platform was selected due to the direct relationship with business operations. UA works together with the Ministry of Health to create awareness regarding the critical and burning issues of the nation.

### OBJECTIVES OF HEALTH AWARENESS PROGRAMS:

- To create awareness of critical health issues faced by a larger segment of the society.
- To participate in a national cause by supporting the Government in order to assist in eradication or containment.
- Minimise claims by supporting all efforts to ensure a healthy populace.
- To maintain and raise awareness of the UA brand.



Handing over of safety gear for dengue control task force of Public Health Department of CMC

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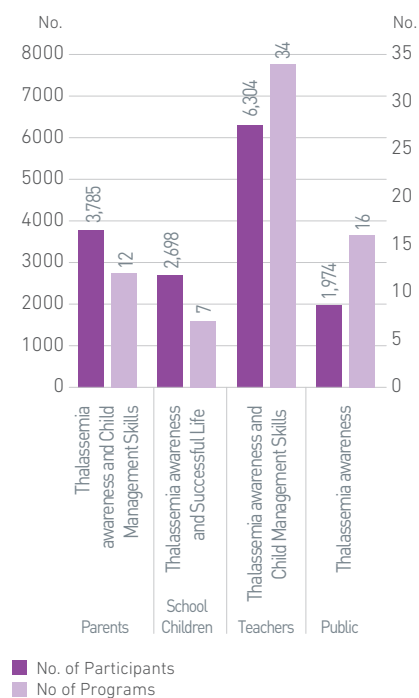
# MANAGEMENT DISCUSSION AND ANALYSIS

## AWARENESS ON THE PREVENTION OF THALASSAEMIA

UA was able to provide invaluable support towards controlling the severe blood disorder by conducting thalassaemia awareness and prevention campaigns. The increased levels of awareness created by these campaigns resulted in reducing the spread of this disorder, which could have caused severe negative impacts towards communities. UA has been a partner in the battle against thalassaemia since 2013.

UA also conducted 69 programs partnering with the National Thalassaemia Centre on creating awareness on how to prevent thalassaemia, child management skills and living a successful life. These programs were focused on school teachers, parents and students respectively.

### NO OF PROGRAMS



Diabetes screening program

## AWARENESS ON DIABETES PREVENTION

Diabetes prevention is another key area we looked at under the UA CSR platform. As we are in the platform of creating awareness, the focus was on creating awareness on prevention of the disease. Hence we have developed pre-screening program models with the Public Health Department of the CMC and the DMOH offices.

The objective of the diabetes pre-screening camps was to identify persons who are potential diabetic patients and advise them to consult a doctor in advance in order to take necessary preventive measures.

Campaigns were carried out to raise awareness and prevent the spread of diabetes. Pre-screening sessions were carried out during these programs to diagnose potential patients and necessary advice was provided to them on controlling their blood sugar levels and leading a healthy lifestyle.

14 programs have been carried out throughout the year impacting 1,169 persons.

We have been able to achieve a certain level of outcomes through our CSR programs conducted during year 2016. However, there is much work to be done to make a

meaningful impact to society with our Union Manushyathwaya CSR brand. Therefore, we are committed to continue to conduct more positively influential CSR initiatives to increase community engagement.

UA looks at creating a healthier and secure community in line with their overall ethos of building partnerships with their customers that is based on the delivery of transparency, respectfulness, and convenience. The company will continue to deliver on its promise of trust, with more programs designed to foster healthier communities in the future.



Life guidance and thalassaemia awareness program

# INTELLECTUAL CAPITAL

## KEY HIGHLIGHTS

### BRAND VALUE CREATED

RS.  
**1.2** BN

Value created over 29 years of trusted service

### USAGE OF DIGITAL TECHNOLOGY

**56%**

of life insurance proposals received digitally

33% reduction in proposal conversion time

### AUTOMATED UNDERWRITING OF PROPOSALS

**77%**

of life insurance policies written without human intervention

Processing time 3 times faster than the manual

### PROPOSITION BEYOND PROTECTION



Innovative solution with an ecosystem of partners to encourage a healthier lifestyle while enhancing shareholder value

### SOCIAL MEDIA PRESENCE

**147,735** <sup>+</sup>

Fan base

Largest Facebook fan base in the industry

## 2016 PROGRESS TOWARDS OBJECTIVES

OBJECTIVES	STATUS
Develop products which cater to health needs of customers	Launched 2 products – Achieved ▲
50% of proposals processed digitally enabling speedy service	56% in December 2016 – Achieved ▲
Revamp and relaunch web based sales force management system	Completed – Achieved ▲
Enhance information security awareness	20 e-mail campaigns and 1 presentation to staff and ongoing ▲
Use social media to amplify brand awareness / generate leads for on-line distribution platform	4 Projects and ongoing ▲

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# MANAGEMENT DISCUSSION AND ANALYSIS

## OBJECTIVES 2017 AND BEYOND

Migrate core system to modern platform	2017 / 2018
100% digital submissions	2019
Availability of automated policy issuance, in order to manage increase in volumes and achieve economies of scale	2017 and beyond
Drive digital agenda	2017 and beyond
Redefine brand positioning – beyond “trust”	2017 / 2018

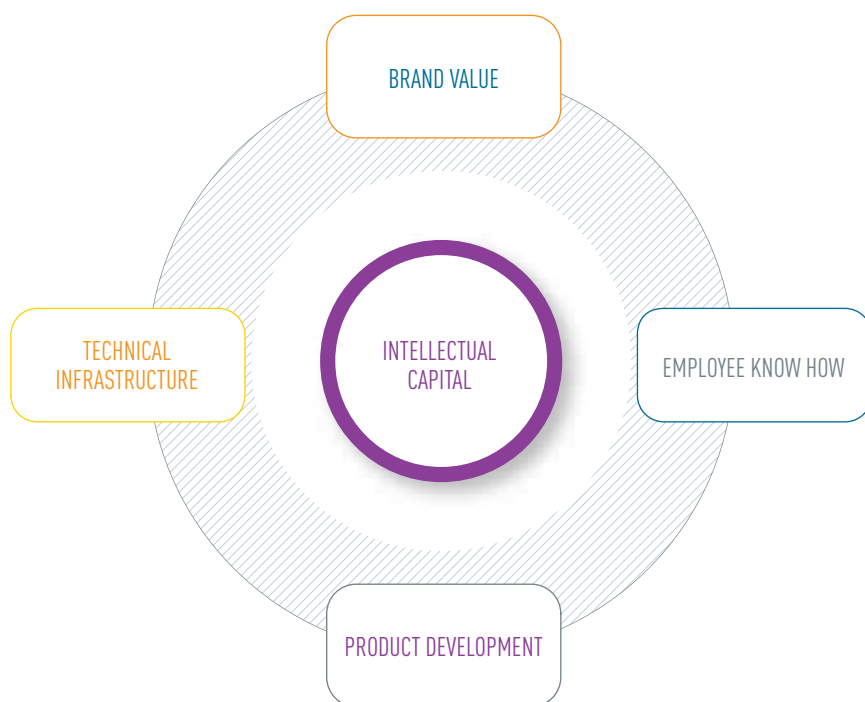
## CHALLENGES

- Growing the brand value (page 97)
- Information security threat
- Disruption through digitisation

At UA, we place great importance in maintaining and building on the intellectual capital to foster growth, efficiency and value

of the business. Intellectual Capital is a key element of UA’s future earning potential.

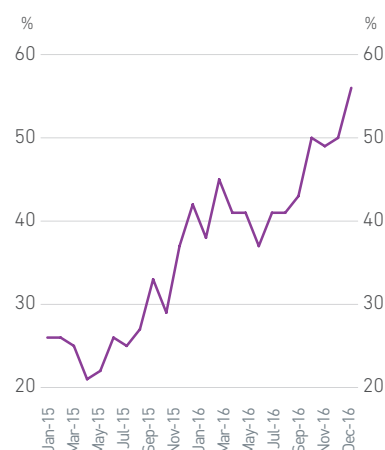
UA takes great efforts to visualise and identify the intellectual assets we possess in order to utilise them at their optimum capacity. The following diagram illustrates the key aspects of our intellectual capital.



## TECHNICAL INFRASTRUCTURE

UA embraces technological advancements and uses the power of technology to create value. UA is working towards 100% digital submission of insurance proposals and maximise automated policy issuance, in order to manage increased volumes and achieve economies of scale without compromising controls.

## PROPOSALS RECEIVED DIGITALLY



In the year under review, following key initiatives improved productivity.

1. Second phase of the auto underwriting project was completed. During the year super investor product was added to the auto underwriting module. Implemented a workflow system for user profile management, auto job allocation, resubmission and reversal of data parking as part of phase two activities.
2. Automated client creation increased from 30% to 95%. This has supported automated underwriting, enabled fast responses to sales force and minimised human intervention in the process.



Snap shots of financial advisor management explore system (FAME)

3. Auto underwriting success rate increased from 50% to 77%. This led to increased productivity and ensured consistent underwriting decisions.
4. Third phase of the auto underwriting project was completed. DTA plans and Single Premium Advantage Plans were facilitated with digital quotations, proposals and auto underwriting.
5. Revamped the digital Financial Need Analysis (FNA) and launched in August. The revamped FNA presents collection of information in a more graphical and customer friendly manner to increase usability and supports full automation.
6. Overall revamp of web based sales force management system, financial advisor management explore system (FAME) was completed. The new FAME provides real time data in a new graphical format. FAME was mainly developed to track targets, performance, income and other sales activities and was re-engineered to enhance responsiveness in order to facilitate access from all mobile devices. Main users of FAME are advisors who are the customer touch points of UA. The company invested Rs. 16.6 Mn on this upgrade. Further an islandwide training for team leaders and advisors was carried out during the year.

7. UX/UI improvements were completed in Digital Advisor Toolkit (DAT). This has brought the tool to the next level by making it more attractive, user friendly and appealing to use.
8. Automated policy issuance was implemented for DTA plans.
9. Lead management system has been implemented for both bancassurance and agency channels. The new system enabled transparent movement and follow up of leads upto conversion.

UA's continuous investment in information technology was recognised at the first insurance industry awards ceremony conducted by Insurance Association of Sri Lanka and Fintelekt in July 2016 as the technology leader.



## PRODUCT DEVELOPMENT

The UA product portfolio serves the needs of every segment of the market. However, the needs of customers are ever changing. During the year under review, the following new products / riders were launched.

### 1. UNION SMART HEALTH RIDER

#### THE UNIQUE INSURANCE POLICY THAT COVERS THE ENTIRE FAMILY

UA in its efforts to revolutionise the Sri Lankan insurance industry by continuously bringing forth innovative and creative solutions has introduced a cover that provides a unique protection for the entire family. 'Union Smart Health,' is a policy that provides coverage for the policyholder as well as all his dependents, a unique proposition in Sri Lanka. The cover can be purchased as a rider, an add-on to the Union Life Advantage Policy.

Union Smart Health introduced "revive benefit" for the first time to the health insurance industry in Sri Lanka allowing the policyholder to claim again, in the event that

100% of the claimable funds having been utilised, provided that the hospitalisation is not due to an illness which resulted in the previous claim.

In case no claim has been made within a policy year, the maximum annual benefit limit increases by 25% for the following policy year – this 'No-Claim Bonus,' is another unique benefit offered through this policy.

Through Union Smart Health Policy, if the sum insured is Rs. 2 mn, the policyholder is entitled for coverage for overseas treatments – in countries such as India, Singapore, and Malaysia.

The Union Smart Health cover reimburses hospitalisation and healthcare expenses of the policyholder and his family members. The cover also provides a 'Cashless Card' to the policyholder, who can in the event of a hospitalisation, call the number mentioned in the card to activate the service. Once the cashless service is activated, Union Assurance will settle the eligible bill amount directly to the hospital providing great convenience to the customer.

**AT UA, WE PLACE GREAT IMPORTANCE IN MAINTAINING AND BUILDING ON THE INTELLECTUAL CAPITAL TO FOSTER GROWTH, EFFICIENCY AND VALUE OF THE BUSINESS. INTELLECTUAL CAPITAL IS A KEY ELEMENT OF UA'S FUTURE EARNING POTENTIAL.**

# 56%

**PROPOSALS RECEIVED DIGITALLY**

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# MANAGEMENT DISCUSSION AND ANALYSIS



Brochure of Union Smart Health rider

Due to the complexities of modern lifestyle, the risks to health and well-being have multiplied. Many of us fail to take necessary steps that would protect us against the uncertainties of our busy lives. The Union Smart Health cover is the perfect solution because it is easily obtained – with zero hassle, allows for easy operation, and offers higher benefits.

## 2. UNION 60 PLUS

### EXCLUSIVE HEALTH AND LIFE INSURANCE PLAN FOR SENIOR CITIZENS

Adding to its reputation as a life insurance solutions provider that has got its finger on the pulse of the Sri Lankans, UA launched an exclusive health and life insurance policy for senior citizens. 'Union 60+,' is a policy designed to provide comfort and ease during the sunset years of a policyholder's life.

Given the rising cost of health care and medical treatment, we understand that it is essential to ensure that senior citizens are well prepared and capable to cover these expenses. However, many of the health insurance plans available in the market are



Brochure of Union 60 plus

limited for individuals below the age of 60 and the cover provided usually expires at the age of 65.

As a responsible insurer that is always abreast of the needs of the community, UA is prepared

to fulfil this obligation through the introduction of its Union 60 Plus insurance policy.

UA has identified the core needs and expectations of senior citizens, and created a tailor made product that combines a health insurance policy with that of a life insurance policy, to provide senior citizens the opportunity to spend their sunset years in the manner they dreamed of.

Citizens between the ages of 50 and 70 can obtain a Union 60+ cover, and continue to receive benefits up until the age of 75 years. The period of the cover is 5 years, with premium payments only being paid once a year. Three primary coverage plans have been introduced at affordable pricing of Rs. 30,000, Rs. 50,000, and Rs. 75,000.

Union 60 Plus policy is a short term health insurance plan which addresses the health insurance needs of senior citizens. The product provides three options of sum assured levels with life cover, accidental death / disability, hospital cash, surgical and ambulance covers for expenses of external prosthetic devices.

Health reimbursement benefits can be obtained as an additional rider to the main plan covering hospitalisation expenses.

## HARNESSING THE POWER OF DIGITAL IN LIFE INSURANCE

### GOYO



Concept of GOYO

Stakeholder Relationships and Materiality	22	Capital Management Review		Social and Relationship Capital	80
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Ecosystem partners of GOYO

UA plans to increase customer engagement by coupling traditional protection products with broader advice on financial wellness and physical well-being. The company has identified that embedding products into a broader ecosystem of partners who can add value beyond protection will be key to winning new customers. During the year under review UA partnered with several brands to launch GOYO and create a strong fitness and wellness based brand targeting those aged 20 – 35 years. The main objective of GOYO is to encourage them to lead a healthier lifestyle, through a trendy and fashionable wearable with a membership App and rewards.



GOYO device and app

**EMBEDDING PRODUCTS INTO A BROADER ECOSYSTEM OF PARTNERS WHO ADD VALUE BEYOND PROTECTION WILL BE KEY TO WINNING NEW CUSTOMERS.**



A promotional material of GOYO

## BRAND VALUE



Brand positioning

The UA brand is positioned on the basis of "Trust". Trust is delivered through the key brand values of "convenience", "transparency" and "respect".

The UA brand was valued at Rs. 1.2 billion in 2016. 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.

It is noteworthy to mention that the 2016 value is based only on the performance of the life business.

In 2016, the UA brand was ranked 47 among top brands in Sri Lanka by LMD and was rated AA- in terms of its "brand power" from Brand Finance (UK). Brand power determines the ability of UA 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 and brand awareness.

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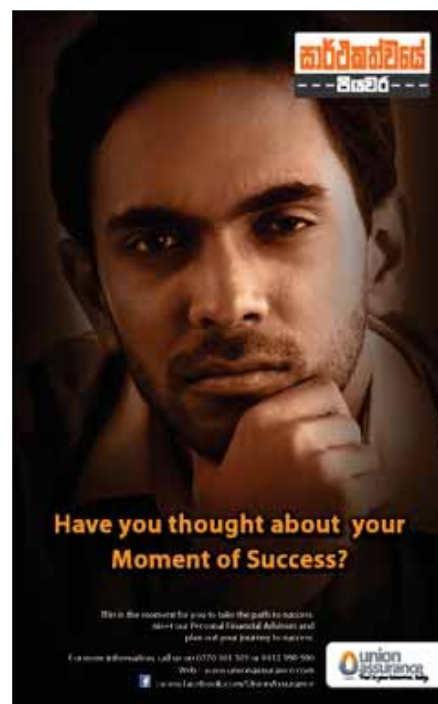
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UA stringently maintains its brand health and initiated many brand building activities during the year under review.

- Using social media to amplify brand awareness and generate leads for on-line distribution platform. Over 147,735 FB fans were recorded making UA the largest fan base in the local insurance industry.
- Increased engagement with customers e.g. pregnant mother campaign, world children's day, montessori campaigns, North-east programs and World Women's day were completed.
- Launched "Sarhakathwaye Piyawara", a lead generation media campaign aimed at showing Sri Lanka the path to achieving enduring success. As human beings, we all have various needs and goals in our lives. These can be broadly categorised as being related to, health and protection, education, investment, and retirement. Success in life largely depends on how well we manage these needs and achieve these goals. We often look for others who have wisdom and experience to help us navigate the various obstacles and guide us towards making the right decisions to ensure success. Union Assurance has introduced a number of solutions to propel individuals towards fulfilling such needs. The UA team travelled across the country, introducing multitudes of Sri Lankans to the path to achieving success and to reach their goals.
- Drive ambitious targets for Corporate Social Responsibility (CSR) platforms (dengue, thalassaemia and diabetes) to achieve meaningful results over the medium term. This has been discussed in detail under Social and Relationship capital.



Advertising campaign of Sarhakathwaye Piyawara

- Launched worksite marketing campaign for agency channel with regional managers as B2B relationship managers.

Further all staff members are envisioned as brand ambassadors in an industry where the field force acts as the forefront of the company in terms of selling and providing services which contributes to the brand perception in the long run.

## FUTURE

Redefining brand positioning – beyond "Trust" is in progress. UA has used recent research with existing / potential customers, life advisors and lapsed policy customers to frame the brand. The company is in the process of reviewing options to execute brand positioning.

## EMPLOYEE KNOW HOW

At UA, employees at all level have been given opportunities to develop themselves which is the main reason behind our success despite aggressive competition in the insurance sector. UA places great emphasis on developing employees and executes various training programs to sharpen their knowledge.

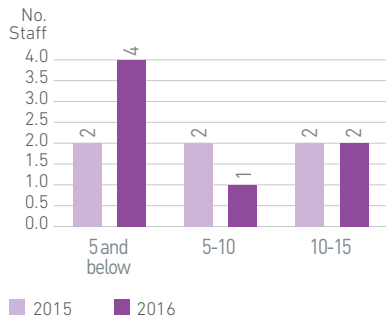
Details of the training programs conducted by the company is provided in the Human Capital section of the report.

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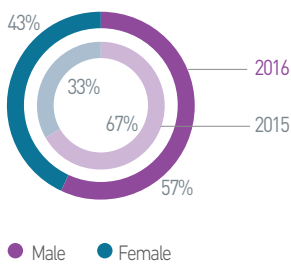
## EMPLOYEE ANALYSIS

Number of years of service by each category and gender composition are given below:

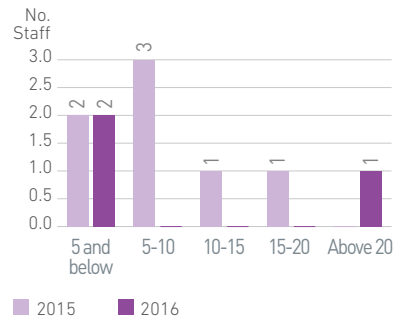
### EXECUTIVE COMMITTEE



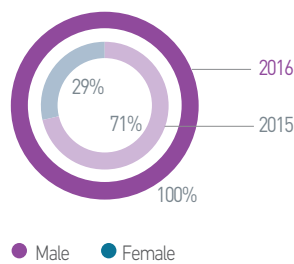
### COMPOSITION OF EXECUTIVE COMMITTEE



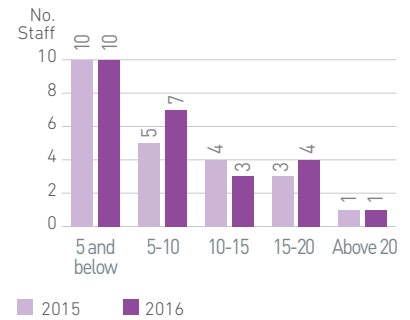
### ASSISTANT GENERAL MANAGERS



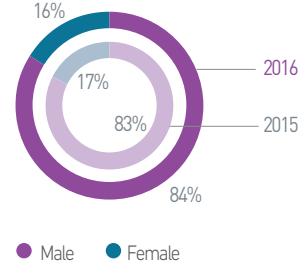
### COMPOSITION OF ASSISTANT GENERAL MANAGERS



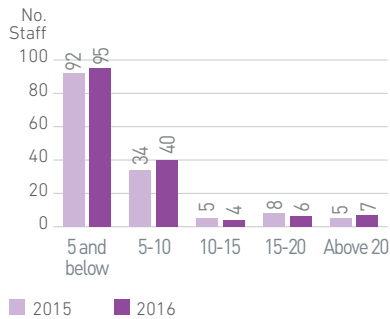
### SENIOR MANAGERS



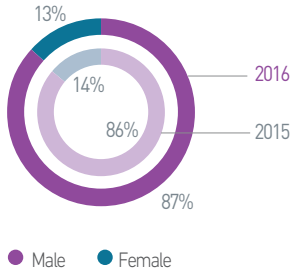
### COMPOSITION OF SENIOR MANAGERS



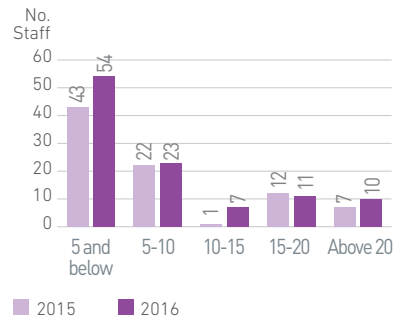
### MANAGERS



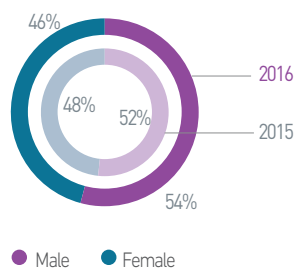
### COMPOSITION OF MANAGERS



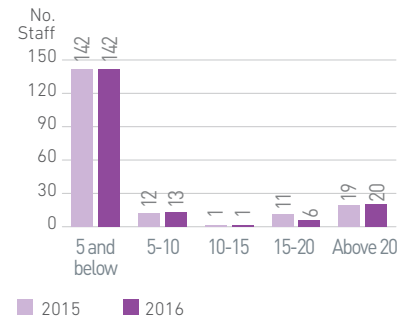
### EXECUTIVES



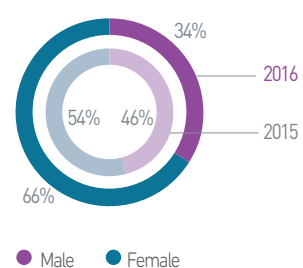
### COMPOSITION OF EXECUTIVES



### NON EXECUTIVES



### COMPOSITION OF NON EXECUTIVE



Profiles of the Board of Directors and the Executive Committee are provided in the corporate governance section of the report.

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# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK

### ECONOMIC CHALLENGES

The Sri Lankan economy is expected to continue its growth trajectory, though at a slower pace compared to the immediate post-conflict era. The year under review was dominated by governance related changes initiated by the new leadership post the Presidential Election held in January 2015 and the General Election held in August 2015. The lack of firmness in economic policy and taxation reforms, balance of payment pressures, low prices for Sri Lanka's exports, exchange rate pressures, the downgrading of Sri Lanka's sovereign credit rating from BB- to B+ and a high government debt and interest burden were key factors which resulted in deferral of investments with investors adopting a "wait and see" approach.

The recent budget which was approved by the parliament aims to boost government revenue and reduce the fiscal deficit. This is a part of the commitment given to the IMF in return for a USD 1.5 billion loan program under the Extended Fund Facility (EFF) arrangement. In November, the IMF completed its first review of Sri Lanka's economic performance under the program and approved the second disbursement of USD 162.6 million, after it found all quantitative performance criteria being met. The IMF facility, principally has been obtained to plug the budget deficit.

The growth forecast for Sri Lanka is lowered to 5.5% in 2017 because of tight monetary and fiscal policies. Sri Lanka economic growth will be fuelled by the growth in construction and tourism sectors. A slowdown in China poses a downside risk to the country's outlook, as it would

affect tourism and FDI inflows. A reduction in interest rates is likely if the economy stabilises as a result of tight monetary and fiscal policies.

The pressure on the exchange rate is expected to continue in the short term due to the widening trade deficit, growing private sector credit, falling export earnings and the continued outflows as described before.

Inflation, as measured by the change in the Colombo Consumers' Price Index (CCPI) compiled by the Department of Census and Statistics, increased to 4.1 per cent in December 2016 given the effects of the VAT increase. The forecast is that, in the medium term it would be stable at 5% given the expected active demand management policies in place with monetary tightening.

Despite the negative short term headwinds, rising consumer wealth as a result of economic growth will drive demand for insurance and investment products.

In the 2017 budget Rs. 15 billion has been allocated to increase computer literacy and implement multiple digital projects. Successful implementation of these initiatives will substantially increase productivity and efficiency across multiple sectors.

### LIFE INSURANCE INDUSTRY

The growth momentum witnessed in the life insurance industry over the recent years in Sri Lanka is expected to continue as life insurance penetration is significantly lower compared to regional markets. Life premiums as a percentage of GDP in

# 0.48%

## LIFE INSURANCE PENETRATION IN SRI LANKA

**THE DIGITAL REVOLUTION IS CATCHING UP TO THE LIFE INSURANCE INDUSTRY. IN THE NEXT FEW YEARS, DIGITAL TOOLS SUCH AS BIG DATA AND ADVANCED ANALYTICS WILL ENABLE A WIDE RANGE OF NEW BUSINESS OPPORTUNITIES BY COLLECTING, ANALYSING AND OPERATIONALISING VAST AMOUNTS OF DATA FOR IMPROVED MARKETING, UNDERWRITING AND CUSTOMER RETENTION.**

# THE GROWTH MOMENTUM WITNESSED IN THE LIFE INSURANCE INDUSTRY OVER THE RECENT YEARS IN SRI LANKA IS EXPECTED TO CONTINUE AS LIFE INSURANCE PENETRATION IS SIGNIFICANTLY LOWER COMPARED TO REGIONAL MARKETS. ”

Sri Lanka is still below 1% while the corresponding comparatives in India and developed countries are approximately 3% and above 7% respectively.

UA will leverage its brand presence and recognition and focus on certain key customer segments and channels such as bancassurance, to grow market share in a profitable manner.

## CHANGING DEMOGRAPHICS

The proportion of young people is on the decline whereas the share of elderly population is rising at a faster pace in line with greater life expectancy and better access to health care. This shift is creating demand for different types of health services as the incidence of chronic and degenerative diseases rise. This demographic trend creates demand for pension and retirement products as well. Union 60+ is a product developed as a direct response to these changes. UA will continue to target this opportunity by launching innovative products and services.

## CHANGE IN TRADITIONAL DISTRIBUTION MODELS

Most of the Asia life insurance growth story has been on the back of agency channel. The agency era in most developed Asian markets is progressively diminishing. In that context, digital sales will have significant potential given the evolution in technology and high commissions given to insurance advisors. Nevertheless, UA continues to develop the agency cadre to improve productivity and quality with improved persistency and case size as this distribution channel is likely to prevail in the foreseeable future.

## DATA ANALYTICS AND BIG DATA

The digital revolution is catching up to the life insurance industry. In the next few years, digital tools such as big data and advanced analytics will enable a wide range of new business opportunities by collecting, analysing and operationalising vast amounts of data for improved marketing, underwriting and customer retention. UA has already digitally enabled their sales force and is actively considering other investments in this space.

## DISRUPTIVE INNOVATIONS

Insurers can increase the number of touch-points with customers by coupling traditional protection products with broader advice on financial wellness and physical well-being. Embedding products into a broader ecosystem of partners who can add value beyond protection will be key to winning new customers. UA has created an ecosystem of partners and launched GOYO in January 2017 to capitalise on this opportunity. More details on the concept can be found in the Intellectual Capital section of the report.

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# MANAGEMENT DISCUSSION AND ANALYSIS

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## RISKS AND OPPORTUNITIES

### RISK REVIEW

UA's approach to risk management aims to protect the company's capital, enhance value creation, optimise its risk-return profile, support decision making and protect UA's reputation and brand. The risk review describes the company's risk management framework and risk governance, reports on capital adequacy, and presents an analysis of its main risks.

### MISSION AND OBJECTIVES OF RISK MANAGEMENT

The mission of risk management at UA is to enhance the value of the company by embedding disciplined risk taking in its culture, in which risk-reward trade-offs are transparent, understood and risks are appropriately rewarded.

The company's major risk management objectives are to:

- Protect the capital base by monitoring that risks are not taken beyond the company's risk tolerance
- Enhance value creation and contribute to an optimal risk-return profile by providing the basis for efficient capital deployment
- Support decision-making processes by providing consistent, reliable and timely risk information
- Protect UA's reputation and brand by promoting a sound culture of risk awareness and disciplined, and informed risk taking

### RISK MANAGEMENT FRAMEWORK

The risk management framework is based on a governance process that sets forth clear responsibilities for taking, managing, monitoring and reporting risks by the Executive Committee.

The UA risk policy is the company's main risk governance document; it specifies the company's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to Board Audit and Compliance Committee (BACC) and the Board of Directors. The company has procedures to refer risk issues to the BACC and the Board of Directors in a timely manner. To foster transparency, the Board receives quarterly risk grid reports and additional updates. The company regularly measures and quantifies material risks to which it is exposed.

### RISK GOVERNANCE

At UA, we believe that corporate governance is a cornerstone of our operations. Risk management is part and parcel of corporate governance. For details on the company's overall governance, including the role of the Board of Directors and Executive Committee, refer the corporate governance report.

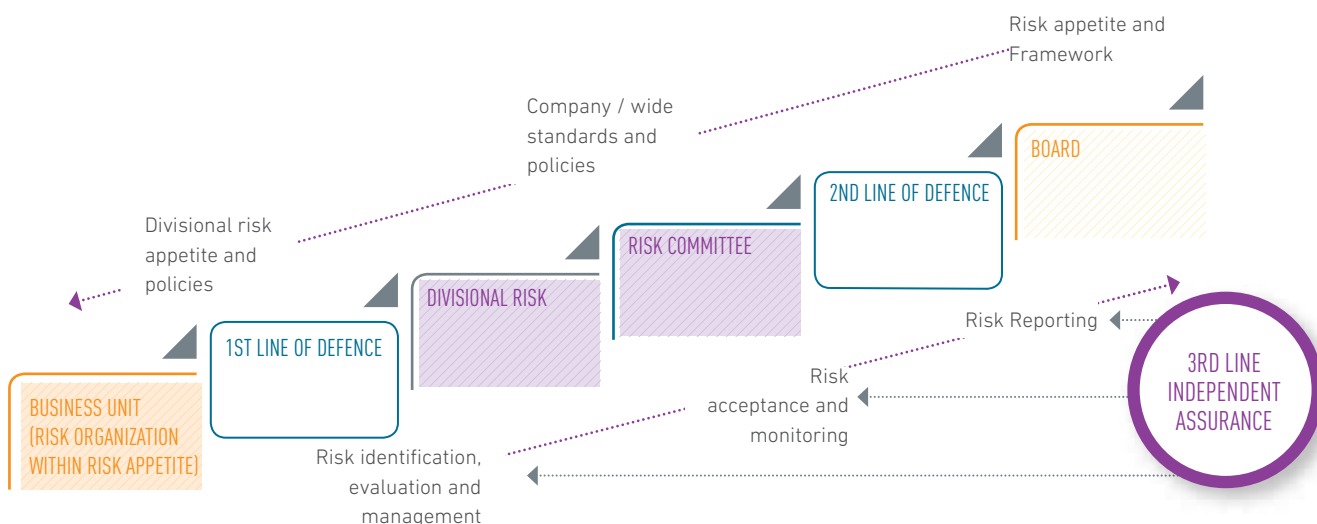
The Board is responsible and provides oversight, and sets UA's risk appetite and annually evaluates the implementation of UA's risk policy and risk management plan. The Board has delegated the responsibility to design, implement and monitor the risk management plan to the CEO, who in turn

manages this through the Risk Committee comprising the senior management.

Line managers support UA's risk management philosophy, promote compliance with its risk appetite, and manage risks within their spheres of responsibility consistent with risk tolerances as per the delegated authority levels. Other personnel are responsible for executing enterprise risk management in accordance with established directives and protocols. Risk management is, however, a team effort and every employee will be responsible for managing risks in his / her working environment and therefore assist to identify risks at all levels and in all functions of the business as required by the integrated risk management plan. Regular and formal risk analysis provides the basis for risk identification and evaluation, and the appropriate risk responses and mitigation.

The management ensures continuous and regular measurement of risks, and reports the Company's risk performance to the Board Audit and Compliance Committee (BACC).

Line management, the risk function and internal audit form our three lines of defence as depicted on the next page.



## 1ST LINE OF DEFENCE

Business units are accountable for managing all risks relating to the respective unit. Department level detailed risk grids are maintained for this purpose and is reviewed regularly for any changes. Identified risks and their status and any new and potential risks are escalated to the BACC.

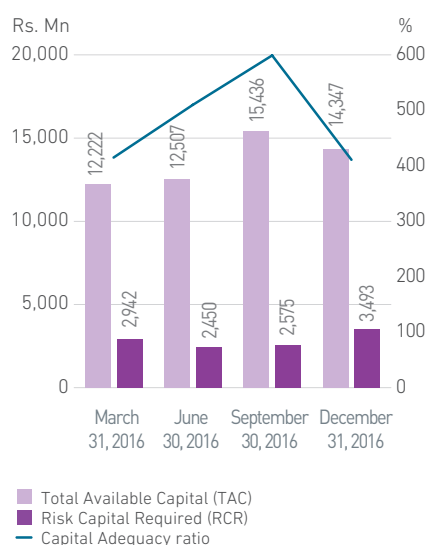
## 2ND LINE OF DEFENCE

The risk committee with the guidance of the BACC and the Board reviews applicability and proper execution of company risk policies and standards on a regular basis.

## 3RD LINE OF DEFENCE

This is the independent assurance by outsourced internal auditors and external auditors regarding the adequacy and improvements required to existing controls.

## CAPITAL ADEQUACY RATIO



The chart below shows the estimated impact on the company's capital adequacy ratio of one percentage point increase / decrease in yield curve

The sensitivities are considered as separate scenarios.

OBJECTIVES	BASE CASE	ONE PERCENTAGE POINT INCREASE IN YIELD CURVE	ONE PERCENTAGE POINT DECREASE IN YIELD CURVE
	RS '000	RS '000	RS '000
Total Available Capital (TAC)	14,346,884	14,963,169	14,318,376
Formula Risk-based Capital Required (RCR)	3,492,978	3,687,652	3,308,593
Surrender Value Capital Charge (SVCC)	-	24,915	-
Risk Based Capital requirement (RCR)	3,492,978	3,687,652	3,308,593
	%	%	%
Risk-based Capital Adequacy Ratio (CAR)	411	406	433

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In addition to the sensitivities shown in the preceding section, the company also evaluates certain stress scenarios on the Capital Adequacy Ratio (CAR). Scenarios are defined as events that have a very small probability of occurring but that could, if realised, negatively affect the CAR. As reflected in the table opposite lapse risk represents the company's largest life insurance risk-specific exposure.

Scenario: Lapse risk

- Parallel upward shift of 300 basis points to the risk-free yield curves
- Increase in base lapse rates of 50% for all future years

OBJECTIVES	BASE CASE RS '000	300 BASIS POINT INCREASE IN YIELD CURVE WITH 50% LAPSE RATES FOR ALL FUTURE YEARS RS '000
Total Available Capital (TAC)	14,346,884	13,951,121
Formula Risk-based Capital Required (RCR)	3,492,978	1,938,339
Surrender Value Capital Charge (SVCC)	-	-
Risk Based Capital requirement (RCR)	3,492,978	1,938,339
	%	%
Risk-Based Capital Adequacy Ratio (CAR)	411	720

## DETERMINATION 1

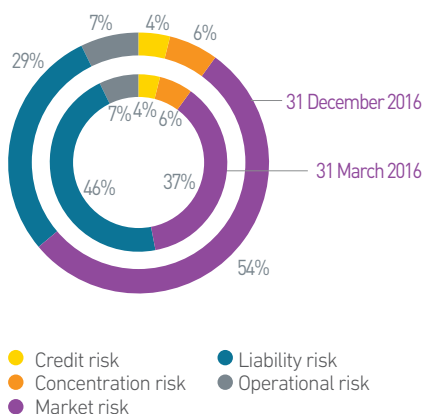
### EXCESS IN APPROVED ASSETS



Every insurer carrying on a long term insurance business shall invest the balance assets of the Long Term Insurance Fund [referred to in Section 38 of the Act and also known as Insurance Provision Life] in certain types of investments (Approved assets) subject to limitations stipulated therein: The approved assets have higher credit profiles which ensure that the life fund is secured. The graph opposite shows that UA has maintained a significant excess in approved assets over the quarters.

## RISK CAPITAL REQUIRED BY RISK TYPE

The chart below shows UA's risk capital required by type of risk as of 31 December 2016 and 31 March 2016 respectively. As of 31 December 2016, the largest proportion of UA risk capital required arose from market risk which comprised 54% of the total. Liability risk was the second largest, comprising 29%.



## ANALYSIS BY RISK TYPE

### UA RISK CATEGORIES

The diagram below shows UA risk categories and significant risks are discussed in pages to follow.

## LIABILITY / INSURANCE RISK

Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities. The exposure is transferred to UA through the underwriting process. UA actively seeks to write those risks it understands and that provide a reasonable opportunity to earn an acceptable profit. UA manages the customer risks it assumes, and minimises unintended underwriting risks, through such means as:

- Establishing limits for underwriting authority
- Requiring specific approvals for transactions above established limits or new products
- Using a variety of reserving and modelling methods
- Ceding insurance risk through external proportional or non-proportional reinsurance treaties and facultative single-risk placements.

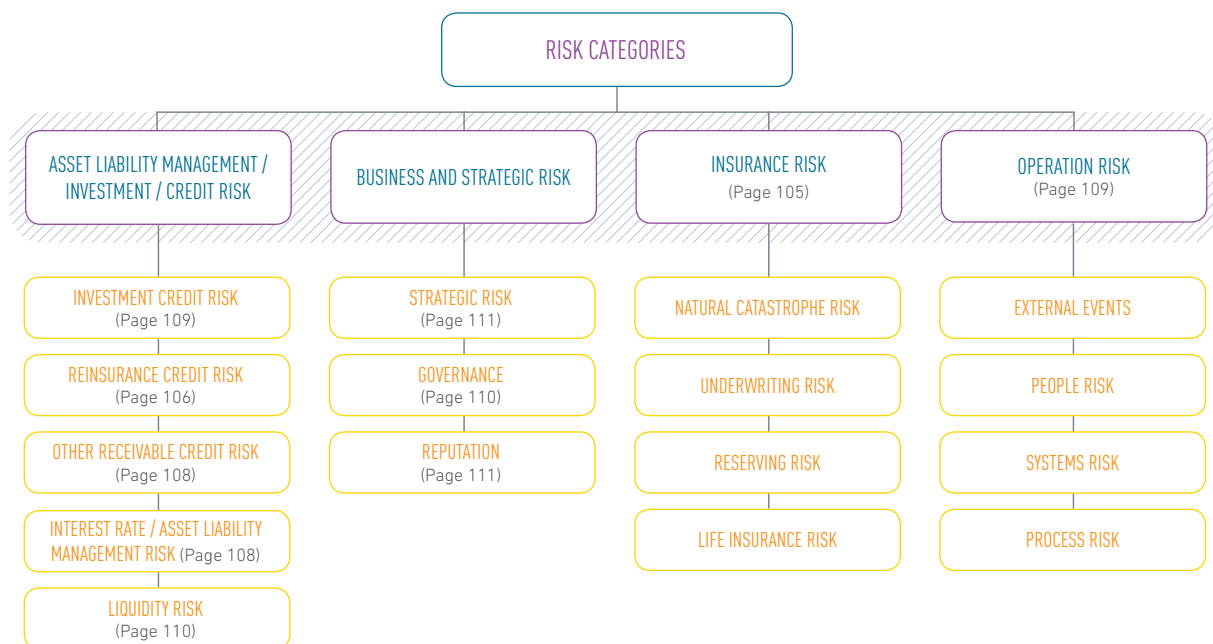
The risks associated with life insurance include:

- Mortality risk – when on average, the death incidence among policyholders is higher than expected
- Longevity risk – when on average, annuitants live longer than expected
- Morbidity risk – when on average, the incidence of sickness or disability among policyholders is higher or recovery rates from disability are lower than expected

- Policyholder behaviour risk – on average, policyholders discontinue or reduce contributions or withdraw benefits prior to the maturity of contracts at a rate that is different from expected
- Expense risk – expenses incurred in acquiring and administering policies are higher than expected
- New business risk – volumes of new business are lower than sufficient to cover fixed acquisition expenses
- Market risk – the risk associated with the Company's balance sheet positions where the value or cash flow depends on financial markets, which is analysed in the 'market risk' section
- Credit risk – the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations, which is analysed in the 'credit risk' section.

A more diversified portfolio of risks is less likely than an undiversified portfolio to be affected across the board by a change in any subset of the risks. As a result, the offsetting effects between unit-linked and traditional business reduce some of the risk associated with the life business.

From a risk-management perspective, unit-linked products are designed to reduce much of the market and credit risk associated with UA's traditional business. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of



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the company's management fees are linked to the value of funds under management, and hence are at risk if fund values decrease. To the extent that there are guarantees built into the product design, unit-linked products carry mortality / morbidity and market risks. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by mortality and morbidity charges.

Other life insurance liabilities include traditional life insurance products, such as protection and life annuity products. Protection products carry mortality, longevity and morbidity risks, as well as market and credit risks. Epidemics and lifestyle changes are among the most significant factors that could result in earlier or more claims than expected. Disability, defined in terms of the ability to perform an occupation, could be affected by economic conditions. To reduce pricing cross-subsidies, where permitted, premiums are adjusted for factors such as age, gender and smoker status. Policy terms and conditions and disclosure requirements in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that could result in severe financial loss.

In the life annuity business, medical advances and improved social conditions that lead to increase longevity is the most significant insurance risk. Annuitant (beneficiary) mortality assumptions include allowance for future mortality improvements.

The company is also exposed to risks posed by policyholder behaviour, and fluctuating expenses. Expense risk is reduced by carefully controlling expenses, and through regular expense analysis and allocation exercises.

## NATURAL CATASTROPHE RISK

Impact of natural catastrophes spread of contagious diseases are being periodically

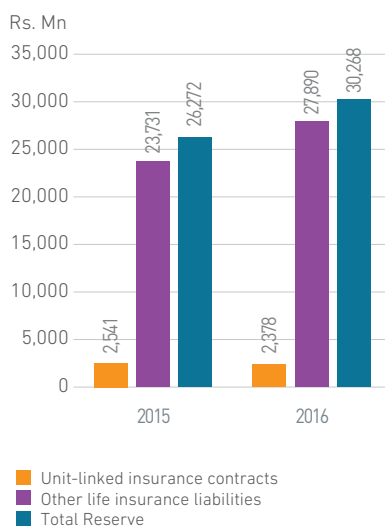
evaluated. Sufficient XOL level are ensured. UA has retained the XOL limits per annum as well as per event relating to catastrophes.

## CONCENTRATION RISK

The company defines concentration risk as the risk of exposure to increased losses associated with inadequately diversified portfolios of assets or obligations. Concentration risk for a life insurer may arise with respect to investments in a geographical area, economic sector, or individual issuers, or due to a concentration of business written within a geographical area, of a policy type, or of underlying risks covered.

Observing best estimate assumptions on cash flows related to benefits of insurance contracts gives some indication of the size of the exposure to risks and the extent of risk concentration. The following graph shows the company's concentration of risk within by line of business based on reserves for life insurance on a net basis. The company's exposure to life insurance risks varies significantly by line of business and may change over time.

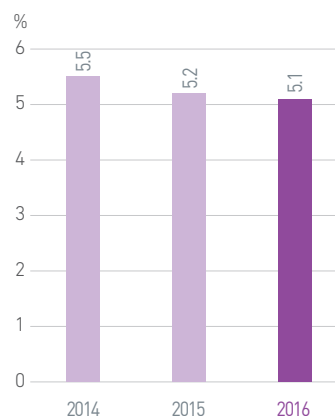
## RESERVE COMPOSITION



## REINSURANCE

The company's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the financial position and achieving capital efficiency. UA structures and aligns its reinsurance programs to achieve an optimum risk-return ratio. The company is able to manage its risks to retain a significant and stable portion of its risk exposure. The cession rate for reinsurers was 5.1% and 5.2% as of December 31, 2016 and December 31, 2015, respectively.

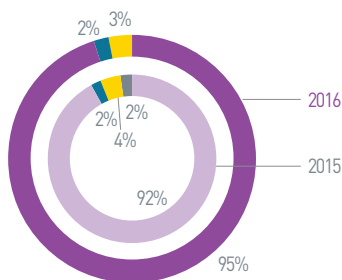
## CESSION RATE



Increased diversity in product portfolio and negotiation of reinsurance rates helped decrease in cession ratio.

## CORPORATE DEBT SECURITIES – CONCENTRATION RISK BY INDUSTRY

### COPORATE DEBT SECURITIES

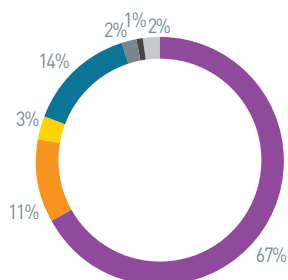


- Banking, Finance and Insurance
- Beverage, Food and Tobacco
- Diversified Holdings
- Manufacturing

95% of UA corporate debt securities represent the investment in the banking, finance and insurance sector. This is mainly due to credit quality and stability in the banking finance and insurance sector.

## QUOTED EQUITIES – CONCENTRATION RISK BY INDUSTRY

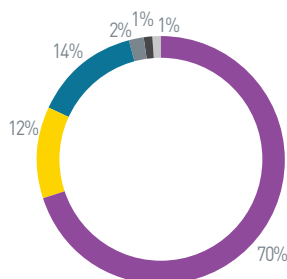
### QUOTED EQUITY - 2015



- Banking, Finance and Insurance
- Beverage, Food and Tobacco
- Diversified Holdings
- Manufacturing
- Construction and Engineering
- Motors
- Hotels and Travels

UA predominantly invested in equities of the banking, finance and insurance sector considering credit risk and stability.

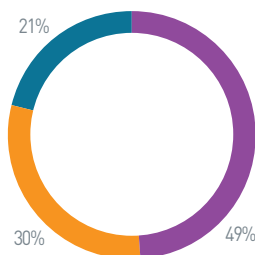
### QUOTED EQUITY - 2016



- Banking, Finance and Insurance
- Diversified Holdings
- Manufacturing
- Construction and Engineering
- Motors
- Hotels and Travels

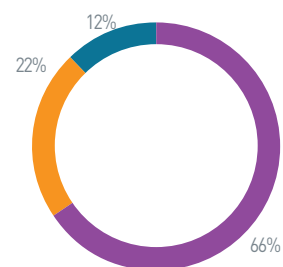
## MARKET RISK

### COMPONENT OF MARKET RISK - 31 MARCH 2016



- Interest risk
- Equity risk
- Property risk

### COMPONENT OF MARKET RISK - 31 DECEMBER 2016



- Interest risk
- Equity risk
- Property risk

As of 31 December 2016, the largest proportion of UA's market risk arose from interest rate risk which accounted for 66% of the total market risk. Equity risk was the second largest, accounting for 22%.

Compared with the 31 March 2016, as at 31 December 2016 composition of the market risk has changed significantly. Prominence of the interest rate risk increased due to the volatility of the market.

Market risk is the risk associated with the company's financial position where the value or cash flow depends on financial markets. Risk factors include:

- Equity market prices
- Property market prices, and
- Interest rates

The company manages the market risk of assets relative to liabilities on an economic total balance sheet basis. This is done to achieve the maximum risk-adjusted excess return on assets relative to the liability benchmark, while taking into account the company's risk tolerance and local regulatory constraints.

The company has policies and limits to manage market risk and keeps its strategic asset allocation in line with its risk capacity to control risk aggregation and ensure a consistent approach to constructing portfolios.

The company has set limits on concentration in investments in single issuers and certain asset classes as well by how much asset

**THE COMPANY IS ABLE TO MANAGE ITS RISKS TO RETAIN A SIGNIFICANT AND STABLE PORTION OF ITS RISK EXPOSURE. THE CESSION RATE FOR REINSURERS WAS 5.1% AND 5.2% AS OF DECEMBER 31, 2016 AND DECEMBER 31, 2015, RESPECTIVELY.**

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# MANAGEMENT DISCUSSION AND ANALYSIS

interest rate sensitivities can deviate from liability interest-rate sensitivities. The company also limits illiquid investments.

The Investment Committee reviews and monitors the company's strategic asset allocation and tactical boundaries, and monitors company asset / liability exposure. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation. Risk assessment reviews include the analysis of the management of interest rate risk for each major maturity bucket and adherence to the aggregate positions with risk limits. The company applies processes to manage market risks and analyse market risk hotspots. Actions to mitigate risks are taken if necessary to manage fluctuations affecting asset / liability mismatch and risk-based capital.

## RISK FROM EQUITY SECURITIES AND PROPERTY

The company is exposed to risks from price fluctuations on equity securities and property which could affect the company's liquidity, reported income, surplus and regulatory capital position. Returns on unit linked contracts, whether classified as insurance or investment contracts, may be exposed to risks from equity and property. But these risks are borne by policyholders. However, the company is indirectly exposed to market movements from unit-linked contracts with respect to both earnings and economic capital. Market movements affect the amount of fee income earned when the fee income level is dependent on the valuation of the asset base. Therefore, the value of in-force business of the unit linked portfolio can be negatively affected by adverse movements in equity and property markets.

The company manages its risks from equity securities and property as part of the overall investment risk management process, and applies limits as expressed in policies and guidelines.

Under Unit linked business, company maintains three funds; Fixed and Managed Funds, are managed internally, and the Equity Fund is managed by an expert external fund management entity.

## RISK FROM INTEREST RATES

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The company is exposed to interest rate risks including debt securities, reserves for insurance contracts, employee benefit plans, and loans and receivables.

UA has limits on holdings in real assets and limits on deviations of asset interest rate sensitivities from liability interest rate sensitivities. The company also manages credit spread risk, which describes the sensitivity of the values of assets and liabilities due to changes in the level or the volatility of credit spreads over the risk-free interest rate yield curves. Movements of credit spreads are driven by expected probability of defaults, expected losses in cases of defaults of issuers, the uncertainty of default probabilities and losses, as well as actual defaults of issuers.

Returns on unit linked contracts, whether classified as insurance contracts, are at the risk of the policyholder; however, the company is exposed to fluctuations in interest rates in so far as they affect the amount of fee income earned if the fee income level is dependent on the valuation of the asset base.

## CREDIT RISK

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations. The company's exposure to other credit risks is derived from the following main categories of assets:

- Investment portfolio
- Reinsurance assets, and
- Receivables

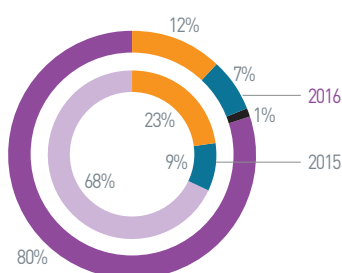
The Company's objective in managing credit risk exposures is to maintain them within parameters that reflect the company's strategic objectives and risk tolerance. Sources of credit risks are assessed and monitored, and the company has policies to manage the specific risks within the various subcategories of credit risks. To assess counterparty credit risk, the company uses the ratings assigned by external rating agencies. The Company actively uses collateral to mitigate credit risks. Nevertheless, underlying credit risks are managed independently from the collateral.

## CREDIT RISK CONCENTRATION

The Company limits and regularly monitors credit exposures to individual and related counterparties. There is no unapproved material exposure in excess of the Company's limits for counterparty aggregation as of December 31, 2016 or December 31, 2015.

# 100% REINSURANCE ASSETS AA-

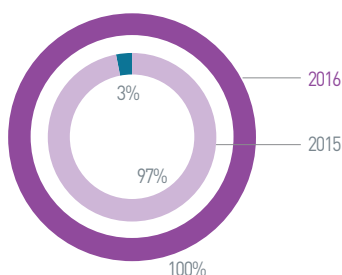
## INVESTMENT PORTFOLIO



- AA+ to AA- (Fitch)
- A+ to A- (Fitch)
- A+ to A- (ICRA)
- Risk Free

## CREDIT RISK RELATING TO REINSURANCE ASSETS

### REINSURANCE



- AA-
- A+

## POLICYHOLDER LOANS

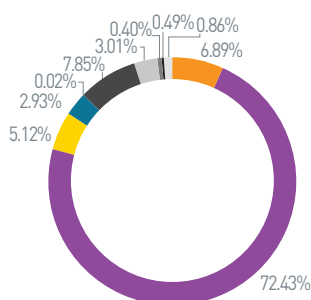
AGE ANALYSIS	31.12.16 RS MN	31.12.15 RS MN
Past due not impaired	52	54
61 - 90 days	23	23
91-180 days	65	57
181 days +	726	609
	867	743
Surrender value of the life policies	1,471	1,252

## PREMIUM RECEIVABLES

AGE ANALYSIS	31.12.16 RS MN	31.12.15 RS MN
0 - 30 days	247	204
Over 30 days	Nil	Nil

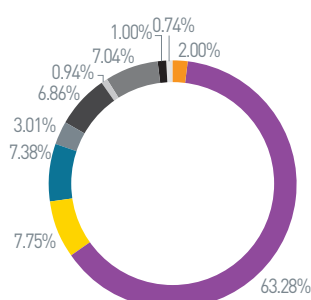
## CASH AND BANK

### CASH & BANK - 2015



- AAA
- AA+
- AA
- AA-
- A+
- A
- A-
- BB+
- BBB
- Cash in hand

### CASH & BANK - 2016



- AAA
- AA+
- AA
- AA-
- A+
- A
- A-
- BB+
- BBB
- Cash in hand

## OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events such as outsourcing, catastrophes, legislation, or fraud.

UA has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risks.

Within this framework, the company:

- Documents and reviews loss events exceeding a threshold determined by UA's Risk Policy. Remedial action is taken to avoid a recurrence of such operational loss events.
- Conducts risk assessments where operational risks are identified for key business areas. Risks identified and assessed above a certain threshold must be mitigated. Risk mitigation plans are documented and tracked on a quarterly basis. In the assessments, the company uses such sources of information as internal control assessments, audit findings and loss event data.

## OPERATIONAL RISK

The company has specific processes and systems in place to focus on high priority operational matters such as managing information security and third party suppliers, as well as combating fraud.

## DATA SECURITY RISK

UA mitigates and responds to cyber risks and threats to data security. Data held by UA's business partners is protected through contractual arrangements and controls that are built into 'cloud governance' procedures designed to secure UA's data in accordance with regulatory requirements and UA's information security policies.

## 3RD PARTY SUPPLIER RISK

The company regularly assesses risks associated with strategic suppliers to verify that suppliers remain financially viable and able to deliver services, and that the company is not exposed to geographic and supplier concentration risks.

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# MANAGEMENT DISCUSSION AND ANALYSIS

## FRAUD RISK

Preventing, detecting and responding to fraud is embedded in UA's business. Both claims and non-claims fraud are included in the common framework for assessing and managing operational risks.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The company considers controls to be key instruments for monitoring and managing operational risks. The Board has overall responsibility for the company's risk management and internal controls, in particular for their adequacy and integrity. The Company's internal control system increases the reliability of UA's financial reporting, makes operations more effective, and aims to ensure legal and regulatory compliance. The internal controls system is designed to manage rather than eliminate the material risks that business objectives might not be achieved. It can provide only reasonable, not absolute, assurance against material financial misstatement or loss.

## AWARENESS AND INTERNAL CONTROLS

The company encourages risk awareness and understanding of controls with communication and training. Primary risk management and internal control systems are established at company level and implemented company-wide. The management is responsible for identifying, evaluating and addressing significant risks, and designing and maintaining internal controls. Key processes and controls in the organisation are subject to reviews by outsourced internal auditors who are one of the big audit firm. Significant risks and mitigation actions are reported regularly to the Board Audit and Compliance Committee (BACC).

## INTERNAL AUDITS

In 2016 the internal auditor carried out 4 head office reviews and 36 branch audit reviews. The reports of those reviews were discussed at the BACC. Actions were taken to strengthen the internal control framework where applicable.

During the year under review, the Company further enhanced specific areas of the internal control framework, focusing on significant financial reporting controls as well as operational controls in investment management and branch processes.

## RISK ALERT TOOLS

Also during the year under review, the Company implemented 'Forestpin' risk alert tool. This facilitates the timely identification of any outliers relating to payments of the company. Such alerts have to be analysed, investigated / attended to by finance personnel and cleared within a given time line. Forestpin has further strengthened the control environment of the Company.



Forestpin risk alert system

## REVIEW AND APPROVAL OF FINANCIAL REPORTS

The Board reviews and approves quarterly financial statements and the annual report. This ensures that both the Board and management have sufficient opportunity to review and challenge the financial statements and other significant disclosures before they are made public.

## EXTERNAL AUDIT

The external auditors also regularly report observations, findings and recommendations that arise as a result of their independent interim and annual reviews and testing of internal controls over financial reporting and operations.

## LIQUIDITY RISK

Liquidity risk is the risk that the company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. UA's policy is to maintain adequate liquidity and contingent liquidity to meet its liquidity needs under normal conditions and in times of stress. To achieve this, the company assesses, monitors and manages its liquidity needs on an ongoing basis.

Detailed liquidity forecasts are regularly conducted, based on business' input and the company's forecasts. As part of its liquidity management, the company maintains sufficient cash and cash equivalents and high-quality liquid investment portfolios to meet outflows under expected and stressed conditions. The company takes into account the amount, availability and speed at which these sources can be accessed.

**UA'S POLICY IS TO MAINTAIN ADEQUATE LIQUIDITY AND CONTINGENT LIQUIDITY TO MEET ITS LIQUIDITY NEEDS UNDER NORMAL CONDITIONS AND IN TIMES OF STRESS. TO ACHIEVE THIS, THE COMPANY ASSESSES, MONITORS AND MANAGES ITS LIQUIDITY NEEDS ON AN ONGOING BASIS.**

The company limits the percentage of the investment portfolio that is not readily realisable and regularly monitors exposures to take action, if necessary, to maintain an appropriate level of asset liquidity.

## STRATEGIC RISK

Strategic risk corresponds to the risk that UA is unable to achieve its strategic targets.

Strategic risks can arise from:

- Inadequate assessment of strategic plans
- Ineffective implementation of strategic plans, and
- Unexpected changes to assumptions underlying strategic plans

UA defines the strategy as the long term plan of action designed to allow the company to achieve its goals and aspirations. The company works to reduce unintended risks of strategic business decisions through its risk assessment processes and tools. In 2016, the Executive Committee assessed the

key strategic risk scenarios, looking at 2016 and beyond. The company assessed risks in executing the company's transformation program, delivering on its customer strategy, information security and cyber risks.

We have put mitigating actions in place to manage and carry out the company's transformation; to meet the challenge of evolving customer needs and changes in the distribution model affected by digitalisation; and to strengthen UA's ability to handle and protect data and information in anticipation of a rapidly evolving external environment.

## RISKS TO UA'S REPUTATION

Risks include acts or omissions by the company or any of its employees that could damage the company's reputation or lead to a loss of trust among its stakeholders. Every risk type has potential consequences for UA's reputation. Effectively managing each type of risk helps reduce threats to UA's reputation.

The company aims to preserve its reputation by adhering to applicable laws and regulations, and by following the core values, principles and the code of conduct of the company, which promotes integrity and good business practices.

Stakeholder Relationships and Materiality	22	Capital Management Review		Social and Relationship Capital	80
External Environment	34	Financial Capital	50	Intellectual Capital	93
Competitive landscape	40	Manufactured Capital	59	Outlook	100
Strategy and Resource Allocation	46	Natural Capital	61	<b>Risk and Opportunities</b>	<b>102</b>
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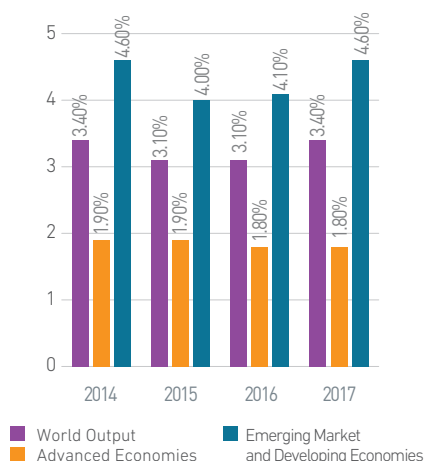
# MANAGEMENT DISCUSSION AND ANALYSIS

## SHARE INFORMATION

### GLOBAL REVIEW

Global growth is projected to slow to 3.1% in 2016 before recovering to 3.4% in 2017. The subdued outlook for advanced economies follows the June U.K. vote in favour of leaving the European Union (Brexit) and weaker-than-expected growth in the United States.

### GLOBAL ECONOMIC GROWTH



These developments have put further downward pressure on global interest rates, as monetary policy is now expected to remain accommodative for longer. Although the market reaction to the Brexit shock was reassuringly orderly, the ultimate impact remains very unclear, as the fate of institutional and trade arrangements between the United Kingdom and the European Union is uncertain.

Financial market sentiment toward emerging market economies has improved with expectations of lower interest rates in advanced economies, reduced concern about China's near-term prospects following policy support for growth, and some firming of commodity prices. However prospects differ sharply across countries and regions, with emerging Asia in general and India in particular showing robust growth and sub-Saharan Africa experiencing a sharp slowdown.

In advanced economies, a subdued outlook subject to sizable uncertainty and downside risks may fuel further political discontent, with anti-immigration policy platforms gaining more traction. Several emerging market and developing economies still face daunting policy challenges in adjusting to weaker commodity prices. These worrisome prospects make the need for a broad-based policy response to raise growth and manage vulnerabilities more urgent than ever.

### LOCAL STOCK MARKET REVIEW

In 2016 the local equity market produced negative returns as measured by the benchmark indices. The All Share Price Index (ASPI) and the Standard and Poor's Sri Lanka 20 Index (S&PSL20) fell by 9.66% and 3.56% respectively. During the first quarter of 2016 these indices fell steeply then gained momentum until the second quarter which did not sustain thereafter, due to various external and internal factors. The overall market capitalisation as at the end of 2016 amounted to Rs. 2.75 trillion, 6.46% lower than end 2015. This pushed the market price to earnings ratio down from 17.98 times to 12.37 times during 2016.

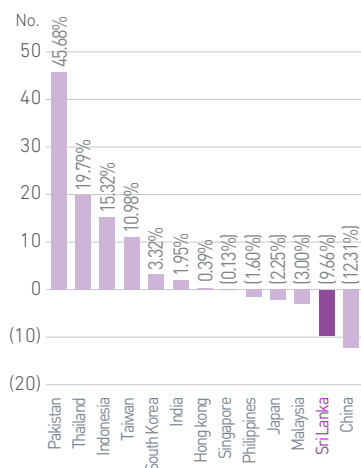
Contracting domestic economic conditions and external uncertainties were the main factors which contributed to the equity market fall in 2016.

The upward interest rate movement during 2016 resulted in investors shifting from equities to low risk fixed income asset classes. Further, the budget 2017 which focused more towards tax reforms and revenue generation had a negative influence on equity valuations. Speculation regarding the introduction of a "capital gain tax" and amendments to "withholding tax" also contributed to outflows and decline in price levels in the local equity market.

During the year the net foreign inflows amounting to Rs. 384 million was not material enough to improve the performance of the market. The downgrade of Sri Lanka's sovereign credit rating by Fitch rating to B+ with a negative outlook in February, expectation of federal rates hikes, strong performance of the US equity market were the main reasons which impacted the Foreign inflow to the country.

Due to these reasons the local equity market performed poorly compared with other markets in the region.

## REGIONAL EQUITY MARKET RETURNS 2016

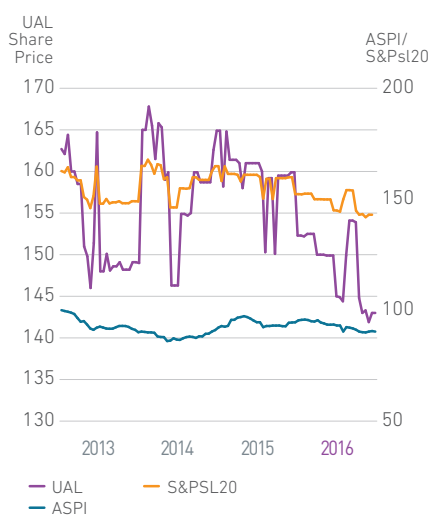


## UA SHARE

Total number of shares in issue as at 31/12/2016	58,928,572
Public shareholding as at 31/12/2016	6.07%
Stock symbol	UAL.N0000

The UA share decreased by 13% to Rs. 143.00 as at 31 December 2016 from Rs. 165.00 recorded in the previous financial year. The company share was traded between a low of Rs. 127.00 and high of Rs. 167.90 during the year 2016. As discussed above, negative performance of the capital markets negatively impact the UA share price. Adequate corporate disclosures are provided to the financial community by UA in order to allow optimum pricing of UA securities. The beta of the UA share as of 31 December 2016 stood at 0.87.

## UA SHARE PERFORMANCE VS MARKET PERFORMANCE



## ISSUED SHARE CAPITAL

The number of shares in issue by the company remained as previous year at 58,928,572 shares.

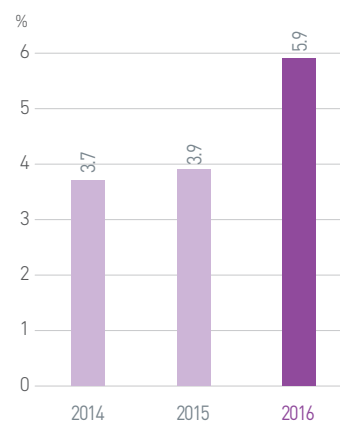
## DIVIDEND

The dividend policy of UA seeks to ensure a dividend payout which correlates with the growth in profits, while ensuring that the company retains adequate funds to meet the risk based capital requirements as stipulated by the Insurance Board of Sri Lanka (IBSL) in the short, medium and long term.

The Board of Directors declared a first and final dividend of Rs. 10.50 per share, based on the profits of 2016. Accordingly, the gross dividend payable out of the profits for the year ended 31 December 2016 will be Rs. 619 million, compared to the dividend of Rs. 501 million in the previous year. UA pays its dividend annually.

After considering the proposed dividend of Rs. 619 million, the capital adequacy ratio (CAR) of the company stood at 397%. This is significantly above the minimum CAR required under RBC requirements of 120%. Healthy CAR ratio reflects the sound financial position of UA.

## DIVIDEND YIELD (%)

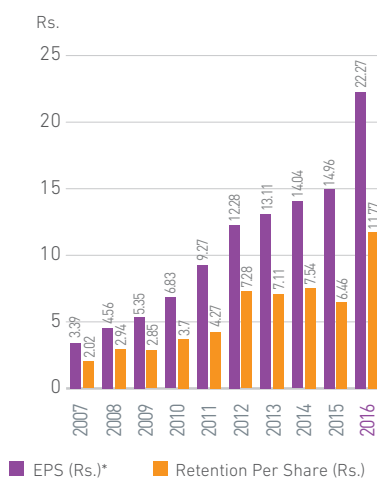


## EPS VS RETENTION RATIO

YEAR	EPS (RS.)*	RETENTION PER SHARE (RS.)	RETENTION RATIO
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%
2012	12.28	7.28	59%
2013	13.11	7.11	54%
2014	14.04	7.54	54%
2015**	14.96	6.46	43%
2016	22.27	11.77	53%

\*\* Excluding gain on disposal of UAG shares

## EPS VS. RETENTION PER SHARE



RS.  
**10.50**  
DIVIDEND PER SHARE

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UNION ASSURANCE PLC  
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# MANAGEMENT DISCUSSION AND ANALYSIS

## CONSECUTIVE HIGHER DIVIDEND PAYOUT RATIO REVEALS QUALITY OF UA EARNING OVER THE YEARS

GROSS DIVIDEND VS DIVIDEND PAYOUT

YEAR	DPS (RS.)*	GROSS DIVIDENDS (RS. '000)	DIVIDEND PAYOUT RATIO
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%
2012	5.00	428,571	41%
2013	6.00	514,286	46%
2014	6.50	557,143	46%
2015	8.50	500,893	45%
2016	10.50	618,750	47%

\* Diluted for subsequent bonus issues, sub division of shares and rights issues.

GROSS DIVIDEND VS. DIVIDEND PAYOUT



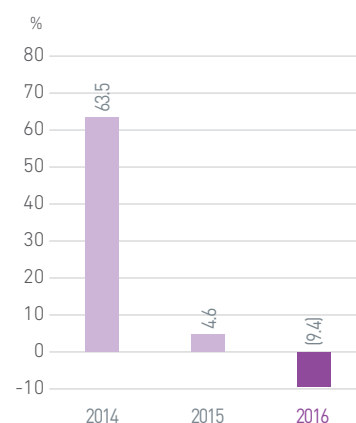
### EARNINGS PER SHARE

The earning per share (EPS) for the financial year decreased by 29% to Rs. 22.27 per share (2015 – Rs. 31.20 per share) due to the decrease in profits. It is noteworthy to mention that, on a recurring earning basis, the EPS after adjusting for capital gain arising from the sale of Union Assurance General Limited shares in 2015, increased by 49%. The growth in the recurrent EPS is on account of the increase in operating profits. The items impacting profits are discussed in depth in the Financial Capital section of this Report.

### TOTAL SHAREHOLDER RETURN

Total shareholder return (TSR) of UA share was negative 9.4% compared with 4.6% recorded last year. As discussed above, the negative performance of the capital market impacted the performance of the UA share in the current year. Nevertheless dividend yield of the company increased by 51% to 5.9% as at 31 December 2016 from 3.9% in the previous financial year. This is due a decrease in UA share price and increase in dividend per share.

TOTAL SHAREHOLDER RETURNS (%)



## MARKET CAPITALISATION

The market capitalisation of the company decreased by 13% to Rs. 8.43 billion as at 31 December 2016 from Rs. 9.72 billion recorded in previous financial year. At the financial year end, UA represented 0.3% of the total market capitalisation of the CSE (2015 – 0.3%).

## PRICE EARNINGS RATIO

The Price Earnings Ratio (PER) of the UA share was 6.42 times as at 31 December 2016 compared to 5.29 times recorded in the previous financial year. It is noteworthy to mention that, on a recurring earning basis, the 2015 PER after adjusting for capital gain arising from the sale of Union Assurance General Limited shares in 2015 was 11.03 times. The decrease in the PER was driven by the 15% decline in the share price and the 49% increase in the recurrent EPS. The UA shares was traded at a discount compared

to the market PER of the CSE of 12.37 times as at the end of the financial year (2015 : 17.98 times).

## PRICE TO BOOK RATIO

The price to book ratio of the company as at 31st December 2016 was 2.21 times, a decrease of 27% from 2.81 times recorded in the previous financial year. The ratio decreased due to the increase in the net assets value per share to Rs. 65.6 and the decrease in UA share price as discussed above.

## LIQUIDITY

During the financial year, 134,090 shares changed hands over 500 transactions compared to 248,509 shares changing hands over 900 transactions in the previous financial year. The average daily turnover of the UA shares was Rs. 56,240, in comparison to the Rs. 114,076 recorded in the previous financial year.

## DISTRIBUTION AND COMPOSITION OF SHAREHOLDERS

UA has a diversified shareholder base, both geographically and in the ratio of private to institutional investors. The total number of shareholders decreased from 1,334 as at 31st December 2015 to 1,326 as at 31st December 2016. On 31st December 2016, UA had 1,229 registered individual shareholders, representing 93% of the shareholders; 71% 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% of UA's ordinary share capital.

The top twenty shareholders hold 96.87% of UA's shares. The Directors hold 0.01% of the total outstanding shares in their individual capacity.

	2016	2015	2014
Market capitalisation (Rs. bn)	8.43	9.72	14.06
Recurrent earnings per share (Rs.)	22.27	14.96	14.05
Net assets per share	65.6	58.8	72.5
Price earnings ratio (Times)	6.4	5.3	11.7
Price / book value (Times)	2.2	2.8	2.3
Dividend yield (%)	5.9	3.9	3.7
Dividend payout ratio (%)	47	44.5	46.3
Total shareholder returns (%)	(9.4)	4.6	63.5

## COMPOSITION OF SHAREHOLDERS

	31 DECEMBER 2016				31 DECEMBER 2015			
	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
Directors & spouses:	1	0.08	8,562	0.01	1	0.07	8,562	0.01
<b>RESIDENT:</b>								
Individuals	1217	91.78	2,151,832	3.65	1234	92.50	2,205,003	3.74
Institutions	94	7.09	5,754,382	9.77	87	6.52	5,703,389	9.68
<b>NON RESIDENT:</b>								
Individuals	11	0.83	25,258	0.04	10	0.75	28,080	0.05
Institutions	2	0.15	7,000	0.01	1	0.07	2,000	0.00
Shareholders holding more than 10%:	1	0.08	50,981,538	86.51	1	0.07	50,981,538	86.51
<b>Total</b>	<b>1,326</b>	<b>100</b>	<b>58,928,572</b>	<b>100.00</b>	<b>1,334</b>	<b>100</b>	<b>58,928,572</b>	<b>100</b>

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# MANAGEMENT DISCUSSION AND ANALYSIS

## DISTRIBUTION OF SHAREHOLDERS

RANGE OF SHAREHOLDERS		31 DECEMBER 2016				31 DECEMBER 2015			
		NO. OF SHAREHOLDERS	%	NO. OF SHARES	%	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
Less than	1,000	938	70.74	241,401	0.41	938	70.31	246,385	0.42
1,001	10,000	334	25.19	1,063,873	1.81	339	25.41	1,054,314	1.79
10,001	100,000	47	3.54	1,144,962	1.94	51	3.82	1,267,792	2.15
100,001	1,000,000	5	0.38	1,134,026	1.92	4	0.30	1,015,771	1.72
Over	1,000,001	2	0.15	55,344,310	93.92	2	0.15	55,344,310	93.92
<b>Total</b>		<b>1,326</b>	<b>100.00</b>	<b>58,928,572</b>	<b>100.00</b>	<b>1,334</b>	<b>100.00</b>	<b>58,928,572</b>	<b>100.00</b>

## MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY

MARKET VALUE	2016	2015
Highest price (Rs.)	167.90 (26 February 2016)	200.00 (23 July 2015)
Lowest price (Rs.)	127.00 (28 December 2016)	150.00 (29 April 2015)
Year end price (Rs.)	143.00	165.00

## TRADING STATISTICS

	2016	2015
Number of transactions	509	936
Number of shares traded	134,090	248,509
Value of shares traded (Rs.)	20,527,634	41,637,617
Percentage of total shares in issue (%)	0.2	0.4
Market capitalisation (Rs.)	8,426,785,796	9,723,214,380
Percentage of total market capitalisation (%)	0.3	0.3
Dividends	619	501

## DIRECTORS' SHAREHOLDINGS

NO. OF SHARES AS AT	31.12.2016	31.12.2015
Mr. Ajit D. Gunewardene (Chairman)	8,562	8,562
Mrs. D. C. Alagaratnam	Nil	Nil
Mr. S. Rajendra	Nil	Nil
Mr. A. S. De Zoysa	Nil	Nil
Mr. G. F. C. De Saram	Nil	Nil
Mr. H. A. J. De S. Wijeyeratne	Nil	Nil
Mr. A. D. Pereira	Nil	Nil

## CEO'S SHAREHOLDING

NO. OF SHARES AS AT	31.12.2016	31.12.2015
Mr. A. D. Pereira	Nil	Nil

## TWENTY LARGEST SHAREHOLDERS

NAME OF SHAREHOLDER	AS AT 31 DECEMBER 2016		AS AT 31 DECEMBER 2015	
	NO OF SHARES	%	NO OF SHARES	%
1 John Keells Holdings PLC	50,981,538	86.51	50,981,538	86.51
2 Whittall Boustead Limited	4,362,772	7.40	4,362,772	7.40
3 Waldock Mackenzie Ltd / Mr.S.N.P.Palihena and Mrs. A.S.Palihena	600,000	1.02	600,000	1.02
4 Corporate Holdings (Private) Limited	149,373	0.25	149,373	0.25
5 Waldock Mackenzie Ltd / Hi-Line Trading (Pvt) Ltd	146,360	0.25	146,360	0.25
6 Dr. (Mrs.) V. Bandaranayake	120,038	0.20	120,038	0.20
7 People's Leasing & Finance PLC / Mr.L.P. Hapangama	118,255	0.20	118,155	0.20
8 People's Leasing & Finance PLC / Mr.L.H.L.M.P Haradasa	88,392	0.15	88,192	0.15
9 Waldock Mackenzie Limited / Dr.H.S.D.Soyso	60,066	0.10	60,066	0.10
10 Mr. H.A.D. Ratnapala	56,250	0.10	56,250	0.10
11 Mr. J.W. Nanayakkara	56,250	0.10	56,250	0.10
12 Mrs. R.Z. Wikramanayake	53,585	0.09	53,585	0.09
13 Dr. N.I. Wikramanayake	53,059	0.09	53,059	0.09
14 Dr. A.C. Visvalingam	45,213	0.08	50,459	0.09
15 Mr. H.A. Rehmanjee	40,000	0.07	40,000	0.07
16 Mr. N.D. Kurukulasuriya	39,000	0.07	39,000	0.07
17 Mrs. L. Amaradasa	33,750	0.06	33,750	0.06
18 Mr. S. Vasudevan	28,800	0.05	28,800	0.05
19 Mrs. M. R. Wijetunga	28,124	0.05	28,124	0.05
20 People's Leasing & Finance PLC / L.H.L Noris De Silva & Son (Pvt) Ltd	25,970	0.04	25,970	0.04
	<b>57,086,795</b>	<b>96.87</b>	<b>57,091,741</b>	<b>96.88</b>
Others	1,841,777	3.13	1,836,831	3.12
<b>Total</b>	<b>58,928,572</b>	<b>100.00</b>	<b>58,928,572</b>	<b>100.00</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## RECORD OF CHANGES IN NUMBER OF SHARES

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	-
2012	Rights @ Rs. 70	7 : 1	10,714,286	750,000,020
2015	Share repurchase	32 : 10	(26,785,714)	-
2015	Capital reorganisation		-	(125,000,020)
			<b>58,928,572</b>	<b>1,000,000,000</b>

# CORPORATE GOVERNANCE



## IDEAS CONNECTED

Corporate governance is the cornerstone of our value creation process.

# CORPORATE GOVERNANCE

## BOARD OF DIRECTORS

### AJIT D GUNewardENE

**CHAIRMAN / NON-EXECUTIVE DIRECTOR**  
(Member of the Board since May 1992)

#### BOARD COMMITTEES;

- Chairman, Remuneration Committee

#### SKILLS AND EXPERIENCE;

- Member of the John Keells Holdings PLC Board for over 20 years
- He has also served as the Chairman of the Colombo Stock Exchange and Nations Trust Bank PLC
- Has a degree in Economics
- Brings over 30 years of management experience to the Board

#### OTHER CURRENT APPOINTMENTS;

##### LISTED COMPANIES:

- Deputy Chairman of John Keells Holdings PLC
- Director of many listed companies in the John Keells Group

##### OTHERS:

- Member of the Board of SLINTEC (Pvt) Ltd, a company established for the development of Nanotechnology in Sri Lanka under the auspices of the Ministry of Science and Technology
- Director of many unlisted companies in the John Keells Group
- Chairman of Digital Mobility Solutions (Pvt.) Ltd

### GERALD DE SARAM

**INDEPENDENT NON-EXECUTIVE DIRECTOR**  
(Member of the Board since April 2009)

#### BOARD COMMITTEES;

- Member, Remuneration Committee

#### SKILLS AND EXPERIENCE;

- 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. Following the global merger of ICI and Akzo Nobel BV, he led the integration of these two large businesses in Sri Lanka
- Holds a BSc. Honours degree from the University of London
- Holds a Post Graduate Diploma in Marketing from The Chartered Institute of Marketing (CIM) of UK
- He was an active member of the Sri Lanka Institute of Marketing and a former Board Member of the IAA (Sri Lanka Chapter)

#### OTHER CURRENT APPOINTMENTS;

##### LISTED COMPANIES:

None

### ASHAN DE ZOYSA

**INDEPENDENT NON-EXECUTIVE DIRECTOR**  
(Member of the Board since April 2009)

#### BOARD COMMITTEES;

- Member, Audit and Compliance Committee
- Member, Investment Committee

#### SKILLS AND EXPERIENCE;

- Holds a Bachelor of Commerce Degree from the University of New South Wales
- Several years of overseas exposure, having worked in the fields of IT and derivative / commodity trading in Australia
- Served on the Board of AMW Group as a working Director

#### OTHER CURRENT APPOINTMENTS;

##### LISTED COMPANIES:

None

##### OTHERS

- Serves on the Board of Associated Electrical Corporation Ltd
- Serves on the Board of A. E. C. Properties (Pvt) Ltd
- Managing Director of A. E. C. Properties (Pvt) Ltd

## SURESH RAJENDRA

### NON-EXECUTIVE DIRECTOR

(Member of the Board since August 2011)

#### BOARD COMMITTEES:

- Member, Audit and Compliance Committee

#### SKILLS AND EXPERIENCE:

- Fellow member of the Chartered Institute of Management Accountants of UK
- He has over 24 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 JKH Group, he was the head of commercial and business development for NRMA Motoring & Services in Sydney, Australia, Director / General Manager of Aitken Spence Hotel Managements (Pvt) Ltd and also served on the Boards of the hotel companies of the Aitken Spence Group

#### OTHER CURRENT APPOINTMENTS:

##### LISTED COMPANIES:

- He is a member of the Group Executive Committee and is the President, Property Group of John Keells Holdings PLC
- Serves on the Board of Asian Hotels and Properties PLC

##### OTHERS:

- Director of many unlisted companies in the John Keells Group

## DILANI ALAGARATNAM

### NON-EXECUTIVE DIRECTOR

(Member of the Board since August 2011)

#### BOARD COMMITTEES:

None

#### SKILLS AND EXPERIENCE:

- A Lawyer by profession, she has been with John Keells Holdings PLC for 25 years and is a law graduate and a holder of a Masters Degree in Law

#### OTHER CURRENT APPOINTMENTS:

##### LISTED COMPANIES:

- Member of the Group Executive Committee of John Keells Holdings PLC and is President with overall responsibility for the following functions of the Group: Group Human Resources, Legal and Secretarial, Corporate Communications, Sustainability and Enterprise Risk Management and Group Sourcing.

##### OTHERS:

- Chairperson of the Legislation Sub Committee of the Ceylon Chamber of Commerce.
- Member of the National Labour Advisory Committee
- Council member of the Sri Lanka Institute of Directors
- Director of several unlisted companies in the John Keells Group

## HARIN DE SILVA WIJEYERATNE

### INDEPENDENT NON-EXECUTIVE DIRECTOR

(Member of the Board since September 2011)

#### BOARD COMMITTEES:

- Chairman, Audit and Compliance Committee
- Member, Remuneration Committee

#### SKILLS AND EXPERIENCE:

- Chief Executive Officer of the Sri Lanka Institute of Nanotechnology (Pvt) Limited
- He is an Associate member of the Institute of Chartered Accountants of Sri Lanka
- Fellow member of the Chartered Institute of Management Accountants of UK
- Brings over 27 years of 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

#### OTHER CURRENT APPOINTMENTS:

##### LISTED COMPANIES:

None

## DIRK PEREIRA

### EXECUTIVE DIRECTOR/ CHIEF EXECUTIVE OFFICER

(Appointed to the Board in May 2014)

#### BOARD COMMITTEES:

- Member, Investment Committee

#### SKILLS AND EXPERIENCE:

- Functioned as CEO of Union Assurance since 2010.
- Fellow member of the Chartered Institute of Management Accountants of

UK and a Fellow member of the Institute of Chartered Accountants of Sri Lanka.

- Holds an MBA from the University of Sri Jayewardenepura

#### OTHER CURRENT APPOINTMENTS:

##### LISTED COMPANIES:

None

##### OTHERS:

- Serves on the Board of Union Assurance General Limited as a Non-Executive Director

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# CORPORATE GOVERNANCE

## EXECUTIVE COMMITTEE

### SHERIN CADER

#### GENERAL MANAGER, FINANCE AND PLANNING

Sherin joined Union Assurance in June 2012. She has been with the John Keells Group for over 13 years serving in many capacities including as the Financial Controller at John Keells Holdings PLC. She has played diverse roles across finance and operations in financial services, IT enabled service sector and centre functions.

Sherin is a Fellow member of the Chartered Institute of Management Accountants UK and is an Associate member of the Association of Chartered Certified Accountants UK.

### IROSHINI TITTAGALLA

#### GENERAL MANAGER, LIFE OPERATIONS

Iroshini commenced her insurance career at Union Assurance in April 2001. She resigned from Union Assurance in 2005 to pursue further academic and professional qualifications in the UK where she completed a BA (Hons) Degree in Business Management. In 2008 she rejoined Union Assurance as an Assistant Manager and having served in various capacities, she achieved the present position of General Manager – Life Operations in 2016.

Iroshini is a Chartered Insurer and is an Associate of the Chartered Insurance Institute, UK.

### DHARSHANA AMARASIYNGHE

#### GENERAL MANAGER, MARKETING AND DISTRIBUTION

Dharshana joined Union Assurance in September 2005 as Senior Manager and having served in various capacities, he achieved the present position of General Manager, Marketing and Distribution in September 2016. He counts for more than 20 years of management experience in sales, marketing and human resources in the fields of Insurance both local and overseas, pharmaceuticals and consumer products.

He is a Chartered Marketer, CIM (UK) and also holds a Post Graduate Diploma in Marketing. In addition, he possesses a Diploma in Training and Human Resource Development from the Institute of Personnel Management (SL). He is a member of the Sri Lanka Institute of Marketing (SL), Institute of Management Sri Lanka and the Sri Lanka Institute of Training & Development.

## SURESH MUTTIAH

### GENERAL MANAGER, HUMAN RESOURCES

Suresh joined Union Assurance in May 2016 having served as Vice President - Human Resources, Retail Sector of the John Keells Group for a period of 5 years. Prior to that he worked at Dialog Axiata PLC for 4 years as Manager Performance Management & HR Strategy Operations and for 7 years within the Carsons Cumberbatch Group in HR leadership positions within the Group HR function, Lion Brewery PLC and the Hotel Sector.

He holds a Professional Qualification in Human Resource Management (IPM Sri Lanka), a Post Graduate Diploma and MBA from University of Southern Queensland - Australia. Suresh is a member of SHRM – USA and The Association of HR Professionals – Sri Lanka.

## NIMESHA LIYANAGE

### GENERAL MANAGER, ACTUARIAL

Nimesha joined Union Assurance in September 2016 from AIA Insurance Lanka PLC. She started her career as an Actuarial Associate at Insight Services (Private) Limited in 2006. During that time, she worked with Union Assurance as an outsourced Prophet System developer and subsequently joined the company in 2008. During her 5-year tenure at UA she played a key role in the Risk Based Capital framework implementation project (RBC Model development) and the overall actuarial function in product development and pricing, valuations, business planning and experience investigations.

She joined AIA Insurance PLC in November 2013 as Senior Manager, Actuarial, where she played a key role in overall management of Product & Compensation Pricing, Data, IFRS reporting and Experience Investigation functions.

Nimesha holds a First Class (Hons) Degree in Finance, Business and Computational Mathematics from the University of Colombo. She is a Fellow Member of the Society of Actuaries, USA and a Member of the Actuarial Association of Sri Lanka and held the position of the Treasurer in 2015-2016.

## HARSHA SENANAYAKE

### GENERAL MANAGER, INFORMATION TECHNOLOGY

Harsha joined Union Assurance in October 2016 as General Manager Information Technology. He started his career in IT at John Keells Holdings PLC and has since gained 14 years of experience in IT and management. He is a seasoned Software Engineer and Project Manager, and later undertook the challenge of taking SGIT's SAP arm commercial by leading presales and offering it as an ERP Solution to many large organisations in Sri Lanka. In his role as Head of Enterprise Applications, he has played a key role in developing a team of SAP consultants and technology professionals. He also believes in driving technology innovation to all areas of business and is currently playing a key role in the Group's Digitization initiative.

He holds a BSc in Computer Science from the London Metropolitan University and a Post Graduate Diploma in Information Systems Management from the University of Colombo.

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# CORPORATE GOVERNANCE

## THE CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE REPORT

Dear Stakeholder,

At Union Assurance (UA), we recognise that sound corporate governance practices provide a strong foundation for ensuring sustainable growth and trusted relationships. This Report explains and demonstrates the framework and activities carried out during the year to ensure the highest standards of corporate governance and compliance within UA.

### GOVERNANCE ATTITUDE

UA firmly believes that the highest standards of transparency, reliability and ethical business conduct are well-established guiding principles within the company and are articulated in a comprehensive policy framework and a Code of Conduct which is communicated to and understood by all employees.

In addition to legal requirements, the company's policy framework embraces international best practices and complies with voluntary frameworks, providing a solid foundation for performance as well as effectively managing risks arising from economic, social and environmental impacts. Formal governance structures serve to ensure judicious empowerment and create an appropriate balance of power within the organisation.

### GOVERNANCE STRUCTURE

The company operates within a clearly-defined governance structure through which the Board balances its role of providing risk oversight and strategic counsel whilst adhering to regulatory requirements. The governance structure provides for delegation

of authority while enabling the Board to retain effective control. The Board delegates authority to the relevant Board Committees and the Executive Committee with clearly-defined mandates and authority, while preserving its accountability.

We work closely with all relevant regulators to ensure that our internal governance standards meet their increasing expectations.

### EXECUTION

As explained in the pages to follow, many initiatives were implemented during the year to strengthen the governance framework, in line with local and international best practices. With the current economic and social developments that are unfolding, we believe the potential for growth in the life business is very high and we will continue to monitor and comply with regulatory requirements in order to ensure a sustainable triple bottom line which meets all stakeholder expectations.

### STAKEHOLDER ENGAGEMENT

The feedback obtained from our robust stakeholder engagement mechanisms form a key input in strategy formulation, ensuring that the company's growth is responsible and sustainable. Our stakeholder engagement mechanisms are structured and comprehensive, providing valuable insights into stakeholder concerns and enabling us to provide appropriate responses while balancing multiple interests.

### OUR FOCUS

The Board's priorities for 2017 remain consistent with last year's priorities. We will continue to monitor progress against our strategy to ensure that we drive growth and improve returns. We are committed to investing in and supporting our people so that the company maintains an appropriate balance of management skills and capabilities as it grows and develops.

### DECLARATION

I also wish to state that to the best of my knowledge and available information, I am not aware of any material violations of any of the provisions 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 of Sri Lanka.



AJIT D GUNewardENE  
Chairman

27 February 2017

## KEY ACTIONS TAKEN IN 2016 TO ENHANCE UA'S CORPORATE GOVERNANCE:

1. A steering committee was formed with Executive sponsorship for the legacy core insurance system replacement project for overall control and guidance for the successful implementation.
2. Engaged a Forensic Data Analytic Vendor and implemented a system to assist in enhancing the internal controls by providing management, authorised approvers and Internal Auditors early 'cautionary triggers', via a user friendly dashboard, using 'real time' data which highlight transaction exceptions and outliers.
3. Advisor onboarding system implemented to obtain accurate information on recruitment across the country from application point through to obtaining the insurance license. The system triggers SMS messages to the candidates of the next steps and scheduled times.
4. Business continuity and disaster recovery testing was carried out for all critical business processes.

## HIGHLIGHTS OF THE 29TH ANNUAL GENERAL MEETING HELD ON 31ST MARCH 2016

1. Mr. Gerald Fredrick Christopher De Saram, who retired in terms of Article 84 of the Articles of Association of the company was re-elected Director of the company.
2. Mr. Suresh Rajendra, who retired in terms of Article 84 of the Articles of Association of the company was re-elected Director of the company.
3. Re-appointment of Auditors Messrs. KPMG, Chartered Accountants, as the External Auditors of the company.

## STATEMENT OF COMPLIANCE

UA is fully compliant with the Regulation of Insurance Industry (RII) Act No. 43 of 2000 and subsequent amendments thereto, Listing Requirements of the Colombo Stock Exchange (CSE), Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) as well as the rules on Corporate Governance published by the CSE.

The systems and procedures are continuously assessed against the core principles of accountability, participation and transparency which have been embedded and adopted by UA, and updated as necessary.

The Board of Directors also wishes to confirm that, to the best of its knowledge and belief, the company has complied with all requirements under the Companies Act No.7 of 2007 and satisfied all its statutory payment obligations to the Government and other statutory/ regulatory bodies.

The full statement of Directors' Responsibility is provided in page 197.

Refer table below for the mandatory and voluntary adoption of codes of governance and compliance by the company.

## SUMMARY OF MANDATORY AND VOLUNTARY ADOPTION OF CODES OF GOVERNANCE AND COMPLIANCE BY THE COMPANY.

SUMMARY OF REQUIREMENTS	MANDATORY / VOLUNTARY	PAGE REFERENCE
Code of best practice on corporate governance issued jointly by the SEC and ICASL	Voluntary	145
Code of best practice on Corporate Governances as per section 7.10 of the listing rules of the CSE	Mandatory	170
Code of best practice on Related Party Transactions published by the SEC	Mandatory from 1 January 2016	182 and 285
Content of the Annual Report as per section 168 of the Companies Act No. 7 of 2007	Mandatory	173
Content of the Annual Report as per section 7.6 of the listing rules of the CSE	Mandatory	169
Good governance practices recommended in the corporate Directors' handbook, a joint publication by the Sri Lanka Institute of Directors' and the Chartered Institute of Management Accountants (CIMA)	Voluntary	Online

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# CORPORATE GOVERNANCE

GRI-G4 G4-34

## HOW WE VIEW CORPORATE GOVERNANCE

The Board is responsible to shareholders for creating and delivering sustainable shareholder value and it has come to be viewed as a differentiator among firms as good governance practices provide a sustainable competitive advantage.

UA's governance policies and practices enable the Board to manage the company for the benefit of all stakeholders, ensuring a viable long term business. The corporate governance framework is built on the core principles of accountability, participation and transparency which are essential for the creation, enhancement and maintenance of a sustainable business model.

UA's governance practices stand to ensure that;

- The business is driven in the right strategic direction and decisions are aligned appropriately
- The Executives lead and manage their respective units effectively and with accountability
- The company has appropriate controls in place and risks are regularly monitored and managed
- Employees "do the right thing" at all times for the benefit of all stakeholders

## OUR INTEGRATED GOVERNANCE FRAMEWORK

Our application of best practices enables us to act in the best interest of shareholders as well as the communities in which we operate. Our robust governance framework also enables us to instill trust and confidence in the stakeholders that we deal with and demonstrate a culture of

responsibility, accountability, transparency and impartiality with a value-driven approach to everything we do.

## INTERNAL GOVERNANCE STRUCTURE

Internal governance structure of the Company focuses on the responsibility of the Board of Directors and senior management. It is mainly concerned with setting the company's business objectives and its appetite for risk, how the business of the company is organised, how responsibilities and authority levels are allocated, how reporting lines are set up and what information they convey, as well as how internal control (including risk control, compliance, and internal audit) is organised.

Summary of the elements of the internal governance structure and assurance are highlighted under the company corporate governance model

## EXTERNAL GOVERNANCE STRUCTURE

External mechanisms are often imposed on the Company by external stakeholders in the forms of relevant laws, contracts, regulatory guidelines or best practices.

The company is governed by mandatory rules and regulations and voluntary adoption of codes of best practice discussed under External governance structure in the Corporate governance model.

EFFECTIVE CULTURE OF GOOD GOVERNANCE



## STEWARDSHIP

- Board of Directors
- Company Secretary
- Board Sub Committees
- Directors' remuneration policy
- Accountability and audit
- Relations with shareholders
- CEO and the Executive Committee

OUR APPROACH

PERFORMANCE ASPECTS

# OUR CORPORATE GOVERNANCE MODEL

## GOVERNANCE

INTEGRITY OF OPERATIONS

SUSTAINABLE BUSINESS MODEL

ENGAGEMENT WITH STAKEHOLDERS

COMPLIANCE WITH REGULATORY REQUIREMENTS

## MATERIAL ISSUES



### AUDIT AND ASSURANCE

- Three levels of assurance
  - Process control
  - Internal audit
  - External audit

#### OTHER INTERNAL GOVERNANCE RULES

- Policies and procedures
- Articles of association
- Manual of financial authority
- Code of conduct
- Principles of doing business



### ENTERPRISE RISK MANAGEMENT

- Risk management
- Business continuity planning



### STRUCTURE OF CHARTERS

- Shareholder Charter
- Environmental Charter
- Community Charter
- Employee Charter
- Customer Charter



### REGULATORY FRAMEWORK

#### MANDATORY ADOPTION

- Companies Act No. 7 of 2007
- Listing Rules of the CSE
- Inland Revenue Act No. 10 of 2006 and subsequent amendments
- Regulation of Insurance Industry (RII) Act No. 43 of 2000 and subsequent amendments
- Rules, Regulations, Directives and Circulars Issued by the IBSL
- Code of best practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka

#### VOLUNTARY ADOPTION

- Code of Best Practice on Corporate Governance Issued Jointly by the SEC and ICASL

## ASSURANCE

INTERNAL GOVERNANCE STRUCTURE

EXTERNAL GOVERNANCE STRUCTURE

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UNION ASSURANCE PLC  
ANNUAL REPORT 2016

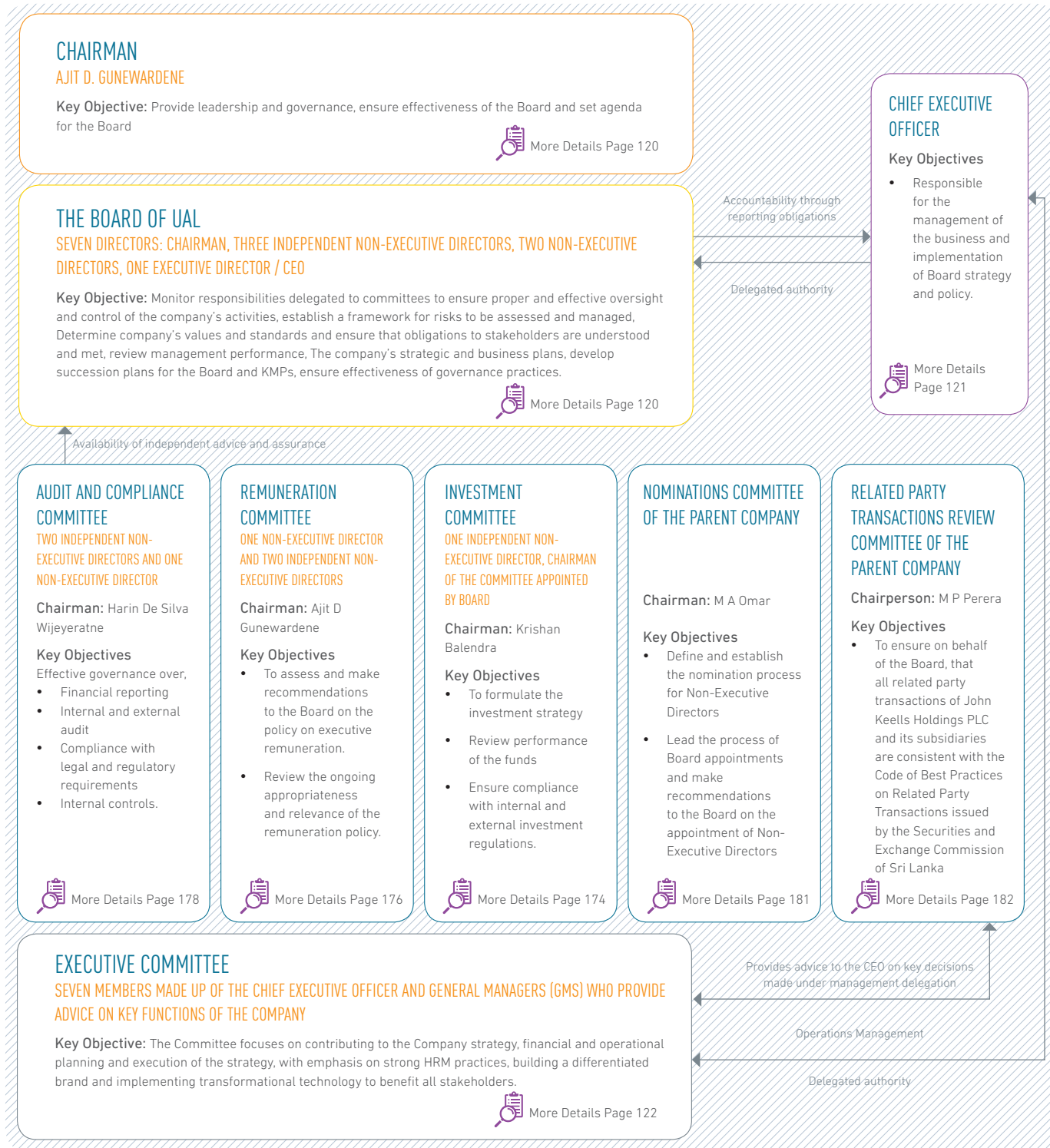
# CORPORATE GOVERNANCE

## 1. INTERNAL GOVERNANCE STRUCTURE AND ASSURANCE

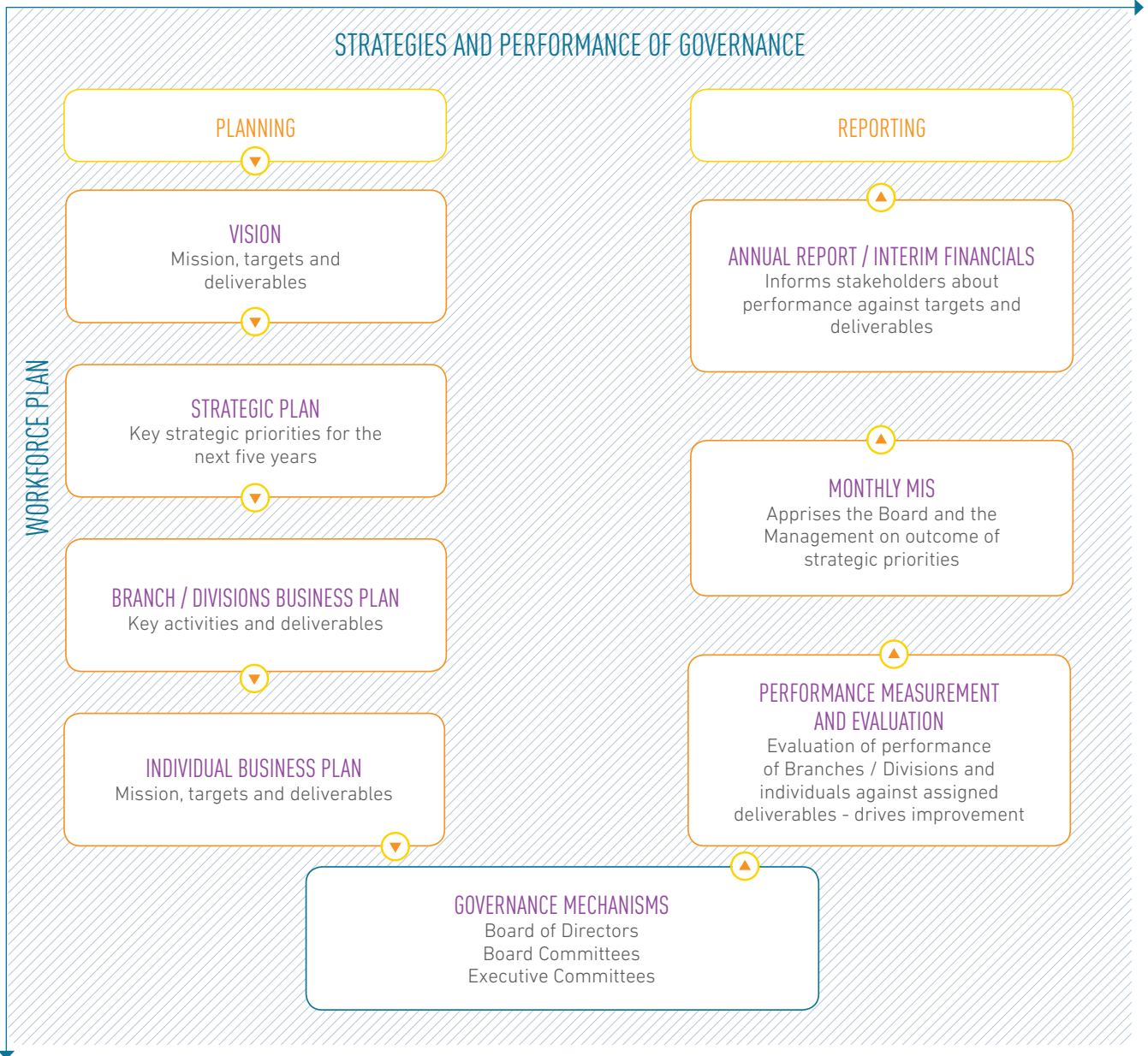
### (A) EFFECTIVE CULTURE OF GOOD GOVERNANCE

#### STEWARDSHIP

GRI-G4 G4-LA12



The performance and execution mechanism of the governance framework is depicted as follows:



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# CORPORATE GOVERNANCE

Union Assurance Corporate Governance covers many aspects in line with the Code of Best Practice on Corporate Governance issued jointly by the ICASL and the SEC.

We have in place a comprehensive Code on Business Conduct and Ethics ('the Code') applicable to all our Directors and employees. The Code has been circulated to all the Directors and employees and has been published in our intranet to ensure strict compliance with same.

The company's commitment with respect to the above aspects is detailed below;

## COMPANY STRUCTURE AND SHAREHOLDERS

### DESCRIPTION OF UA'S OPERATIONAL STRUCTURE

UA's organisation structure is illustrated on page 128 of this report. The company's management structure is depicted in the Executive Committee's span of control on page 137.

### SHAREHOLDING STRUCTURE

The John Keells Group continued to be the largest shareholder, with a 93.9% stake (93.9% in 2015).

### CAPITAL STRUCTURE

The IBSL has increased the minimum share capital of insurance companies to Rs. 500 million for each class of insurance business as a further / concurrent step to the risk based capital regime effected from 1 January 2016.

As at 31 December 2016 the company's stated capital of Rs. 1,000 million meets the share capital requirements set by the Insurance Board of Sri Lanka (IBSL) for a Life insurance company.

## 1. THE BOARD

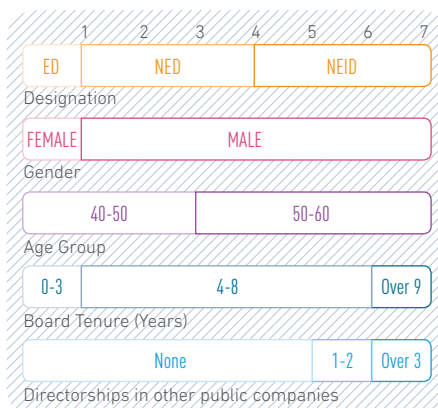
### 1.1 UAL BOARD STRUCTURE

UA maintains a dual panel structure, namely the Board of Directors, who are Non-Executive Directors and the 'Chief Executive Officer / Executive Director and Executive Committee'. It thus distinguishes clearly between the supervisory body and the management including the division of responsibilities between the Chairman and CEO.

### 1.2 COMPOSITION OF THE BOARD OF DIRECTORS, THEIR SKILLS AND DIVERSITY

As at 31 December 2016, the Board consisted of Seven Directors and the Company policy is to maintain a healthy balance between the Executive, Non-Executive and Independent Directors with the Executive Director bringing in deep knowledge of the businesses and the Non-Executive Independent Directors bringing in experience, objectivity and independent oversight. Brief profiles of the Board members are given in page 120 and 121 of this report.

The current composition of the UAL Board is illustrated as follows:



ED – Executive Director  
 NED – Non-Executive Director  
 NEID – Non-Executive Independent Director

### 1.3 THE CHAIRMAN

The Chairman is responsible for leadership and governance of the Board while ensuring the effectiveness of the Board. The Chairman also sets the agenda, style and the tone of the Board discussions and ensures the effective participation of all directors and that the Board is in complete control of the company's affairs and alert to its obligations to all stakeholders.

### 1.4 THE BOARD OF DIRECTORS

The Board performs its supervisory functions through the following committees in order to ensure competence and effectiveness;

1. Board Audit and Compliance Committee (BACC)
2. Remuneration Committee (RC)
3. Investment Committee (IC)
4. Nominations Committee (NC)
5. Related Party Transactions Review Committee (RPTRC)

Members of professional accounting bodies are on the Board ensuring financial acumen and knowledge. A standard set of appropriate, timely and comprehensive documents are 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 conduct self-appraisals of their performance 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 in various sections of this report.

## 1.5 BOARD RESPONSIBILITIES

In carrying out its responsibilities, the Board promotes a culture of openness, constructive dissent and productive dialogue, ensuring an environment which facilitates employee motivation and engagement.

The Board's key responsibilities include:

- Providing direction and guidance to the company in the formulation of sustainable high-level medium and long term strategies which are aimed at promoting the long-term success of the company.
- Reviewing and approving company's annual plan and business strategies and tracking performance against same.
- Appointing the CEO and reviewing the performance of the CEO. Reviewing the performance of the Board and its sub committees annually.
- Reviewing and making changes when necessary to authority levels delegated from the Board to the sub committees of the Board and executive levels.
- Review of objectives and key performance indicators of the CEO and senior management, and ensuring that the CEO and management team possesses the skills, experience and knowledge to implement the strategy.
- Reviewing HR process and approving annual increments, bonuses and changes in perquisites and incentives.
- Approving the issue of equity / debt securities.

- Approval of financial policies and certain items outside the remit of the Investment Committee.
- Approval of the company's financial statements.
- Recommending / declaring dividends.
- Reviewing systems of internal control, risk management and integrity of the financial information.
- Review of the company's overall corporate governance arrangements.
- Ensuring all stakeholder interests are considered in corporate decisions.
- Monitoring systems of compliance and governance.
- Approving any amendments to company's policy documents.

The principal matters reserved for the Board are set out above. Day to day operational decisions are managed by members of the Executive Committee. Where appropriate, matters are delegated to Board sub committees where they will be considered with their respective terms of reference. Brief terms of reference of each of the Board sub committees, which have been approved by the Board and comply with the 'Code' are provided in each of the committee reports from pages 174 to 182.

## 1.6 BOARD SKILLS & EXPERIENCE

Collectively, the Board brings in a wealth of diverse exposure in the fields of management, business, administration, banking, finance, legal, economics, marketing and human resources. All Directors possess the skills, expertise and knowledge complemented with a high sense of integrity and independent

judgement. Further details of their qualifications and experience are provided under the Board of Directors section of the Annual Report.

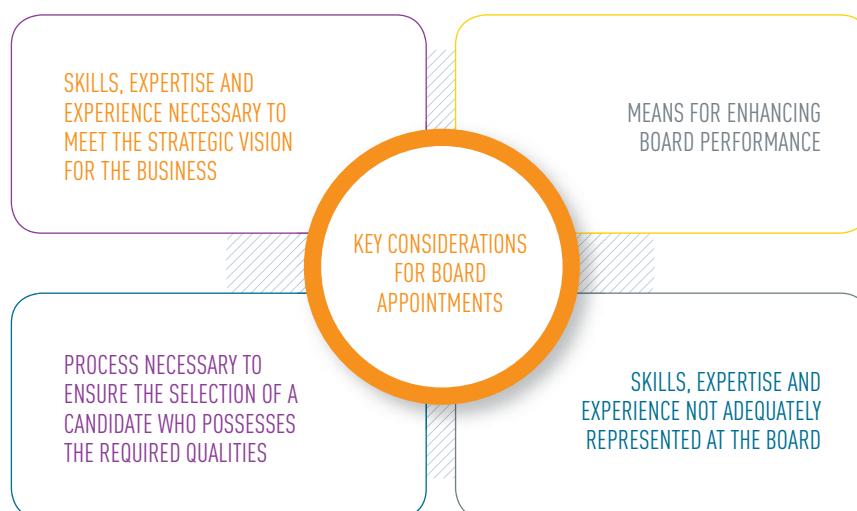
## 1.7 BOARD APPOINTMENTS

Board appointments follow a structured and formal process within the purview of the Nominations Committee. The Terms of Reference for the members of the Nominations Committee and the Committee report can be found on page 181.

Details of new Directors are disclosed to the shareholders at the time of their appointment by way of public announcement as well as in the Annual Report. The Directors are required to report any substantial changes in their professional responsibilities and business associations to the Nominations Committee, which will examine the facts and circumstances and make recommendations to the Board.

### Managing Conflicts of Interests and Ensuring Independence

In order to avoid potential conflicts or biases, the Directors make a general disclosure of interests, as illustrated below, at appointment, at the beginning of every financial year and during the year as required. Such potential conflicts are reviewed by the Board from time to time to ensure the integrity of the Board's independence. Details of companies in which Board members hold Board or Board Committee membership are available with the Company Secretaries for inspection by shareholders on request. Refer Note 43 to the financial statements for details on related party transactions.



Key considerations for Board appointments

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# CORPORATE GOVERNANCE

To avoid potential conflicts or bias, Directors adhere to a process where review takes place prior to appointment, once appointed and during board meetings.

## PRIOR TO APPOINTMENT

Nominees are requested to make known their various interests

## ONCE APPOINTED

Directors obtain Board clearance prior to:

- Accepting new position
- Engaging in any transaction that could create or potentially create a conflict of interest

All NEDs are required to notify the Chairman of any changes to their current Board representations or interests and a new declaration is made every financial year

## DURING BOARD MEETINGS

Directors who have an interest in a matter under discussion:

- Excuse themselves from deliberation on the subject matter
- Abstain from voting on the subject matter (abstentions from decisions are duly minuted)

Summary of Non-Executive Independent Directors' Interests;

DIRECTOR	EMPLOYMENT IN THE COMPANY (A)	MATERIAL BUSINESS RELATIONSHIP (B)	CLOSE FAMILY MEMBER IS A DIRECTOR OR CEO (C)	CARRYING NOT LESS THAN 10% OF VOTING RIGHTS (D)	CONTINUOUSLY SERVED FOR MORE THAN NINE YEARS (E)	BUSINESS CONNECTION (F)	DIRECTOR / SHAREHOLDER IN ANOTHER ENTITY (G) AND (H)
G. F. C. De Saram	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
H. A. J. De Silva Wijeyeratne	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
A. S. De Zoysa	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant

- (a) Has not been employed by the company during the period of two years immediately preceding appointment as a Director
- (b) Currently has no material business relationship with the company directly or indirectly, nor had any during the period of two years immediately preceding appointment as a Director.
- (c) Does not have any close family member/s who is a Director or CEO or key management personnel in the company
- (d) Does not have a significant shareholding in the company (more than 10% of voting rights of the company)
- (e) Has not served on the Board of the company for a period exceeding nine years from the date of the first appointment.
- (f) Self or close family member is not a Director or employee of another company or a trustee which is materially connected to the company in terms of shareholding or business relationship.
- (g) Not a Director of another company in which majority of the other directors are employed / directors or have any significant shareholding.
- (h) Does not have any material business relationship or significant shareholding in another company in which majority of the other directors are employed / directors or have any significant shareholding.

All Directors make a formal declaration of their independence on an annual basis.

Board positions held outside the company by the Independent Non-Executive directors are provided in their respective profiles under 'other current appointments' on page 120 and 121 of this report.

## 1.8 RE-ELECTION

In accordance with the Articles of Association of the company, two of the Directors retire from office at each Annual General Meeting (AGM). 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.

## 1.9 BOARD INDUCTION AND TRAINING

When Directors are newly appointed to the Board, they undergo a comprehensive induction where they are apprised, inter-alia, of the Company values and culture, its operating model, policies, governance framework and processes, the Code of Conduct and the operational strategies of the company. Additionally, the newly appointed Directors are provided access to relevant parts of the business and are availed of the opportunity to meet with key management personnel and other key third party service providers such as External Auditors, Internal Auditors etc. The Board of Directors recognises the need for continuous training and expansion of knowledge and undertakes such professional development as they consider necessary in assisting them to carry out their duties as Directors.

## 1.10 PROCEDURES TO OBTAIN PROFESSIONAL ADVICE

On access to information and professional development; it is essential that the Directors are up to date with key business developments to maintain and enhance their effectiveness.

The Directors have access to;

- Information necessary to carry out duties and responsibilities effectively and efficiently
- External and internal auditors
- Updates on regulations, best practices as relevant to the business and other matters which are considered to warrant Board attention
- Financial plans, including budgets and forecasts and periodic performance reports
- Independent professional advice from experts and other external professional services as required. The company will incur the required expenses on such services.
- Company Secretaries whose appointment and / or removal is the responsibility of the Board
- Any of the locations in which the business operates (Branch network)
- Senior management

## 1.11 TIMELY SUPPLY OF INFORMATION

The Board of Directors was provided with the necessary information well in advance (at least 7 working days prior to the meeting), by way of Board papers and proposals, for all Board meetings held during the year in order to ensure robust discussion, informed deliberation and effective decision making. The senior management team made presentations to Directors on important issues relating to strategy, risk management, investment proposals, new system implementation, digitisation, brand value and positioning where necessary. The Directors continue to have independent contact with the corporate and senior management of the Company.

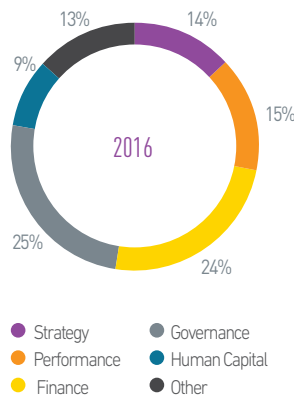
## 1.12 BOARD EVALUATION

Board evaluation to assess the effectiveness of the Board is done each year and the 2015 evaluation was done in January 2016 using a questionnaire covering the operations of the Board and each of its principal committees. The emerging key themes were summarised and presented to the Board in March 2016. The 2016 evaluation was done in January 2017 and findings were discussed and tabled at the Board meeting held in January 2017.

## 1.13 BOARD MEETINGS

The Board meets once every two months to discharge its duties and responsibilities in a timely manner. Additional Board meetings are held as required. The Board ensures that items relating to strategy, finance, operations, corporate governance and compliance are covered in its meeting agenda to support, assist and advise executive management to deliver the company's strategy within a transparent governance framework.

## BOARD ACTIVITIES DURING 2016



**UA CONSCIOUS OF THE NEED TO MAINTAIN AN APPROPRIATE MIX OF SKILLS AND EXPERIENCE IN THE BOARD THROUGH A REGULAR REVIEW OF ITS COMPOSITION IN ENSURING THAT THE SKILLS REPRESENTATION IS IN ALIGNMENT WITH CURRENT AND FUTURE NEEDS OF THE COMPANY.**

## 1.14 2016 BOARD TOPICS

The Board met seven times during 2016. The key areas of focus as per the Board's agenda of meetings during the year included;

- The Chief Executives' brief on the strategy, its implementation and other business developments
- An update by the Chief Executive Officer on operational matters including, technology, actuarial valuations, technical updates on product portfolios, re-insurance arrangements, regulatory changes, any consultancy support on projects and other ongoing operational initiatives and compliance matters
- Investments to support organic growth including technology and people development
- Review brand value / positioning and competitor analysis
- Review minutes and reports from the Board Sub Committees.

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# CORPORATE GOVERNANCE

The following were also addressed by the Board during 2016 in line with the company objectives.

AREA OF FOCUS	ACTION BY THE BOARD
STRATEGY	<ul style="list-style-type: none"> <li>The 2017 strategy review was conducted in December 2016.</li> </ul>
FINANCE	<ul style="list-style-type: none"> <li>The Board regularly monitored the financial performance of the company. The monthly performance pack provided to the Board by the CFO includes an overview of the operational and financial performance, performance of the Life Insurance Fund, profit and loss, detailed analysis of the expenses, the key performance indicators against the plan and previous year, regulatory compliance reports, Capital Adequacy Ratio and approved assets status, financial review of the associate entity and performance of investments.</li> <li>All financial reports released to the market which included the interim financial statements and the annual report were reviewed.</li> <li>Financial budget 2017 was reviewed and approved in December 2016.</li> </ul>
OPERATIONAL PERFORMANCE	<ul style="list-style-type: none"> <li>Each Board paper contains a set of reports of the business performance, including the financial and non-financial performance measures against the plan. Regular updates are provided by the CEO on the risks and opportunities faced by the business including a quarterly review of competitor performance.</li> <li>The sustainability dashboard is circulated to the Board each quarter which indicates status in terms of health and safety (number of injuries), carbon foot print (carbon MT), Power usage (KwH), water usage and waste generated.</li> </ul>
HR	<ul style="list-style-type: none"> <li>Regular review of key HR matrices, review of succession plans and diversity and inclusion policies and practices across the company.</li> <li>Review of progress on the action items to be implemented stemming from the Great Place to Work (GPTW) survey conducted in 2016.</li> </ul>
RISK & GOVERNANCE	<ul style="list-style-type: none"> <li>Review of quarterly company risk grid.</li> <li>Review of the minutes of Board sub-committee meetings.</li> <li>Presentation and approval for services rendered by Strategic Group IT (JKH) division to Union Assurance and related costs.</li> </ul>

## 2. COMPANY SECRETARY

The Company Secretary is responsible for inducting new Directors, assisting the Chairman and the Chief Executive Officer in determining the annual Board plan, guiding the Board and individual Directors in the proper discharge of their responsibilities and acts as a central source of guidance on matters of ethics and governance. In addition to these duties, the Company Secretary is responsible for making necessary disclosures on related party transactions

required by laws and regulations and also acts as a channel of communication with shareholders to ensure good shareholder relations.

The shareholders can contact Keells Consultants (Private) Limited, the Company Secretaries on 011 - 2306245 for any company related information requirements.

The calendar of meetings of the Board in 2016 and attendance is given below.

NAME OF DIRECTOR	DATE OF APPOINTMENT TO THE BOARD	29.01.2016	29.03.2016	31.05.2016	29.07.2016	03.10.2016	29.11.2016	23.12.2016	ELIGIBLE TO ATTEND	ATTENDED
<b>NON-EXECUTIVE</b>										
Ajit D Gunewardene	24.02.2004	✓	✓	✓	✓	✓	✓	✓	7	7
Suresh Rajendra	16.08.2011	✓	✓	✓	✓	✓	✓	✓	7	7
Dilani Alagaratnam	16.08.2011	✓	✓	✓	✓	✓	✓	✓	7	7
<b>INDEPENDENT NON-EXECUTIVE</b>										
Ashan De Zoysa	01.04.2009	✓	✓	✓	✓	✓	✓	✓	7	7
Harin De Silva Wijeyeratne	07.09.2011	✓	✓	✓	✓	✓	✓	✓	7	7
Gerald De Saram	01.04.2009	✓	✓	✗	✓	✓	✓	✓	7	6
<b>EXECUTIVE</b>										
Dirk Pereira	28.05.2014	✓	✓	✓	✓	✓	✓	✓	7	7

### 3. BOARD SUB-COMMITTEES

The Board has delegated some of its functions to Board Sub-Committees, while retaining decision rights. Members of these Sub-Committees are able to focus on their designated areas of responsibility and impart knowledge and oversight in areas where they have greater expertise.

Detailed report of the committees inclusive of the composition, objectives and other details are provided on pages 174 to 182. The extent of the adherence by these committees to 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 is given on pages 145 to 169.

The Board Sub-Committees are as follows:

- Board Audit and Compliance Committee
- Board Nominations Committee
- Remuneration Committee
- Investment Committee
- Related Party Transaction Review Committee

The Board Sub-Committees comprised predominantly of Independent Non-Executive Directors. The membership of the Board Sub-Committees is as follows;

NAME OF DIRECTOR	BOARD AUDIT AND COMPLIANCE COMMITTEE		BOARD NOMINATIONS COMMITTEE OF THE PARENT (JKH)		REMUNERATION COMMITTEE		INVESTMENT COMMITTEE		RELATED PARTY TRANSACTION REVIEW COMMITTEE OF THE PARENT (JKH)	
	STATUS	DOA	STATUS	DOA	STATUS	DOA	STATUS	DOA	STATUS	DOA
<b>NON-EXECUTIVE</b>										
Ajit D Gunewardene					●	25.03.2008				
Suresh Rajendra	●	26.09.2011								
<b>INDEPENDENT NON-EXECUTIVE</b>										
Ashan De Zoysa	●	01.04.2009					●	30.03.2010		
Harin De Silva Wijeyeratne	●	26.09.2011			●	26.09.2011				
Gerald De Saram					●	26.05.2009				
<b>EXECUTIVE</b>										
Dirk Pereira							●	20.05.2004		
<b>JKH GROUP DIRECTORS</b>										
Krishan Balendra							●	23.04.2009		
Amal Cabraal									●	01.04.2016
Nihal Fonseka									●	01.04.2016
Premila Perera			●	24.07.2014					●	24.07.2014
Susantha Ratnayake			●	01.01.2006					●	01.04.2016
Ashroff Omar			●	27.07.2016						
Hans Wijayasuriya			●	05.11.2016						

● Committee Chairman

● Committee Member

DOA - Date of appointment to the committee

The calendar of meetings of the Board sub committees and their attendance is given in the respective committee reports in pages 174 to 182 of this report.

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# CORPORATE GOVERNANCE

## 4. DIRECTOR'S REMUNERATION

**REMUNERATION PROCEDURE:** The company has established a formal and transparent procedure / policy on remuneration for individual Directors. No Director is involved in deciding his or her own remuneration. 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.

**LEVEL AND MAKE UP OF REMUNERATION:** Due care is taken to ensure that remuneration paid to Board members is commensurate with their skills, knowledge, competencies and involvement in Board activities and in reference to fees paid to other Non-Executive Directors of comparable companies.

The remuneration to Executive Director has a fixed and a variable component. The variable component is linked to the achievement of the objectives set by the Board. The Remuneration committee is responsible for setting up the remuneration of the Executive Director.

**DISCLOSURE OF REMUNERATION:** The break-up of remuneration paid to Directors is disclosed among the other disclosures regarding remuneration on Note 43 in the Annual Report.

## 5. ACCOUNTABILITY AND AUDIT

**FINANCIAL REPORTING:** A balanced and understandable assessment of the company's financial position, performance and prospects is presented by the company. Various reports including the Chairman's Message, 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 with this Annual Report, containing information with regard to declarations by them in accordance with the guidelines of the Code of Best Practice jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

**INTERNAL CONTROLS:** 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 and the company's risk assessment processes are effective. The BACC ensures the independence and evaluates the performance of the auditors regularly. The company has issued a Code of Conduct applicable to all Directors and employees and any violation is disclosed. Details of the Code of Conduct and other policies are provided in below.

The company has disclosed on pages 145 to 169 the extent to which the company has complied with the Code of Best Practice and rules on Corporate Governance in this report.

**AUDIT COMMITTEE:** The Board has established a formal and transparent process on how the company selects and applies accounting policies, financial reporting and other internal control principles.

**DISCLOSURE:** Details including the composition, role and responsibilities, attendance and the report of the Board Audit and Compliance Committee are provided in this report.

**CODE OF BUSINESS CONDUCT AND ETHICS:** The company has in place a 'Code of Business Conduct & Ethics' for Directors, key management personnel and all its' employees.

## 6. RELATIONS WITH SHAREHOLDERS

**OBJECTIVE:** To enhance long-term shareholder value through regular communication with both individual and institutional shareholders.

**ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS:** The Board uses the 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 Annual Report and accounts. The Chairman ensures that the Chairmen of the Board Audit and Compliance Committee and Remuneration Committee, directors, senior management and representatives of the external auditors are available to answer questions at the AGM, if required. The notice of meeting and related documents are circulated to the shareholders 15 working days prior to the AGM.

**EXTRAORDINARY GENERAL MEETINGS:** When regulation requires, the company calls for Extraordinary General Meetings (EGM) to engage with shareholders.

**COMMUNICATION WITH SHAREHOLDERS:** All institutional and other 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. Sufficient information is included in the quarterly, interim and annual reports for shareholders to make informed decisions. From time to time, the company communicates other information to shareholders by way of announcements and / or circulars, in compliance with regulatory requirements or otherwise.

**MAJOR AND MATERIAL TRANSACTIONS:** Disclosures have been made where required to shareholders on major transactions which materially alter the company's net asset base.

Further details and the policy on shareholder communication is provided in the Engagement with Stakeholders section of the Annual Report on page 142.

## 7. CEO AND THE EXECUTIVE COMMITTEE

### COMPOSITION

Committee members as at 31 December 2016;

**D Pereira**

Director / Chief Executive Officer (Chairman)

**S Cader**

General Manager, Finance and Planning

**I Tittagalla**

General Manager, Life Operations

**D Amarasinyghe**

General Manager, Marketing and Distribution

**S Muttiah**

General Manager, Human Resources

**N Liyanage**

General Manager, Actuarial

**H Senanayake**

General Manager, Information Technology

Brief profiles of the current Executive Committee are provided on page 122 and 123 of this report.

### ROLE & STRUCTURE

Led by Dirk Pereira, the Executive Committee drives the company strategy and operationalises the company policies. The Executive Committee forms the senior management of the company and is responsible for the day to day operational management of the business.

The Executive Committee met 11 times during the year under the chairmanship of the Chief Executive Officer. General agenda and topics covered by the Committee during the year included;

- Performance update by the Chief Executive
- Short briefings by individual General Managers on the state of the respective business areas, update on key initiatives and industry developments
- Substantial business developments and projects
- Talent and related matters
- Presentations from various functional heads
- Competitor analysis and strategy

Annually the committee, together with the Chief Executive, conducts a strategy review with high level strategic direction from the Chairman to identify key strategic issues and any changes to the medium-term strategy. Details of the process used to formalise the strategy and the annual plans, are provided in the 'Strategic Planning and Performance Management' section of this report on page 48.

## (B) INTEGRITY OF OPERATIONS

### AUDIT AND ASSURANCE

#### 1. THREE LEVEL OF ASSURANCE

The Company has a three-level assurance structure to ensure integrity of its operations.

- Process control at corporate management level
- Internal assurance by the internal audit department
- External assurance by the external auditors

#### 1.1 PROCESS CONTROL AT CORPORATE MANAGEMENT LEVEL

The corporate management with the guidance of the Board Audit and Compliance Committee periodically reviews the adequacy of the processes and procedures in place to ensure the highest level of internal controls within the organisation. During the year, the internal assurance process was reviewed and further strengthened.

The following are the main areas of process control adopted at corporate management level by the company;

- Decision making process
- Compliance assurance
- Employee Participation in Assurance
- Policies and procedures for resource management
- IT governance
- Fraud and risk assessment



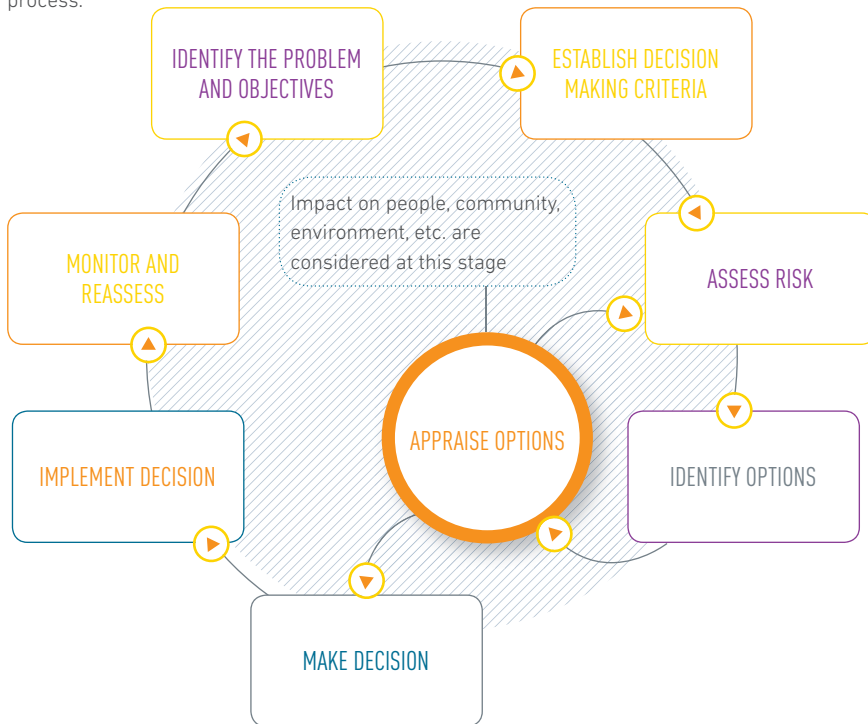
CEO and the Executive Committee span of control

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# CORPORATE GOVERNANCE

## DECISION MAKING PROCESS

The deliberations and decision making of the executive committee broadly takes the following process:

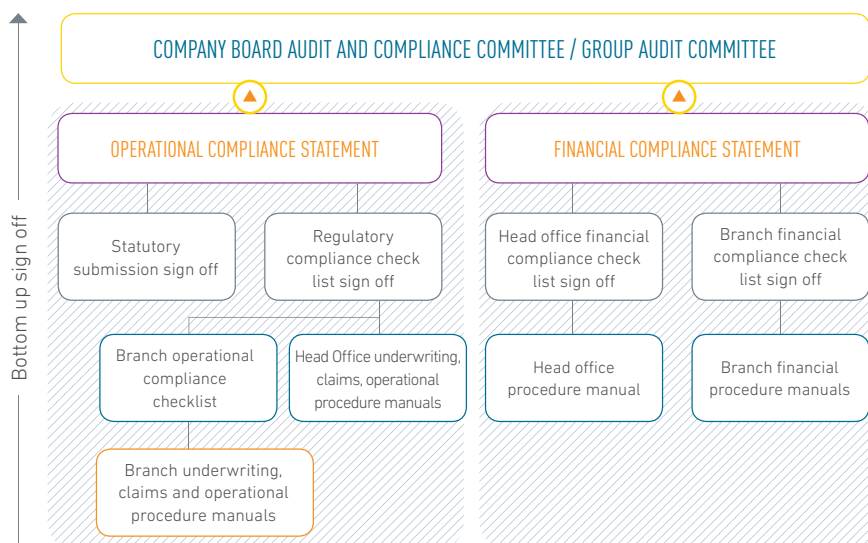


## COMPLIANCE ASSURANCE

Recognising our responsibility to conduct business in accordance with laws and regulations in the country in all our operations, we have established a monitoring process to assess our compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A sound regulatory monitoring mechanism is adopted by us to monitor reporting and compliance with all mandatory reporting requirements with the intention of establishing a fully compliant corporate governance and risk mitigating culture.

## BOTTOM UP COMPLIANCE SIGN OFF PROCESS

Compliance assurance is derived through a bottom up sign off process, and sign off checklists are based on the internal policies and procedure manuals. The company obtains assurance on financial controls, regulations compliance as well as operational compliance aspects. The diagram below summarises the process adopted by the company;



Bottom up Compliance sign off process

The financial compliance statement as well as the operational compliance statement are signed off and submitted to the BACC on a quarterly basis. These are reported to the JKH Group Audit and Compliance Committee on a quarterly basis as well. The regulatory sign off is maintained on a monthly basis.

## EMPLOYEE PARTICIPATION IN ASSURANCE

The company is continuously working towards introducing innovative and effective ways of employee communication and employee awareness. The importance of communication – top-down, bottom-up, and lateral-in gaining employee commitment to organisational goals has been conveyed extensively through various communications issued by the CEO and the management.

Whilst employees have many opportunities to interact with senior management, the company has created formal channels for such communication through feedback as listed below.

- Skip Level Meetings
- Exit Interviews
- 360-degree evaluations
- Focus Group Discussions
- Employee surveys
- Monthly staff meetings
- Continuously reiterating the 'Open – Door' policy

Additionally, the company continued with its whistle-blower policy and securities trading policy. The company has witnessed an increased level of communication flow from employees. Such communication and feedback received from the employees by the management are recorded, irrespective of the level of anonymity, and subsequently discussed and followed up. The respective outcomes are duly recorded.

#### RESOURCE MANAGEMENT

The Board has delegated certain of 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 of senior management personnel have been set up to manage expenses in an efficient, transparent and in an effective manner.

RESOURCE MANAGEMENT COMMITTEE	OBJECTIVES AND FUNCTIONS	COMPOSITION
CAPITAL EXPENDITURE COMMITTEE	Review and rationalise capital expenditure (excluding IT related expenses)	<ul style="list-style-type: none"> <li>• CEO (Chair)</li> <li>• General Manager - Finance and Planning</li> <li>• General Manager - HR</li> <li>• General Manager - Life Operations</li> <li>• General Manager of the division for which the item is required (without voting rights)</li> </ul>
IT STEERING 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</li> <li>• Ensure IT resource readiness for future advancements, while optimising the usage of existing IT resources</li> </ul>	<ul style="list-style-type: none"> <li>• CEO (Chair)</li> <li>• General Manager - Information Technology</li> <li>• General Manager - Finance and Planning</li> <li>• General Manager - Life Operations</li> </ul>
SUPPLIES COMMITTEE	<ul style="list-style-type: none"> <li>• Transparent supplier registration</li> <li>• Optimise purchases and ensure quality, reliability and value for money</li> </ul>	<ul style="list-style-type: none"> <li>• General Manager - Finance and Planning (Chair)</li> <li>• General Manager - Marketing and Distribution</li> <li>• General Manager - HR</li> <li>• Assistant General Manager - Logistics</li> </ul>
STAFF COMMITTEE	Review cadre increases in line with expected volume growth and required service standards. Recommend promotions based on annual performance appraisal process and review of any organisational requirements outside the annual performance appraisal cycle	<ul style="list-style-type: none"> <li>• General Manager - HR (Chair)</li> <li>• All other General Managers</li> </ul>

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# CORPORATE GOVERNANCE

## IT GOVERNANCE

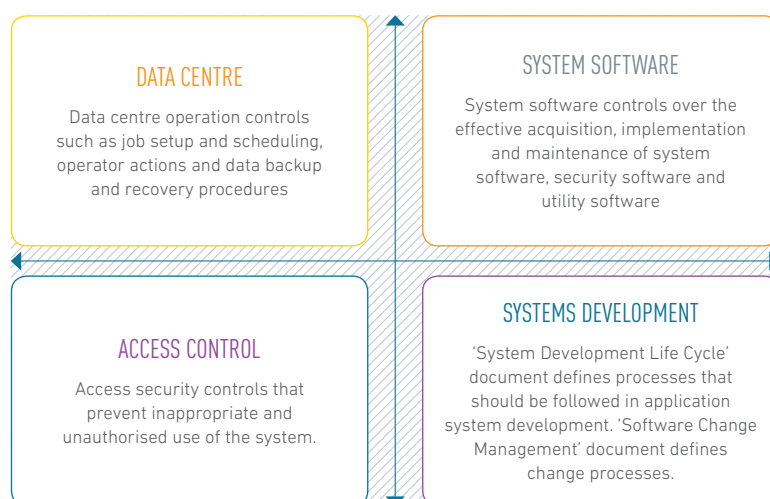
Our IT Governance plays a critical role in assuring integrity, confidentiality, connectivity and continuity of information management within the Company.

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

CORE AREA	OBJECTIVES AND FUNCTIONS
ALIGNMENT WITH THE BUSINESS	Continuous review ensures that IT objectives are aligned with business objectives by defining them in business terms. To this end the IT policies, standards, procedures are aligned as and when needed when new technologies are utilised.
IT RISK MANAGEMENT	Focus on IT risk is 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.
RESOURCE MANAGEMENT AND PERFORMANCE MEASUREMENT	Necessary emphasis is placed 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.
VALUE DELIVERY	Ensure 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.
INTEGRATION	Involvement of all corporate stakeholders in the decision making process is ensured with seamless integration to assurance activities. This is done by enabling the processes to operate as intended from end-to-end, while minimising hidden risks.
COMPLIANCE	Regulatory and compliance requirements are embedded through implementation of appropriate IT controls in systems and conducting periodic reviews of the same to ensure 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.



**FRAUD RISK ASSESSMENT**

The Company has set up a committee to evaluate customer complaints that come through the Customer Feedback System (CFS). These cover premium misappropriation complaints to wrong selling. A well-structured process has been set up to handle these as well as detect risks related to fraud in customer premiums. A summary of all complaints and the status of each is reported to BACC each quarter.

The susceptibility of business processes to misappropriation and fraud is reviewed as part of the internal audit program as well. 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.

**1.2 INTERNAL ASSURANCE BY THE INTERNAL AUDIT DEPARTMENT**

There are clear processes for monitoring and following up on corrective actions on control weaknesses or failures reported. These audit findings together with the management comments are reviewed by the Board Audit and Compliance Committee and the Board. These are also reported to the Group Finance Director and reviewed by the Group Board Audit Committee.

During the year, 35 reports covering several Head Office processes and 32 branch locations were issues by the outsourced internal audit function.

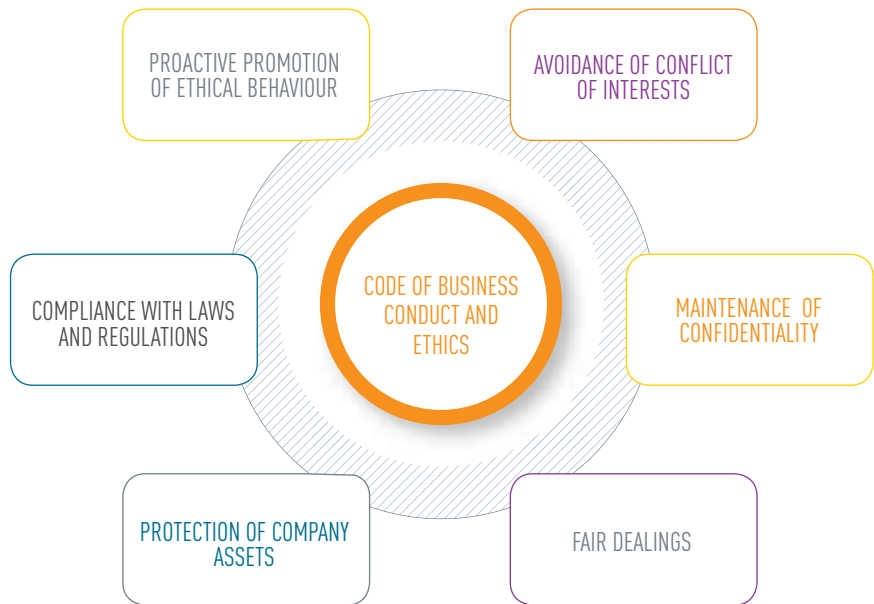
**1.3 EXTERNAL ASSURANCE BY THE EXTERNAL AUDITORS**

Messrs. KPMG are the external auditors of the Company. The Company performs an interim audit in addition to the audit at year end to obtain assurance that the internal controls and processes that are in place in preparation and presentation of the financial statement are effective. This audit covers IT security and data assurance as well.

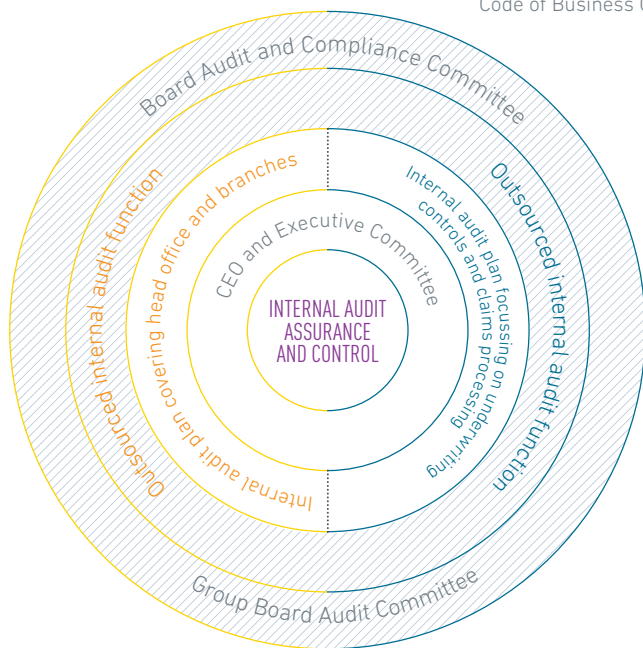
**2. OTHER INTERNAL GOVERNANCE PRACTICES GOVERNANCE OF ETHICS**

The Board assumes ultimate responsibility for the Company's ethics performance, but delegates this function to the management, which utilises the following mechanisms to fulfil this mandate:

- HR Policy
- Code of Business Conduct and Ethics
- Employee Induction Program and Employee Induction Handbook
- Performance Evaluation Program
- Supplier Code of Conduct



Code of Business Conduct and Ethics



Internal assurance framework

**REGULATORY AND ACCOUNTING BENCHMARKS**

The Board of Directors also took all reasonable steps in ensuring that all financial statements were prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirements of the CSE and other applicable authorities. Information contained in the financial statements of the Annual Report is supplemented by a detailed Management Discussion and Analysis which explains to shareholders, the strategic, operational, investment, sustainability and risk related aspects of the Company, and the means by which value is created and how it is translated into the reported financial performance and is likely to influence future results.

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# CORPORATE GOVERNANCE

## CODE OF CONDUCT FOR FIELD STAFF

UA has also implemented a Code of Conduct for the field staff covering their responsibility, commitment and level of service to clients. The formal code is read as a pledge at all formal meetings of the sales force during the year.

## RE-ENFORCEMENT OF THE COMPANY'S CODE OF CONDUCT

The Company continued to keep the code of conduct live by ensuring that the formal online signoff was obtained from each staff member annually to ensure that the message was received and staff committed.

## OTHER POLICIES WITHIN THE COMPANY

In addition to our charters and codes of conduct, we have implemented policies covering the following areas;

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

## (C) SUSTAINABLE BUSINESS MODEL

### ENTERPRISE RISK MANAGEMENT

Stemming from the stewardship commitment towards our stakeholders and to ensure the sustainability of our business operations it is a prerequisite that the company has an effective risk management model across the organisation and a tested business continuity plan.

#### 1. RISK MANAGEMENT

The company has implemented a comprehensive risk management program to identify risks which may impede the achievement of business objectives and develop appropriate mitigation strategies.

The risk management process has been revamped from a top down approach to a bottom up approach. The 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. A detailed report on risk management initiatives is provided in the Risks and opportunities section of this report on pages 102 to 111.

The risk grid is being presented to the BACC on a quarterly basis.

#### 2. BUSINESS CONTINUITY PLANNING

The Business Continuity Plan (BCP) is an essential part of our organisation's response planning. It sets out how the business will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time. We have an effective business continuity plan developed with the support of an external consultancy firm to ensure that our company is well prepared to respond to any unforeseen disaster situation, minimising any potential economic, social and environmental impact.

During the year the following were carried out in our BCP testing process;

- An integrated recovery test was conducted to recover both business and technology processes at alternate sites. The test was simulated on a real-time scenario by carrying out a simulated interruption to production at a primary site.
- Five core business processes and four support processes were covered in the BCP test that was conducted.

## (D) ENGAGEMENT WITH STAKEHOLDERS

### STRUCTURE OF CHARTERS

The Board is responsible to ensure that the company has a well-structured policy and procedures in place to engage with various stakeholders. To address apparent conflicts between various stakeholder groups, the company has developed several Charters.

The key expectations of our stakeholders and the progress during 2016 are provided in the stakeholder relationships and materiality section on pages 22 to 28.

## EXTERNAL GOVERNANCE STRUCTURE

### COMPLIANCE WITH REGULATORY REQUIREMENTS

The internal assurance process is designed by the Board to provide assurance that the company has checks and controls to ensure that it complies with all the regulatory requirements that govern the company.

#### PRINCIPAL OFFICER (PO) / CHIEF FINANCIAL OFFICER (CFO) SIGN OFF REQUIRED BY THE INSURANCE BOARD OF SRI LANKA (IBSL)

In accordance with the determinations issued by the IBSL, the company provides Compliance Certificate (A) and (B) to IBSL on a quarterly basis signed off by the Chief Executive Officer (who is the company's PO) and the CFO on behalf of the Board of Directors of the company.

#### COMPLIANCE CERTIFICATE A: CERTIFIES THAT THE COMPANY HAS;

- Complied with all provisions in the regulation of Insurance Industry Act No.43 of 2000, rules, regulations, determinations, directions issues by IBSL; Complied with all orders made by the Ministry of Finance and Planning under the regulation of Insurance Industry Act, No. 43 of 2000,
- Complied with terms and conditions pertaining to reinsurance placements issued by IBSL in terms of section 31(1) of the Regulation of Insurance Industry Act, No. 43 of 2000,
- Complied with conditions pertaining to co-insurance issued by IBSL and
- Complied with all applicable circulars issued by IBSL.

#### COMPLIANCE CERTIFICATE B: CERTIFIES THAT THE COMPANY HAS;

- Complied with all provisions in the Financial Transactions Reporting Act, No. 6 of 2006,
- Complied with rules on Know Your Customer (KYC) and Customer Due Diligence (CDD) for the Insurance Industry issued by the Financial Intelligence Unit established under the Financial Transactions Reporting Act, No. 6 of 2006,
- Complied with guidelines on Anti Money Laundering Program for Insurers issued by IBSL.

### COMPLIANCE WITH REGULATIONS GOVERNING INVESTMENTS

The life fund is fully backed by "approved investments" as per Section 25 (1) of the RII Act and subsequent determinations. Refer page 103 for details.

#### ABILITY TO MEET POLICYHOLDER OBLIGATIONS

An insurance company's ability to meet its obligations to policyholders is measured by Capital Adequacy Ratio (CAR). CAR reflects UA's total available capital as against Risk Capital Required at a particular date. The higher CAR reveals healthy financial position of the Company. This will deliver the sustainable value to all stakeholders in the short term as well as long term. According to guidelines given by the Insurance Board of Sri Lanka under Section 105 of the Regulation of Insurance Industry Act, No. 43 of 2000 it is essential to meet the following requirements.

- Every insurer shall, with effect from January 1, 2016, maintain a Capital Adequacy Ratio (hereinafter referred to as the "CAR") of a minimum of 120%
- Every insurer shall, with effect from January 1, 2016, maintain a Total Available Capital (hereinafter referred to as "TAC") of a minimum of rupees Five Hundred million.

Company's CAR was 411% as at 31 December 2016, the TAC of the company was Rs. 14.3 billion. These essentially are the indicators of the financial strength and stability of the Company.

#### ACTUARIAL VALUATION OF INSURANCE LIABILITIES

Life Insurance liabilities have been validated by an independent external actuary in accordance with the RII Act. The Actuary's report is available on page 196.

#### REINSURANCE ARRANGEMENTS

The IBSL has stipulated that insurance companies must enter into reinsurance arrangements with companies which at a minimum having a rating of BBB. As per details on page 222, 100% of our reinsurance receivables are due from reinsurance companies that have been assigned at the minimum, an "A+" rating by the international rating agency Standard & Poor's.

### CAPITAL STRUCTURE

As at 31 December 2016 the company's stated capital of Rs. 1,000 million meets the share capital requirements set by the Insurance Board of Sri Lanka (IBSL) for a Life insurance company.

#### COMPLIANCE FRAMEWORK AND SELF-REGULATION

The Board recognises its responsibility of ensuring that business is conducted in accordance with relevant laws, rules and regulations.

#### STATUTORY SUBMISSION SIGN OFF

A statutory submission 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 with relevant evidence of compliance. This is a proactive measure to ensure that no violations take place. Any de-violations detected are reported to the BACC with the quarterly compliance sign-off.

#### REGULATORY COMPLIANCE SIGN OFF

A regulatory compliance checklist is signed off on a quarterly basis by the respective head of department ensuring compliance with the applicable laws and regulations governing the Insurance business. Changes to regulations are updated in the checklist as an when changes occur. This is a proactive measure to ensure that no violations take place. Any deviations are reported to the BACC with the quarterly submission of the summary of the sign-off.

The company is in compliance with the statutory and regulatory requirements as summarised in the table below;

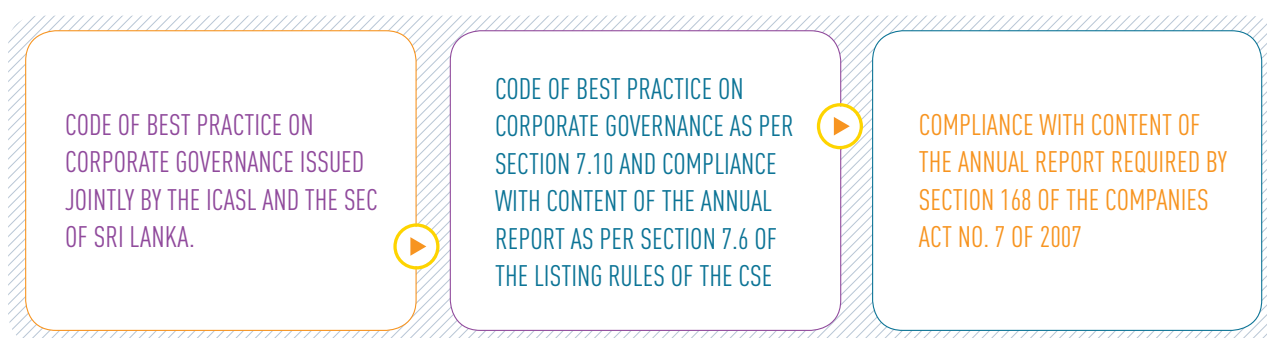
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# CORPORATE GOVERNANCE

Number of compliance submissions made during the year

COMPLIANCE REQUIREMENT 2016	NO OF SUBMISSIONS
Inland Revenue	62
IBSL Directives and RII Act	46
National Insurance Trust Fund	4
Employee Provident Fund	12
Employee Trust Fund	12
Colombo Stock Exchange	6
SLAAS Monitoring Board	1
Central Bank of Sri Lanka	12
Municipal Council	4
<b>Total Compliance 2016</b>	<b>159</b>
<b>Total Non Compliance 2016</b>	<b>Nil</b>

CODES OF BEST PRACTICE ON CORPORATE GOVERNANCE AND COMPLIANCE BY THE COMPANY



- 1 The extent of company's adherence with the Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission (SEC) of Sri Lanka (the Code) is given in the table below. The code covers the following seven fundamental principles.

#### SECTION 1: THE COMPANY

- A. Directors
- B. Directors' Remuneration
- C. Relations with Shareholders
- D. Accountability and Audit

#### SECTION 2: SHAREHOLDERS

- E. Institutional Investors
- F. Other Investors
- G. Sustainability Reporting

## SECTION 1 – THE COMPANY

### A. DIRECTORS

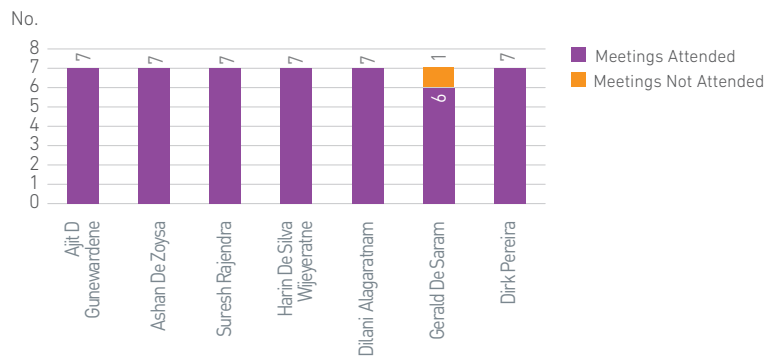
#### A.1 EFFECTIVE BOARD TO DIRECT AND CONTROL THE COMPANY

The Company is headed by an effective Board of Directors comprised experienced and influential individuals with diverse backgrounds and expertise. Their mix of skills and business experience is a major contribution to the proper functioning of the Board and its committees.

A.1.1	Need for the Board to meet regularly	Complied	During 2016, the Board met seven times, as detailed on page 135, to review the performance of the Company. At these meetings, the Board ensured that appropriate and prompt action was taken to align the strategies and operations of the Company with the interests and expectations of all stakeholders.
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#### Application

#### ATTENDANCE AT BOARD MEETINGS DURING 2016



A.1.2	Responsibilities of the Board		The Board's principal responsibilities and duties are clearly defined in the Company's Corporate Governance Charter. The Board being the highest decision-making body in the Company, provides sound leadership to the management in setting the strategic vision, direction and long-term goals of the Company, and ensures that adequate resources are available to meet these objectives.
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(i)	Ensure formulation and implementation of a sound business strategy	Complied	The Board is responsible for setting strategy, policies and for monitoring performance against agreed goals and KPIs.
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#### Application

The strategy and business plans for 2017 was debated and reviewed during December 2016.

Strategy and the final budget / plans for 2017 was approved in December 2016 and the achievement of the objectives set out therein and the business plan is reviewed by the Board at Board meetings with management updates thereon.

Please refer page 48 for an overview of the planning cycle of the company.

(ii)	Ensure CEO and the management team possess the necessary skills, experience and knowledge for effective implementation of the strategy	Complied	The CEO and the Senior Management team possess extensive knowledge and skills with widespread experience in the industry in which the Company operates.  Whether the skills of the management team are compliant with the changing needs of the business is continuously monitored by the Board through the performance evaluation process.
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#### Application

Mid-year and year-end performance evaluations of the CEO is done by the Chairman and the Remuneration Committee, and feedback provided. The performance of the senior management is evaluated by the CEO and Chairman and feedback provided by them.

Refer page 122 and 123 for details of skills and experience of individual members of the senior management.

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# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
(iii)	Adopt effective CEO and senior management succession strategy	Complied	<p>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.</p> <p>The company has a structured succession planning process which is part of the annual performance appraisal cycle and uses a succession plan grid for critical positions which marks the readiness of the second in command to take over within 1 year, 2 years and &gt;3 years. Training plans for skill gaps are designed based on this grid.</p> <p><b>Application</b></p> <p>Identified skill gaps of selected individuals were addressed by providing the required people management, technical and / or soft skills training and development. Training provided is given on page 71 of the Human capital report.</p> <p>The succession plan was updated 3 times during the year.</p> <p>22 manager and above positions were filled internally during the year.</p>
(iv)	Ensure that effective systems to secure integrity of information, internal controls, business continuity and risk management	Complied	<p>The Board has delegated this responsibility to the Board Audit and Compliance Committee (BACC).</p> <p>The role and responsibilities of the BACC are well defined in the BACC Terms of Reference.</p> <p>Each year the BACC reviews the adequacy of the systems to secure integrity of information, internal controls and risk management.</p> <p>Under its mandate, the BACC reviews the resourcing, scope 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><b>Application</b></p> <p>The activities performed by the BACC during the year are disclosed in the BACC Report on page 178.</p>
(v)	Compliance with laws, regulations and ethical standards	Complied	<p>A compliance checklist and a sign-off is provided each quarter to all Board members indicating compliance with applicable laws and regulations.</p> <p>In 2014 the company put in place a bottom up compliance sign off process covering head office and branches to ensure compliance at ground level.</p> <p>The company has also issued a Code of Conduct applicable to all Directors and employees.</p> <p><b>Application</b></p> <p>Details of compliance with applicable laws and regulations in 2016 are provided on page 125.</p> <p>In 2016 the bottom-up sign-off process was audited by the internal auditors to ensure its' effectiveness.</p> <p>Details of the Code of Conduct are provided on page 141.</p>

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
	(vi) Ensure that all stakeholder interests are considered in corporate decisions	Complied	<p>All charters and policies of the company have been developed to ensure that responsibilities to shareholders and other stakeholders are timely and appropriately discharged. Particular emphasis is given by the Board to the framework of these charters and policies in the decision-making process.</p> <p><b>Application</b></p> <p>The company aligned itself with the GRI G4 Content Index sustainability reporting guidelines and the process helped in streamlining this further.</p>
	(vii) Recognise sustainable business development in corporate strategy, decisions and activities	Complied	<p>Working on a core value triad of economic viability, environmental responsibility and social accountability, the Board recognises the importance of sustainable business development in the corporate strategy, decisions and activities of the Company. Accordingly, strategies and key corporate decisions and activities are monitored and discussed at Executive Committee level as well as at Board level.</p> <p><b>Application</b></p> <p>The Board reviews the achievement of the strategies set at the beginning of the year regularly with current market and economic developments to ensure continued relevance.</p>
	(viii) Ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations	Complied	<p>The Company's accounting policies are annually reviewed by the Board Audit and Compliance Committee to ensure they are in line with new developments, changing business requirements and best practices in the industry. The Board ensures that the Financial Statements of the Company are prepared in accordance with the approved accounting policies.</p> <p><b>Application</b></p> <p>The company continues to keep up to date with all current developments in relation to changes in accounting standards and have reviewed the accounting policies in place during the year under review.</p>
	(ix) Fulfilling other Board functions as are vital, given the scale, nature and complexity of the organisation.	Complied	<p>During the year under review every endeavour was made by the Board to fulfil its obligations towards all stakeholders and the same is reflected in the performance of the Company, shareholder returns, governance processes and an entrepreneurial performance focused work environment prevailing in the Company.</p> <p><b>Application</b></p> <p>The CEO and where required the members of the management team consulted Board members individually as well as at Board sub-committee levels for various requirements.</p>
A.1.3	Act in accordance with laws of the country relevant to the organisation and procedure for Directors to obtain independent professional advice at the company's expense	Complied	<p>The Board has put in place a framework of policies, procedures and a risk management framework to ensure compliance with relevant laws, Insurance Board of Sri Lanka (IBSL) guidelines and international best practice with regard to the operations of the Insurance Company. The Board obtains independent professional advice as and when necessary in accordance with the Board approved policy on independent professional advices.</p> <p><b>Application</b></p> <p>During the year, professional advice was sought on various matters including the following:</p> <ul style="list-style-type: none"> <li>Actuarial valuation of the life liabilities and retirement benefit obligations</li> <li>Legal, tax and accounting aspects</li> <li>Economic and Investment advice</li> </ul>
A.1.4	Need for the Directors to have access to the advice and services of the Company Secretary and the need for the removal of the Company Secretary to be a matter for the Board as a whole	Complied	<p>The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.</p> <p>All Directors have access to the Company Secretary.</p> <p><b>Application</b></p> <p>Keells Consultants (Private) Limited continued to function as the Company Secretary during 2016.</p>

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# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
A.1.5	Need for the Directors to bring independent judgment to bear on issues of strategy, performance, resources and standards of business conduct	Complied	<p>The Board comprises of senior experienced professionals, they use their independent judgement on issues of strategy, performance, resources, key appointments and standards of business conduct. The composition of the Board ensures that there is sufficient balance of power and contribution by all Directors and minimises the tendency for one or few members of the Board to dominate the Board processes or decision-making.</p> <p><b>Application</b></p> <p>None of the Non-Executive Directors have held executive roles during the year.</p>
A.1.6	Obligation of the Directors to dedicate adequate time and effort to matters of the Board and the Company	Complied	<p>Board meetings and Board Sub Committee meetings are scheduled well in advance and the relevant papers are circulated prior to the meeting to ensure that Directors have sufficient time to review the same and call for additional information or clarifications, if required.</p> <p><b>Application</b></p> <p>The Board met on 7 occasions during the year. Attendance of the Directors is detailed on page 135.</p> <p>The diagram given on page 133 illustrates how the Board spent its time during 2016.</p>
A.1.7	Need for every Director to receive appropriate training when first appointed to the Board and subsequently as necessary	Complied	<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 local and global 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><b>Application</b></p> <p>During the year, the Board obtained advice from external consultants on economic scenarios, investment strategies, new product development, actuarial practices, brand development and digital initiatives.</p> <p>In addition, several knowledge sharing initiatives were conducted to inform the Board on such subjects as industry trends including Risk Based Capital (RBC) framework, risk management practices and impact of regulatory changes.</p>
<b>A.2 DIVISION OF RESPONSIBILITIES BETWEEN CHAIRMAN AND CEO</b>			
<p>The posts of Chairman and the Chief Executive Officer (CEO) were held separately by ensuring the balance of power and authority. The Chairman provides leadership to the Board and is responsible for governance and the effective operations of the Board, whilst the CEO, as the apex executive, is responsible and accountable for day-to-day management of the affairs of the Company.</p>			
A.2.1	Justification and disclosure of the decision to combine the posts of Chairman and CEO in one person	Complied	<p>The roles of Chairman and CEO have not been combined.</p> <p><b>Application</b></p> <p>The posts of Chairman and the Chief Executive Officer (CEO) were held separately by Mr. Ajit D. Gunewardene and Mr. Dirk Pereira respectively thereby, ensuring the balance of power and authority.</p>

### A.3 CHAIRMAN'S ROLE

The Chairman provides leadership to the Board to ensure that the Board creates enduring value for all stakeholders of the Company over the long term.

A.3.1	Responsibility of the Chairman to conduct Board proceedings in a proper manner	Complied	<p>The Chairman's role is preserving good corporate governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board function.</p> <p>The Chairman satisfies himself that the information available to the Board is sufficient to make an informed assessment of the company's affairs as well as to discharge its duties to all stakeholders.</p> <p><b>Application</b></p> <p>The Chairman ensures;</p> <ul style="list-style-type: none"> <li>That the meetings are conducted in a manner which ensures that there is effective participation from all Directors</li> <li>That Directors' individual contribution and concerns are objectively assessed prior to making key decisions and that the balance of power is maintained.</li> <li>That the Board is in complete control of the company's affairs.</li> </ul>
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### A.4 FINANCIAL ACUMEN

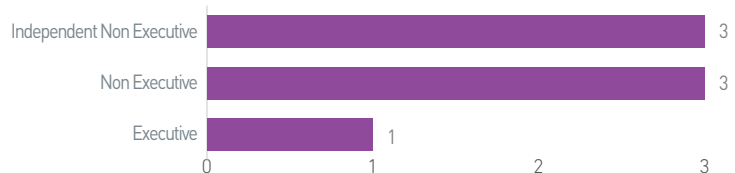
The Board has diversity of skills and knowledge and each Director brings a particular range of skills and expertise to the deliberations of the Board, which facilitates constructive and challenging debate around the boardroom table.

A.4	Need for the Board to ensure the availability within it of those with sufficient financial acumen and knowledge	Complied	<p>The Board comprised of members with academic and professional qualifications in accounting and auditing.</p> <p><b>Application</b></p> <p>There are three 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:</p> <p>Mr. H. A. J. De Silva Wijeyeratne Mr. S. Rajendra Mr. A. D. Pereira</p> <p>Their profiles are provided on page 120 and 121 in this report.</p>
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### A.5 BOARD BALANCE

Other than CEO / Executive Director Mr. A. D. Pereira all other Directors of the Company are non-executive directors of which three non-executive directors are independent thereby promoting critical review and control

A.5.1	Need to have at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of total number of Directors, whichever is higher	Complied	<p>While six out of the seven directors on the Board hold office in a Non-Executive capacity three non-executive directors are independent directors.</p> <p><b>Application</b></p> <p><b>COMPOSITION OF THE BOARD</b></p>
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# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
A.5.2	Need for two or one third of Non-Executive Directors appointed to the Board, whichever is higher, to be 'independent'	Complied	<p>Non-Executive Directors are independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.</p> <p><b>Application</b> Mr. H. A. J. De Silva Wijeyeratne, Mr. A. S. De Zoysa and Mr. G. F. C. De Saram continued to be Independent Non-Executive Directors during 2016.</p> <p>Accordingly, the company is in compliance with the requirement to have the higher of two, or one third of Non-Executive Directors, as "Independent" Non- Executive Directors.</p>
A.5.3	Need for Independent Directors to be independent of management and free of any business or other relationship	Complied	<p>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 his / her unfettered and independent judgment.</p> <p><b>Application</b> All of the Independent Non-Executive Directors of the Company during 2016 met the criteria for independence as set out in the applicable rules and regulations including Code of Best Practice on Corporate Governance (Code).</p>
A.5.4	Need for Non-Executive Directors to submit an annual declaration of his / her independence or non-independence	Complied	<p>A declaration is submitted by the Non - Executive Directors on an annual basis against specified criteria.</p> <p><b>Application</b> During the year under review, self-declarations were submitted by each Non-Executive Director declaring his / her status of independence in terms of the applicable rules and regulations.</p> <p>Summary of the Non-Executive / Independent Directors' interests is given on page 132 of this report.</p>
A.5.5	Need for the Board to make an annual determination as to the independence or non-independence of Non-Executive Directors	Complied	<p>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.</p> <p><b>Application</b> The Board makes an annual evaluation of independence of the Directors based on the submission of the annual declarations. Based on these, the following Directors are deemed to be independent: Mr. A. S. De Zoysa Mr. G. F. C. De Saram Mr. H. A. J. De Silva Wijeyeratne</p>
A.5.6	Need for alternate directors appointed by an Independent Director to meet the criteria of independence	Complied	<p>If an alternate Director is appointed by a Non- Executive Director such alternate Director will not be an executive of the company. If an alternate Director is appointed by an independent Director, the person who is appointed also would require to meet the criteria of independence. The provision on minimum number of independent Directors also should be satisfied.</p> <p><b>Application</b> No alternate directors were appointed during the year 2016.</p>

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
A.5.7	Need to appoint a "Senior Independent Director" if the Chairman and CEO is the same person	Complied	<p>The requirement to appoint a "Senior Independent Director" does not arise under the Code in view of the roles of the Chairman and the CEO being held by two different individuals.</p> <p><b>Application</b></p> <p>No "Senior Independent Director" was appointed during the year 2016</p>
A.5.8	Responsibility of the Senior Independent Director to make himself available for confidential discussions with other Directors	Complied	Not applicable.
A.5.9	Responsibility of the Chairman to hold meetings exclusively with the Non-Executive Directors at least once each year	Complied	<p>When deemed necessary, Chairman holds meetings without the executive Director / CEO being present.</p> <p><b>Application</b></p> <p>No such situation arose during the year under review.</p>
A.5.10	Obligation of the Directors to have matters that cannot be unanimously resolved recorded in the Board Minutes	Complied	<p>The board minutes are prepared in order to record any concerns of the Board as a whole or those of individual Directors regarding matters placed for their approval /guidance /action. These minutes are circulated and formally approved at the subsequent Board meeting. Additionally, Directors have access to the past Board papers and minutes in case of need at all times.</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><b>Application</b></p> <p>Minutes of the Board meetings are circulated to all Directors and formally approved at the subsequent Board meeting.</p> <p>There were no resignations over an unresolved issue during the year.</p>
<b>A.6 SUPPLY OF INFORMATION</b>			
Comprehensive information is essential for the decision-making process. Hence, all financial and non-financial information is analysed and presented to the Board to make informed and accurate decisions.			
A.6.1	<p>Obligation of the management to provide the Board with appropriate and timely information.</p> <p>The Chairman should ensure all Directors are properly briefed on issues arising at Board meetings.</p>	Complied	<p>The Executive Committee ensured that the Board was provided with timely, accurate, relevant and comprehensive information before the Board meeting, with adequate time for them to review the same and prepare for discussions. The Board made inquiries for additional information from the Executive Committee when necessary.</p> <p>Further, the Chairman ensured that all Directors were adequately briefed on issues arising at Board meetings.</p> <p><b>Application</b></p> <p>During the year, in addition to the regular information, several Executive Committee members made presentations to the Board regarding digital strategy / brand value / brand positioning / competitor analysis / life system migration plan / risk management initiatives / HR and capital adequacy as per RBC regulatory framework /structural changes / new initiatives and modalities of execution.</p>
A.6.2	Need to provide the minutes, agenda and papers required for a Board Meeting at least seven (7) days before the meeting	Complied	<p>The Agenda and Board Papers are circulated a week prior to Board meetings thus providing the Directors with adequate time to study the papers and prepare themselves for constructive discussions at Board meetings.</p> <p><b>Application</b></p> <p>The Board papers were circulated seven days prior to each Board meeting.</p>

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# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
<b>A.7 APPOINTMENTS TO THE BOARD</b>			
The Corporate Governance Charter of the Company provides for a formal and transparent procedure to be followed when selecting and appointing new directors to the Board.			
A.7.1	Need to have a Nomination Committee to make recommendations to the Board on all new Board appointments	Complied	<p>In identifying suitable candidates, professional / business experience and personal qualities are taken into consideration and appointments are made purely on merit. All new appointments are recommended by the Nominations Committee and approved by the shareholders.</p> <p>Details and composition of the Nominations Committee are provided on page 181 in the Nominations Committee Report.</p> <p>The Nominations Committee (NC) of John Keells Holdings PLC (the Parent company) represents the NC of the company.</p> <p><b>Application</b></p> <p>There were no new appointments during the year 2016.</p>
A.7.2	Need for the Nominations Committee or the Board to annually assess Board composition	Complied	<p>During the annual self-evaluation process, the Board as a whole assesses its own composition to ascertain whether the experience and the exposure of the Board members are adequate to meet the strategic demands faced by the Company and findings of these assessments are taken in to consideration in the appointment of new Directors.</p> <p><b>Application</b></p> <p>The current set of Directors together, deemed to possess the required knowledge and experience to match the strategic opportunities and threats facing the company in the foreseeable future.</p>
A.7.3	Obligation of the Company to disclose details of new appointments of Directors to the shareholders	Complied	<p>All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange and subsequently through the Company's Annual Report.</p> <p><b>Application</b></p> <p>There were no new appointments during the year 2016.</p>
<b>A.8 RE-ELECTION</b>			
All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.			
A.8.1	Need for the Non-Executive Directors to be appointed subject to re-election and to the provisions in the Companies Act relating to the removal	Complied	<p>In accordance with the Articles of Association, two of the Directors retire from office at each Annual General Meeting. A retiring Director is eligible for re-election by the shareholders.</p> <p>Any Director who has been appointed to the Board during the year, holds office until the next AGM, when he / she is required to retire and be re-elected by the shareholders.</p> <p>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.</p> <p><b>Application</b></p> <p>Mr. G. F. C. De Saram and Mr. S. Rajendra were re-elected to the Board at the last Annual General Meeting.</p> <p>Mr. A.D. Pereira and Ms. D.C. Alagaratnam retire in terms of article 84 of the Articles of Association of the company and be eligible for re-election at the next AGM.</p> <p>Their profiles are provided on page 121 of this Annual Report</p>

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
A.8.2	Need for all Directors including the Chairman to be subject to election by shareholders at the first opportunity after their appointment	Complied	<p>All Directors, excluding the Chairman, are subject to election by shareholders at the first opportunity after their appointment and to re- election as stated above.</p> <p>As per the Articles of Association the Chairman is not subject to retirement by rotation.</p> <p><b>Application</b></p> <p>There were no new appointments during the year 2016 requiring election by the shareholders at the next AGM.</p>

#### A.9 APPRAISAL OF BOARD PERFORMANCE

The Board recognises that it is necessary to periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged. Thus, the Board has a self-evaluation process in place that encourages all Directors to make a full and active contribution to the Board's affairs.

A.9.1	Need for the Board to annually appraise itself on its performance in the discharge of its key responsibilities	Complied	<p>The Board regularly evaluates its performance based on the following set of guidelines:</p> <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</li> <li>• Balancing the needs of all stakeholders</li> </ul> <p><b>Application</b></p> <p>The 2015 evaluation was carried out in January 2016 and emerging themes discussed and tabled at the March 2016 Board meeting.</p> <p>The 2016 evaluation was carried out in January 2017 and findings were discussed and tabled at the Board meeting held in January 2017</p>
A.9.2	Need for the Board to undertake an annual self-evaluation of its own performance and that of its Committees.	Complied	<p>The self-evaluation carried out by the Board in 2016 included an evaluation of the performance of the Board as a whole as well as of its Committees.</p> <p><b>Application</b></p> <p>As done each year, the Board evaluated its performance and the performance of its sub-committees during 2016.</p>
A.9.3	Need for the Board to disclose in the Annual Report how performance evaluations have been conducted	Complied	<p>The process of self-evaluation of the Board carried out in 2016 was led by the Chairman. Views of all Directors were canvassed in respect of the performance of the Board as a whole as well as of its Committees by requiring the individual Directors to complete a confidential questionnaire comprising the;</p> <ul style="list-style-type: none"> <li>• Effectiveness of the Board as a whole</li> <li>• Perception of the Board</li> <li>• Perception of their own contributions</li> <li>• Areas for improvement and effectiveness of the committees on which they serve</li> <li>• Any other suggestions</li> </ul> <p><b>Application</b></p> <p>The full results of the evaluations were then analysed by the Company Chairman and the findings were presented to the Board. Based on these findings, it is duly affirmed that the Board and its Committees operated effectively during the year under review.</p>

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# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
<b>A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS</b>			
The Company places importance on the disclosure of information with accuracy, completeness, transparency and equality for financial statements and general information, and also other information that would impact the Company's share price.			
A.10.1	Requirement for the Annual Report of the Company to set out the details of Directors	Complied	<p>Information in relation to each Director required by the Code of Best Practice on Corporate Governance is disclosed in the Annual Report.</p> <p><b>Application</b></p> <p>Information Required</p> <ol style="list-style-type: none"> <li>1. Name, qualification and a brief profile – Refer profiles on page 120 and 121</li> <li>2. Nature of his / her expertise in relevant function – Refer profile on page 120 and 121</li> <li>3. Immediate family and / or material business relationships with other Directors of the Company - Details of related party transactions are provided in Note 43 to the Financial Statements</li> <li>4. Whether Executive, Non-Executive and / or Independent Director - Refer profiles on page 120 and 121</li> <li>5. Names of listed companies in Sri Lanka in which the Director concerned serves as a Director - Refer profiles on page 120 and 121</li> <li>6. Names of other companies or companies in a Group in Sri Lanka in which the Director concerned serves as a Director Refer profile on page 120 and 121</li> <li>7. Board meetings attended – Refer page 135</li> <li>8. The total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an executive or non-executive capacity - Refer profile on page 120 and 121</li> <li>9. Board committees served as Chairman /member - Refer profiles on page 120 and 121, and pages 174 to 182 for the committee reports.</li> <li>10. Committee meetings attended - Refer respective committee reports on pages 174 to 183 for details on attendance of meetings.</li> </ol>

### A.11 APPRAISAL OF THE CHIEF EXECUTIVE OFFICER (CEO)

As the apex executive of the Company, the CEO is responsible for the day to day operations of the Company with the assistance of the Executive Committee and is accountable to the Board to recommend the Company's strategy and its subsequent implementation, to ensure that appropriate internal controls are in place to manage and assess risk and that they are fully complied with.

A.11.1	Need for the Board to set financial and non-financial targets to be met by the CEO during the year in line with the short, medium and long-term objectives of the Company	Complied	<p>The CEO is entrusted with the management of the Company's operations with decision making authority and he is fully accountable to the Board.</p> <p>At the commencement of every financial period, the Board in consultation with the CEO, sets financial and non-financial targets that should be achieved by the CEO in line with the short, medium and long term objectives of the Company.</p> <p>The main corporate goals and objectives emanating from the Company's Corporate Plan and the Budget are incorporated as personal goals of the CEO.</p> <p><b>Application</b></p> <p>Following the corporate planning process, the Board (in consultation with the CEO), in line with the short, medium and long term objectives of the company sets financial and non-financial objectives to be achieved by the CEO.</p> <p>Summarised objectives / action plans set by the Board for 2016:</p> <ul style="list-style-type: none"> <li>• Achievement of turnover, profitability and embedded value of the company</li> <li>• Maintain a cost-effective distribution model</li> <li>• Performance Management and reward and recognition.</li> <li>• New / improved products to match needs of the market</li> <li>• Service related aspects including improvement of policy retention</li> <li>• Implementation of IT systems to improve efficiency, reliability and faster decision making</li> <li>• Brand rating improvement initiatives</li> <li>• Talent management and succession planning for key positions across the company</li> <li>• Sustainability aspects and CSR initiatives</li> <li>• Audit and control environment aspects</li> </ul>
A.11.2	Need for the Board to evaluate the performance of the CEO at the end of each fiscal year	Complied	<p>Assessment of the performance of the CEO by the Board is an on-going process. The performance of the CEO is evaluated by the Board at the mid and end of each financial year by comparing the performance of the Company with the financial and non-financial targets set at the beginning of the financial year.</p> <p><b>Application</b></p> <p>As per the annual performance appraisal cycle, CEO's performance for 2016 will be reviewed in March 2017</p>

# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
<b>B. DIRECTORS' REMUNERATION</b>			
<b>B.1 REMUNERATION PROCEDURE</b>			
The Board recognises that the existence of a formal and transparent remuneration procedure supports alignment of Directors' interests with those of shareholders.			
B.1.1	Need for the Board to set up a Remuneration Committee	Complied	<p>The Board has established a Board Remuneration Committee to develop a policy and determine remuneration for the Directors, Management and Executive Staff. No Director is involved in deciding his own remuneration. The Terms of Reference complies with Schedule C of the Code, other investor guidelines and requires the Committee to ensure that the Company adopts a remuneration policy which rewards Executive Directors, Management and Executive Staff for their contribution to sustainably and responsibly move towards enhancing shareholder value</p> <p><b>Application</b> Refer Remuneration Committee Report on page 176 for the functions of the Remuneration Committee during the year 2016.</p>
B.1.2	Need for the Remuneration Committees to consist exclusively of Non-Executive Directors	Complied	<p>All members of the Remuneration Committee are Non-Executive Directors and the Chairman of the Committee is appointed by the Board.</p> <p><b>Application</b> Refer Remuneration Committee Report on page 176.</p>
B.1.3	Requirement to list the Chairman and members of the Remuneration Committee in the Annual Report	Complied	<p>Details and composition of the Remuneration Committee are provided in the annual report each year.</p> <p><b>Application</b> Please refer composition of the Remuneration Committee on page 176 of this report</p>
B.1.4	Need for the Board to determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee	Complied	<p>No changes were made to the Remuneration of the Non-Executive Directors in 2016.</p> <p><b>Application</b> Non-Executive Directors who are part of the JKH Group remit their fees to John Keells Holdings PLC.</p> <p>Other Non-Executive Directors are remunerated in line with market practices.</p>
B.1.5	Need for the Remuneration Committee to consult the Chairman and / or CEO on proposals relating to the remuneration of other Executive Directors	Complied	<p>Remuneration of Executive Director is determined by the Board Remuneration Committee which has access to professional advice from within or outside the company in formulating its proposals which then are discussed with the Chairman.</p> <p><b>Application</b> During the year, as done each 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.</p>

## B.2 THE LEVEL AND MAKE UP OF REMUNERATION

Levels of remuneration of both Executive and Non-executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.

B.2.1	Need for the Remuneration Committee to provide competitive packages needed to attract, retain and motivate Executive Directors of the quality required	Complied	<p>Remuneration for Executive Director is designed to attract, retain and motivate as determined by the Board Remuneration Committee. Remuneration at all levels including the CEO consists of a fixed element as well as a variable element which is paid based on company and individual performance.</p> <p><b>Application</b></p> <p>No change made to the level and make up of remuneration during the year.</p>
B.2.2	Need for the Remuneration Committee to judge where to position levels of remuneration of the Company, relative to other companies	Complied	<p>The Remuneration Committee as well as the Board as a whole is aware that reward strategies and remuneration structure should be designed to attract, motivate and retain high-calibre people, at all levels of the organisation, in a highly competitive environment. Therefore, the remuneration structure of the Company is reviewed from time to time with comparison to that of peers in the industry.</p> <p><b>Application</b></p> <p>Due consideration was given when positioning the remuneration of the CEO for year 2016. No changes were made to the remuneration of the Non- Executive directors during the year.</p>
B.2.3	Need for the Remuneration Committee to be sensitive to remuneration and employment conditions elsewhere in the Company	Complied	<p>The Remuneration Committee reviews the annual increments provided to companies within the John Keells Group, when deciding on increments for UA staff.</p> <p><b>Application</b></p> <p>As done annually the annual increment for UA staff was set taking into consideration the increment levels provided for other JKH Group companies.</p>
B.2.4	Need for the performance-related elements of remuneration of Executive Directors to be designed and tailored to align their interests with those of the Company and main stakeholders	Complied	<p>The performance related elements of remuneration applicable to the CEO is based on achieving the objectives as outlined in A.11.1 above. It is believed that these measures best align the interests of the company and main stakeholders. There are no performance related elements of remuneration for the Non-Executive Directors.</p> <p><b>Application</b></p> <p>Performance of the CEO is measured as outlined in A.11.1 above. The variable element of the CEO's remuneration is linked to achievement of the set objectives for the year.</p>
B.2.5	Avoidance of offering executive share options at a discount	Complied	<p>The senior management is entitled to participate in the employee share options scheme (ESOP) initiated by John Keells Holdings PLC.</p> <p><b>Application</b></p> <p>During the year, ESOPs valued using a binomial pricing model, were granted to the Executive Director as well as to all other eligible employees.</p> <p>Further details are provided in Note 36 in the notes to the financial statements.</p>

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REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
B.2.6	Need for the Remuneration Committee to follow the provisions set out in Schedule E of the Code in designing schemes of performance-related remuneration	Complied	<ul style="list-style-type: none"> <li>The CEO is eligible for annual bonuses based on the company achieving business profitability. As per the scheme, there is an upper limit on the annual bonus.</li> <li>In terms of long term incentive schemes, the senior management is entitled to participate in the share options scheme (ESOP) initiated by John Keells Holdings PLC. The vesting period is three years.</li> <li>The consequences of pension and associated costs are considered when determining salary increases.</li> <li>Performance related remuneration schemes are not applied retrospectively.</li> <li>Annual bonuses are not pensionable.</li> <li>Non-Executive Directors are not eligible to performance based remuneration schemes.</li> </ul> <p><b>Application</b> Company continued to adopt the same schemes during the year in review.</p>
B.2.7 & B.2.8	Compensation commitments in the event of early termination.	Complied	<p>There are no terminal compensation commitments other than gratuity in the company's contracts of service.</p> <p><b>Application</b> No changes were made to the policy during the year.</p>
B.2.9	Need for the levels of remuneration for Non-Executive Directors to reflect the time commitment and responsibilities of their role	Complied	<p>Non-Executive Directors are paid only a fee that reflects the time commitment and responsibilities of their role</p> <p><b>Application</b> Non-Executive Directors are remunerated in line with market practices.</p>
<b>B.3 DISCLOSURE OF REMUNERATION</b>			
The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.			
B.3.1	Requirement to disclose the Remuneration Policy and details of remuneration of the Board in the Annual Report	Complied	<p>Details of the Remuneration Committee and remuneration paid to Executive and Non-Executive Directors are disclosed in the annual report each year.</p> <p><b>Application</b> Refer page 136 for details on Directors' remuneration</p> <p>Details of the Remuneration Committee are provided on page 176.</p> <p>The information in Note 22 to the financial statements provides the remuneration paid to Executive and Non - Executive Directors.</p> <p>The Board Remuneration Committee ensured that the CEOs / Executive Directors' remuneration is set objectively.</p>

## C. RELATIONS WITH SHAREHOLDERS

### C.1 CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS

The Board attaches considerable importance to the maintenance of constructive relationships with the shareholders and considers the AGM and other General Meetings to be the formal opportunity for dialogue and communication between the Company and the shareholders. Accordingly, all shareholders are encouraged to actively participate in the Company's AGM and other General Meetings. To achieve this purpose, the notices of meetings are dispatched to the shareholders within the prescribed time period.

C.1.1	Need to count all proxy votes lodged	Complied	<p>All proxy votes lodged together with the votes of shareholder's present at the AGM are considered for each resolution.</p> <p><b>Application</b></p> <p>All proxy votes and the votes at the AGM were considered for all resolutions passed at the 29th AGM held on 31st March 2016.</p>
C.1.2	Need to propose separate resolutions for each substantially separate issue and adoption of annual report and accounts	Complied	<p>The Company proposes separate resolutions on each substantially separate issue giving shareholders the opportunity to vote on each such issue separately.</p> <p><b>Application</b></p> <p>The following separate resolutions were passed at the 29h AGM held on 31st March 2016</p> <ul style="list-style-type: none"> <li>• Receive and consider the Annual Report and financial statements of the Company for the year ended 31st December 2015 with the report of auditors.</li> <li>• Re-election of Mr. Suresh Rajendra and Mr. Gerald Fredrick Christopher De Saram to the Board, who retired in terms of Article 84 of the Articles of Association of the Company.</li> <li>• Re-appointment of the retiring auditors Messrs. KPMG, Chartered Accountants, and authorise Directors to determine their remuneration.</li> </ul>
C.1.3	Need for the Board Sub Committee Chairmen to be available to answer queries	Complied	<p>The Chairman of the Board ensures that the Chairmen of Board Sub Committees are present at the AGM to answer any queries by shareholders</p> <p><b>Application</b></p> <p>The Chairmen of the Board sub committees were present at the AGM held on 31st March 2016.</p> <p>No queries were raised by shareholders to the Chairmen of the committees at the last AGM.</p>
C.1.4	Need for the Notice of the AGM and related papers to be sent to shareholders before the meeting.	Complied	<p>Notice of the AGM and related papers are sent to shareholders 15 working days prior to the meeting in accordance with the regulations.</p> <p><b>Application</b></p> <p>The notice of meeting and related documents were circulated to the shareholders 15 working days prior to the AGM held in 2016</p>
C.1.5	Need to circulate a summary of procedures governing voting at General Meetings with the Notice of Meeting	Complied	<p>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.</p> <p><b>Application</b></p> <p>The proxy form was circulated to shareholders 15 working days prior to the AGM.</p> <p>Please refer page 337 for the proxy form for the 30th AGM to be held on the 31st March 2017.</p>

# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
<b>C.2 COMMUNICATION WITH SHAREHOLDER</b>			
The Company's relevance to the markets and societies in which it operates depends on continued and meaningful engagement with all stakeholders. Therefore, building and maintaining good stakeholder relationships help the Company manage and respond to expectations, minimise reputational risk and form strong partnerships, all of which support its commercial sustainability.			
C.2.1	Need to have a channel to disseminate timely information to all shareholders of the company	Complied	<p>The company has many channels to reach all shareholders of the company in order to disseminate timely information.</p> <p><b>Application</b></p> <p>The company used the following channels to disseminate timely information during the year;</p> <ul style="list-style-type: none"> <li>• Shareholders meetings</li> <li>• Financial and other notices as and when required through the Colombo Stock Exchange</li> <li>• Corporate website</li> <li>• Press notices</li> </ul>
C.2.2	Need to disclose the policy and methodology of communication with shareholders	Complied	<p>The Company has in place a comprehensive policy that governs communications with its different stakeholders, including shareholders, which is based on the efficiency, transparency, clarity, cultural awareness and feedback.</p> <p><b>Application</b></p> <p>Please refer 'Relations with Shareholders' provided on page 136 for details of the policy and methodology adopted for communication.</p>
C.2.3	Need to disclose the manner and methodology of Implementation of the Communication Policy	Complied	<p>The company discloses how they implement the above policy and methodology in the Annual Report each year.</p> <p><b>Application</b></p> <p>Please refer 'Relations with Shareholders' provided on page 136 for details of how the policy and methodology adopted are being implemented.</p>
C.2.4	Need to disclose a contact person for communication	Complied	<p>Contact persons for communications with different stakeholders of the Company are specified in the Communication Policy.</p> <p><b>Application</b></p> <p>Details of the contact personnel are provided under C.2.6 on page 161 of this report.</p>
C.2.5	Need for a process to make Directors aware of major issues and concerns of shareholders	Complied	<p>A process has been adopted to ensure that all Directors are aware of the major issues and concerns raised by shareholders. The process is disclosed in the Annual Report each year.</p> <p><b>Application</b></p> <p>Please refer C.2.7 on page 161 of this report.</p>

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
C.2.6	Need for the identification of a person to be contacted on shareholder matters	Complied	<p>The relevant person with statutory responsibilities to contact in relation to shareholders' matters is the Company Secretary.</p> <p><b>Application</b></p> <p>Company has appointed the company secretary as the person to be contacted on shareholder matters or in his / her absence the Director / CEO.</p> <p>The Company secretary can be contacted by phone on 011-2306245 or by mail to Keells Consultants (Private) Limited, 117, Sir Chittampalam A. Gardiner Mawatha, Colombo 02, Sri Lanka.</p> <p>Shareholders can also contact;</p> <ul style="list-style-type: none"> <li>• Director / CEO, Union Assurance Centre, 20, St. Michael's Road, Colombo 3, Sri Lanka.</li> <li>• The Chairman of the Company on 011 – 2306112.</li> <li>• Investor relations Hotline on 011-2990314 or email to <a href="mailto:investorrelations@ualink.lk">investorrelations@ualink.lk</a></li> <li>• UA also provides a host of investor information through its website <a href="http://www.unionassurance.lk">www.unionassurance.lk</a>.</li> </ul>
C.2.7	Need for a process responding to shareholder matters	Complied	<p>The Board has formulated a process of responding to shareholder matters and it is disclosed in the annual report each year.</p> <p><b>Application</b></p> <p>Shareholder matters will be responded to through the same mode the query was directed to the company or through a mode agreed with shareholder/s.</p> <p>All queries made other than the queries raised directly with the Chairman, will be brought to the notice of the Chairman by the CEO or the Company Secretary. Should any query need the attention of the Board of Directors, the Chairman escalates such queries and seeks the assistance of the Board.</p> <p>The company recognises the importance of shareholders' privacy and does not disclose shareholders' information without their consent unless required by law.</p>
<h3>C.3 MAJOR AND MATERIAL TRANSACTIONS</h3> <p>The Board recognises that timely disclosure of market sensitive information is essential to maintaining and increasing the confidence of investors in the Company, whilst helping investors make their own judgements.</p>			
C.3.1	Need to Disclose major and material transactions	Complied	<p>All proposed material transactions, which if entered into, alter the company's net assets base, are disclosed to shareholders.</p> <p><b>Application</b></p> <p>During the year, there were no major or material transactions engaged in or committed to by the Company as prescribed by the Code that required disclosure to the shareholders.</p>

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# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
<b>D. ACCOUNTABILITY AND AUDIT</b>			
<b>D.1 FINANCIAL REPORTING</b>			
The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. Therefore, the Board has established a formal and transparent arrangement for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditors.			
D.1.1	Responsibility of the Board for statutory and regulatory reporting	Complied	<p>The Annual Report presents a balanced review of the Company's Financial position, performance and prospects which have been presented combining both narrative and visual elements to ensure that the content is understandable. Care has been exercised to ensure that all statutory requirements are complied with in the Annual Report and in the issue of interim communications on financial performance which are reviewed by the Audit Committee and approved prior to publication.</p> <p><b>Application</b></p> <p>The following disclosures as required by the Code are included in this Report:</p> <ul style="list-style-type: none"> <li>The interim accounts and annual financial statements were published on a timely basis during 2016. Refer Financial calendar on page 188.</li> <li>Regulatory reports were filed by the due dates. Summary of compliances provided on page 144.</li> <li>Price sensitive information was also disclosed to the Colombo Stock Exchange on a timely basis.</li> <li>A summary of the interim accounts is presented on page 319.</li> <li>A section on "Understanding our Financials" is provided on pages 313 to 315.</li> </ul>
D.1.2	Requirement to include declarations by Directors in the Directors' Report	Complied	<p>The Directors' report contains declarations by the Directors as required by the Code of Best Practice on Corporate Governance.</p> <p><b>Application</b></p> <p>The Annual Report of the Board of Directors on the Affairs of the Company on pages 189 to 194 contains the declarations as required by the Code.</p>
D.1.3	Requirement to include in the Annual Report statements by Directors and Auditors on responsibility for financial reporting	Complied	<p>The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided in the Annual Report each year.</p> <p><b>Application</b></p> <p>The statement of Directors' responsibility for the preparation and presentation of financial statements is provided on page 197.</p> <p>Directors' Statement on Internal Control over Financial Reporting is provided on Page 184.</p> <p>Independent Auditors' Report is provided on Page 198.</p>

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
D.1.4	Need for inclusion of a Management Discussion and Analysis in the Annual Report	Complied	<p>The company provides a "Management Discussion and Analysis" report in the Annual Report each year.</p> <p><b>Application</b></p> <p>Required information is disclosed as per the Code.</p> <p>Industry structure and developments – Pages 40 to 45            Opportunities and threats, risks and concerns – Pages 102 to 111            Internal control systems and their adequacy – Page 110            Social and environmental protection activities carried out by the company – Pages 61 to 66            Financial performance – Pages 50 to 58            Material developments in human resources /industrial relations – Pages 67 to 79            Prospects for the future – Page 100 and 101</p>
D.1.5	Need to include a declaration by the Board on the going concern of the Business	Complied	<p>Information on going concern is provided in the Report of the Directors.</p> <p><b>Application</b></p> <p>This information is provided in the 'Annual report of the Board of Directors on the affairs of the Company' on pages 192 to 194.</p>
D.1.6	Requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss of capital	Complied	<p>In the event the net assets of the company fall below 50% of the value of the company's shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting of the company to notify shareholders of the position and of remedial action being taken.</p> <p><b>Application</b></p> <p>The situation has not arisen during the year 2016 and the likelihood of such a situation is remote. However, should such a situation arise, an EGM would be convened to keep the shareholders informed thereof.</p>
D.1.7	Requirement to include adequate and accurate disclosure of Related Party Transactions in the Annual Report	Complied	<p>There is a documented process approved by the Board, identifying related parties, type of Related Party Transactions and favourable treatment granted to said parties in order for Board members and KMPs to avoid any conflict of interest in this regard.</p> <p><b>Application</b></p> <p>The Company Secretary shared the updated template for information collection during the year.</p> <p>Each related party has submitted signed and dated declarations mentioning whether they had related party transactions with the company during 2016</p> <p>The Company Secretary keeps a record of related party transactions and makes necessary disclosures to comply with the related party disclosure requirements imposed by SEC / Accounting Standards / Auditing Standards and similar regulations.</p> <p>Refer page 182 for details on the Related Party Transactions Review Committee.</p> <p>Refer Financial Statements on Pages 285 to 289 for details on related party transactions during 2016.</p>

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# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
<b>D.2 INTERNAL CONTROL</b>			
The directors are responsible for the Company's system of internal control and for maintaining and reviewing its effectiveness from both a financial and an operational perspective			
D.2.1	Responsibility of the Board to conduct an annual review of internal controls	Complied	<p>The Board is responsible for formulating and implementing appropriate and adequate internal control systems. The Board Audit and Compliance Committee (BACC) has responsibility to the Board to ensure that the system of Internal Controls is sufficient and effective.</p> <p>The Company has adopted a set of internal control policies, approved by the Board, to evaluate the methods and procedures for risk management, implementation of the Company's corporate governance framework and compliance with related laws and regulations. This internal control framework also aims to safeguard shareholders' investment and the Company's assets and to ensure the reliability of its financial record keeping and reporting.</p> <p>Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The BACC assist the Board in this regard.</p> <p>Internal control is designed to mitigate, not eliminate, significant risks faced by the Company. It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. This is achieved within the Company through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums, and assurance and control functions such as risk management, internal audit and compliance.</p> <p><b>Application</b></p> <p>Refer Board Audit and Compliance Committee Report on page 178 and Directors Report on Internal Controls on page 184, for details on the functions of the Board Audit and Compliance Committee and Internal Controls during the year 2016 to ensure the effectiveness of the internal control systems.</p>
D.2.2	Need for an internal audit function	Complied	<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 and independence from management.</p> <p>The BACC reviews the internal audit plan and monitors progress on a regular basis.</p> <p>The internal auditors may also carry out any additional tasks they deem necessary to effectively discharge their duties.</p> <p><b>Application</b></p> <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 2016</p>

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
D.2.3 & D.2.4	Need for the Audit Committee to review the process and effectiveness of risk management and internal controls  Responsibilities of Directors in maintaining a sound system of internal controls and content of Statement of Internal Control	Complied	BACC reviews the internal audit plan and monitors progress on a regular basis.  Internal auditors may also carry out any additional tasks they deem necessary to effectively discharge their duties.  <b>Application</b> The BACC reviewed the internal controls and procedures at the meetings held during 2016. Refer pages 178 to 180 for the BACC report for 2016.  The minutes of the BACC meetings were tabled at the meetings of the Board of Directors.  Please refer page 184 for "Directors Statement on Internal Controls" for further details.

### D.3 AUDIT COMMITTEE

The Board Audit and Compliance Committee (BACC) assists the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audits. The Charter of the BACC, which is periodically reviewed and revised with the concurrence of the Board of Directors, clearly defines the Terms of Reference of the Board Audit and Compliance Committee.

D.3.1	Need for the Audit Committee to be comprised of a minimum of two independent Non-Executive Directors or exclusively by Non-executive Directors, a majority of whom should be independent, whichever is higher	Complied	The BACC consists of three Non-Executive Directors, two of whom are independent.  <b>Application</b> Refer Board Audit and Compliance Committee Report on pages 178 to 180 for the composition of the Committee.
D.3.2	Duties of the Audit Committee to review the objectivity of the External Auditor	Complied	The Board Audit and Compliance Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.  <b>Application</b> The BACC conducted an evaluation and satisfied itself regarding Messrs. KPMG's integrity, competence and professionalism and concluded that no aspect of the auditors' work was impaired due to lack of independence.  The BACC also reviewed the non- audit services provided by Messrs. KPMG.
D.3.3 & D.3.4	Need for the Audit Committee to have written Terms of Reference and need to disclose the names of the members of the Audit Committee and report of the Audit Committee in the Annual Report	Complied	The BACC operates within clearly defined terms of reference which have been approved by the Board.  The duties and responsibilities of the BACC are in line with the Code of Best Practice on Audit Committees issued by the ICASL and Code of Best Practice on Corporate Governance jointly issued by the ICASL and the SEC.  <b>Application</b> Refer 'Board Audit and Compliance Committee Report' from pages 178 to 180 for further details.

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# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
<b>D.4 CODE OF BUSINESS CONDUCT AND ETHICS</b>			
Business ethics at the Company is not limited to ethical behaviour, but clearly articulates the ethical principles embedded in the Company's ethos and ensures that those principles are fully integrated into the entity's management and operations. The approach to ethics considers the impact of actions on a broad range of stakeholders and to the reputation of the Company.			
D.4.1	Need to make a disclosure on the presence of a Code of Business Conduct & Ethics	Complied	<p>The Company has in place a comprehensive Code of Business Conduct and Ethics applicable to all Directors and employees of the Company. The Code has been circulated to all the Directors and employees and has been published in the Company's intranet to ensure strict compliance with same.</p> <p><b>Application</b></p> <p>There have been no violations of the Code of Ethics during 2016 by any of the Directors or any member of the Executive Committee.</p> <p>Company obtained the annual declaration and sign off by each employee including the sales advisors and fixed term contract staff.</p> <p>A summary of the Company's 'Code of Conduct' is provided on page 141 of this report.</p>
D.4.2	Affirmation by the Chairman that there is no violation of the Code of Business Conduct & Ethics	Complied	<p>The Chairman discloses any violation of the company's Code of Ethics in the annual report.</p> <p><b>Application</b></p> <p>Refer Chairman's report on corporate governance on page 124.</p>
<b>D.5 CORPORATE GOVERNANCE DISCLOSURE</b>			
The Board of Directors of the Company continues to focus on improving its effectiveness and responding appropriately to be current with the developments taking place in the governance environment and remains committed to transparency and continuous improvement in reporting as the Company continues on its corporate journey.			
D.5.1	Need for inclusion of a Corporate Governance Report in the Annual Report	Complied	<p>The company's corporate governance practices are in accordance with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for Listed Companies issued by the CSE.</p> <p><b>Application</b></p> <p>Corporate Governance Report in the Annual Report, from Pages 120 to 185 sets out the manner in and the extent to which the Company has complied with the Code.</p>

## SECTION 2 – SHAREHOLDERS

### E. INSTITUTIONAL INVESTORS

#### E.1 SHAREHOLDERS VOTING

The Company is committed to promoting effective and open communication with all shareholders, transparently and regularly in order to facilitate a mutual understanding of the respective objectives of the parties. The Board and the management strive to be accessible to both institutional and private investors, and proactively encourage all shareholders to participate at the Company's Annual General Meeting (AGM).

E.1.1	Need to conduct regular and structured dialogue with shareholders	Complied	All shareholders are encouraged to participate at general meetings and cast their votes. Investor relations hotline / email is open for any Investor to reach out to the CEO / Director if required.
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#### Application

From the company's perspective, the AGM provides a forum for the Board to inform the shareholders what the Company does and how it has performed during the year. For investors, it provides a forum to learn more about the business and ask questions from the Directors and to use their votes responsibly.

#### E.2 EVALUATION OF GOVERNANCE DISCLOSURE

Corporate Governance disclosure is a reflection of accountability and transparency that broadens the scope of management responsibility and supports a positive association between the Company and its institutional investors.

E.2	Need to Encourage institutional investors to give due weight to relevant governance arrangements	Complied	Institutional investors are kept apprised of the Company's governance practices through the Annual Report and new initiatives are highlighted at regular meetings to ensure that due weightage is given to good Corporate Governance.
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#### Application

This report sets out the company's governance arrangements.

### F. OTHER INVESTORS

#### F.1 INVESTING / DIVESTING DECISIONS

The Company places a high degree of importance on maintaining good relationships and communications with institutional investors and private investors alike and ensures that they are kept informed of significant Company developments in order to give them the critical information they need to value their investments

F.1	Encourage individual shareholders to seek independent advice in investing or divesting decisions	Complied	The Annual Report contains sufficient information for a potential investor to carry out their own analysis. This, together with the interim financial statements published each quarter, provide sufficient information to enable retail investors make informed judgements regarding the performance of the Company.
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#### Application

The following reports aim to provide a balanced overall assessment of the company's activities, performance and prospects. The report contains information about the plans and strategies of the Company for the medium and long term and represent the Company view of the management. The plans are forward looking in nature and their feasibility depends on number of economic, political and legal factors which are outside the influence of the Company such as global and domestic financial, economic and political situations. For the;

- Chairman's Message refer pages 12 to 14.
- CEO's Review refer pages 15 to 20.
- Management Discussion and Analysis refer pages 22 to 118.
- Annual Financial Statements refer pages 189 to 291.

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# CORPORATE GOVERNANCE

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
<b>F.2 SHAREHOLDER VOTING</b>			
General Meetings provide the principal opportunity for the Board to meet investors and for the Chairman to explain the Company's progress and receive questions from its owners, the shareholders.			
F.2	Encourage individual shareholders to participate in General Meetings and exercise voting rights	Complied	<p>All shareholders are encouraged to participate at general meetings and cast their votes.</p> <p>Proxy forms are sent with the Annual Report to shareholders who are unable to be physically present at the AGM to cast their vote.</p> <p><b>Application</b></p> <p>To achieve this purpose, the notices of meetings are dispatched to all shareholders within the prescribed time periods.</p>
<b>G. SUSTAINABILITY REPORTING</b>			
<b>G.1 PRINCIPLES OF SUSTAINABILITY REPORTING</b>			
The Company recognises that a sustainability report presents the organisation's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy. Thus, this Annual Report has been prepared in the form of an integrated report that covers all sustainability reporting parameters as identified by the Global Reporting Initiative (GRI).			
G.1.1	Reporting of Economic Sustainability	Complied	<p>UA is conscious of the economic sustainability of its operations as reflected in its focus on Triple Bottom-line performance.</p> <p>Further UA estimates and reports the contribution to the national economy from its life insurance business.</p> <p><b>Application</b></p> <p>The contribution to the national economy from life insurance business and economic value addition to other stakeholders is illustrated on page 58</p>
G.1.2	Reporting on the Environment	Complied	<p>UA gives due consideration to direct and indirect economic, social, health and environmental implications of decisions and activities.</p> <p><b>Application</b></p> <p>Refer Natural Capital report on pages 61 to 66</p>
G.1.3	Reporting on labour practices.	Complied	<p>UA reports on labour practices encompassing all policies and practices relating to work performed by or on behalf of the organisation.</p> <p><b>Application</b></p> <p>Refer remuneration committee report on page 176 and Human Capital report on pages 67 to 79 for further details.</p>
G.1.4	Reporting on society	Complied	<p>UA focuses on building relationships with the community and strives for sustainable development.</p> <p><b>Application</b></p> <p>Refer Social and Relationship Capital report on pages 80 to 92</p>

REFERENCE	CORPORATE GOVERNANCE RULE	STATUS	UA COMPLIANCE & IMPLEMENTATION
G.1.5	Reporting on product responsibility	Complied	UA encourages and adequately communicates product features through its promotional campaigns as well as through the sales advisors, the choices available including factual unbiased information to its consumers. UA abides by fair contractual practices and consumer data protection and privacy.  <b>Application</b> Refer Social and Relationship Capital Report on pages 80 to 92
G.1.6	Reporting on stakeholder identification, engagement and effective communication	Complied	Internal and external stakeholder groups are identified in relation to the company's sphere of influence, impact and implication and reports.  <b>Application</b> Refer Social and Relationship Capital Report on pages 80 to 92
G.1.7	Formalising sustainable reporting as part of Company's reporting process	Complied	Sustainability is at the core of UAs decision making and reporting process.  <b>Application</b> UA has aligned itself to the GRI G4 Content Index guidelines in its sustainability reporting. Refer details on pages 305 to 311

2. Our compliance with the requirements on the content of the Annual Report as per rule 7.6 and requirements on corporate governance as per rule 7.10 of the listing rules of the Colombo Stock Exchange (Listing Rules).

(a). Compliance with requirements on the content of the Annual Report as per rule 7.6 of the Listing Rules

RULE NO	REQUIREMENT	COMPLIANCE STATUS	UA ACTION AND REFERENCE
<b>7.6 CONTENTS OF ANNUAL REPORT</b>			
7.6 (i)	Names of the persons who during the financial year were Directors of the entity	Compliant	The names of the persons who held the position of Director during the financial year is provided on page 120 and 121.
7.6 (ii)	Principal activities of the entity during the year and any changes therein.	Compliant	Refer Accounting policy 'Principal Activities' on page 208 .
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	Compliant	The 20 largest shareholders together with their shareholding as at 31st December 2016 is provided on page 117.
7.6 (iv)	The public holding percentage.	Compliant	The details of the public shareholding is available on page 113.
7.6 (v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the entity at the beginning and end of each financial year.	Compliant	The statement of each Director's holding and Chief Executive Officer's holding in shares of the company is available on page 116 and 117.
7.6 (vi)	Information pertaining to material foreseeable risk factors of the entity.	Compliant	Information pertaining to material foreseeable risk factors is provided in the risk management section from pages 102 to 111 and Note 7 to the Financial Statements.
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the entity.	Compliant	Refer Human Capital Report on page 67 for details.
7.6 (viii)	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties.	Compliant	Refer property, plant and equipment Note 27 on page 251.
7.6 (ix)	Number of shares representing the entity's stated capital.	Compliant	The total number of shares is 58,928,572 which are ordinary shares with voting rights.
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentages of their total holdings in the given categories.	Compliant	The distribution schedule of the number of shareholders and the percentages of their total holdings in the given categories is provided on page 116.
7.6 (xi)	List of ratios and market price information.	Compliant	The list of applicable ratios and the market price information is provided in the shareholder information section on pages 112 and 118.

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RULE NO	REQUIREMENT	COMPLIANCE STATUS	UA ACTION AND REFERENCE
7.6 (xii)	Significant changes in the entity's fixed assets and the market value of land, if the value differs substantially from the book value.	Compliant	Changes in the entity's fixed assets and market value of land is explained in Note 27 to the financial statements.
7.6 (xiii)	If during the year, the entity has raised funds either through a public issue, rights issue, and private placement.	Compliant	No funds were raised during 2016 in such manner.
7.6 (xiv)	Employee share Option Schemes and Employee Share Purchase Scheme.	Compliant	The details of the employee share option scheme is given in Note 36 to the financial statements.
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5 C, and 7.10.6 C of section 7 of the rule.	Compliant	The disclosures relating to Corporate Governance practices are provided in the Corporate Governance Report. Refer  Rule 7.10.3 on page 171 Rule 7.10.5 C on page 171 Rule 7.10.6 C on page 172
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per audited financial statements, whichever is lower.	Compliant	There were no material transactions during the year with related parties other than what is disclosed in Note 43 to the Financial Statements.

(b). Compliance with requirements on Corporate Governance as per in rule 7.10 of the Listing Rules

RULE NO	REQUIREMENT	COMPLIANCE STATUS	UAL ACTION AND REFERENCE
<b>7.10 COMPLIANCE</b>			
7.10	Compliance with Corporate Governance Rules	Compliant	The Company is in compliance with the Corporate Governance Rules and any deviations are explained where applicable. Refer 'Statement of Compliance' on page 125
<b>7.10.1 NON-EXECUTIVE DIRECTORS (NED)</b>			
7.10.1(a)	Two or one third of Non- Executive Directors, whichever is higher, should be independent	Compliant	Six out of the seven Directors on UA's Board are Non-Executive Directors of whom three are independent.
7.10.1(b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding AGM	Compliant	No change to the number of Directors since the last AGM.
7.10.1(c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	Compliant	No impact to the ratio since no change to the composition since last AGM.
<b>7.10.2 INDEPENDENT DIRECTORS</b>			
7.10.2(a)	2 or 1/3 of NEDs, whichever is higher shall be 'Independent'	Compliant	The Board comprises of three independent NEDs out of the six Non-Executive Directors on the Board.
7.10.2(b)	Each NED to submit a signed and dated declaration of his / her independence or non-independent.	Compliant	All Non-Executive Directors submitted the requisite declarations during the year under review.

RULE NO	REQUIREMENT	COMPLIANCE STATUS	QUAL ACTION AND REFERENCE
<b>7.10.3 DISCLOSURES RELATING TO DIRECTORS</b>			
7.10.3(a)	Name of independent Directors should be disclosed in the annual report.	Compliant	Names of the independent Directors disclosed in the Annual Report on page 120 and 121.
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 was required to be made by the Board, as the Independent Directors of the Company met the specified criteria
7.10.3(c)	A brief resume of each Director should be published in the annual report including the areas of expertise	Compliant	Refer page 120 and 121 for brief profiles of the Directors.
7.10.3(d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public	N/A	No new Directors were appointed to the Board during the year.
<b>7.10.4 CRITERIA FOR DEFINING INDEPENDENCE</b>			
7.10.4 (a to h)	Requirements for meeting the criteria to be an Independent Director	Compliant	The company's independent Non-Executive Directors meet the required criteria. Refer Note 43 and page 132 for a summary of Non-Executive / Independent Directors' interests.
<b>7.10.5 REMUNERATION COMMITTEE</b>			
7.10.5	A listed company shall have a Remuneration committee	Compliant	The company has its own Remuneration committee
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	Complaint	During the year 2016, the Remuneration Committee comprised of three Non-Executive Directors of whom two were Independent. Refer Remuneration Committee Report on page 176 for details.
	One Non – Executive Director shall be appointed as Chairman of the committee by the Board		Mr. Ajit D. Gunewardene who is a Non-Executive Director functions as Chairman of the Remuneration Committee.
7.10.5(b)	Functions of the Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors	Complaint	Refer the Remuneration Committee report on page 176.
7.10.5(c)	The annual report shall set out:	Complaint	
	The names of the Directors that comprise the Remuneration Committee		Refer the Remuneration Committee report on page 176.
	A statement of remuneration policy		Refer page 136.
	Aggregate remuneration paid to Executive and Non- Executive Directors		Refer Note 22 to the Financial Statements.
<b>7.10.6 (A) AUDIT COMMITTEE – COMPOSITION</b>			
7.10.6	A listed company shall have an Audit Committee	Complaint	The company has its own Board Audit and Compliance Committee (BACC)
7.10.6 (a1)	A listed company shall have an Audit Committee and that comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher	Complaint	The company has its own Board Audit and Compliance Committee (BACC) and it comprises a majority of Independent Non-Executive Directors.
			Please refer the BACC report on page 178
7.10.6 (a2)	One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.	Complaint	Mr. H. A. J. De Silva Wijeyeratne an Independent Non- Executive Director, functions as the Chairman of the BACC.
7.10.6 (a3)	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings	Complaint	The CEO and CFO attended all BACC meetings.
7.10.6 (a4)	The Chairman or one member of the Committee should be a member of a recognised professional accounting body	Complaint	Two out of the three members of the BACC are members of professional accounting bodies

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RULE NO	REQUIREMENT	COMPLIANCE STATUS	UAL ACTION AND REFERENCE
<b>7.10.6 (B) AUDIT COMMITTEE – FUNCTIONS</b>			
7.10.6 (b)	The functions of the Audit Committee shall include; <ol style="list-style-type: none"> <li>1. Overseeing of the preparation and presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards,</li> <li>2. Overseeing the compliance with financial reporting requirements, information requirements as per laws and regulations,</li> <li>3. Ensuring the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards,</li> <li>4. Assessing of the independence and performance of the external auditors, and</li> <li>5. Make recommendations to the Board pertaining to appointment, re- appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.</li> </ol>	Complaint	Refer BACC report on pages 178 to 180 for details
<b>7.10.6 (C) AUDIT COMMITTEE - DISCLOSURES IN THE ANNUAL REPORT</b>			
7.10.6 (c1)	The annual report shall set out the names of the Directors who comprise the Audit Committee.	Complaint	Refer BACC report on pages 178 to 180 for the composition of the committee
7.10.6 (c2)	The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination	Complaint	Refer BACC report on pages 178 to 180
7.10.6 (c3)	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	Complaint	Refer BACC report on pages 178 to 180

3. As required by Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report prepared for the year ended 31 December 2016

REFERENCE TO THE COMPANIES ACT	INFORMATION REQUIRED TO BE DISCLOSED AS PER THE COMPANIES ACT NO. 07 OF 2007	ANNUAL REPORT REFERENCE FOR COMPLIANCE
Section 168(1) (a)	The nature of the business of the Company together with any change thereof during the accounting period	Refer 'Principal Business Activities, Nature of Operations and Ownership by the Company and its Associates' on page 208.
Section 168(1) (b)	Signed Financial Statements of the Company for the accounting period completed	The Financial Statements of the Company for the year ended 31 December 2016 which were duly certified by the Chief Financial Officer and were approved by two members of the Board as appearing on pages 201 to 203 of this Report.
Section 168(1) (c)	Auditors' Report on the Financial Statements of the Company	Refer page 198 for the "Independent Auditors' Report"
Section 168(1) (d)	Accounting Policies of the Company and any changes therein	Significant Accounting Policies adopted in the preparation of the Financial Statements of the Company are given on pages 208 to 291.  There were no changes to the Accounting Policies used by the Company during the year.
Section 168 (1) (e)	Particulars of the entries made in the Interests Register of the company during the accounting period	The Company maintain an Interests Register. All Directors have made declarations as required by the Sections 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interests Register during the year under review.  The Interests Register is available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.
Section 168 (1) (f)	Remuneration and other benefits paid to Directors of the Company during the accounting period	Refer Note 22 to the Financial Statements on page 243
Section 168 (1) (g)	Total amount of donations made by the Company during the accounting period	Refer Note 22 to the Financial Statements on page 243
Section 168 (1) (h)	Information on Directorate of the Company during and at the end of the accounting period	Refer Board of Directors brief profiles on page 120 and 121
Section 168 (1) (i)	Separate disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Company	Refer Note 22 to the Financial Statements on page 243
Section 168 (1) (j)	Auditors' relationship or any interest with the Company	Auditors do not have any other relationship or interest in contracts with the Company, or its Associate other than being the Auditors for the Company and Associates. Refer page 198.
Section 168 (1) (k)	Acknowledgement of the contents of this Report / Signatures on behalf of the Board	The Statement of Directors Responsibility on page 197

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# CORPORATE GOVERNANCE

## REPORT OF THE INVESTMENT COMMITTEE

### COMPOSITION OF THE INVESTMENT COMMITTEE

The Investment Committee (IC) comprised of the following members as at the end of the year.

K N J Balendra – Chairman

A S De Zoysa, Independent Non-Executive Director

Director and President Retail sector, Head of Corporate Finance, Treasury and Strategy, John Keells Holdings PLC, Mr. G Cooray and EVP/ CFO Financial Services Group, John Keells Holdings PLC, Mr. Suran Wijesinghe attend meetings of the Committee by invitation.

The CEO, GM Finance and Planning (CFO), GM Actuarial and Head of Investment division participate as invitees at the Investment Committee meetings.

The Chairman Mr. Krishan Balendra has extensive knowledge and experience in the field having held positions in investment banking and corporate finance at UBS Warburg Hong Kong and at Aitken Spence & Co PLC, Sri Lanka. Mr. Balendra is a former Chairman of the Colombo Stock Exchange. He is also a Director of John Keells Holdings PLC and Chairman of Nations Trust Bank PLC.

Mr. A S De Zoysa brings in knowledge and experience from diverse fields including Commodity Trading. A brief description of the Directors profiles can be found on page 120 and 121.

The management team including the CEO, General Manager Finance and Planning, General Manager Actuarial and Head of Investments provide operational insights to the discussions and the decisions.

The Committee solicits the services of economists and other experts in related fields to aid in the decision-making process. The Senior Manager Investments acts as the Secretary to the Committee.

### TERMS OF REFERENCE OF THE INVESTMENT COMMITTEE

The Committee is guided by the Board approved Investment Policy Statements (IPS) and the purpose of the Committee is to assist the Board of Directors to fulfil their responsibility to shareholders and policyholders, in relation to the management of the 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 the formulation of investment strategy.
- Review and develop broad investment policies and guidelines for implementation.
- Provide guidance on the asset allocation of the investment funds.
- Review fund performance for the month and on a cumulative basis.
- Manage risk exposure.
- Ensure compliance with internal investment policy and procedures, and external investment regulations.

The minutes of the IC meetings are presented to the Board of Directors along with a detailed list of investments made during the period. In carrying out its responsibilities, the IC's policies and procedures remain flexible, in order to best react to changing conditions and to ensure that management of the Life

funds is performed to the highest standards possible and in accordance with all internal and external regulations. During the year IC reviewed and updated the investment policies and procedures to reflect changes to applicable regulatory requirements and market conditions.

### MEETINGS OF THE INVESTMENT COMMITTEE

The Committee met twelve times during the year. Independent professionals in the fields of economics, risk and investment management also attended the meetings when required, to provide technical input and facilitate decision making.

Attendance of the committee members at the meetings is illustrated in the end of the report.

### SUMMARY OF ACTIVITIES

- The Committee obtained independent advice on macroeconomic forecasts, yield curve predictions and other factors, including key macro-economic indicators such as inflation, interest rates, exchange rates and their impact on the performance of capital markets. Based on expert advice, the Committee reviewed and assigned probabilities for different macro-economic scenarios and investment strategies were aligned accordingly.
- At the beginning of the year the Committee considered the profit plan together with the budgeted investment income for the Life fund 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 Funds under management including

Unit Linked Funds in order to achieve the budgeted investment income, and returns to policyholders taking into account the determinations issued by the Insurance Board of Sri Lanka (IBSL), the maturity profiles of the Funds and agreed investment strategies, and the investment policy statements of each fund.

- The Committee reviewed the Investment Policies of the Funds and was satisfied with the scope and principles covered in the Investment Policy Statements. 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. Maturity profile of liabilities was reported to the Committee for necessary re-alignment in the asset and liability structure.
- Reviewed fund performance for each month and on a cumulative basis against agreed benchmarks. The Committee was 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 and assessed the readiness from an investment management perspective for Risk Based Capital requirements.
- The Committee also ensured that the agreed investment strategies and asset allocations for the year were implemented.

- During the year, the committee called for proposals from independent professional investment entities to manage the tracker fund under a 'managed portfolio' to provide the policyholders with the best possible sustainable returns. After an extensive review and selection process and subsequent to Board approval the 'Tracker fund' was outsourced to an independent financial institution with a proven track record with effect from 15 September 2016. The IC monitors the performance of the fund monthly and the outsourced party meets with the IC each quarter for a detailed review.

The core principles of asset management that were adopted:

- An effective and efficient governance structure
  - UA's investment function is governed by the Investment Committee which comprises of Board members and members of the senior management team.
  - The Committee brings in external expertise to advice on the economic climate and any other specialised areas.
  - The Committee reviews investment performance on a monthly basis, appraises investment proposals submitted by the management and sets the investment strategy.
- Develop an investment strategy and implement policies and procedures to execute the strategy at the operational level.
  - The Committee sets the investment strategy and has put in place Investment Policy documents for each of the Funds.
- UA has an in-house investment department which operationalises the strategies set by the Committee and monitors and controls the investment portfolio effectively and efficiently.

- UA has invested in a world class ERP system (SAP) to provide MIS support in managing its investment portfolio. The Investment Committee is provided with this information on a monthly basis. The valuations of investments are carried out automatically by the system and manual processes are minimised to increase accuracy and integrity.
- In the process of selecting investments, while reports from rating agencies are considered, UA conducts rigorous appraisal on market conditions and the Issuer's performance. In relation to related party investments, the Company strictly complies with applicable regulatory requirements and all transactions are entered into on an arm's length basis.
- Establish internal control mechanisms specifically with respect to investment activities.
  - UA has streamlined processes to ensure the integrity of the investment activities. A back office and front office segregation is in place and different levels of signatories and system controls are in place to ensure that the work flow is properly segregated.
  - Authority and dealing limits are strictly enforced via the Manual of Financial Authority (MOFA) limits.

## CONCLUSION

In view of all of the above, the Committee was satisfied with the performance of the Funds under management during the year and the policies and procedures in place for the management of the invested funds.

*Krishan Balendra*

**KRISHAN BALENDRA**

Chairman - Investment Committee

27 February 2017

The calendar of meetings of the Investment Committee in 2016 and attendance is given below.

NAME	YEAR OF APPOINTMENT TO THE COMMITTEE	INVESTMENT COMMITTEE MEETING ATTENDANCE												ELIGIBLE TO ATTEND	ATTENDED	
		21.01.2016	04.03.2016	30.03.2016	29.04.2016	10.05.2016	27.05.2016	23.06.2016	29.07.2016	26.08.2016	22.09.2016	23.11.2016	06.12.2016			
<b>CHAIRMAN</b>																
Krishan Balendra	23.04.2009	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12	12
<b>INDEPENDENT NON-EXECUTIVE DIRECTOR</b>																
Ashan De Zoysa	30.03.2010	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	12	11	

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# CORPORATE GOVERNANCE

## REPORT OF THE BOARD REMUNERATION COMMITTEE

### COMPOSITION OF THE BOARD REMUNERATION COMMITTEE

The Board appointed Remuneration Committee comprised of the following members, including two Independent Non-Executive Directors as at the end of the year.

A D Gunewardene - Chairman / Non-Executive Director

G F C De Saram, Independent Non-Executive Director

H A J D S Wijeyeratne, Independent Non-Executive Director

Profiles of each member can be found on page 120 and 121.

The Chief Executive Officer (CEO) and the EVP/CFO Financial Services Group, John Keells Holdings PLC attends the meetings of the Committee by invitation. Other Executive Committee members maybe invited as and when required.

The CEO 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 matters relating to the CEO are discussed.

The Committee obtains the services of professional advisors in relevant fields when deemed necessary.

### TERMS OF REFERENCE OF THE BOARD REMUNERATION COMMITTEE

The responsibilities of the Remuneration Committee include;

- Formulating, on behalf of the Board, formal and transparent procedures

for developing policy on remuneration for Directors, CEO and the senior management team.

- Develop Strategic human resources policies.
- Recommending corporate management appointments and advising on succession planning.
- Setting the total compensation packages for the CEO and senior management.
- Review of objectives and key performance indicators of the CEO and senior management, and their development and succession planning.
- Review performance ratings of the CEO and senior management team.
- Maintaining competitive and attractive remuneration packages 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 / her own remuneration.

### MEETINGS OF THE REMUNERATION COMMITTEE

The Remuneration Committee had one meeting during the year under review. The Committee forwarded minutes of its meeting to the Board.

Attendance of the committee members at the meetings is illustrated at the end of the report.

### REMUNERATION POLICY

Our reward strategies and remuneration structure is designed to attract, motivate and retain high-calibre people, at all levels of the organisation, in a highly competitive environment. Accordingly, a key feature of our remuneration policy is pay for performance. The skills, experience of the individual and his/ her level of responsibility are also taken into account in deciding on the remuneration.

### REMUNERATION POLICY PRINCIPLES

The following objectives are the guiding principles that underpin our remuneration strategy;

- 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' interests with those of the company and main stakeholders.
- Remuneration levels are based on industry and market surveys.

- To incentivise employees to deliver and sustain high levels of performance and the execution of our strategic priorities.
- To align with the principles of good corporate governance.

## METHODOLOGY USED

### EMPLOYEES

Rewards and recognition are a key factor influencing employee behaviour. Therefore UA's compensation policy is designed to pay for performance and promotions are based on performance and potential.

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

### 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 performance based bonus scheme for staff at all levels. As per the scheme, the annual bonus is subject to individual performance and achievement of the Company's 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.

## EMPLOYEE BENEFITS

Other benefits provided to employees include, travelling allowances, vehicle loans and insurance benefits including the Staff Health Insurance Cover, Critical Illness Cover and the Personal Accident Cover for selected categories.

## RETIREMENT BENEFITS

Gratuity, Employee Provident Fund (EPF) and Employee Trust Fund (ETF) are the retirement benefits available for employees.

## 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 in Note 22. This includes fees for all the committees of the company that they serve on. The Directors' business interests with the Company are disclosed in Note 43.

## SHARE OPTIONS FOR DIRECTORS

The Company does not have a share options scheme for Directors.

## DIRECTORS' SHAREHOLDING

The shareholdings of Directors are provided on page 116.

## PERSONAL LOANS TO 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.



**AJIT D GUNewardENE**

Chairman - Board Remuneration Committee

27 February 2017

The calendar of meetings of the Board Remuneration Committee in 2016 and attendance is given below.

NAME	DATE OF APPOINTMENT TO THE COMMITTEE	BOARD REMUNERATION COMMITTEE MEETING ATTENDANCE		
		29.03.2016	ELIGIBLE TO ATTEND	ATTENDED
<b>CHAIRMAN</b>				
Mr. Ajit D. Gunewardene	25.03.2008	✓	1	1
<b>INDEPENDENT NON-EXECUTIVE DIRECTORS</b>				
Mr. Harin De Silva Wijeyeratne	26.09.2011	✓	1	1
Mr. Gerald De Saram	26.05.2009	✓	1	1

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# CORPORATE GOVERNANCE

## REPORT OF THE BOARD AUDIT AND COMPLIANCE COMMITTEE

### COMPOSITION OF THE BOARD AUDIT AND COMPLIANCE COMMITTEE (BACC)

The Board Audit and Compliance Committee (BACC) comprised of the following members appointed by the Board.

H A J De Silva Wijeyeratne, Chairman / Independent Non - Executive Director

A S De Zoysa, Independent Non - Executive Director

S Rajendra, Non - Executive Director

The members have an adequate blend of experience and knowledge to carry out their duties. Brief profiles of the Directors are provided on page 120 and 121 of this report.

Executive Vice President and CFO Financial Services Group of John Keells Holdings PLC, Mr. S. Wijesinghe functions as the Secretary of the Committee.

CEO, GM Finance & Planning (CFO), other members of the Executive Committee (where relevant), Head of Group Risk and Control Review: John Keells Holdings PLC, External auditors and Internal Auditors participate as invitees at the BACC meetings.

### RESPONSIBILITIES

The Committee operates pursuant to an audit committee charter which is formally approved by the Board. The role of the BACC is to assist the Board of Directors in fulfilling its oversight responsibilities with regard to:

- Ensuring the integrity of the financial statements of the company and that a sound financial reporting system is in place and is well managed in order to provide accurate, appropriate and timely information to the management,

regulatory authorities and shareholders in compliance with Sri Lanka Accounting Standards, Regulation of Insurance Industry Act No. 43 of 2000, Companies Act No. 7 of 2007 and other financial reporting related regulations and requirements.

- Ensuring effectiveness of the internal control system and the Company's Risk Management function
- Ensuring that the Company's compliance with legal and regulatory requirements including the performance of the Company's compliance function.
- 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 and risk management reports in order to fulfil its responsibilities.

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 certification of the financial statements by the CEO and CFO.

### MEETINGS

The Committee had six 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.

Attendance of the committee members at the meetings is illustrated at the end of the report.

The Chairman and members of the Committee were in regular contact with the management of the company through numerous meetings and communications to oversee the auditing and control aspect in various initiatives the company undertook during the year.

The activities and views of the Committee are communicated to the Board of Directors through papers tabled and verbal discussion, as well as by tabling the minutes of the Committees' meetings at the Board meetings.

### FINANCIAL REPORTING

The committee reviews the financial statements of the company before submission to the Board, in order to monitor the integrity of the financial statements of the company prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the financial statements prior to their release, the committee focuses particularly on:

- (i) major judgemental areas
- (ii) any changes in accounting policies and practices

- (iii) significant adjustments arising from the audit
- (iv) the going concern assumption
- (v) the compliance with relevant accounting standards and other legal requirements

The committee assesses the Company's compliance with financial reporting requirements, information requirements of the Companies Act, Insurance Industry Act and other relevant financial reporting related regulations and requirements.

## INTERNAL AUDIT

The internal audit is outsourced to PricewaterhouseCoopers (PWC), a leading firm of Chartered Accountants. The Committee monitors the effectiveness of the internal audit function and is responsible for recommending to the Board their appointment or removal and for ensuring they have adequate access to information required to conduct their audits.

During the year, the BACC monitored and reviewed the scope, extent and effectiveness of the activity of the Internal Audit. This included reviewing of updates on audit activities and achievements against the audit plan and advising corporate management to take precautionary measures on significant audit findings. The areas covered and the regularity of audits depended on the risk level of each area, with higher risk areas being audited more frequently.

The Committee reviewed 35 internal audit reports covering the operations of 32 branch locations and several head office functions including underwriting, claims, reinsurance, finance, investments and information technology.

The Committee ensured that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. Audit findings presented in the reports were prioritised based on the level of risk. The Committee also reviews and monitors management's responsiveness to the significant audit findings and recommendations of the internal auditor. The internal audit reports were made available to external auditors as well.

The BACC met the internal auditors without the presence of the management during the year.

## EXTERNAL AUDITORS

Messrs. KPMG were re-appointed as the external auditors at the Annual General Meeting held on 31 March 2016.

The BACC reviewed the external audit plan, audit findings as well as the management letters and any issues raised were followed up. The BACC met the external auditors without the presence of the management during the year.

## INDEPENDENCE AND OBJECTIVITY OF THE EXTERNAL AUDITORS

The BACC has policies in place aimed at safeguarding and supporting the independence and objectivity of the external auditors. The BACC reviewed the audit and non-audit work that is assigned to Messrs. KPMG, to ensure that provision of such services does not impair KPMG's independence. The services provided by the external auditors were segregated between what requires an independent view such as audit and assurance services and other advisory services such as tax consultancy. Work is assigned to prevent a conflict of interest for the external auditors.

The Committee has received a declaration from Messrs. KPMG, as required by the Companies Act No. 7 of 2007, confirming that it does not have any relationship or interest in the company, which may have a bearing on its independence within the meaning of the Code of Conduct and Ethics of The Institute of Chartered Accountants of Sri Lanka.

## OVERSIGHT ON REGULATORY COMPLIANCE

The Committee with the assistance of internal audit closely scrutinizes the compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such requirements

## CORPORATE GOVERNANCE

### IT RISK AND CONTROL ASSESSMENT

The BACC receives a report detailing the robustness of the IT controls and any risks that need attention from Messrs. KPMG on an annual basis.

## INTERNAL CONTROLS AND RISK MANAGEMENT

The effectiveness of the company's internal controls and risk management processes are evaluated in the reports furnished by the External and Internal Auditors. In addition the BACC requests the management to provide reports on controls in specific focus functions as and when required. In addition to this, the Committee is presented with an organisational risk grid on a quarterly basis which illustrates the foreseeable risks the company faces and the likelihood and possible impact to the business. The grid also illustrates the action taken to mitigate such risks.

## REPORT OF EXTERNAL ACTUARY

The BACC received written representations from the independent external actuary, summarising his observations and comments with regard to the work performed. As done each year, the BACC met with the external Actuary to better understand the assumptions used for the Life fund valuation and related matters.

## PROFESSIONAL ADVICE

It is within the power of the Committee to seek external professional advice as and when it requires on any relevant subject area.

## ETHICS AND GOOD GOVERNANCE

The Committee continuously emphasised on upholding ethical values of the staff members. In this regard, a Code of Ethics and Whistle-Blowers Charter was put in place and followed for educating and encouraging all members of staff to resort to whistle-blowing, if they suspect wrong doings or other improprieties. The highest standards of Corporate Governance and adherence to the Company's Code of Ethics were ensured. All appropriate procedures were in place to conduct independent investigations into incidents reported through Whistle-Blowing or identified through other means. The Whistle-Blowers Charter guarantees the maintenance of strict confidentiality of the identity of the Whistle-Blowers.

## EVALUATION OF THE COMMITTEE

The Audit Committee conducts a self-evaluation exercise once a year with input by each member of the Audit Committee and in addition by the external and internal auditors, CEO, CFO and the secretary of the

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# CORPORATE GOVERNANCE

Committee. The results were presented to the Board and it was determined that the committee was effective.

## RE - APPOINTMENT OF THE EXTERNAL AUDITORS

The BACC has recommended to the Board that Messrs. KPMG be re-appointed as auditors for the financial year ending 31st December 2017, subject to approval by the shareholders at the next Annual General Meeting. The BACC recommends the fees payable to the statutory auditors for approval by the Board.

## CONCLUSION

The BACC is satisfied that the internal controls have been operating as designed and the company's assets have been

adequately safeguarded during the period under review. The BACC is also satisfied that the company's internal and external auditors have been effective and independent throughout the period. The Committee believes that the company's accounting policies are appropriate and have been applied accurately.



H A J DE SILVA WIJYERATNE  
Chairman – Board Audit and Compliance Committee

27 February 2017

The calendar of meetings of the BACC in 2016 and attendance is given below.

NAME	DATE OF APPOINTMENT TO THE COMMITTEE	BOARD REMUNERATION COMMITTEE MEETING ATTENDANCE						ELIGIBLE TO ATTEND	ATTENDED
		26.01.2016	18.03.2016	11.05.2016	08.08.2016	07.11.2016	29.11.2016		
<b>CHAIRMAN</b>									
Harin De Silva Wijeyeratne	26.09.2011	✓	✓	✓	✓	✓	✓	6	6
<b>INDEPENDENT NON-EXECUTIVE DIRECTOR</b>									
Ashan De Zoysa	01.04.2009	✓	✓	✓	✓	✓	✓	6	6
<b>NON - EXECUTIVE DIRECTOR</b>									
Suresh Rajendra	26.09.2011	✓	✗	✓	✗	✓	✓	6	4

# REPORT OF THE BOARD NOMINATIONS COMMITTEE

The Nominations Committee (NC) of John Keells Holdings PLC (the Parent) acts as the NC of the company.

## COMPOSITION OF THE COMMITTEE

The Committee comprised the following Directors of the Parent Company, John Keells Holdings PLC (JKH):

M A Omar - Chairman of the Committee / Non-Executive Director of JKH

M P Perera (Ms.), Non-Executive Director of JKH

S C Ratnayake, Executive Director / Chairman and CEO of JKH

S S H Wijayasuriya, Non-Executive Director of JKH

The Chairman is a Non-Executive Director and The Chief Executive Officer is also a member of the committee.

## MANDATE

Define and establish nomination process for NEDs, lead the process of board appointments and make recommendations to the Board on the appointment of Non-Executive Directors

## SCOPE

- Assess skills required on the Board given the need of the businesses
- From time to time assess the extent to which required skills are represented on Board
- Prepare a clear description of the role and capabilities required for a particular appointment

- Identify and recommend suitable candidates for appointments to the Board.
- Ensure, on appointment to Board, NEDs receive a formal letter of appointment specifying clearly
  - expectation in terms of time commitment
  - Involvement outside of the formal board meetings
  - Participation in committees

The appointment of Chairman and EDs is a collective decision of Board

No recommendations were made to consider for appointment to the Board of Union Assurance PLC during the year.

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# CORPORATE GOVERNANCE

## REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Board of the Parent Company established a Related Party Transaction Review Committee with effect from 01 April 2014, to review all the related party transactions of the listed Companies within the JKH Group. On the basis that the Parent company is also a listed company, the SEC has permitted the Related Party Transactions Review Committee of the Parent Company, to represent the listed Companies in the JKH Group of which, Union Assurance PLC is a member.

### COMPOSITION

The Committee comprised the following Directors of the Parent Company, John Keells Holdings PLC (JKH):

M P Perera (Ms.) – Chairperson of the Committee/ Non-Executive Director of JKH

D A Cabraal, Non-Executive Director of JKH

A N Fonseka, Non-Executive Director of JKH

S C Ratnayake, Executive Director/Chairman and CEO of JKH

In addition, the Group Finance Director Mr. Ronnie Pieris and the Group Financial Controller Mr. Mano Rajakariar attended meetings by invitation, and the Head of Group Business Process Review Mr. Hisham Nazeem served as the Secretary to the Committee.

### OBJECTIVE OF THE COMMITTEE

The objective of the Committee is to exercise oversight on behalf of the Board, of John Keells Holdings PLC and its listed Subsidiaries, in complying with the Code on Related Party Transactions as issued by the Securities and Exchange Commission of Sri Lanka ("The Code") and with the Listing Rules of the Colombo Stock Exchange (CSE). The Committee has also adopted best practices as recommended by the Institute of Chartered Accountants of Sri Lanka and CSE.

### FUNCTIONS

The Committee in discharging its functions primarily relied on processes that were validated from time to time and periodic reporting by the relevant entities and Key

Management Personnel (KMP) with a view to ensuring:

- that there is compliance with the Code;
- that shareholder interests are protected; and
- that fairness and transparency are maintained.

The Committee reviewed and pre-approved all proposed non recurrent RPTs of the company. Further recurrent RPTs were reviewed annually by the Committee.

### MEETINGS

The Committee held 4 meetings during the financial year under review. Information on the attendance of these meetings by the members of the Committee is illustrated at the end of the report.

### CONCLUSION

The activities and views of the Committee have been communicated to the Board of Directors quarterly through verbal briefings, and by tabling the minutes of the Committee meetings.

The calendar of meetings of the RPT Review Committee in 2016 and attendance is given below.

NAME	DATE OF APPOINTMENT TO THE COMMITTEE	BOARD REMUNERATION COMMITTEE MEETING ATTENDANCE				ELIGIBLE TO ATTEND	ATTENDED
		28.01.2016	24.05.2016	27.07.2016	24.10.2016		
<b>NON-EXECUTIVE DIRECTORS (JKH)</b>							
Premila Perera**	24.07.2014	✓	✓	✓	✓	4	4
Nihal Fonseka	01.04.2014	✓	✓	✓	✓	4	4
Amal Cabraal	01.04.2014	✓	✓	✓	✓	4	4
Franklyn Amerasinghe*	01.04.2014	✓	✗			2	1
<b>EXECUTIVE DIRECTOR (JKH)</b>							
Susantha Ratnayake	01.04.2014	✓	✓	✓	✗	4	3

\* Mr. Franklyn Amerasinghe resigned from the committee w.e.f. 24 June 2016

\*\* Ms. Premila Perera was appointed Chairperson of the committee w.e.f. 28 July 2016

# REPORT OF THE INFORMATION TECHNOLOGY COMMITTEE

## COMPOSITION OF THE INFORMATION TECHNOLOGY COMMITTEE

The Committee comprise of the following members as at the end of the year.

D Pereira – Chairman / CEO

H Senanayake - General Manger, Information Technology

I Tittagalla - General Manger, Life Insurance

S Cader - General Manager, Finance and Planning

Brief profiles of the committee members are provided on pages 120 to 123 of the Annual Report.

## TERMS OF REFERENCE

The Information Technology Committee is established to ensure that IT strategies align with the overall business operations and effective implementation of the Board approved IT strategies.

The Committee is responsible for;

- Developing and reviewing the IT strategic plan on an ongoing basis
- Approving and reviewing the progress of new IT projects / initiatives
- Ensuring post implementation system reviews
- Reviewing vendors for major IT supplies
- Ensuring proper IT governance

## INFORMATION TECHNOLOGY COMMITTEE MEETINGS

The committee meets as and when required in addition to monthly meetings to review the progress of ongoing IT initiatives.

## SIGNIFICANT PROGRESS MADE DURING THE YEAR

- UA successfully launched the auto underwriting phase II with enhanced features which included a workflow system for user profile management, auto job allocation, resubmission and reversal of data parking.

- Third phase of the auto underwriting project was completed. DTA plans and Single Premium Advantage Plans were facilitated with digital quotations, proposals and auto underwriting.
- Lead management system has been implemented for both bancassurance and agency channels. The new system enabled transparent movement and follow up of leads upto conversion.
- New Financial Advisor Management Explore System (FAME) was launched.
- Successfully tested and implemented "work from home" for digital proposal channel including auto underwriting.

Further in its commitment to ensure data integrity and data security of the Data Centre management system, the ISO 27001:2013 accreditation was maintained.

## CONCLUSION

The Committee confirms that the company has made satisfactory progress in relation to the implementation of the strategic plan of 2016 and has operated within the IT governance framework of the company.



D PEREIRA

Chairman - Information Technology Committee

27 February 2017

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# CORPORATE GOVERNANCE

## DIRECTOR'S STATEMENT ON INTERNAL CONTROLS

The following statement fulfils the requirement to publish the Director's statement on Internal Controls as per the Code of Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Board is responsible for maintaining a sound system of internal controls to safeguard shareholders' investments and company assets.

The Board has structured an Enterprise Risk Management (ERM) process to identify the principal risks impacting the business and mitigating actions by management. The company's management implements policies on risk and control set by the Board and are accountable to the Board for monitoring and providing assurance as to their effectiveness. The company has commissioned PricewaterhouseCoopers, as independent internal auditors to ensure the effectiveness of the internal control systems. As a result of their activities, several processes have been enhanced during the year under review.

The Board has implemented the following to obtain reasonable assurance that proper systems of internal controls are in place:

- Delegated certain responsibilities to Board sub committees where the members of these committees have expertise to assist in discharging the Board's duties and to improve the governance structure.
- Instituted and maintained an effective Board Audit and Compliance Committee (BACC) and independent Internal Auditor to review and report on the internal control environment of the company

- The minutes of the BACC meetings are tabled at regular Board meetings. The report of the BACC is provided on page 178 of the Annual Report.
- The BACC reviews and approves the internal audit plan for the year. The audit plan is structured on a matrix based on key risk areas and delivery dates which is regularly monitored, and any delays highlighted and rectified.
- During the year under review the audit committee reviewed 35 audit reports 3 of which covered several Head Office processes while 32 covered different branch locations. The reports covered key findings with management comments and action taken to rectify any control weaknesses. Control weaknesses identified in previous reviews were also tracked to ensure that the management has taken necessary action to eliminate or minimise any risks.
- On Information Technology (IT) controls, the Board has initiated multiple mechanisms;
  - IT system audits were carried out to ensure the integrity of financial information, data security and adequate access controls are in place with regard to processing of data
  - During the year cyber security was considered as an area of focus and an analysis was conducted to identify 'critical assets of the company' in this context
- In addition to the year-end system review, the external auditors continued to perform the follow up review of the comprehensive IT audit on all critical applications / systems conducted during the previous year.
- The company continued with the ongoing robust bottom up enterprise risk management (ERM) process.
  - An ongoing process is in place for identifying, evaluating and managing the risks faced by the company. This is done at each department level in detail.
  - A summary of the key risk is updated on a risk grid and reported to the BACC on a quarterly basis.
  - New risks, mitigating actions and changes of risk status of earlier identified risks are highlighted separately as well.
  - The process continued to be effective during the year under review.
  - Business continuity plan was tested during the year under review.
- The internal auditors conducted regular reviews to ensure the effective design and implementation of internal controls;
- The effectiveness of the internal controls are measured based on the repetition of the control weaknesses or improvement areas that have been highlighted in the audit reports
  - Improvements in line with industry and / or non-industry best practices are also implemented on an ongoing basis

- BACC continued to monitor the progress of the bottom up compliance sign off process which strengthened the control environment and provide comfort to the senior management and Board that staff at all functions are aware and conducts business transactions as per laid down rules and procedures. The process was subjected to an independent audit by the internal auditors to ensure that the process is working as intended.

## CONCLUSION

The Board having implemented the above is aware that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatements of loss.

The Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and financial statements have been prepared in accordance with applicable accounting standards, requirements of the Company's Act No.7 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments and the listing rules of the Colombo Stock Exchange.



**AJIT D GUNewardENE**  
Chairman



**A S DE ZOYSA**  
Director



**H A J DE SILVA WIJEYERATNE**  
Chairman - Audit and Compliance Committee

27 February 2017

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# FINANCIAL INFORMATION



## IDEAS CONNECTED

We continue to add significant value to everything we do.

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<b>Financial Calendar</b>	<b>2016</b>	<b>2017</b>
30th Annual General Meeting to be held on	N/A	31 March 2017
29th Annual General Meeting held on	31 March 2016	N/A
The first and final dividends for the year 2016 will be paid on	N/A	17 March 2017
The first and final dividends for the year 2015 paid on	16 March 2016	N/A
Audited financial statements of preceding year authorised on	24 February 2016	27 February 2017

## INTERIM FINANCIAL STATEMENTS WILL BE PUBLISHED AS PER RULE 7.4 OF THE COLOMBO STOCK EXCHANGE

Interim results for the three months ended 31 March (Unaudited)	12 May 2016	15 May 2017
Interim results for the three months ended 30 June (Unaudited)	11 August 2016	15 August 2017
Interim results for the three months ended 30 September (Unaudited)	09 November 2016	15 November 2017
Interim results for the three months ended 31 December (Unaudited)	27 February 2017	28 February 2018

# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## OVERVIEW

The Directors have pleasure in presenting the annual report of your company together with the audited financial statements for the year ended 31st December 2016.

## PRINCIPAL ACTIVITIES

The principal activity of the Company, which is "Life Insurance", remained unchanged during the financial year.

The Company has not engaged in any activities, which contravene laws and relevant regulations.

## VISION, MISSION AND CORPORATE CONDUCT

The corporate vision and mission are provided on page 46 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 Conduct.

## REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

A review of the financial and operational performance and future business developments of the Company is contained in the Chairman's Message, Chief Executive Officer's Review and the Management Discussion and Analysis section of the annual report, as required under Section 168 (1) (a) of the Companies Act No 07 of 2007 ('Companies Act'). These reports form an integral part of the report of the Directors and together with the audited financial statements reflect the state of affairs of the Company.

## TURNOVER

The total gross written premium generated by the Company for the year 2016 was Rs. 8,271 million (2015 – Rs. 6,964 million).

## FINANCIAL RESULTS AND APPROPRIATIONS

The net profit after tax of the Company was Rs. 1,313 million for the year (2015 - Rs. 2,347 million).

A synopsis of the performance is presented below;

## FINANCIAL RESULTS

Union Assurance PLC For the year ended 31 December	2016	2015
Profit after tax	1,312,628	2,346,636
Balance brought forward from previous year	1,232,035	3,843,704
Change relating to Super Gain tax of the Group	-	(52,424)
Profit available for appropriation	2,544,663	6,137,916
<b>Appropriations</b>		
Dividend paid for previous year	(500,893)	(557,141)
Transfer from revaluation reserve	5,419	4,521
Capital re- organization	-	138,433
Share re-purchase	-	(4,494,643)
Share re-purchase cost	-	(646)
Transfer of reserves of non-life segment	-	3,595
Un-appropriated profit carried forward	2,049,189	1,232,035

## FINANCIAL STATEMENTS AND AUDITORS' REPORT

The financial statements for the year ended 31st December 2016 has been prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKAS) issued by the Institute of Chartered Accountants of Sri Lanka. The financial statements duly signed by the Directors are provided on pages 201 to 207 and the Auditors' Report on the financial statements is provided on page 198 of this annual report.

## ACCOUNTING POLICIES

Details of accounting policies are presented in Notes 208 to 291 to the financial statements, and comply with Section 168 (1) (d) of the Companies Act. There have been no changes in the accounting policies adopted by the Company during the year under review. For all periods up to and including the year ended 31st December 2016, the Company prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLFRS / LKAS) which have materially converged with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## DIVIDENDS

The Board of Directors has approved a first and final dividend of Rs. 10.50 per share for the year 2016 (2015 - Rs. 8.50). The Board of Directors has confirmed that the Company satisfies the solvency test in accordance with Section 56 of the Companies Act No. 7 of 2007 and has obtained a certificate from the auditors prior to declaring the dividend.

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# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The dividend will be paid partly out of dividend received and partly out of taxable profits of the company. The dividend to be paid out of profits will be subject to withholding tax.

## PROVISION FOR TAXATION

The Company is liable to income tax at 28% (2015 - 28%) in terms of the Inland Revenue Act No. 10 of 2006 and amendments thereto. The tax position of the Company is disclosed in Note 23 to the financial statements on page 243.

## PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 53 million. The carrying value of property, plant and equipment as at 31st December 2016 is Rs. 1,493 million. The details of property, plant and equipment are shown in Note 27 to the financial statements on page 251.

## INTANGIBLE ASSETS

During the financial year, the company acquired intangible assets to the aggregate value of Rs. 65 million. The carrying value of Intangible assets is Rs. 95 million as at the reporting date. The details of Intangible assets are shown in Note 26 to the financial statements on page 250.

## MARKET VALUE OF FREEHOLD PROPERTIES

The land and building owned by the Company at No. 6, Rajapihilla Road, Kurunegala and at No. 20, St. Michael's Road Colombo 3 were revalued as at 31st December 2015 to reflect its market value as per Company policy.

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 27 to the financial statements on page 251.

## INVESTMENTS

Details of investments held by the Company are disclosed in Note 29 to the financial statements on pages 259 to 267.

## STATED CAPITAL AND RESERVES

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 stated capital of the Company as at 31 December 2016 was Rs. 1,000 million (2015 - Rs. 1,000 million) and the total capital and reserves was Rs. 3,866 million (2015- Rs. 3,465 million).

## SHARE INFORMATION

Information relating to earnings, dividends, net assets and market value per share is given in the share information on pages 112 to 118 of this report.

## SHARE HOLDINGS

There were 1,326 registered shareholders, holding ordinary voting shares as at 31st December 2016 (2015 - 1,334). The distribution of shareholding including the percentage held by the public is given on page 116 of this report.

## EQUITABLE TREATMENT TO ALL SHAREHOLDERS

The Company has made every endeavour to ensure the equitable treatment to all shareholders and adopted adequate measures to prevent information asymmetry.

## SUBSTANTIAL SHAREHOLDINGS

The list of top twenty shareholders as at 31st December 2016 is given on page 117 of this report, together with comparative shareholding as at 31st December 2015.

## INFORMATION TO SHAREHOLDERS

The Board strives to be transparent and provide accurate information to shareholders in all published material. The quarterly financial information during the year has been sent to the Colombo Stock Exchange in a timely manner.

## CORPORATE GOVERNANCE

### DIRECTORS' DECLARATION

The Directors declare that;

- The Company has not engaged in any activity, which contravenes laws and regulations
- The Directors have declared all material interests in contracts involving the company and refrained from voting on matters in which they were materially interested
- The Company has made all endeavours to ensure the equitable treatment of shareholders
- The business is a going concern
- A review of the internal controls covering, financial, operational and compliance controls and risk management has been conducted, and the Directors have obtained reasonable assurance of their effectiveness and successful adherence therewith
- The Company, being listed on the Colombo Stock Exchange (CSE), is compliant with the rules on corporate governance under the listing rules of the CSE with regard to the composition of the Board and its sub committees

- g) The Company is in compliance with the Code of Best Practice on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL)

The Board of Directors is committed to maintaining an effective corporate governance structure and process. A more comprehensive report on corporate governance is found on pages 120 to 185.

## BOARD AUDIT AND COMPLIANCE COMMITTEE

The composition of the Board Audit and Compliance Committee comprising of Non-Executive Directors is provided on page 135. 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 178 to 180 of this report.

## 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. The Board is satisfied that the process is sufficiently robust to identify and manage risks which have an impact on the company's performance.

## RISK MANAGEMENT

The Board and the 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 and opportunities' report in the management discussion and analysis section of this annual report on page 102.

## THE BOARD OF DIRECTORS

As at 31st December 2016 the Board of Directors of Union Assurance PLC consisted of seven Directors with diverse knowledge and experience. Brief profiles of the Directors are given in the corporate governance section of the annual report on page 120 to 121.

## RESPONSIBILITY OF THE BOARD

Details of responsibilities of the Board and the manner in which those responsibilities were discharged during the year are disclosed in the corporate governance section of the annual report on page 131.

## RETIREMENT AND RE-ELECTION / RE-APPOINTMENT OF DIRECTORS

In terms of Article 84 of the Articles of Association of the Company, Mr. A. D Pereira and Ms. D. C. Alagaratnam who retire by rotation are eligible for re-election. A brief profile of the said Directors are given on page 120 and 121.

## APPOINTMENTS OF DIRECTORS

No new appointments were made to the Board during the year under review.

## REVIEW OF THE PERFORMANCE OF THE BOARD

The performance of the Board has been appraised through a formalised process of individual appraisal by enabling each member to self-appraise on an anonymous basis.

## BOARD SUB COMMITTEES

The Board while assuming the overall responsibility and accountability in the management of the Company has also appointed Board Sub Committees to ensure control over certain affairs of the Company as detailed in the corporate governance section of the annual report in pages 174 to 183 in this report. The compositions of sub committees as at 31 December 2016 is given on page 135 in this report.

## DIRECTORS' INTERESTS REGISTER

The company, in compliance with the Companies Act No. 7 of 2007 maintains an Interests Register.

The particulars of the Company's interest register are given 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. Arising from this, details of contracts in which they have an interest are found in Note 43 on page 285 to the financial statements, under related party transactions.

## DIRECTORS' INTERESTS IN SHARES

The Directors' individual shareholdings in the company as at 31st December 2016 and 31st December 2015 were as follows;

Name of Director	No. of shares as at 31.12.2016	No. of shares as at 31.12.2015
Ajit D. Gunewardene	8,562	8,562
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
A. D. Pereira	Nil	Nil

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# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## SHARE DEALINGS

There have been no share dealings by the Directors during the year

## REMUNERATION TO DIRECTORS

Directors' remuneration is established within a framework approved by the 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 is determined according to scales of payment decided upon by the Board. Details of Directors' fees and emoluments paid during the year along with the corresponding amounts for the previous year are set out in Note 22 of the financial statements.

## DIRECTORS' MEETINGS

Details of Board meetings and Board subcommittee meetings are presented on page 135 of the annual 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 (SLFRS / LKAS) issued by the Institute of Chartered Accountants of Sri Lanka, 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 exceed the lower of 10% of equity or 5% of the total assets of the Company. Directors have disclosed the transactions with related parties in terms of Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosures, in Note 43 on page 285 to the financial statements

The Board of the Parent Company - John Keells Holdings PLC - has formed the Related Party Transactions Review Committee with effect from 1st April 2014, to enhance the corporate governance within the group and complies with the Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC). On the basis that the parent company is also a listed company, the SEC has permitted the Related Party Transactions Review Committee of the parent company, to represent the listed companies in the John Keells Group of which, Union Assurance PLC is a member. Please refer details of the committee on page 135 of the Annual Report.

## COMPLIANCE WITH THE TRANSFER PRICING REGULATIONS

All transactions entered into with associated persons during the period are on an arm's length basis, and are comparable with transactions carried out with non-associated persons.

## DONATIONS

There were no donations made during the year.

## CORPORATE SOCIAL RESPONSIBILITY

The Company manages a range of programs towards its stakeholders and to bring about sustainable development in all areas of business efficiently and effectively. The CSR initiatives, including completed and on-going projects, are detailed in the Social and Relationship Capital section in the Annual Report on pages 80 to 92.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Company has complied with all applicable laws and regulations. A compliance checklist is signed-off on a monthly basis by responsible officers and any violations are reported to the Board Audit and Compliance Committee. Refer page 144 for a statement of compliances.

## RISK BASED CAPITAL REQUIREMENT (RBC)

With effect from 1 January 2016 all insurance companies were required to maintain a capital amount as computed under the risk based capital framework introduced by the IBSL or Rs. 500 million whichever is higher. From first quarter of 2016 onwards, the Company reported RBC requirements on a quarterly basis within the reporting time lines. (Please refer details on RBC from page 103 of the annual report).

## INTEGRATED CORPORATE REPORTING

The integrated annual report has been prepared in accordance with the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC). The Board Audit and Compliance Committee has reviewed the framework presented in this annual report and based on their recommendation, the Board has adopted the framework as a transparent basis to report the company's activities and results to all stakeholder groups.

## SUSTAINABILITY

The Company is aware of the need to pursue its business goals from a stakeholder perspective of business governance. Hence, through the structured stakeholder engagement process, the company has identified material issues in relation to each stakeholder group and endeavours to achieve its business goals with due respect to all stakeholder needs. This year the company publishes its fourth integrated annual report, combining financial information with sustainability information in a bid to provide its stakeholders with more holistic information.

Messrs. KPMG has issued an assurance of the financial performance data disclosed and the content of the report which represents the Company's sustainability policies, objectives, management approach and performance, and as prepared under the requirements of the GRI G4 content index guidelines. The report has also gone through a GRI Materiality Disclosures Service.

## 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. The Company also adopts equality of opportunity for all employees irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability. Some of the processes and procedures adopted in this regard are mentioned in the human capital report in the Management Discussion and Analysis section of the annual report on page 67. The number of persons employed by the company as at 31st December 2016 was 474 (2015 – 450). There were no material issues pertaining to employees and industrial relations of the company during the year under review.

## CODE OF CONDUCT

The Company demands impeccable standard 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 also implemented a code of conduct for field staff covering their responsibility, commitment and level of service to the client. During the year no material violations of the code was noted.

## ENVIRONMENT PROTECTION

Initiatives taken by the Company to preserve the environment are presented in the 'Natural Capital report' of the Management Discussion and Analysis section on page 61. The Company has not engaged in any activity that is harmful to the environment.

## SUPPLIER POLICY

The Company applies an overall policy of agreeing and clearly communicating terms of payments as part of the commercial agreements negotiated with suppliers, and endeavours to pay for all items properly charged in accordance with those agreed terms. As at 31st December 2016, the other payments of the Company amounted to Rs. 1,166 million (2015 – Rs. 971 million).

## 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 employees as at the reporting date have been paid or, where relevant provided for, except as detailed in Note 46 on page 290 to the financial statements, relating to contingent liabilities.

## CAPITAL COMMITMENTS

No significant capital commitments exist as at 31st December 2016 other than those disclosed in Note 44 on page 290 to the financial statements.

## CONTINGENCIES AND 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 REPORTING DATE

There have been no events subsequent to the reporting date, which would have any material effect on the Company, other than those disclosed in Note 45 to the financial statements on page 290.

## 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, the going concern basis is adopted in preparing the financial statements.

## AUDITORS

The Company's auditors during the period under review were Messrs. KPMG. The fee amount paid / payable for the services provided to the company during the year, with corresponding figures for the previous year, is presented below.

Rs. '000	2016	2015
Audit and audit related fees	4,271	3,385
Non audit fees	1,208	777

## INDEPENDENCE OF AUDITORS

Based on the declaration from Messrs. KPMG, and as far as the Directors are aware, the auditors do not have any relationship or interest other than that of an Auditor in the Company.

## RE-APPOINTMENT OF AUDITORS

The retiring auditor Messrs. KPMG 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.

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# ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## AUDITORS' REPORT

Auditors' Report on the financial statements is given on page 198 of this annual report.

## APPROVAL OF FINANCIAL STATEMENTS

The audited financial statements were approved by the Board of Directors on 27 February 2017. The appropriate number of copies of this report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board.

## 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 31st March 2017 at 9.00 a.m. The notice of the meeting relating to the thirtieth Annual General Meeting is given on page 336.

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



AJIT D. GUNewardENE  
Chairman



A. S. DE ZOYSA  
Director



KEELLS CONSULTANTS (PRIVATE) LIMITED  
Secretaries

27 February 2017

# CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The financial statements of Union Assurance PLC as at 31st December 2016 are prepared and presented in compliance with the following;

- Sri Lanka Accounting Standards (SLFRSs / LKASs) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL)
- Requirements of the Companies Act No. 7 of 2007
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995
- Listing rules of the Colombo Stock Exchange (CSE)
- The Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto
- Code of best practice on corporate governance issued jointly by the ICASL and the Securities and Exchange Commission of Sri Lanka (SEC)

Accordingly, the Company has prepared the financial statements which comply with SLFRS / LKAS and related interpretations applicable for the year ended 31st December 2016, together with the comparative data as at and for the year ended 31st December 2015, where required, as described in the accounting policies.

The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the financial statements. There have been no changes in the accounting policies adopted by the company during the year under review.

The accounting policies applicable to Union Assurance General Limited, the associate company of Union Assurance PLC have been disclosed separately in Note 28 to the financial statements.

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 and on an ongoing basis.

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, Chartered Accountants, Independent Auditors.

The BACC pre-approves the audit and non-audit services provided by Messrs. 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, the internal audit plan, all internal audit reviews and management letters and follows up on any issues raised during the statutory audit as well as the internal audits. The BACC also meets with the external and internal auditors to review the effectiveness of the audits.

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;

- All provisions in the regulation of Insurance Industry Act No. 43 of 2000, and subsequent amendments there to, and all rules, regulations, determinations, directions issues by IBSL; Complied with all orders made by the Ministry of Finance and Planning under the Regulation of Insurance Industry Act, No. 43 of 2000
- Terms and conditions pertaining to reinsurance placements issued by IBSL in terms of section 31(1) of the Regulation of Insurance Industry Act, No. 43 of 2000
- Conditions pertaining to co-insurance issued by IBSL
- All applicable circulars issued by IBSL
- All provisions in the Financial Transactions Reporting Act, No. 6 of 2006
- Rules on Know Your Customer (KYC) and Customer Due Diligence (CDD) for the Insurance Industry issued by the Financial Intelligence Unit established under the Financial Transactions Reporting Act, No. 6 of 2006
- Guidelines on Anti Money Laundering Programme for Insurers issued by IBSL



**DIRK PEREIRA**  
Chief Executive Officer



**SHERIN CADER**  
Chief Financial Officer

27 February 2017

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# ACTUARY'S REPORT



24 February 2017  
The Board of Directors  
Union Assurance PLC  
No 20, St. Michael's Road,  
Colombo 03,  
Sri Lanka

## Actuarial Valuation of the Long Term Insurance Business as at 31 December 2016

In accordance with the engagement letter dated 9 September 2015, Towers Watson India Private Limited ("Willis Towers Watson", "we", "our" or "us") has carried out an actuarial review of the valuation of long term insurance liabilities of Union Assurance PLC's Long Term Insurance Business as at 31 December 2016.

We hereby certify that:

1. Reasonable steps have been taken by the Company to ensure that data used for the actuarial valuation of the liabilities of the Long Term Insurance Fund is complete and accurate;
2. Adequate and proper reserves have been provided as at 31 December 2016, 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 total long term insurance provisions maintained within the life fund for conventional business is LKR20,187.875 million. The value of assets held in respect of conventional life business is LKR27,147.375 million. Therefore, surplus in respect of the conventional life business after making an allowance for a shareholder transfer of LKR1,100 million is LKR6,959.500 million. The surplus in respect of the conventional business before shareholder transfer is LKR8,059.500 million.
4. The total long term insurance provisions within the life fund for the non-unit liabilities in respect of unit-linked business is LKR15.160 million. The value of assets (other than assets backing unit-linked liabilities) held in respect of this business is LKR178.878 million. Therefore, the total surplus from unitlinked business before and after shareholder transfer is LKR163.719 million.
5. The risk based capital required under the Regulation of Insurance Industry Act No. 43 of 2000 is LKR3,492.978 million, and company's CAR (after allowing for the LKR1,100 million shareholder transfer) is 411 %, compared to the regulatory minimum requirement of 120%.
6. We have undertaken a liability adequacy test for long term insurance provisions maintained within the life fund of Union Assurance PLC as contemplated by SLFRS 4. In carrying out the liability adequacy test, we have compared the provisions held as per the audited accounts with the actuarial liability. For this purpose, the value of the actuarial liability is determined following the principles laid out within the risk based capital framework as prescribed by the IBSL [the Solvency Margin (Risk Based Capital) Rules 2015]. Based on this test, we conclude that the long term insurance provisions maintained within the life fund of Union Assurance PLC as per the audited accounts of the Company for the year ended 31 December 2016 is in excess of the liabilities computed in the above mentioned manner.

Vivek Jalan, FIA, FIAI  
Director and Practice Leader, Insurance Consulting, India,  
Willis Towers Watson

**Towers Watson India Private Limited**  
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Unitech Business Park 2nd floor  
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W: willistowerswatson.com  
CIN: U67190HR1996PTC051336

**UNION ASSURANCE PLC**  
ANNUAL REPORT 2016

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# 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 prepared in accordance with the provision of the Companies Act No. 7 of 2007 is set out in the Report of the Auditors on page 198. 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 of;

- a statement of income and statement of profit or loss and other comprehensive income of the Company which present a true and fair view of the profit or loss of the Company for the financial year; and
- a statement of financial position, which presents a true and fair view of the state of affairs of the company as at the end of the financial year; and
- a statement of changes in equity; and
- a statement of cash flows for the year then ended and notes to the financial statements

The Directors have ensured that, in preparing these financial statements;

- the appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained; and
- all applicable accounting standards in accordance with the Sri Lanka Accounting Standards (SLFRS / LKAS) as relevant have been applied; and
- reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected; and
- it provides the information required by and otherwise complies with the Companies Act No. 07 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto and the Listing Rules of the Colombo Stock Exchange and requirements of any other regulatory authority as applicable to the company.

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.

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. 10.50 per share for the year ended 31st December 2016, to be paid on 17 March 2017.

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 reporting date have been paid or, where relevant provided for except as detailed in Note 46 to the financial statements, relating to contingent liabilities.

By order of the Board



KEELLS CONSULTANTS (PRIVATE) LIMITED  
Secretaries

27 February 2017

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# INDEPENDENT AUDITORS' REPORT



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

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
+94 - 11 254 1249  
+94 - 11 230 7345  
Internet : www.lk.kpmg.com

## TO THE SHAREHOLDERS OF UNION ASSURANCE PLC REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Union Assurance PLC, ("the Company"), which comprise the statement of financial position as at December 31, 2016, and the income statement, statements of profit or loss and other comprehensive income, changes in equity and, cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 201 to 291 of this Annual Report.

### BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITORS' RESPONSIBILITY

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- The basis of opinion and scope and limitations of the audit are as stated above.
- In our opinion we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company and the financial statements of the Company, comply with the requirements of section 151 of the Companies Act.

As required by Section 47(2) of the Regulation of Insurance Industry Act, No.43 of 2000, as far as appears from our examination, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Board of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

### CHARTERED ACCOUNTANTS

Colombo

27 February 2017

KPMG, 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.

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

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

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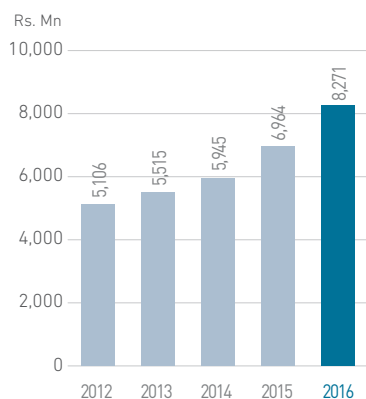
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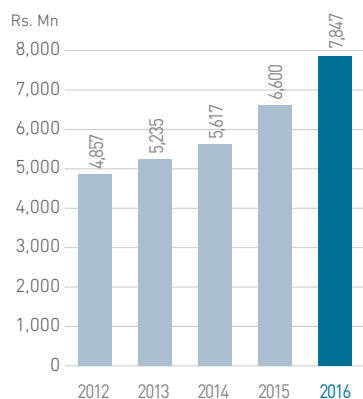
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# FINANCIAL HIGHLIGHTS

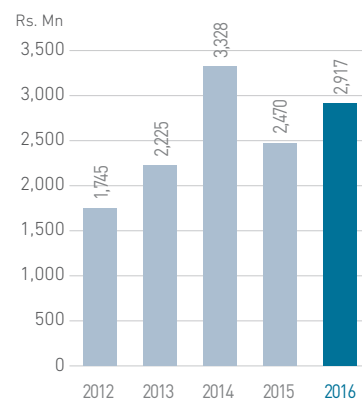
## GROSS WRITTEN PREMIUM



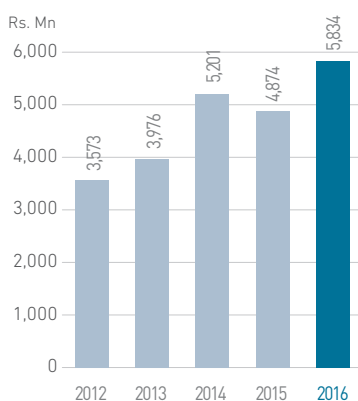
## NET WRITTEN PREMIUM



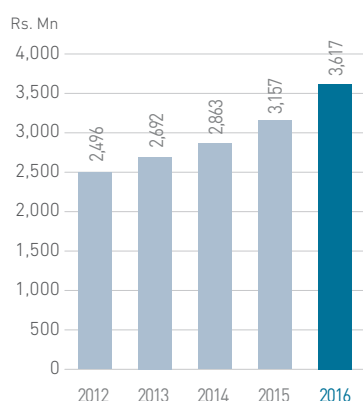
## OTHER REVENUE



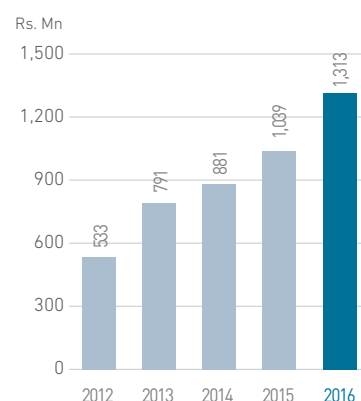
## NET BENEFITS AND CLAIMS INCLUDING CHANGE IN CONTRACT LIABILITIES



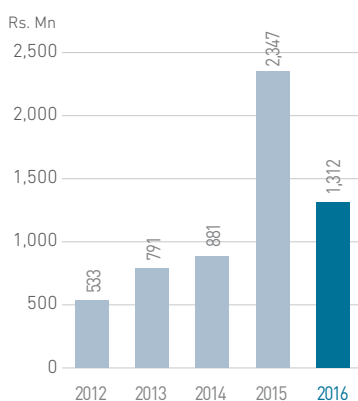
## EXPENSES INCLUDING NET ACQUISITION COSTS



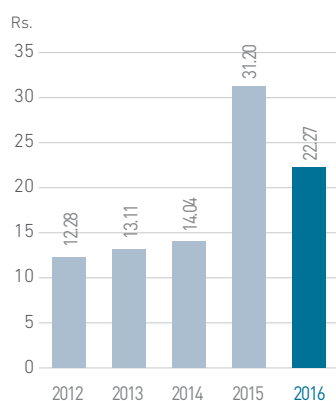
## PROFIT FROM OPERATIONS



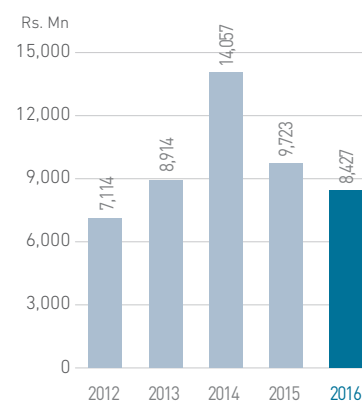
## PROFIT AFTER TAXATION



## EARNINGS PER SHARE



## MARKET CAPITALISATION



# INCOME STATEMENT

For the year ended 31 December			2016	2015	Change
	Note	Page	Rs. '000	Rs. '000	%
Gross written premium	10	234	8,270,751	6,964,390	19
Premium ceded to reinsurers	11	235	(423,857)	(364,182)	16
<b>Net written premium</b>			<b>7,846,894</b>	<b>6,600,208</b>	<b>19</b>
<b>Other revenue</b>					
Net investment income	12	235	3,025,094	2,632,519	15
Net realised gains / (losses)	13	237	(131,948)	38,397	(444)
Net fair value losses	14	237	(34,751)	(290,899)	88
Other income	15	238	58,653	89,653	(35)
<b>Total other revenue</b>			<b>2,917,048</b>	<b>2,469,670</b>	<b>18</b>
<b>Total net revenue</b>			<b>10,763,942</b>	<b>9,069,878</b>	<b>19</b>
<b>Benefits, claims and expenses</b>					
Net insurance benefits and claims paid	16	238	(1,524,310)	(1,448,328)	5
Net change in insurance claims outstanding	17	239	(71,075)	(24,606)	189
Change in contract liabilities - Life Fund	18	240	(4,238,265)	(3,400,673)	25
Underwriting and net acquisition costs (including reinsurance)	19	241	(1,441,617)	(1,289,437)	12
Other operating, administrative and selling expenses	20	241	(2,064,793)	(1,747,940)	18
Depreciation and amortisation	26 / 27	250 / 251	(110,890)	(119,983)	(8)
<b>Total benefits, claims and expenses</b>			<b>(9,450,950)</b>	<b>(8,030,967)</b>	<b>18</b>
<b>Profit from operations</b>			<b>1,312,992</b>	<b>1,038,911</b>	<b>26</b>
Gain on sale of subsidiary	21	242	-	1,221,460	(100)
Share of results of equity accounted investee, net of tax	28	255	60,315	57,990	4
<b>Profit before tax</b>	22	243	<b>1,373,307</b>	<b>2,318,361</b>	<b>(41)</b>
Income tax (expense) / reversal	23	243	(60,679)	28,275	(315)
<b>Profit for the year</b>			<b>1,312,628</b>	<b>2,346,636</b>	<b>(44)</b>
<b>Earnings per share</b>					
Basic (Rs.)	24	248	22.27	31.20	(29)
Diluted (Rs.)	24	248	22.27	31.20	(29)

The notes to the financial statements as set out on pages 208 to 291 form an integral part of these financial statements.

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# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December	Note	2016 Rs. '000	2015 Rs. '000	Change %
<b>Profit for the year</b>		1,312,628	2,346,636	(44)
<b>Other comprehensive income</b>				
<b>Items that will never be reclassified to profit or loss</b>				
Net gains on revaluation of land and buildings	27.8	-	355,570	
Share of net change in actuarial gains / (losses) on defined benefit plan of equity accounted investee, net of tax	36.2 (B)	4,348	(64)	
Actuarial losses on defined benefit plan	36.2 (B)	(4,861)	(7,593)	
Related tax	36.1 (B) / 36.2 (B)	2,878	(6,433)	
		2,365	341,480	(99)
<b>Items that are or may be reclassified to profit or loss</b>				
<b>Fair value reserve (available for sale financial assets)</b>				
Net change in fair value of available for sale financial assets	36.2 (A)	(24,749)	(34,156)	
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	36.2 (A)	(23,533)	(10,739)	
Net change in fair value of available for sale financial assets transferred to the income statement	36.2 (A)	-	(39,522)	
Related tax	36.2 (A)	6,930	2,122	
		(41,352)	(82,295)	(50)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	36.2 (A)	(431,771)	(219,077)	
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the income statement	36.2 (A)	(48)	(11,505)	
Related tax	36.2 (A)	50,871	(23,964)	
		(380,948)	(254,546)	50
		(422,300)	(336,841)	25
<b>Other comprehensive income , net of tax</b>		(419,935)	4,639	(9,152)
<b>Total comprehensive income for the period, net of tax</b>		892,693	2,351,275	(62)

The notes to the financial statements as set out on pages 208 to 291 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	2016 Rs. '000	2015 Rs. '000
<b>Assets</b>				
Intangible assets	26	250	94,647	59,616
Property, plant and equipment	27	251	1,493,040	1,523,676
Investment in equity accounted investee	28	255	777,346	736,216
Financial investments	29	259	30,847,256	26,540,934
Loans to life policyholders	30	268	867,177	741,852
Reinsurance receivable	31	268	178,181	149,772
Premiums receivable	32	269	246,800	203,722
Receivables and other assets	33	270	809,784	732,017
Cash in hand and at bank	34	271	379,232	326,012
<b>Total assets</b>			<b>35,693,463</b>	<b>31,013,817</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Stated capital	35	272	1,000,000	1,000,000
Reserves	36	273	817,003	1,232,893
Retained earnings	37	277	2,049,189	1,232,035
<b>Total equity</b>			<b>3,866,192</b>	<b>3,464,928</b>
<b>Liabilities</b>				
Insurance contract liabilities	38	277	27,889,682	23,731,238
Insurance contract liabilities - Unit Linked	39	281	2,377,707	2,541,221
Employee benefit liabilities	40	282	107,963	100,199
Reinsurance payables	41	284	208,742	213,855
Other liabilities	42	285	1,092,871	843,424
Bank overdraft	34	271	150,306	118,952
<b>Total liabilities</b>			<b>31,827,271</b>	<b>27,548,889</b>
<b>Total equity and liabilities</b>			<b>35,693,463</b>	<b>31,013,817</b>

The notes to the financial statements as set out on pages 208 to 291 form an integral part of these financial statements.

I certify that the above financial statements comply with the requirements of the Companies Act No. 7 of 2007.



**SHERIN CADER**

Chief Financial Officer

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

Signed on behalf of the Board:



**AJIT D. GUNewardENE**

Chairman



**A. S. DE ZOYSA**

Director

Colombo

27 February 2017

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# STATEMENT OF CHANGES IN EQUITY

Rs. '000	Note	Stated capital	Reserves			Retained earnings	Total	
			Revaluation reserve	Reserve on merger	Other reserves			
					Reserves on ESOP and retirement benefit obligation			
					Available for sale reserve			
<b>Balance as at 1 January 2015</b>		1,138,433	815,776	16,752	382,266	13,928	3,843,704	6,210,859
Charge relating to super gain tax (Note A)	37.1	-	-	-	-	-	(52,424)	(52,424)
<b>Adjusted balance as at 1 January 2015</b>		1,138,433	815,776	16,752	382,266	13,928	3,791,280	6,158,435
Profit for the year		-	-	-	-	-	2,346,636	2,346,636
<b>Other comprehensive income for the year</b>								
Net change in fair value of available for sale financial assets	36.2 (A)	-	-	-	(73,678)	-	-	(73,678)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	36.2 (A)	-	-	-	(230,582)	-	-	(230,582)
Revaluation gains on land and buildings	27.8 / 36.1 (B)	-	355,570	-	-	-	-	355,570
Actuarial loss on defined benefit plan	36.2 (B)	-	-	-	-	(7,593)	-	(7,593)
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	36.2 (A)	-	-	-	(10,739)	-	-	(10,739)
Share of net change in actuarial losses on defined benefit plan of equity accounted investee, net of tax	36.2 (B)	-	-	-	-	(64)	-	(64)
Tax on other comprehensive income	36.1 (B) / 36.2 (A) / 36.2 (B)	-	(8,560)	-	(21,842)	2,127	-	(28,275)
<b>Total other comprehensive income</b>		-	347,010	-	(336,841)	(5,530)	-	4,639
<b>Total comprehensive income for the year</b>		-	347,010	-	(336,841)	(5,530)	2,346,636	2,351,275
<b>Transactions with owners, transfers, recorded directly in equity</b>								
<b>Contributions and distributions</b>								
First and final dividend 2014	25.2	-	-	-	-	-	(557,141)	(557,141)
Share re-purchase	35.3 / 37	-	-	-	-	-	(4,494,643)	(4,494,643)
Share re-purchase cost		-	-	-	-	-	(646)	(646)
Share based payments	36.2 (C)	-	-	-	-	7,648	-	7,648
Transfer from revaluation reserve to retained earnings	36.1 (B) / 37	-	(4,521)	-	-	-	4,521	-
Capital re-organisation	35.2 / 37	(138,433)	-	-	-	-	138,433	-
Transfer of reserves of non life segment		-	-	-	-	(3,595)	3,595	-
<b>Total contributions and distributions</b>		(138,433)	(4,521)	-	-	4,053	(4,905,881)	(5,044,782)
<b>Balance as at 31 December 2015</b>		1,000,000	1,158,265	16,752	45,425	12,451	1,232,035	3,464,928

## NOTE A

Although the company did not become eligible to pay super gain tax as a stand alone entity, Rs 52.4 million has been paid as super gain tax on the basis that the company is part of John Keells Holdings PLC group.

Rs. '000	Note	Stated capital	Reserves			Other reserves	Retained earnings	Total
			Revaluation reserve	Reserve on merger	Available for sale reserve			
<b>Balance as at 1 January 2016</b>		1,000,000	1,158,265	16,752	45,425	12,451	1,232,035	3,464,928
Profit for the year		-	-	-	-	-	1,312,628	1,312,628
<b>Other comprehensive income for the year</b>								
Net change in fair value of available for sale financial assets	36.2 (A)	-	-	-	(24,749)	-	-	(24,749)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	36.2 (A)	-	-	-	(431,819)	-	-	(431,819)
Actuarial loss on defined benefit plan	36.2 (B)	-	-	-	-	(4,861)	-	(4,861)
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	36.2 (A)	-	-	-	(23,533)	-	-	(23,533)
Share of net change in actuarial gains on defined benefit plan of equity accounted investee, net of tax	36.2 (B)	-	-	-	-	4,348	-	4,348
Tax on other comprehensive income	36.1 (B)/36.2 (A) / 36.2 (B)	-	1,517	-	57,801	1,361	-	60,679
<b>Total other comprehensive income</b>		-	1,517	-	(422,300)	848	-	(419,935)
<b>Total comprehensive income for the year</b>		-	1,517	-	(422,300)	848	1,312,628	892,693
<b>Transactions with owners, transfers, recorded directly in equity</b>								
<b>Contributions and distributions</b>								
First and final dividend 2015	25.2	-	-	-	-	-	(500,893)	(500,893)
Share based payments	36.2 (C)	-	-	-	-	9,464	-	9,464
Transfer from revaluation reserve to retained earnings	36.1 (B) / 37	-	(5,419)	-	-	-	5,419	-
<b>Total contributions and distributions</b>		-	(5,419)	-	-	9,464	(495,474)	(491,429)
<b>Balance as at 31 December 2016</b>		1,000,000	1,154,363	16,752	(376,875)	22,763	2,049,189	3,866,192

The notes to the financial statements as set out on pages 208 to 291 form an integral part of these financial statements.

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# STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Cash flows from operations</b>			
Insurance premium received		8,227,672	6,919,785
Reinsurance premium paid		(428,970)	(286,105)
Insurance benefits and claims paid	16	(1,682,170)	(1,542,972)
Reinsurance claims received	16	157,860	94,644
Payments to intermediaries to acquire insurance contracts		(1,430,821)	(1,274,479)
Cash paid to and on behalf of employees		(841,087)	(809,107)
Interest received		2,324,369	2,077,085
Dividends received		102,922	106,416
Other operating cash flows		(1,401,971)	(1,111,875)
<b>Cash generated from operating activities</b>	Note A	<b>5,027,804</b>	<b>4,173,392</b>
<b>Cash flows from / (used in) investing activities</b>			
Retiring gratuity paid	40.3	(20,430)	(17,787)
Retiring gratuity transfer	40.3	2,385	-
Interest paid on obligation to repurchase securities		(6,750)	-
Super gain tax paid	37.1	-	(52,424)
<b>Net cash flow from operating activities</b>		<b>5,003,009</b>	<b>4,103,181</b>
<b>Cash flows from / (used in) investing activities</b>			
Acquisition of investments		(48,477,502)	(119,514,625)
Maturity proceeds of investments	29.7	42,013,532	115,612,877
Proceeds from sale of investments		2,075,057	1,287,017
Acquisition of property, plant and equipment	27.1	(53,000)	(53,409)
Acquisition of intangible assets	26.1	(65,397)	(23,662)
Proceeds on sale of property, plant and equipment		156	16
Proceed from sale of subsidiary	21	-	3,664,379
<b>Net cash from / (used in) investing activities</b>		<b>(4,507,154)</b>	<b>972,593</b>
<b>Net cash inflow before financing activities</b>		<b>495,855</b>	<b>5,075,774</b>
<b>Cash flows from / (used in) financing activities</b>			
Dividends paid to equity holders of the company		(453,197)	(503,837)
Dividend tax paid		(10,659)	-
Cash used for share re-purchase including costs	37	-	(4,495,289)
<b>Net cash used in financing activities</b>		<b>(463,856)</b>	<b>(4,999,126)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	Note B	<b>31,999</b>	<b>76,648</b>
Cash and cash equivalents at the beginning of the year		207,060	130,412
<b>Cash and cash equivalents at the end of the year</b>	34.2	<b>239,059</b>	<b>207,060</b>

For the purpose of the cash flow statement, cash and cash equivalent consist of cash and short-term deposits as shown above, net of outstanding bank overdrafts.

The notes to the financial statements as set out on pages 208 to 291 form an integral part of these financial statements.

For the year ended 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>NOTE A.</b>			
<b>Reconciliation of profit before taxation with cash from operating activities</b>			
Profit before tax		1,373,307	2,318,361
<b>Non-cash items included in profit before tax</b>			
Depreciation and amortisation	26 / 27	110,890	119,983
Provision for employee benefits	40.3	20,948	19,956
Provision for doubtful staff / advisor loans	33.1 (A) / 33.2 (A)	732	8,334
Net realised (gains) / losses	13	131,948	(38,397)
Net fair value losses	14	34,751	290,899
(Gain) / losses on sale of property, plant and equipment	15	(83)	49
Amortisation of financial investments	29.7	(319,623)	(258,968)
Gain on sale of subsidiary	21	-	(1,221,460)
Scrip dividend income		(26,531)	(12,137)
Share of results of equity accounted investee	28.1	(60,315)	(57,990)
Interest expense on obligation to repurchase securities		6,750	-
Share based payment expenses	36.2 (C)	9,464	7,648
<b>Profit before working capital changes</b>		<b>1,282,238</b>	<b>1,176,278</b>
<b>Net change in operational assets</b>			
Net change in reinsurance assets / liabilities		(33,522)	(19,165)
Net change in premium receivables		(43,078)	(44,604)
Net change in receivables and other assets		(404,595)	(83,519)
<b>Net change in operational liabilities</b>			
Net change in life insurance contract liabilities		3,994,928	3,218,577
Net change in other liabilities		231,833	(74,175)
<b>Cash generated from operating activities</b>		<b>5,027,804</b>	<b>4,173,392</b>
<b>NOTE B.</b>			
<b>Cash and cash equivalents at the end of the year</b>			
Cash in hand and at bank		379,232	326,012
Bank overdraft		(150,306)	(118,952)
Short term deposits		10,133	-
<b>Cash and cash equivalents</b>		<b>239,059</b>	<b>207,060</b>
Cash and cash equivalents for the previous year		207,060	130,412
Increase / (decrease) in cash and cash equivalents		31,999	76,648

The notes to the financial statements as set out on pages 208 to 291 form an integral part of these financial statements.

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# NOTES TO THE FINANCIAL STATEMENTS

## 1 CORPORATE INFORMATION

### REPORTING ENTITY

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

### PARENT ENTITY AND ULTIMATE PARENT ENTITY

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

### FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2016, comprise of 'the Company' referring to Union Assurance PLC and the results of the equity accounted investee, Union Assurance General Limited (UAG). The results of equity accounted investee of the company, Union Assurance General Limited (and its subsidiary Fairfirst Insurance Limited) has been presented in the financial statements in accordance with amendments to LKAS 27.

### ASSOCIATE COMPANY

Entity	Principle business activity	Ownership as at 31 December 2016	Ownership as at 31 December 2015
Union Assurance General Limited	Non-life insurance business.	22%	22%

### RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for preparation and presentation of the financial statements of the company as per the provisions of the Companies Act No. 7 of 2007, the Sri Lanka Accounting Standards, Regulation of Insurance Industry Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange. The responsibility of the Directors in relation to the financial statements is set out in detail in the Statement of Directors' Responsibility report in the annual report.

### STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/ LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka, 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.

### APPROVAL OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2016 were authorised for issue by the Directors on 27 February, 2017.

### PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The company is primarily involved in the Life insurance business.

In compliance with the requirements of the Regulation of Insurance Industry (Amendment) Act No 3 of 2011, the company completed the segregation of the life and non-life insurance businesses on 1 January 2015. The company continues to carry on the life insurance business and its non-life insurance business operates under Union Assurance General Limited (UAG) with effect from 1 January 2015.

The company divested a 78% stake in UAG to Fairfax Asia Limited on 1 January 2015, and since that date UAG has become an equity accounted investee.

The principal activity of the associate is provided below.

These financial statements include the following components:

- an income statement and statement of profit or loss and other comprehensive income providing information on the financial performance of the company for the year under review; (Refer pages 201 to 202)
- a statement of financial position providing information on the financial position of the company as at the year end; (Refer page 203)
- a statement of changes in equity depicting all changes in shareholders' funds during the year under review of the company; (Refer pages 204 to 205)
- a statement of cash flows providing information to the users, on the ability of the company to generate cash and cash equivalents and the needs of the entity to utilise those cash flows; (Refer pages 206 and 207 for details) and
- Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 208 to 291 for details).

## 2 BASIS OF PREPARATION

### BASIS OF MEASUREMENT

These financial statements have been prepared on an accruals basis and under the historical cost convention except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.	Page reference
Non-derivative financial instruments at fair value through profit or loss	Fair value	9.1	230
Available for sale financial assets	Fair value	9.1	230
Unit linked financial assets	Fair value	9.1	230
Land and buildings	Fair value	27	251
Insurance contract liabilities	Measured based on actuarial valuation	38	277
Net defined benefit assets / (liabilities)	Actuarially valued and recognised at the present value	40	282

No adjustments have been made for inflationary factors affecting the financial statements.

### FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the Financial Statements of the company are measured using the currency of the primary economic environment in which the company operates (the Functional Currency).

These Financial Statements are presented in Sri Lankan Rupees, the company's Functional and Presentation Currency.

There was no change in the company's Presentation and Functional Currency during the year under review.

All amounts presented in rupees have been rounded to the nearest rupees thousand (Rs'000), except when otherwise indicated.

### MATERIALITY AND AGGREGATION

Each item which is similar in nature is presented separately if material. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of financial statements'.

### GOING CONCERN

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

### SUPPLEMENTARY STATEMENTS – STATEMENT OF FINANCIAL POSITION OF THE LIFE INSURANCE FUND

Supplementary statement of financial position of the Life insurance fund together with the notes are disclosed in pages 321 to 331, continuing the past practice which is a requirement of the Statement of Recommended Practice (SoRP) for insurance contracts then applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

### COMPARATIVE INFORMATION

The presentation and classification of assets and liabilities in the financial statements of the previous year have been amended, where relevant for better presentation and to be comparable with those of the current year.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of significant accounting policies have been disclosed along with the relevant individual notes in the subsequent pages. The accounting policies presented with each note have been applied consistently by the company.

### OTHER SIGNIFICANT ACCOUNTING POLICIES NOT COVERED WITH INDIVIDUAL NOTES

Following accounting policies which have been applied consistently by the company, are considered to be significant but are not covered in any other sections.

### IMPAIRMENT POLICY ON NON FINANCIAL ASSETS

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication

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# NOTES TO THE FINANCIAL STATEMENTS

exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognized in profit or loss.

## FOREIGN CURRENCY TRANSACTIONS AND BALANCES

All foreign exchange transactions are converted to functional currency, at the rates of exchange prevailing at the time the transactions are effected.

Monetary assets and liabilities denominated in foreign currency are retranslated to functional currency equivalents at the spot exchange rate prevailing at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on fair value of the item.

## 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included as follows:

Critical Accounting Estimates / Judgements	Disclosure reference	
	Note to the financial statements	Page
Valuation of insurance contract liabilities	38.1	277
Measurement of defined benefit obligations: Key actuarial assumptions	40.4	283
Impairment test: Key assumptions underlying recoverable amounts	9	230
Recognition and measurement of provisions and contingencies: Key assumptions about the likelihood and magnitude of an outflow of resources	46	290
Recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used	23.7	244
Determination of the fair value of financial instruments	8	227
Liability Adequacy Test	38.2	277
Measurement of GWP accrual adjustment	10	234

## 5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these Financial Statements.

### 5.1 STANDARDS ISSUED BUT NOT YET EFFECTIVE WHICH MAY HAVE AN IMPACT

#### SLFRS 9 FINANCIAL INSTRUMENTS AND AMENDMENTS TO SLFRS 4 INSURANCE CONTRACTS

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected

credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual periods beginning on or after 1 January 2021 for insurance companies.

Based on the proposed amendments to SLFRS 4 'Insurance contracts', the entities whose predominant activity is issuing insurance contracts are permitted to defer the full application of SLFRS 9 until the earlier of 2021 or adopting the revised SLFRS 4, which is currently expected to commence in 2020.

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- (a) it has not previously applied any version of SLFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss
- (b) its activities are predominantly connected with insurance, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date.

The company will decide on appropriate classification of its investments under SLFRS 9 closer to the time of adopting the revised SLFRS 4 and so is not able to fully quantify the impact of adopting SLFRS 9 on its financial statements as at reporting date. It is not anticipated however that it will significantly change the company's total equity.

## 5.2 STANDARD ISSUED BUT NOT YET ADOPTED WHICH MAY NOT HAVE A SIGNIFICANT IMPACT

The following new standards are not expected to have significant impact in the company's financial statements.

SLFRS 15 Revenue from Contracts with Customers – effective from 1 January 2018

Revenue arising from insurance contracts and financial instruments is outside the scope of SLFRS 15. The impact of recognising the revenue from other services when these services are delivered to customers is not expected to be material to the company.

SLFRS 16 Leases - effective from 1 January 2019

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off – balance sheet operating leases. Instead there will be a single on balance sheet accounting model that is similar to the current finance lease accounting.

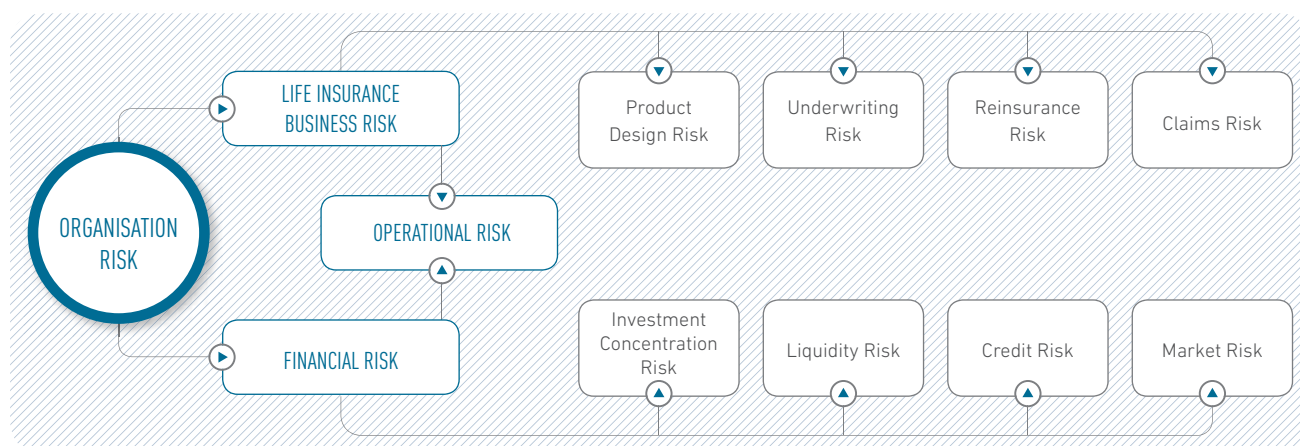
The company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

## 6 OPERATING SEGMENTS

For management purposes the company has only one business segment, which is the life insurance business. All operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions regarding resource allocation and assess its performance, and for which financial information is available.

## 7 FINANCIAL RISK MANAGEMENT

It is of paramount importance that the management identify the uncertainties that hinder achievement of financial objectives of the company and implement effective mitigating strategies to safeguard the financial expectations of the stakeholders. The following diagram graphically presents the risks that the company considers in Risk Management. This note presents information about the company's exposure to each of the stated risks, the company's objectives, policies and processes for measuring and managing such risks.



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# NOTES TO THE FINANCIAL STATEMENTS

## RISK MANAGEMENT FRAMEWORK

Primary objective of the company's business and financial risk management framework is to protect the company's shareholders from events that could hinder the sustainable delivery of financial objectives. The risk management process comprises the identification and evaluation of existing and potential risks associated with the company's operations and strategy, followed by appropriate management responses such as tolerance, mitigation, transfer, avoidance, termination or a combination of such responses.

The company's Board of Directors (the Board) 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 risk faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits.

The Board has delegated the responsibility to design, implement and monitor the risk management plan to the Risk Committee comprising the senior management. The management ensures effective management of risk through continuous and regular measurement and reports the company's risk management performance to the Board Audit and Compliance Committee (BACC) which in turn updates the Board.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company, through its training and

management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

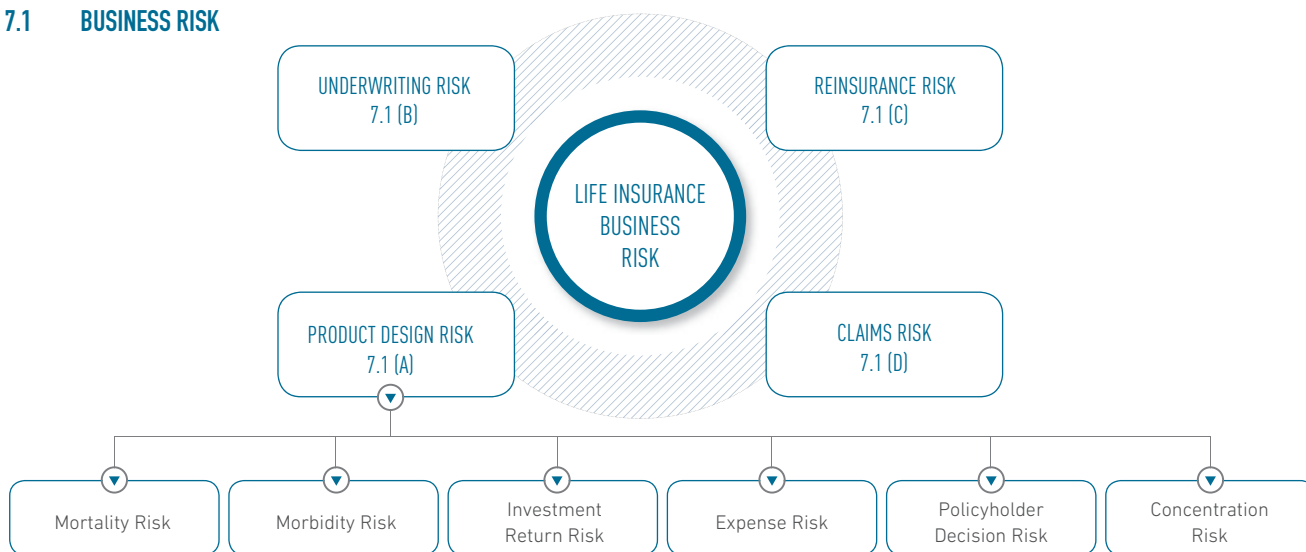
Financial risk management can be qualitative and quantitative. As a specialisation of risk management, financial risk management focuses on when and how to use financial instruments to manage costly exposures.

## REGULATORY FRAMEWORK

The Insurance Board of Sri Lanka (IBSL) safeguards policyholders through supervisory control of insurance companies in line with the regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments. All insurance companies need to comply with rules with respect to the solvency position and the determination requirements to ensure the company maintains appropriate level of admissible and approved investments in excess of liabilities to meet risks arising from unforeseen events. Further the company is in compliance with the Risk Based Capital (RBC) requirement as per IBSL. The company has adequate Total Available Capital (TAC) in insurance and shareholder's funds collectively, to support the Risk based Capital Required (RCR).

The operations of the company are also subject to oversight by various other regulators such as the Securities and Exchange Commission of Sri Lanka (SEC), the Colombo Stock Exchange (CSE), the Central Bank of Sri Lanka (CBSL), the Department of Inland Revenue etc. The company is also regulated by the Companies Act No. 07 of 2007.

## 7.1 BUSINESS RISK



The company being in the insurance industry, life insurance business risk is the risk that the company is exposed to as a result of the insurance contracts undertaken. Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities.

## RISK RESPONSE

The objective of the company is to ensure that sufficient reserves are available to cover these liabilities. The risk exposure is mitigated by:

- Diversification across a large portfolio of insurance contracts and geographical areas.
- Careful selection and implementation of underwriting guidelines.
- The use of reinsurance arrangements.

Risk management procedures adopted by the company to manage insurance risk is given on pages 102 to 111.

## BUSINESS RISK - LIFE INSURANCE RISK

### TRADITIONAL LIFE INSURANCE

Life insurance is a contractual agreement between a policyholder and a life insurance company. Policyholders agree to make premium payments to the company, and the company agrees to pay beneficiaries a sum of money if the policyholder dies or an insured event occurred.

Traditional life insurance products include protection and annuity covers. Protection products carry product designing, underwriting, claims and re-insurance risk.

### 7.1 (A) PRODUCT DESIGN RISK

Life insurance product design is largely depending on futuristic hypothetical assumptions. Accordingly there is a risk of introducing unprofitable product to the market due to inappropriate use of assumptions or judgments. The fundamental assumptions used in product development are explained below.

Risk	Description	Assumptions used / risk response
Mortality risk	Risk of loss arising due to policyholders' death experience being different from expected	Use of standard mortality tables which are used by the industry.
Morbidity risk	Risk of loss arising due to policyholders' health experience being different from expected	Assumptions are based on standard industry tables, adjustments made when appropriate to reflect the company's own risk experience
Investment return risk	Risk of loss arising from actual returns being different from expected	The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy
Expense risk	Risk of loss arising from the expense experience being different from expected	Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses
Policyholder decision risk	Risk of loss arising due to policyholders' experiences (lapses and surrenders) being different from expected	Lapses and surrender rates are projected according to the company's past experience.
Concentration risk	Risk of losses due to maintaining inadequate product portfolio.	Market analysis is performed and comparison of expected product features with existing product portfolio.

## OVERALL RISK MITIGATION APPROACH IN TRADITIONAL LIFE INSURANCE

Unit linked products have been introduced as a method of mitigating overall risk of life insurance business.

### UNIT LINKED PRODUCTS

Unit linked products have been designed in order to reduce much of the market and credit risks associated with traditional products. It is a type of insurance vehicle in which the policyholder purchases units at their net asset values and also makes contributions toward another investment vehicle. Unit linked insurance plans allow for the coverage of an insurance policy.

Under unit linked contracts, risks are largely passed on to the policyholder, although a portion of the company's management fees are linked to the value of funds under management and hence are at risk if the fund values decrease.

Unit linked products carry mortality risk and market risk to the extent that there are guarantees built into the product design. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are minimised by explicit mortality and morbidity charges.

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## PARTICIPATING FUND VS NON-PARTICIPATING FUND

The following table shows the concentration of the Participating and Non-Participating funds position of the company.

As at 31 December Type of contract	2016		2015	
	Rs. '000	%	Rs. '000	%
Participating	9,529,657	34	7,143,864	30
Non Participating	18,173,754	66	16,398,104	70
Total traditional life insurance	27,703,411	100	23,541,968	100
Non unit fund of linked insurance	186,271		189,270	
Value of insurance liabilities	27,889,682		23,731,238	

The table below presents the sensitivity of the value of insurance liabilities to movements in the key assumptions used in the estimation of insurance liabilities with other assumptions held constant. For liabilities under life insurance contracts with fixed and guaranteed terms,

changes in assumptions will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No adjustments were required in 2016 or 2015, based on the results of the liability adequacy test.

Assumption	Change in assumptions %	Impact on liabilities %	Impact on liabilities Rs. '000
Mortality	10	0.64	79,891
	(10)	(0.64)	(160,073)
Discount rate	1	(4.80)	(823,669)
	(1)	(2.22)	(381,079)

### 7.1 (B) UNDERWRITING RISK

Underwriting risk arise from an inaccurate assessment of the risks entailed in writing an insurance policy. As a result, the policy may cost the insurer much more than it has earned in premiums.

#### RISK RESPONSE

- Validation of policyholder data before underwriting. Accordingly policyholder undergoes a medical test at company's expense.
- Appropriate training is provided to insurance advisers.
- Use of common pricing policy.

### 7.1 (C) REINSURANCE RISK

Notwithstanding the advantages reinsurance provides insurers, it can expose them, at varying degrees, to various risks inherent in its use. A new or continuing reinsurance contract could give rise to one or more of the following risks:

- Residual insurance risk may arise from discrepancies between reinsurance needs and the actual coverage provided for in the contract, resulting in the insurer retaining greater risk than anticipated.
- Legal risk may arise when the terms of the contract do not accurately reflect the intent of the insurer or when the contract cannot be legally enforced;

- Counterparty risk may result from the inability or potential refusal of the reinsurer, or a stakeholder in the case of an alternative risk transfer mechanism, to honour its obligations towards the ceding insurer.
- Liquidity risk may arise from the possible lag time between the payment of a claim by the insurer to its insured and receipt of the reinsurance recoverable.
- Operational risk may result from inadequate contractual arrangements or from insufficient technological or administrative capacity to manage and collect sums owed by reinsurers

#### RISK RESPONSE

- Reinsurance is placed in line with policy guidelines approved by the Board of Directors on an annual basis in line with the guidelines issued by the Insurance Board of Sri Lanka.
- Management assesses the creditworthiness of reinsurers on a regular basis to update the reinsurance strategy and ascertain the suitable allowance for impairment of reinsurance assets.

The company reinsures 5% of gross written premium.

For the year ended 31 December	2016		2015	
	Rs. '000	%	Rs. '000	%
Gross Written premium	8,270,751		6,964,390	
Reinsurance	(423,857)	5	(364,182)	5
Net Written Premium	7,846,894		6,600,208	

Company has recovered 9% of gross claims from reinsurers during the period under review.

For the year ended 31 December	2016		2015	
	Rs. '000	%	Rs. '000	%
Gross claims paid	1,682,170		1,542,972	
Claims recovered from re-insurers	(157,860)	9	(94,644)	6
Net claims	1,524,310		1,448,328	

#### 7.1 (D) CLAIM RISK

The possibility of adverse variance in claim pattern of the product which is not expected at the product development stage.

##### RISK RESPONSE

- Obtaining adequate reinsurance cover.
- Adequate information is gathered to confirm the event occurred prior to processing the claim.
- In-house actuarial department closely monitors claim reserves.

Financial risk is the probability of loss inherent in financing methods which may impair the ability to provide adequate returns. The company is exposed to a range of financial risk through;

- Financial assets
- Financial liabilities

Financial risk can be categorised as follows;

#### 7.2 FINANCIAL RISK



#### 7.2 (A) INVESTMENT CONCENTRATION RISK

Investment Concentration Risk is the risk that an investor will suffer from lack of diversification, investing too heavily in one industry, one geographic area or one type of security. It may also be defined as the risk of loss due to overexposure to one investment, asset class, risk factor, etc.

##### RISK RESPONSE

- The Investment Committee (IC) 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 macroeconomic environment, regulatory requirements, liquidity position and return expectations during the plan period.

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- The Investment Committee sets sectorial asset allocation limits for equity investments as well as related party exposure limits.
- The company limits the maximum cash amount that can be deposited with a single counterparty.

The above is based on the approved investment policy of the company.

Investment concentration related to financial investments is given below;

As at 31 December	2016		2015	
	Rs. '000	%	Rs. '000	%
Government securities and related institutions	20,768,546	73	16,196,154	67
Corporate debt securities	5,407,765	19	5,833,737	24
Fixed deposits	584,609	2	501,023	2
Investment in quoted equity	1,706,751	6	1,473,814	7
<b>Total</b>	<b>28,467,671</b>	<b>100</b>	<b>24,004,728</b>	<b>100</b>

## GOVERNMENT SECURITIES AND RELATED INSTITUTIONS

This includes investments made in treasury bills, treasury bonds, and reverse repurchase agreements.

## CORPORATE DEBT SECURITIES

The company has predominantly invested in Banking, finance and insurance sector for which the company believes credit risk and market risk is low.

As at 31 December	2016		2015	
	Rs. '000	%	Rs. '000	%
Banking, Finance and Insurance	5,158,049	95	5,382,041	92
Beverage, Food and Tobacco	82,545	2	138,515	2
Diversified Holdings	144,445	3	221,441	4
Manufacturing	22,726	-	91,740	2
<b>Total</b>	<b>5,407,765</b>	<b>100</b>	<b>5,833,737</b>	<b>100</b>

## FIXED DEPOSITS

This includes investments made in fixed deposits issued by DFCC.

## INVESTMENT IN QUOTED EQUITY

Considering the market return and risk, the company has predominantly invested in Banking, Finance and Insurance sector and regularly reviews market risk of the portfolio to assess adequacy of the diversification.

As at 31 December Sector	2016		2015	
	Rs. '000	%	Rs. '000	%
Banking, Finance and Insurance	1,195,167	70	988,716	67
Diversified Holdings	202,606	12	49,854	3
Manufacturing	238,125	14	205,496	14
Construction and Engineering	42,308	2	35,776	2
Motors	12,818	1	13,579	1
Hotels and Travels	15,727	1	24,813	2
Beverage, Food and Tobacco	-	-	155,580	11
<b>Total</b>	<b>1,706,751</b>	<b>100</b>	<b>1,473,814</b>	<b>100</b>

## 7.2 (B) LIQUIDITY RISK

Liquidity risk is the risk that the company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. In respect of catastrophic / unexpected large claim events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

### RISK RESPONSE

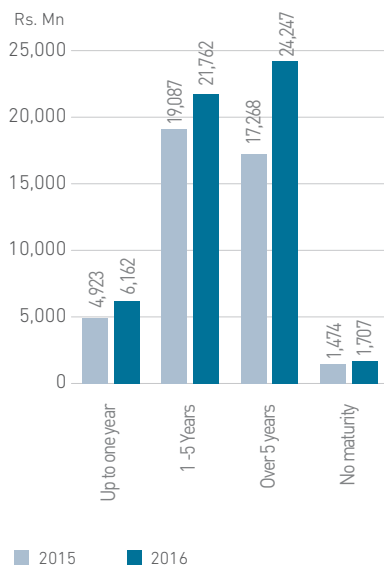
- The Investment Committee manages this risk by diversifying investment durations and reviewing cash flow projections regularly.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure availability of sufficient funding to meet insurance and investment contract obligations.

- Reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.
- Availability of stand by overdraft facility to be used only in the event of an emergency.
- Reviewing the maturity mix of the investment portfolio by the management and the investment committee on a regular basis.
- Maintaining sufficient cash balances, overnight investments and other short tenure investment to accommodate expected obligations and commitment of the company.

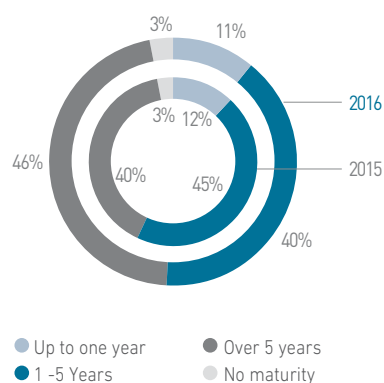
Excess liquidity position of the company is given below;

As at 31 December Sector	2016		2015	
	Rs. '000	%	Rs. '000	%
Up to one year	6,162,432	11	4,922,839	12
1 - 5 Years	21,762,318	40	19,087,267	45
Over 5 years	24,247,185	46	17,268,381	40
No maturity	1,706,751	3	1,473,814	3
	53,878,686	100	42,752,301	100

### EXCESS LIQUIDITY POSITION



### COMPOSITION OF EXCESS LIQUIDITY POSITION



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For reinsurance receivables, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

Unit linked liabilities are repayable or transferable on demand and are included as 'current' repayments.

The table below summaries the maturity profiles of non derivative financial assets and financial liabilities based on remaining undiscounted contractual obligations, including interest payable and receivable.

## As at December 2016

Rs. '000	Carrying amount	No fixed tenure	Up to one year	1 - 5 years	Over 5 years	Total
<b>Financial assets</b>						
Held to maturity	15,396,036	-	3,904,327	9,917,157	18,957,725	32,779,209
Loans and receivables	5,409,853	-	1,116,771	5,350,391	773,681	7,240,843
Available for sale	5,955,031	-	824,973	5,803,319	4,271,078	10,899,370
Fair value through profit or loss	1,706,751	1,706,751	-	-	-	1,706,751
Other financial assets	404,898	-	234,555	200,965	78,108	513,628
Life policyholder loans	867,177	-	258,445	463,095	145,637	867,177
Reinsurance receivable	178,181	-	129,601	27,391	20,956	177,948
Premiums receivable	246,800	-	246,800	-	-	246,800
Cash and cash equivalents	379,232	-	379,154	-	-	379,154
<b>Total undiscounted assets</b>	<b>30,543,959</b>	<b>1,706,751</b>	<b>7,094,626</b>	<b>21,762,318</b>	<b>24,247,185</b>	<b>54,810,880</b>
<b>Financial liabilities</b>						
Reinsurance payable	208,742	-	208,742	-	-	208,742
Other financial liabilities	573,146	-	573,146	-	-	573,146
Bank overdraft	150,306	-	150,306	-	-	150,306
<b>Total undiscounted liabilities</b>	<b>932,194</b>	<b>-</b>	<b>932,194</b>	<b>-</b>	<b>-</b>	<b>932,194</b>
<b>Total excess liquidity</b>	<b>29,611,765</b>	<b>1,706,751</b>	<b>6,162,432</b>	<b>21,762,318</b>	<b>24,247,185</b>	<b>53,878,686</b>

## As at December 2015

Rs. '000	Carrying amount	No fixed tenure	Up to one year	1 - 5 years	Over 5 years	Total
<b>Financial assets</b>						
Held to maturity	13,600,906	-	2,050,776	11,208,872	15,112,078	28,371,726
Loans and receivables	1,888,987	-	1,384,578	710,340	-	2,094,918
Available for sale	7,041,021	-	1,175,198	6,586,457	1,932,824	9,694,479
Fair value through profit or loss	1,473,814	1,473,814	-	-	-	1,473,814
Other financial assets	397,328	-	231,303	183,182	76,629	491,114
Life policyholder loans	741,852	-	224,967	386,501	130,384	741,852
Reinsurance receivable	149,772	-	121,391	11,915	16,466	149,772
Premiums receivable	203,722	-	203,722	-	-	203,722
Cash and cash equivalents	326,012	-	326,012	-	-	326,012
<b>Total undiscounted assets</b>	<b>25,823,414</b>	<b>1,473,814</b>	<b>5,717,947</b>	<b>19,087,267</b>	<b>17,268,381</b>	<b>43,547,409</b>
<b>Financial liabilities</b>						
Reinsurance payable	213,855	-	213,855	-	-	213,855
Other financial liabilities	462,301	-	462,301	-	-	462,301
Bank overdraft	118,952	-	118,952	-	-	118,952
<b>Total undiscounted liabilities</b>	<b>795,108</b>	<b>-</b>	<b>795,108</b>	<b>-</b>	<b>-</b>	<b>795,108</b>
<b>Total excess liquidity</b>	<b>25,028,306</b>	<b>1,473,814</b>	<b>4,922,839</b>	<b>19,087,267</b>	<b>17,268,381</b>	<b>42,752,301</b>

The table below sets out the availability of the company's financial assets to support future funding.

As at 31 December Unencumbered Rs.'000	2016			2015		
	Restricted as collateral	Available as collateral	Total	Restricted as collateral	Available as collateral	Total
Held to maturity	15,396,036	-	15,396,036	13,600,906	-	13,600,906
Loans and receivables	5,380,958	28,895	5,409,853	1,400,988	487,999	1,888,987
Available for sale	4,632,489	1,322,542	5,955,031	6,374,473	666,548	7,041,021
Fair value through profit or loss	4,086,336	-	4,086,336	4,010,020	-	4,010,020
Life policyholders loans	867,177	-	867,177	741,852	-	741,852
Reinsurance receivable	178,181	-	178,181	149,772	-	149,772
Premiums receivable	246,800	-	246,800	203,722	-	203,722
Other financial assets	193,021	211,877	404,898	192,995	204,333	397,328
Cash and cash equivalents	379,182	50	379,232	316,407	9,605	326,012
<b>Total</b>	<b>31,360,180</b>	<b>1,563,364</b>	<b>32,923,544</b>	<b>26,991,135</b>	<b>1,368,485</b>	<b>28,359,620</b>

Assets restricted as collateral represents the assets owned by the policyholders of the company.

#### FINANCIAL ASSETS PLEDGED AS COLLATERAL

There were no financial assets pledged as collateral during the year ended 31 December 2016.

The company's exposure to credit risk is derived from the following main categories of assets.

- Financial investment
- Loans to life policy holders
- Reinsurance receivables
- Premium receivables
- Cash in hand and at bank

## 7.2 (C) CREDIT RISK

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations.

Analysis of maximum credit exposure is given below.

As at 31 December Risk element	2016		2015	
	Rs. '000	%	Rs. '000	%
Financial investments	26,760,920	94	22,530,914	94
Loans to life policyholders	867,177	3	741,852	3
Reinsurance receivables	178,181	1	149,772	1
Premium receivables	246,800	1	203,722	1
Cash in hand and at bank	379,232	1	326,012	1
<b>Total</b>	<b>28,432,310</b>	<b>100</b>	<b>23,952,272</b>	<b>100</b>

#### CREDIT RISK RELATED TO FINANCIAL INVESTMENTS

The company is exposed to credit risk from counterparties where the company holds securities issued by those entities.

#### RISK RESPONSE

- The company's investment policy prohibits non-graded investments, unless specifically authorised.
- Appropriate actions are being implemented when the company identifies investments are expected to be downgraded.

- The company identifies and selectively reduces unsecured and subordinated credit exposure issued by banks with weak credit profiles.
- Structured finance exposures are assessed on a look-through basis prior to acquisition and not merely on the strength of prevailing credit ratings or credit profiles.

The company actively manages its investment portfolio to ensure that there is no significant concentration of credit risk. The company monitors concentration of credit risk by sector and instrument. An analysis of concentration of credit risk from financial investments is shown below.

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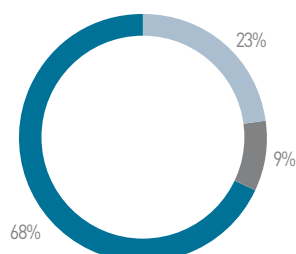
As at 31 December	2016		2015	
	Rs. '000	%	Rs. '000	%
Government securities and related institutions	20,768,546	78	16,196,154	72
Corporate debt securities	5,407,765	20	5,833,737	26
Fixed deposits	584,609	2	501,023	2
<b>Total</b>	<b>26,760,920</b>	<b>100</b>	<b>22,530,914</b>	<b>100</b>

The tables below set out information about credit quality of financial investments (government securities and corporate debt securities).

As at 31 December 2016	Rs. '000	Held to maturity		Available for sale		Financial assets at fair value through profit or loss	
		financial assets	Loans and receivables	financial assets	profit or loss	Total	%
Maximum exposure to credit risk carrying amount	15,396,036	5,409,853	5,955,031	-	26,760,920	-	-
<b>Neither past due nor impaired</b>							
AA+ to AA- (Fitch)	798,245	2,462,665	-	-	3,260,910	12	12
A+ to A- (Fitch)	55,715	1,817,164	-	-	1,872,879	7	7
A+ to A- (ICRA)	-	203,144	-	-	203,144	1	1
BBB+ to BBB- (Fitch)	-	70,832	-	-	70,832	-	-
Government guaranteed	14,542,076	856,048	5,955,031	-	21,353,155	80	80
<b>Total</b>	<b>15,396,036</b>	<b>5,409,853</b>	<b>5,955,031</b>	<b>-</b>	<b>26,760,920</b>	<b>100</b>	<b>100</b>
Past due but not impaired	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Impaired	Nil	Nil	Nil	Nil	Nil	Nil	Nil

As at 31 December 2015	Rs. '000	Held to maturity		Available for sale		Financial assets at fair value through profit or loss	
		financial assets	Loans and receivables	financial assets	profit or loss	Total	%
Maximum exposure to credit risk carrying amount	13,600,906	1,888,987	7,041,021	-	22,530,914	-	-
<b>Neither past due nor impaired</b>							
AAA (Fitch)	-	203	-	-	203	-	-
AA+ to AA- (Fitch)	1,174,522	1,778,579	2,158,347	-	5,111,448	23	23
A+ to A- (Fitch)	265,206	59,823	1,730,134	-	2,055,163	9	9
A+ to A- (ICRA)	-	-	99,078	-	99,078	-	-
BBB+ to BBB- (Fitch)	-	50,382	21,350	-	71,732	-	-
Government guaranteed	12,161,178	-	3,032,112	-	15,193,290	68	68
<b>Total</b>	<b>13,600,906</b>	<b>1,888,987</b>	<b>7,041,021</b>	<b>-</b>	<b>22,530,914</b>	<b>100</b>	<b>100</b>
Past due but not impaired	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Impaired	Nil	Nil	Nil	Nil	Nil	Nil	Nil

## EXPOSURE TO CREDIT RISK RATING CLASS WISE - 2015

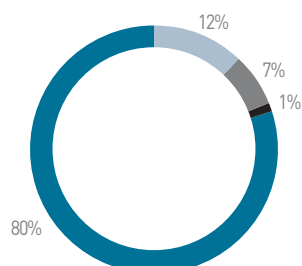


- AA+ to AA- (Fitch)
- A+ to A- (Fitch)
- Government guaranteed

### COLLATERAL OF DEBT SECURITIES

Reverse repo investments which fall under government securities is backed by Treasury bills and bonds which are provided as collateral. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. A haircut of 10% is maintained at all times. As at the reporting date, the company held Treasury bonds and Treasury bills worth Rs 314 million as collateral for reverse repo investments amounting to Rs. 271 million.

## EXPOSURE TO CREDIT RISK RATING CLASS WISE - 2016



- AA+ to AA- (Fitch)
- A+ to A- (Fitch)
- A+ to A- (ICRA)
- Government guaranteed

### CREDIT RISK RELATED TO POLICY LOANS

Financial losses could arise due to non-settlement of loans obtained by policy holders.

### RISK RESPONSE

- Policy loans are collateralised by the surrender value of the policy.
- System controls are in place to automatically convert a policy to lapse stage when the policy loan amount together with the interest is reaching the surrender value of the policy.

Analysis of maximum exposure to credit risk related to life policyholder loans can be summarised as follows.

As at 31 December	2016 Rs. '000	2015 Rs. '000
Maximum exposure to credit risk	867,177	741,852
Neither past due nor impaired		
Past due but not impaired	51,610	54,043
61- 90 days	23,047	22,677
91-180 days	65,705	56,629
181 days +	726,815	608,503
<b>Total</b>	<b>867,177</b>	<b>741,852</b>
Impaired	Nil	Nil
<b>Total</b>	<b>867,177</b>	<b>741,852</b>

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A loan issued by the company considers the surrender value of the life policy as collateral. As at the reporting date, the value of policy loans granted amounted to Rs. 867 million (2015 - 742 million) and its related surrender value is Rs. 1,471 million (2015 - 1,252 million).

## CREDIT RISK RELATED TO REINSURANCE ASSETS

This is the risk of reinsurers failing to fulfil their financial obligations towards the company.

## RISK RESPONSE

- The company operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer.
- Regular review of creditworthiness of reinsurers.

Reinsurance receivables amount to Rs. 178 million (2015 - Rs. 150 million) mainly consisting of receivable on paid claims amounting to Rs. 93 million (2015 - Rs. 90 million) and reinsurance share of claims (reserve receivables on outstanding claims) amounting to Rs. 85 million (2015 - Rs. 60 million).

As at 31 December	2016		2015	
	Rs. '000	%	Rs. '000	%
Maximum exposure to credit risk	178,181	-	149,772	
Reinsurance receivables on outstanding claims	85,306	48	60,113	40
Reinsurance receivables on settled claims	92,875	52	89,659	60
<b>Total reinsurance receivables</b>	<b>178,181</b>	<b>100</b>	<b>149,772</b>	<b>100</b>

As at 31 December 2016, 100% (2015 - 100%) of our reinsurance receivables was due from reinsurers with a rating of "A+" or better. There were no collateral against reinsurance receivables as at reporting date.

As at 31 December	Reinsurers	Rating Agency	Rating	2016		2015	
				Reinsurance receivables	%	Reinsurance receivables	%
	Munich	Standard & Poor's	AA-	157,240	89	129,003	86
	Hannover	Standard & Poor's	AA-	13,101	7	16,769	11
	Partner	Standard & Poor's	A+	-	-	4,000	3
	RGA	Standard & Poor's	AA-	7,840	4	-	-
	<b>Total</b>			<b>178,181</b>	<b>100</b>	<b>149,772</b>	<b>100</b>

## CREDIT RISK RELATED TO PREMIUM RECEIVABLES

Premiums receivables consist of premium receivable from intermediaries that create the risk of financial losses due to non-settlement of dues or taking substantial time to settle dues.

## RISK RESPONSE

- Only designated institutions are employed as intermediary parties

- Agreements have been signed with the intermediaries committing them to settle dues within a specified time period.

Maximum exposure to credit risk related to premium receivables as at 31 December 2016 is Rs. 247 million (2015 - Rs. 204 million).

As at 31 December	2016 Rs. '000	2015 Rs. '000
Maximum exposure to credit risk	246,800	203,722
Neither past due nor impaired		
0 - 30 days	246,800	203,722
Pass due but not impaired	Nil	Nil
<b>Total</b>	<b>246,800</b>	<b>203,722</b>

## CREDIT RISK RELATED TO CASH AT BANK

### RISK RESPONSE

- The company maintains an authorised list of acceptable bank counterparties based on current ratings and economic outlook, taking into account analysis of fundamentals and market indicators.

The company manages credit risk by maintaining its deposits with various banking institutions with quality credit ratings. A list of such banking partners is provided in below table. Majority i.e 67% of funds are deposited in banking institutions backed by government of Sri Lanka.

Bank	2016		2015	
	Amount Rs. '000	%	Amount Rs. '000	%
Bank of Ceylon	204,114	54.3	220,551	68.24
Commercial Bank of Ceylon PLC	22,152	5.9	16,697	5.17
Deutsche Bank AG	-	0.0	9,204	2.85
DFCC Bank PLC	185	0.0	651	0.2
HDFC Bank of Sri Lanka	3,794	1.0	1,587	0.49
Hatton National Bank PLC	13,182	3.5	8,281	2.56
Hong Kong and Shanghai Banking Corporation	-	0.0	5,042	1.56
National Development Bank PLC	14,627	3.9	884	0.27
National Savings Bank	7,566	2.0	5,461	1.69
Nations Trust Bank PLC	26,014	6.9	25,590	7.92
People's Bank	35,860	9.5	15,251	4.72
Sampath Bank PLC	11,421	3.0	7,241	2.24
Standard Chartered Bank	7,237	1.9	4,838	1.5
Seylan Bank PLC	3,579	1.0	617	0.19
Union Bank of Colombo PLC	26,683	7.1	1,299	0.4
<b>Total cash at banks</b>	<b>376,414</b>	<b>100</b>	<b>323,194</b>	<b>100</b>
Cash in hand	2,818		2,818	
<b>Total cash in hand</b>	<b>2,818</b>		<b>2,818</b>	
<b>Total cash in hand and at bank</b>	<b>379,232</b>		<b>326,012</b>	

The company held cash in hand and at bank of Rs. 379 million as at 31 December 2016 (2015 - Rs. 326 million). The cash at bank are held with banks and financial institutional counterparties, which are rated BBB or better as at 31 December 2016.

Rating	2016		2015	
	Rs. '000	%	Rs. '000	%
AAA	7,566	2.0	22,472	6.9
AA+	239,974	63.4	236,127	72.4
AA	29,389	7.7	16,697	5.1
AA-	27,994	7.4	9,548	2.9
A+	11,421	3.0	53	0.0
A	26,014	6.9	25,590	7.9
A-	3,579	0.9	9,821	3.0
BB+	26,683	7.0	1,299	0.4
BBB	3,794	1.0	1,587	0.5
Cash in hand	2,818	0.7	2,818	0.9
<b>Total</b>	<b>379,232</b>	<b>100</b>	<b>326,012</b>	<b>100</b>

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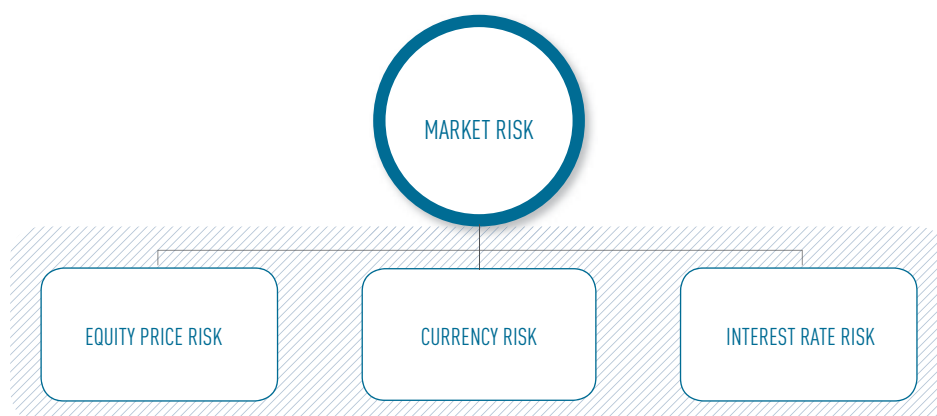
# NOTES TO THE FINANCIAL STATEMENTS

## 7.2 (D) MARKET RISK

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the

market prices. The company has assessed the market risk under main three categories namely;

- Equity price risk
- Currency risk
- Interest rate risk



### EQUITY PRICE RISK

Listed equity securities are susceptible to market price risk arising from uncertainties of future values of the investment securities. The company manages the equity price risk through diversification and placing limits on individual and total equity portfolio investments.

- Decisions are based on in depth macroeconomic and industry analysis as well as research reports on company performance
- A model to review the market prices of certain asset classes has been developed and is referred to the Investment Committee on a monthly basis

### RISK RESPONSE

- Equity investment decisions are based on fundamentals rather than on speculation.

As at 31 December 2016, the company has invested 6% in equity as shown in the table below;

As at 31 December 2016	2016		2015	
	Value Rs.'000	% of allocation	Value Rs.'000	% of allocation
Total value of equity	1,706,751	6	1,473,814	6
<b>Total value of investments</b>	<b>28,467,671</b>	<b>-</b>	<b>24,004,728</b>	

The table below shows the estimated impact from a 10% change in the stock market prices on the portfolio with indicative comparatives.

### SENSITIVITY OF PROFIT BEFORE TAX TO DECLINE IN EQUITY PRICES

Rs. '000	2016		2015	
	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
10% increase in equity prices	170,675	170,675	147,381	147,381
10% decrease in equity prices	(170,675)	(170,675)	(147,381)	(147,381)

## CURRENCY RISK

Currency risk is the risk that the fair value / present value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company's principal transactions are carried out in Sri Lankan Rupees and its exposure to foreign exchange risk primarily arises when transacting with reinsurers who are outside the country.

## RISK RESPONSE

- Company does not carry foreign currency dominated assets or liabilities and any such foreign payment is promptly processed.

## INTEREST RATE RISK

Interest rate risk is the risk of fluctuation of the value or cash flows of an instrument due to changes in market interest rates.

## RISK RESPONSE

- The Investment Committee members keep a regular track of macroeconomic scenarios and their likely impact on interest rates.
- Initial recognition of investments is closely monitored.
- Floating rate instruments expose the company to cash flow fluctuations, whereas fixed interest rate instruments expose the company to changes in fair values.

The following provides details of the quantum of investment exposed to fluctuations in fair values. No instrument exposed to fluctuations in cash flows as the company does not hold any instrument with variable interest rates.

As at 31 December	2016			2015		
	Fixed Interest Rate	Variable Interest Rate	Non-Interest bearing	Fixed Interest Rate	Variable Interest Rate	Non-Interest bearing
Instruments Rs.'000						
Government securities	20,768,546	-	-	16,196,154	-	-
Corporate debts	5,407,765	-	-	5,833,737	-	-
Fixed deposits	584,609	-	-	501,023	-	-
Equity instruments	-	-	1,706,751	-	-	1,473,814
<b>Total</b>	<b>26,760,920</b>	<b>-</b>	<b>1,706,751</b>	<b>22,530,914</b>	<b>-</b>	<b>1,473,814</b>

The table below shows the estimated impact on equity due to fluctuation of interest rates on the corporate debt securities classified as available for sale financial assets which is exposed to fair value changes.

Rs. '000	Impact on equity	
	2016	2015
1% increase in interest rate	(15,528)	(11,461)
(1%) decrease in interest rate	12,327	11,521

Company's life insurance liability is sensitive to discounting rate as follows.

Assumption	Change in assumptions %	Impact on liabilities %	Impact on liabilities Rs. '000
Discount rate	+100 basis points	(4.80)	(823,669)
	-100 basis points	(2.22)	(381,079)

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## 7.3 OPERATIONAL RISK

Risk stemming from inadequate or failed internal processes, people and systems, or from external events. The Board of Directors has delegated responsibility for operational risk to its Risk owners and managers who are responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall company standards for the management of operational risks in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance, where this is cost effective.
- Compliance with company standard, policies and procedures is supported by a programme of periodic reviews undertaken by internal audit.
- The results of internal audit reviews are discussed with the Risk Committee, with summaries submitted to the BACC and the Board.

## 7.4 CAPITAL MANAGEMENT

For the purpose of the company's capital management, capital includes stated capital, reserves and retained earnings. The primary objectives of the company's capital management are to maximise shareholder returns and share price appreciation and sustain financial stability and financial strength.

The company manages its capital structure and makes adjustments in light of changes in economic conditions and regulatory requirements (e.g. Risk Based Capital). To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The company monitors capital using the Risk Based Capital method.

In terms of using the capital, the company engages in the following value adding processes in order to provide the desired output to its varied stakeholders, while maintaining the right balance of Risk Base Capital required.

- Providing financial security to citizens (Underwriting process)
- Management of overall business operations
- Prudent investments and risk management
- Delivering the benefits and claims assured

The company has adequate Total Available Capital (TAC) in insurance and shareholder's funds collectively, to support the Risk-Based Capital Required (RCR).

## 8 FAIR VALUE MEASUREMENT

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are only, disclosed are reflected in this note. Aside from this note, additional fair value related disclosures, including the valuation methods, significant estimates and assumptions are also provided in:

- Property, plant and equipment under revaluation model in note 27
- Financial instruments (Including those carried at amortised cost) in note 29

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

### FAIR VALUE HIERARCHY

The company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

#### LEVEL 1

##### INPUTS THAT ARE UNADJUSTED QUOTED MARKET PRICES IN AN ACTIVE MARKET FOR IDENTICAL INSTRUMENTS

When available, the company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid

price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

#### LEVEL 2

##### INPUTS OTHER THAN QUOTED PRICES INCLUDED WITHIN LEVEL THAT ARE OBSERVABLE EITHER DIRECTLY (I.E. AS PRICES) OR INDIRECTLY (I.E. DERIVED FROM PRICES)

This category includes instruments valued using;

- quoted market in active markets for similar instruments,
- quoted prices for identical or similar instruments in markets that are considered to be less active, or
- other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

#### LEVEL 3

##### INPUTS THAT ARE UNOBSERVABLE

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgment and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on recognition of the instrument.

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This note explains the methodology for valuing our financial assets and liabilities and provides an analysis of these according to the 'fair value hierarchy'.

## USE OF JUDGMENTS AND ESTIMATES

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible.

Where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

## 8.1 VALUATION FRAMEWORK

The company has established a control framework with respect to the measurement of fair values of investments. The investment committee has overall responsibility for the results of trading and investment operations and all significant fair value measurements carried out by the treasury division, which include;

- Verification of observable pricing
- Re-performance of model valuations
- Quarterly calibration and back-testing of models against observed market transactions
- Analysis and investigation of significant daily valuation movements

When third party information, such as broker quotes or pricing services, are used to measure fair value, documentary evidence is obtained from third parties to support the conclusion that such valuations meet the requirements of SLFRS / LKAS.

## 8.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE

The following table analyses financial assets measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. Whenever available, quoted prices in active markets are obtained for identical assets at the reporting date to measure fixed maturity securities at fair value in trading and available for sale portfolios. Market price data is generally obtained from dealer markets.

As at 31 December Rs'000	Note	Fair value hierarchy							
		2016				2015			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss:</b>									
<b>Financial assets held for trading:</b>									
Equity securities	29.6	1,706,751	-	-	1,706,751	1,473,814	-	-	1,473,814
<b>Designated at fair value through profit or loss:</b>									
<b>Investments for the benefit of Life insurance policyholders who bear the investment risk</b>									
Equity securities	29.6	1,814,977	-	-	1,814,977	2,022,719	-	-	2,022,719
Debt securities	29.6	-	56,283	-	56,283	-	25,603	-	25,603
Government securities	29.6	259,630	202,959	-	462,589	247,930	229,890	-	477,820
Fixed deposits	29.6	-	45,736	-	45,736	-	10,064	-	10,064
		3,781,358	304,978	-	4,086,336	3,744,463	265,557	-	4,010,020
<b>Available for sale financial assets:</b>									
Quoted debentures	29.5	-	-	-	-	1,757,259	2,251,650	-	4,008,909
Treasury bonds	29.5	5,822,216	-	-	5,822,216	2,870,928	-	-	2,870,928
Treasury bills	29.5	132,815	-	-	132,815	161,184	-	-	161,184
		5,955,031	-	-	5,955,031	4,789,371	2,251,650	-	7,041,021
<b>Total of fair values of financial assets carried at fair value</b>		<b>9,736,389</b>	<b>304,978</b>	<b>-</b>	<b>10,041,367</b>	<b>8,533,834</b>	<b>2,517,207</b>	<b>-</b>	<b>11,051,041</b>

### 8.3 TRANSFER BETWEEN LEVELS

Quoted debentures amounting to Rs 2.25 billion was transferred from level 1 to level 2 in 2015 since there was no active market for those debentures. Valuation techniques have been used to value the debentures. The valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

There were no such transfer made in 2016.

### 8.4 FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

Financial assets and liabilities of which value approximates carrying value

The following financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values.

Financial Assets	Financial Liabilities
Reinsurance receivable	Reinsurance payable
Premiums receivable	Other financial liabilities
Receivables and other assets	Bank overdraft
Cash in hand	

The fair value of policyholder loans are equals to its carrying value as those are given at competitive market rates.

### 8.5 FIXED RATE FINANCIAL INSTRUMENTS

The fair value of fixed rate financial investments carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on observable market inputs.

Table below analyses the fair value of financial investments in to their levels in fair value hierarchy which are carried at amortised cost.

As at 31 December		Fair value hierarchy									
		2016					2015				
Rs'000	Note	Amortised cost	Level 1	Level 2	Level 3	Total	Amortised cost	Level 1	Level 2	Level 3	Total
<b>Held to maturity financial assets</b>											
Quoted debentures	29.3	853,960	56,534	818,971	-	875,505	1,439,728	58,420	1,515,643	-	1,574,063
Treasury bonds	29.3	14,542,076	13,720,452	-	-	13,720,452	12,161,178	12,493,061	-	-	12,493,061
		15,396,036	13,776,986	818,971	-	14,595,957	13,600,906	12,551,481	1,515,643	-	14,067,124
<b>Loans and receivables</b>											
Bank deposits	29.4	584,609	-	591,372	-	591,372	501,023	-	569,250	-	569,250
Unquoted debentures	29.4	-	-	-	-	-	385,100	-	387,773	-	387,773
Quoted debentures	29.4	4,553,805	1,788,347	2,765,458	-	4,553,805	-	-	-	-	-
Reverse repurchase agreements	29.4	271,439	-	271,439	-	271,439	1,002,864	-	1,002,864	-	1,002,864
		5,409,853	1,788,347	3,628,269	-	5,416,616	1,888,987	-	1,959,887	-	1,959,887
<b>Total of fair values of financial investments not measured at fair value</b>		20,805,889	15,565,333	4,447,240	-	20,012,273	15,489,893	12,551,481	3,475,530	-	16,027,011

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# NOTES TO THE FINANCIAL STATEMENTS

## 9 FINANCIAL ASSETS AND LIABILITIES

### 9.1 NON DERIVATIVE FINANCIAL ASSETS

#### ACCOUNTING POLICY

##### INITIAL RECOGNITION AND MEASUREMENT

The company initially recognises loans and receivables, and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

In the case of financial assets not measured at fair value through profit or loss, it is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

Depending on the intention and ability to hold the invested assets, the company classifies its non derivative financial assets into following categories;

- Financial assets at fair value through profit or loss (FVTPL)
- Held to maturity (HTM)
- Loans and receivables (L&R) and
- Available for sale (AFS) financial assets

Income and expenses are presented on a net basis only when permitted under SLFRS / LKAS, or for gains and losses arising from a group of similar transactions such as the company's trading activity.

##### SUBSEQUENT MEASUREMENT

##### FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in the income statement as incurred.

Financial assets at fair value through profit and loss investments are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement.

Financial assets designated at fair value through profit or loss comprises of financial assets of the unit linked fund.

##### HELD-TO MATURITY FINANCIAL ASSETS (HTM)

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held to maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in net investment income in the income statement. The losses arising from impairment are recognised in the profit or loss.

Held to maturity financial assets comprise of debt securities and treasury bonds.

##### LOANS AND RECEIVABLES (L&R)

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of investments in unquoted debentures, commercial papers, reverse repos, policy loans and other loans, reinsurance receivables, premium receivables and cash at bank and in hand.

##### AVAILABLE FOR SALE FINANCIAL ASSETS (AFS)

Available-for-sale financial assets are financial assets that are designated as available for sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available for sale equity instruments, are recognised in the statement of profit or loss and other comprehensive income and presented within equity in the available-for-sale reserve. When an investment is derecognised, the cumulative gain or loss recognised through statement of profit or loss and other comprehensive income is reclassified to the income statement.

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to the need for liquidity or in response to changes in the market conditions.

The company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the company is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables. Reclassification to held to maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to the income statement over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Available-for-sale financial assets comprise of quoted debentures and investments in treasury bills and bonds.

## 9.2 NON DERIVATIVE FINANCIAL LIABILITIES ACCOUNTING POLICY

### INITIAL RECOGNITION AND MEASUREMENT

The company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other liabilities are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

The company classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise, reinsurance payables, other liabilities and bank overdrafts.

### SUBSEQUENT MEASUREMENT

The subsequent measurement of financial liabilities depends on their classification, is as follows:

#### REINSURANCE PAYABLES

Reinsurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

#### DERECOGNITION OF REINSURANCE PAYABLES

Reinsurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

#### DERECOGNITION

The company derecognises a financial asset when:

The rights to receive cash flows from the asset have expired, or

The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either;

- the company has transferred substantially all the risks and rewards of the asset, or
- the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

- the consideration received (including any new asset obtained less any new liability assumed) and
- any cumulative gain or loss that had been recognised in the statement of profit or loss and other comprehensive income is recognised in the income statement, in case of available for sale financial investments.

The company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

#### OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset

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# NOTES TO THE FINANCIAL STATEMENTS

the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## AMORTISED COST MEASUREMENT

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

## IMPAIRMENT

### FINANCIAL ASSETS

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as result of one or more events that has occurred after the initial recognition of the

asset and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

## IMPAIRMENT LOSSES ON FINANCIAL ASSETS CARRIED AT AMORTISED COST

The company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held to maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed or any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in income statement under other cost and reflected in an allowance account

## 9.3 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

As at 31 December Rs. '000	Loans and receivables		Fair value through profit or loss	
	2016	2015	2016	2015
<b>Financial Assets</b>				
Financial investments	5,409,853	1,888,987	4,086,336	4,010,020
Loans to life policyholders	867,177	741,852	-	-
Reinsurance receivable	178,181	149,772	-	-
Premiums receivable	246,800	203,722	-	-
Receivables and other assets	404,898	397,328	-	-
Cash in hand and at bank	379,232	326,012	-	-
<b>Total financial assets</b>	<b>7,486,141</b>	<b>3,707,673</b>	<b>4,086,336</b>	<b>4,010,020</b>
<b>Financial Liabilities</b>				
Reinsurance payables	-	-	-	-
Other financial liabilities	-	-	-	-
Bank overdraft	-	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

against loans and receivables or held to maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

#### IMPAIRMENT LOSSES ON AVAILABLE FOR SALE FINANCIAL ASSETS

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to the income statement. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses

attributable to application of the effective interest method are reflected as a component of interest income. In the case of equity investments impairment, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, impairment losses on equity investments are not reversed through the income statement and increases in their fair value after impairment is recognised directly in the statement of profit or loss and other comprehensive income.

Available for sale		Held to maturity		Other financial liabilities		Total	
2016	2015	2016	2015	2016	2015	2016	2015
5,955,031	7,041,021	15,396,036	13,600,906	-	-	30,847,256	26,540,934
-	-	-	-	-	-	867,177	741,852
-	-	-	-	-	-	178,181	149,772
-	-	-	-	-	-	246,800	203,722
-	-	-	-	-	-	404,898	397,328
-	-	-	-	-	-	379,232	326,012
5,955,031	7,041,021	15,396,036	13,600,906	-	-	32,923,544	28,359,620
-	-	-	-	208,742	213,855	208,742	213,855
-	-	-	-	573,146	462,301	573,146	462,301
-	-	-	-	150,306	118,952	150,306	118,952
-	-	-	-	932,194	795,108	932,194	795,108

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# NOTES TO THE FINANCIAL STATEMENTS

## 10 GROSS WRITTEN PREMIUM (GWP)

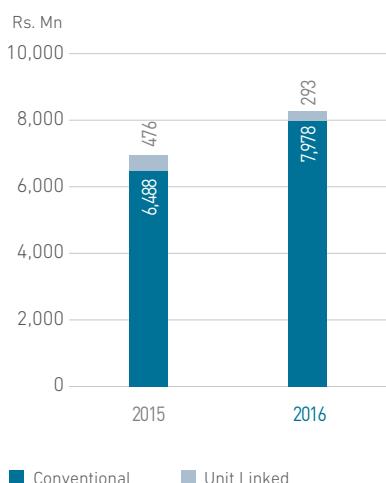
### ACCOUNTING POLICY

Gross written premiums on life and investment contracts with discretionary participating features (DPF) are recognised as revenue when receivable from the policyholder (policies within the 30 day grace period are considered as due). For single premium business, revenue is recognised on the date on which the policy is effective.

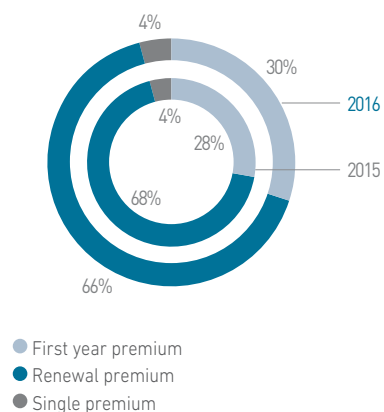
For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Conventional	7,978,191	6,488,276
Unit linked	292,560	476,114
<b>Total gross written premium</b>	<b>8,270,751</b>	<b>6,964,390</b>

For the year ended 31 December Rs. '000	2016			2015		
	Conventional	Unit linked	Total	Conventional	Unit linked	Total
<b>Individual policies</b>						
First year premium	2,397,493	46,098	2,443,591	1,902,450	53,356	1,955,806
Renewal premium	5,189,512	242,103	5,431,615	4,257,476	406,579	4,664,055
Single premium	283,477	4,359	287,836	232,347	16,179	248,526
	7,870,482	292,560	8,163,042	6,392,273	476,114	6,868,387
<b>Corporate policies</b>						
New business premium	22,943	-	22,943	20,237	-	20,237
Renewal premium	84,766	-	84,766	75,766	-	75,766
	107,709	-	107,709	96,003	-	96,003
<b>Total gross written premium</b>	<b>7,978,191</b>	<b>292,560</b>	<b>8,270,751</b>	<b>6,488,276</b>	<b>476,114</b>	<b>6,964,390</b>

### GROSS WRITTEN PREMIUM



### COMPOSITION OF GWP



## 11 PREMIUM CEDED TO REINSURERS

### ACCOUNTING POLICY

Reinsurance premiums on life and investment contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Premium ceded to reinsurers are accounted on an accrual basis.

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Conventional	422,742	363,135
Unit linked	1,115	1,047
<b>Total premium ceded to reinsurers</b>	<b>423,857</b>	<b>364,182</b>

## 12 NET INVESTMENT INCOME

### ACCOUNTING POLICY

Investment income comprises interest income on funds invested (including available-for-sale financial assets) and dividend income.

Interest income is recognised in the income statement as it accrues and is calculated by using the Effective Interest Rate method (EIR). Fees and commissions that are an integral part of the effective yield of the financial asset or liability are

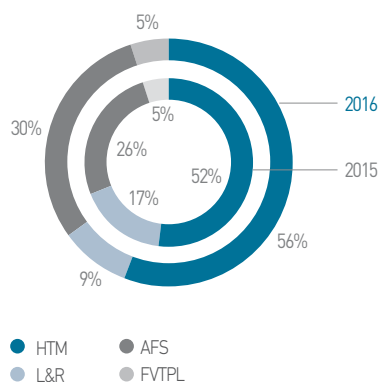
recognised as an adjustment to the effective interest rate of the instrument.

Investment related expenses consist of costs relating to investment such as custodial fee, bank guarantee fee and brokerage fee etc. These expenses are recognised on an accrual basis.

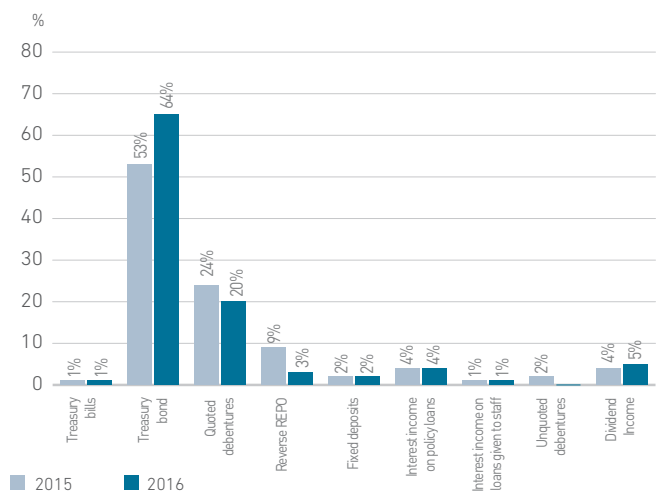
Dividends on equity investments are recognised in the income statement when the right to receive payment is established which is on the date at which the investment is priced 'ex dividend'.

For the year ended 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Investment income from;</b>			
Held to maturity financial assets	12.1	1,697,817	1,366,507
Loans and receivables	12.2	274,111	460,576
Available for sale financial assets	12.3	914,416	679,238
Financial assets at fair value through profit or loss	12.4	177,921	151,107
Investment related expenses		(39,171)	(24,909)
<b>Total net investment income</b>		<b>3,025,094</b>	<b>2,632,519</b>

### INVESTMENT INCOME - REPORTING CATEGORY WISE



### COMPOSITION OF INVESTMENT INCOME



# NOTES TO THE FINANCIAL STATEMENTS

## 12.1 INVESTMENT INCOME FROM HELD TO MATURITY FINANCIAL ASSETS

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
<b>Interest income</b>		
Quoted debentures	178,857	226,227
Treasury bonds	1,518,960	1,140,280
	1,697,817	1,366,507

## 12.2 INVESTMENT INCOME FROM LOANS AND RECEIVABLES

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
<b>Interest income</b>		
Interest income on policy loans	112,928	99,249
Reverse repurchase agreements	73,212	232,041
Fixed deposits	61,350	41,061
Interest income on loans given to staff	18,495	22,430
Unquoted debentures	6,520	65,239
Savings account interest	1,344	556
Call deposits	262	-
	274,111	460,576

## 12.3 INVESTMENT INCOME FROM AVAILABLE FOR SALE FINANCIAL ASSETS

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
<b>Interest income</b>		
Quoted debentures	428,898	408,506
Treasury bonds	475,632	263,298
Treasury bills	9,886	7,434
	914,416	679,238

## 12.4 INVESTMENT INCOME FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
<b>Interest income</b>		
Treasury bills	19,951	10,294
Treasury bonds	2,648	1,111
Quoted debentures	4,010	2,896
Reverse repurchase agreements	19,642	14,996
Fixed deposits	871	64
Commercial paper	683	-
	47,805	29,361
<b>Dividend income</b>		
Held for trading - Conventional	60,982	53,097
Held for trading - Unit linked	69,134	68,649
	130,116	121,746
	177,921	151,107

## 13 NET REALISED GAINS / LOSSES

### ACCOUNTING POLICY

Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets.

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the carrying value, and are recorded on occurrence of the sale transaction.

On derecognition of an investment classified as available for sale, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement.

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Realised gains	48	53,507
Realised losses	(131,996)	(15,110)
<b>Total net realised gains / losses</b>	<b>(131,948)</b>	<b>38,397</b>

For the year ended 31 December Rs. '000	2016			2015		
	Realised gains	Realised losses	Net realised gains / (losses)	Realised gains	Realised losses	Net realised gains / (losses)
<b>Available for sale financial assets</b>						
Debenture	25	-	25	13	-	13
Treasury bonds	23	-	23	52,320	(1,306)	51,014
	48	-	48	52,333	(1,306)	51,027
<b>Fair value through profit or loss financial assets</b>						
Quoted equity securities	-	(131,996)	(131,996)	1,174	(13,804)	(12,630)
	-	(131,996)	(131,996)	1,174	(13,804)	(12,630)
	48	(131,996)	(131,948)	53,507	(15,110)	38,397

## 14 NET FAIR VALUE LOSSES

### ACCOUNTING POLICY

Fair value gains and losses recorded in the income statement on investments include fair value gains / losses on financial assets at fair value through profit or loss.

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
<b>Fair value through profit or loss financial assets</b>		
Quoted equity securities	(32,858)	(288,601)
Treasury bonds	(1,233)	(1,067)
Treasury bills	734	(290)
Debentures	(1,394)	(941)
<b>Total net fair value losses</b>	<b>(34,751)</b>	<b>(290,899)</b>

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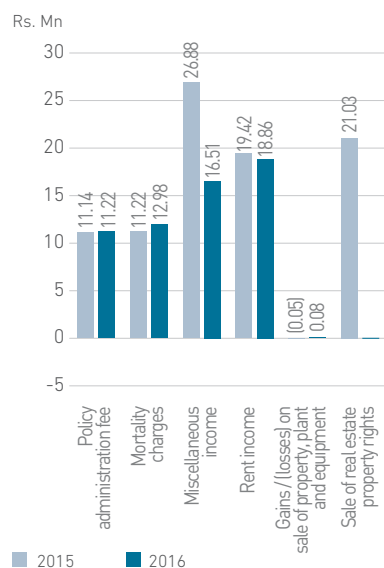
## 15 OTHER INCOME

### ACCOUNTING POLICY

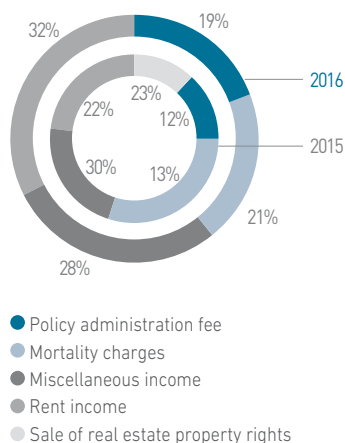
Other income comprises fees charged for policy administration services, disposal gains / losses on property, plant and equipment and miscellaneous income.

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Policy administration fee	11,216	11,138
Mortality charges	11,978	11,224
Miscellaneous income	16,512	26,879
Rent income	18,864	19,422
Gains / (losses) on sale of property, plant and equipment	83	(49)
Sale of real estate property rights	-	21,039
<b>Total other income</b>	<b>58,653</b>	<b>89,653</b>

### OTHER INCOME



### COMPOSITION OF OTHER INCOME



## 16 NET INSURANCE BENEFITS AND CLAIMS PAID

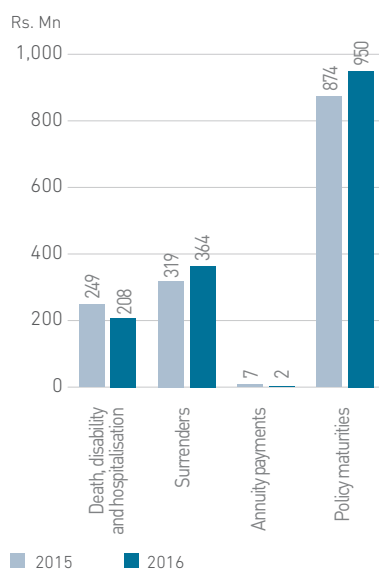
### ACCOUNTING POLICY

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year, including internal and external claims handling costs that

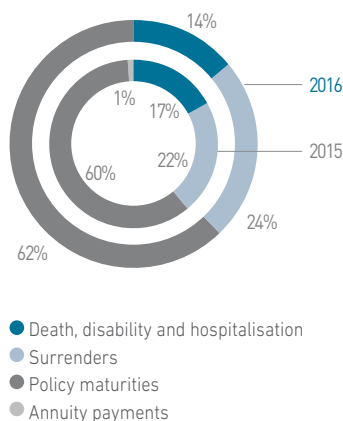
are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

For the year ended 31 December	2016			2015		
	Gross claims paid	Claims recovered from reinsurers	Net claims paid	Gross claims paid	Claims recovered from reinsurers	Net claims paid
Rs. '000						
Death, disability and hospitalisation	365,914	(157,860)	208,054	343,609	(94,644)	248,965
Surrenders	363,764	-	363,764	318,514	-	318,514
Annuity payments	2,191	-	2,191	6,528	-	6,528
Policy maturities	950,301	-	950,301	874,321	-	874,321
<b>Total net life insurance claims and benefits</b>	<b>1,682,170</b>	<b>(157,860)</b>	<b>1,524,310</b>	<b>1,542,972</b>	<b>(94,644)</b>	<b>1,448,328</b>

### NET INSURANCE BENEFITS AND CLAIMS PAID



### COMPOSITION OF NET INSURANCE BENEFITS AND CLAIMS PAID



## 17 NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

### ACCOUNTING POLICY

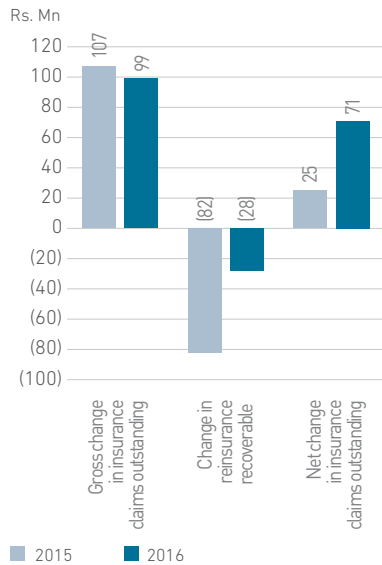
Reinsurance claims recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Differences between the estimated cost and subsequent settlement of claims or re-estimated costs are recognised in the income statement in the year in which they are settled or in which the insurance contract liabilities are re-estimated. Net change in insurance claims outstanding is recognised in the income statement.

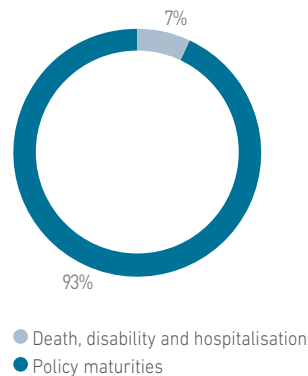
For the year ended 31 December	2016			2015		
	Gross change in insurance claims outstanding	Change in reinsurance recoverable	Net change in insurance claims outstanding	Gross change in insurance claims outstanding	Change in reinsurance recoverable	Net change in insurance claims outstanding
Rs. '000						
Death, disability and hospitalisation	33,577	(28,410)	5,167	46,604	(82,236)	(35,632)
Surrenders	54	-	54	439	-	439
Policy maturities	65,854	-	65,854	59,799	-	59,799
<b>Total net change in insurance claims outstanding</b>	<b>99,485</b>	<b>(28,410)</b>	<b>71,075</b>	<b>106,842</b>	<b>(82,236)</b>	<b>24,606</b>

# NOTES TO THE FINANCIAL STATEMENTS

## CHANGES IN INSURANCE CLAIMS OUTSTANDING



## COMPOSITION OF NET CHANGE IN INSURANCE CLAIMS OUTSTANDING - 2016



## 18 CHANGE IN CONTRACT LIABILITIES

### ACCOUNTING POLICY

Changes in the valuation of insurance contract liabilities are recognised in the income statement under change in contract liabilities.

For the year ended 31 December		2016			2015		
Rs. '000	Note	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Premiums written	10 / 11	8,270,751	(423,857)	7,846,894	6,964,390	(364,182)	6,600,208
Insurance benefits and claims incurred		(1,781,655)	186,270	(1,595,385)	(1,649,814)	176,880	(1,472,934)
Underwriting and net acquisition costs (including reinsurance)	19	(1,528,721)	87,104	(1,441,617)	(1,304,443)	15,006	(1,289,437)
Other operating, selling and administrative expenses attributable to policyholders		(2,157,253)	-	(2,157,253)	(1,832,743)	-	(1,832,743)
Investment and other income attributable to policyholders		2,746,305	-	2,746,305	2,167,304	-	2,167,304
Income tax (expense) / reversal	23.8 (A)	(60,679)	-	(60,679)	28,275	-	28,275
Surplus from life insurance fund transferred to Life shareholder's fund	38.5	(1,100,000)	-	(1,100,000)	(800,000)	-	(800,000)
<b>Change in contract liabilities - Life Fund</b>		<b>4,388,748</b>	<b>(150,483)</b>	<b>4,238,265</b>	<b>3,572,969</b>	<b>(172,296)</b>	<b>3,400,673</b>

## 19 UNDERWRITING AND NET ACQUISITION COSTS (INCLUDING REINSURANCE)

### ACCOUNTING POLICY

All acquisition cost are recognised as an expense when incurred. Reinsurance commission income on outwards reinsurance contracts is recognised when receivable.

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Acquisition cost	1,528,721	1,304,443
Reinsurance commission including profit commission	(87,104)	(15,006)
<b>Total underwriting and net acquisition costs</b>	<b>1,441,617</b>	<b>1,289,437</b>

## 20 OTHER OPERATING, ADMINISTRATIVE AND SELLING EXPENSES

### ACCOUNTING POLICY

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.

For the year ended 31 December	Note	2016 Rs. '000	2015 Rs. '000
Employee benefits expenses	20.1	771,604	659,098
Administration and establishment expenses		857,656	752,795
Selling expenses		435,533	336,047
<b>Total other operating, administrative and selling expenses</b>		<b>2,064,793</b>	<b>1,747,940</b>

## 20.1 EMPLOYEE BENEFITS EXPENSES

### SHORT TERM EMPLOYEE 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.

Refer Note 40 for the Accounting Policy.

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Staff remuneration	606,639	513,527
Defined contribution plan cost - EPF	52,086	48,090
Defined contribution plan cost - ETF	13,021	12,022
Staff welfare	30,989	24,937
Training expenses	23,817	25,247
Other costs	14,640	7,671
	<b>741,192</b>	<b>631,494</b>

### LONG TERM EMPLOYEE BENEFITS

Refer Note 40 for the Accounting Policy.

For the year ended 31 December	Note	2016 Rs. '000	2015 Rs. '000
Defined benefit plan cost	40.3	20,948	19,956
Share based payment expense	36.2 (C)	9,464	7,648
		<b>30,412</b>	<b>27,604</b>
<b>Total employee benefits expenses</b>		<b>771,604</b>	<b>659,098</b>

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# NOTES TO THE FINANCIAL STATEMENTS

## 21 GAIN ON SALE OF SUBSIDIARY

### ACCOUNTING POLICY

When the company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non controlling interest (NCI) and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the subsidiary is measured at fair value when control is lost.

On 1 January 2015, the company divested a 78% stake in its subsidiary, Union Assurance General Limited to Fairfax Asia Limited for a total consideration of Rs.3.66 billion which resulted in a capital gain of Rs. 1.22 billion to the company. Union Assurance PLC retains a 22% stake in Union Assurance General Ltd and the latter is treated as an Associate by the company.

The gain on disposal of the subsidiary is recorded as part of profit in the financial statements of the comparative period.

The derecognised assets and liabilities of Union Assurance General Limited were as follows,

As at 1 January	2015 Rs. '000
<b>Assets</b>	
Financial investments	5,439,406
Property, plant and equipment	84,635
Intangible assets	28,309
Reinsurance receivables	591,597
Premiums receivables	1,550,859
Receivables and other assets	327,593
Deferred tax assets	29,204
Deferred acquisition cost	167,017
Cash in hand and at bank	174,694
<b>Total assets derecognised</b>	<b>8,393,314</b>
<b>Liabilities</b>	
Insurance contract liabilities	3,653,048
Reinsurance payable	478,633
Deferred revenue	130,328
Employee benefits	106,561
Other liabilities	680,187
Current tax liabilities	141,767
Bank overdraft	70,842
<b>Total liabilities derecognised</b>	<b>5,261,366</b>
<b>Carrying amount of the former subsidiary's net assets (100%)</b>	<b>3,131,948</b>
Fair value of the consideration received	3,664,379
Fair value of retained non-controlling investment (22%)	689,029
<b>Gain associated with the loss of control attributable to the former controlling interest</b>	<b>1,221,460</b>

## 22 PROFIT BEFORE TAX

For the year ended 31 December			
	Note	2016 Rs. '000	2015 Rs. '000
Directors fee and emoluments		34,711	25,339
Auditors remuneration			
Statutory audit and audit related services		4,271	3,385
Non audit related services		1,208	777
Legal fees		2,551	1,421
Depreciation	27.1	80,524	89,171
Amortisation	26.1	30,366	30,812
Defined contribution plan cost - EPF	20.1	52,086	48,090
Defined contribution plan cost - ETF	20.1	13,021	12,022
Defined benefit plan cost	40.3	20,948	19,956
Research and development costs		1,488	632
Donations and CSR expenses		8,719	15,002
Provision for impairment of staff loans	33.1	358	3,939
Provision for impairment of agent / advisor loans	33.2	374	4,395

## 23 INCOME TAX EXPENSE

### ACCOUNTING POLICY

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in items recognised directly in equity or in other comprehensive income.

### 23.1 CURRENT TAX

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

### 23.2 TAX EXPOSURES

In determining the amount of current and deferred tax, the company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the company to change its judgment regarding the adequacy of existing tax liabilities and such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### 23.3 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.

### 23.4 CROP INSURANCE LEVY (CIL)

The Crop Insurance Levy was introduced under the provisions of the Section 14 of the Finance Act No. 12 of 2013, and came into effect from 1 April 2013. It is payable to the National Insurance Trust Fund and liable at 1% of the Profit after Tax.

### 23.5 WITHHOLDING TAX ON DIVIDENDS

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

### 23.6 SALES TAX

Revenues, expenses and assets are recognised net of the amount of sales tax except;

- Where the sales tax incurred on a purchase of asset or service is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, to the taxation authority is included as a part of receivables or payables in the statement of financial position.

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## 23.7 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. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the company expects, at the end of the reporting period, to

recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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.

## 23.8 TAX EXPENSES / REVERSAL

### 23.8 (A) AMOUNT RECOGNISED IN THE PROFIT OR LOSS

For the year ended 31 December		2016	2015
	Note	Rs. '000	Rs. '000
<b>Current tax expense</b>			
Current tax expense for the year		-	-
<b>Deferred tax expense</b>			
Origination of deferred tax assets	23.11 (A)	4,557	131,179
Origination of deferred tax liabilities	23.11 (A)	(65,236)	(102,904)
<b>Net deferred tax (expense) / reversal recognised in the profit or loss</b>		<b>(60,679)</b>	<b>28,275</b>
<b>Income tax (expense) / reversal recognised in the profit or loss</b>		<b>(60,679)</b>	<b>28,275</b>

Union Assurance PLC is liable to income tax at 28% in 2016 (2015 - 28%) in terms of the Inland Revenue Act No. 10 of 2006 and amendments thereto. Currently, the company does not have an income tax expense as the business continues to report taxable losses.

## 23.8 (B) AMOUNT RECOGNISED IN OTHER COMPREHENSIVE INCOME

For the year ended 31 December		2016	2015
	Note	Rs. '000	Rs. '000
<b>Other comprehensive income</b>			
Revaluation of property plant and equipment		1,517	(8,560)
Reassessment of defined benefit obligations		1,361	2,127
Available for sale investment securities		57,801	(21,842)
<b>Deferred tax (expense) / reversal recognised in other comprehensive income</b>	23.11 (A)	<b>60,679</b>	<b>(28,275)</b>

## 23.8 (C) RECONCILIATION OF EFFECTIVE TAX RATE

A reconciliation between tax expense and the product of accounting profit.

For the year ended 31 December		2016	2015
		Rs. '000	Rs. '000
<b>Profit from continuing operations</b>		<b>1,312,628</b>	<b>2,346,636</b>
Income tax reversal		60,679	(28,275)
<b>Profit before tax from continuing operations</b>		<b>1,373,307</b>	<b>2,318,361</b>
Tax using the company's domestic tax rate	28%	384,526	28% 649,141
Share of profit of equity accounted investee reported net of tax	1%	16,888	(1%) (16,237)
Aggregate disallowable expenses	71%	981,503	60% 1,385,535
Tax - exempt income	(104%)	(1,425,696)	(92%) (2,122,460)
Current year losses for which no deferred tax asset is recognised	3%	42,779	4% 104,021
Deferred tax reversal	(4%)	(60,679)	1% 28,275
<b>Total income tax reversal</b>	<b>(4%)</b>	<b>(60,679)</b>	<b>1%</b> 28,275

## 23.9 TAX LOSS ANALYSIS

The tax loss carried forward as at the reporting date is Rs. 3,949 million (2015 - Rs.3,767 million) which is made up as follows:

For the year ended 31 December		2016	2015
		Rs. '000	Rs. '000
Balance as at 1 January		3,767,271	3,365,141
Utilised during the year		-	-
		3,767,271	3,365,141
Loss incurred in the business of life insurance		152,783	371,505
Losses transferred to Non life segment with company segregation		-	(20,038)
Unrecognised tax losses from previous year		29,768	50,663
<b>Balance as at 31 December</b>		<b>3,949,822</b>	<b>3,767,271</b>

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## 23.10 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:

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	1,206,274	1,020,779
Tax credit for the year	219,853	185,495
<b>Balance as at 31 December</b>	<b>1,426,127</b>	<b>1,206,274</b>

The above disclosed notional tax credits have not been recorded in the financial statements as an asset as at 31 December 2016 due to the uncertainty regarding the

availability of future taxable profits against which the said notional tax credits could be set off based on the internal assessment carried out by the Board.

## 23.11 DEFERRED TAX

As at 31 December	2016 Rs. '000	2015 Rs. '000
Deferred tax assets	(105,390)	(133,306)
Deferred tax liabilities	105,390	133,306
<b>Net tax liabilities/ (assets)</b>	<b>-</b>	<b>-</b>

### 23.11 (A) MOVEMENT IN DEFERRED TAX BALANCES

As at 31 December	2016					
	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
<b>Rs. '000</b>						
<b>Deferred tax liabilities</b>						
Property, plant and equipment	101,573	(1,343)	(1,517)	98,713	-	98,713
Intangible assets	9,891	(3,214)	-	6,677	-	6,677
Reserve for available-for-sale financial assets	21,842	-	(21,842)	-	-	-
	133,306	(4,557)	(23,359)	105,390	-	105,390
<b>Deferred tax assets</b>						
Employee benefits	(28,056)	(814)	(1,361)	(30,231)	(30,231)	-
Staff bonus provisions	(24,365)	(14,835)	-	(39,200)	(39,200)	-
Carry forward tax losses	(80,885)	80,885	-	-	-	-
Reserve for available-for-sale financial assets	-	-	(35,959)	(35,959)	(35,959)	-
	(133,306)	65,236	(37,320)	(105,390)	(105,390)	-
<b>Net tax liabilities/ (assets)</b>	<b>-</b>	<b>60,679</b>	<b>(60,679)</b>	<b>-</b>	<b>(105,390)</b>	<b>105,390</b>

As at 31 December	2015						
	Rs. '000	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
<b>Deferred tax liabilities</b>							
Property, plant and equipment	-	93,013	8,560	101,573	-	101,573	
Intangible assets	-	9,891	-	9,891	-	9,891	
Reserve for available-for-sale financial assets	-	-	21,842	21,842	-	21,842	
	-	102,904	30,402	133,306	-	133,306	
<b>Deferred tax assets</b>							
Employee benefits	-	(25,929)	(2,127)	(28,056)	(28,056)	-	
Staff bonus provisions	-	(24,365)	-	(24,365)	(24,365)	-	
Carry forward tax losses	-	(80,885)	-	(80,885)	(80,885)	-	
	-	(131,179)	(2,127)	(133,306)	(133,306)	-	
<b>Net tax liabilities/ (assets)</b>	-	(28,275)	28,275	-	(133,306)	133,306	

Deferred tax assets / liabilities has not been recognised in respect of the temporary differences and tax losses relating to life business up to 2014, when the company also had the non life business. Unrecognised deferred tax assets arising from temporary differences and tax losses were disclosed up to 31 December 2014.

Subsequent to the segregation of businesses, from 1 January 2015, the company recognised deferred tax assets up to the deferred tax liabilities arising from the life business. Unrecognised deferred tax assets / liabilities are disclosed under note 23.11(C)

## 23.11 (B) ANALYSIS OF RECOGNISED DEFERRED TAX ASSETS / LIABILITIES

### USE OF JUDGEMENTS AND ESTIMATES

#### DEFERRED TAX ASSETS

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

As at 31 December	2016		2015	
	Temporary Difference	Tax effect	Temporary Difference	Tax effect
<b>Deferred tax assets</b>				
Employee benefits	(107,963)	(30,231)	(100,199)	(28,056)
Staff bonus provisions	(140,000)	(39,200)	(87,018)	(24,365)
Reserve for available-for-sale financial assets	(128,425)	(35,959)	-	-
Carry forward tax losses	-	-	(288,875)	(80,885)
	(376,388)	(105,390)	(476,092)	(133,306)
<b>Deferred tax liability</b>				
Property, plant and equipment	352,543	98,713	362,761	101,573
Intangible assets	23,845	6,677	35,325	9,891
Reserve for available-for-sale financial assets	-	-	78,006	21,842
	376,388	105,390	476,092	133,306
<b>Net recognised deferred tax assets / liabilities</b>		-		-

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## 23.11 (C) UNRECOGNISED DEFERRED TAX ASSETS / LIABILITIES

As at 31 December	2016		2015	
	Temporary Difference	Tax effect	Temporary Difference	Tax effect
Rs. '000				
<b>Deferred tax assets</b>				
Carry forward tax losses	(3,949,822)	(1,105,950)	(3,478,396)	(973,951)
Available-for-sale financial assets	(250,138)	(70,039)	-	-
<b>Unrecognised deferred tax assets</b>	<b>(4,199,960)</b>	<b>(1,175,989)</b>	<b>(3,478,396)</b>	<b>(973,951)</b>

## 23.11 (D) CARRY FORWARD TAX LOSSES

Tax losses as at the reporting date was Rs.3,949 million (2015 - Rs. 3,767 million) which gave rise to deferred tax asset of Rs.1,106 million (2015 - Rs. 1,055 million). However, deferred tax asset arising from tax losses as at the reporting date has not been recognised due to the uncertainty regarding the availability of future taxable profits against which the deferred tax asset would be utilised. Accordingly, the unrecognised deferred tax asset as at the reporting date was Rs.1,106 million (2015 - 973 million).

## 24 EARNINGS PER SHARE

### ACCOUNTING POLICY

The company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit after tax of the company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit after tax and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

## 24.1 BASIC EARNINGS PER SHARE

For the year ended 31 December	Note	2016	2015
Profit after tax (Rs. '000)		1,312,628	2,346,636
Weighted average number of ordinary shares ('000)	24.2	58,929	75,220
<b>Basic Earnings Per Share (Rs.)</b>		<b>22.27</b>	<b>31.20</b>

The above 2015 profit includes Rs. 1,221 million from gain on disposal of subsidiary.

## 24.2 WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

'000	Note	Shares 2016	Shares 2015
Issued ordinary shares as at 1 January		58,929	85,714
Effect of re-purchase of own shares	35.3	-	(10,494)
<b>Weighted average number of ordinary shares at 31 December</b>		<b>58,929</b>	<b>75,220</b>

## 24.3 DILUTED EARNINGS PER SHARE

There was no dilution of ordinary shares outstanding. Therefore, diluted earnings per share is the same as basic earnings per share as shown in Note 24.1.

## 25 DIVIDENDS PER SHARE

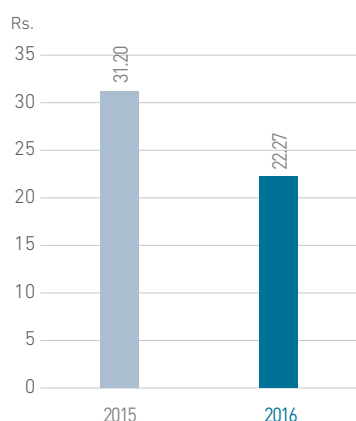
### ACCOUNTING POLICY

Dividend declared by the Board of Directors after the reporting date is not recognised as a liability and is disclosed as a note to the financial statements.

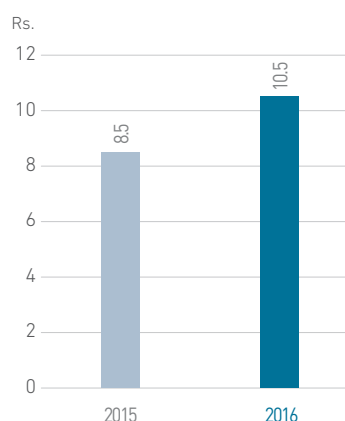
The Board of Directors of the company has declared a first and final dividend of Rs. 10.50 per share (2015 - Rs. 8.50 per share) for the financial year ended 31 December 2016.

For the year ended 31 December	2016	2015
Dividend declared (Rs. '000)	618,750	500,893
Number of ordinary shares ('000)	58,929	58,929
<b>Dividend per share (Rs.)</b>	<b>10.50</b>	<b>8.50</b>

### EARNINGS PER SHARE



### DIVIDEND PER SHARE



### 25.1 COMPLIANCE WITH SECTION 56 AND 57 OF COMPANIES ACT NO. 7 OF 2007

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 Section 57, prior to declaring the final dividend. A statement of solvency duly completed and signed by the Directors on 27 February 2017 has been audited by Messrs. KPMG.

### 25.2 DIVIDEND PAID DURING THE YEAR

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
First and final dividend for 2015 - Rs.8.50 per share (2014 - Rs. 6.50 per share)	500,893	557,141

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## 26 INTANGIBLE ASSETS

### ACCOUNTING POLICY

#### SOFTWARE

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on 'Intangible Assets'. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the

development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in the income statement over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 26.1 RECONCILIATION OF CARRYING AMOUNTS

As at 31 December			2016	2015
Rs. '000	Licensed	Purchased	Total	Total
<b>Cost</b>				
Balance as at 1 January	39,027	172,059	211,086	187,424
Acquisitions during the year	36	65,361	65,397	23,662
<b>Balance as at 31 December</b>	<b>39,063</b>	<b>237,420</b>	<b>276,483</b>	<b>211,086</b>
<b>Accumulated amortisation and impairment losses</b>				
Balance as at 1 January	24,762	126,708	151,470	120,658
Amortisation	7,199	23,167	30,366	30,812
<b>Balance as at 31 December</b>	<b>31,961</b>	<b>149,875</b>	<b>181,836</b>	<b>151,470</b>
<b>Carrying value</b>				
As at 31 December 2016	7,102	87,545	94,647	
As at 31 December 2015	14,265	45,351		59,616

### 26.2 ASSESSMENT OF IMPAIRMENT OF INTANGIBLE ASSETS

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2016. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of intangible assets.

### 26.3 TITLE RESTRICTION ON INTANGIBLE ASSETS

There are no restrictions that existed on the title of the intangible assets of the company as at the reporting date.

### 26.4 ACQUISITION OF INTANGIBLE ASSETS DURING THE YEAR

During the financial year, the company acquired intangible assets to the aggregate value of Rs. 65 million (2015 -Rs. 24

million). Cash payments amounting to Rs. 65 million (2015 - Rs. 24 million) were made during the year for purchase of intangible assets.

### 26.5 CAPITALISATION OF BORROWING COSTS

There were no capitalised borrowing costs relating to the acquisition of intangible assets during the year (2015 - Nil).

### 26.6 FULLY AMORTISED INTANGIBLE ASSETS IN USE

Intangible assets include fully amortised computer software which are in use in the normal business activities to the gross carrying value of Rs. 103 million (2015- Rs. 30 million).

## 27 PROPERTY, PLANT AND EQUIPMENT

### ACCOUNTING POLICY

#### RECOGNITION AND MEASUREMENT

The company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant and Equipment' in accounting for its owned assets which are held and used in the provision of services or for administrative purposes and are expected to be used for more than one year.

#### BASIS OF RECOGNITION

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the company and cost of the asset can be reliably measured.

#### BASIS OF MEASUREMENT

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Except for land and buildings, the company applies the cost model for all property, plant and equipment and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labour;
- Any other costs directly attributable to bringing the assets to a working condition for their intended use;
- When the company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalised borrowing costs.

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.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in 'other income' in the income statement.

#### SUBSEQUENT COSTS

The cost of replacing a component of an item of property, plant or 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 part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

#### REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to the income statement 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.

#### REVALUATIONS

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses are recognised after the date of the revaluation. Valuations are performed every two years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recognised in statement of profit or loss and other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in the Income Statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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## DEPRECIATION

Depreciation is recognised in the Income Statement on a straight - line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Asset Class	Basis
Buildings	50 years
Office furniture	5 years
Furniture and fittings	5 years
Computer equipment	5 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The depreciation rates are determined separately for each significant part of an item of Property, Plant and Equipment and depreciation commences when it is available for use, i.e. when it is in the location and in the condition necessary for

it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

## 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 income statement.

The residual values of assets that are significant are reassessed annually.

Depreciation on revalued classes of assets is based on the remaining useful life of the assets at the time of the revaluation.

## 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 income statement in the year the asset is de-recognised.

## 27.1 RECONCILIATION OF CARRYING AMOUNTS

As at 31 December	Freehold Land	Freehold Buildings	Plant machinery, Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	2016 Total	2015 Total
Rs. '000								
<b>Cost / Revaluation</b>								
Balance as at 1 January	1,049,000	303,500	160,210	177,089	444,882	80	2,134,761	1,746,022
Additions during the year	-	-	6,009	5,765	41,226	-	53,000	53,409
Revaluation	-	-	-	-	-	-	-	338,500
Disposals during the year	-	-	(18,015)	(11,005)	(37,364)	-	(66,384)	(3,170)
<b>Balance as at 31 December</b>	<b>1,049,000</b>	<b>303,500</b>	<b>148,204</b>	<b>171,849</b>	<b>448,744</b>	<b>80</b>	<b>2,121,377</b>	<b>2,134,761</b>
<b>Accumulated depreciation and impairment losses</b>								
Balance as at 1 January	-	-	120,889	151,738	338,415	43	611,085	542,088
Depreciation for the year	-	9,433	16,317	14,255	40,503	16	80,524	89,171
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	(17,070)
Accumulated depreciation on disposals during the year	-	-	(15,767)	(10,239)	(37,266)	-	(63,272)	(3,104)
<b>Balance as at 31 December</b>	<b>-</b>	<b>9,433</b>	<b>121,439</b>	<b>155,754</b>	<b>341,652</b>	<b>59</b>	<b>628,337</b>	<b>611,085</b>
<b>Carrying value</b>								
As at 31 December 2016	1,049,000	294,067	26,765	16,095	107,092	21	1,493,040	
As at 31 December 2015	1,049,000	303,500	39,321	25,351	106,467	37		1,523,676

## 27.2 TITLE RESTRICTION ON PROPERTY, PLANT AND EQUIPMENT

There are no restrictions that existed on the title of property, plant and equipment of the company as at the reporting date.

## 27.3 ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT DURING THE YEAR

During the financial year, the company acquired property, plant and equipment to the aggregate value of Rs. 53 million (2015- Rs. 53 million). Cash payments amounting to Rs. 53 million (2015- Rs. 53 million) were made during the year for purchase of property plant and equipment.

## 27.6 THE DETAILS OF FREEHOLD LAND AND BUILDINGS WHICH ARE STATED AT VALUATION

Company property	Extent (Perches)	Square feet (Building)	Method of valuation	Date of valuation	Valuer	Revalued amount Land Rs.'000	Revalued amount Building Rs.'000	Carrying value after revaluation Rs.'000	Carrying value %
Land and building situated at No. 20, St. Michael's Road, Colombo 3 owned by Union Assurance PLC	93.4	57,916	Market Comparable method	31 December 2015	Mr. P. B. Kalugalagedera and Associates Chartered valuation surveyor	935,000	195,000	1,130,000	84
Land and building situated at No. 6, Rajapihilla Road, Kurunegala owned by Union Assurance PLC	32.3	27,904	Market Comparable method	31 December 2015		114,000	108,500	222,500	16
						1,049,000	303,500	1,352,500	100

The company has changed the method of valuation from Investment method to market comparable method in 2015 since it represents the most appropriate value of Land and Buildings.

## 27.4 CAPITALISATION OF BORROWING COSTS

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2015 - Nil).

## 27.5 AMOUNT OF CONTRACTUAL COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

There are no contractual commitments for the acquisition of property, plant and equipment as at the reporting date.

## 27.7 SIGNIFICANT UNOBSERVABLE INPUTS USED IN MEASURING FAIR VALUE

The table below sets out the significant unobservable inputs used in measuring Land and buildings categorised as Level 3 in the Fair value hierarchy as at 31 December 2016.

Location and address of Property	Method of valuation	Significant unobservable inputs	Range of Estimates for unobservable inputs	Estimated fair value would increase or decrease if
Kollupitiya No. 20, St. Michael's Road, Colombo 3	Market comparable method	Price per perch for land	Rs 10,000,000	Price per perch for land increases, decreases
		Price per square foot for building	Rs 500 - Rs 4,000	Price per square foot for building increases, decreases
Kurunegala No. 6, Rajapihilla Road, Kurunegala	Market comparable method	Price per perch for land	Rs 4,000,000	Price per perch for land increases, decreases
		Price per square foot for building	Rs 2,500 - Rs 4,500	Price per square foot for building increases, decreases

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## MARKET COMPARABLE METHOD

Market comparable method considers the selling price of a similar property within a reasonable period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar

assets, making appropriate adjustment for differences in size, nature, location and condition of the specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are compensated for, since the price may not adequately reflect the fair market value.

## 27.8 REVALUATION SURPLUS

As at 31 December Rs.'000	2015		
	Land	Buildings	Total
Revalued amount	1,049,000	303,500	1,352,500
Carrying value (prior to revaluation)	(724,000)	(272,930)	(996,930)
<b>Revaluation surplus for the year ended 31 December</b>	<b>325,000</b>	<b>30,570</b>	<b>355,570</b>

## 27.9 IF LAND AND BUILDINGS WERE STATED AT HISTORICAL COST, THE AMOUNTS WOULD HAVE BEEN AS FOLLOWS:

As at 31 December	2016 Rs. '000	2015 Rs. '000
Cost	251,124	251,124
Accumulated depreciation	(77,589)	(73,575)
<b>Carrying value</b>	<b>173,535</b>	<b>177,549</b>

## 27.10 THE EFFECT OF REVALUATION OF FREEHOLD BUILDINGS ON THE STATEMENT OF INCOME IN THE SUBSEQUENT PERIOD IS AS FOLLOWS:

As at 31 December	2016 Rs. '000	2015 Rs. '000
Depreciation charge per annum after revaluation	9,433	8,535
Depreciation charge per annum prior to revaluation	(4,014)	(4,014)
<b>Decrease in profit in subsequent period</b>	<b>5,419</b>	<b>4,521</b>

## 27.11 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use (VIU). The fair value less costs to sell calculation is based on available data from an active market, in an arm's length transaction, of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future

investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The Board of Directors has assessed the potential impairment loss of property, plant and equipment as at 31 December 2016. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment.

## 27.12 FULLY DEPRECIATED PROPERTY, PLANT AND EQUIPMENT

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows;

As at 31 December	2016 Rs. '000	2015 Rs. '000
Computer equipment	240,270	231,928
Office equipment	66,846	78,182
Furniture and fittings	124,016	90,484
<b>Total</b>	<b>431,132</b>	<b>400,594</b>

## 27.13 PROPERTY, PLANT AND EQUIPMENTS PLEDGED AS SECURITY

None of the property, plant or equipment have been pledged as security as at the reporting date.

## 27.14 TEMPORARILY IDLE PROPERTY, PLANT AND EQUIPMENTS

There are no temporarily idle property, plant or equipment as at the reporting date.

## 27.15 COMPENSATION FROM THIRD PARTIES FOR ITEMS OF PROPERTY, PLANT AND EQUIPMENTS

There were no compensation received / receivable from third parties for items of property, plant or equipment that were impaired, lost or given up.

## 28 INVESTMENT IN EQUITY ACCOUNTED INVESTEE ACCOUNTING POLICY

An associate is an entity over which the company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Investments in associate is accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standards – LKAS 28 on 'Investments in Associates and Joint ventures'.

The company's investment in its associate is accounted for using the equity method. Under the equity method, investments in associate is carried at cost plus post-acquisition changes in the company's share of net assets of the associate and are reported as a separate line item in the Statement of Financial Position. The carrying amount of the investment is adjusted to recognise changes in the company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included

in the carrying amount of the investment and is not tested for impairment individually.

The income statement reflects the company's share of the results of operations of the associate. Any change in the OCI of the investee is presented as part of the company's OCI. In addition, when there has been a change recognised directly in the equity of the associate the company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the company's share of profit or loss of an associate is shown on the face of the income statement outside the operating profit and represents profit or loss after tax.

After application of the equity method, the company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of results of equity accounted investees' in the income statement.

Upon loss of significant influence over the associate, the company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

The accounting policies of the associate company conform to those used for similar transactions of the company.

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The associate has the same reporting date as the company and the financial statements are prepared to a common financial year ending 31 December.

As at 31 December					2016		2015	
	Place of incorporation and operation	Proportion of ownership interest	Number of Shares	Cost Rs. '000	Directors valuation / market value Rs. '000	Carrying value Rs. '000	Directors valuation / market value Rs. '000	Carrying value Rs. '000
<b>Unquoted</b>								
Union Assurance								
General Limited	Sri Lanka	22%	68,902,870	689,029	777,346	777,346	736,216	736,216

In October 2016, Fairfirst Insurance Limited, (formally known as Asian Alliance General Insurance Limited) was acquired by Union Assurance General Limited.

In compliance with Section 241(1) of the Companies Act No. 7 of 2007 (as amended) (the "Companies Act"), the Board of Directors and shareholders of Fairfirst Insurance Limited ("Fairfirst") have, by duly passed resolutions, approved the proposed amalgamation with its parent company Union Assurance General Limited whereby Fairfirst will, from the effective date of the proposed amalgamation, be the continuing entity (and as such consequent thereto be the "amalgamated company"), subject to obtaining the relevant approvals from Court.

The amalgamation is expected to be made effective in March 2017 or on such later date as may be determined by the Registrar - General of Companies ("RGOC") and shown on, the Certificate of Amalgamation to be issued by the RGOC. On such effective date of the amalgamation, Union Assurance General Limited will, by operation of law, cease to exist as a duly incorporated legal entity. Accordingly company's shareholding of 22% in UAG will be transferred to the amalgamated entity

## SIGNIFICANT ACCOUNTING POLICIES THAT ARE SPECIFIC TO THE BUSINESS OF EQUITY ACCOUNTED INVESTEE - UNION ASSURANCE GENERAL LIMITED GROSS WRITTEN PREMIUMS (GWP)

Gross written premiums comprise the total premiums received / receivable for the whole period of cover provided by contracts entered into during the accounting period. GWP is generally written upon inception of the policy. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross written premium.

## UNEARNED PREMIUM RESERVE

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. UPR 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 basis except for the marine and title policies which are computed on a 60-40 basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

## UNEARNED REINSURANCE PREMIUMS (UPR)

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are calculated on the 1/24 basis except for the marine policies which are computed on a 60-40 basis.

## 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.

## GROSS CLAIMS EXPENSE

Gross claims expense include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

Gross claims expense includes gross claims expense reported but not yet paid, incurred but not reported claims (IBNR) and the anticipated direct cost of setting those 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.

#### DEFERRED ACQUISITION COSTS (DAC)

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

DAC is amortised over the period in which the related revenues are earned. The re-insurers share of deferred acquisition costs is amortised in the same manner as the unearned premium reserve is amortised.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. DAC is reviewed for recoverability based on the profitability of the underlying insurance contracts and when the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement.

DAC are derecognised when the related contracts are either settled or disposed of.

#### REINSURANCE COMMISSIONS - UNEARNED COMMISSION RESERVE (UCR)

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

#### INSURANCE CONTRACT LIABILITIES

Non-life insurance contract liabilities include the outstanding claims provision (Reserve for gross outstanding and incurred but not reported, and incurred and not enough reported - IBNR/ IBNER) and the provision for unearned premium and the provision for premium deficiency.

#### CLAIMS PAYABLE INCLUDING IBNR

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced

in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

IBNR reserve is determined by an independent external actuary.

#### PROVISION FOR UNEARNED PREMIUMS

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. Provision for unearned premium is calculated on a 1/ 24 basis except for marine / cargo class which is subject to 60 / 40 basis.

At each reporting date, the company reviews its unexpired risk and the liability adequacy tested to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums.

The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the income statement by setting up a provision for premium deficiency.

#### LIABILITY ADEQUACY TEST (LAT)

At the end of each reporting period the company reviews its unexpired risk and a liability adequacy test is performed as laid out in SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant non-life insurance technical provisions. If the assessments show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency shall be recognised in the income statement by setting up a provision for liability adequacy.

Non-life insurance liability adequacy is decided by an independent external actuary.

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## 28.1 SUMMARISED FINANCIAL INFORMATION IN RESPECT OF ASSOCIATES IS SET OUT BELOW.

### SHARE OF RESULTS OF ASSOCIATE

#### INCOME STATEMENT

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Net earned premium	5,611,558	4,557,650
Finance and other income	754,816	742,824
Benefits, claims and expenses	(5,870,377)	(4,978,455)
<b>Profit before tax</b>	<b>495,997</b>	<b>322,019</b>
Income tax expense	(221,838)	(58,427)
<b>Profit from continuing operations, net of tax</b>	<b>274,159</b>	<b>263,592</b>
Percentage ownership interest	22%	22%
<b>Company's share of profit from investment in associate, net of tax</b>	<b>60,315</b>	<b>57,990</b>
<b>Other Comprehensive Income</b>		
Other comprehensive income, net of tax	(87,205)	(49,106)
Company's share of other comprehensive income, net of tax	(19,185)	(10,803)
Total comprehensive income	186,954	214,486
<b>Share of results of equity accounted investee recognised in statement of profit or loss and other comprehensive income, net of tax</b>	<b>41,130</b>	<b>47,187</b>

#### STATEMENT OF FINANCIAL POSITION

As at 31 December	2016 Rs. '000	2015 Rs. '000
Total Assets	17,854,733	9,416,163
Total Liabilities	(14,321,344)	(6,069,728)
<b>Net assets</b>	<b>3,533,389</b>	<b>3,346,435</b>
Percentage ownership interest	22%	22%
Company's share of net assets	777,346	736,216
Less unrealised profits	-	-
<b>Carrying amount of interest in associate</b>	<b>777,346</b>	<b>736,216</b>

## 28.2 RECONCILIATION OF SUMMARISED FINANCIAL INFORMATION

Reconciliation of the above summarised financial information to the carrying amount of the interest in associate recognised in the financial statements is as follows:

As at 31 December	2016 Rs. '000	2015 Rs. '000
<b>Value of investment in equity accounted investee as at 1 January</b>	736,216	689,029
<b>Add</b>		
Net profit for the period recognised in income statement	60,315	57,990
Other comprehensive income	(19,185)	(10,803)
Dividend received	-	-
<b>Company share of net results of equity accounted investee for the year ended 31 December</b>	41,130	47,187
<b>Value of investment in equity accounted investee as at 31 December</b>	777,346	736,216
Contingent liabilities of equity accounted investee	Nil	Nil
Capital and other commitments of equity accounted investee	Nil	Nil

**28.3** There are no restrictions on the ability of the associate to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

**28.4** The company has neither contingent liabilities nor capital and other commitments towards its associate company.

## 29 FINANCIAL INVESTMENTS

Refer note 9 for accounting policies

The risk management practices adopted by the company in relation to the investment portfolio and risk management disclosures are outlined in Note 7 to the financial statements.

### 29.1 FINANCIAL INVESTMENTS PLEDGED AS SECURITY

None of the financial investments have been pledged as security as at the reporting date.

**29.2** The company's financial instruments are summarised in to the following categories:

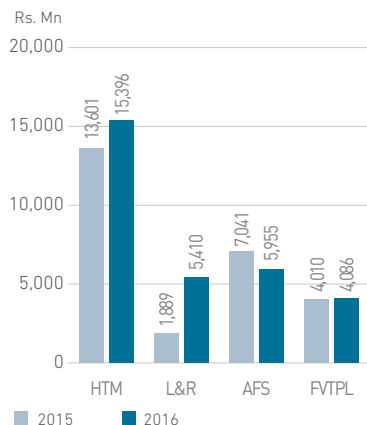
As at 31 December		2016		2015	
		Carrying value	Fair Value	Carrying value	Fair Value
Rs. '000	Note				
Held to maturity financial assets (HTM)	29.3	15,396,036	14,595,957	13,600,906	14,067,124
Loans and receivables (L&R)	29.4	5,409,853	5,416,616	1,888,987	1,959,887
Available for sale financial assets (AFS)	29.5	5,955,031	5,955,031	7,041,021	7,041,021
Financial assets at fair value through profit or loss (FVTPL)	29.6	4,086,336	4,086,336	4,010,020	4,010,020
<b>Total financial investments</b>		<b>30,847,256</b>	<b>30,053,940</b>	<b>26,540,934</b>	<b>27,078,052</b>

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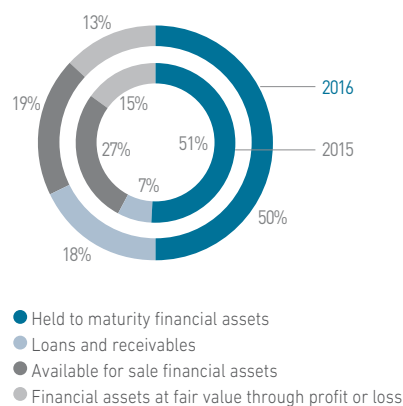
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# NOTES TO THE FINANCIAL STATEMENTS

## INVESTMENTS - REPORTING CATEGORY WISE



## COMPOSITION OF INVESTMENTS



### 29.3 HELD TO MATURITY FINANCIAL ASSETS (HTM)

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Amortised cost</b>			
Quoted debentures	29.3 (A)	853,960	1,439,728
Treasury bonds		14,542,076	12,161,178
<b>Total HTM financial investments</b>		<b>15,396,036</b>	<b>13,600,906</b>

### 29.3 (A) QUOTED DEBENTURES DIVERSIFIED HOLDINGS

As at 31 December	2016				
	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
<b>Issuer</b>					
Bank of Ceylon	30/11/2017	5,000,000	506,995	523,945	16.00
Sampath Bank PLC	12/10/2017	476,900	55,715	56,534	16.50
Peoples' Leasing Company PLC	19/03/2018	686,300	74,408	78,184	16.75
Hatton National Bank PLC	31/07/2022	2,000,000	216,842	216,842	16.75
			<b>853,960</b>	<b>875,505</b>	

As at 31 December	2015				
	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
<b>Issuer</b>					
Nations Trust Bank PLC	04/08/2016	200,000	209,452	212,897	11.50
DFCC Vardhana Bank PLC	07/09/2016	1,481,481	148,195	151,486	11.50
DFCC Bank PLC	26/09/2016	200,000	228,000	236,052	14.00
Sampath Bank PLC	12/10/2017	476,900	55,754	58,420	16.50
Bank of Ceylon	30/11/2017	5,000,000	507,014	563,395	16.00
Peoples' Leasing Company PLC	19/03/2018	686,300	74,425	83,656	16.75
Hatton National Bank PLC	31/07/2022	2,000,000	216,888	268,157	16.75
			<b>1,439,728</b>	<b>1,574,063</b>	

### 29.3 (B) IMPAIRMENT OF HELD TO MATURITY FINANCIAL INVESTMENTS

At the reporting date, there were no held to maturity financial investments that were overdue and impaired.

## 29.4 LOANS AND RECEIVABLES (L&R)

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Amortised cost</b>			
Bank deposits		584,609	501,023
Unquoted debentures		-	385,100
Quoted debentures	29.4 (A)	4,553,805	-
Reverse repurchase agreements		271,439	1,002,864
<b>Total L&amp;R financial investments</b>		<b>5,409,853</b>	<b>1,888,987</b>
The effective interest rates on non-current portion of portfolio		13.58%	13.49%

### 29.4 (A) QUOTED DEBENTURES

As at 31 December	2016				
	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
<b>Issuer</b>					
Senkadagala Finance PLC	28/05/2017	185,014	20,358	20,358	17.25
Lion Brewery (Ceylon) PLC	17/06/2017	33,600	35,134	35,134	13.75
DFCC Bank PLC	18/08/2017	3,000,000	304,166	304,166	8.50
Singer Sri Lanka PLC	23/12/2017	216,700	22,727	22,727	8.25
People's Leasing Company PLC	19/03/2018	595,000	67,783	67,783	16.75
People's Leasing Company PLC	26/03/2018	120,000	14,951	14,951	17.00
Merchant Bank of Sri Lanka PLC	28/03/2018	469,300	62,267	62,267	17.50
Hatton National Bank PLC	13/06/2018	2,533,733	277,637	277,637	14.00
Lion Brewery (Ceylon) PLC	17/06/2018	44,800	47,411	47,411	14.00
Central Finance Company PLC	17/06/2018	155,200	165,509	165,509	14.75
People's Leasing Company PLC	23/09/2018	309,900	32,750	32,750	9.63
Sampath Bank PLC	04/12/2018	1,114,800	119,982	119,982	13.00
Sampath Bank PLC	04/12/2018	1,114,800	127,391	127,391	13.40
Central Finance Company PLC	12/12/2018	446,900	48,212	48,212	13.50
Central Finance Company PLC	12/12/2018	710,500	82,249	82,249	13.95
Nations Trust Bank PLC	19/12/2018	2,881,300	306,514	306,514	13.00
Hemas Holdings PLC	29/04/2019	1,452,900	144,445	144,445	11.00
Merchant Bank of Sri Lanka PLC	12/11/2019	500,000	49,265	49,265	9.00
Lanka Orix Leasing Company PLC	24/11/2019	1,000,000	91,612	91,612	9.00
Sampath Bank PLC	15/12/2019	3,000,000	285,750	285,750	8.25
Seylan Bank PLC	23/12/2019	2,000,000	176,753	176,753	8.60
Siyapatha Finance PLC	24/12/2019	250,000	24,442	24,442	8.90
Central Finance Company PLC	01/06/2020	400,000	39,884	39,884	9.52
National Development Bank PLC	24/06/2020	1,850,000	342,858	342,858	9.40
Senkadagala Finance PLC	10/11/2020	500,000	50,472	50,472	13.75
Commercial Bank of Ceylon PLC	09/03/2021	250,000	26,136	26,136	10.75
Seylan Bank PLC	15/07/2021	950,400	101,698	101,698	13.00
Siyapatha Finance PLC	20/09/2021	102,400	10,456	10,456	13.50
Bank of Ceylon	24/10/2021	242,499	25,270	25,270	13.25
Nations Trust Bank PLC	08/11/2021	3,000,000	305,599	305,599	12.65
People's Leasing Company PLC	16/11/2021	2,000,000	203,167	203,167	12.60
Bank of Ceylon	29/12/2021	2,000,000	204,028	204,028	13.25
Hatton National Bank PLC	30/08/2023	1,204,706	95,697	95,697	8.00
Bank of Ceylon	25/10/2023	452,300	47,827	47,827	13.75
Hatton National Bank PLC	01/11/2023	724,000	73,969	73,969	13.00
National Development Bank PLC	19/12/2023	4,500,000	519,436	519,436	13.90
			4,553,805	4,553,805	

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## 29.4 (B) IMPAIRMENT OF LOANS AND RECEIVABLES FINANCIAL INVESTMENTS

At the reporting date, there were no loans and receivables financial investments that were overdue and impaired.

## 29.4 (C) RE-CLASSIFICATION FROM AVAILABLE FOR SALE ASSETS

The above portfolio of debentures have been re-classified from the portfolio of financial assets classified on available for sale, on 31 December 2016. Refer note 29.5 (B).

## 29.5 AVAILABLE FOR SALE FINANCIAL ASSETS (AFS)

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Fair value</b>			
Quoted debentures	29.5 (A) / 29.5 (B)	-	4,008,909
Treasury bonds		5,822,216	2,870,928
Treasury bills		132,815	161,184
		5,955,031	7,041,021

## 29.5 (A) DEBT SECURITIES - LISTED (AFS)

As at 31 December	Maturity date	No. of debentures	2015		
			Carrying value Rs. '000	Market value Rs. '000	Interest %
Issuer					
Singer Sri Lanka PLC	29/05/2016	655,968	69,050	69,050	14.50
Central Finance Company PLC	17/06/2016	24,500	26,750	26,750	14.25
Lion Brewery (Ceylon) PLC	17/06/2016	47,100	51,405	51,405	13.50
Hayleys PLC	09/07/2016	65,400	69,900	69,900	14.25
Senkadagala Finance PLC	28/05/2017	185,014	21,350	21,350	17.25
Lion Brewery (Ceylon) PLC	17/06/2017	33,600	36,850	36,850	13.75
DFCC Bank PLC	18/08/2017	3,000,000	305,961	305,961	8.50
Singer Sri Lanka PLC	23/12/2017	216,700	22,691	22,691	8.25
People's Leasing Company PLC	19/03/2018	595,000	72,527	72,527	16.75
People's Leasing Company PLC	26/03/2018	120,000	15,711	15,711	17.00
Merchant Bank of Sri Lanka PLC	28/03/2018	469,300	60,042	60,042	17.50
Hatton National Bank PLC	13/06/2018	2,533,733	293,528	293,528	14.00
Central Finance Company PLC	17/06/2018	155,200	176,009	176,009	14.75
Lion Brewery (Ceylon) PLC	17/06/2018	44,800	50,260	50,260	14.00
People's Leasing Company PLC	23/09/2018	309,900	33,790	33,790	9.63
Sampath Bank PLC	04/12/2018	1,114,800	127,537	127,537	13.00
Sampath Bank PLC	04/12/2018	1,114,800	134,367	134,367	13.40
Central Finance Company PLC	12/12/2018	446,900	51,123	51,123	13.50
Central Finance Company PLC	12/12/2018	710,500	88,876	88,876	13.95
Nations Trust Bank PLC	19/12/2018	2,881,300	323,551	323,551	13.00
Hemas Holdings PLC	29/04/2019	1,452,900	151,541	151,541	11.00
Merchant Bank of Sri Lanka PLC	12/11/2019	500,000	49,367	49,367	9.00
Lanka Orix Leasing Company PLC	24/11/2019	1,000,000	99,078	99,078	9.00
Sampath Bank PLC	15/12/2019	3,000,000	308,730	308,730	8.25
Seylan Bank PLC	23/12/2019	2,000,000	183,904	183,904	8.60
Siyapatha Finance PLC	24/12/2019	250,000	25,393	25,393	8.90
Central Finance Company PLC	01/06/2020	400,000	40,613	40,613	9.52
National Development Bank PLC	24/06/2020	4,279,000	345,981	345,981	9.40
Bank of Ceylon	24/10/2021	242,499	27,538	27,538	13.25
Hatton National Bank PLC	30/08/2023	1,204,706	103,581	103,581	8.00
Bank of Ceylon	25/10/2023	452,300	52,630	52,630	13.75
National Development Bank PLC	19/12/2023	4,500,000	589,275	589,275	13.90
			4,008,909	4,008,909	

## 29.5 (B) RECLASSIFICATIONS OF AVAILABLE-FOR-SALE INVESTMENT SECURITIES TO LOANS AND RECEIVABLES

On 31 December 2016, the company reclassified quoted debentures classified as available-for-sale investment securities to loans and receivables. The company identified financial assets that would have met the definition of loans and receivables (if they had not been designated as available-for-sale) for which at the date of reclassification it had the intention and ability to hold them for the foreseeable future or

until maturity. The availability of an active capital market for trading in debentures was also assessed prior to carrying out the said re-classification.

The reclassifications were made with effect from 31 December 2016 at fair value at that date. The table below sets out the financial assets reclassified and their carrying and fair values. The carrying value and fair value of the assets re-classified was computed based on a valuation technique using market observable data.

As at 31 December	2016			2015	
	Amounts reclassified	Carrying value	Fair value	Carrying value	Fair Value
Rs. '000					
Quoted debenture classified as Available-for-sale investment securities reclassified to loans and receivable	4,553,805	4,553,805	4,553,805	4,008,909	4,008,909

The table below sets out the amounts actually recognised in profit or loss and other comprehensive income in respect of the financial assets reclassified out of available-for-sale investment securities.

For the year ended 31 December	2016		2015	
	Profit or loss	Other comprehensive income	Profit or loss	Other comprehensive income
Rs. '000				
Interest income	428,898	-	408,506	-
Net impairment loss on financial assets	-	-	-	-
Net change in fair value	-	(238,952)	-	(105,177)
Amount transferred from fair value reserve to profit or loss	25	(25)	13	(13)
	428,923	(238,977)	408,519	(105,190)

A reclassification from the available-for-sale category to loans and receivables takes effect prospectively. Accordingly, there was no impact to the current year profit or loss and other comprehensive income due to the reclassification during 2016.

at the reporting date ranged from 3.10% to 14.61%, with expected recoverable cash flows of 6,287 million.

The effective interest rates on reclassified available-for-sale investment securities at 31 December 2016 that were held

## 29.5 (C) IMPAIRMENT OF AVAILABLE FOR SALE FINANCIAL INVESTMENTS

At the reporting date, there were no available for sale financial investments that were overdue and impaired.

## 29.6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Fair value</b>			
Quoted equities	29.6 (A)	1,706,751	1,473,814
Investments in unit linked funds			
Quoted equities	29.6 (B)	1,814,977	2,022,719
Reverse repurchase agreements		202,959	229,890
Treasury bills		228,781	215,316
Treasury bonds		30,849	32,614
Bank deposits		45,736	10,064
Quoted debentures		56,283	25,603
		4,086,336	4,010,020

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## 29.6 (A) QUOTED EQUITIES

This note indicates investments in quoted equities other than unit linked investments.

As at 31 December	2016			2015		
	No of shares	Cost Rs. '000	Carrying value Rs. '000	No of shares	Cost Rs. '000	Carrying value Rs. '000
<b>Banking, Finance and Insurance</b>						
Commercial Bank PLC (non-voting)	581,706	40,414	66,896	572,424	40,414	70,408
Commercial Bank PLC	355,515	36,106	51,550	350,469	36,106	49,136
Hatton National Bank PLC	2,088,232	303,670	430,251	1,827,098	253,631	350,525
Sampath Bank PLC	1,264,695	286,696	329,327	824,255	184,387	204,415
HNB Assurance PLC	336,266	23,645	19,772	336,266	23,645	25,085
Central Finance Company PLC	429,269	39,522	42,927	207,711	39,522	52,551
DFCC Bank PLC	391,520	65,599	47,961	191,520	35,615	32,195
National Development Bank PLC	854,220	160,675	133,258	619,907	120,842	120,324
Peoples Leasing and Finance PLC	3,821,672	67,308	65,733	3,821,672	67,308	84,077
Peoples Insurance PLC	394,300	5,915	7,492	-	-	-
		1,029,550	1,195,167		801,470	988,716
<b>Diversified Holding</b>						
Hemas Holdings PLC	536,638	18,644	52,591	536,638	18,644	49,854
Melstacorp PLC	2,529,764	145,110	150,015	-	-	-
		163,754	202,606		18,644	49,854
<b>Beverage, Food and Tobacco</b>						
Distilleries Company of Sri Lanka PLC	-	-	-	632,441	145,110	155,580
		-	-		145,110	155,580
<b>Construction and Engineering</b>						
Colombo Dockyard PLC	238,350	50,507	18,734	238,350	50,507	35,776
Access Engineering PLC	950,570	25,547	23,574	-	-	-
		76,054	42,308		50,507	35,776
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC	244,400	16,129	38,395	122,200	16,129	42,037
Tokyo Cement Company (Lanka) PLC (voting)	640,777	7,817	37,934	640,777	7,817	31,398
Tokyo Cement Company (Lanka) PLC (non-voting)	1,658,150	42,486	85,395	1,658,150	42,486	65,497
Piramal Glass PLC	1,874,100	16,585	9,933	1,874,100	16,585	11,432
Textured Jersey Lanka PLC	1,553,000	25,384	66,468	1,553,000	25,384	55,132
		108,401	238,125		108,401	205,496
<b>Motors</b>						
Diesel and Motor Engineering PLC	22,062	33,340	12,818	22,062	33,340	13,579
		33,340	12,818		33,340	13,579
<b>Hotels and Travel</b>						
Aitken Spence Hotel Holdings PLC	364,900	25,931	15,727	364,900	25,931	24,813
		25,931	15,727		25,931	24,813
		1,437,030	1,706,751		1,183,403	1,473,814

29.6 (B) EQUITY SECURITIES / UNIT LINKED FUND - (FVTPL)

As at 31 December	2016			2015		
	No of shares	Cost Rs. '000	Carrying value Rs. '000	No of shares	Cost Rs. '000	Carrying value Rs. '000
<b>Banking, Finance and Insurance</b>						
Hatton National Bank PLC*	1,254,131	227,243	263,192	790,818	121,066	166,546
Sampath Bank PLC*	455,992	85,653	118,740	443,964	85,653	110,103
Peoples Leasing and Finance PLC*	1,617,917	38,844	27,828	1,350,416	33,683	29,709
Commercial Bank of Ceylon PLC	46,765	4,995	6,781	46,102	4,995	6,464
Commercial Bank of Ceylon PLC -(non voting)	83,190	7,231	9,567	81,863	7,231	10,069
Central Finance Company PLC	161,531	14,923	16,153	78,160	14,923	19,774
DFCC Bank PLC	90,552	15,951	11,093	70,715	12,976	11,887
Hatton National Bank PLC	272,441	43,046	57,535	230,822	34,984	45,629
National Development Bank PLC	193,756	37,397	30,226	170,227	33,397	33,041
Peoples Leasing and Finance PLC	694,444	11,798	11,944	694,444	11,798	15,278
Sampath Bank PLC	192,813	40,912	50,209	133,951	26,860	33,220
People's Insurance PLC	88,200	1,323	1,676	-	-	-
Ceylinco Insurance PLC*	25,532	36,672	38,043	-	-	-
People's Insurance Limited PLC*	971,451	18,082	18,458	-	-	-
Lanka Orix Finance PLC*	-	-	-	275,713	20,852	25,917
National Development Bank PLC*	-	-	-	496,359	83,242	96,343
Commercial Bank of Ceylon PLC*	-	-	-	1,837,358	197,831	257,598
DFCC Bank PLC*	-	-	-	491,912	62,341	82,690
		584,070	661,445		751,832	944,268
<b>Beverage, Food and Tobacco</b>						
Ceylon Cold Stores Plc*	77,356	36,390	58,048	-	-	-
Cargills (Ceylon) PLC*	-	-	-	180,968	27,335	34,203
Nestle Lanka PLC*	-	-	-	19,188	34,282	39,326
Distilleries Company of Sri Lanka PLC*	-	-	-	393,880	75,338	96,894
Ceylon Tobacco Company PLC*	-	-	-	68,889	69,125	68,372
The Lion Brewery Ceylon PLC*	-	-	-	71,527	31,528	45,062
Distilleries Company of Sri Lanka PLC	-	-	-	64,609	13,355	15,894
		36,390	58,048		250,963	299,751
<b>Construction and Engineering</b>						
Access Engineering PLC*	3,055,072	79,961	75,766	1,124,524	33,898	25,977
Colombo Dockyard PLC	43,365	9,993	3,408	43,365	9,993	6,509
		89,954	79,174		43,891	32,486
<b>Diversified Holdings</b>						
John Keells Holdings PLC*	1,060,182	165,365	153,726	1,522,660	271,431	271,186
Aitken Spence PLC*	201,633	23,838	13,106	650,890	76,951	62,941
Hemas Holdings PLC	155,555	6,611	15,244	155,555	6,611	14,451
Hemas Holdings PLC*	786,957	69,553	77,122	-	-	-
Melstacorp PLC*	1,586,564	75,923	94,083	-	-	-
Melstacorp PLC	258,436	13,355	15,325	-	-	-
Carsons Cumberbatch PLC*	-	-	-	235,647	102,881	81,557
		354,645	368,606		457,874	430,135

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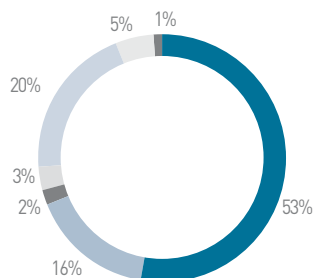
# NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	2016			2015		
	No of shares	Cost Rs. '000	Carrying value Rs. '000	No of shares	Cost Rs. '000	Carrying value Rs. '000
<b>Hotels and Travel</b>						
Aitken Spence Hotel Holdings PLC	125,493	9,003	5,409	125,493	9,003	8,534
		9,003	5,409		9,003	8,534
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC*	468,714	64,972	73,635	220,877	60,327	75,982
Chevron Lubricants Lanka PLC	49,200	4,322	7,729	24,600	4,322	8,462
Tokyo Cement Company Lanka PLC -(non voting)	281,745	6,373	14,510	281,745	6,373	11,129
Piramal Glass Ceylon PLC	806,000	4,917	4,272	806,000	4,917	4,917
Textured Jersey Lanka PLC	388,200	6,150	16,615	388,200	6,150	13,781
Alumex PLC*	2,950,705	58,986	59,604	-	-	-
Piramal Glass Ceylon PLC*	8,833,613	48,404	46,818	-	-	-
Textured Jersey Lanka PLC*	2,181,931	93,749	93,387	-	-	-
Tokyo Cement Company Lanka PLC - (non voting)*	1,796,819	88,924	92,536	-	-	-
Tokyo Cement Company Lanka PLC - (voting)*	1,145,000	68,550	67,784	-	-	-
		445,347	476,890		82,089	114,271
<b>Telecommunication</b>						
Dialog Axiata PLC*	15,752,754	167,142	165,405	6,337,348	59,806	67,810
Sri Lanka Telecom PLC*	-	-	-	391,128	19,043	18,383
		167,142	165,405		78,849	86,193
<b>Oil Palms</b>						
The Bukit Darah PLC*	-	-	-	209,010	145,855	106,846
		-	-		145,855	106,846
<b>Hospitals</b>						
Asiri Hospital Holdings PLC*	-	-	-	9,805	230	235
		-	-		230	235
		1,686,551	1,814,977		1,820,586	2,022,719

\*Equity investments made under the Company's Unit Linked Equity fund which until 14 September 2016, were tracked to the 20 companies listed under the S&PSL20 index.

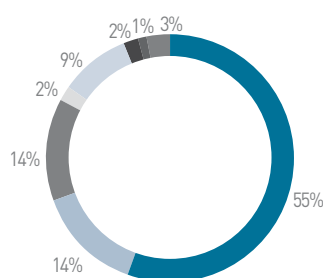
From 15 September 2016, the unit linked equity fund was restructured and now invests in selected counters in the stock market. Thus, equity investment and divestment were carried out to restructure the fund during the year.

## COMPOSITION OF FVTPL EQUITY INVESTMENTS 2016



- Banks, Finance and Insurance
- Diversified Holding
- Beverage, Food and Tobacco
- Construction and Engineering
- Manufacturing
- Telecommunication
- Hotels and Travel

## COMPOSITION OF FVTPL EQUITY INVESTMENTS 2015



- Banks, Finance and Insurance
- Diversified Holding
- Beverage, Food and Tobacco
- Construction and Engineering
- Manufacturing
- Telecommunication
- Hotels and Travel
- Oil Palms

## 29.6 (C) IMPAIRMENT OF FAIR VALUE THROUGH PROFIT OR LOSS FINANCIAL INVESTMENTS

At the reporting date, there were no fair value through profit or loss financial investments that were overdue and impaired.

## 29.7 MOVEMENT OF FINANCIAL INVESTMENTS

Rs.'000	Note	Held to maturity	Loans and receivables	Fair value through profit or loss	Available for sale	Total
As at 1 January 2015		10,749,495	2,250,619	4,004,993	7,033,871	24,038,978
Purchases		3,810,151	99,348,830	14,037,153	2,318,491	119,514,625
Maturities		(1,279,300)	(99,751,626)	(13,518,220)	(1,063,731)	(115,612,877)
Disposals		-	-	(245,604)	(1,042,538)	(1,288,142)
Scrip Dividend		-	-	12,138	-	12,138
Fair value gains recorded in statement of income (excluding net realised gains) classified as held for trading		-	-	(290,899)	-	(290,899)
Fair value gains recorded in other comprehensive income		-	-	-	(264,738)	(264,738)
Amortisation		245,479	-	10,100	3,389	258,968
Net change in accrued Interest		75,081	41,164	359	56,277	172,881
<b>As at 31 December 2015</b>		<b>13,600,906</b>	<b>1,888,987</b>	<b>4,010,020</b>	<b>7,041,021</b>	<b>26,540,934</b>
As at 1 January 2016		13,600,906	1,888,987	4,010,020	7,041,021	26,540,934
Purchases		2,248,325	23,825,333	17,519,653	4,894,324	48,487,635
Maturities		(748,148)	(24,909,132)	(15,818,656)	(537,596)	(42,013,532)
Disposals		-	-	(1,637,483)	(569,522)	(2,207,005)
Scrip Dividend		-	-	26,531	-	26,531
Fair value gains recorded in statement of income (excluding net realised gains) classified as held for trading		-	-	(34,751)	-	(34,751)
Fair value gains recorded in other comprehensive income		-	-	-	(456,568)	(456,568)
Amortisation		276,097	-	19,406	24,120	319,623
Net change in accrued Interest		18,856	50,860	1,616	113,057	184,389
Reclassification of financial investment from AFS to L & R	29.5 (B)	-	4,553,805	-	(4,553,805)	-
<b>As at 31 December 2016</b>		<b>15,396,036</b>	<b>5,409,853</b>	<b>4,086,336</b>	<b>5,955,031</b>	<b>30,847,256</b>

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## 30 LOANS TO LIFE POLICYHOLDERS

Refer Note 9 for accounting policies

As at 31 December	2016 Rs. '000	2015 Rs. '000
<b>Balance as at 1 January</b>	558,757	504,085
Loans granted during the year	315,723	259,364
Repayments during the year	(227,835)	(204,692)
	646,645	558,757
Interest receivables on loans to life policyholders	220,532	183,095
<b>Balance as at 31 December</b>	<b>867,177</b>	<b>741,852</b>

### 30.1 COLLATERAL DETAILS

As at 31 December 2016 surrender value of policyholder loans amounted to Rs.1,471 million (2015 - Rs. 1,252 million).

If the total receivable of the loan, including interest due and accrued exceeds the cash surrender value, the policy terminates and becomes void.

### 30.2 FAIR VALUE OF LOANS TO LIFE POLICYHOLDERS

The fair value of the policyholder loans are equal to its carrying value as those are given at competitive market rates.

### 30.3 CONCENTRATION RISK OF LOANS TO LIFE POLICYHOLDERS

There is lower concentration of credit risk with respect to policyholders, as the company has a large number of dispersed receivables.

### 30.4 IMPAIRMENT OF LOANS TO LIFE POLICYHOLDERS

As of 31 December 2016, there were no impaired loss recorded on policyholder loans (2015 - Nil).

### 30.5 NUMBER OF POLICY LOANS

Number of policy loans due as at 31 December 2016 was 15,221 (2015 - 14,782).

## 31 REINSURANCE RECEIVABLE

### ACCOUNTING POLICY

The company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Reinsurance is recorded gross in the statement of financial position unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. The impairment loss is recorded in the income statement.

Reinsurance assets are derecognised when the contractual rights are extinguished or expired.

As at 31 December	2016 Rs. '000	2015 Rs. '000
Reinsurance receivable on outstanding claims	85,306	60,113
Reinsurance receivable on settled claims	92,875	89,659
<b>Total reinsurance receivables</b>	<b>178,181</b>	<b>149,772</b>

### 31.1 IMPAIRMENT OF REINSURANCE RECEIVABLES

As at 31 December 2016, there were no impaired loss on reinsurance receivable.

### 31.2 FAIR VALUE OF REINSURANCE RECEIVABLES

The carrying values disclosed above approximate the fair value at the reporting date.

### 31.3 THE AGEING OF REINSURANCE RECEIVABLES ON SETTLED CLAIMS

As at 31 December	2016 Rs. '000	2015 Rs. '000
Less than 60 days	39,493	27,603
More than 60 days	53,382	62,056
	92,875	89,659

### 31.4 REINSURANCE RECEIVABLE PAST DUE BUT NOT IMPAIRED (ON PAID CLAIMS)

As at 31 December 2016, reinsurance receivable of Rs. 53 million (2015 - Rs. 62 million) were past due but not impaired. These relate to parties where there were no recent history of default.

### 31.5 COLLATERAL DETAILS

The company does not hold any collateral as security against potential default by reinsurance counter parties.

### 31.6 REINSURANCE RECEIVABLE ON OUTSTANDING CLAIMS

This includes reinsurance reserves on claims that has not been paid and the reinsurance receivable has not been received.

### 31.7 RISK MANAGEMENT

Refer Note 7 to the financial statements for risk management initiatives relating to reinsurance.

## 32 PREMIUMS RECEIVABLE ACCOUNTING POLICY

Premiums receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Impairment losses on premiums receivable are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognised in the income statement.

The company has opted to record the Life Insurance premium on an accrual basis in terms of SLFRS 4, Insurance Contracts from the year ended 31 December 2012. The life insurance premiums for policies within the 30 day grace period are considered as due premium, subject to a provision for premium default. Premium default ratio is computed by analysing the default history. Commission and reinsurance premium relating to that accrued income are also recorded in the same manner.

As at 31 December	2016 Rs. '000	2015 Rs. '000
Premiums receivable from;		
Policyholders	102,193	84,850
Intermediaries (Including collections in transit)	144,607	118,872
<b>Total premiums receivable</b>	<b>246,800</b>	<b>203,722</b>

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## 32.1 FAIR VALUE OF PREMIUMS RECEIVABLE

The carrying amount disclosed above approximates the fair value at the reporting date.

## 32.2 IMPAIRMENT OF PREMIUMS RECEIVABLE

As of 31 December 2016, there were no impaired loss on premiums receivable (2015 - Nil).

## 32.3 COLLATERAL DETAILS

The company does not hold any collateral as security against potential default by policyholders or intermediaries.

## 32.4 RISK MANAGEMENT INITIATIVES RELATING TO PREMIUMS RECEIVABLE

Refer Note 7 to the financial statements for risk management initiatives relating to premiums receivable.

## 33 RECEIVABLES AND OTHER ASSETS

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Financial assets</b>			
Staff loans*	33.1	211,877	204,042
Agent / advisory loans	33.2	67,686	77,460
Refundable deposits		7,550	7,066
Amounts due from Union Assurance General Limited		100,988	42,034
Other receivables		16,797	66,726
		404,898	397,328
<b>Non financial assets</b>			
Taxes recoverable	33.4	218,469	203,815
Prepayments		114,884	97,806
Inventories		14,177	9,776
Advance payments		57,356	23,292
		404,886	334,689
<b>Total receivables and other assets</b>		<b>809,784</b>	<b>732,017</b>

\*No loans have been granted to Directors of the company.

## 33.1 STAFF LOANS

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Balance as at 1 January</b>		207,981	208,764
Loans provided during the year		94,865	90,545
Payments / settlements during the year		(81,900)	(108,514)
Fair value adjustment during the year		(4,772)	17,186
		216,174	207,981
Provision for impairment	33.1 (A)	(4,297)	(3,939)
<b>Balance as at 31 December</b>		<b>211,877</b>	<b>204,042</b>

### 33.1 (A) PROVISION FOR IMPAIRMENT

As at 31 December	2016 Rs. '000	2015 Rs. '000
<b>Balance as at 1 January</b>	3,939	-
Charge for the year	358	3,939
<b>Balance as at 31 December</b>	<b>4,297</b>	<b>3,939</b>

### 33.2 AGENT / ADVISORY LOANS

As at 31 December		2016 Rs. '000	2015 Rs. '000
Balance as at 1 January		81,855	64,556
Loans provided during the year		45,860	64,231
Payments / settlements during the year		(55,260)	(46,932)
		72,455	81,855
Provision for impairment	33.2(A)	(4,769)	(4,395)
<b>Balance as at 31 December</b>		<b>67,686</b>	<b>77,460</b>

### 33.2 (A) PROVISION FOR IMPAIRMENT

As at 31 December		2016 Rs. '000	2015 Rs. '000
Opening balance		4,395	-
Charge during the year		374	4,395
<b>Closing balance</b>		<b>4,769</b>	<b>4,395</b>

### 33.3 IMPAIRMENT OF STAFF AND AGENT LOANS

The Board of Directors has assessed potential impairment loss of staff and agent loans as at 31 December 2016. Based

on the assessment, no additional impairment provision is required to be made in the financial statements as at the reporting date in respect of staff and agent loans, other than the amounts provided in Note 33.1 and 33.2

### 33.4 TAXES RECOVERABLE

As at 31 December		2016 Rs. '000	2015 Rs. '000
ACT recoverable		92,296	92,296
WHT recoverable		112,723	105,043
ESC receivable		13,450	6,476
		218,469	203,815

### 33.5 FAIR VALUE

The fair value of staff loans are based on cash flow discounting rate. Discount rate is equal to AWPLR plus appropriate risk margin. The fair values of agent / advisory loans are equal to the carrying amount as they are granted at competitive market rates.

**33.6** Refer Note 7 to the financial statements for risk management policies / initiatives relating to other financial assets.

### 34 CASH AND CASH EQUIVALENTS ACCOUNTING POLICY

Cash and cash equivalents comprise cash at banks and in hand net of outstanding bank overdrafts.

### 34.1 CASH IN HAND AND AT BANK

As at 31 December		2016 Rs. '000	2015 Rs. '000
Cash at Bank		350,400	297,604
Cash at Bank with related parties - Nations Trust Bank PLC		26,014	25,590
Cash in hand		2,818	2,818
<b>Total cash in hand and at bank</b>		<b>379,232</b>	<b>326,012</b>

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# NOTES TO THE FINANCIAL STATEMENTS

## 34.2 CASH AND CASH EQUIVALENT IN THE STATEMENT OF CASH FLOWS

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
Cash in hand and at bank	34.1	379,232	326,012
Bank overdraft used for cash management purposes		(150,306)	(118,952)
Short term investments		10,133	-
<b>Cash and cash equivalent in the statement of cash flows</b>		<b>239,059</b>	<b>207,060</b>

Cash and cash equivalent in the statement of cash flows includes cash at banks and in hand net of bank overdrafts that are repayable on demand.

## 34.3 FAIR VALUE OF CASH IN HAND AND AT BANK

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

are directly attributable to the issue of these shares are recognised in equity, net of tax.

## 34.4 RISK MANAGEMENT INITIATIVES RELATING TO CASH IN HAND AND AT BANK

Please refer Note 7 to the financial statements for more information.

### DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's Board of Directors in accordance with the Articles of Association.

## 35 STATED CAPITAL

### ACCOUNTING POLICY

#### ORDINARY SHARES

The company has issued ordinary shares that are classified as equity instruments. Incremental external costs that

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### SHARE ISSUE / RE - PURCHASE COSTS

Share issue / re - purchase related expenses are charged against the retained earnings in the statement of changes in equity.

As at 31 December	Note	2016		2015	
		No. of shares	Rs. '000	No. of shares	Rs. '000
Balance as at 1 January		58,928,572	1,000,000	85,714,286	1,138,433
Capital re-organisation	35.2	-	-	-	(138,433)
Number of shares re-purchased	35.3	-	-	(26,785,714)	-
<b>Balance as at 31 December</b>		<b>58,928,572</b>	<b>1,000,000</b>	<b>58,928,572</b>	<b>1,000,000</b>

## 35.1 ORDINARY SHARES

All issued shares are fully paid. There is only one class of ordinary shares. All shares issued carry equal voting rights. 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.

Rs. 1,000,000,000 on January 2015 with the difference of Rs. 138,432,305 being transferred to Retained Earnings.

## 35.2 CAPITAL RE-ORGANISATION

Consequent to the unanimous Shareholder approval obtained at the Extraordinary General Meeting held on 28 November 2014 and the demerger sanctioned by way of a Scheme of Arrangement in terms of Section 256 of the Companies Act No.7 of 2007 by the Commercial High Court of Colombo, in case No. H.C.(Civil) 48/2014 (CO) by Order dated 8 December 2014, Union Assurance PLC re-organised its Stated Capital to

## 35.3 SHARE RE-PURCHASE

On 28 May 2015, the Board of Directors of Union Assurance PLC resolved that up to a maximum of 26,785,714 of its Ordinary Shares will be repurchased at a price of Rs. 167.80 per share on a pro rata basis of ten (10) shares for every thirty two (32) shares held amounting to a maximum value of Rs. 4,494,642,809.

The company concluded the repurchase of 26,785,714 shares on 25 September 2015 at a price of Rs. 167.80 per share and the transaction has been recorded in comparative figures in the financial statements accordingly.

## 36 RESERVES

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
Capital reserves	36.1	1,171,115	1,175,017
Other reserves	36.2	(354,112)	57,876
<b>Total reserves</b>		<b>817,003</b>	<b>1,232,893</b>

### 36.1 CAPITAL RESERVES

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Revaluation reserve</b>			
Unrealised gain reserve	36.1 (A)	475,860	475,860
Life policy holders' revaluation reserve, net of tax	36.1 (B)	678,503	682,405
		<b>1,154,363</b>	<b>1,158,265</b>
Reserve on merger with Cornhill (Private) Limited	36.1 (C)	16,752	16,752
		<b>1,171,115</b>	<b>1,175,017</b>

#### 36.1 (A) UNREALISED GAIN RESERVE

Unrealised gain reserve comprises of the gain from transferring the investment of Cornhill (Private) Limited to

life policy holders in 2007, and the gain on transferring the land and building in Kurunegala in 2011. These gains will be realised to shareholders when the properties are disposed.

#### 36.1 (B) LIFE POLICY HOLDERS' REVALUATION RESERVE

As at 31 December	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	682,405	339,916
Revaluation surplus during the year	-	355,570
Adjustment for deferred tax	1,517	(8,560)
Net gain on revaluation of land and buildings	683,922	686,926
Depreciation transfer during the year	(5,419)	(4,521)
<b>Balance as at 31 December</b>	<b>678,503</b>	<b>682,405</b>

The revaluation relates to land and building as indicated in Note 27.8

The revaluation was performed on freehold land and buildings as at 31 December 2015 by Mr. P. B. Kalugalagedera chartered valuation surveyor using the market comparable method.

The revaluation reserve is transferred annually to the revenue reserve based on the remaining useful life of the asset.

#### 36.1 (C) RESERVE ON MERGER WITH CORNHILL (PRIVATE) LIMITED

The unrealised gain reflects the net result of the merger of the company and Cornhill (Private) Limited. The investment in Cornhill (Private) Limited was absorbed by merging all assets and liabilities into the life policy holders statement of financial position.

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## 36.2 OTHER RESERVES

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
Reserve for available for sale financial instruments	36.2 (A)	(376,875)	45,425
<b>Other capital reserves</b>			
Reserves on retirement benefit obligation	36.2 (B)	(1,794)	(2,642)
Employee share based option	36.2 (C)	24,557	15,093
		22,763	12,451
		(354,112)	57,876

### 36.2 (A) RESERVE FOR AVAILABLE FOR SALE (AFS) FINANCIAL INSTRUMENTS

As at 31 December	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	45,425	382,266
Unrealised loss on AFS assets	(456,520)	(253,233)
Share of loss on AFS assets of equity accounted investee	(23,533)	(10,739)
Transferred to the statement of income	(48)	(51,027)
Related tax	57,801	(21,842)
<b>Balance as at 31 December</b>	<b>(376,875)</b>	<b>45,425</b>

### 36.2 (B) RESERVES ON RETIREMENT BENEFIT OBLIGATION

Refer Note 40 for Accounting Policies.

As at 31 December	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	(2,642)	3,292
Reserves on retirement benefit obligation	(4,861)	(7,593)
Share of actuarial loss on defined benefit plan of equity accounted investee	4,348	(64)
Transfer of reserves of non life segment to retained earnings	-	(404)
Related tax	1,361	2,127
<b>Balance as at 31 December</b>	<b>(1,794)</b>	<b>(2,642)</b>

### 36.2 (C) EMPLOYEE SHARE BASED OPTION

#### SHARE BASED PAYMENT PLAN

Employees receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period that employees provide services, from the time when the award is granted up to the vesting date of the options. The overall cost of the award is calculated using the number of share options expected to vest and the fair value of the options at the date of grant.

The company applies SLFRS 2 Share Based Payments in accounting for employee remuneration in the form of shares from 2014 financial year onwards.

#### EQUITY - SETTLED TRANSACTIONS

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity - settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

Where the terms of an equity - settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share - based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity - settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled award and the new award are treated as if they were a modification of the original award, as described in the previous paragraph.

#### DESCRIPTION OF THE EMPLOYEE SHARE OPTION SCHEME

Under the John Keells Group's Employee Share Option Scheme (ESOP), share options of the Parent are granted to senior executives of the company and is dependent on a performance criteria and a service criteria. SLFRS 02 - Share based payment has been applied to equity instruments in share based transactions that were granted after 1 January 2012, which was the effective date of the standard. Hence options granted subsequent to this date have been accounted for as per the standard.

The terms and conditions of the grants are as follows; All options are to be settled by shares and there are no cash settlement alternatives.

Grant date / employees entitled	Number of instruments	Vesting conditions	Contractual life of the Awards	Exercise price
The grant date for each Award is on the 1 of July of that respective financial year.	Please refer table below	Vests over a period of four years. A minimum performance achievement of meeting the Key Result Areas (KRA's) and being in employment at the time the share options vests.	5 years for each Award	For each "Award" it is equal to the 30 day volume weighted average market price of the underlying shares on the date of grant.
Senior executives of the company with more than 12 months of service as at the respective reporting date.				

#### RECONCILIATION OF OUTSTANDING SHARE OPTIONS

The following table illustrates the number of options (No.), weighted average exercise prices (WAEP) and movements of share options during the year:

As at 31 December	2016 No	2016 WAEP (Rs)	2015 Rs. '000	2015 WAEP (Rs)
Outstanding at 1 January	409,932	221.06	323,600	241.05
Granted during the year	181,610	142.83	115,725	171.25
Adjustment for 7:8 sub-division	66,425	173.02	50,516	198.14
Transferred to UA General	-	-	(85,673)	210.09
Transferred to UA Life	168,894	167.62	-	-
Forfeited during the year	(65,645)	173.93	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Adjustment for warrants 43:1000	3,025	190.96	5,764	219.03
Outstanding at 31 December	764,241	220.29	409,932	197.62
Exercisable at 31 December	336,405	177.62	101,502	212.97

There were no options exercised during the year ended 31 December 2016.

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## EMPLOYEE EXPENSES FOR SHARE BASED PAYMENT

The expense recognised for employee services received during the year is as follows;

As at 31 December	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	15,093	10,636
Expense arising from equity-settled share-based payment transactions	9,464	7,648
Transfer of reserves of non life segment to retained earnings	-	(3,191)
<b>Balance as at 31 December</b>	<b>24,557</b>	<b>15,093</b>

The expense recognised for employee services is based on the Parent company's best estimate of the number of options that will ultimately vest. No expense is recognised for Awards that do not ultimately vest.

## FAIR VALUE OF THE SHARE OPTIONS AND ASSUMPTIONS

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

The valuation takes into account following factors :

	2016 Plan No 8 Award 3	2015 Plan No 8 Award 2	2014 Plan No 8 Award 1
Dividend yield (%)	1.44	1.42	2.07
Expected volatility (%)	19.19	19.34	27.50
Risk free interest rate (%)	8.13	8.70	11.12
Expected life of share option (Years)	-	-	-
Weighted average share price at the grant date (LKR)	195.71	229.93	265.18
Weighted average remaining contractual life for the share option outstanding (years)	-	-	-
Weighted average fair value of options (LKR)	-	-	-
Exercise price for option outstanding at the end of the year (LKR)	149.84	176.04	191.65
Exercise price for option for outstanding at the end of the year (LKR) adjusted as at 31.12.2016	149.84	176.04	190.96

## 37 RETAINED EARNINGS

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January		1,232,035	3,843,704
Charge relating to super gain tax	37.1	-	(52,424)
<b>Adjusted balance as at 1 January</b>		<b>1,232,035</b>	<b>3,791,280</b>
Profit for the year		1,312,628	2,346,636
Transfer from revaluation reserve to retained earnings, net of tax	36.1 (B)	5,419	4,521
First and final dividends 2015 / 2014	25.2	(500,893)	(557,141)
Capital re-organisation	35.2	-	138,433
Share re-purchase	35.3	-	(4,494,643)
Share re-purchase cost		-	(646)
Transfer of reserves of non life segment		-	3,595
<b>Balance as at 31 December</b>		<b>2,049,189</b>	<b>1,232,035</b>

### 37.1 SUPER GAIN TAX

Although the company did not become eligible to pay super gain tax as a stand alone entity, Rs 52.4 million has been paid as super gain tax on the basis that the company is part of the John Keells Holdings PLC group. According to the Act, the super gain tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards and hence the expense of super gain tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for super gain tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

## 38 INSURANCE CONTRACT LIABILITIES ACCOUNTING POLICY

### 38.1 LIFE INSURANCE CONTRACT LIABILITIES

These liabilities are measured by using the gross premium valuation method as prescribed by the Regulation of Insurance Industry ACT, No. 43 of 2000. The liability is determined as the discounted value of the expected contractual cash outflows less the discounted value of the expected premiums. Valuation assumptions are derived based on the best estimate experience with a prescribed risk margin to allow for adverse deviations. Non participating liabilities are discounted using the risk free yields.

The value of participating policy liabilities is the higher of the value of the guaranteed benefits liability and the total benefits liability, derived at the participating insurance fund level. In calculating the guaranteed benefits liability, only the guaranteed benefits are considered and the cashflows are discounted using the risk free interest rate yield curve. Total benefits liability includes all the guaranteed and non-guaranteed benefits, and discounts the cash flows using the fund based yield of the participating insurance fund.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, by using a liability adequacy test.

### 38.2 LIABILITY ADEQUACY TEST (LAT)

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is adequate to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used.

Any deficiency is recognised in the income statement by setting up a provision for liability adequacy.

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## 38.3 USE OF JUDGMENTS AND ESTIMATES

### 38.3 (A) PRODUCT CLASSIFICATION

SLFRS 4 requires contracts written by insurers to be classified as either “insurance contracts” or “investment contracts” depending on the level of insurance risk transferred.

Insurance contracts are contracts 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. Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). The classification of contracts identifies both the insurance contracts that the company issues and reinsurance contracts that the company holds.

Contracts where the company does not assume a significant insurance risk is classified as investment contracts.

Investment contracts are those contracts that transfer significant financial risks and no significant insurance risks. Financial risk is the risk of a possible future change in one or more of a specified interest rates, financial instrument prices, commodity prices, foreign exchange rates, index of price or rates, credit ratings or credit index or other variables, provided in the case of a non financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participating features.

### DISCRETIONARY PARTICIPATING FEATURES (DPF)

DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that;

- are likely to be a significant portion of the total contractual benefits;
- the amount or timing of which is contractually at the discretion of the issuer;

and contractually based on:

- The performance of a specified pool of contracts or a specified type of contract,
- Realised and or unrealised investment returns on a specified pool of assets held by the issuer, and
- The profit or loss of the company, fund or other entity that issues the contract.

Derivatives embedded in an insurance contract or an investment contract with DPF are separated and fair valued through the income statement unless the embedded derivative itself is an insurance contract or investment contract with DPF. The derivative is also not separated if the host insurance contract and / or investment contract with DPF is measured at fair value through the profit and loss.

IBSL regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders) and the amount and timing of the distribution to individual contract holders is at the discretion of the company, subject to the advice of the appointed actuary. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance contract liabilities, as appropriate.

### 38.3 (B) VALUATION OF INSURANCE CONTRACT LIABILITIES

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapses, surrender rates and discount rates as further detailed in notes to the financial statements. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to the life style, which could result in significant changes to the expected future mortality exposure.

Estimates are also made for future investment income arising from the assets backing Life Insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate. Lapse and surrender rates are based on the company's historical experience of lapses and surrenders.

### 38.4 INSURANCE CONTRACT LIABILITIES

As at 31 December		2016			2015		
Rs. '000	Note	Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Insurance contract liabilities	38.4 (A)	22,800,158	(1,421,649)	21,458,509	24,422,947	(1,155,652)	23,267,295
Surplus created due to changes in valuation method from NPV to GPV	38.4 (C)	5,867,744	-	5,867,744	-	-	-
Unclaimed benefits		563,429	-	563,429	463,943	-	463,943
<b>Total insurance contract liabilities</b>	38.5	<b>29,311,331</b>	<b>(1,421,649)</b>	<b>27,889,682</b>	<b>24,886,890</b>	<b>(1,155,652)</b>	<b>23,731,238</b>

### 38.4 (A) INSURANCE CONTRACT LIABILITIES

As at 31 December		2016			2015		
Rs. '000	Note	Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Balance as at 1 January - NPV Basis		24,422,947	(1,155,652)	23,267,295	-	-	-
Surplus created due to changes in valuation method from NPV to GPV		(5,867,744)	-	(5,867,744)	-	-	-
Balance as at 1 January - GPV / NPV Basis		18,555,203	(1,155,652)	17,399,551	20,964,889	(886,114)	20,078,775
Premium income / Reinsurance expenses	10 / 11	8,270,751	(423,857)	7,846,894	6,964,390	(364,182)	6,600,208
Liabilities paid for death, maturities, surrenders, benefits and claims	16	(1,682,170)	157,860	(1,524,310)	(1,542,972)	94,644	(1,448,328)
Benefits and claims experience variation		(1,421,540)	-	(1,421,540)	(1,230,698)	-	(1,230,698)
Investment return		2,817,463	-	2,817,463	2,345,846	-	2,345,846
Expenses		(3,598,870)	-	(3,598,870)	(3,106,783)	-	(3,106,783)
Income tax (expenses) / reversal	23.8 (A)	(60,679)	-	(60,679)	28,275	-	28,275
<b>Balance as at 31 December</b>		<b>22,880,158</b>	<b>(1,421,649)</b>	<b>21,458,509</b>	<b>24,422,947</b>	<b>(1,155,652)</b>	<b>23,267,295</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 38.4 (B) VALUATION OF LIFE INSURANCE FUND

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 on the following;

- Non participating liabilities are discounted using risk free yield curve provided by the Insurance Board of Sri Lanka and the participating liabilities are based on the fund yield of the life fund.
- Mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the IBSL.
- Surrender rates based on 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.

The valuation of the conventional life insurance fund as at 31 December 2016 was carried out by Mr. Vivek Jalan FIA, FIAI of Willis Towers Watson and a sum of Rs. 1,100 million

was transferred from the conventional life insurance fund to the shareholders fund for the year 2016. Subsequent to the transfer the conventional life fund stood at Rs. 27,703 million.

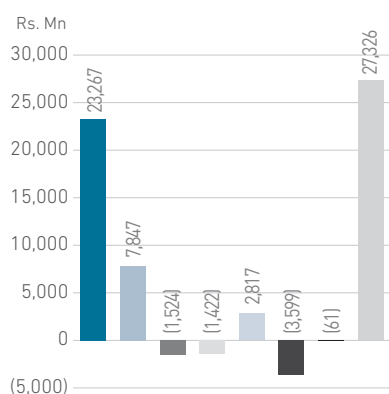
Similarly the non unit fund of linked long term business valuation was carried out by Mr. Vivek Jalan FIA, FIAI of Willis Towers Watson and the Non Unit fund as at 31 December 2016 stood at Rs. 186 million.

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 2016 is adequate to cover the liabilities of the funds.

## 38.4 (C) ONE OFF SURPLUS ARISING FROM CHANGE IN POLICY LIABILITY VALUATION

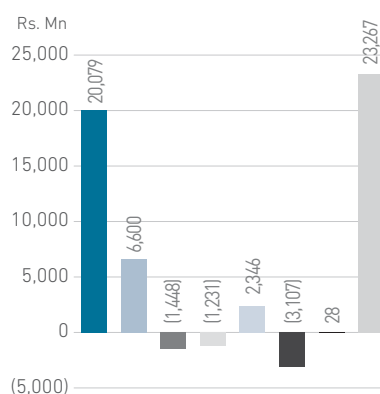
Based on the letter issued by the Insurance Board of Sri Lanka (IBSL) dated 30 December 2016, all insurance companies have been instructed to maintain the one off surplus arising from change in policy liability valuation within the long term insurance fund / insurance contract liabilities identified separately. Accordingly, the one off surplus is identified separately within the insurance contract liabilities as " Surplus created due to changes in valuation method from NPV to GPV " and will not be transferred/ distributed until specific instructions are issued by IBSL.

### DEVELOPMENT OF LIFE FUND - 2016



- Balance as at 01.01.2016
- Premiums income
- Liabilities paid for death, maturities, surrenders, benefits and claims
- Benefits and claims experience variation
- Investment return
- Expenses
- Income tax expenses
- Balance as at 31.12.2016

### DEVELOPMENT OF LIFE FUND - 2015



- Balance as at 01.01.2015
- Premiums income
- Liabilities paid for death, maturities, surrenders, benefits and claims
- Benefits and claims experience variation
- Investment return
- Expenses
- Income tax reversal
- Balance as at 31.12.2015

### 38.5 MOVEMENT IN INSURANCE CONTRACT LIABILITIES

As at 31 December	2016 Rs. '000	2015 Rs. '000
<b>Conventional life insurance fund</b>		
Balance as at 1 January	23,581,967	20,308,965
Increase in life insurance fund before surplus transfer to share holders	5,123,562	3,927,534
Transfer to shareholders	(1,100,000)	(760,000)
Net change in unclaimed benefits	97,881	105,468
<b>Balance as at 31 December - Conventional Life insurance</b>	<b>27,703,410</b>	<b>23,581,967</b>
<b>Non unit fund of linked life insurance contracts</b>		
Balance as at 1 January	149,271	126,911
Increase in non unit fund of linked life insurance before surplus transfer to shareholders	35,396	60,986
Transfer to shareholders	-	(40,000)
Net change in unclaimed benefits	1,605	1,374
<b>Balance as at 31 December - Non unit fund of linked Life insurance</b>	<b>186,272</b>	<b>149,271</b>
	<b>27,889,682</b>	<b>23,731,238</b>

### 38.6 LIABILITY ADEQUACY TEST (LAT) – LIFE INSURANCE CONTRACT LIABILITIES

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

### 39 INSURANCE CONTRACT LIABILITIES – UNIT LINKED ACCOUNTING POLICY

Unit-linked contracts are those that do not meet the definition of insurance contract or investment contracts with discretionary participating features. For these Unit linked contracts, the liabilities are valued at current unit value, i.e. on the basis of the fair value of the financial investment, backing those contracts at the reporting date together with rights to future management fees.

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
Liability of Fund investment		2,154,233	2,246,590
Liability of Fund income	39.1	223,474	294,631
<b>Total insurance contract liabilities</b>		<b>2,377,707</b>	<b>2,541,221</b>

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## 39.1 MOVEMENT IN LIABILITY OF FUND INCOME

As at 31 December	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	294,631	488,571
Net investment income	94,860	83,978
Net realized gains	(131,996)	18,206
Net fair value gains / (losses)	830	(257,609)
Other income	(34,851)	(38,515)
<b>Balance as at 31 December</b>	<b>223,474</b>	<b>294,631</b>

Fair value of the financial investment backing unit linked contracts are as follows as at the year end 31 December 2016.

As at 31 December	2016 Rs. '000	2015 Rs. '000
Government securities	462,589	477,819
Equity instruments	1,814,977	2,032,720
Corporate debt instruments	56,283	25,603
Fixed deposits	45,736	10,064
Other financial investments and assets	3,625	3,154
Other unit linked liabilities	(5,503)	(8,139)
<b>Insurance contract liabilities - Unit Linked</b>	<b>2,377,707</b>	<b>2,541,221</b>

## 40 EMPLOYEE BENEFIT LIABILITIES

### ACCOUNTING POLICY

#### 40.1 DEFINED CONTRIBUTION PLANS

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the income statement in the periods during which related services are rendered by employees.

#### EMPLOYEES' PROVIDENT FUND

All employees of the company are members of the Employees' Provident Fund (EPF). The company and

employees contribute 12% and 8% respectively of the salary, monthly to the Employees Provident Fund managed by the Central Bank of Sri Lanka.

#### EMPLOYEES' TRUST FUND

All employees of the company are members of the Employees' Trust Fund (ETF). The company contributes at the rate of 3% of the salaries of each employee, monthly to the Employees' Trust Fund administered by the Employees' Trust Fund Board.

#### DEFINED CONTRIBUTION PLANS

Following contributions have been made to the employee provident fund and employee trust fund during the year.

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
<b>Employees' Provident Fund (EPF)</b>		
Employer's contribution (12%)	52,086	48,090
Employee's contribution (8%)	34,724	32,060
<b>Employees' Trust Fund (ETF)</b>		
Employer's contribution (3%)	13,021	12,022

## 40.2 DEFINED BENEFIT PLANS – GRATUITY

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 amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

With the adoption of LKAS 19 - "Employee Benefits", which became effective from 1 January 2013, the re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in the statement of profit or loss and other comprehensive income.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The obligation is not externally funded.

## 40.3 MOVEMENT IN PRESENT VALUE OF GRATUITY

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	100,199	90,437
<b>Included in profit or loss:</b>		
Current service cost	10,690	10,772
Interest cost	10,258	9,184
	20,948	19,956
<b>Included in OCI:</b>		
Net actuarial loss on obligation	4,861	7,593
<b>Other</b>		
Payments during the year	(20,430)	(17,787)
Gratuity transfer	2,385	-
<b>Balance as at 31 December</b>	<b>107,963</b>	<b>100,199</b>

## 40.4 PRINCIPAL ACTUARIAL ASSUMPTIONS USED

The defined benefit obligation liability of the company is based on an actuarial valuation carried out by Mr. M. Poopalanathan (AIA) of Actuarial & Management Consultants (Pvt) Ltd. an Independent Actuary. The actuarial valuation

involves making assumptions about discount rates and future salary increases. Due to the complexity of the valuation and the underlying assumptions and its long term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Assumption	2016	2015
Discount rate	11%	10%
<b>Staff turnover rate - early withdrawal through resignations</b>		
- i) Less than 5 years	13%	15%
- ii) More than 5 years	2%	2%
Salary increase	8%	8%
Retirement age	55 years	55 years

Assumptions regarding future mortality are based on published statistics and mortality tables.

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## 40.5 MATURITY ANALYSIS OF THE PAYMENTS

The following payments are expected on employee benefit liabilities in future years

As at 31 December	2016 Rs. '000	2015 Rs. '000
Within the next 12 months	6,874	13,903
Between 1 and 2 years	5,772	7,270
Between 2 and 5 years	52,151	38,134
Between 5 and 10 years	43,166	40,892
<b>Total expected payments</b>	<b>107,963</b>	<b>100,199</b>

## 40.6 SENSITIVITY ANALYSIS

Reasonably possible variation in one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

Increase / (Decrease) in discount rate	Increase / (Decrease) in Salary Increment rate	Change in employee defined benefit liability Rs'000	Estimated employee defined benefit liability Rs'000
1%	-	(4,542)	103,421
(-1%)	-	4,853	112,816
-	1%	5,521	113,484
-	(-1%)	(5,141)	102,822

## 41 REINSURANCE PAYABLES

### ACCOUNTING POLICY

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

As at 31 December	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	213,855	150,784
Arising during the year	423,857	364,182
Utilised during the year	(428,970)	(301,111)
<b>Balance as at 31 December</b>	<b>208,742</b>	<b>213,855</b>

## 42 OTHER LIABILITIES

As at 31 December	2016 Rs. '000	2015 Rs. '000
<b>Other financial liabilities</b>		
Agency commission payable	141,696	130,900
Other staff related provisions	140,000	87,018
Premiums in suspense	284,922	236,089
Amounts due to related parties	6,528	8,294
	573,146	462,301
<b>Other non financial liabilities</b>		
Government levies	11,406	22,357
Other liabilities and accruals	375,074	245,168
Premium received In advance	133,245	113,598
	519,725	381,123
<b>Total other liabilities</b>	<b>1,092,871</b>	<b>843,424</b>

Maturity schedule of other financial liabilities as of 31 December 2016 and 2015 are shown in Note 7 to the financial statements.

## 43 RELATED PARTY DISCLOSURES

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

The company carries out transactions in the ordinary course of its business on an arm's length basis with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures.

### 43.1 PARENT AND ULTIMATE CONTROLLING PARTY

The company's immediate and ultimate controlling party is John Keells Holdings PLC.

### 43.2 RECURRENT RELATED PARTY TRANSACTIONS

There were no recurrent related party transactions which in aggregate value exceeded 10% of the gross revenue of the company as per 31 December 2016 audited financial statements, which required additional disclosures in the 2016 Annual Report under Colombo Stock Exchange listing

Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13 (c) of the Securities and Exchange Commission Act.

### 43.3 NON-RECURRENT RELATED PARTY TRANSACTIONS

There were no non-recurrent related party transactions which aggregate value exceeded 10% of the equity or 5% of the total assets which ever is lower of the Company as per 31 December 2016 audited financial statements, which required additional disclosures in the 2016 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13 (c) of the Securities and Exchange Commission Act.

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## 43.4 TRANSACTIONS WITH RELATED ENTITIES

The Directors of the company are also Directors of the following companies as set out below and transactions included in Note 43.4 (A) 43.4 (B) and 43.4 (C) have been carried out with such companies.

Company	Name of director	Position	Relationship	Details of financial dealings
John Keells Holdings PLC	Ajit D. Gunewardene	Deputy Chairman	John Keells Holdings PLC and its subsidiaries own 93.92% of the company's issued share capital	The company has transactions in the normal course of business with John Keells Holdings PLC, its subsidiaries and associate companies
	Suresh Rajendra	President - Property Group		
	D. C. Alagaratnam	President-HR,Legal,Secretarial & Sustainability		
Keells Consultants (Pvt) Ltd	Ajit D. Gunewardene	Director	Keells Consultants (Pvt) Ltd is the Secretary of Union Assurance PLC and Fellow subsidiary of Union Assurance PLC	The company has transactions in the normal course of business with Keells Consultants (Pvt) Ltd
	D. C. Alagaratnam	Director		
John Keells Office Automation (Pvt) Ltd	Ajit D. Gunewardene	Director	Fellow Subsidiary of Union Assurance PLC	The company has transactions in the normal course of business with John Keells Office Automation (Pvt) Ltd
	D. C. Alagaratnam	Director		
John Keells Computer Services (Pvt) Ltd	Ajit D. Gunewardene	Director	Fellow Subsidiary of Union Assurance PLC	The company has transactions in the normal course of business with John Keells Computer Services (Pvt) Ltd
Asian Hotels and Properties PLC	Ajit D. Gunewardene	Director	Fellow Subsidiary of Union Assurance PLC	The company has transactions in the normal course of business with Asian Hotels and Properties PLC
	S. Rajendra	Director		
Trans Asia Hotels PLC	Ajit D. Gunewardene	Director	Fellow Subsidiary of Union Assurance PLC	The company has transactions in the normal course of business with Trans Asia Hotels PLC
Whittal Boustead (Pvt) Ltd	Ajit D. Gunewardene	Director	Whittal Boustead Ltd owns 7.4 % shares of Union Assurance PLC & Fellow Subsidiary of Union Assurance PLC	The company has transactions in the normal course of business with Whittal Boustead (Pvt) Ltd

Company	Name of director	Position	Relationship	Details of financial dealings
Tea Smallholder Factories PLC	Ajit D. Gunewardene	Director	Fellow Subsidiary of Union Assurance PLC	The company has transactions in the normal course of business with Tea Smallholder Factories PLC
Union Assurance General Ltd	A. D. Pereira	Director	Associate company of Union Assurance PLC	The company owns 22% of the company's issued share capital and has transactions in the normal course of business

#### 43.4 (A) TRANSACTIONS WITH THE PARENT AND ULTIMATE CONTROLLING PARTY

As at 31 December	2016 Rs. '000	2015 Rs. '000
<b>Statement of financial position</b>		
<b>Liabilities</b>		
Other liabilities	(2,621)	(7,498)
	(2,621)	(7,498)
<b>Transacted amounts for the year ended 31 December</b>	<b>2016 Rs. '000</b>	<b>2015 Rs. '000</b>
Gross written premium	2,314	2,310
Net benefits and claims	(120)	(620)
Other operating and administrative expenses	(20,513)	(25,700)

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## 43.4 (B) TRANSACTIONS WITH / BETWEEN SUBSIDIARY COMPANIES AND ASSOCIATES OF THE PARENT COMPANY AND OTHER RELATED ENTITIES

As at 31 December Company Rs. '000	Relationship with John Keells Holdings PLC	Investment / Nature of transaction	2016	2015
<b>Statement of financial position</b>				
<b>Assets</b>				
<b>Property plant, and equipment</b>				
John Keells Office Automation (Pvt) Ltd	Subsidiary	Acquisition of property plant, and equipment	12,359	959
John Keells Computer Services (Pvt) Ltd	Subsidiary		1,119	1,523
			13,478	2,482
<b>Financial investments</b>				
Nations Trust Bank PLC	Associate	Debentures	602,675	538,618
Nations Trust Bank PLC	Associate	Cash and cash equivalents	26,014	25,590
			628,689	564,208
<b>Other liabilities</b>				
Other subsidiaries and associates		Payment for shared services	(673)	(796)
			(673)	(796)
<b>Transaction amount during the year</b>				
Company Rs. '000	Relationship with John Keells Holdings PLC	Investment / Nature of transaction	2016	2015
<b>Income Statement</b>				
<b>Gross written premium</b>				
Other subsidiaries and associates			3,050	1,573
			3,050	1,573
<b>Net benefits and claims</b>				
Other subsidiaries and associates			(1,600)	(615)
			(1,600)	(615)
<b>Investment income</b>				
Nations Trust Bank PLC	Associate	Debentures	57,466	61,107
Nations Trust Bank PLC	Associate	Reverse repurchase agreements	-	6,932
			57,466	68,039
<b>Other operating and administrative expenses</b>				
Other subsidiaries and associates			(61,466)	(12,100)
			(61,466)	(12,100)

#### 43.4 (C) TRANSACTIONS WITH / BETWEEN ASSOCIATE OF THE COMPANY - UNION ASSURANCE GENERAL LTD

##### INCOME STATEMENT

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Gross written premium	1,660	1,432
Net benefits and claims	-	(690)
Rent Income	12,224	13,225
Other operating and administrative expenses	(42,409)	(35,169)

##### STATEMENT OF FINANCIAL POSITION

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Other receivables	100,988	41,614
Other liabilities	(3,234)	-

#### 43.5 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMPS)

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly, the KMP include members of the Board of Directors of the company (including Executive and Non - Executive Directors) and selected key employees who meet the criteria for KMP.

As John Keells Holdings PLC (JKH) is the ultimate parent of the company and the Board of Directors of JKH has the authority and responsibility of planning, directing and controlling the activities of the company, the Directors of JKH have also been identified as KMP of the company.

#### 43.5 (A) COMPENSATION OF KMPS

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Short term employment benefits	34,711	25,339
Post employment benefits	17,204	8,315
<b>Total</b>	<b>51,915</b>	<b>33,654</b>

The short term employment benefits include only the Non Executive Directors fees and emoluments paid to the Executive Director. Where applicable Directors fees are paid directly to the companies that the Directors represent. There are no short - term, long - term, post - employment, terminal and share - based payments linked to the remuneration of the Non -Executive Directors and no ex - gratia payments were made to Directors during the year.

#### 43.5 (B) TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING KMPS, AND THEIR CLOSE FAMILY MEMBERS (CFMS)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by that KMP in their dealings with the entity. They may include KMPs' domestic partner and children, children of the KMPs' domestic partner and dependents of the KMP or the KMPs' domestic partner.

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
Insurance premium	543	2,225

The Directors of the company and their immediate relatives do not have substantial shareholdings in the company as at 31 December 2016.

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## 44 COMMITMENTS

### 44.1 CAPITAL COMMITMENTS

There were no significant capital commitments as at the reporting date (2015 Nil).

### 44.2 OPERATING LEASE

The company has leased a number of branches under operating leases. These leases have an average life of between one to five years. Lease agreements include clauses to enable upward revision of the rental payments on a periodic basis to reflect market conditions. There are no restrictions placed upon the company by entering into these leases.

#### 44.2 (A) FUTURE MINIMUM LEASE PAYMENTS.

The company does not have any non cancellable operating leases as at the reporting date.

#### 44.2 (B) AMOUNT RECOGNISED IN PROFIT OR LOSS

For the year ended 31 December Rs. '000	2016	2015
Lease expenses	70,679	62,870
Contingent rent expenses	-	-

## 45 EVENTS AFTER THE REPORTING DATE

### ACCOUNTING POLICY

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material events after the reporting date have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

There have been no events subsequent to the reporting date, which would have any material effect on the company, other than the following;

### 45.1

The Board of Directors of the company has declared a first and final dividend of Rs. 10.50 per share for the financial year ended 31 December 2016.

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 Section 57, prior to declaring the first and final dividend. A statement of solvency duly completed and signed by the Directors on 27 February 2017 has been audited by Messrs. KPMG.

In accordance with the LKAS 10, Events after the reporting period, the final dividend has not been recognised as a liability in the financial statements as at 31 December 2016.

## 46 PROVISIONS AND CONTINGENCIES

### ACCOUNTING POLICY

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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in profit or loss.

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.

### USE OF JUDGMENTS AND ESTIMATES

The company receives legal claims against it in the normal course of business. Management has made judgment as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

**46.1** The contingent liabilities of the Company as at 31 December 2016, relates to the following;

**INCOME TAX ASSESSMENT RELATING TO YEARS OF ASSESSMENT 2010/11, 2011/12, 2012/13 AND 2013/14**

The Department of Inland Revenue has raised an assessment on Union Assurance PLC for the year of assessment 2010/11, assessing the Life insurance business to pay an income tax liability of Rs. 13 million and the company has lodged a valid appeal against the said assessment with the Tax Appeals Commission.

The Department of Inland Revenue has raised an assessment on Union Assurance PLC for the year of assessment 2011/12, assessing the Life insurance business to pay an income tax liability of Rs. 132 million and the company is in the process of lodging a valid appeal with the Tax Appeals Commission.

The Department of Inland Revenue has raised an assessment on Union Assurance PLC for the year of assessment 2012/13, assessing the Life insurance business to pay an income tax liability of Rs. 466 million along with a 50% penalty totalling to Rs. 699 million and the company has lodged a valid appeal against the said assessment.

The Department of Inland Revenue has raised an assessment on Union Assurance PLC for the year of assessment 2013/14, assessing the Life insurance business to pay an income tax liability of Rs. 175 million along with a 50% penalty totalling to Rs. 263 million and the company has lodged a valid appeal against the said assessment.

Directors are of the view that it has followed due process and acted in accordance with the prevailing laws in its tax submissions for years of assessment 2010 / 11, 2011/12, 2012 / 13 and 2013 / 14 and therefore, the above assessments have no rationale or basis in law.

**THE COMPANY OPERATES IN THE INSURANCE INDUSTRY AND IS SUBJECT TO LEGAL PROCEEDINGS IN THE NORMAL COURSE OF BUSINESS.**

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

**THE COMPANY IS ALSO SUBJECT TO INSURANCE SOLVENCY REGULATIONS AND HAS COMPLIED WITH ALL SOLVENCY REGULATIONS**

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

**47 COMPARATIVE INFORMATION**

The presentation and classification in the financial statements have been amended where appropriate to ensure comparability with the current year.

**48 DIRECTORS' RESPONSIBILITY**

The Board of Directors of the company is responsible for the preparation and presentation of these financial statements. Please refer page 197 for the Statement of Directors' Responsibility.

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# SUPPLEMENTARY INFORMATION



## IDEAS CONNECTED

Every stakeholder receives more than the year on year value they would expect.

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# UA STORY

## 1988

Union Assurance formed, listed in the Colombo Stock Exchange and commences operations

## 1994

Completes construction of Union Assurance Centre at No. 20, St. Michael's Road, Colombo 3

## 2000

Life fund exceeds Rs. 1 billion. Invests Rs. 80 million to upgrade computer system

## 2002

First private sector insurer to commence operations in Jaffna.

## 2003

Opens Union Assurance Centre in Kurunegala.

## 2005

In the aftermath of the tsunami, UA settles over 280 tsunami related liable non life and life insurance claims.

## 2007

Enters the 20th year of operations with the life fund crossing Rs. 6 billion mark.

## 2009

John Keells Holdings PLC gains 81% control of UA Implemented a web based sales force management system for life business UA Brand was repositioned on a platform of Trust.

## 2011

Launches the 1st trilingual website in the insurance industry.

Implements SAP financials to integrate core business activities with financial reporting

## 2015

Segregates Life and Non-life businesses and divests 78% of the non-life business to Fairfax Asia Limited.

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# OUR VALUE CREATION MODEL – DETAILS

KEY COMPONENTS	INPUTS
<p><b>FINANCIAL CAPITAL</b></p> <p>The pool of funds that is available for use in the provision of insurance solutions.</p>	<ul style="list-style-type: none"> <li>• Shareholder funds</li> <li>• Cash flows from operations</li> </ul>
<p><b>MANUFACTURED CAPITAL</b></p> <p>Physical infrastructure available to UA for use in the provision of services</p>	<ul style="list-style-type: none"> <li>• Land and building</li> <li>• Branch network</li> <li>• Office equipment</li> </ul>
<p><b>HUMAN CAPITAL</b></p> <p>Employees' competencies, capabilities and experience, including their ability to understand, develop and implement the company's strategy. This encompasses their motivation for improving processes, services, and their ability to lead, manage and collaborate.</p>	<ul style="list-style-type: none"> <li>• Highly skilled underwriters</li> <li>• In house actuaries</li> <li>• Qualified support staff</li> <li>• Enabling work culture</li> <li>• Ethics and values</li> <li>• Experience</li> </ul>
<p><b>INTELLECTUAL CAPITAL</b></p> <p>Intangibles that provide competitive advantage, including: Software systems, procedures and protocols and intangibles that are associated with UA brand and reputation that UA has developed over time.</p>	<ul style="list-style-type: none"> <li>• Brand value</li> <li>• IT systems</li> <li>• Staff knowledge and skills</li> <li>• Product processes and structures</li> </ul>
<p><b>SOCIAL AND RELATIONSHIP CAPITAL</b></p> <ul style="list-style-type: none"> <li>• The institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being.</li> <li>• Social and Relationship Capital includes key relationships, and the trust and loyalty that the company has developed and strives to build and protect with customers, suppliers and business partners</li> </ul>	<ul style="list-style-type: none"> <li>• Occupational health and safety initiatives</li> <li>• Dedicated CSR team within the company</li> <li>• Investor relations and stakeholder management</li> </ul>
<p><b>NATURAL CAPITAL</b></p> <p>All renewable and non-renewable environmental stocks that are used to provide services of the company.</p>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Water</li> <li>• Other natural resources</li> </ul>

ACTIVITIES	OUTPUTS	OUTCOMES
<ul style="list-style-type: none"> <li>Effective and responsible investment of shareholder funds</li> <li>Business development activities</li> </ul>	<ul style="list-style-type: none"> <li>Shareholder returns and dividends</li> <li>Share price appreciation</li> </ul>	<ul style="list-style-type: none"> <li>Financial stability</li> <li>Financial growth</li> <li>Creation of wealth</li> </ul>
<ul style="list-style-type: none"> <li>Cost reduction initiatives</li> <li>Business development activities</li> </ul>	<ul style="list-style-type: none"> <li>Payments to other stakeholders</li> <li>Branch outlook</li> </ul>	<ul style="list-style-type: none"> <li>Creation of wealth</li> <li>Creation of better customer experience</li> </ul>
<ul style="list-style-type: none"> <li>Channeling of employee skills and expertise for business growth</li> <li>Training and development of sales and support staff</li> <li>Performance management and appraisals</li> <li>Employee satisfaction survey initiatives</li> <li>Structured career development programmes</li> </ul>	<ul style="list-style-type: none"> <li>Staff motivation</li> <li>Talented and efficient workforce</li> <li>Job satisfaction</li> <li>Career progression</li> <li>Safe and equitable environment</li> </ul>	<ul style="list-style-type: none"> <li>Alignment of workforce with company vision</li> <li>Increase profitability through improved productivity and efficiency</li> </ul>
<ul style="list-style-type: none"> <li>Brand building activities</li> <li>Development of intangible infrastructure, processes and procedures to improve efficiency</li> <li>Innovation</li> <li>New product development</li> </ul>	<ul style="list-style-type: none"> <li>Brand value</li> <li>New products</li> <li>New and more productive processes</li> <li>New IT systems</li> </ul>	<ul style="list-style-type: none"> <li>Product portfolio to suit ever changing, customer needs</li> <li>Better prepared to face disruptive business models</li> <li>Efficient business operation</li> <li>Profitability</li> </ul>
<ul style="list-style-type: none"> <li>Identification of key stakeholders and material aspects in relation to them</li> <li>Compliance with regulations and productive engagement with industry groups</li> <li>Structured CSR activities</li> <li>Relationship management activities with, reinsurers, banks and other institutions</li> </ul>	<ul style="list-style-type: none"> <li>Positive impact on communities</li> <li>Positive impact on staff lives and motivation</li> <li>Increased interactions with regulator and industry</li> <li>Increased business opportunities with banks and other institutions</li> </ul>	<ul style="list-style-type: none"> <li>Brand visibility and reputation</li> <li>Sustainable communities</li> <li>Business growth</li> </ul>
<ul style="list-style-type: none"> <li>Adoption of Global Goals</li> <li>Environment impact assessments and mitigation of impact</li> <li>Roll-out of carbon footprint reduction initiatives</li> <li>Adoption of water and waste management processes</li> </ul>	<ul style="list-style-type: none"> <li>Disposal of all waste efficiently</li> <li>Reduction of carbon footprint</li> <li>Reduced utility consumption through better monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable natural resource utilisation</li> <li>Bio-diversity preservation</li> </ul>

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# DECADE AT A GLANCE

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Insurance Revenue Accounts</b>										
<b>Rs '000</b>										
Gross written premium	8,270,751	6,964,390	5,945,499	5,515,063	5,106,323	4,471,628	3,465,505	2,778,184	2,503,887	2,163,480
Net written premium	7,846,894	6,600,208	5,617,435	5,234,521	4,856,728	4,268,720	3,367,179	2,678,482	2,372,375	2,066,508
Investment and other income	2,746,306	2,167,304	3,159,957	2,017,544	1,722,070	1,215,043	1,806,873	1,361,853	934,914	707,659
Net benefits and claims	(5,833,650)	(4,873,607)	(5,201,025)	(3,976,248)	(3,572,769)	(2,791,635)	(2,839,059)	(2,179,344)	(1,746,736)	(1,504,332)
Underwriting and net acquisition costs (including reinsurance)	(1,441,617)	(1,289,437)	(1,115,834)	(968,181)	(890,536)	(819,076)	(675,673)	(503,150)	(457,431)	(379,647)
Other operating and administrative expenses	(2,157,254)	(1,832,743)	(1,710,533)	(1,695,636)	(1,590,493)	(1,444,052)	(1,334,320)	(1,122,841)	(918,122)	(746,188)
Income tax reversal	(60,679)	28,275	-	-	-	-	-	-	-	-
<b>Surplus from life insurance fund</b>	<b>1,100,000</b>	<b>800,000</b>	<b>750,000</b>	<b>612,000</b>	<b>525,000</b>	<b>429,000</b>	<b>325,000</b>	<b>235,000</b>	<b>185,000</b>	<b>144,000</b>
Investment and other income not attributable to policyholders	179,432	1,530,851	1,67,623	207,074	23,161	-	-	-	-	-
Expenses not attributable to policyholders	(27,119)	(42,205)	(36,883)	(28,110)	(15,342)	(12,826)	-	-	-	-
Share of net result of equity accounted investee	60,315	57,990	-	-	-	-	-	-	-	-
<b>Profit for the year</b>	<b>1,312,628</b>	<b>2,346,636</b>	<b>880,740</b>	<b>790,964</b>	<b>532,819</b>	<b>416,174</b>	<b>325,000</b>	<b>235,000</b>	<b>185,000</b>	<b>144,000</b>
<b>Statement of financial position</b>										
<b>Rs '000</b>										
<b>Company (Restated)</b>										
<b>Assets</b>										
Intangible assets	94,647	59,616	66,766	117,475	-	-	-	49,500	49,500	49,500
Property, plant and equipment	1,493,040	1,523,676	1,203,934	1,337,498	1,318,225	1,298,380	1,108,723	1,070,060	353,725	328,622
Investment in subsidiary	-	-	-	-	-	-	-	-	183,200	183,200
Investment in equity accounted investee	777,346	736,216	-	-	-	-	-	-	-	-
Financial investments	30,847,256	26,540,934	24,038,978	24,297,498	20,802,309	16,579,094	14,337,860	11,911,086	9,389,319	7,952,135
Loans to life policyholders	867,177	741,852	660,744	515,735	385,688	246,674	232,618	224,325	189,274	159,757
Reinsurance receivable	178,181	149,772	67,536	502,571	400,627	545,774	619,228	900,800	836,708	920,244
Premiums receivable	246,800	203,722	159,117	1,844,831	1,459,440	1,236,299	1,237,594	845,756	724,748	628,600
Receivables and other assets	809,784	732,017	816,718	1,087,585	1,055,006	1,795,727	1,552,089	1,329,848	1,164,821	1,017,394
Deferred acquisition cost	-	-	-	149,145	146,097	147,495	139,176	130,445	115,019	108,854
Cash in hand and at bank	379,232	326,012	196,429	466,402	315,634	373,413	390,138	313,855	272,080	244,301
Assets held for sale	-	-	8,393,314	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>35,693,463</b>	<b>31,013,817</b>	<b>35,603,536</b>	<b>30,318,740</b>	<b>25,883,026</b>	<b>22,222,856</b>	<b>19,617,426</b>	<b>16,775,675</b>	<b>13,278,394</b>	<b>11,592,607</b>

Statement of financial position Rs '000	Company (Restated)									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Equity</b>										
Stated capital	1,000,000	1,000,000	1,138,433	1,138,433	1,133,305	388,433	388,433	388,433	388,433	388,433
Other reserves	817,003	1,232,893	1,228,722	829,094	720,830	955,194	1,340,970	584,359	47,958	48,633
Retained earnings	2,049,189	1,232,035	3,843,704	3,149,766	2,454,923	1,903,587	1,439,109	1,332,359	1,051,077	716,120
<b>Total Equity</b>	<b>3,866,192</b>	<b>3,464,928</b>	<b>6,210,859</b>	<b>5,117,293</b>	<b>4,309,058</b>	<b>3,247,214</b>	<b>3,168,512</b>	<b>2,305,151</b>	<b>1,487,468</b>	<b>1,153,186</b>
<b>Liabilities</b>										
Insurance contract liabilities - Life	27,889,682	23,731,238	20,435,876	17,518,016	15,356,340	13,440,459	11,769,308	9,783,676	8,134,040	6,806,385
Insurance contract liabilities - Unit Linked	2,377,707	2,541,221	2,618,007	1,807,137	1,143,546	555,541	165,835	-	-	-
Insurance contract liabilities - Non Life	-	-	-	3,440,249	3,200,838	3,050,976	2,813,250	2,689,394	2,371,342	2,244,240
Provision for life fund solvency	-	-	-	-	-	-	-	-	-	95,323
Employee benefit liabilities	107,963	100,199	90,437	186,078	163,572	89,467	83,032	77,823	68,620	64,942
Deferred revenue	-	-	-	109,402	96,904	154,702	132,422	95,955	83,811	75,759
Reinsurance payables	208,742	213,855	150,784	764,977	415,394	441,567	405,764	327,196	344,991	285,403
Other liabilities	1,092,871	843,424	770,187	1,336,864	1,172,899	1,212,557	1,050,194	1,474,237	788,122	867,369
Bank overdraft	150,306	118,952	66,017	38,724	24,475	30,373	29,109	22,243	-	-
Liabilities held for sale	-	-	5,261,366	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>31,827,271</b>	<b>27,548,889</b>	<b>29,392,674</b>	<b>25,201,447</b>	<b>21,573,968</b>	<b>18,975,642</b>	<b>16,448,914</b>	<b>14,470,524</b>	<b>11,790,926</b>	<b>10,439,421</b>
<b>Total equity and liabilities</b>	<b>35,693,463</b>	<b>31,013,817</b>	<b>35,603,536</b>	<b>30,318,740</b>	<b>25,883,026</b>	<b>22,222,856</b>	<b>19,617,426</b>	<b>16,775,675</b>	<b>13,278,394</b>	<b>11,592,607</b>
<b>Investor Information</b>										
Return on Net Assets (%)	33.95	67.70	19.39	21.95	21.38	21.41	16.16	17.39	23	21.85
Earnings Per Share (Rs.)	22.27	31.20	14.04	13.11	12.28	9.27	6.83	5.35	4.56	3.39
Dividend Per Share (Rs.)	10.50	8.50	6.50	6.00	5.00	5.00	3.13	2.5	1.63	1.38
Net Assets Per Share (Rs.)	65.61	58.80	72.46	59.7	50.27	43.3	84.49	61.47	39.67	30.75
Market Price Per Share (Rs.)	143.00	165.00	164.00	104.00	83.00	108.1	122.1	90.75	49.75	46.25
Market Capitalisation (Rs. Mn.)	8,426.79	9,723.21	14,057.10	8,914.26	7,114.29	8,107.50	4,578.75	3,403.13	1,865.63	1,734.38
Price Earnings Ratio (Times)	6.42	5.29	11.68	7.94	6.76	11.66	8.94	8.49	5.45	6.88
<b>Other Information</b>										
Number of employees	474	450	445	1,157	1,088	1,009	989	949	902	897
No of Shares ('000)	58,929	58,929	85,714	85,714	85,714	75,000	37,500	37,500	37,500	37,500

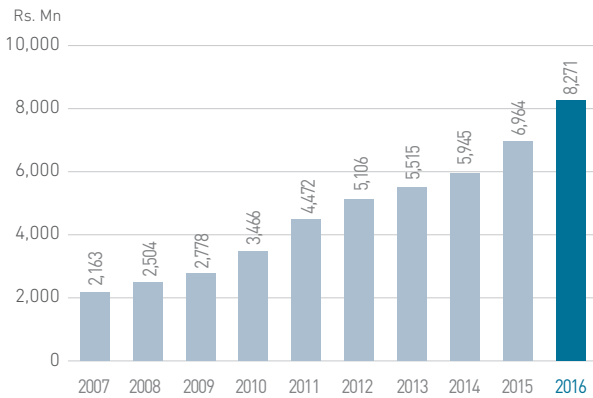
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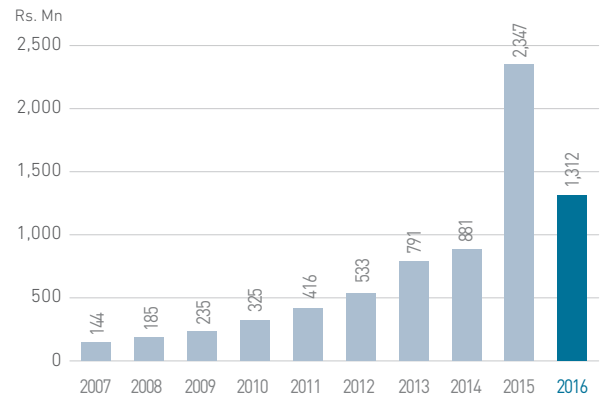
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# DECADE AT A GLANCE

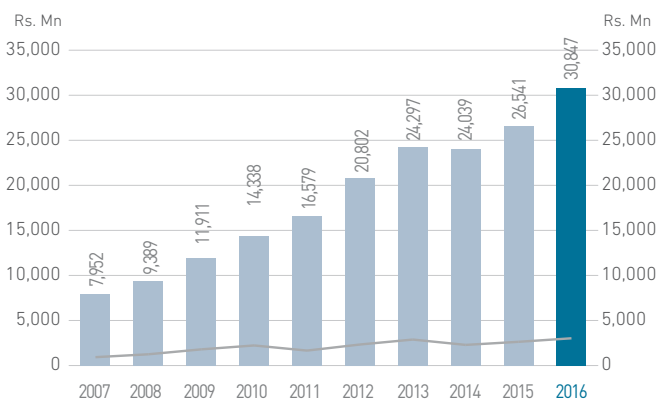
## GROSS WRITTEN PREMIUM



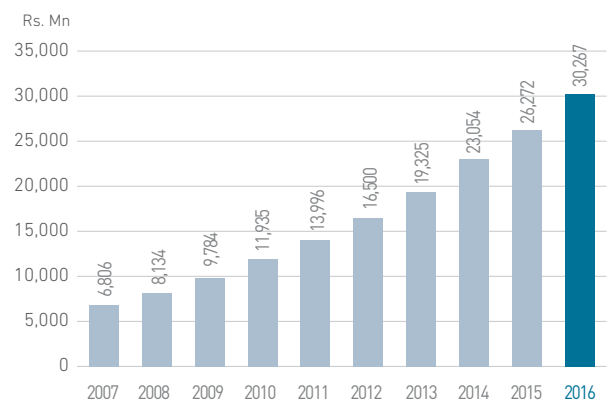
## PROFIT AFTER TAX



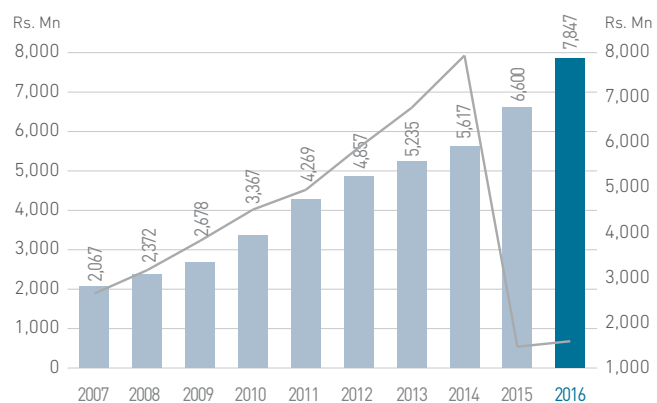
## INVESTMENT VS INVESTMENT INCOME



## LIFE FUND



## NET EARNED PREMIUM VS NET CLAIM



# MEMBERSHIPS MAINTAINED BY THE COMPANY

We actively participate in public policy development for the betterment of society as a whole by being active members of:

- The Ceylon Chamber of Commerce
- American Chamber of Commerce in Sri Lanka
- National Chamber of Exporters of Sri Lanka
- Insurance Association of Sri Lanka
- Employers' Federation of Ceylon
- Sri Lanka Association of Software and Service Companies (SLASSCOM)
- Sri Lanka Institute of Directors
- LIMRA (Life Insurance and Market Research Association)

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# INDEPENDENT ASSURANCE REPORT ON NON-FINANCIAL REPORTING



**KPMG**  
(Chartered Accountants)  
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## INDEPENDENT ASSURANCE REPORT TO UNION ASSURANCE PLC

We have been engaged by the directors of Union Assurance PLC ("the Company") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2016. The Sustainability Indicators are included in the Union Assurance PLC's Integrated Annual Report for the year ended 31 December 2016 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators	Integrated Annual Report Page
Financial Highlights	10

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Assured Sustainability Indicators	Integrated Annual Report Page
Sustainability performance indicators - Non-Financial Highlights	11
Information provided on following stakeholder groups.	
• Shareholders - Financial Capital and Share Information	50-58 and 112-115
• Customers - Manufactured Capital, Social and Relationship Capital and Intellectual Capital	59 -60, 81-89 and 93-98
• Environment - Natural Capital	61-66
• Employees - Human Capital	67 -79
• Supplier - Social and Relationship Capital	89-90
• Community - Social and Relationship Capital	90-92

## OUR CONCLUSIONS:

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

## REASONABLE ASSURANCE SUSTAINABILITY INDICATORS

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2016 are, in all material respects, prepared and presented in accordance with the Global Reporting Initiative (GRI) G4 Content Index Guidelines.

KPMG, 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.

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyratne FCA  
R.M.D.B. Rajapakse FCA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

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#### LIMITED ASSURANCE SUSTAINABILITY INDICATORS

Based on the limited assurance procedures performed and the evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2016, have not in all material respects, been prepared and presented in accordance with the GRI G4 Content Index Guidelines.

#### MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the GRI G4 Content Index Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

#### OUR RESPONSIBILITY

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

#### REASONABLE ASSURANCE OVER REASONABLE ASSURANCE SUSTAINABILITY INDICATORS

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the GRI G4 Content Index Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

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# INDEPENDENT ASSURANCE REPORT ON NON-FINANCIAL REPORTING



## LIMITED ASSURANCE ON THE ASSURED SUSTAINABILITY INDICATORS

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;
- reading the remainder of the Report to determine whether there are any material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

## PURPOSE OF OUR REPORT

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the GRI G4 Content Index Guidelines and for no other purpose or in any other context.

## RESTRICTION OF USE OF OUR REPORT

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.

CHARTERED ACCOUNTANTS  
Colombo

27th February 2017

UNION ASSURANCE PLC  
ANNUAL REPORT 2016

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# GRI G4 CONTENT INDEX



This Report is prepared 'In accordance' - Core of the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines.

## GENERAL STANDARD DISCLOSURES

PROFILE DISCLOSURE	DESCRIPTION	PAGE NUMBER / REFERENCE	EXTERNAL ASSURANCE
<b>STRATEGY AND ANALYSIS</b>			
G4-1	Statement from the Chairman	Page 12 to 14	No
<b>ORGANISATION PROFILE</b>			
G4-3	Name of the Organisation	Inner Back Cover	No
G4-4	Primary brands, products and / or services	Page 84 to 85	No
G4-5	Location of organisation's headquarters	Inner Back Cover	No
G4-6	Number of countries where the organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	No foreign operation	No
G4-7	Nature of ownership and legal form	Inner Back Cover	No
G4-8	Markets served	Page 82 to 83	No
G4-9	Scale of the organisation	Page 58,68,87 to 88	No
G4-10	Total workforce by employment type, employment contract and region, broken down by gender	Page 68 to 69	No
G4-11	Percentage of employees covered by collective bargaining agreements.	No collective bargaining agreements	Yes
G4-12	Organisation supply chain	Page 89 to 90	No
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or supply chain	No significant change during the reporting period.	No
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Pages 102 to 104	No
G4-15	Externally developed economic, environmental and social charters and principles, or other initiatives to which the organisation subscribes or endorses	Page 23	No
G4-16	Memberships in associations and / or national /international advocacy organisations	Page 28	No

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# GRI G4 CONTENT INDEX

PROFILE DISCLOSURE	DESCRIPTION	PAGE NUMBER / REFERENCE	EXTERNAL ASSURANCE
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>			
G4-17	Organization's entities covered by the report and entities not covered by the report	Page 23	No
G4-18	Process of defining the report content and the Aspect Boundaries	Page 23	No
G4-19	Material Aspects identified for report content	Page 29 to 32	No
G4-20	Aspect boundary for identified material aspects within the organization	Page 29 to 32	No
G4-21	Aspect boundary for identified material aspects outside the organization	Page 29 to 32	No
G4-22	Explanation of the effect of any restatements of information provided in previous reports and the reasons for such restatements	Page 31	No
G4-23	Significant changes from previous reporting periods in the Scope and Aspect boundaries	Page 31	No
<b>STAKEHOLDER ENGAGEMENT</b>			
G4-24	List of stakeholder groups engaged by the organization	Page 24	No
G4-25	Basis for identification and selection of stakeholders with whom to engage	Page 23 to 24	No
G4-26	Approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Page 25 to 28	No
G4-27	Key topics and concerns raised through stakeholder engagement, and how the organization has responded to them	Page 25 to 28	No
<b>REPORT PROFILE</b>			
G4-28	Reporting period	1 January 2016 to 31 December 2016	No
G4-29	Date of most recent previous report	31 December 2015	No
G4-30	Reporting cycle	Annual	No
G4-31	Contact point for questions regarding the report or its contents	Nadee Perera e-mail: nadeep@ualink.lk	No
G4-32	Compliance with GRI G4 guidelines, GRI Content Index and the External Assurance Report	Page 23	No
G4-33	Policy and current practice with regard to seeking external assurance for the report	Page 23, 302	No
<b>GOVERNANCE</b>			
G4-34	Governance structure of the organization, including committees of the highest governance body responsible for decision-making on economic, environmental and social impacts.	Page 126 to 127	No
<b>ETHICS AND INTEGRITY</b>			
G4-56	The values, principles, standards and norms of behaviour	Page 46,75	No

## SPECIFIC STANDARD DISCLOSERS

DMA AND INDICATORS	MATERIAL ASPECTS	PAGE NUMBER / REFERENCE	EXTERNAL ASSURANCE
<b>CATEGORY – ECONOMIC</b>			
<b>MATERIAL ASPECT: ECONOMIC PERFORMANCE</b>			
G4-DMA			
G4-EC1	Direct economic value generated, distributed and retained	Page 58	Yes
G4-EC3	Coverage of the organization's defined benefit plan obligations	Page 73	Yes
G4-EC4	Financial assistance received from government	UA has not received any financial assistance from government	No
<b>MATERIAL ASPECT: INDIRECT ECONOMIC IMPACTS</b>			
G4-DMA			
G4-EC7	Development and impact of infrastructure investments and services supported	Page 90 to 92	Yes
G4-EC8	Significant indirect economic impacts, including the extent of impacts	Page 58,90 to 92	No
<b>CATEGORY – ENVIRONMENT</b>			
<b>MATERIAL ASPECT: ENERGY</b>			
G4-DMA			
G4-EN3	Energy consumption within the organization	Page 62	Yes
G4-EN4	Energy consumption outside of the organization	Page 63	No
G4-EN5	Energy intensity	Page 62	Yes
G4-EN6	Reduction of energy consumption	Page 62	No
<b>MATERIAL ASPECT: WATER</b>			
G4-DMA			
G4-EN8	Total water withdrawal by source	Page 63	Yes
G4-EN9	Water sources significantly affected by withdrawal of water	Page 63	No
G4-EN10	Percentage and total volume of water recycled and reused	Page 64	Yes
<b>MATERIAL ASPECT: EMISSIONS</b>			
G4-DMA			
G4-EN15	Direct greenhouse gas (ghg) emissions (scope 1)	Page 64	Yes
G4-EN16	Energy indirect greenhouse gas (ghg) emissions (scope 2)	Page 64	Yes
G4-EN17	Other indirect greenhouse gas (ghg) emissions (scope 3)	Page 64	Yes
G4-EN18	Greenhouse gas (ghg) emissions intensity	Page 64	Yes
G4-EN19	Reduction of greenhouse gas (ghg) emissions	Page 65	Yes
<b>MATERIAL ASPECT: EFFLUENTS AND WASTE</b>			
G4-DMA			
G4-EN23	Total weight of waste by type and disposal method	Page 65	Yes
G4-EN24	Total number and volume of significant spills	No significant spills reported during the period	No
G4-EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention <sup>2</sup> annex i, ii, iii, and viii, and percentage of transported waste shipped internationally	N/A, do not generate any waste deemed hazardous	No
<b>MATERIAL ASPECT: COMPLIANCE</b>			
G4-DMA			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	No non-compliance reported	No

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# GRI G4 CONTENT INDEX

DMA AND INDICATORS	MATERIAL ASPECTS	PAGE NUMBER / REFERENCE	EXTERNAL ASSURANCE
<b>MATERIAL ASPECT: OVERALL</b>			
G4-DMA			
G4-EN31	Total environmental protection expenditures and investments by type	Page 65 to 66	No
<b>CATEGORY –SOCIAL</b>			
<b>SUB CATEGORY :LABOUR PRACTICES AND DECENT WORK</b>			
<b>MATERIAL ASPECT: EMPLOYMENT</b>			
G4-DMA			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Page 69 to 70	Yes
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Benefits vary based on the terms of employment and is not based on the location of operation	No
G4-LA3	Return to work and retention rates after parental leave, by gender	Not tracked but have not noticed any significant drop out	No
<b>MATERIAL ASPECT : LABOUR/MANAGEMENT RELATIONS</b>			
G4-DMA			
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Page 74	No
<b>MATERIAL ASPECT: OCCUPATIONAL HEALTH AND SAFETY</b>			
G4-DMA			
G4-LA5	Percentage of total workforce represented in formal joint management–worker health and safety committees	Page 11,72	Yes
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Page 11	Yes
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	No such workers	No
G4-LA8	Health and safety topics covered in formal agreements with trade unions	No trade union exists	No
<b>MATERIAL ASPECT: TRAINING AND EDUCATION</b>			
G4-DMA			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Page 71 to 72,76 to 77	Yes
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Page 71 to 72,76 to 77	Yes
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Page 11,70	Yes

DMA AND INDICATORS	MATERIAL ASPECTS	PAGE NUMBER / REFERENCE	EXTERNAL ASSURANCE
<b>MATERIAL ASPECT: DIVERSITY AND EQUAL OPPORTUNITY</b>			
G4-DMA			
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	Page 68 to 69, 128	No
<b>MATERIAL ASPECT: EQUAL REMUNERATION FOR WOMEN AND MEN</b>			
G4-DMA			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Same remuneration policy for both men and women	No
<b>MATERIAL ASPECT: SUPPLIER ASSESSMENT FOR LABOUR PRACTICES</b>			
G4-DMA			
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	100% and it is one of supplier selection criteria. Page 89	No
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	There were no negative impacts	No
<b>MATERIAL ASPECT: LABOUR PRACTICES GRIEVANCE MECHANISMS</b>			
G4-DMA			
G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	Company has not received any grievance against human rights in the work place during the year	No
<b>SUB CATEGORY –HUMAN RIGHTS</b>			
<b>MATERIAL ASPECT: NON-DISCRIMINATION</b>			
G4-DMA			
G4-HR3	Total number of incidents of discrimination and corrective actions taken	No incidents reported	No
<b>MATERIAL ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>			
G4-DMA			
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	No such operations and suppliers	No
<b>MATERIAL ASPECT: CHILD LABOUR</b>			
G4-DMA			
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	No operations having significant risk for incidents of child labour. One of the supplier selection criteria to check possibility of involvement of child labour. Page 89	No
<b>MATERIAL ASPECT: FORCED OR COMPULSORY LABOUR</b>			
G4-DMA			
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	No such operations & suppliers. One such supplier selection criteria to evaluate labour practices. Page 89	No

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# GRI G4 CONTENT INDEX

DMA AND INDICATORS	MATERIAL ASPECTS	PAGE NUMBER / REFERENCE	EXTERNAL ASSURANCE
<b>MATERIAL ASPECT: SECURITY PRACTICES</b>			
G4-DMA			
G4-HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	100%	No
<b>MATERIAL ASPECT: HUMAN RIGHTS GRIEVANCE MECHANISMS</b>			
G4-DMA			
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	Company has not received any grievance.	No
<b>SUB CATEGORY - SOCIETY</b>			
<b>MATERIAL ASPECT: LOCAL COMMUNITIES</b>			
G4-DMA			
G4-S01	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Page 90 to 92	Yes
G4-S02	Operations with significant actual and potential negative impacts on local communities	UA being an insurance service provider, does not carry out any activity which will have a negative impact on local communities.	No
G4-FS13	Access points in low-populated or economically disadvantage areas by type	Page 83	No
<b>MATERIAL ASPECT: ANTI-CORRUPTION</b>			
G4-DMA			
G4-S03	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	Page 75	Yes
G4-S04	Communication and training on anti-corruption policies and procedures	Page 75	No
G4-S05	Confirmed incidents of corruption and actions taken	No incidents reported	No
<b>MATERIAL ASPECT: PUBLIC POLICY</b>			
G4-DMA			
G4-S06	Total value of political contributions by country and recipient/beneficiary	No political contribution made	No
<b>MATERIAL ASPECT: ANTI-COMPETITIVE BEHAVIOUR</b>			
G4-DMA			
G4-S07	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	No incidents reported	No
<b>MATERIAL ASPECT: COMPLIANCE</b>			
G4-DMA			
G4-S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Zero non compliances	No

DMA AND INDICATORS	MATERIAL ASPECTS	PAGE NUMBER / REFERENCE	EXTERNAL ASSURANCE
<b>MATERIAL ASPECT: GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY</b>			
G4-DMA			
G4-S011	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	Company has not received grievance	No
<b>SUB CATEGORY-PRODUCT RESPONSIBILITY</b>			
<b>MATERIAL ASPECT: PRODUCT AND SERVICE LABELLING</b>			
G4-DMA			
G4-PR3	Types of product and services information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	Page 84 to 85	No
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	Zero- non compliance during the period	No
G4-PR5	Results of surveys measuring customer satisfaction	Page 87 to 89	Yes
<b>MATERIAL ASPECT: MARKETING COMMUNICATIONS</b>			
G4-DMA			
G4-PR6	Sale of banned or disputed products	Zero	No
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Zero non-compliances during the period	No
<b>MATERIAL ASPECT: CUSTOMER PRIVACY</b>			
G4-DMA			
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Zero complaints	No
<b>MATERIAL ASPECT: COMPLIANCE</b>			
G4-DMA			
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Zero- non compliance during the period	No
<b>MATERIAL ASPECT: PRODUCT PORTFOLIO</b>			
G4 -DMA			
G4-FS6	Percentage of the portfolio for business lines by specific region ,size and by sector	Page 82 to 83	No
G4-FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	As company is engaged in insurance business Social benefits has been considered when designing products	No
G4-FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	Environmental benefits have been considered when designing the products	No

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# CERTIFICATE OF CARBON FOOTPRINT



**Carbon Consulting Company (Private) Limited**  
 Registered Address: 104/11 Grandpass Road, Colombo 14, Sri Lanka  
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17<sup>th</sup> January 2017

## Certificate of Assessment – Greenhouse Gas Emissions Inventory

This is to certify that The Carbon Consulting Company (CCC) has conducted an Organisational Greenhouse Gas Assessment for the operations of Union Assurance PLC using data of stipulated activities/operations as chosen by the client that fall under Scopes 1, 2 & 3, which are listed below;

- Purchased Electricity
- Generator Fuel Consumption
- Long Term Leased Vehicles
- Employee Commuting
- Grid Electricity Transmission and Distribution Losses
- Recycled Waste

CCC can confirm that the Carbon Footprint of Union Assurance PLC's operations for the calendar year 2016 is **1642.22 tCO<sub>2</sub>e** (*data has not been independently verified*).

The calculations were carried out in accordance with the **Greenhouse Gas Protocol – Corporate Accounting and Reporting Standard (GHG Protocol)** developed in partnership with the **World Business Council for Sustainable Development** and the **World Resources Institute**. This standard provides guidelines regarding organisational and operational assessment boundaries, quantification and standard reporting practices.

Our calculations have applied the methodologies stipulated in the GHG Protocol to a limited scope as requested by Union Assurance PLC, and the client is solely responsible for the authenticity, relevancy and accuracy of the data provided for this Greenhouse Gas Assessment.

Yours faithfully,

Authorised Signature

# UNDERSTANDING OUR FINANCIALS

Our financials provides information about the financial performance and financial position of the company. It is one means by which directors of the company advise shareholders on how the business has performed during the year 2016.

A life insurance company's statement of income includes the income and expenses derived from life insurance business. This brief note is to facilitate the reviewer in understanding our financials and is to be read with the additional information provided in the glossary. We have provided the following overview based on the life insurance statement of income and statement of financial Position.

Statement of income For the year ended 31 December 2016	Comment	Life Insurance
Gross written premium	1	8,270,751
Premium ceded to reinsurers	2	(423,857)
<b>Net written premium</b>	<b>3</b>	<b>7,846,894</b>
<b>Other revenue</b>		
Net investment income	4	3,025,594
Net realised losses	5	(131,948)
Net fair value losses	6	(34,751)
Other income		58,653
		2,917,048
<b>Total net revenue</b>		<b>10,763,942</b>
<b>Benefits, claims and expenses</b>		
Net benefits and claims paid	7	(5,833,650)
Underwriting and net acquisition costs (including reinsurance)	8	(1,441,617)
Other operating and administrative and selling expenses	9	(2,064,793)
Depreciation and amortisation		(110,890)
<b>Total benefits, claims and expenses</b>		<b>(9,450,950)</b>
<b>Profit from operations</b>		<b>1,312,992</b>
Share of results of equity accounted investee, net of tax	10	60,315
Profit before income tax		1,373,307
Income tax reversal		(60,679)
<b>Profit for the year attributable to equity holders of the company</b>		<b>1,312,628</b>

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# UNDERSTANDING OUR FINANCIALS

## Statement of financial Position As at 31 December 2016

	Comment	Life Insurance
<b>Assets</b>		
Investment in equity accounted investee	11	777,346
Financial investments	12	30,847,256
Loans to life policyholders	13	867,177
Reinsurance receivables	14	178,181
Premium receivables	15	246,800
<b>Liabilities</b>		
Insurance contract liabilities – Life	16	27,889,682
Insurance contract liabilities - Unit linked	17	2,377,707
Reinsurance payables	18	208,742

## COMMENTS

### STATEMENT OF INCOME

- The main source of income of the company consists of the premiums paid by customers for the risk/s which they transfer to the company. The amount of money to be charged for a certain amount of insurance coverage is called the Gross Written Premium "GWP. GWP is comparable with the "turnover" of a trading or manufacturing organisation.
- The portion of risk that a primary insurer passes to a reinsurer. Premium ceded to reinsurance allows the company to reduce its risk exposure to an insurance policy by passing that risk onto another company, with the accepting company receiving a premium for taking on the risk.
- Net written premiums refer to the portion of premium which is applicable for the financial year and earned by the insurer. This is the amount of premiums that the company has earned by providing insurance against various risks during the year.
- Net investment income refers to interest income and dividend income received, from investments maintained by the company after deducting the costs of the related investments such as bank charges, custodian fees, brokerage fee etc.
- Net realised gains / losses resulting from selling of financial investments at a price higher or lower than the book value. While an asset may be carried on the statement of financial position at a level far above or below cost, any gains / losses while the asset is still being held would be considered unrealised, as the asset is being valued at a fair market value.
- Net fair value gains / losses incurred by the company due to change in the market value of investments which are sensitive to market value change (e.g: Quoted equity).
- Net benefits and claims refer to total amount of claims and claims related expenses incurred during the year, where appropriate, adjusted by claims outstanding provisions at the beginning and end of the accounting period. In Life business benefits paid to life policy holders, such as surrenders, policy maturities, annuities and interim payments are included. This also includes the balance transferred to life fund.
- Net acquisition expenses consists of the following;
 

#### COMMISSION / FRANCHISE FEES

Insurance business is predominantly transacted through intermediaries such as brokers and direct agents. When policies are sold by intermediaries, the fee paid to an agent or broker as a percentage of the policy premium is considered as commission. The percentage varies depending on coverage and the duration of the policy..

#### REINSURANCE COMMISSION

The commission paid by the reinsurer to the ceding company (primary insurer) on reinsurance agreements as compensation to place the business with the reinsurer and to cover the ceding company's acquisition expenses.
- Other operating, administrative and selling expenses
 

The above refers to staff, administration, sales and marketing costs incurred by the company.
- Share of results of equity accounted investee, net of tax refers to the share of profit from Union Assurance General Limited attributable to the company.

## STATEMENT OF FINANCIAL POSITION

### INDUSTRY SPECIFIC ITEMS ARE SELECTED AND EXPLAINED BELOW

11. Investment in equity accounted investee refers to carrying value of 22% stake in Union Assurance General Limited.
12. Financial Investments explains how the company has invested the money received from policyholders to pay benefits to policy holders and increase profitability of the company with the expectation of capital appreciation, dividends (profit), interest earnings, or some combination of these returns. Income earned from policyholders' money is accumulated to Life fund.
13. Life policyholders can obtain loans from the company up to a certain percentage of the surrender value of the policy. Loan granted under these criteria are presented here.
14. The reinsurance receivable reported as an asset in the company's statement of financial position includes amounts due from the company's reinsurers on current claims and estimates of amounts that will be due on future claims.
15. Premium receivables consist of premium-related balances due from policyholders.
16. In Life insurance business, due to the longer duration of the policy period, insurance companies are required to maintain a separate fund to meet future policyholders' obligations. This is known as the "Insurance contract liabilities." The size of the fund that needs to be maintained is determined by the actuarial valuation which happens annually. This process estimates the excess of the assets over the policyholder's liabilities of the fund after distribution of dividends to the policyholders as at the year end. The excess is generally known as Life Surplus and it is transferred as shareholders' funds in the financial statements.
17. Same meaning as per Note 16 however it related to the unit linked operation.
18. Reinsurance payables represent payables to reinsurers for risk portion undertaken by them.

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# GLOSSARY OF INSURANCE TERMS

<p><b>Aa</b></p>	<p><b>Bb</b></p>	
<p><b>Accumulation</b> - The situation where a significant number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.</p>	<p><b>Bancassurance</b> - An arrangement whereby insurer sells insurance and investment products to bank customers.</p>	<p>Discretionary participating features (DPF) - A contractual right given to a policyholder to receive, as a supplement to guaranteed benefits, additional benefits;</p>
<p><b>Acquisition expenses</b> - 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.</p>	<p><b>Beneficiary</b> - 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.</p>	<ul style="list-style-type: none"> <li>• That are likely to be a significant portion of the total contractual benefits;</li> <li>• Whose amount or timing is contractually at the discretion of the issuer;</li> </ul>
<p><b>Actuary</b> - Qualified expert who analyses problems from the area of insurance, investments and pensions using methods of probability theory and financial mathematics and develops solutions with due regard to legal and economic parameters.</p>	<p><b>Benefits and claims experience variation</b> - The difference between the expected and the actual benefit payout</p>	<ul style="list-style-type: none"> <li>• That are contractually based on;</li> <li>• The performance of a specified pool of contracts or a specified type of contract;</li> </ul>
<p><b>Administrative expenses</b> - 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.</p>	<p><b>Cc</b></p>	<ul style="list-style-type: none"> <li>• The realised and or unrealised investment returns on a specified pool of assets held by the issuer; and</li> <li>• The profit or loss of the company, fund or other entity that issues the contract.</li> </ul>
<p><b>Admissible assets</b> - 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.</p>	<p><b>Cedent</b> - Client of a reinsurance company (also see primary insurers).</p>	<p><b>Ee</b></p>
<p><b>Annuity</b> - 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.</p>	<p><b>Claims</b> - The amount payable under a contract of insurance arising from the occurrence of an insured event.</p>	<p><b>Endowment</b> - Life insurance payable to the policyholder if living on the maturity date stated in the policy or to a beneficiary if the insured dies before that date.</p>
<p>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.</p>	<p><b>Claims incurred</b> - A claim is incurred when the event giving rise to the claim occurs. Claims incurred include paid claims and movements in outstanding claims.</p>	<p><b>Ff</b></p>
<p><b>Assets held for sale</b> - Assets, usually long-term, which one party wishes to liquidate through sales to other parties. An abandoned asset which has no prospective buyers may not be listed as an "asset held for sale."</p>	<p><b>Claims outstanding</b> - 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 reporting date being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.</p>	<p><b>Financial risk</b> - The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non financial variable that the variable is not specific to a party to the contract.</p>
	<p><b>Commissions</b> - A payment made to a broker or a sales agent in return for selling and servicing an insurer's products.</p>	<p><b>Gg</b></p>
	<p><b>Capital Adequacy Ratio (CAR)</b> - Measures adequacy of the Total Available Capital (TAC) as against the Risk Capital Required (RCR) under the Risk Based Capital Regime.</p>	<p><b>Global Reporting initiative (GRI)</b> - A leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development. It allied with the UN Global Compact.</p>
	<p><b>Dd</b></p>	
	<p><b>Discontinued operation</b> - Operations of an entire division, subsidiary, or segment of a company where a formal plan exists to eliminate it from the company.</p>	

<p><b>Hh</b></p> <p><b>Healthcare</b> - An insurance contract which provides medical coverage to a policyholder.</p>	<p><b>Life insurance business</b> – 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.</p>	<p><b>Oo</b></p> <p><b>Outstanding claims provision</b> - Comprises claims incurred by the policyholder and reported to the insurance company, and IBNR claims.</p>
<p><b>li</b></p> <p><b>Insurance contract</b> - 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.</p> <p><b>Insurance risk</b> - Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.</p> <p><b>Insurance provision – Life</b> - 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.</p> <p><b>Investment contract</b> - A contract, which contains significant financial risk and may contain insignificant insurance risk, but does not meet the definition of insurance.</p> <p><b>Investment management services</b> - The management of an investment contract on behalf of a policyholder, for which an investment management service fee is charged.</p>	<p><b>Longevity</b> - The insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.</p> <p><b>Loss ratio</b> - Percentage ratio of claims expenses to earned premiums.</p>	<p><b>Pp</b></p> <p><b>Participating business</b> - Life insurance business where the policyholders are contractually entitled to share in the surplus of the relevant life fund.</p> <p><b>Policyholders' bonuses</b> - In life and health insurance, policyholders are entitled contractually and by law to an appropriate share of the surplus earned by their insurers. The amount of this bonus is fixed anew each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are paid by way of premium refunds.</p> <p><b>Policy loans</b> - 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.</p> <p><b>Premiums</b> - The instalments paid by the customers.</p> <p><b>Primary insurers</b> - 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).</p> <p><b>Proportional reinsurance</b> - Form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.</p> <p><b>Provision for outstanding claims</b> - Provision for claims that have already been incurred at the reporting date but have either not yet been reported or not yet been fully settled.</p>
<p><b>Ll</b></p> <p><b>Lapsed Policy</b> - A policy terminated at the end of the grace period because of non payment of premiums.</p> <p><b>Liability adequacy test (LAT)</b> – An annual assessment of the sufficiency of insurance and / or investment contract with DPF liabilities, to cover future insurance obligations.</p> <p><b>Life surplus</b> - The excess of the assets over the liabilities as determined by the actuary and after the distribution of dividends to policyholders</p>	<p><b>Mm</b></p> <p><b>Mortality</b> - The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.</p> <p><b>Nn</b></p> <p><b>Net</b> - Refer Gross / net</p> <p><b>Net asset value</b> - The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.</p> <p><b>Net expenses for claims and benefits</b> - These include the expenses for claims (claims payments and the change in the provision for outstanding claims), expenses for premium refunds and the change in the remaining technical provisions (provision for future policy benefits and other), in each case after deduction of the ceded share.</p> <p><b>Non-participating business</b> – Life insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.</p> <p><b>Non-proportional reinsurance</b> – Under this form of reinsurance, the reinsurer assumes payment of the primary insurer's loss above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.</p>	

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# GLOSSARY OF INSURANCE TERMS

## Rr

**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 insurance risk** - that is ceded to another insurer to compensate for losses, but the ultimate obligation to the policyholder remains with the entity who issued the original insurance contract.

**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** - The 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.

**Risk Based Capital** - A "Risk Based" approach to assess the solvency and is based on the real "cash flows" of the business.

## Ss

**Scenario analysis** - Type of analysis used to investigate how certain key figures (market values or carrying amounts) change in the event that predefined market developments occur. Scenario analyses usually takes the form of average if-then analyses.

**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.

**Stress test** - A special form of scenario analysis. The aim is to make a quantitative statement on the loss potential of portfolios in the event of extreme market fluctuations, tail dependencies. The result of risk drivers interacting in exceptional situations.

**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).

## Tt

**Technical provisions** - Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

## Uu

**Underwriter** - Member of an insurance company that acts on behalf of his or her employer to negotiate, accept or reject the terms of an insurance contract. They are responsible for ensuring the quality and reliability of risk-transfer solutions.

Their job is to develop products that best reflect the characteristics of the risks and clients' needs.

**Unit-linked life Insurance** - A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

## Vv

**Variable annuities** - A special form of unit-linked life insurance where the investment risk is borne primarily by the policyholder but the insurer guarantees a minimum payment on occurrence of the insured event.

## Ww

**Written premium - Life insurance business** - Premiums to which the insurer is contractually entitled and received in the accounting period.

# QUARTERLY ANALYSIS 2016

Rs '000	2016				2015					
	1st quarter		2nd quarter		3rd quarter		4th quarter			
	January-March	April-June	July-September	October-December	January-March	April-June	July-September	October-December		
Gross written premium	1,932,647	1,934,987	2,144,249	2,258,868	8,270,751	1,565,238	1,611,434	1,817,081	1,970,637	6,964,390
Premium ceded to reinsurers	(99,549)	(105,472)	(108,046)	(110,790)	(423,857)	(84,648)	(92,254)	(92,768)	(94,512)	(364,182)
<b>Net written premium</b>	<b>1,833,098</b>	<b>1,829,515</b>	<b>2,036,203</b>	<b>2,148,078</b>	<b>7,846,894</b>	<b>1,480,590</b>	<b>1,519,180</b>	<b>1,724,313</b>	<b>1,876,125</b>	<b>6,600,208</b>
<b>Other revenue</b>										
Net investment income	679,063	732,714	764,032	849,285	3,025,094	653,063	669,770	669,861	639,825	2,632,519
Net realised gains / (losses)	(100,323)	(15,235)	26,222	(42,612)	(131,948)	44,138	(12,926)	17,900	(10,715)	38,397
Net fair value gains / (losses)	(374,883)	105,014	320,615	(85,497)	(34,751)	(118,106)	94,230	(91,065)	(175,958)	(290,899)
Other income	11,189	11,074	10,635	25,755	58,653	36,344	13,618	11,460	28,231	89,653
<b>Total other revenue</b>	<b>215,046</b>	<b>833,567</b>	<b>1,121,504</b>	<b>746,931</b>	<b>2,917,048</b>	<b>615,439</b>	<b>764,692</b>	<b>608,156</b>	<b>481,383</b>	<b>2,469,670</b>
<b>Total net revenue</b>	<b>2,048,144</b>	<b>2,663,082</b>	<b>3,157,707</b>	<b>2,895,009</b>	<b>10,763,942</b>	<b>2,096,029</b>	<b>2,283,872</b>	<b>2,332,469</b>	<b>2,357,508</b>	<b>9,069,878</b>
<b>Benefits, claims and expenses</b>										
Net insurance benefits and claims paid	(318,749)	(352,012)	(437,001)	(416,548)	(1,524,310)	(352,992)	(353,056)	(374,659)	(367,621)	(1,448,328)
Net change in insurance claims outstanding	(54,300)	(18,040)	5,140	(3,875)	(71,075)	(19,675)	16,995	13,571	(35,497)	(24,606)
Change in contract liabilities - Life Fund	(953,737)	(1,412,508)	(1,783,400)	(88,620)	(4,238,265)	(923,877)	(1,123,824)	(1,149,140)	(203,832)	(3,400,673)
Underwriting and net acquisition costs (including reinsurance)	(263,239)	(347,620)	(392,244)	(438,514)	(1,441,617)	(285,348)	(298,125)	(334,609)	(371,355)	(1,289,437)
Other operating, administrative and selling expenses	(398,415)	(471,861)	(484,031)	(710,486)	(2,064,793)	(364,290)	(405,369)	(407,122)	(571,159)	(1,747,940)
Depreciation and amortisation	(27,219)	(26,909)	(28,420)	(28,342)	(110,890)	(30,571)	(30,894)	(29,918)	(28,600)	(119,983)
<b>Total benefits, claims and expenses</b>	<b>(2,015,659)</b>	<b>(2,628,950)</b>	<b>(3,119,956)</b>	<b>(1,686,385)</b>	<b>(9,450,950)</b>	<b>(1,976,753)</b>	<b>(2,194,273)</b>	<b>(2,281,877)</b>	<b>(1,578,064)</b>	<b>(8,030,967)</b>
<b>Profit from operations</b>	<b>32,485</b>	<b>34,132</b>	<b>37,751</b>	<b>1,208,624</b>	<b>1,312,992</b>	<b>119,276</b>	<b>89,599</b>	<b>50,592</b>	<b>779,444</b>	<b>1,038,911</b>
Gain on sale of subsidiary	-	-	-	-	-	1,221,460	-	-	-	1,221,460
Share of results of equity accounted investee, net of tax	28,804	23,614	33,046	(25,149)	60,315	21,229	3,516	343	32,902	57,990
<b>Profit before tax</b>	<b>61,289</b>	<b>57,746</b>	<b>70,797</b>	<b>1,183,475</b>	<b>1,373,307</b>	<b>1,361,965</b>	<b>93,115</b>	<b>50,935</b>	<b>812,346</b>	<b>2,318,361</b>
Income tax expense	-	-	-	(60,679)	(60,679)	-	-	-	28,275	28,275
<b>Profit for the year</b>	<b>61,289</b>	<b>57,746</b>	<b>70,797</b>	<b>1,122,796</b>	<b>1,312,628</b>	<b>1,361,965</b>	<b>93,115</b>	<b>50,935</b>	<b>840,621</b>	<b>2,346,636</b>

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# INSURANCE REVENUE ACCOUNT

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
<b>Gross written premium</b>	8,270,751	6,964,390
Premium ceded to reinsurers	(423,857)	(364,182)
<b>Net written premium</b>	7,846,894	6,600,208
Policy administration fee	11,216	11,138
Net insurance benefits and claims paid	(1,524,310)	(1,448,328)
Net change in insurance claims outstanding	(71,075)	(24,606)
Underwriting and net acquisition costs (including reinsurance)	(1,441,617)	(1,289,437)
Other operating, selling and administrative expenses	(2,157,254)	(1,832,743)
<b>Underwriting surplus</b>	2,663,854	2,016,232
Investment and other income	2,735,090	2,156,166
Change in contract liabilities - Life fund	(4,238,265)	(3,400,673)
Income tax reversal	(60,679)	28,275
<b>Surplus from life insurance fund</b>	1,100,000	800,000
Investment and other income not attributable to policyholders	179,432	1,530,851
Expenses not attributable to policyholders	(27,119)	(42,205)
Share of results of equity accounted investee, net of tax	60,315	57,990
<b>Profit from shareholders' fund</b>	212,628	1,546,636
<b>Profit for the year attributable to equity holders of the company</b>	1,312,628	2,346,636

# LIFE INSURANCE FUND

## STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	2016 Rs. '000	2015 Rs. '000
<b>Assets</b>				
Intangible assets	1	324	94,647	59,616
Property, plant and equipment	2	324	1,493,040	1,523,676
Financial investments	3	325	29,495,819	25,386,387
Loans to life policyholders			867,177	741,852
Reinsurance receivable	4	329	178,181	149,772
Premiums receivable			246,800	203,722
Receivables and other assets	5	329	527,943	475,539
Cash in hand and at bank	6	329	379,182	316,407
<b>Total assets</b>			<b>33,282,789</b>	<b>28,856,971</b>
<b>Reserves and liabilities</b>				
<b>Reserves</b>				
Other reserves	7	330	378,902	760,322
<b>Total reserves</b>			<b>378,902</b>	<b>760,322</b>
<b>Liabilities</b>				
Insurance contract liabilities	8	330	27,889,682	23,731,238
Insurance contract liabilities - Unit Linked	9	331	2,377,707	2,541,221
Employee benefit liabilities	10	331	107,963	100,199
Reinsurance payables			208,742	213,855
Other liabilities	11	331	2,169,487	1,391,184
Bank overdraft			150,306	118,952
<b>Total liabilities</b>			<b>32,903,887</b>	<b>28,096,649</b>
<b>Total reserves and liabilities</b>			<b>33,282,789</b>	<b>28,856,971</b>

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# LIFE INSURANCE FUND

## STATEMENT OF CASH FLOWS

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
<b>Cash flows from operations</b>		
Insurance premium received	8,227,672	6,919,785
Reinsurance premium paid	(428,970)	(286,105)
Insurance benefits and claims paid	(1,682,170)	(1,542,972)
Reinsurance claims received	157,860	94,644
Payments to intermediaries to acquire insurance contracts	(1,430,821)	(1,274,479)
Cash paid to and on behalf of employees	(834,098)	(794,065)
Interest received	2,200,471	1,802,456
Dividends received	102,922	106,416
Other operating cash flows	(1,129,946)	(1,217,735)
Cash paid to life shareholder fund	(800,000)	(750,000)
<b>Cash generated from operating activities (Note A)</b>	<b>4,382,920</b>	<b>3,057,945</b>
Retiring gratuity paid	(20,430)	(17,787)
Retiring gratuity received	2,385	-
Interest paid on obligation to repurchase securities	(6,750)	-
<b>Net cash from operating activities</b>	<b>4,358,125</b>	<b>3,040,158</b>
<b>Cash flows from investing activities</b>		
Acquisition of investments	(45,290,918)	(52,209,669)
Maturity proceeds of investments	40,720,703	48,033,794
Proceeds from sale of investments	371,885	1,287,017
Acquisition of property, plant and equipment	(53,000)	(53,409)
Acquisition of intangible assets	(65,397)	(23,662)
Proceeds on sale of property, plant and equipment	156	16
<b>Net cash used in investing activities</b>	<b>(4,316,571)</b>	<b>(2,965,913)</b>
<b>Net cash (used in) / inflow before financing activities</b>	<b>41,554</b>	<b>74,245</b>
<b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>
<b>Net increase / (decrease) in cash and cash equivalents - (Note B)</b>	<b>41,554</b>	<b>74,245</b>
Cash and cash equivalents at the beginning of the year	197,455	123,210
<b>Cash and cash equivalent at the end of the year</b>	<b>239,009</b>	<b>197,455</b>

For the year ended 31 December	2016 Rs. '000	2015 Rs. '000
<b>A. Reconciliation of surplus from life insurance fund before tax with cash from operating activities</b>		
Surplus from life insurance fund before tax	1,160,679	771,725
<b>Adjustment for:</b>		
Depreciation and amortisation	110,890	119,983
Provision for employee benefits	20,948	19,956
Provision for doubtful staff debtors	732	4,396
Net realised gains losses	131,948	1,125
Net fair value losses	34,751	290,899
Losses on sale of property, plant and equipment	(83)	49
Amortisation of financial investment	(314,551)	(265,061)
Scrip dividend income	(26,531)	(12,137)
Interest expense on obligation to repurchase securities	6,750	-
<b>Loss before working capital changes</b>	<b>1,125,533</b>	<b>930,935</b>
<b>Net change in operational assets</b>		
Net change in reinsurance assets / liabilities	(33,522)	(19,165)
Net change in premium receivables	(43,078)	(44,604)
Net change in receivables and other assets	(485,417)	(140,839)
<b>Net change in operational liabilities</b>		
Net change in life insurance contract liabilities	3,994,928	3,218,577
Net change in other liabilities	(175,524)	(886,959)
<b>Cash generated from operating activities</b>	<b>4,382,920</b>	<b>3,057,945</b>
<b>B. Cash and cash equivalents at the end of the year</b>		
cash in hand and at bank	379,182	316,407
Bank overdraft	(150,306)	(118,952)
Short term deposits	10,133	-
<b>Net cash in hand and at bank for the current year</b>	<b>239,009</b>	<b>197,455</b>
Net cash in hand and at bank for the previous year	197,455	123,210
<b>Increase / (decrease) in cash in hand and at bank</b>	<b>41,554</b>	<b>74,245</b>

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# LIFE INSURANCE FUND – NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 1 INTANGIBLE ASSETS

Refer Note 26 for the accounting policy.

As at 31 December Rs. '000	Licensed	Purchased	2016 Total	2015 Total
<b>Cost</b>				
Balance as at 1 January	39,027	172,059	211,086	187,424
Acquisitions during the year	36	65,361	65,397	23,662
<b>Balance as at 31 December</b>	<b>39,063</b>	<b>237,420</b>	<b>276,483</b>	<b>211,086</b>
<b>Accumulated amortisation and impairment losses</b>				
Balance as at 1 January	24,762	126,708	151,470	120,658
Amortisation	7,199	23,167	30,366	30,812
<b>Balance as at 31 December</b>	<b>31,961</b>	<b>149,875</b>	<b>181,836</b>	<b>151,470</b>
<b>Carrying value</b>				
As at 31 December 2016	7,102	87,545	94,647	
As at 31 December 2015	14,265	45,351		59,616

## 2 PROPERTY, PLANT AND EQUIPMENT

Refer Note 27 for the accounting policy.

As at 31 December Rs. '000	Freehold Land	Freehold Buildings	Plant machinery, Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	2016 Total	2015 Total
<b>Cost / Revaluation</b>								
Balance as at 1 January	1,049,000	303,500	160,210	177,089	444,882	80	2,134,761	1,746,022
Additions during the year	-	-	6,009	5,765	41,226	-	53,000	53,409
Surplus on revaluation	-	-	-	-	-	-	-	338,500
Disposals / scrapping during the year	-	-	(18,015)	(11,005)	(37,364)	-	(66,384)	(3,170)
<b>Balance as at 31 December</b>	<b>1,049,000</b>	<b>303,500</b>	<b>148,204</b>	<b>171,849</b>	<b>448,744</b>	<b>80</b>	<b>2,121,377</b>	<b>2,134,761</b>
<b>Accumulated depreciation and impairment losses</b>								
Balance as at 1 January	-	-	120,889	151,738	338,415	43	611,085	542,088
Depreciation for the year	-	9,433	16,317	14,255	40,503	16	80,524	89,171
Transferred cumulated depreciation on assets revalued	-	-	-	-	-	-	-	(17,070)
Accumulated depreciation on Disposals / scrapping during the year	-	-	(15,767)	(10,239)	(37,266)	-	(63,272)	(3,104)
<b>Balance as at 31 December</b>	<b>-</b>	<b>9,433</b>	<b>121,439</b>	<b>155,754</b>	<b>341,652</b>	<b>59</b>	<b>628,337</b>	<b>611,085</b>
<b>Carrying value</b>								
As at 31 December 2016	1,049,000	294,067	26,765	16,095	107,092	21	1,493,040	
As at 31 December 2015	1,049,000	303,500	39,321	25,351	106,467	37		1,523,676

### 3 FINANCIAL INVESTMENTS

Refer Note 9 for the accounting policy

As at 31 December Rs. '000	Note	2016		2015	
		Carrying value	Fair Value	Carrying value	Fair Value
Held to maturity financial assets (HTM)	3.1	15,396,036	14,595,957	13,600,906	14,067,124
Loans and receivables (L&R)	3.2	5,380,958	5,387,721	1,400,988	1,471,888
Available for sale financial assets (AFS)	3.3	4,632,489	4,632,489	6,374,473	6,374,473
Financial assets at fair value through profit or loss (FVTPL)	3.4	4,086,336	4,086,336	4,010,020	4,010,020
<b>Total financial investments</b>		<b>29,495,819</b>	<b>28,702,503</b>	<b>25,386,387</b>	<b>25,923,505</b>

#### 3.1 HELD TO MATURITY FINANCIAL ASSETS (HTM)

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Amortised cost</b>			
Quoted debentures	3.1 (A)	853,960	1,439,728
Treasury bonds		14,542,076	12,161,178
<b>Total HTM financial investments</b>		<b>15,396,036</b>	<b>13,600,906</b>

#### 3.1 (A) QUOTED DEBENTURES

DIVERSIFIED HOLDINGS

As at 31 December Issuer	Maturity date	No. of debentures	2016		
			Carrying value Rs. '000	Market value Rs. '000	Interest %
Bank of Ceylon	30/11/2017	5,000,000	506,995	523,945	16.00
Sampath Bank PLC	12/10/2017	476,900	55,715	56,534	16.50
Peoples' Leasing Company PLC	19/03/2018	1,281,300	74,408	78,184	16.75
Hatton National Bank PLC	31/07/2022	2,000,000	216,842	216,842	16.75
			853,960	875,505	

As at 31 December Issuer	Maturity date	No. of debentures	2015		
			Carrying value Rs. '000	Market value Rs. '000	Interest %
Nations Trust Bank PLC	04/08/2016	200,000	209,452	212,897	11.50
DFCC Vardhana Bank PLC	07/09/2016	1,481,481	148,195	151,486	11.50
DFCC Bank PLC	26/09/2016	200,000	228,000	236,052	14.00
Sampath Bank PLC	10/12/2017	476,900	55,754	58,420	16.50
Bank of Ceylon	30/11/2017	5,000,000	507,014	563,395	16.00
Peoples Leasing Company PLC	19/03/2018	686,300	74,425	83,656	16.75
Hatton National Bank PLC	31/07/2022	2,000,000	216,888	268,157	16.75
			1,439,728	1,574,063	

Fair values of held to maturity financial assets are based on market prices / quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

At the reporting date, there were no held to maturity assets that were overdue and impaired.

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## 3.2 LOANS AND RECEIVABLES (L&R)

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Amortised cost</b>			
Bank deposits		572,372	501,023
Unquoted debentures		-	385,100
Quoted debentures	3.2 (A)	4,553,805	-
Reverse repurchase agreements		254,781	514,865
<b>Total L&amp;R financial investments</b>		<b>5,380,958</b>	<b>1,400,988</b>

### 3.2 (A) QUOTED DEBENTURES

As at 31 December	2016					
	Issuer	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
	Senkadagala Finance PLC	28/05/2017	185,014	20,358	20,358	17.25
	Lion Brewery (Ceylon) PLC	17/06/2017	33,600	35,134	35,134	13.75
	DFCC Bank PLC	18/08/2017	3,000,000	304,166	304,166	8.50
	Singer Sri Lanka PLC	23/12/2017	216,700	22,727	22,727	8.25
	People's Leasing Company PLC	19/03/2018	1,281,300	67,783	67,783	16.75
	People's Leasing Company PLC	26/03/2018	120,000	14,951	14,951	17.00
	Merchant Bank Of Sri Lanka PLC	28/03/2018	469,300	62,267	62,267	17.50
	Hatton National Bank Plc	13/06/2018	2,533,733	277,637	277,637	14.00
	Lion Brewery (Ceylon) PLC	17/06/2018	44,800	47,411	47,411	14.00
	Central Finance Company PLC	17/06/2018	155,200	165,509	165,509	14.75
	People's Leasing Company PLC	23/09/2018	309,900	32,750	32,750	9.63
	Sampath Bank PLC	04/12/2018	1,114,800	119,982	119,982	13.00
	Sampath Bank PLC	04/12/2018	1,114,800	127,391	127,391	13.40
	Central Finance Company PLC	12/12/2018	446,900	48,212	48,212	13.50
	Central Finance Company PLC	12/12/2018	710,500	82,249	82,249	13.95
	Nations Trust Bank PLC	19/12/2018	2,881,300	306,514	306,514	13.00
	Hemas Holdings PLC	29/04/2019	1,452,900	144,445	144,445	11.00
	Merchant Bank Of Sri Lanka PLC	12/11/2019	500,000	49,265	49,265	9.00
	Lanka Orix Leasing Company PLC	24/11/2019	1,000,000	91,612	91,612	9.00
	Sampath Bank PLC	15/12/2019	3,000,000	285,750	285,750	8.25
	Seylan Bank PLC	23/12/2019	2,000,000	176,753	176,753	8.60
	Siyapatha Finance Limited	24/12/2019	250,000	24,442	24,442	8.90
	Central Finance Company PLC	01/06/2020	400,000	39,884	39,884	9.52
	National Development Bank PLC	24/06/2020	1,850,000	342,858	342,858	9.40
	Senkadagala Finance PLC	10/11/2020	500,000	50,472	50,472	13.75
	Commercial Bank Of Ceylon PLC	09/03/2021	250,000	26,136	26,136	10.75
	Seylan Bank PLC	15/07/2021	950,400	101,698	101,698	13.00
	Siyapatha Finance Limited	20/09/2021	102,400	10,456	10,456	13.50
	Bank Of Ceylon	24/10/2021	242,499	25,270	25,270	13.25
	Nations Trust Bank PLC	08/11/2021	3,000,000	305,599	305,599	12.65
	People's Leasing Company PLC	16/11/2021	2,000,000	203,167	203,167	12.60
	Bank Of Ceylon	29/12/2021	2,000,000	204,028	204,028	13.26
	Hatton National Bank PLC	30/08/2023	1,204,706	95,697	95,697	8.00
	Bank Of Ceylon	25/10/2023	452,300	47,827	47,827	13.75
	Hatton National Bank PLC	01/11/2023	724,000	73,969	73,969	13.00
	National Development Bank PLC	19/12/2023	4,500,000	519,436	519,436	13.90
				<b>4,553,805</b>	<b>4,553,805</b>	

### 3.3 AVAILABLE FOR SALE FINANCIAL ASSETS (AFS)

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Fair value</b>			
Debentures	3.3 (A)	-	4,008,909
Treasury bonds		4,546,644	2,204,380
Treasury bills		85,845	161,184
<b>Total AFS financial investments</b>		<b>4,632,489</b>	<b>6,374,473</b>

Interest-bearing available for sale financial assets with a carrying amount of Rs. 4,632 million as at 31 December 2016 (2015- Rs. 6,374 million) have stated interest rates of 5.8% to 11.5% (2015 - 8.00% to 17.5%) and mature in 1 to 14 years.

#### 3.3 (A) DEBT SECURITIES - LISTED (AFS)

As at 31 December	Maturity date	No. of debentures	2015		
			Carrying value Rs. '000	Market value Rs. '000	Interest %
Singer Sri Lanka PLC	29/05/2016	655,968	69,050	69,050	14.50
Central Finance Company PLC	17/06/2016	24,500	26,750	26,750	14.25
Lion Brewery (Ceylon) PLC	17/06/2016	47,100	51,405	51,405	13.50
Hayleys PLC	07/09/2016	65,400	69,900	69,900	14.25
Senkadagala Finance PLC	28/05/2017	185,014	21,350	21,350	17.25
Lion Brewery (Ceylon) PLC	17/06/2017	33,600	36,850	36,850	13.75
DFCC Bank PLC	18/08/2017	3,000,000	305,961	305,961	8.50
Singer Sri Lanka PLC	23/12/2017	216,700	22,691	22,691	8.25
Peoples Leasing Company PLC	19/03/2018	595,000	72,527	72,527	16.75
Peoples Leasing Company PLC	26/03/2018	120,000	15,711	15,711	17.00
Merchant Bank of Sri Lanka PLC	28/03/2018	469,300	60,042	60,042	17.50
Hatton National Bank PLC	13/06/2018	2,533,733	293,528	293,528	14.00
Central Finance Company PLC	17/06/2018	155,200	176,009	176,009	14.75
Lion Brewery (Ceylon) PLC	17/06/2018	44,800	50,260	50,260	14.00
Peoples Leasing Company PLC	23/09/2018	309,900	33,790	33,790	9.63
Sampath Bank PLC	12/04/2018	1,114,800	127,537	127,537	13.00
Sampath Bank PLC	12/04/2018	1,114,800	134,367	134,367	13.40
Central Finance Company PLC	12/12/18	446,900	51,123	51,123	13.50
Central Finance Company PLC	12/12/18	710,500	88,876	88,876	13.95
Nations Trust Bank PLC	19/12/2018	2,881,300	323,551	323,551	13.00
Hemas Holdings PLC	29/04/2019	1,452,900	151,541	151,541	11.00
Merchant Bank of Sri Lanka PLC	12/11/19	500,000	49,367	49,367	9.00
Lanka Orix Leasing Company PLC	24/11/2019	1,000,000	99,078	99,078	9.00
Sampath Bank PLC	15/12/2019	3,000,000	308,730	308,730	8.25
Seylan Bank PLC	23/12/2019	2,000,000	183,904	183,904	8.60
Siyapatha Finance Limited	24/12/2019	250,000	25,393	25,393	8.90
Central Finance Company PLC	06/01/2020	400,000	40,613	40,613	9.52
National Development Bank PLC	24/06/2020	4,279,000	345,981	345,981	9.40
Bank of Ceylon	24/10/2021	242,499	27,538	27,538	13.25
Hatton National Bank PLC	30/08/2023	1,204,706	103,581	103,581	8.00
Bank of Ceylon	25/10/2023	452,300	52,630	52,630	13.75
National Development Bank PLC	19/12/2023	4,500,000	589,275	589,275	13.90
			4,008,909	4,008,909	

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## 3.4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
<b>Fair value</b>			
Quoted equities	3.4 (A)	1,706,751	1,473,814
<b>Investments in unit linked funds</b>			
Quoted equities		1,814,977	2,022,719
Reverse repurchase agreements		202,959	229,890
Treasury bills		228,781	215,316
Treasury bonds		30,849	32,614
Bank deposits		45,736	10,064
Debentures		56,283	25,603
		4,086,336	4,010,020

### 3.4 (A) EQUITY SECURITIES - (FVTPL)

As at 31 December Rs. '000	2016			2015		
	No of shares	Cost Rs. '000	Carrying value Rs. '000	No of shares	Cost Rs. '000	Carrying value Rs. '000
<b>Banks, Finance and Insurance</b>						
Commercial Bank PLC (non-voting)	581,706	40,414	66,896	572,424	40,414	70,408
Commercial Bank PLC	355,515	36,106	51,550	350,469	36,106	49,136
Hatton National Bank PLC	2,088,232	303,670	430,251	1,827,098	253,631	350,525
Sampath Bank PLC	1,264,695	286,696	329,327	824,255	184,387	204,415
HNB Assurance PLC	336,266	23,645	19,772	336,266	23,645	25,085
Central Finance Company PLC	429,269	39,522	42,927	207,711	39,522	52,551
DFCC Bank PLC	391,520	65,599	47,961	191,520	35,615	32,195
National Development Bank PLC	854,220	160,675	133,258	619,907	120,842	120,324
Peoples Leasing and Finance PLC	3,821,672	67,308	65,733	3,821,672	67,308	84,077
Peoples Insurance Limited	394,300	5,915	7,492	-	-	-
		1,029,550	1,195,167		801,470	988,716
<b>Diversified Holding</b>						
Hemas Holdings PLC	536,638	18,644	52,591	536,638	18,644	49,854
Melstacorp Limited	2,529,764	145,110	150,015	-	-	-
		163,754	202,606		18,644	49,854
<b>Beverage, Food and Tobacco</b>						
Distilleries Company of Sri Lanka PLC	-	-	-	632,441	145,110	155,580
		-	-		145,110	155,580
<b>Construction and Engineering</b>						
Colombo Dockyard PLC	238,350	50,507	18,734	238,350	50,507	35,776
Access Engineering PLC	950,570	25,547	23,574	-	-	-
		76,054	42,308		50,507	35,776
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC	244,400	16,129	38,395	122,200	16,129	42,037
Tokyo Cement Company (Lanka) PLC (voting)	640,777	7,817	37,934	640,777	7,817	31,398
Tokyo Cement Company (Lanka) PLC (non-voting)	1,658,150	42,486	85,395	1,658,150	42,486	65,497
Piramal Glass PLC	1,874,100	16,585	9,933	1,874,100	16,585	11,432
Textured Jersey Lanka PLC	1,553,000	25,384	66,468	1,553,000	25,384	55,132
		108,401	238,125		108,401	205,496
<b>Motors</b>						
Diesel and Motor Engineering PLC	22,062	33,340	12,818	22,062	33,340	13,579
		33,340	12,818		33,340	13,579
<b>Hotels and Travel</b>						
Aitken Spence Hotel Holdings PLC	364,900	25,931	15,727	364,900	25,931	24,813
		25,931	15,727		25,931	24,813
		1,437,030	1,706,751		1,183,403	1,473,814

## 4 REINSURANCE RECEIVABLES

Refer Note 31 for the accounting policy.

As at 31 December	2016 Rs. '000	2015 Rs. '000
Reinsurance receivables on outstanding claims	85,305	60,113
Reinsurance receivables on settled claims	92,876	89,659
<b>Total reinsurance receivables</b>	<b>178,181</b>	<b>149,772</b>

## 5 RECEIVABLES AND OTHER ASSETS

Refer Note 9 for the accounting policy.

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
Financial assets			
Agent / advisor loans		67,686	77,460
Refundable deposits		7,550	7,066
Amount due from Union Assurance General Limited		100,988	42,034
Other receivables		16,381	65,768
		192,605	192,328
<b>Non financial assets</b>			
Taxes recoverables	5.1	203,702	203,204
Prepayments		60,103	46,939
Inventories		14,177	9,776
Advance payments		57,356	23,292
		335,338	283,211
<b>Total receivable and other assets</b>		<b>527,943</b>	<b>475,539</b>

### 5.1 TAXES RECOVERABLES

As at 31 December	2016 Rs. '000	2015 Rs. '000
ACT recoverable	92,296	92,296
WHT receivable	98,588	105,043
ESC receivable	12,818	5,865
	203,702	203,204

## 6 CASH IN HAND AND AT BANK

As at 31 December	2016 Rs. '000	2015 Rs. '000
Cash at bank	376,286	313,441
Cash at bank - Unit Linked	78	148
Cash in hand	2,818	2,818
	379,182	316,407

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## 7 OTHER RESERVES

Refer Note 36 for the accounting policy.

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
Capital reserves	7.1	695,255	699,157
Reserve for available for sale		(310,274)	63,744
Reserve on retirement benefit obligation		(6,079)	(2,579)
<b>Total other reserves</b>		<b>378,902</b>	<b>760,322</b>

### 7.1 CAPITAL RESERVES

As at 31 December	Note	2016 Rs. '000	2015 Rs. '000
Revaluation reserve	7.1 (A)	678,503	682,405
Reserve on Cornhill merger	7.1 (B)	16,752	16,752
		695,255	699,157

#### 7.1 (A) REVALUATION RESERVE

As at 31 December	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	682,405	339,916
Revaluation surplus during the year	-	355,570
Adjustment for deferred tax	1,517	(8,560)
Transfer to retained earnings	(5,419)	(4,521)
<b>Balance as at 31 December</b>	<b>678,503</b>	<b>682,405</b>

#### 7.1 (B) RESERVE ON MERGER WITH CORNHILL (PRIVATE) LIMITED

The unrealised gain reflects the net result of the merger of the company and Cornhill (Private) Limited. The investment in Cornhill (Private) Limited was absorbed by merging all assets and liabilities into the life policy holders.

## 8 INSURANCE CONTRACT LIABILITIES

Refer Note 38 for the accounting policy.

As at 31 December	2016 Rs. '000	2015 Rs. '000
Insurance contract liabilities	27,326,253	23,267,295
Unclaimed benefits	563,429	463,943
<b>Total insurance contract liabilities</b>	<b>27,889,682</b>	<b>23,731,238</b>

## 9 INSURANCE CONTRACT LIABILITIES – UNIT LINKED

As at 31 December	2016 Rs. '000	2015 Rs. '000
Liability of Fund investment	2,154,233	2,246,590
Liability of Fund income	223,474	294,631
<b>Total insurance contract liabilities</b>	<b>2,377,707</b>	<b>2,541,221</b>

## 10 EMPLOYEE BENEFIT LIABILITIES

Refer Note 40 for the accounting policy.

As at 31 December	2016 Rs. '000	2015 Rs. '000
Balance as at 1 January	100,199	90,437
Payments during the year	(20,430)	(17,787)
Provisions during the year	20,948	19,956
Net actuarial (gain) / loss on obligation	4,861	7,593
Gratuity transferred	2,385	-
<b>Balance as at 31 December</b>	<b>107,963</b>	<b>100,199</b>

## 11 OTHER LIABILITIES

As at 31 December	2016 Rs. '000	2015 Rs. '000
<b>Financial liabilities</b>		
Agency commission payable	141,696	130,900
Other staff related provisions	140,000	87,018
Premiums in suspense	284,922	236,089
Amount due to related parties	6,528	8,294
	573,146	462,301
<b>Non financial liabilities</b>		
Government levies	8,599	5,691
Premium received in advance	133,245	113,598
Other liabilities	1,454,497	809,594
	1,596,341	928,883
<b>Total other liabilities</b>	<b>2,169,487</b>	<b>1,391,184</b>

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# DISTRIBUTION NETWORK

<p><b>Aa</b></p> <p><b>Akuressa</b> No 64, Matara Road, Akuressa Tel: 041 228 3393 Fax: 041 228 3493</p>	<p><b>Bb</b></p> <p><b>Badulla</b> NO.:226/4/ 1/09-14, Lower Street, Badulla. Tel: 055 222 9536 / 011 242 8281 Fax: 055 222 4373</p>	<p><b>Chunnaakam</b> NO.160, Sir Pon Ramanathan road, Chunnaakam Tel: 021 224 2097</p>
<p><b>Aluthgama</b> No. 51, Galle Road, Kaluamodara, Aluthgama. Tel: 034 313 5922</p>	<p><b>Bandarawela</b> No: 340/1, Badulla Road, Bandarawela Tel: 057 222 3396 / 057 222 3239 Fax: 057 222 3397</p>	<p><b>City Office</b> No.305, R. A. De Mel Mawatha, Colombo 03 Tel: 011 257 7129 Fax: 011 257 7126</p>
<p><b>Ambalangoda</b> No 20 New Road, Ambalangoda Tel: 091 225 8862 Fax: 091 225 5882</p>	<p><b>Batticaloa</b> No. 217, Trincomalee Road, Batticaloa. Tel: 065 222 4574 / 065 222 9876 Fax: 065 222 8167</p>	<p><b>Dd</b></p> <p><b>Dambulla</b> No. 755, Anuradhapura Road, Dambulla Tel: 066 228 4628 Fax: 066 228 4647</p>
<p><b>Ambalantota</b> No .46/1, Main Street, Ambalantota Tel: 047 222 3370 Fax: 047 222 5500</p>	<p><b>Baddegama</b> No: 62, Galle Road, Baddegama Tel: 091 3092772</p>	<p><b>Dehiwala</b> No: 218/A/2/1, Galle Road, Ratmalana.</p>
<p><b>Ampara</b> No 60, Indrawansha Building, D. S. Senanayake Street, Ampara Tel: 063 222 4668/ 063 222 4401/ 063 222 3669/ 011 248 2308 Fax: 063 222 4001</p>	<p><b>Bakamuna</b> No: 70, CO-OP Mawatha, Bakamuna</p>	<p><b>Deniyaya</b> No: 62, Viharahena Road, Main Street, Deniyaya Tel: 041 3003457</p>
<p><b>Anuradhapura</b> No. 280 A, Mithreepala Senanayake Mw, Anuradhapura Tel: 025 222 4677/78 / 025 377 7777/78 Fax: 025 223 5547</p>	<p><b>Balangoda</b> No: 164, Thumbagoda Junction, Balangoda Tel: 045 3603111</p>	<p><b>Divlapitiya</b> No: 101, Meerigama Road, Divulapitiya</p>
<p><b>Avissawella</b> No 15 1/2, Kudagama Road, Avissawella Tel: 036 223 1349 Fax: 036 223 3575</p>	<p><b>Bandaragama</b> No. 55 1/1, Horana Road, Bandarama.</p>	<p><b>Digana</b> No: 36B, Victoria Golf Road, Digana, Rajawella.</p>
<p><b>Anamaduwa</b> No. 88, Chilaw Road, Anamaduwa Tel: 322263838</p>	<p><b>Bibile</b> Union Assurance PLC 'Isuru Trader', Moneragala Junction, Bibile Tel: 055 3051532</p>	<p><b>Ee</b></p> <p><b>Embilipitiya</b> No: 62, Sampath Bank Building, Main Road,, Embilipitiya Tel: 045 223 0463 Fax: 047 226 1946</p>
	<p><b>Bulathsinhala</b> No: 46, Bulathsinhala South, Mathugama Road, Horana</p>	<p><b>Elpitiya</b> No: 44A 1/1, Ambalangoda Road, Elpitiya</p>
<p><b>Cc</b></p> <p><b>Chavakachcheri</b> No: 16, Station Road, Chavakachcheri Tel: 021 227 0073</p> <p><b>Chilaw</b> No.87, Puttalam Road, Chilaw Tel: 032 222 2104 Fax: 032 222 4824</p>		

<b>Gg</b>
<b>Galle</b> No 16 A, China Garden Cross Road, Galle Tel: 091 224 3948 Fax: 091 222 3759
<b>Gampaha</b> No.55 Yakkala Road, Gampaha. Tel: 033 222 2802/ 033 222 6441/ Ext: 8252/ 8253 Fax: 033 222 8430
<b>Gampola</b> No: 10 B, Nidahas Mawatha, keerapana, Gampola Tel: 081 235 2915/081 235 2256 Fax: 081 235 0127
<b>Galewela</b> No: 324 B, Dambulla Road, Galewela
<b>Godakawela</b> No: 186/, Main Street Godakawela

<b>Hh</b>
<b>Hambantota</b> No: 77, Tissa Road, Hambantota. Tel: 047-2220025-26 Fax: 047-2220028
<b>Hatton</b> No: 199/B/2/1, Dimbulla Road, Hatton Tel: 051-2223820
<b>Hingurakgoda</b> No: 02, Airport Road, Hingurakgoda. Tel: 027-2246581 Fax: 027- 2245299
<b>Homagama</b> No: 119/2/1, Katuwana Road, Homagama Tel: 011-2892802 – 3 Fax: 011-2892804
<b>Horana</b> No: 161, Ratnapura Road, Horana. Tel/ Fax: 034-2264182

<b>li</b>
<b>Ingiriya</b> No: 3, Main Street, Ingiriya. No: Tel: 034-2268095

<b>Jj</b>
<b>Ja-ela</b> No: 71/A2/1, Negombo Rd, Ja Ela. Tel: 011-2243633 Fax: 011 2231661
<b>Jaffna</b> No: 139, Stanley Road, Jaffna. Tel: 021-2223753 Fax: 021 2220018

<b>Kk</b>
<b>Kadawatha</b> No.158 2/1, Kandy Road, Kadawatha Tel: 011-2927252/3 Fax: 011 2927254
<b>Kalawana</b> No: 46/1/1, Mathugama Road, Kalawana. Tel: 045-2255772
<b>Kalmunai</b> No: 212, Batticaloa Road, Kalmunai. Tel: 067-2222636, 067-2222633 Fax: 067-2222320
<b>Kalutara</b> No: 338/1/2, Main Street, Kalutara. Tel: 034-2228964, 034-2223132 Fax: 034-2228963
<b>Kamburupitiya</b> No: 48A, Horapitiya Watta, Magamure, Kamburupitiya. Tel: 041-2294580/ 041-2294581
<b>Kandy</b> No: 28, Hill Street, Kandy. Tel: 081-2227443, 081- 2232731 Fax: 081-2233291
<b>Katugastota</b> No: 185/4, Galagedara Road, Katugastota. Tel: 081-2500286
<b>Kegalle</b> No: 134, Kalugalla Mawatha, Kegalle. Tel: 035-2232829 Fax: 035-2230363

<b>Kekirawa</b> No: 41A, Yakalla Road, Kekirawa. Tel: 025-2264453
<b>Kilinochchi</b> No: 83 and 85, Kandy Road, Killinochchi. Tel: 021 2280117-8 Fax: 021 2280119
<b>Kirindiwela</b> No: 153, Gampaha Road, Kirindiwela. Tel: 033-2247411
<b>Kotte</b> No: 656 A2/1, E.W Perera Mawatha, Pitakotte, Kotte.
<b>Kottawa</b> No: 193/ C, Horana Road, Kottawa. Tel: 011-2178008
<b>Kuliyapitiya</b> No: 93, Madampe Road, Kuliyapitiya. Tel/ Fax: 037-2281904
<b>Kurunegala</b> Union Assurance Centre No: 6, Rajapihilla Road, Kurunegala. Tel: 037-2224252, 037-2222474, 037-2222282 Fax: 037-2227585

<b>Mm</b>
<b>Madampe</b> No: 87, Walawwatta, Kurunegala Road, Old Town, Madampe.
<b>Mahaoya</b> Union Assurance PLC Wijethunga Building, Mahaoya. Tel: 063-2244125
<b>Maharagama</b> No: 272/B/21, Avissawella Road, Maharagama. Tel: 011-2896474
<b>Mahawa</b> No: 193, Moragollagama road, Maho.
<b>Mahiyangana</b> No: 44D, Miyugunagama, Mahiyangana. Tel: 055-2258244, 055-2258255 Fax: 055-2258200
<b>Mannar</b> No: 43, Ward No.2, Pallimuni Street, Mannar. Tel/Fax: 023-3238255

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# DISTRIBUTION NETWORK

<p><b>Matale</b> No: 553/F1/2, Trincomalee Street, Matale. Tel/ Fax: 066-2231536</p>
<p><b>Matara</b> No: 13, Station Road, Matara. Tel: 041-2223024, 041-2222953 Fax: 041-2223026</p>
<p><b>Mathugama</b> No: 94/2, Agalawatta Road, Mathugama. Tel/Fax: 034-3944339</p>
<p><b>Mawanella</b> No: 156/1/1, New Kandy Road, Mawanella. Tel: 035-2247351</p>
<p><b>Madirigiriya</b> No: 417, Main Street, Madirigiriya. Tel: 027-2248310</p>
<p><b>Melsiripura</b> No: 105/18, Siripura Estate, 15 Mile Post, Melsiripura.</p>
<p><b>Minuwangoda</b> No: 88/1, Veyangoda Road, Minuwangoda. Tel: 011-2281923</p>
<p><b>Monaragala</b> No: 112, Wellawaya Road, Monaragala. Tel/ Fax: 055-2276290</p>
<p><b>Moratuwa</b> No: 472 1/1, Galle Road, Rawathawathe, Moratuwa. Tel: 011-2641666, 011- 2641800 Fax: 011-2641811</p>
<p><b>Mullaitivu</b> Union Assurance PLC P.W.D Road, Vannankulam, Mullaitivu.</p>

<p><b>Nn</b></p>
<p><b>Nawalapitiya</b> No: 31/A, Dolosbage Road, Nawalapitiya. Tel: 054-2224088</p>
<p><b>Negombo</b> No: 147, St. Joseph's Street, Negombo. Tel: 031-2235042-3, 031-2224264 Fax: 031-2224243</p>
<p><b>Nikaweratiya</b> No: 65, Puttalam Road, Nikaweratiya. Tel/ Fax: 037-2260367</p>

<p><b>Nittambuwa</b> No: 538/3, Near the 38 k.m Post, Malwatta, Nittambuwa. Tel: 033-2293924</p>
<p><b>Nugegoda</b> No: 376, High Level Road, Gangodawilla, Nugegoda. Tel: 011-2815511-3 Fax: 011-2815515</p>
<p><b>Nuwara Eliya</b> No: 36, Park Road, Nuwara Eliya. Tel/ Fax: 052-2223017</p>

<p><b>Pp</b></p>
<p><b>Padawiya</b> No: 2, New Town, Padawiya. Tel/Fax: 025-3770758</p>
<p><b>Panadura</b> No: 571/3, Galle Road, Panadura. Tel: 038-2244790 Fax: 038-2244630</p>
<p><b>Pannala</b> No: 74/1, Negombo road, Pannala.</p>
<p><b>Pelmadulla</b> No: 228C, Vidyala Mawatha, Pelmadulla. Tel: 038-3392217</p>
<p><b>Piliyandala</b> No: 226, Horana Road, Piliyandala. Tel: 011-2619550</p>
<p><b>Point Pedro</b> No: 357, Main Street, Point Pedro. Tel / Fax: 011-3158153</p>
<p><b>Polgahawela</b> No: 67/1, 67 1/1, Colombo Road, Polgahawela. Tel: 037-2244575</p>
<p><b>Polonnaruwa</b> No: 5, Batticaloa Road, Polonnaruwa. Tel/ Fax: 027-2226611</p>
<p><b>Pussellawa</b> No: 543 1/1, Nuwara Eliya Road, Pussellawa. Tel: 081-2478121</p>
<p><b>Puttalam</b> No: 97 B, 2nd Floor, Cargills Food City Building, Kurunegala Road, Puttalam. Tel/ Fax: 032-2265980</p>

<p><b>Rr</b></p>
<p><b>Rambukkana</b> No: 87/14, 1/2, Mawanella Road, Rambukkana. Tel: 035-2264646</p>
<p><b>Ratnapura</b> No: 567 1/1, Senevirathna Building, Colombo Road, Ratnapura. Tel: 045-2230739 Fax: 045-2223525</p>
<p><b>Ruwanwella</b> No: 185 1/2, Avissawella Road, Ruwanwella. Tel: 036-2266631 Fax: 036-2268747</p>

<p><b>Tt</b></p>
<p><b>Talawathugoda</b> No: 123, Kaduwela Road, Battaramulla. Tel: 011-2074450-4</p>
<p><b>Tambuttegama</b> No: 324, Rajina Junction, Tambuttegama. Tel: 025-2275594 / 025-2276211 Fax: 025-2276060</p>
<p><b>Tangalle</b> No: 61, Beach Road, Tangalle. Tel: 047-2241545</p>
<p><b>Thanamalwila</b> Union Assurance PLC Wellawaya Road, Thanamalwila. Tel: 047-2285422</p>
<p><b>Tissamaharama</b> No: 118, Hambantota Road, Tissamaharama. Tel: 047-2237711 Fax: 047 2239644</p>
<p><b>Trincomalee</b> No: 170, Abeyapura, Kandy Road, Trincomalee. Tel: 026-2227530</p>

<b>Vv</b>
<b>Valaichchenai</b> Union Assurance PLC Main Street, Valachchenai. Tel: 065-2258555 / 065-2258557 Fax: 065-2258556
<b>Vavuniya</b> No: 113, Kandy Road, Vavuniya. Tel: 024-2223138

<b>Ww</b>
<b>Warakapola</b> No: 198/D/1/1, Willara Building, Meerigama Junction, Kandy Road, Warakapola. Tel: 035-2267441 Fax: 035-2267039
<b>Wariyapola</b> No: 273/3, Chilaw Road, Wariyapola. Tel: 037-2267206
<b>Wattala</b> No: 250/2/2, Negombo Road, Wattala. Tel: 011-2932153 Fax: 011-2932030
<b>Weligama</b> No: 314, Old Galle Road, Weligama. Tel: 041-2250821 / 041-2250831
<b>Wellawaya</b> No: 210, Moneragala Road, Wellawaya, Tel: 055-3600031 / 055-2274380 Fax: 055-2274218
<b>Wennappuwa</b> No: 6, Colombo Road, Wennappuwa. Tel: 031-2255844 Fax: 031-2253892s
<b>Wellawatta</b> No: 57 2/1, High Level Road, Kirillapone, Colombo 6. Tel: 011-2513361

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# PROXY FORM

I/We .....of.....  
 .....being a member/s of Union Assurance PLC hereby appoint  
 .....of ..... or failing him/her

Mr. Ajit Damon Gunewardene or failing him  
 Mr. Gerald Fredrick Christopher De Saram or failing him  
 Mr. Ashan Suresh De Zoysa or failing him  
 Mr. Suresh Rajendra or failing him  
 Ms. Dilani Champika Alagaratnam or failing her  
 Mr. Harin Amendra Joseph De Silva Wijeyeratne or failing him  
 Mr. Anthony Dirk Pereira

as my/our proxy to represent me/us and vote on my/our behalf at the 30th Annual General Meeting of the Company to be held on Friday 31st March 2017 at 9.00 a.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

I/We, the undersigned, hereby direct my/our proxy to vote for me/us and on my/our behalf on the specified Resolution as indicated by the letter "X" in the appropriate cage;

	For	Against
To re-elect as Director, Mr. Anthony Dirk Pereira who retires in terms of Article 84 of the Article of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as Director, Ms. Dilani Champika Alagaratnam who retires in terms of Article 84 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint Auditors Messrs. KPMG Chartered Accountants and to authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this .....day of ..... Two Thousand and Seventeen.

.....  
 Signature /s of Shareholders/s

**NOTE:**

Instructions as to completion of the Proxy Form are noted on the reverse.

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# PROXY FORM

## 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 corporate 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.

Please fill in the following details:

Name	:	.....
Address	:	..... ..... .....
Jointly with	:	.....
Share Folio No.	:	.....





# CORPORATE INFORMATION

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## NAME OF COMPANY

Union Assurance PLC

## LEGAL FORM

A public limited liability company incorporated in Sri Lanka on 8 January 1987 and registered under the Companies Act No. 7 of 2007 and quoted on the Colombo Stock Exchange since 1988

## COMPANY REGISTRATION NUMBER

PQ 12 [Previous registration number N(PBS)137]

## TAX PAYER IDENTIFICATION NUMBER (TIN)

134001372

## VAT REGISTRATION NUMBER

134001372 7000

## 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  
A. D. Pereira

## BOARD REMUNERATION COMMITTEE

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

## NOMINATIONS COMMITTEE

The Nominations Committee (NC) of John Keells Holdings PLC (the parent) represents the NC of the company

## RELATED PARTY TRANSACTION REVIEW COMMITTEE

The Related Party Transaction Review Committee (RPT) of John Keells Holdings PLC (the parent) represents the RPT of the company

## BOARD AUDIT AND COMPLIANCE COMMITTEE

H. A. J. De Silva Wijeyeratne  
S. Rajendra  
A. S. De Zoysa

## INVESTMENT COMMITTEE

K. N. J. Balendra  
A. S. De Zoysa

## SECRETARIES AND REGISTRARS

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

## AUDITORS

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

## APPOINTED ACTUARIES

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

## LAWYERS

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

## BANKERS

Bank of Ceylon  
Citibank, N.A.  
Commercial Bank of Ceylon PLC  
Deutsche Bank AG  
DFCC Bank PLC  
Hatton National Bank PLC  
Hongkong and Shanghai Banking Corporation  
Housing Development Finance Corporation Bank of Sri Lanka  
National Development Bank PLC  
National Savings Bank  
Nations Trust Bank PLC  
Pan Asia Banking Corporation PLC  
People's Bank  
Sampath Bank PLC  
Seylan Bank PLC  
Standard Chartered Bank  
Union Bank of Colombo PLC

## REINSURANCE PANEL

RGA  
Hannover Re  
Munich Reinsurance Company  
Partner Re

## REGISTERED OFFICE OF THE COMPANY

Union Assurance Centre  
20, St Michaels Road,  
Colombo 3

## INVESTOR RELATIONS

All investor queries should be directed to; Investor relations hotline 011-2990314 e-mail: [investorrelations@ualink.lk](mailto:investorrelations@ualink.lk)

