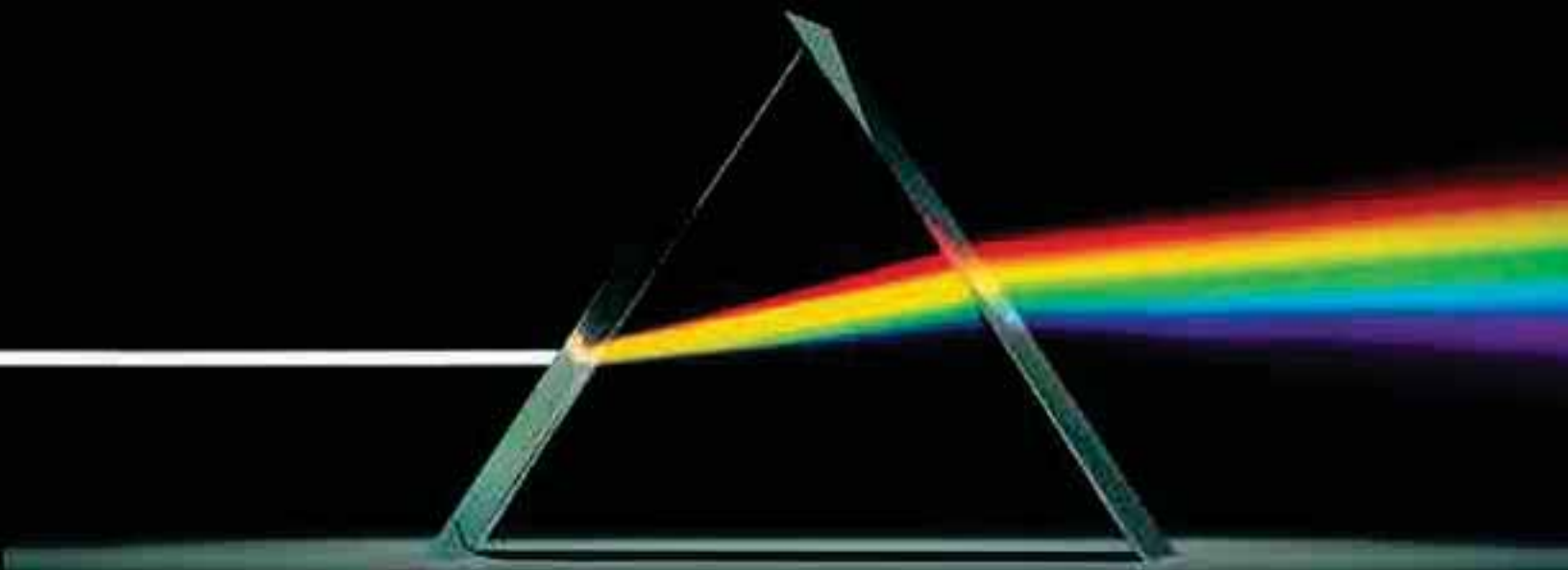
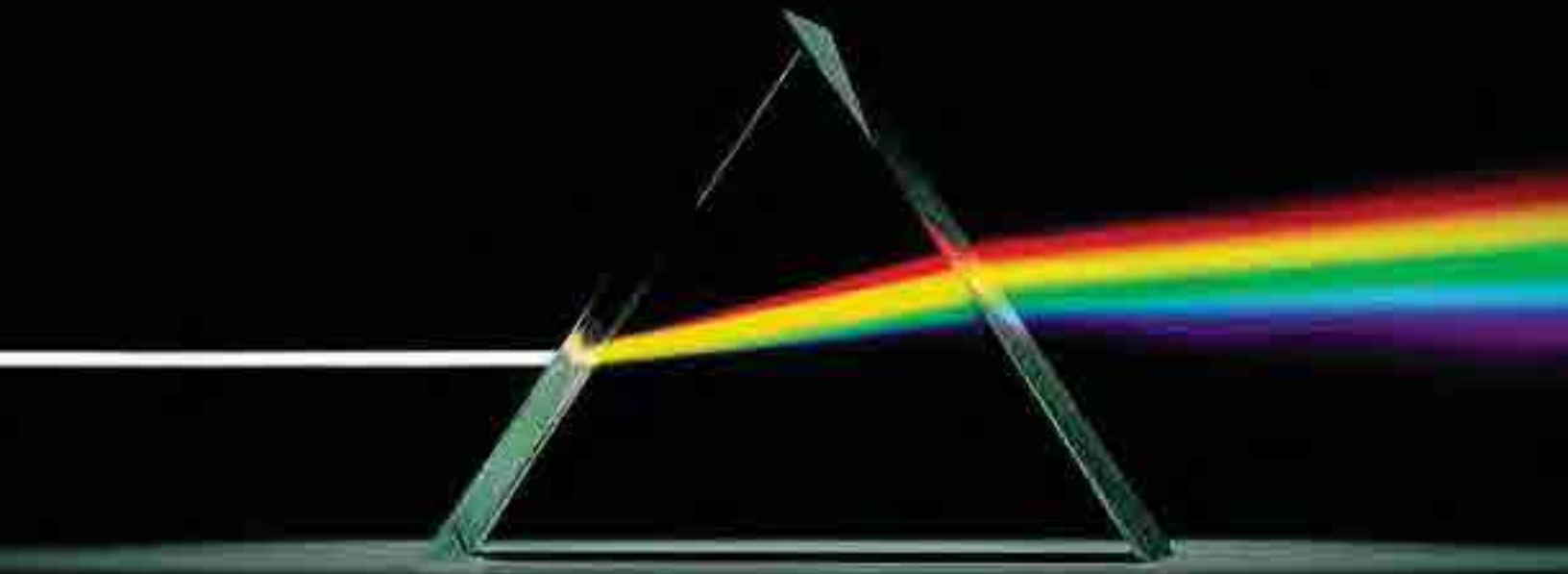


PARTNERSHIPS THAT LIGHT UP LIVES

UNION ASSURANCE PLC | ANNUAL REPORT 2017





PARTNERSHIPS THAT LIGHT UP LIVES

Light is critical for growth. Insufficient light is known to handicap growth. But what really is light? It is a combination of rays of different wavelengths in the electromagnetic spectrum, and their many vibrant hues can be seen through a prism.

Since our inception three decades ago, Union Assurance has strived to be this light. We have made it our ethos to create big and better things together with our partners. The cornerstone of our success has been these partnerships – which began as a single ray of light and have transformed into something vibrant and beautiful. As we stand at the pinnacle of success as one of the largest insurance providers to the nation, we are proud of everything we have achieved. Our relationships make us strive for higher objectives; give us a sense of invincibility; the strength to overcome challenges and the right spirit to celebrate our triumphs.

The stronger our relationships become, the more we will grow – as individuals, as teams, as partners, and as a company that is ready to reach higher and further.

As we turn a new page in our 'life book', we are sharpening our aspiration to become a larger and broader entity, seeking to offer unparalleled products and services that will build more great partnerships that light up lives.

OUR INTEGRATED ANNUAL REPORT



GRI 102-12 | 102-45 | 102-46
102-50 | 102-54

Navigating our 2017 Report Union Assurance at a Glance



Snapshot of the business, a brief review of our value creation model, Chairman's message and CEO's review

Management Discussion and Analysis



A brief review of operating context, and in depth review of capital management

Corporate Governance



Corporate Governance disclosure and a brief review of enterprise risk management

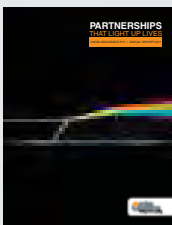
Audited Financial Statements and other Information



Detailed analysis of our financial results, with audited financial statements prepared in accordance with SLFRSs / LKASs and supplementary information

Online

Our report, with additional updated information is available on our website: www.unionassurance.com



Partnerships That Lights Up Lives

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

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.

Standard 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
- ▶ Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments to date
- ▶ Guidelines, Determinations, Rules and Regulations issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL)
- ▶ Code of Best Practice 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 (SLFRSs / LKASs) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL)

Sustainability and Corporate Social Responsibility Reporting

This report has been prepared in accordance with GRI Standards: Core Option

Reporting Scope and Boundary

The Union Assurance Annual Report 2017 is a reflection of the Company's integrated approach of management (during the period 1 January 2017 to 31 December 2017) 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 29 March 2018, have been included, ensuring a more relevant and up to date report.

Integrated Reporting Guidelines

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 disclosure of material information. Feedback is gathered through stakeholder feedback forms, a dedicated mail box, one-on-one meetings and stakeholder engagement fora.







Our Approach to Materiality

This report provides information that we believe is of material interest to current and prospective investors, and to any other stakeholder who wishes to make an informed assessment of UA's ability to

generate value over the short, medium and long term. Rather than providing a simple listing of 'material issues', we have sought to ensure that all the information in this report relates to matters affecting value creation at UA. Snapshot of our business (pages 6 to 7), our value creation model (pages 22 to 23) and capital management review (pages 50 to 103) forms the basis for appreciating how UA creates value, and for identifying those issues impacting value. Our ability to create value is determined by our operating environment (pages 38 to 47) and by our response to the resulting risks and opportunities (pages 48 and 49). Making an informed assessment of our response requires an appreciation of our strategy (pages 24 to 26), our performance (pages 10 to 13), our leadership team (pages 106 to 108), and our governance practices (pages 105 to 165).

Assurance

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

- ▶ The Board of Directors
 page 106
- ▶ The Executive Committee
 page 108
- ▶ The Board Audit and Compliance Committee
 page 119
- ▶ Independent Auditors confirming the accuracy of the annual financial statements
 page 177
- ▶ An independent Actuary confirming the life fund valuation and liability adequacy
 page 175
- ▶ An independent assurance engagement for the non-financial information prepared in accordance with the GRI Standards: Core Option
 page 262

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9	Year at a Glance
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Management Discussion and Analysis

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95	Natural Capital
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Forward Looking Statements

This report contains certain forward-looking statements with respect to UA's financial condition, results, operations and businesses. These statements and forecasts involve risk and uncertainty as they relate to events and depend on circumstances that may occur in the future. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

Contact Person

For any inquiries and feedback with reference to this report please contact

-  Sherin Cader
Chief Financial Officer
Union Assurance PLC
No 20, St. Michael's Road
Colombo 03.
-  Tel: 011 2990302



350


union
assurance
centre


യൂണിയൻ അസ്യൂറൻസ്
യൂണിയൻ അസ്യൂറൻസ്
union assurance

UNION ASSURANCE AT A GLANCE

“ Guided by a vision, to be the most sought after provider of insurance solutions, driven by values of excellence, caring, innovation, trust and ethics and integrity and nurtured by a business philosophy of sustainable development, we have sped ahead in leaps and bounds. At the heart of this endeavour lie our partnerships.... Partnerships that light up lives. ”

6	A Snapshot of the Business
8	Our History
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22	Our Value Creation Model

A SNAPSHOT OF THE BUSINESS



GRI 102-4

Key Elements

Operating Footprint

Our Key Products

North Central Province 08 744,764 471	Northern Province 08 906,893 369	Central Province 09 698,215 754
Locations [Excluding Virtual Locations] 97+		
Eastern Province 06 339,780 79	Uva Province 06 397,938 273	
Sabaragamuwa Province 10 687,564 291	North Western Province 12 1,531,674 238	
Western Province 26 3,805,709 965	Southern Province 12 1,005,093 562	

Protection
Union Advantage
 A life protection insurance product that can cater to the needs of all customers.

Family Healthcare
Union Smart Health+
 A comprehensive medical expenses reimbursement rider benefit which can be added to the Advantage Plan. The benefit also provides a "cashless card" for hassle free hospital bill payment and treatment within Sri Lanka, India, Thailand, Singapore and Malaysia.

Pension / Retirement
Union Pension Advantage
 An universal life product that builds a fund for retirement with regular premium remittances up to desired retirement age.

Investment and Savings
Union Super Investor
 An universal life product with short - term (5 years) premium payment to boost an investment for future savings need.

Number of Branches	GWP (Rs. '000)	Number of Agents
--------------------	----------------	------------------

14%
Market Share
[112 basis points YOY ▲]

3rd
Largest New Business Producer in the Industry
[25% YoY ▲]

Rs. 10.1 Bn
Revenue
[22% YOY ▲]

Rs. 3.8 Bn *
Operating Profit
[190% YoY ▲]

Rs. 67.92 *
Earning Per Share
[205% YoY ▲]

Rs. 18.00
Dividend Per Share
[71% YoY ▲]

Rs. 36.8 Bn
Assets Under Management
[19% YoY ▲]

Rs. 2.7 Bn
Benefits and Claims Paid
[75% YoY ▲]

352%
Capital Adequacy Ratio
[2016 - 411%]

208
Community Programmes
[49% YoY ▲]

4,808
Work Force
[1% YoY ▼]

Protection
Union Advantage
 A life protection insurance product that can cater to the needs of all customers.

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* Excluding one - off surplus transfer of Rs. 3.4 billion in 2017

Ownership Structure

John Keells Group



John Keells Holdings PLC (JKH)

JKH is one of the largest listed firms on the Colombo Stock Exchange, with business interests in Transportation, Leisure, Property, Consumer Foods and Retail, Financial Services, Information Technology and Plantations among others.

The Group's investment philosophy is based on a positive outlook, bold approach, commitment to delivery, and flexibility to change. JKH is also committed to maintaining integrity, ethical dealings, sustainable development, and greater social responsibility in a multi-stakeholder context. JKH is a full member of the World Economic Forum and a member of the UN Global Compact. JKH has offices and businesses located across Sri Lanka, India, and the Maldives.

93.79%

Union Assurance PLC



Union Assurance PLC (UA)

UA is a primary brand under the financial services sector of John Keells Group. John Keells Holdings PLC is the main shareholder of the Company. UA contributed 6% to the Group profits, 4% to the Group operating cash flow and 36% Return on Equity in 2016.

22%

Fairfirst Insurance Ltd.



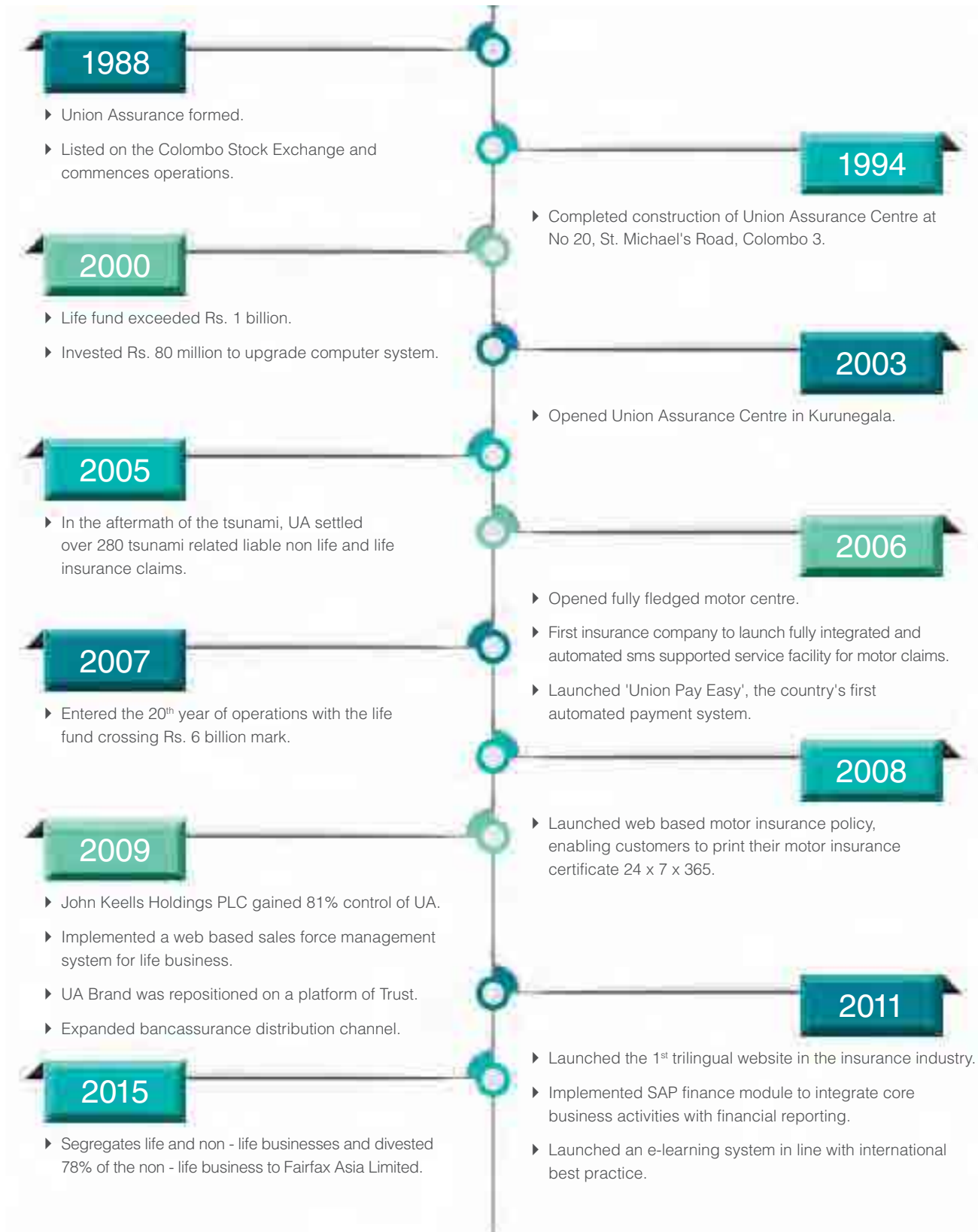
Fairfirst Insurance Limited

Fairfirst is the amalgamated entity of the former Union Assurance General Limited and the former Asian Alliance General Insurance Limited. Fairfirst is in non - life insurance business and has 11% market share.

A summary of the John Keells industry groups, sectors and primary brands are given below;

	Transportation			
	Leisure			
	Property			
	Consumer Food and Retail			
	Financial Services			
	Information Technology			
	Other			

OUR HISTORY



YEAR AT A GLANCE 2017

January

- ▶ Launched 'GOYO' an App based personal health advisor that provides rewards to customers for achieving fitness goals.



February

- ▶ Adjudged the winner in the Finance and Insurance Sector for the 9th consecutive year at the Sustainability Reporting Awards conducted by the Association of Chartered Certified Accountants (ACCA).



March

- ▶ Conducted the second 'Women's Day' recruitment campaign.
- ▶ Launched 'Union Pension Advantage', an universal life product that builds a fund for retirement with regular premium remittances up to desired retirement age.

April

- ▶ Launched e-consultant project targeting housewives and higher education students.



June

- ▶ Successfully concluded first ever offshore Annual Award ceremony in Kuala Lumpur, Malaysia.
- ▶ Recognised for the 5th consecutive year as a great place to work in Sri Lanka by the Great Place to Work[®] Institute.

July

- ▶ 'Union Smart Health' was adjudged the winner for product innovation at the Fintalekt Insurance awards.
- ▶ Acknowledged with the Global Master Brand Status for the period of 2017/18 at the first ever Master Brand Award ceremony organized by CMO Asia hosted by World Marketing Congress.
- ▶ Received the prestigious 'Best Employer Brand Award' along with the 'Dream Employer of the Year' award, at the HR awards organized by the World HRD Congress.

August

- ▶ Opened Pettah Branch at No: 3, Sea Street, Colombo 11

September

- ▶ Participated in the industry awareness campaign to highlight the value of life insurance to the general public.



October

- ▶ Launched a special brand awareness programme throughout the island.

November

- ▶ Reinforced Diabetes Awareness throughout the island under 'Union Manushyathwaya'.
- ▶ Won John Keells Chairman's Awards for disruptive innovation and sustainability practices.

December

- ▶ Our business practices were recognised by the National Chamber of Commerce at the National Business Excellence Awards receiving a silver award for excellence in corporate governance and a silver award in the insurance category.
- ▶ Our financial reporting practices were recognised by the Institute of Chartered Accountants of Sri Lanka, with the 2016 annual report receiving a Silver Award in the Insurance Category and a Silver Award for best Corporate Governance Disclosures.



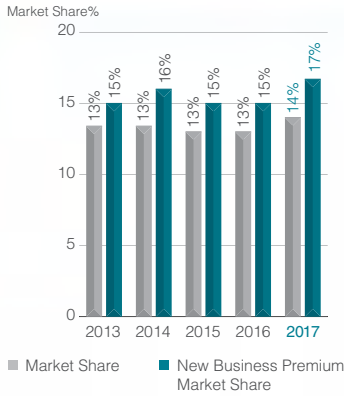
- ▶ Crossed Rs. 10 Bn gross written premiums.
- ▶ People development practices were recognised at the SLITAD People Development Awards for the 2nd consecutive time by being the only company to receive the Platinum Award for People Development.

PERFORMANCE HIGHLIGHTS

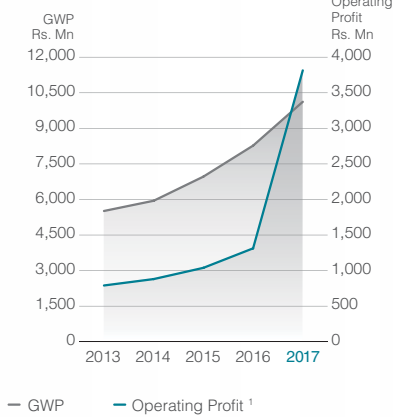


Financial Capital

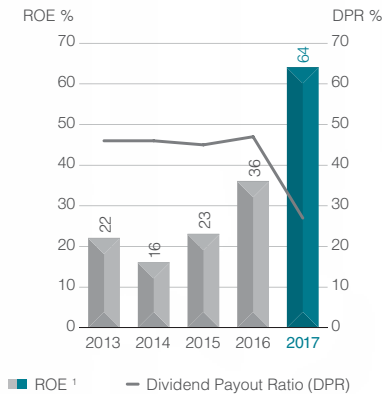
Market Share and New Business Premium Market Share



Revenue / Operating Profit



Return on Equity and Dividend Payout Ratio

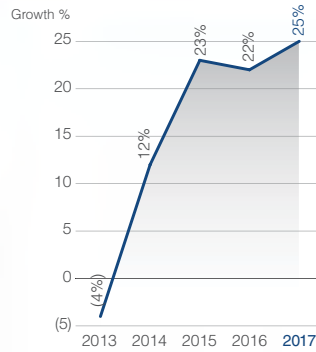


¹ Excluding one - off surplus transfer of Rs. 3.4 billion in 2017



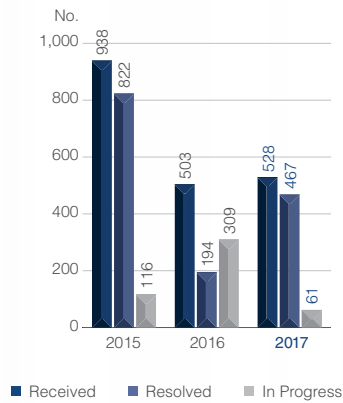
Social and Relationship Capital

New Business Premium Growth

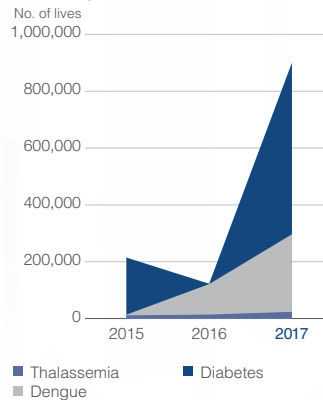


UA recorded the highest new business premium growth among its peers.

Status of Customer Complaints

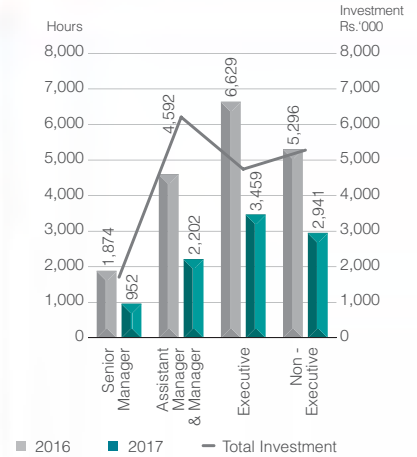


Number of Lives Touched through CSR Programmes

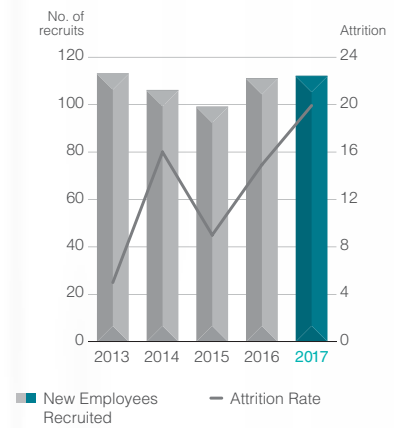


Human Capital

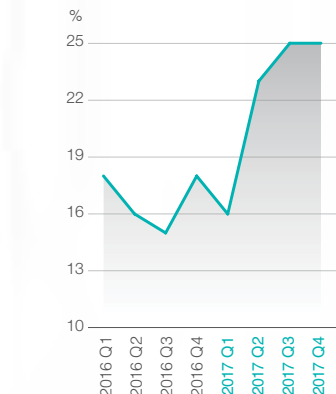
Total Training Hours



Attrition Rate & New Employees Recruited



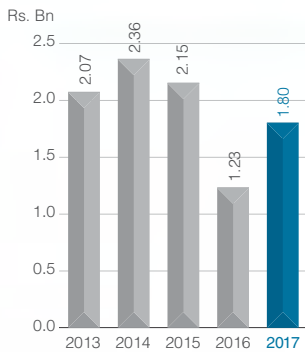
Productivity



Movement in higher advisor income category

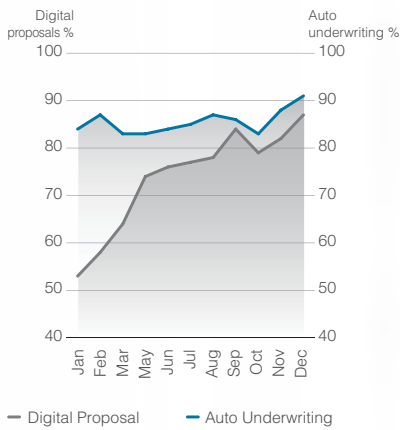
Intellectual Capital

Brand Value



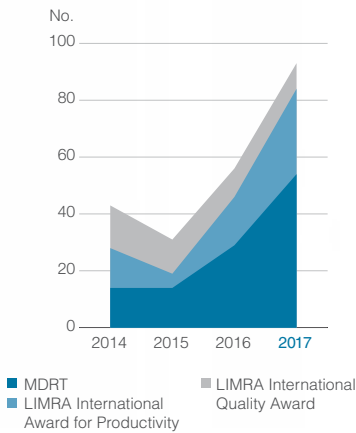
Brand values include non life insurance business upto 2015.

Digital Proposal and Auto Underwriting



— Digital Proposal — Auto Underwriting

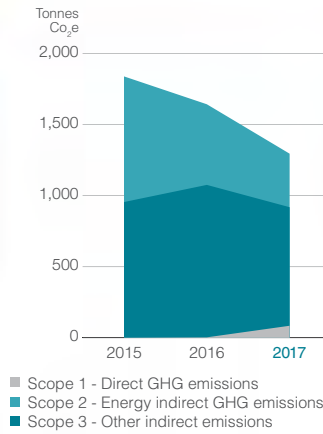
Employee Know How / Award Winners



■ MDRT ■ LIMRA International Award for Productivity ■ LIMRA International Quality Award

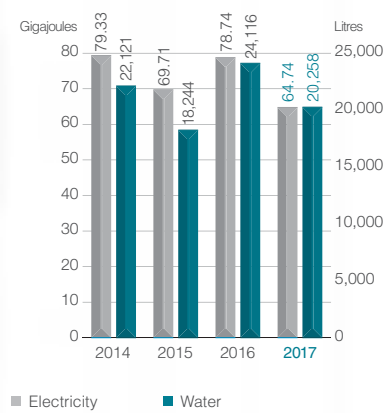
Natural Capital

Carbon Footprint



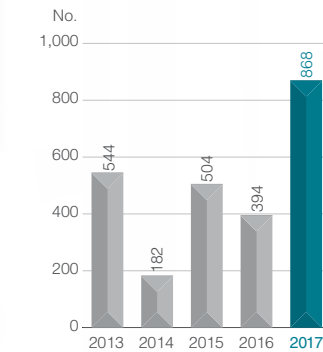
■ Scope 1 - Direct GHG emissions
■ Scope 2 - Energy indirect GHG emissions
■ Scope 3 - Other indirect emissions

Electricity and Water



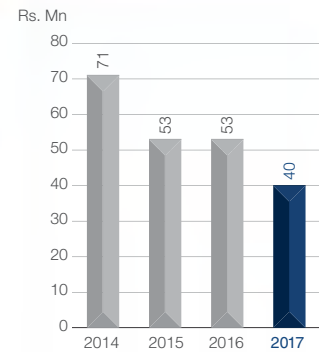
■ Electricity ■ Water

Trees Saved

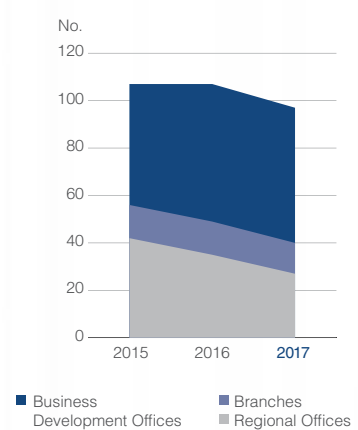


Manufactured Capital

Investment in Manufactured Capital

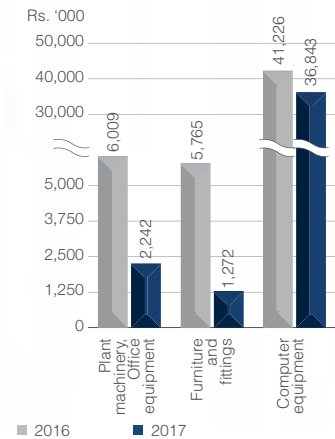


Number of Locations



■ Business Development Offices ■ Branches ■ Regional Offices

Investment in Property, Plant and Equipment



■ 2016 ■ 2017

PERFORMANCE HIGHLIGHTS



GRI 102-7

Financial Highlights

		2017	2016	%	2015
Results of the year					
Revenue	Rs. million	10,118	8,271	22 ▲	6,964
Paid in benefits and claims to policyholders	Rs. million	2,674	1,524	75 ▲	1,448
Profit from operations	Rs. million	7,196	1,313	448 ▲	1,039
Profit from operations ¹	Rs. million	3,814	1,313	190 ▲	1,039
Profit after tax	Rs. million	7,384	1,313	463 ▲	2,347
Profit after tax ^{1,2}	Rs. million	4,002	1,313	205 ▲	1,125
Earnings per share	Rs.	125.31	22.27	463 ▲	31.20
Recurrent earnings per share ^{1,2}	Rs.	67.92	22.27	205 ▲	14.96
Dividends	Rs. million	1,061	619	71 ▲	501
Average annual premium per policy (Rs.)	Rs.	52,272	48,312	8 ▲	44,482
Persistency - Year 1	%	83	76	9 ▲	78
- Year 2	%	71	70	1 ▲	67
- Year 3	%	67	64	5 ▲	59
Investment yield	%	12.48	11.56	8 ▲	11.36
Earning yield ^{1,2}	%	50.31	15.57	223 ▲	9.07
Total expenses ratio	%	74	66	12 ▲	70
Return on equity	%	93	36	158 ▲	68
Recurrent return on equity ^{1,2}	%	64	36	78 ▲	23
Return on assets	%	18.8	3.7	408 ▲	7.0
Recurrent return on assets ^{1,2}	%	10.2	3.7	176 ▲	3.6
Financial position at year end					
Total assets	Rs. million	43,067	35,693	21 ▲	31,014
Financial investments	Rs. million	36,793	30,847	19 ▲	26,541
Life fund	Rs. million	29,071	30,267	4 ▼	26,272
Total shareholder funds	Rs. million	11,965	3,866	209 ▲	3,465
Net asset per share	Rs.	203.04	65.61	209 ▲	58.80
Net assets per share excluding restricted regulatory reserve	Rs.	145.65	65.61	122 ▲	58.80
Market / shareholder information					
Market price per share as at 31 December	Rs.	135.00	143.00	6 ▼	165.00
Highest market value per share	Rs.	165.00	167.90	2 ▼	200.00
Lowest market value per share	Rs.	134.00	127.00	6 ▲	150.00
Market capitalisation	Rs. million	7,955	8,427	6 ▼	9,723
Total shareholder return	%	7.0	(9.4)	174 ▲	4.6
Price earning ratio ^{1,2}	times	1.99	6.42	69 ▼	5.29
Dividend cover ^{1,2}	times	3.77	2.12	78 ▲	1.76
Dividend per share	Rs.	18.00	10.50	71 ▲	8.50
Dividend payout / effective dividend rate	%	27	47	43 ▼	45
Dividend yield	%	13.33	5.9	126 ▲	3.9
Statutory requirements / ratios					
Excess in approved assets	Rs. million	1,967	1,856	6 ▲	1,723
Capital adequacy ratio (CAR)	%	352	411	14 ▼	N/A
Solvency ratio	times	N/A	N/A	N/A	2.73

¹ Excluding one - off surplus transfer of Rs. 3.4 billion in 2017

² Excluding gain on disposal of UAG shares in 2015



GRI 102-7 | 201-3 | 203-1 | 303-3 | 403-1
403-2 | 404-3 | 413-1 | 414-1 | 419-1

Non-Financial Highlights

Indicator			2017	2016	2015
Financial capital					
201-1	Direct economic value added	Rs. million	13,841	10,824	9,112
Manufactured capital					
	Total number of branches	Number	97	107	107
Natural capital					
302-1	Energy consumption within the organisation	Gigajoules	6,474	7,874	6,971
	Direct energy consumption per Rs. million of revenue	Gigajoules	0.65	0.95	1.00
302-3	Energy intensity (in Gigajoules)	- Per area	0.02	0.03	0.03
		- Per full time employees	1.35	1.61	1.41
		- Per branch	67	74	65
303-1	Total water withdrawal	Cubic meters	20,258	24,116	18,244
	Water withdrawal (m3) per Rs. million of revenue	Cubic meters	2.00	2.92	2.62
303-3	Percentage and total volume of water recycled and reused	%	0.65	1	1
305-1	Direct greenhouse gas (ghg) emissions (scope 1)	tonnes CO2e	85.35	3.95	1.56
305-2	Energy indirect greenhouse gas (ghg) emissions (scope 2)	tonnes CO2e	833	1,071	953
305-3	Other indirect greenhouse gas (ghg) emissions (scope 3)	tonnes CO2e	376	567	883
305-4	Greenhouse gas (ghg) emissions per Rs.1 million of revenue	tonnes CO2e	0.13	0.20	0.26
305-5	Total emissions	tonnes CO2e	1,295	1,642	1,838
306-2	Weight of waste recycled through 3 rd party contractors	Kgs	28,010	17,773	30,066
307-1	Significant environmental fines	Rs. million	Nil	Nil	Nil
Human capital					
201-3	Coverage of organisations defined benefit plan	Rs. million	123	108	100
401-1	Total workforce				
	Permanent cadre	Number	529	474	450
	Non-Permanent cadre	Number	4,279	4,406	4,488
	Total number of new employees hired during the reporting period	Number	430	434	479
	Employee turnover during the period	Number	100	72	77
	Attrition of new hires (as a percentage of total new hires)	%	12	4	9
403-1	Percentage of workforce represented in management worker health and safety committees	%	None	3	3
403-2	Number of injuries	Number	None	32	37
404-1	Training per permanent staff member	No of hours	19	38	24
	Training per non-permanent staff member	No of hours	74	57	48
404-3	Percentage of employees receiving performance reviews	%	100	100	100
410-1	Percentage of security personnel trained in the organisation's human rights policies or procedures	%	100	100	100
414-1	Percentage of new suppliers that were screened using human rights criteria	%	100	100	100
Social and relationship capital					
203-1	Investment in community and infrastructure projects	Rs. million	13	7	7
413-1	Community engagement (No of persons impacted)				
	Dengue awareness programmes	Number	272,540	107,139	2,382
	Thalassemia awareness programmes	Number	24,354	14,761	11,975
	Diabetes prevention awareness programmes ¹	Number	603,297	1,169	200,839
	Health awareness campaigns	Count	210	140	89
	Staff volunteerism	Count	942	2,014	240
419-1	Significant fines for violation of laws / regulations	Rs. million	Nil	Nil	Nil
417-3	Voluntary standards relating to advertising				
417-3	Number of customer complaints received	Number	528	503	938
	Number of customer complaints resolved	Number	467	194	822
	Disputes referred to Insurance ombudsman	Number	Referred 18 Settled 18	Referred 26 Settled 7	Referred 29 Settled 16
419-1	Significant fines for product / service issues	Rs. million	Nil	Nil	Nil
Intellectual capital					
	Brand value ²	Rs. billion	1.80	1.23	2.15

¹ Conducted an island wide awareness campaign together with the launch of CSR week in 2015

² Brand values in 2016 and 2017 represent only life insurance business. Previous values include non life insurance business as well

CHAIRMAN'S MESSAGE

“ We have marked our 30th anniversary by achieving an outstanding business performance that is sure to light up the many stakeholders we partner. We are delighted to have delivered on our promise of value creation in real terms, reaffirming the fact that our stakeholders are the focus of all that we do. ”

Dear Stakeholders,

On behalf of the Board of Directors, it gives me great pleasure to present the Integrated Annual Report of Union Assurance PLC (UA) for the financial year ended 31 December 2017.

Business Performance

UA has performed exceptionally well in terms of revenue and profits in 2017. Insurance premiums increased by 22% during the year to Rs. 10.1 billion. Growth was primarily due to fundamental changes in the sales force compensation and recognition structure, reforms in agency and bancassurance channels, enhanced customer service, and introduction of innovative life insurance solutions to cater to the changing needs of customers. 2017 was a landmark year for the Company as we celebrated 30 years of operations by increasing our market share to 14% and ranking as the 3rd largest new business producer in the industry while recording the highest new business growth among peers.

The Company's profit after tax of Rs. 7.4 billion was a 463% increase over the profit after tax of Rs. 1.3 billion recorded in the previous year. This profit after tax included a one off surplus transfer of Rs. 3.4 billion. Claims and benefit payments increased compared to previous year mainly due to the increase in maturity and surrender payouts. Further, UA improved its' operating earnings by growing the pool of funds under management.

Life Insurance Industry

The life insurance industry in Sri Lanka grew by 13% in 2017 as against an 18% growth in 2016. This growth was attributable to factors such as increased awareness regarding the benefits of life insurance, introduction of new life insurance products and enhanced customer service.

As per the latest figures published by the Insurance Regulatory Commission of Sri Lanka (IRC SL), the life insurance industry has recorded a CAGR of 13% over the past five years up to 2016. Life insurance penetration in Sri Lanka is significantly low compared to regional markets, and this growth momentum is expected to continue as a result of favourable demographic trends and rising disposable incomes. Further, as per statistics published by the IRC SL, only 36% of the working population have some form of insurance (34% in 2015).

Company's Strength and Stability

UA's Capital Adequacy Ratio (CAR) under the Risk Based Capital (RBC) regime was 352% which is significantly higher than the minimum required by regulatory authorities. This reflects the strong financial stability 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.

Our 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 Regulatory Commission of Sri Lanka to implement regulations that enable industry growth while safeguarding policyholder interests. As per the new Inland Revenue Act No. 24 of 2017 which will be effective from 1 April 2018, life insurance companies will be taxed on the profits they generate. We believe, that this is a mutually beneficial arrangement for all stakeholders involved in the life insurance industry.

Corporate Governance

I am pleased to state that UA is compliant with the Code of Best Practice on Corporate Governance issued jointly 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 section of this report.

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 with the GRI Standards and has successfully completed the GRI Materiality Disclosure Service. The report contains the overall sustainability strategy, framework and performance of the Company and an independent assurance report has been provided by KPMG Sri Lanka.

I am pleased to announce that this year too we have made significant progress on the objectives stated in last year's Integrated Annual Report. During the year, the Company's carbon footprint decreased by 21% to 1,295 tonnes, due to various energy saving and emission management initiatives which have been commissioned over the years. Our activities to add value to customers, employees, field staff, suppliers, community and shareholders is reflected in the Management Discussion and Analysis section of this 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 2017, with the support of the Public Health Department of the Colombo Municipal Council and the Public Health Inspector, UA successfully conducted a total of 52 dengue awareness campaigns, over 108 thalassaemia awareness programmes and 48 diabetes prevention programmes impacting over 900,000 people.

Business Outlook and Strategies

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 will further help to improve penetration levels. UA continues to make significant investments in multiple digital initiatives and is well positioned to capitalise on these opportunities.

The life insurance industry is catching up with the digital revolution. In the next few years, digital tools such as big data and advanced analytics will enable a wide range of new business opportunities leading to improved marketing, underwriting and customer retention. UA has already set up an analytics centre of excellence and will continue to invest in people and technology to improve business results.

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 grow the bancassurance channel by investing in strategic partnerships and further improving our service delivery, product offerings and distribution capabilities.

We will continue to focus our product development initiatives on protection, 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 has invested 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 system is expected to go - live in mid 2018.

Dividends

The Board declared a first and final dividend of Rs. 18.00 per share compared to the dividend of Rs. 10.50 per share declared for 2016. The total pay - out was Rs. 1,061 million compared to Rs. 619 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 9th time the Company's activities were recognised at this prestigious event in the last 10 years.

Our reporting practices were also recognised by the Institute of Chartered Accountants of Sri Lanka, with the 2016 annual report receiving a silver award in the insurance category and a silver award for best corporate governance disclosure.

We were recognised as a 'Great Place to Work' for the 5th 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.

Our excellent business practices were recognised by the National Chamber of Commerce with silver awards in the insurance category and for excellence in corporate governance.

Union Smart Health Rider was recognised as the most innovative product at the Fintelekt Insurance Awards (Sri Lanka Insurance Industry Awards).

UA received a platinum award for people development at the SLITAD people development awards. UA is the only company to win the platinum award for two years in a row.

Conclusion

On behalf of the Board, I would like to thank Mr. Ajit Gunewardene for his valuable contribution to the Company over the past 25 years as a Board member and for his excellent leadership as the Chairman of UA since January 2006.

We place on record our appreciation to the former Chairperson, Director General and their team at the Insurance Regulatory Commission 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.

I also take this opportunity to thank all our stakeholders for being an integral part of UA's exciting journey.



Susantha Ratnayake
Chairman

29 March 2018



CHIEF EXECUTIVE OFFICER'S REVIEW

“ We celebrate 30 years of exceptional operations by increasing our market share and crossing Rs. 10 Billion in Gross Written Premiums. We have set a target to become the largest digital insurer in Sri Lanka delivering sustainable value to all stakeholders. ”

Strategy and Focus

We aim to be the number one digital life insurer in Sri Lanka by developing the most productive agency and bancassurance sales channels and leveraging digital resources to improve operational excellence, customer service and engagement. We are the 3rd largest new business producer this year and recorded the highest new business growth among our peers. Moreover we increased our market share in the life insurance industry by 1% during the year to 14%.

For over 30 years, we have delivered the finest in customer friendly products and services, designed to enhance speed, access and convenience. Our focus is always to serve our stakeholders with better value than anyone else. Union Assurance (UA) was recognised as the most respected entity in the insurance industry in the LMD ranking of Most Respected Entities 2017. We were the only insurance company ranking within the top 50.

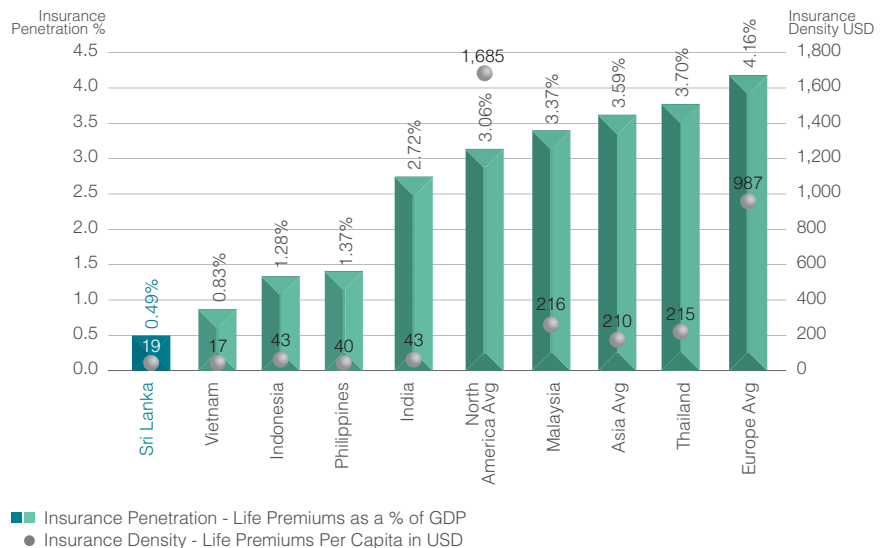
Life Insurance Industry

Year 2017 was another successful year for the life insurance industry which recorded a 13% growth in gross written premiums in a challenging environment. Life insurance business generated premiums amounting to Rs. 72 billion in 2017 compared with Rs. 64 billion recorded in 2016. This growth was mainly due to increased awareness, introduction of new products catering to retirement and health needs and enhanced customer service.

14%
Market Share
[2016: 13%]

Penetration in the life insurance industry is low compared to the other Asian countries. In 2016, life insurance business penetration was 0.54% (2015: 0.49%) of GDP reflecting a slight improvement. Only 14% of the population and 36% of the labour force has life insurance as per statistics published by the Insurance Regulatory Commission of Sri Lanka (IRCSL). These factors indicate great potential of this dynamic industry.

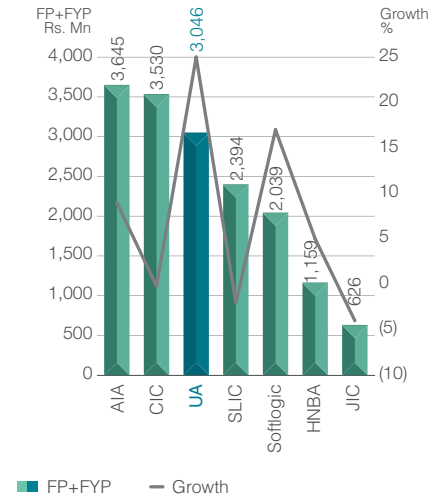
Insurance Penetration and Insurance Density



Company performance versus Industry

UA recorded Rs. 10.1 billion in Gross Written Premiums (GWP) with a growth rate of 22%. GWP from conventional products recorded a 24% growth. GWP from unit linked products contracted by 42% due to negative perceptions and alternative product options.

Regular New Business Premium Growth



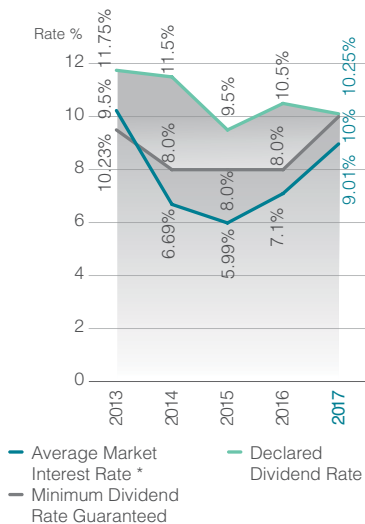


GRI 102-14



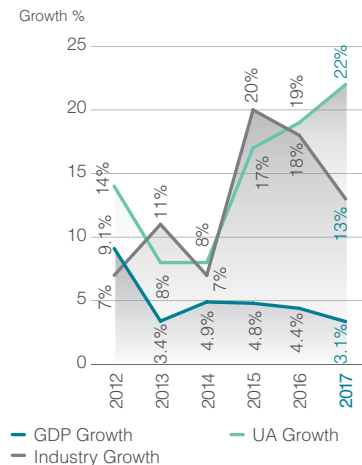
Our dividend based products contributes mainly to conventional GWP. UA continued to declare above market dividend rates to policyholders.

Annual Dividend Rate



*Calculated based on the Average Weighted Deposit Rate of commercial banks for the corresponding year (Source: Central Bank)

UA Growth vs Industry Growth



New Customer Propositions

UA launched 'Union Pension Advantage', targeting retirement needs and 'Union Single Premium Advantage' targeting investment and saving needs of customers.

In January 2018, we launched 'Union Smart Health Plus', a health rider with overseas cover, no claim bonus, cashless service, free fitness tracker, deductible options and reinstatement benefit (revival benefit) features. The product caters to all customer segments including families.

Our unique life insurance propositions are discussed in the Social and Relationship Capital section of this report.

Persistency

There was a significant improvement in the persistency ratio of both agency and bancassurance channels. This improvement is attributable to changes in compensation structure and improvement in need based selling as a result of intense training and development.

We will continue to implement strategies to improve persistency since it is a key driver to improve renewal GWP and cash flow.

Persistency Ratio



Financial Performance

UA recorded Rs. 7.4 billion profit after tax in 2017. The normal surplus transfer from Life fund amounting to Rs. 3.6 billion, one - off surplus transfer from non - participating life fund amounting to Rs. 3.4 billion, Rs. 172 million was generated from the shareholder portfolio and Rs. 188 million was accounted as UA's share of profits from the general insurance business of Fairfirst. UA maintained the dividend payout ratio in the range of 25% to 50%. This indicates both quality of UA earnings and financial stability.

Investment income recorded a 38% growth. This is mainly due to increase in interest rates of government securities in the first half of the year and net increase in unrealised gains from equities.

Net insurance benefits and claims paid increased by 75% mainly due to increase in maturity and surrender payouts. Maturity payouts are in line with UA's contractual obligations and surrenders have increased due to the challenging economic environment. Underwriting and net acquisition cost increased by 28% to Rs. 1.8 billion due to increase in GWP and changes in incentive structure. Other operating, administrative and selling expenses increased by 21% to support growth. As a result of the above life fund decreased by 4% to Rs. 29.1 billion by year end.

CHIEF EXECUTIVE OFFICER'S REVIEW



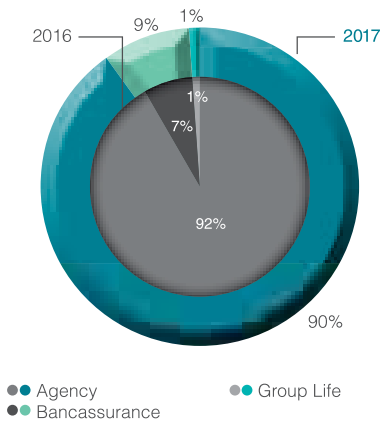
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Review of Distribution Channels

The agency channel grew by 20% during the year. Growth was delivered through key changes in leadership, incentive and recognition structures, enabling the sales force digitally and aligning learning and development to recruit and retain high quality advisors.

The bancassurance channel contributed 9% of the GWP during the year and recorded a growth of 53%. This remarkable growth was achieved through specific changes in the compensation and organisation structure of the channel and digitally enabling the sales force.

Channel Mix



Digitisation and Operational Excellence

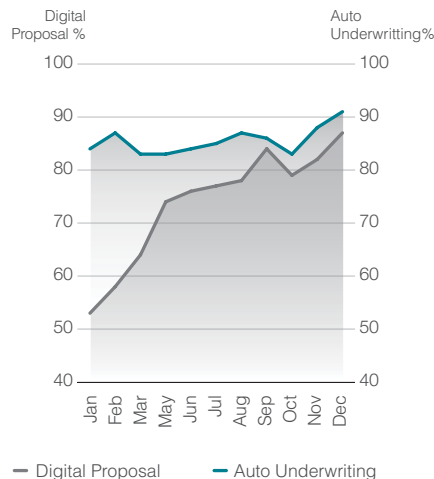
UA is committed to a 'digital first' business model, and invested people and financial resources in order to achieve the vision of becoming the largest digital insurer in Sri Lanka. We are investing over Rs. 800 million to deploy the latest digital platform. This will enable us to develop and launch new products across multiple distribution channels faster and manage policy, claims and billing in a more efficient and effective manner. We are also investing heavily in digital talent. We have a multi-disciplinary team of experts forming a Digital Centre of Excellence which has been in operation for five years. Having access to global best practices and a close relationship with one

“ In a challenging economic environment, we have recorded a significant increase in investment income as a result of prudent investment strategies and portfolio rebalancing. This has enabled us to declare above market dividend rates to our policyholders. ”

of the leading global experts on digital insurance have further added value to this process.

The Company's ambition is to ensure 100% digital operation, and the latest statistics in this regard are as follows;

Digital Proposal and Auto Underwriting



Claim Settlement

We have implemented multiple initiatives to improve the claims settlement period automating key aspects of the process including automation of cheque printing.

Regulatory Review

The key change during the year is the change in life insurance company taxation. Currently life insurance companies are taxed on "I-E" basis (Investment income – Management Expenses).

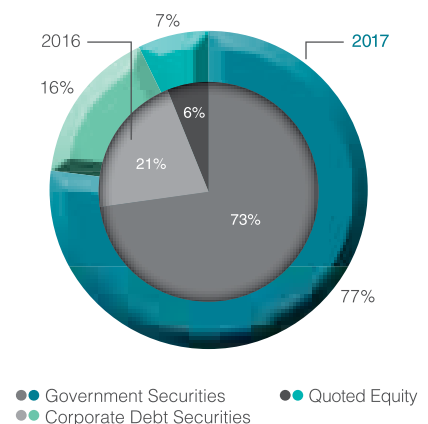
A surplus based income tax method was included in the new Inland Revenue Bill which will be effective from 1 April 2018.

As per IRCSL guidelines, UA transferred a one-off surplus of Rs. 3.4 billion from non-participating fund to shareholder fund which is recorded as a restricted regulatory reserve under equity in the statement of financial position. Distribution of such reserve is subject to meeting governance requirements stipulated by the IRCSL and can only be released upon receiving approval from the IRCSL.

Strong Portfolio Yields

The investment of cash flows is carried out with a long term view in line with the strategic asset allocation policy of the Company. Our aim is to effectively and efficiently utilise cash flows and earn higher returns by taking acceptable levels of risks while complying with requirements of the IRCSL.

Strategic Asset Allocation - Life Fund





GRI 102-14

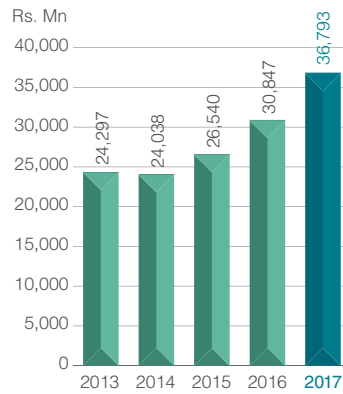
Investment Environment

Yields from short and long term government securities declined in 2017 to single digit levels. The corporate debenture market was subdued in 2017 with speculation of capital gain taxes and interest income from debentures becoming liable for income tax. In line with falling government security returns, money market yields also declined. The equity market benefited from foreign inflows and ASPI improved 2.26% while the S&PSL20 gained 5.01% providing better capital gain returns during 2017.

Assets Under Management (AUM)

UA's Life fund's assets under management at the end of 2017 amounted to Rs. 36.8 billion which is a 19% YoY growth. The life fund was able to provide a weighted average return of 12.48% in 2017.

Life AUM Growth



38%

YoY Growth
Investment Income



19%

YoY Growth
Investment Portfolio



10.25%

Annual Dividend Rate
to Policyholders

Strategic Risks

The Company's key strategic risks and our responses to them are as follows:

Risk Description	Company Response
Political uncertainty and inconsistent economic policies impacting growth.	Consistently deliver best in class insurance products and services that meet customers' needs with additional value through health and lifestyle benefits.
Recruitment and retention of talent specifically for distribution related activities.	UA has implemented several initiatives to attract high quality candidates and offers a variety of training and development programmes to enhance the quality and productivity of the sales force. Compensation / benefits and rewards and recognition schemes are consistently aligned to drive individuals to achieve organisation objectives.
Regulatory changes and interventions.	UA takes a proactive approach by engaging in direct dialogue with legislators or by participating in industry level discussions. 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 in the report on the Regulatory review on page 40.
Increasing market share in light of increasing competition and managing margins due to upward pressure on cost base.	The Company relies on its culture of customer-centricity and innovation, well established brand and technical expertise to maintain and grow revenue and margins. Cost efficiencies and improvements are key focus areas and managed through the annual budgeting and monthly operating performance review processes.
Reduction in investment yields.	Investment committee has devised various investment strategies to increase investment yields. UA was able to declare an above market dividend rate in 2017.

CHIEF EXECUTIVE OFFICER'S REVIEW



GRI 102-14

Business Outlook

Life Insurance Penetration

Life insurance is significantly underpenetrated compared to peer countries and this provides strong upside potential.

The Protection Gap

The protection gap is a ticking time bomb for society. It is defined as the difference between the protection needed, and the protection in place, in order to maintain dependents' living standards following the death of the primary breadwinner. The gap is huge, estimated globally at USD 86 trillion – or in Asia-Pacific, for example, at as much as USD 58 trillion.

Closing the protection gap is a real social need that UA can offer real solutions to. With growth in incomes, this gap has the potential to accelerate, creating needs for customers which UA can offer solutions to.

Demographic Changes

Sri Lanka's demographic trends of ageing population, increasing urbanisation and increase in non-communicable diseases will create demand for health, pension and retirement products.

Economic Growth

The growth forecast for Sri Lanka in 2018 is 4.6% due to tight monetary and fiscal policies. Rising consumer income will create demand for protection and investment products.

2018 is likely to witness lower rates than the previous two years, resulting in a steady pickup in aggregate demand in the economy. Recovery in the agriculture sector and lower interest rates are likely to have a positive impact on consumer spending.

However, the results of local government elections, in 2018 and the likely actions policy makers take leading to the 2020 / 21 elections, particularly with regard to fiscal loosening are key material risks for the economy and investment outlook.

Technology

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 and lead to vast improvements in marketing, underwriting and customer retention.

Insurers can increase the number of touchpoints 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.

In keeping with this trend, UA has launched GOYO, a wearable device linked to an App which works as a personal health advisor motivating users to achieve personal fitness targets by offering a multitude of rewards from an eco system of business partners.

Future Strategies

Our future strategies are focused on becoming the number one digital life insurance company in Sri Lanka.

We will continue to implement strategies to transform the agency as customers prefer to deal with trusted, professional advisors. We will also focus on growing the bancassurance channel, which we believe has strong upside potential with the higher banking penetration in Sri Lanka.

We will develop products to cater to changing customer requirements driven by rising income levels and greater awareness regarding the benefits of life insurance to their lifestyles.

We will also focus on developing products which go beyond the traditional insurance boundaries by embedding insurance in to a wider eco system. GOYO is one such initiative.

Our investment in the IT platform will enable us to develop and launch new products across multiple distribution channels in a speedy and cost effective manner.

We have already digitally enabled our sales force, streamlined operations to suit a digital environment and leveraged technology to increase customer service and engagement levels. We have established a data analytics team to support our business strategies and we will continue to invest on multiple digital initiatives to achieve our business objectives.

Appreciation

UA is making terrific progress due to the efforts of our people and the support of customers, and other stakeholders. Sincere thanks and appreciation to all involved.

We have ended 2017 on a strong note and we expect this momentum to continue to 2018 as well. UA has a strong brand, reputation for good governance, a professional team and performance driven culture. These aspects combined with our financial strength and customer focus, positions UA to deliver sustainable value to all stakeholder in the years to come.

Dirk Pereira
Chief Executive Officer

29 March 2018



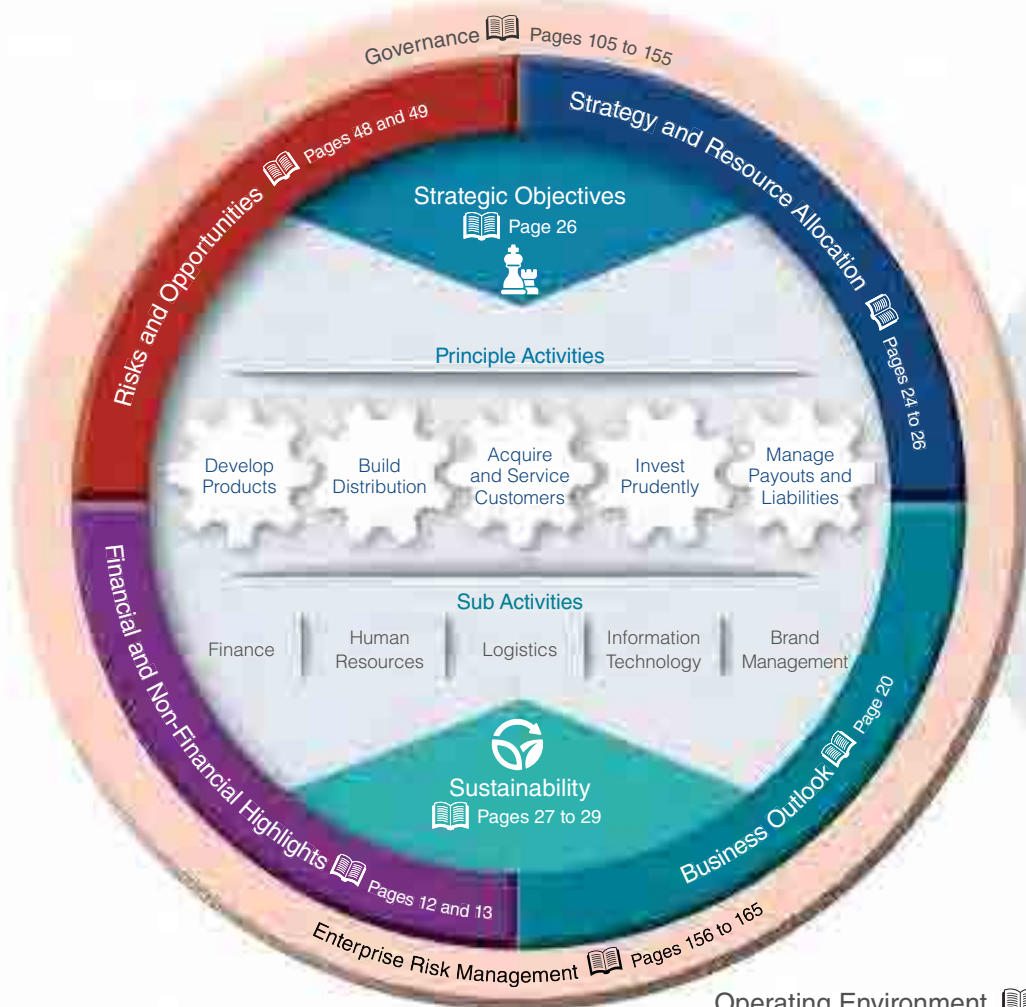
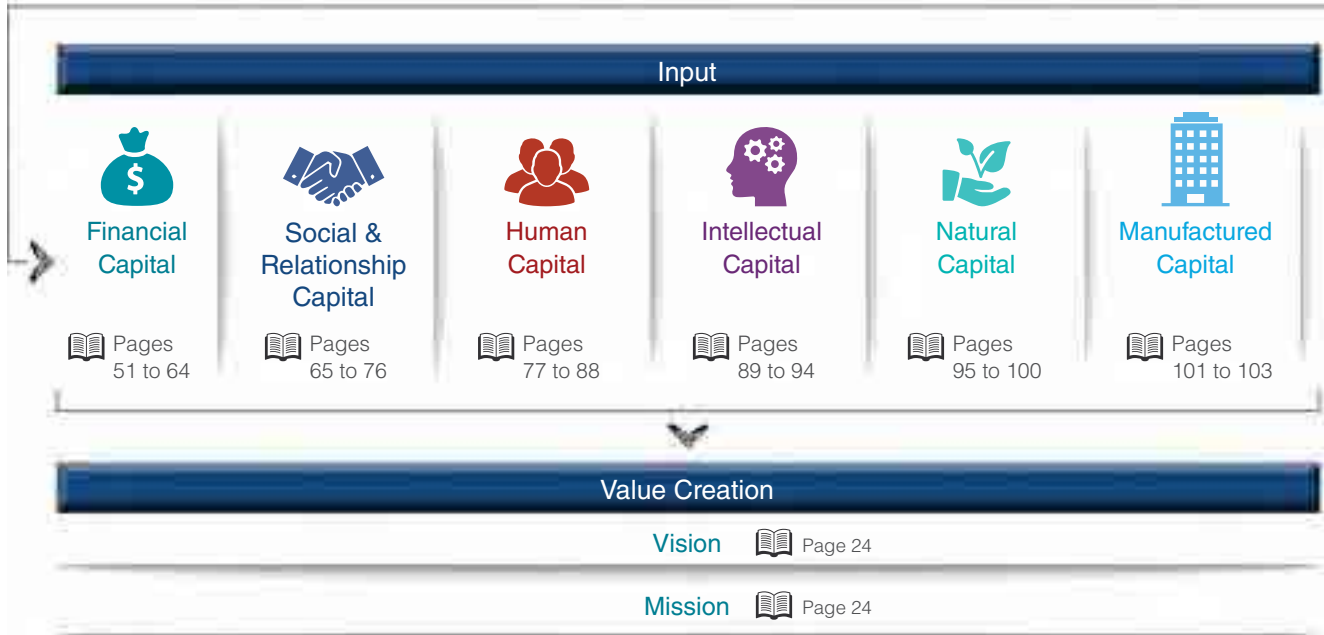
OUR VALUE CREATION MODEL

Our value creation model provides the framework for us to win for our partners. This section discusses;



OUR VALUE CREATION MODEL

OUR BUSINESS MODEL



Redeployment

Output

Outcome

Financial Capital

- ▶ **Rs. 10.1 Bn**
Gross Written Premium
- ▶ **Rs. 18.00**
Dividend per share
- ▶ **Rs. 7.2 Bn**
Operating profit
- ▶ **352%**
Capital adequacy ratio

Financial Capital

- ▶ Financial stability
- ▶ Financial growth
- ▶ Creation of wealth

Social and Relationship Capital

- ▶ **240,258**
Lives covered
- ▶ **88%**
Customer complaints settled within the year
- ▶ **3**
New propositions for pension, investment and health needs
- ▶ **900,191**
Lives touched through Dengue, Thalassemia and Diabetes awareness campaigns

Social and Relationship Capital

- ▶ Creation of wealth
- ▶ Creation of better customer experience

Human Capital

- ▶ **5th**
Consecutive year as a Great Place to Work
- ▶ **5%**
Increase in attrition
- ▶ **33%**
Increase in top advisor productivity during the year
- ▶ **54**
MDRT members produced

Human Capital

- ▶ Alignment of workforce with Company vision
- ▶ Increase profitability through improved productivity and efficiency

Intellectual Capital

- ▶ **Rs. 1.8 Bn**
Brand Value
- ▶ **GOYO**
Proposition beyond protection
- ▶ **87%**
Life insurance proposals received digitally
- ▶ **161,123+**
Fan base
Largest Facebook fan base in the industry
- ▶ **91%**
Auto underwriting of policies

Intellectual Capital

- ▶ Product portfolio to suit ever changing, customer needs
- ▶ Better prepared to face disruptive business models
- ▶ Efficient business operation
- ▶ Profitability

Natural Capital

- ▶ **2,529 m³**
Litres of water saved
- ▶ **70,246 kwh**
Energy saved
- ▶ **868**
Number of trees saved
- ▶ **1,295 tCO₂e**
Carbon footprint

Natural Capital

- ▶ Brand visibility and reputation
- ▶ Sustainable communities
- ▶ Business growth

Manufactured Capital

- ▶ **97+**
Locations island wide
- ▶ **38,757**
Square feet of training space
- ▶ **1,126**
Customer touch points

Manufactured Capital

- ▶ Sustainable natural resource utilisation
- ▶ Bio-diversity preservation



OUR VALUE CREATION MODEL STRATEGY AND RESOURCE ALLOCATION

Vision

To be the most sought after provider of insurance solutions.

Mission

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

Values



Excellence

Strive for excellence in everything we do be the best we can be



Caring

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



Innovation

Improving constantly, reinventing and evolving



Trust

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



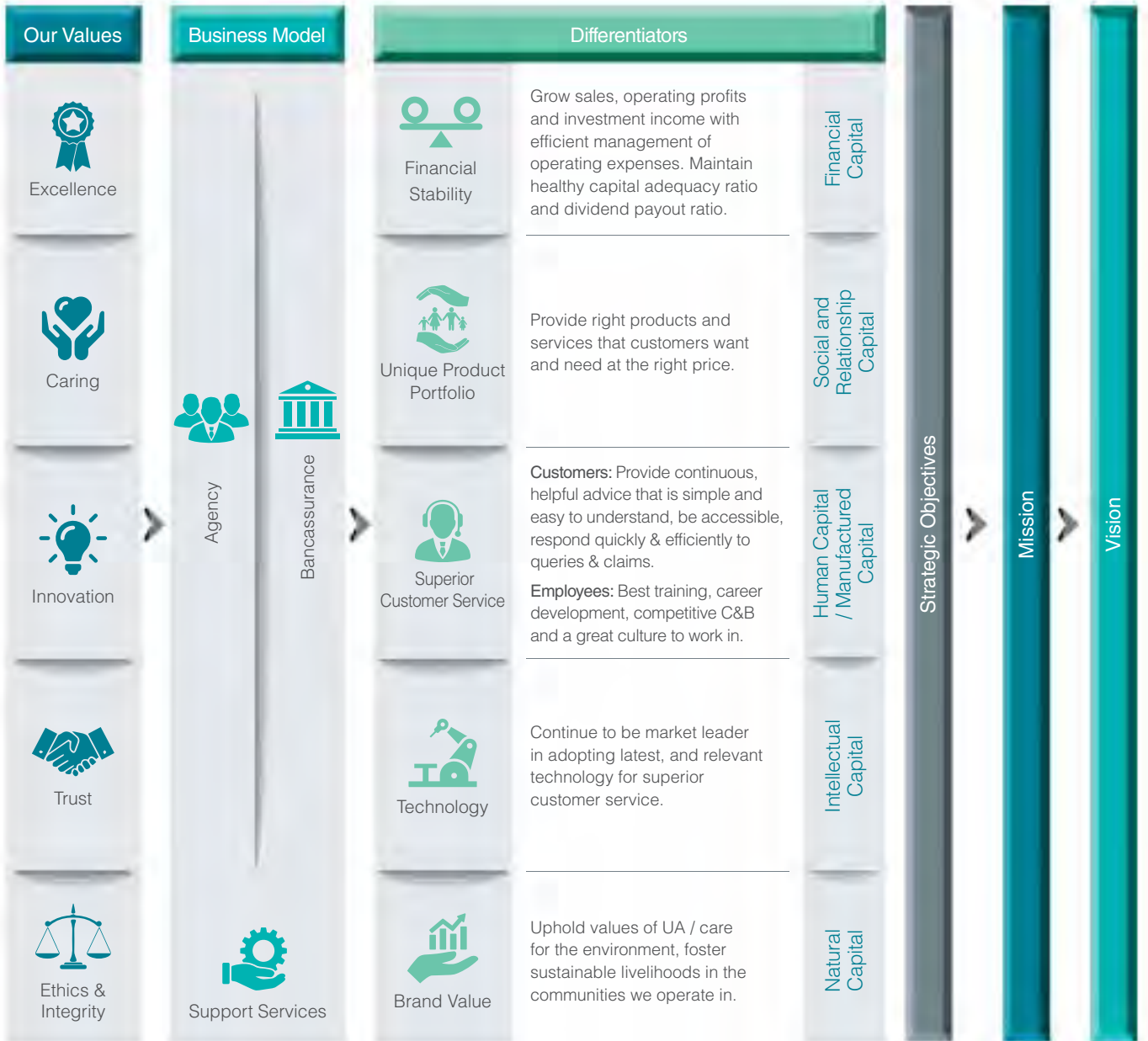
Ethics and integrity

Doing the right thing always

UA is the 3rd largest private sector life insurer in the country and 3rd largest new business producer with a market share of 14%. UA strategy is guided by its values and is focused on three key areas i.e. agency transformation, bancassurance transformation and operational excellence. We believe these strategies will differentiate UA and provide a competitive edge over competitors.

Our Long Term Strategy

A snapshot of our long term strategy is given below;








Key performance indicators are set for monitoring the progress of the strategy and can be categorised into six capitals. In a turbulent environment, UA continues to review its strategies to align with its vision. Progress on strategy, medium term objectives and long term objectives are discussed in the capital management review section of the management discussion and analysis section of this report.

OUR VALUE CREATION MODEL

STRATEGY AND RESOURCE ALLOCATION

UA's short term strategic objectives and progress is outlined in the table below;

Progress on Strategy

Capital	Short Term Strategic Objectives (2017)	Strategies	Progress
 Financial Capital	Rs. 10 Bn GWP	<ul style="list-style-type: none"> ▶ Fundamental changes to rewards and recognition structure to drive aggressive GWP growth ▶ Agency consolidation ▶ Collaboration with bancassurance partners 	Achieved GWP of Rs. 10 Bn
	ROE over 20%	<ul style="list-style-type: none"> ▶ Fundamental changes to rewards and recognition structure to drive the aggressive GWP growth ▶ Expense rationalisation 	Achieved recurrent ROE of 64%
 Social and Relationship Capital	2 new product propositions	<ul style="list-style-type: none"> ▶ Launch products which address demographic trends in the country ▶ Launch products which serve beyond protection and link with a whole eco system 	Launched <ul style="list-style-type: none"> ▶ Pension advantage ▶ Investment plus ▶ GOYO
	Healthy community (Touch 500,000 lives)	Drive ambitious targets for CSR platforms (Dengue, Thalassemia and Diabetes) to achieve meaningful results.	Number of Lives touched: 900,191
 Human Capital	GPTW score of 72	<ul style="list-style-type: none"> ▶ Learning and development initiatives focus on improving capabilities of Agency and Bancassurance sales cadre ▶ Initiatives centred on improving collaboration with employees 	Achieved score of 70
	Increase brand value by 5%	<ul style="list-style-type: none"> ▶ Embed brand into internal systems and stakeholder activities. ▶ Create brand awareness amongst customers through all activities and communications 	<ul style="list-style-type: none"> ▶ Achieved brand value of Rs. 1.8 Bn (an increase of 46%) ▶ Most respected insurance company in the LMD ranking of most respected entities 2017
 Intellectual Capital	20% improvement in productivity	<ul style="list-style-type: none"> ▶ Set up a centralised data analytics unit ▶ Gamify L&D in line with digital road map initiatives ▶ Enforce over 85% digital submissions for 2017 	<ul style="list-style-type: none"> ▶ 87% of life proposals submitted digitally ▶ 25% of agency force achieved UA's productivity goals
	5% reduction in carbon footprint	<ul style="list-style-type: none"> ▶ Energy saving and emission management initiatives 	Achieved 21% reduction in carbon footprint
 Natural Capital	Optimise Head Office (HO) and Branch running cost (Increase not more than 10%)	<ul style="list-style-type: none"> ▶ Efficiently manage HO space ▶ Cost reduction strategies such as using energy efficient equipment and consolidate under performing Business Development Offices 	<ul style="list-style-type: none"> ▶ Implemented a work from home policy ▶ 9% Increase in Head Office and Branch running costs to support the growth

Medium Term / Long Term Strategic Objectives

Strategic Objectives (Next 5 Years)	Strategies
Become the number 1 digital life insurer in terms of <ul style="list-style-type: none"> ▶ Agency channel ▶ Bancassurance channel ▶ Operational excellence 	The Company strategy is centred on one theme which is 'mission ONE – Overcome challenges and Navigate to be Eminent'. In 2017, the Company completed a 5 year strategic plan and the strategies focus on the following key themes. <ul style="list-style-type: none"> ▶ Agency transformation ▶ Bancassurance transformation ▶ Operations transformation

Resource Allocation

Resource allocation is driven by the strategies which UA pursues. ROE is the key driver of resource allocation. Significant amount of resources have been allocated for medium to long term strategies of the Company. The Company strategies are funded principally through internally generated funds. This requires a serious consideration on factors such as regulatory measures (Capital Adequacy Ratio and Determination 1), dividend payout ratio and timing of cash flows.

OUR VALUE CREATION MODEL

SUSTAINABILITY

“ We believe success can be achieved only if we create value internally and externally, maintaining an effective governance system and a sustainability framework that fulfils the economic, social and environmental needs of key stakeholders. Our approach is articulated not just in the sustainability policy, but also in our HR, CSR, Energy and Environmental policies. ”

Sustainability Framework

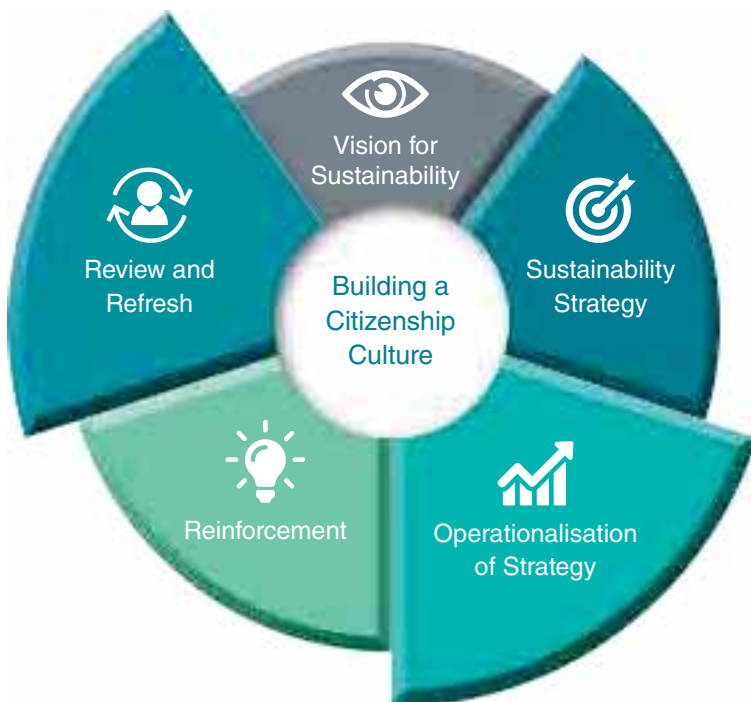
Sustainability is embedded in the Union Assurance culture. Given the nature of the business, we believe it is the very purpose of our existence and is reflected in our Mission and Corporate Values. Over the years Union Assurance has committed

towards building a citizenship culture with the aim of enabling internal and external stakeholders to form opinions and make informed decisions. As a result, we have been able to balance the aspiration of value creation along with the responsibility of being a benchmark corporate citizen.

Sustainability Approach

We strive to improve our performance throughout the years by obtaining the support of all the stakeholders. We believe success can be achieved only if we create value internally and externally, maintaining an effective governance system and a sustainability framework that fulfils the economic, social and environmental needs of key stakeholders. Our sustainability principles mainly consider offering simple and transparent products that are easy to access and fairly priced, continuously embedding environmental, social and ethical consideration in our core activities and facilitating better customer service. Our approach is articulated not just in the sustainability policy, but also in our HR, CSR, Energy and Environmental policies.

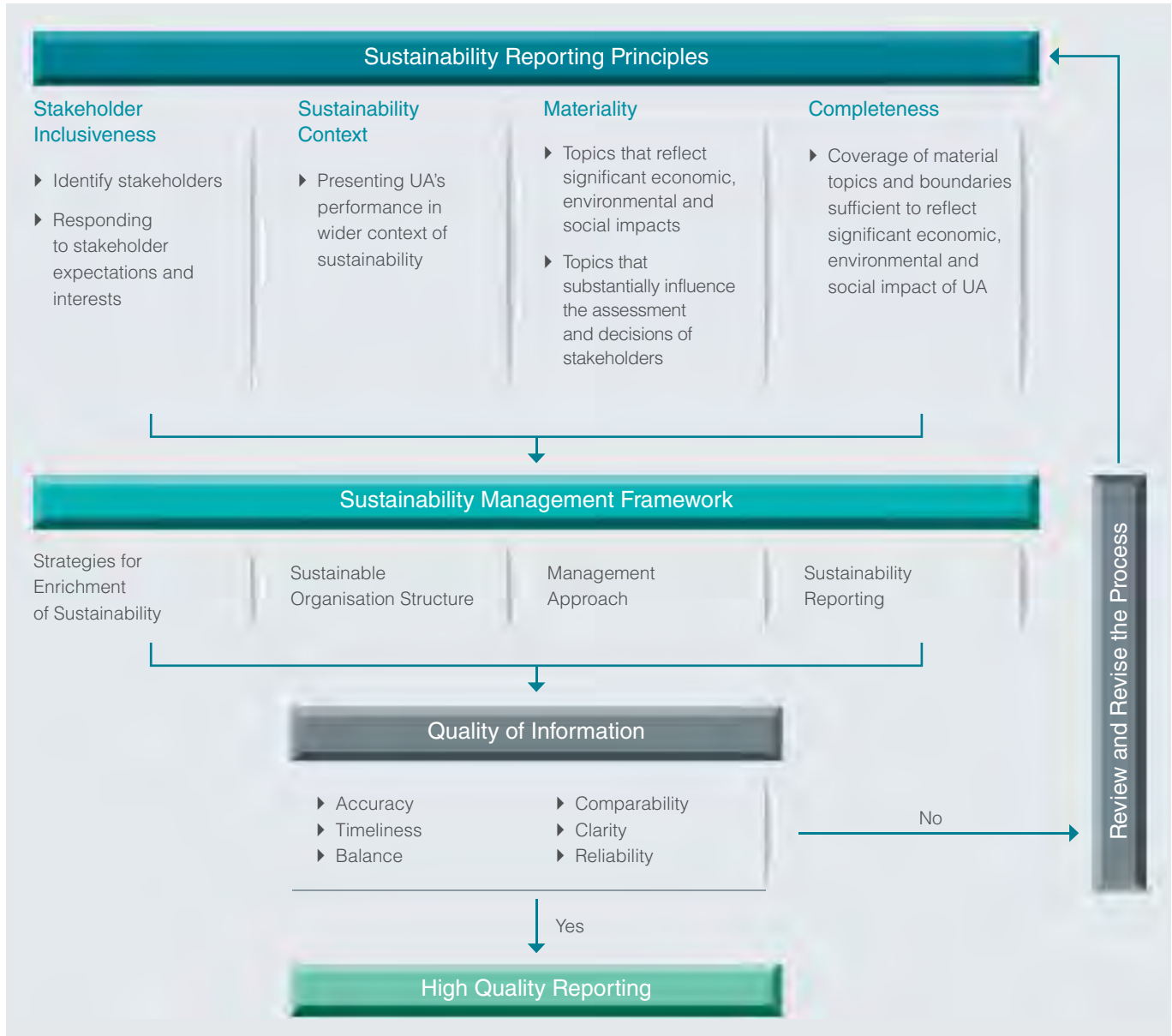
Our road map for building a citizenship culture is based on the following model;



OUR VALUE CREATION MODEL

SUSTAINABILITY

Key aspects of our sustainability reporting approach are indicated as below;



Our Engagement with Strategic Sustainable Development Goals

Based on detailed content of the United Nations' 17 sustainable development goals, Union Assurance has evaluated, chosen and integrated these sustainable development goals into the enterprise strategic sustainability direction. UA's reporting systems complies with the GRI standards and Capital Management as listed overleaf together with a summary of achievement during the year.

Innovation, Disruption of Business Models and Serving the Needs of an Evolving and Emerging Customers

- ▶ Partnered with eBao (China) to migrate core system to a world class platform.
- ▶ Partnered with Tryonics (Pvt) Limited to digitize all policy submissions and automatically underwrite policies.
- ▶ Further development of GOYO product to disrupt traditional life insurance products.

GRI Standard

GRI 203: Indirect Economic Impacts



Page 265

Creating Healthy Communities in Sri Lanka

- ▶ 66,514 protection, health, savings and investment products sold.
- ▶ 52 dengue, 108 thalassaemia and 48 diabetes awareness sessions conducted and funded Rs.12.7 Mn of free diabetes and thalassaemia tests.
- ▶ 57 staff members on flexi work times, 9 staff members work from home full time / part time, 23 house wives / higher education students work part time as e-consultants.

GRI Standards

203: Indirect Economic Impacts
 305: Emissions
 306: Effluents and Waste
 403: Occupational Health and Safety



Pages 265 to 267

Ensuring Gender Equality and Continuously Invest in Developing Skills and Competencies of People

- ▶ Male:Female ratio in the;
 - ▶ Management is 1.2 : 1
 - ▶ Permanent cadre is 1.3 : 1
 - ▶ Fixed term contract cadre is 1 : 3
 - ▶ Agency cadre is 1 : 1
- ▶ 46 positions filled internally
- ▶ 26 numbers of staff received personal education support
- ▶ 15 children of staff recognised for higher achievement in education
- ▶ 1,771 permanent and 4,002 field staff received 9,995 and 16,628 hours of training respectively.
- ▶ 207 new suppliers assessed on HR practices

GRI Standards

201: Economic Performance Opportunity
 203: Indirect Economic Impacts
 401: Employment
 404: Training and Education
 405: Diversity and Equal opportunity
 414: Supplier Social Assessment



Pages 265 and 267 to 269

Delivering Sustainable Financial Performance

- ▶ Achieved GWP of Rs. 10.1Bn
- ▶ Profits grew by 463%
- ▶ Provision of employment for 529 permanent staff, 277 fixed term contract staff and 4,002 agency force.

GRI Standards

201: Economic Performance
 203: Indirect Economic Impacts
 401: Employment
 405: Diversity and Equal Opportunity



Pages 265, 267 and 268

Providing a Better Customer Experience and Reach

- ▶ 8 relocated and new branches used energy efficient lighting

GRI Standards

GRI 201: Economic Performance
 GRI 203: Indirect Economic Impacts



Page 265

Promoting Sound Environmental Practices and Conducting Operations in a Sustainable Manner

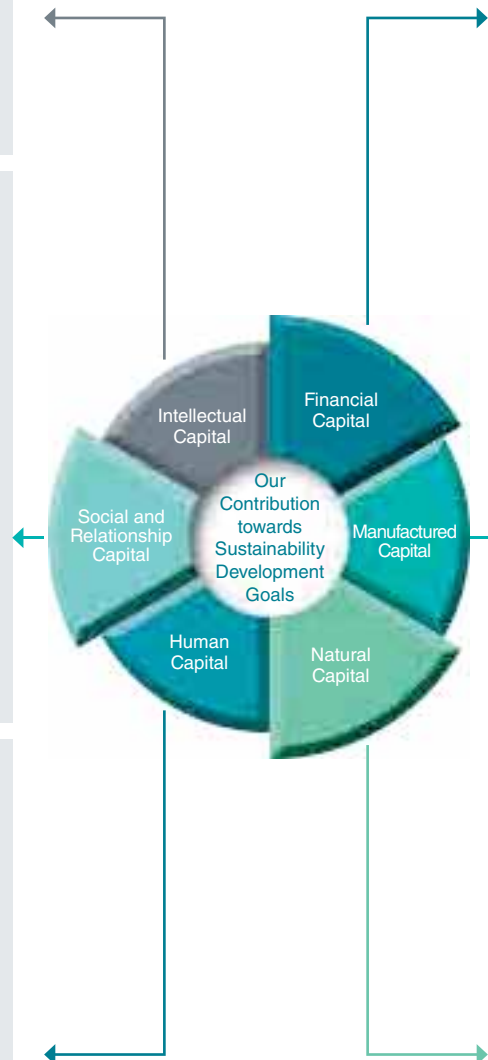
- ▶ 132,000 Litres of water recycled and reused. 16% drop in water usage
- ▶ 227 LED and florescent bulbs safely disposed
- ▶ Used 388,678 Kwh of less electricity compared to last year
- ▶ 20,280 kg of paper collected for recycling
- ▶ Signed the group pledge to reduce, reuse and recycle plastic.
- ▶ Collected 1,330 kg e-waste for recycling

GRI Standards

GRI 302: Energy
 GRI 303: Water
 GRI 305: Emissions
 GRI 306: Effluents and Waste



Pages 265 and 266





OUR VALUE CREATION MODEL

STAKEHOLDER RELATIONSHIP

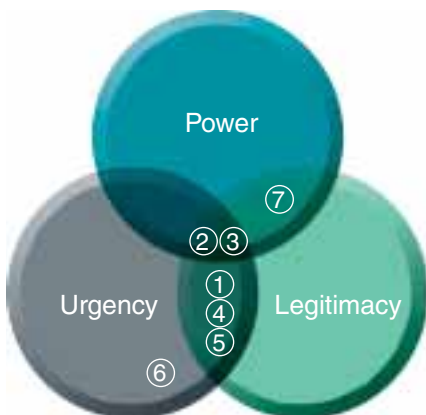
“ We continue to have dialogues with our stakeholders and are responsive towards their expectations / material issues to ensure the sustainability of our operations. ”

Stakeholder Engagement

We identify stakeholders as entities or individuals who can be affected by UA's activities, products, or services; or whose actions can affect our ability to implement strategies to achieve our objectives. We continue to have dialogues with our stakeholders and are responsive towards their expectations / material issues to ensure the sustainability of our operations. 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.

Stakeholder Identification

In our process to identify key stakeholders to engage we have used Power, Legitimacy and Urgency model as developed by Mitchell, R. K., Agle, B. R. and Wood, D. J. (1997). Based on the analysis the Stakeholders have been categorised in to 3 groups as depicted below;

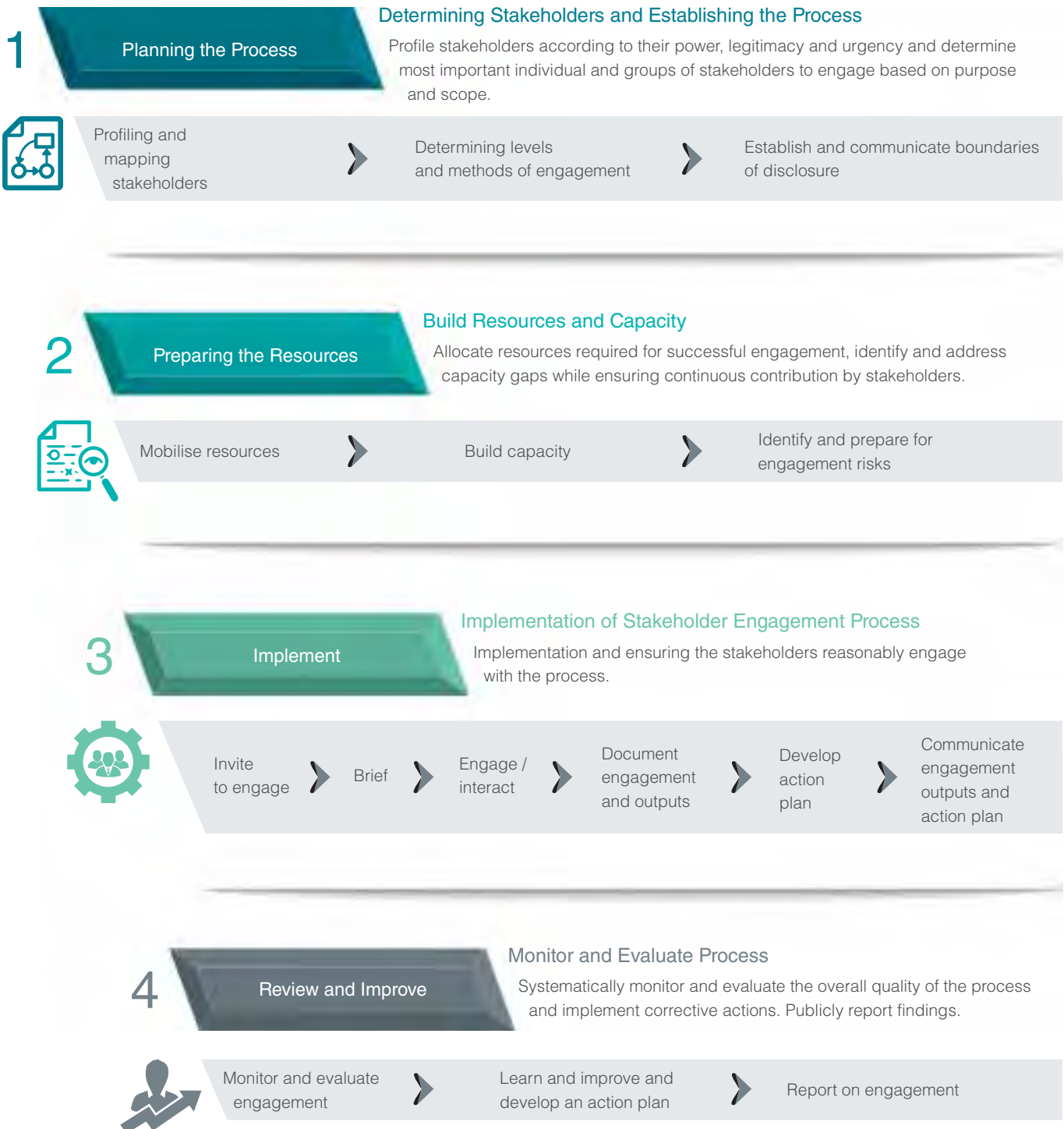


	1 Customers	Individual policyholders, corporate policyholders
	2 Shareholders	Parent, retail and institutional investors
	3 Suppliers and Business Partners	Suppliers of goods and services, banks, reinsurance partners, financial intermediaries, business consultants
	4 Environment	Environmental authorities
	5 Employees / Advisors	Permanent, fixed term contract employees and sales advisors
	6 Community	Communities and community based institutions
	7 Government and Regulators	Insurance Regulatory Commission, Inland Revenue Department, Ministry of Finance, Ministry of Health etc.



The Stakeholder Engagement Process

We have 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;



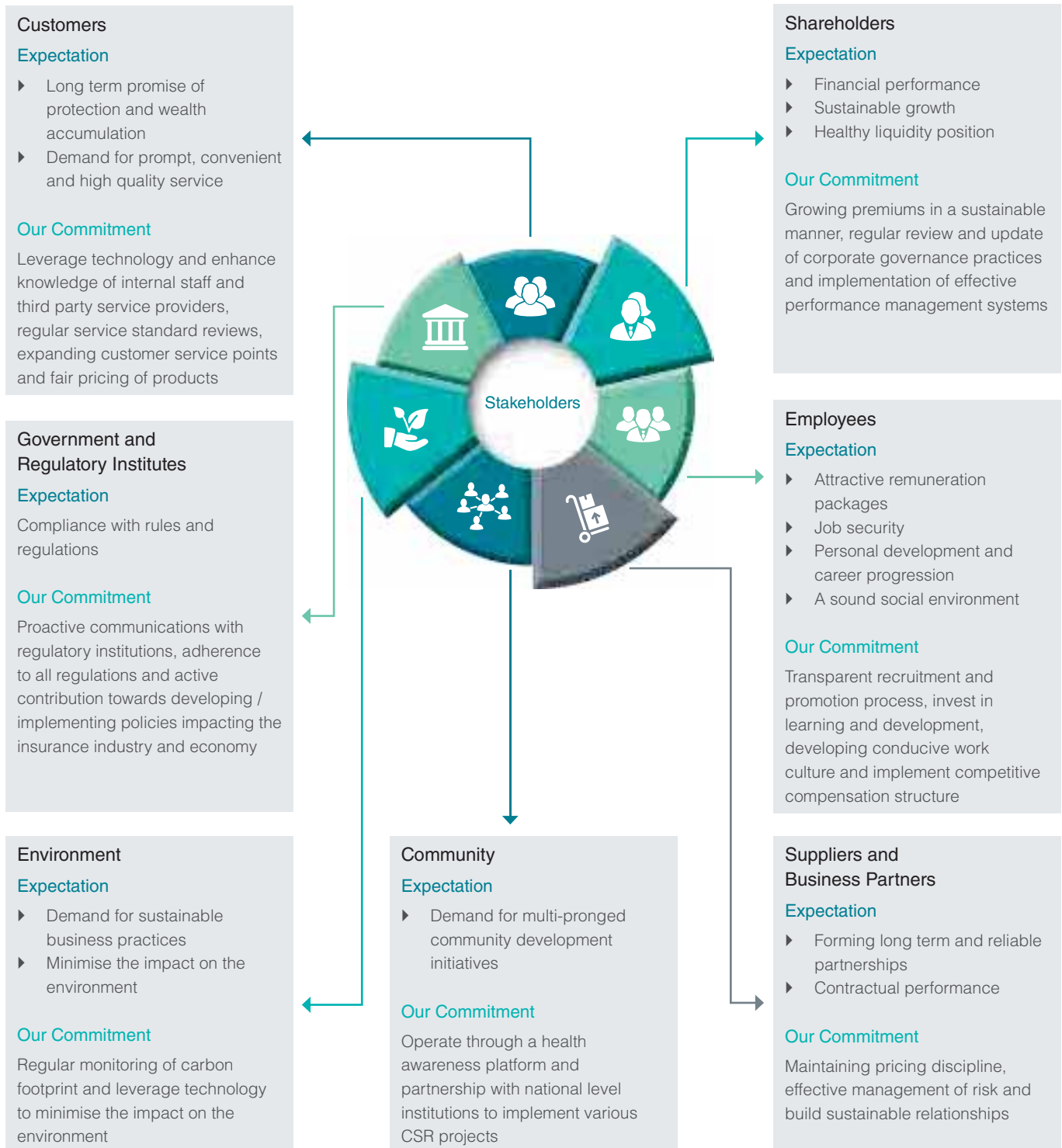


OUR VALUE CREATION MODEL

STAKEHOLDER RELATIONSHIP

Outcomes of the Stakeholder Engagement Process

(A) Stakeholder Reasons for Engagement





GRI 102-44

(B) Methods of Engagement

Stakeholder	Levels of Engagement	Mode of Engagement	Frequency	
 Customers	Consult	Customer satisfaction surveys	Monthly	
	Consult	Customer research	As and when required	
	Consult	One to one meetings	Monthly and as and when required	
	Involve	Welcome calls	All new policies issued	
	Passive	Complaint management	On going	
	Advocate	Corporate website	On going	
	Passive	Social media	On going	
	Collaborate	Media advertisements	As and when required	
	Collaborate	Customer get together programmes	Annually	
	Inform	Annual report	Annually	
 Shareholders	Inform	Interim financial statements	Quarterly	
	Consult	Annual and extraordinary general meetings	AGMs annually and EGMs as and when required	
	Inform	Announcements to CSE	As and when required	
	Inform	Media releases and press conferences	As and when required	
	Involve	Investor relation hotline	On going	
	Passive	Corporate website	On going	
	Consult	One to one meetings	As and when required	
	Consult	Employee satisfaction surveys (GPTW survey)	Annually	
	Involve	Skip level meetings	On going	
	 Employees	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	
Involve		Management meetings	Quarterly	
Collaborate		Recreation club activities	On going	
Consult		On-site visits and meetings	As and when required	
 Suppliers and business partners		Consult	Formal interactions with reinsurers	On going
		Collaborate	Interactions with community representatives and institutes	On going
		Passive	Corporate website and social media	On going
		Collaborate	CSR projects	On going
		Passive	Press releases	As and when required
	Collaborate	Public events	As and when required	
	Passive	Employee training on environmental impacts	On going	
	Passive	Careful resource consumption	On going	
	Passive	Integrating environmental consideration into business decisions	On going	
	 Environment	Consult	On-site surveillances	As and when required
Inform		Filing of returns	Periodic deadlines	
Involve		Directives and circulars	As and when required	
Passive		Press releases	As and when required	
 Government and regulatory institutions		Consult	On-site surveillances	As and when required
	Inform	Filing of returns	Periodic deadlines	
	Involve	Directives and circulars	As and when required	
	Passive	Press releases	As and when required	

OUR VALUE CREATION MODEL

MATERIALITY



GRI 102-47

Material issues were identified through the stakeholder engagement process. Defining materiality is important for us to understand the significant economic, environmental and social impact of conducting business. These issues were defined by mapping stakeholder concerns and our business priorities. It can be identified as those that could make a major impact on the Company's ability to deliver

its promises to various stakeholders. The main considerations are on what and how they matter to the business. Reporting on materiality is important for UA to make sound decisions and take decisive actions.

Material Aspects

The identification, prioritisation and validation of material issues were conducted in line with

GRI Standards and therefore is a reflection of best practice in defining report content. In determining the report content, the Company sought to prioritise material impacts based on the relative importance to internal and external stakeholders.

Materiality Assessment

GRI Standard No	GRI Topic	Boundary	Impact to UA	Impact outside UA	UA Response
Economic					
201	Economic performance	UA	High	High	Financial Capital Page 51 Social and Relationship Capital Page 65
202	Market presence	UA	Low	Low	
203	Indirect economic impacts	Community	High	High	
204	Procurement practices	Suppliers	Low	Low	
205	Anti-corruption	UA	Low	Low	
206	Anti-competitive behaviour	UA	Low	Low	
Environmental					
301	Material	UA	Low	Low	Natural Capital Page 95
302	Energy	UA	Medium	Medium	
303	Water	UA	Medium	Medium	
304	Bio diversity	UA	Low	Low	
305	Emissions	UA	Medium	Medium	
306	Effluent and waste	Environment	Medium	Medium	
307	Environmental compliance	Environment	Medium	Medium	
308	Supplier environmental assessment	Supplier	Low	Low	
Social					
401	Employment	UA	High	High	Human Capital Page 77
402	Labour / management relations	UA	High	High	
403	Occupational health and safety	UA	High	Low	
404	Training and education	UA	High	High	
405	Diversity and equal opportunity	UA	High	Medium	
406	Non-discrimination	UA	High	Medium	
407	Freedom of association and collective bargaining	UA	Low	Low	
408	Child labour	UA & Suppliers	Low	Low	
409	Forced or compulsory labour	UA	Low	Low	
410	Security practices	UA	Medium	Medium	
411	Rights of indigenous people	UA	Low	Low	
412	Human rights assessment	UA	Low	Low	

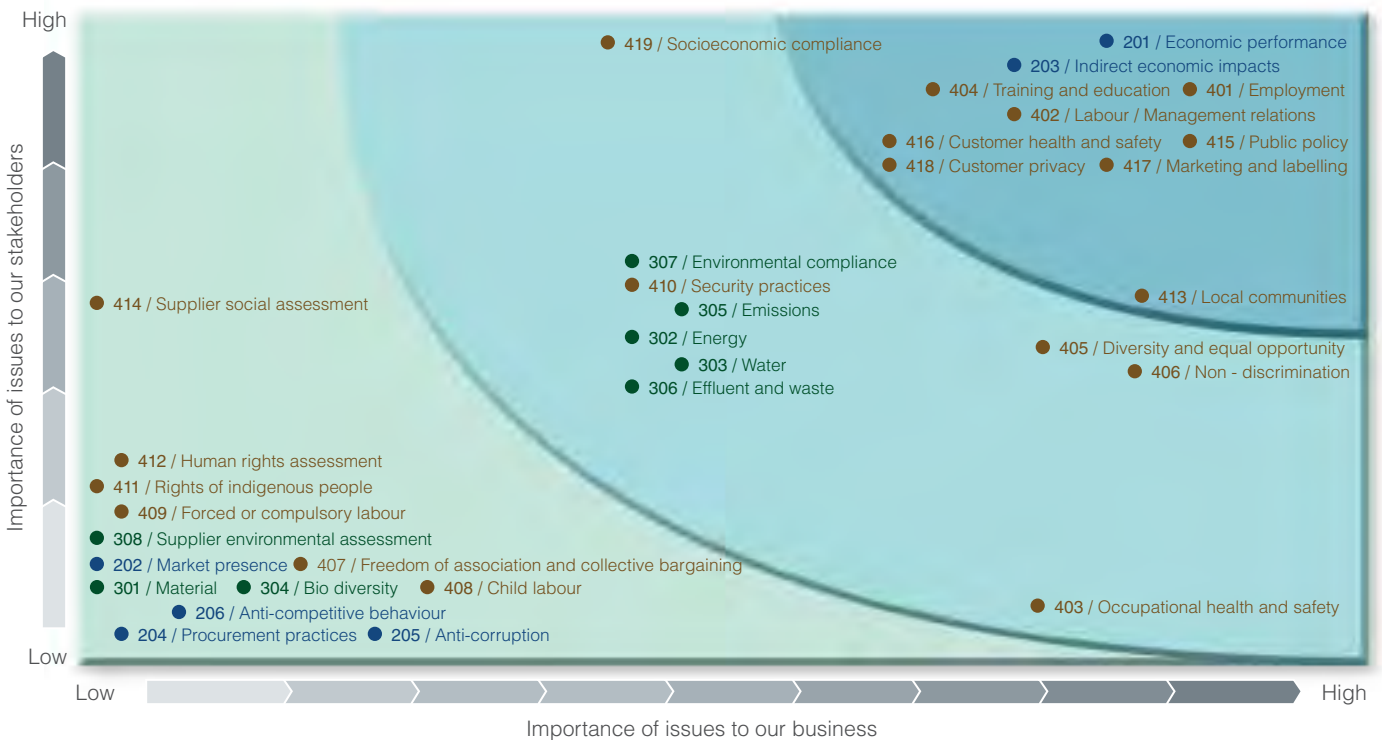


GRI Standard No	GRI Topic	Boundary	Impact to UA	Impact outside UA	UA Response
413	Local communities	Community	High	Medium	Social and Relationship Capital
414	Supplier social assessment	Suppliers	Low	Medium	
415	Public policy	UA and Government	High	High	Page 65
416	Customer health and safety	Customers	High	High	Intellectual Capital
417	Marketing and labelling	UA and Community	High	High	
418	Customer privacy	Customers	High	High	Social and Relationship Capital
419	Socioeconomic compliance	Community	Medium	High	

Materiality Matrix

The results of the materiality assessment as discussed earlier has been categorised as High, Medium and Low based on the impact on UA and impact outside the organisation. The levels of reporting has been based on the following categorisation;

- ▶ **High** - Issues indicated are of high significance and impact both stakeholders and the organisation. The indicators shown in this area are fully discussed in the Annual Report.
- ▶ **Medium** - Issues indicated in this area have a relatively moderate impact on the business. They are reported in brief.
- ▶ **Low** - Issues indicated in this area have lower impact on the business. Therefore, those are not reported.



● Economic Indicators ● Environmental Indicators ● Social Indicators

There were neither reinstatement of information nor material changes in the scope and aspect boundaries.



MANAGEMENT DISCUSSION AND ANALYSIS

“ Our partnerships have reinforced our business capabilities and delivered on our promise of value creation in real terms that light up the many stakeholders we partner. With them we have set the trends of growth and every year we will accelerate this pace. ”

38 Our Operating Environment

50 Capital Management Review

51 Financial Capital

65 Social and Relationship Capital

77 Human Capital

89 Intellectual Capital

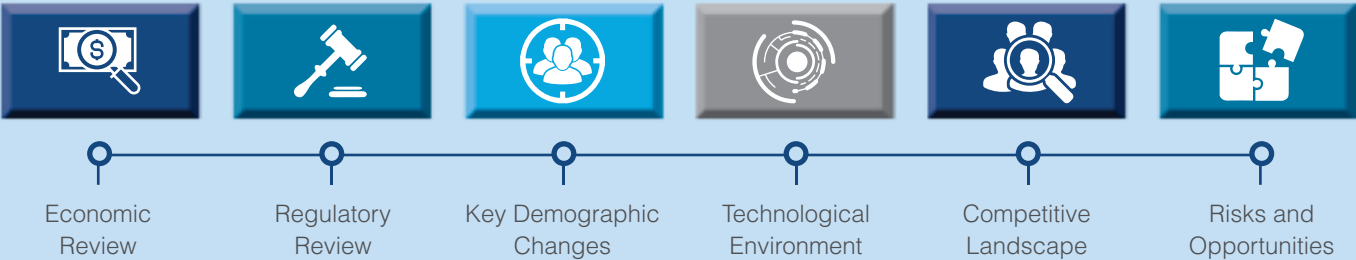
95 Natural Capital

101 Manufactured Capital



OUR OPERATING ENVIRONMENT

Our operating environment has an impact on UA directly and indirectly. The operating environment is discussed in detail as follows;



Economic Review

The Sri Lanka economy grew by 3.1% in 2017, 130 bps below the 4.4% GDP growth recorded in 2016. Economic growth was mainly supported by the expansion of industry and services related activities. Due to extreme weather conditions (severe drought as well as heavy rainfalls) that prevailed during the last 2 years in many districts of the country, agricultural activities reported a negative growth.

Following are notable developments in the year under review.

- ▶ The Executive Board of the International Monetary Fund (IMF) completed the second review of Sri Lanka's economic performance under the Extended Fund Facility arrangement and approved the

disbursement of SDR 119.894 Mn (≈ USD 167.2 Mn).

- ▶ The new Inland Revenue Bill 2017 was passed in Parliament by a majority and would come into effect from April 2018. The new Act aims to simplify the existing tax structure to increase the tax base while improving tax administration. A surplus based income tax has been introduced for life insurance companies.
- ▶ New forex law has allowed a Company listed on the Colombo Stock Exchange to invest up to USD 2 Mn a year in overseas assets. The outward investors could buy shares, units, debt securities, and sovereign bonds.
- ▶ The government of Sri Lanka has completed the formal handover of the

strategic port of Hambantota to China, who has taken control of the facility on a 99-year lease for USD 1.12 Bn.

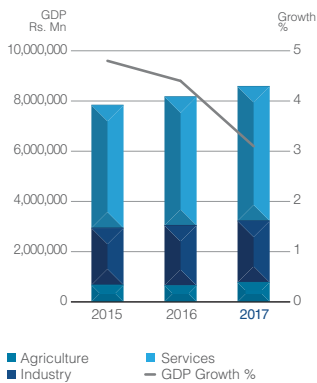
- ▶ Standard and Poor's has lifted the outlook on Sri Lanka's 'B+' rating to 'stable' from 'negative' as the country raised taxes to pay for salary and subsidy hikes in 2015 which contributed to a balance of payments crisis.

These helped Sri Lanka to stay on course, in spite of the political volatility and the impact of extreme weather conditions.

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

Macro-economic Variables	Movement	Cause	Impact to UA
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Economic Growth



During 2017 the economy, in terms of GDP grew by 3.1% YoY to Rs. 8.4 trillion. In 2016 economic growth stood at 4.4%.

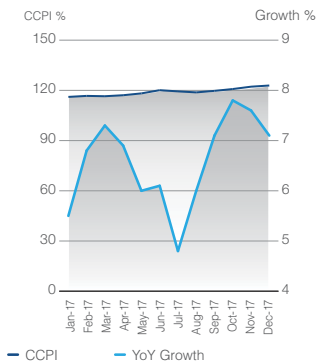
Agriculture sector contributed 7.6% to GDP at current price, and reported a negative growth of 0.8% during the year due to adverse weather conditions.

Industry activities contributed 29.6% of GDP at current price and grew at a moderate growth of 3.9% mainly due to slowdown in construction sector that grew at 3.1% against 8.3% in 2016. However, manufacturing of textile wearing appeal and leather related products improved 5.7%

Service sector that contributed 62.8% gained 3.2% YoY during the year 2017.

The growth in GDP enhanced the sentiment of both customers and business alike, which positively impacted the performance of UA during the year.

Inflation



Headline inflation measured by the Colombo Consumer Price Index (CCPI – Base year 2013) moved upward by 6.6% in 2017, higher than last year's 4.0%.

Core inflation based on CCPI increased to 5.9% in 2017 from 4.8% last year.

Revision in government's direct and indirect taxes and disturbing weather, negatively impacted supply side developments and food prices, further non - food categories, such as transport, miscellaneous goods and services, restaurants and hotels, recreation and culture, education, clothing and footwear, and furnishing, household equipment and routine household maintenance contributed towards the increase in inflation.

Increasing prices escalates other operating, administrative and selling expenses which negatively impacts UA's operating margins.

OUR OPERATING ENVIRONMENT

Macro-economic Variables	Movement	Cause	Impact to UA
<p>Interest Rates</p> <p>— AWDR — AWLR — 5 Year T bond</p>	<p>The AWDR and AWLR increased during 2017 by 5.15% (68 bps) and 11.02% (90 bps) respectively.</p> <p>However, treasury rates adjusted downwards during the year. 5 year treasury bond rate declined by approximately 268 bps.</p>	<p>The CBSL continued to tighten monetary policy to prevent adverse inflation and excess monetary and credit expansion. In March 2017 the CBSL increased the SDFR and SLFR by 25 basis points.</p> <p>Foreign inflows of USD 391.9 Bn YTD, GOSL securing funds from IMF, funds from lease of Hambantota Port, etc. lessened borrowing pressure for the Government leading to a drop in treasury yields.</p>	<p>The decline in treasury rates will increase value of UA's financial assets.</p> <p>However, if the decline in treasury rates continues, UA's fresh investments will earn lower yields.</p>
<p>Exchange Rate</p> <p>— LKR / US\$ — LKR / €</p>	<p>The rupee depreciated by 2.82% against the US Dollar and 14.45% against the Euro in 2017.</p>	<p>Strong export earnings growth of 10.2% YoY, foreign net inflows to treasury bills and bonds, net inflow to CSE, foreign currency term loans, IMF receipt and foreign direct investments controlled the LKR depreciation against the US\$.</p> <p>However, the notable increase in imports partly driven by adverse weather conditions negatively impacted the exchange rate.</p>	<p>Depreciation of the Rupee has negatively impacted payments to reinsurers and other overseas suppliers. Ultimately this had a negative impact on the margins of the Company.</p>
<p>Share Market</p> <p>— ASPI — S&PSL20</p>	<p>The ASPI returned 2.26% in 2017 closing at 6,369.26 while the S&PSL20 returned 5.01% closing at 3,671.72.</p> <p>The market capitalisation stood at Rs. 2.899 trillion at the end of year 2017 against Rs. 2.75 trillion last year.</p>	<p>Given the attractive valuations when compared with regional capital markets, CSE attracted net foreign inflows amounting to Rs. 17.66 billion. Further, the drop in treasury rates made equities attractive during the year.</p> <p>However, slowdown in consumer spending, adverse weather, higher taxes on certain sectors, increased inflation and slow economic growth had a negative impact on equities.</p>	<p>As a result of portfolio rebalancing and investment strategies UA's equity investment provided better returns during the year which enhanced total other revenue in 2017.</p>

Regulatory Review

The key change in regulatory environment during the year is the change in life insurance company taxation. Currently life insurance companies are taxed based on 'I - E' basis (Investment income – Management Expenses). UA has worked collaboratively with the Insurance Association of Sri Lanka to agree on a

surplus based income tax for life insurance companies with the Inland Revenue Department. As an outcome in the new Inland Revenue bill, Life insurance companies are taxed on the following basis.

Life Insurance Income Tax

The gains and profits liable to tax from the business of Life Assurance, whether mutual

or proprietary, is the aggregate of the following, subject to the deduction of any unrelieved loss from business specified in the Act:

- ▶ The surplus distributed to shareholders from the life insurance policyholders fund, as certified by the Appointed Actuary, and

- ▶ The investment income of the shareholders fund less any expenses incurred in the production of such income.

The surplus distributed to a life insurance policyholder who shares the profits of a person engaged in life insurance business shall be deemed as profit from business of that person and be liable to tax accordingly.

UA participating products contribute 8% to the current GWP. Participating policyholders will be liable for tax at temporary concessionary rate of 14% for 3 years, commencing 1 April 2018 participating products will not be competitive due to policyholder receiving net of tax.

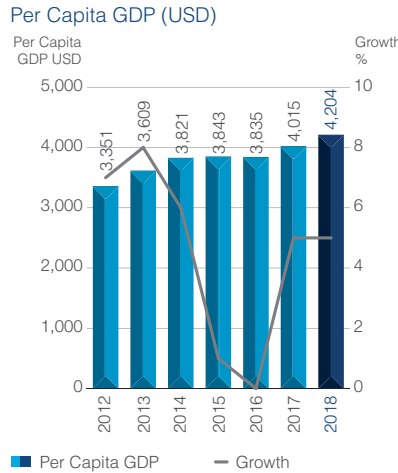
The new tax basis will be applicable from 1 April 2018.

One - Off Surplus

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

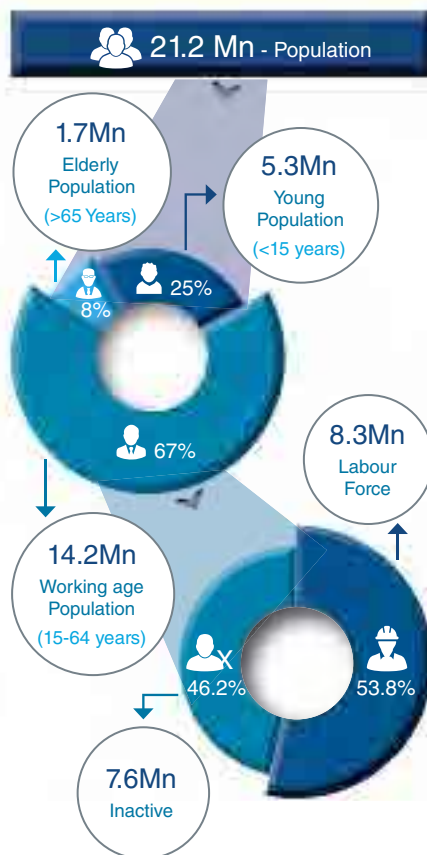
Key Demographic Changes Population

The proportion of young population is declining 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 support an increasing number of dependents. These changes create demand for health, pension and retirement products.



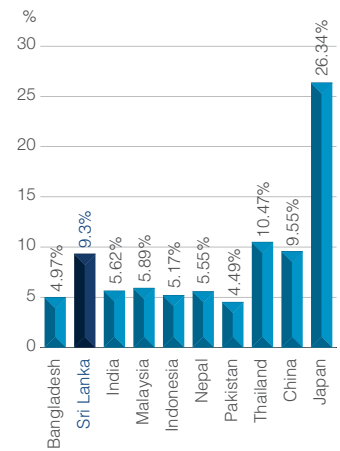
Source: Central Bank Annual Report 2016, Asian Development Bank: Economic forecast for South Asian Countries

Asian Development Bank forecasts 4.7% growth in per capita GDP for 2017 and 2018



Source: Central Bank Annual Report 2016

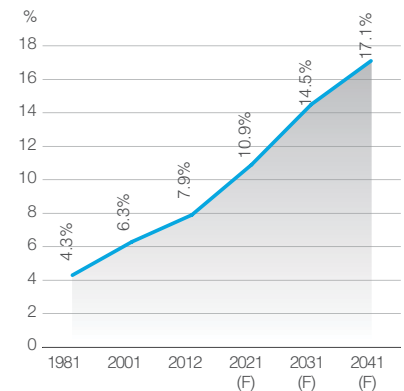
Population Aged 65 and Above (%)



Source: Sri Lanka Paradigm shifts in population, W. Indralal De Silva, World Bank

Among the developing countries, Sri Lanka's percentage of population age 65 and above is higher due to better access to health care.

Rapid Growth of Ageing Population 65+ Years



Source: Sri Lanka Paradigm shifts in population, W. Indralal De Silva, World Bank

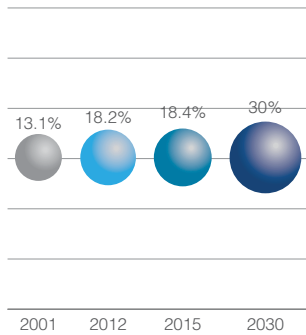
Trend of Urbanisation in Sri Lanka and Forecast for 2030

The country is expected to see rapid urbanisation with a growth rate of 3.3% annually over next 15 years giving an impetus for industry growth. As families relocate to cities, their ability to depend on village support and other means of localised security diminishes. Thus, sustaining an urban family, should the bread winner of the family face a tragedy that affects the households' income,

OUR OPERATING ENVIRONMENT

spurs the desire to have life insurance coverage. Additionally, housing market boom and low unemployment rate is also poised well for urban living, creating an opportunity for the life insurance industry growth.

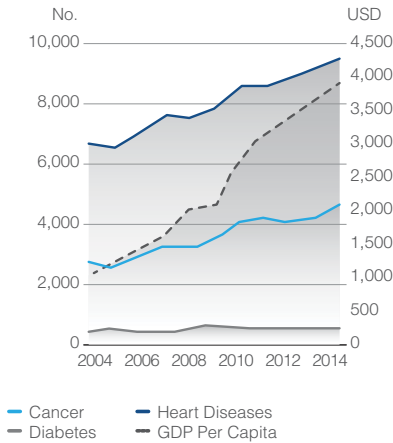
Trend of Urbanisation in Sri Lanka and Forecast for 2030



Source: World Bank CBSL

Non Communicable Diseases

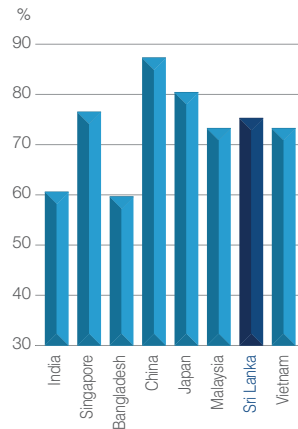
Increasing Trend in Deaths Due to NCDs



Source: Health Ministry, World Bank

In recent times, rapid growth of NCDs due to demographic changes and growing ageing population was also witnessed (NCDs account for 71% of annual deaths). Therefore, compared to few decades back, we believe that people have become more aware of the risks associated with NCDs and thereby looking for life / health covers providing an impetus for the industry.

Cause of Deaths by NCDs as a % of Total Deaths (2012)



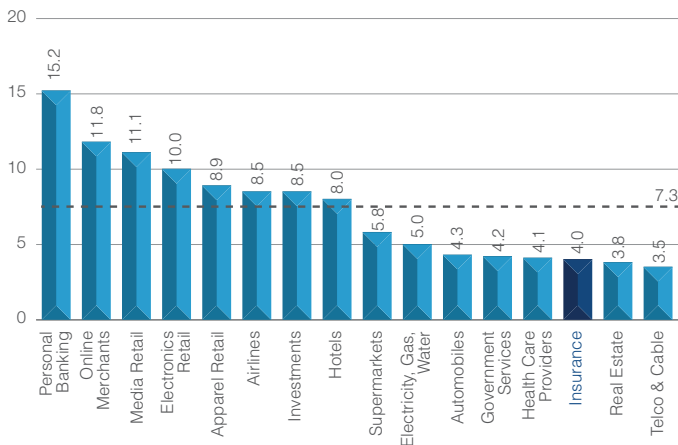
Source: Health Ministry and the World Bank

Technological Environment

Insurance industry is on the edge of major technology-driven change. Better operating efficiency, need to engage creatively with consumers digitally and increased disintermediation of information are relevant for the insurance industry as much as most other industries. Internet of Things (IoT) and Big Data will change the type of data that insurers use to assess risk, the way in which information is analysed and ultimately the size of the actual risk pools.

Today, mobile is key, even more than the web, and this requires an engagement model

Relative Satisfaction Utility Score



Source: BCG digital satisfaction survey March 2013, Morgan Stanley Research

specifically conceived for a digital world. Overall, consumers are far less satisfied with their digital insurance experience compared to other industries particularly when it comes to 'moments of truth' such as paying claims. Consumers have significant unmet needs, with many products perceived to be expensive and inflexible.

Ecosystems Drive the Need for Partnerships

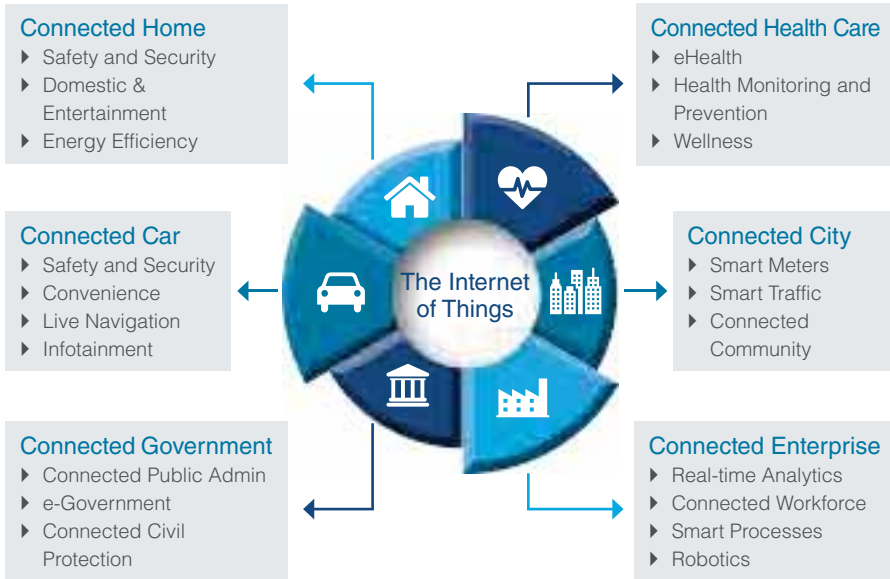
Cheap, connected sensors have the potential to transform the insurance offering – be it in motor, home or health insurance, or industrial settings.

An example of a digital ecosystem is provided overleaf - these will become increasingly important for delivery of insurance products.

Those devices (IoT) enable insurers to collect new datasets, gain a much better understanding of their customers and assess risks in a completely different way.

High Impact Areas

Risk segments (property & casualty, protection and health) are likely to see the greatest long-run impact from technology, as the industry moves from actuarial risk assessment (statistical techniques) to include new sources of data, Big Data techniques and new data sets from connected devices (potentially real-time risk observation and modelling).



Overall insurance technology spending is expected to grow modestly (mid-single digits) with most insurers looking to reallocate spend from legacy areas to front end technology to connect digitally with customers. Hence,

technology vendors exposed to priority spending areas should see double-digit growth. The main priority areas, will be interaction / distribution channels and analytics – particularly in contextualising

data from telematics / IoT devices. However, insurers will also have to invest in core systems (policy underwriting, claims, billing) and middleware solutions (wrapping the legacy systems so they integrate with state-of-the-art capabilities) to benefit fully from the channels / analytics spend.

Competitive Landscape Global Life Insurance Industry

Global life insurance premiums are estimated to have risen by 3% in 2017 in real terms, up from 2% in 2016. The emerging markets are likely to fuel improvement in life premiums in the coming years, with China and India being the main growth drivers, as per Swiss Re institute report quarter 3, 2017.

This growth may be a consequence of more favourable economic conditions, leading individuals to purchase insurance products. In most countries, the relatively low penetration of insurance (especially in Latin America and some Asian countries) shows that the insurance sector still has significant room to expand. In some countries, gross premiums declined where continued low interest rates may have deterred individuals from purchasing life insurance products with lower guarantees.

Challenges faced by Insurers

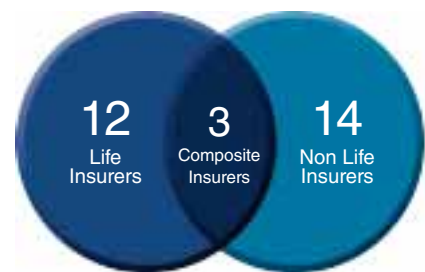
- ▶ Complex legacy IT systems limiting insurers' agility.
- ▶ A bias toward largely intermediated distribution and technical nature of products hindering a shift towards greater consumer orientation.
- ▶ Complex insurers, often siloed by branch as well as long-term orientation within the industry, tend to have a limited focus on innovation.
- ▶ The economic environment creates significant pressure in terms of investment capability, increasing the short-term focus of insurance companies.

Facing these challenges, Insurers need to focus on

- ▶ Consumer centricity
- ▶ Cutting across silos
- ▶ Partnerships
- ▶ IT evolution
- ▶ Innovation
- ▶ Data analytics

Sri Lankan Insurance Market Structure

The Sri Lankan insurance industry depicts a highly dynamic atmosphere with escalated competition existing amongst 29 industry players. The composition of the Insurance companies (Insurers) registered with the Insurance Regulatory Commission of Sri Lanka (IRCSL) is as follows. There are 58 insurance brokering companies registered with the IRCSL.



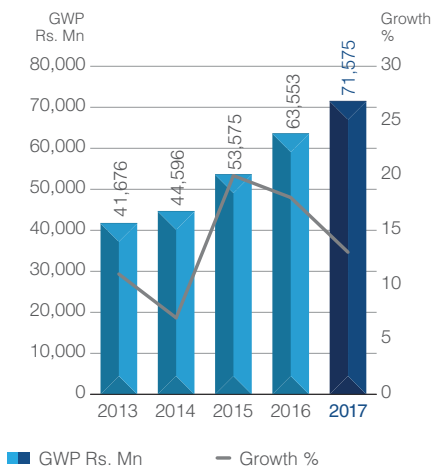
OUR OPERATING ENVIRONMENT

Life Insurance Industry Performance

Overview

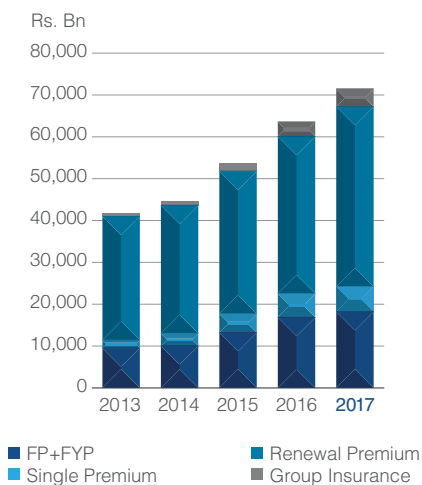
Despite the challenging environment, year 2017 ended with a positive note for the Sri Lankan insurance industry with the life insurance sector generating GWP amounting to Rs. 71,575 million, up by 12% against the GWP of Rs. 63,553 million generated in 2016. This significant growth is attributable to increased awareness regarding life insurance, introduction of new life insurance products catering to customer requirements such as retirement and investments, enhanced customer service, etc.

Growth in Life Insurance Industry



The decline in growth momentum from 2015 onwards is partly attributable to the reduction in economic growth.

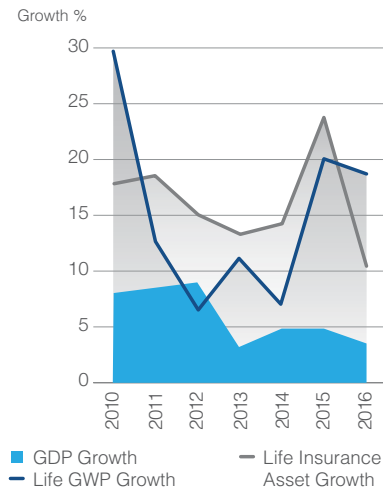
Composition of Industry GWP



Life GWP Growth vs GDP Growth

Higher industry growth experienced compared to economic growth of the country.

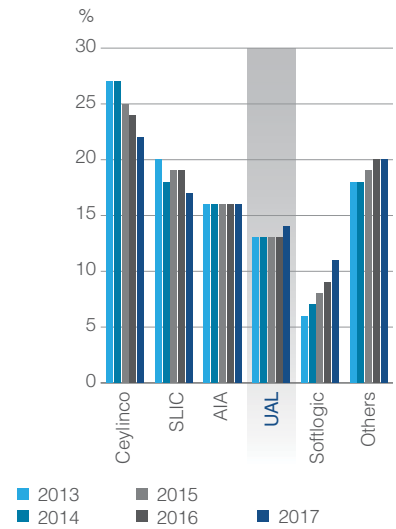
Insurance Industry Performance vs GDP



Market Competition

As illustrated below, Ceylinco Life, SLIC, AIA Life, Union Assurance and Softlogic Life together contributed 80.25% to the total long-term insurance GWP in 2017 almost similar to the 80.14% recorded in 2016. The other ten players generated 19.75% of GWP in 2017 (2016: 19.86%).

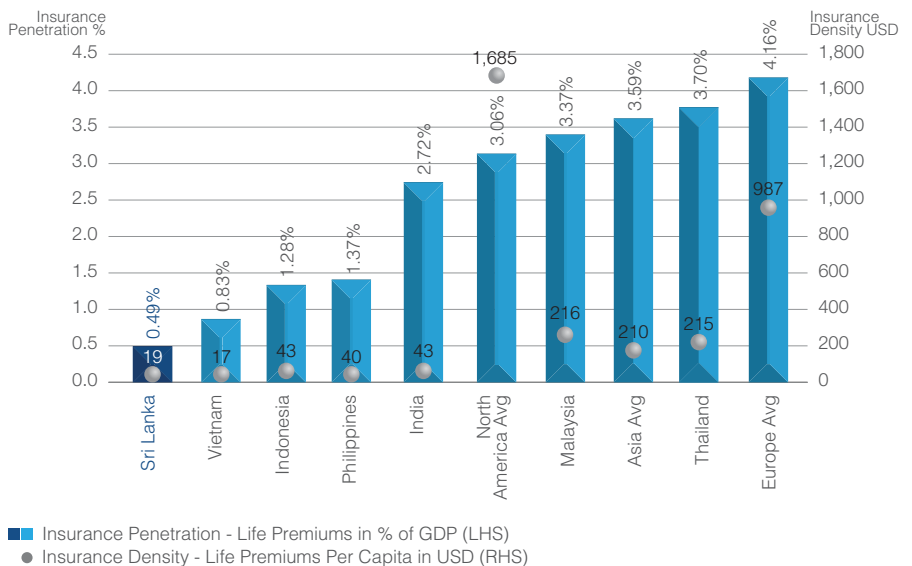
GWP Market Share



Life Insurance Penetration

Insurance penetration reflects insurance premium as a percentage of GDP. In 2016, penetration ratio of life insurance business was recorded as 0.49% (2015: 0.48%) reflecting improvement in penetration level. Sri Lanka being a country largely characterised by social collectivism and dependency remains underpenetrated compared to regional peers.

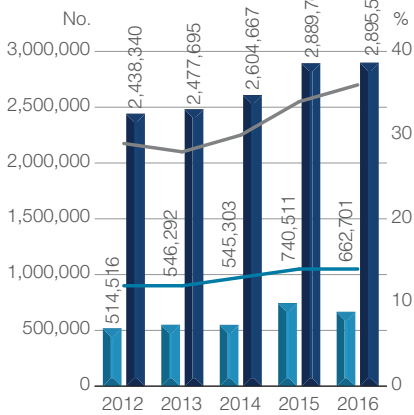
Insurance Penetration and Density



In 2016, Life insurers have issued 662,701 new policies, a decrease of 10.51% compared to 740,511 new policies issued in 2015. The total life insurance policies in force has gradually increased over the last five years reflecting that Life insurance business is continuously expanding in the country. Number of life insurance policies as a percentage of the total population was 13.7% in 2016 though recording a slight decrease compared to 13.8% recorded in 2015. Number of life insurance policies as a percentage of the labour force reflects the low level of life insurance penetration in the country and the potential that life insurers have to further develop and expand.

Reduction in number of new policies issued is partly attributable to the challenging economic environment.

Number of Insurance Policies Issued and Policies in Force

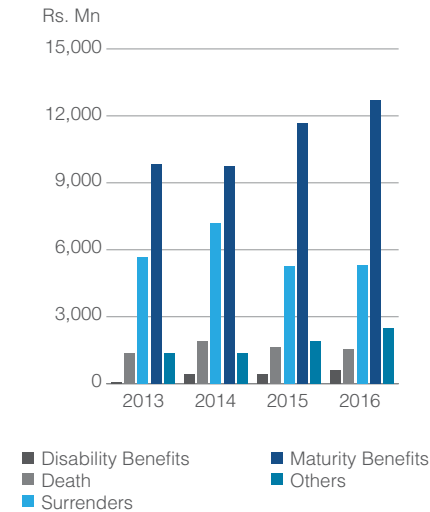


■ No. of New Life Policies Issued
 ■ No. of Life Policies in Force
 — No. of Life Policies in Force as % of the Total Population
 — No. of Life Policies in Force as % of the Labour Force

Claims and Benefits Paid by Life Insurance Industry

Life insurers incurred Rs. 22,622 million total claims and benefits, an 8.06% increase compared to Rs. 20,934 million incurred in 2015. The total comprised of disability benefits, death benefits, surrenders, maturity benefits and other benefits paid to policyholders. Out of the total claims incurred, maturity benefits represented 56.20% in 2016 recording an increase compared to 55.83% in 2015.

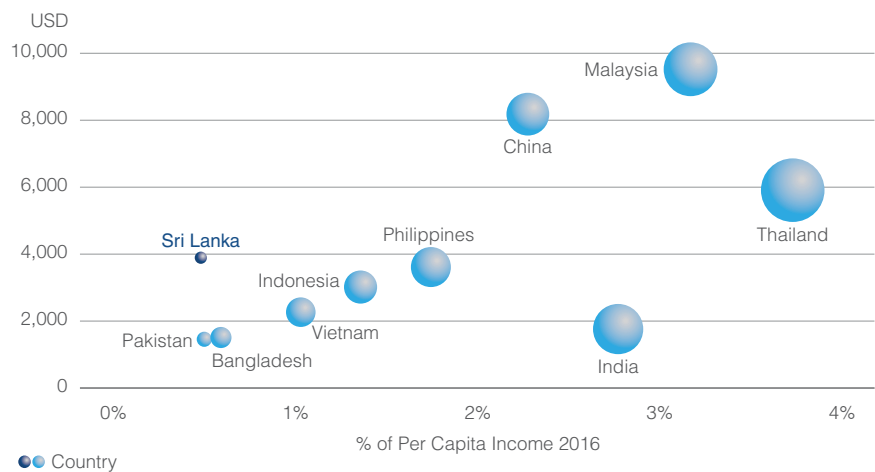
Claims and Benefits Paid by Life Insurance Companies



Insurance Density

Insurance density reflects the life insurance premium income per person of the population and amounts to Rs. 3,307 in 2016. Insurance density has grown by 14.5% in 2016 compared to 2015. 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 growth potential for the life insurance industry.

Insurance Density

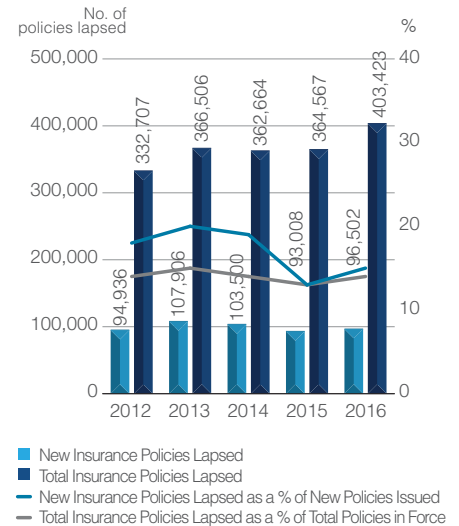


Industry Issues

Number of Policies Lapsed

Lapsation of policies is a key issue in the local insurance industry compared to developed markets. Policy lapses are due to varied reasons and some of them include lack of servicing, wrong selling and negative market conditions. During the year under review insurance companies educated their sales force through training and development and improved service standards. In addition, in September 2017, the insurance industry conducted an islandwide awareness campaign on the need for protection.

Number of Policies Lapsed



Source: IRC SL Statistical Review 2016

OUR OPERATING ENVIRONMENT

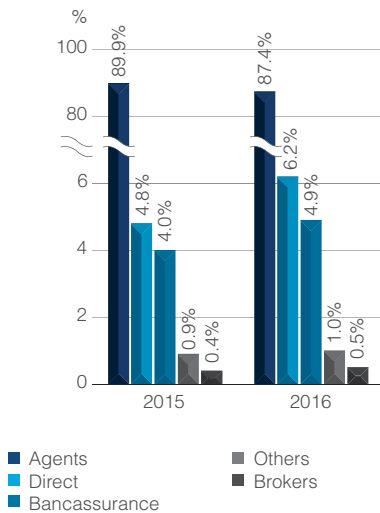
Recruitment of Quality Sales Advisors

Recruiting agents with required skill set is a challenge especially since agency is the dominant channel.

Distribution Channels of Insurance Companies

Insurers use distribution channels such as agency, brokers, direct marketing, bancassurance and other channels to reach their customers. Agency is the dominant distribution channel in the life insurance industry, while the potential of Bancassurance is yet to be exploited despite deeper penetration of the bank branch network in the country.

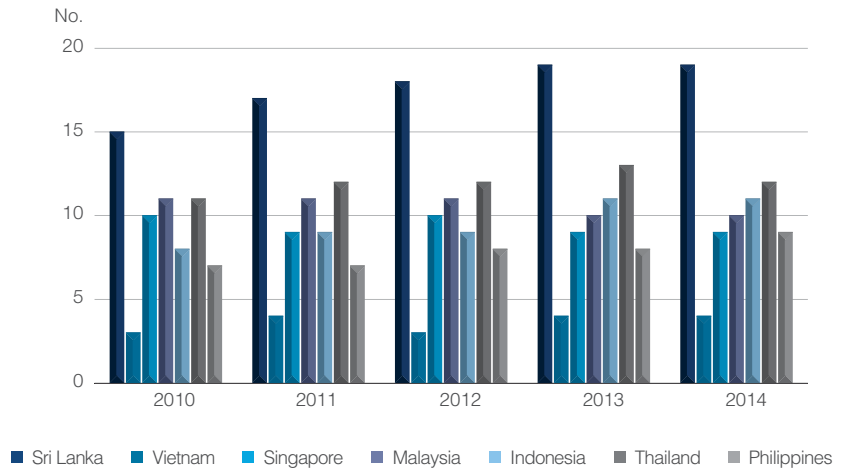
Life Industry Distribution Channels



Bancassurance Penetration

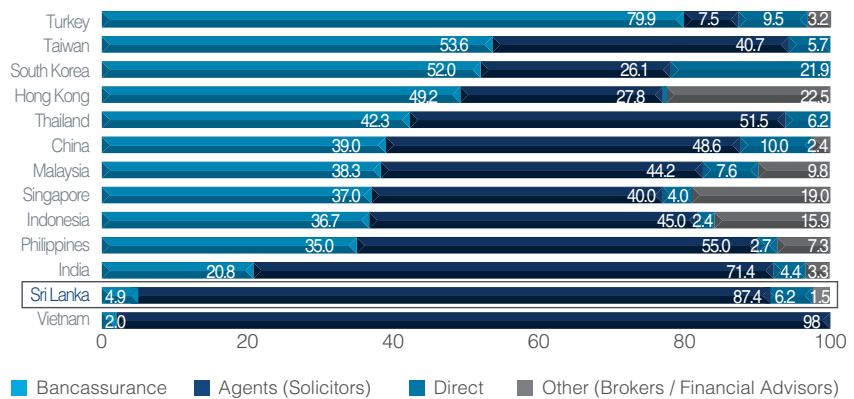
Sri Lankan Bancassurance is under penetrated compared to other regions of the world despite having a strong banking sector. Sri Lankan commercial bank branch density (18 branches per 100,000 people) is much greater than its peers and therefore insurers can leverage the branch network of the banking industry to increase productivity and reduce the acquisition cost.

SL's Bank Branch Network has Deeper Penetration Over Peers

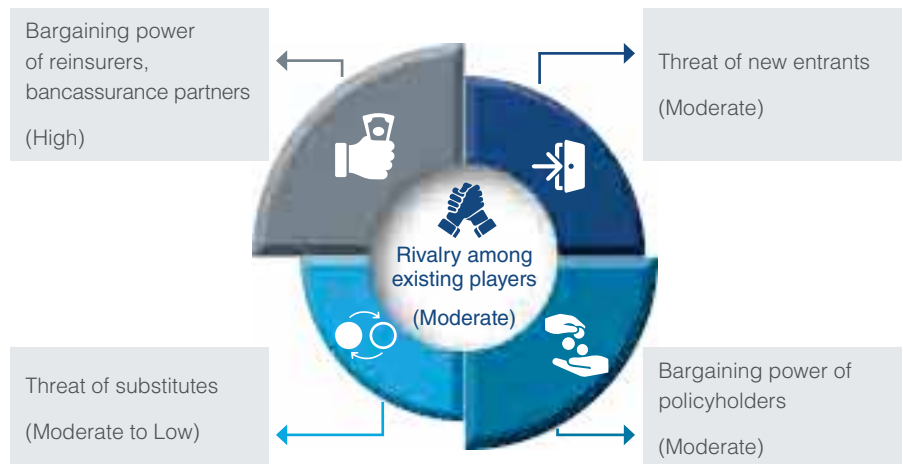


Source: Central Bank Annual Report 2016

Bancassurance's Market Share for Life Insurance in the Asia Pacific Region - Premium Income



Competitor Analysis - Life Insurance Industry






Factor	Influence / Bargaining power	Commentary												
 Rivalry among existing players	Moderate	Rivalry is moderate due to the following; <ul style="list-style-type: none"> ▶ The life insurance industry comprises of 15 players. Two 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 87% of total industry assets and over 80.25% of market share. ▶ Relatively low penetration level indicates that the market is far from saturated and there exist significant growth opportunities with increasing disposable income and ageing population. ▶ This is reflected in the 12% to 19% growth rates the industry has achieved in the past two years. ▶ Entry barrier due to a regulated industry. 												
 Threat of new entrants	Moderate	Threat is moderate due to; <ul style="list-style-type: none"> ▶ High cost of entry with the introduction of a minimum capital requirement of Rs. 500 million under Risk Based Capital framework. ▶ The complexity of the business. ▶ The need to attract / recruit, retain and administer a large agency force. ▶ Opportunities for moving to online insurance solutions. ▶ Size of the market not very attractive to foreign insurers in terms of relatively lower population in the country and level of life insurance premiums being Rs. 71,575 million (approximately USD 460 million in 2017). 												
 Bargaining power of Policyholders	Moderate	Bargaining power is moderate due to; <ul style="list-style-type: none"> ▶ Customers having a wide range of insurance providers to choose from. ▶ Unlike other products, switching cost is high as there is no surrender value in the first three years while surrender charges are significant after year 3. ▶ Life insurance being sold mainly to individual customers, the impact of switching may not be significant to the insurer. 												
 Bargaining power of suppliers	High	Bargaining power is high due to; <ul style="list-style-type: none"> ▶ The primary suppliers to the insurance industry being reinsurers and the regulatory guidelines encouraging all insurance companies to partner with rated reinsurers. ▶ Lack of an alternative solution for reinsurance. ▶ Rated insurers being multinationals and size of the Sri Lankan market being relatively small. ▶ Highly rated reinsurers could impact by adding / amending clauses contained in existing insurance contracts / products. ▶ Given the size of insurance companies, banking partners are more dominant. 												
 Threat of substitutes	Moderate to Low	Threat is moderate to low as; <ul style="list-style-type: none"> ▶ There is no direct substitute for life insurance products. ▶ 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. ▶ Banks issuing complementary insurance covers for certain deposits through an insurance partner could be considered as a positive development. ▶ Insurance companies account for only 3.4% of the financial services sector assets. <p>Distribution of Total Assets of Major Financial Sectors as at 31st December 2016</p>  <table border="1"> <caption>Distribution of Total Assets of Major Financial Sectors as at 31st December 2016</caption> <thead> <tr> <th>Financial Sector</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Insurance Companies</td> <td>3.4%</td> </tr> <tr> <td>Banking Sector</td> <td>16.5%</td> </tr> <tr> <td>Other Deposit Taking Institutions</td> <td>8.1%</td> </tr> <tr> <td>Specialised Financial Institutions</td> <td>3.4%</td> </tr> <tr> <td>Contractual Savings Institutions</td> <td>68.6%</td> </tr> </tbody> </table>	Financial Sector	Percentage	Insurance Companies	3.4%	Banking Sector	16.5%	Other Deposit Taking Institutions	8.1%	Specialised Financial Institutions	3.4%	Contractual Savings Institutions	68.6%
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OUR OPERATING ENVIRONMENT

Risks and Opportunities

2017 operating environment remained challenging due to severe drought as well as heavy rainfalls in many parts of the country and increase in inflation, impacting consumer confidence negatively. Within this environment our strategies guide us to manage risks and material issues as well as to capitalise on opportunities that ensure we deliver on our short, medium and long term objectives.

We highlight here some of the key risks and opportunities identified within our operating environment which impact our business and the strategies to mitigate, overcome or capitalise on them.

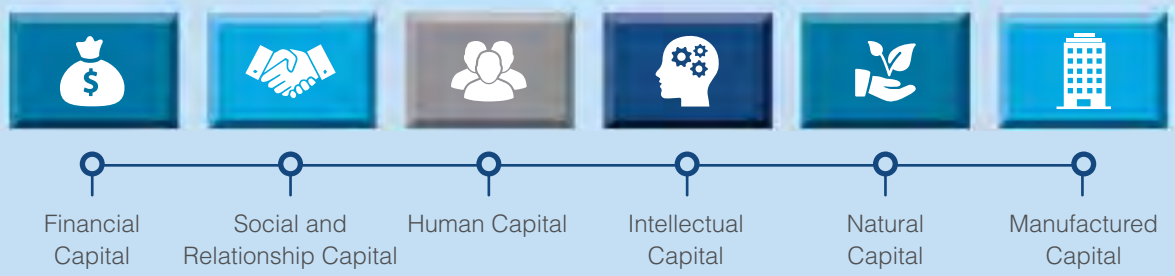
Operating Environment	Factor	UA Response
 Economic Environment	<p>Political stability and consistent economic policies are key for economic growth.</p> <p>Political uncertainty will slow down economic growth.</p> <p>The moves policymakers take leading up to the 2020/2021 elections, particularly with regard to fiscal loosening possibly in 2019, is a key risk, calling to question the current path of fiscal consolidation the Government has been highlighting.</p> <p>On average, 2018 is likely to witness lower interest rates than the previous two years. Rates could continue to come off, through the first half of 2018 and possibly quite sharply. However, with debt repayments pressures coming in during the second half, we expect a marginal rise in yields thereafter.</p>	<p>We offer best in class insurance products and services that meet customers' needs. UA provides customers with additional value through health and lifestyle benefits and product integration via ecosystems. Through innovation and design of product and services we improve customer experience. UA is able to improve persistency, retain and grow its customer base. Refer UA growth vs industry growth graph on page 17.</p> <p>Investment committee has devised various investment strategies to increase the investment yield. UA was able to declare above market dividend rate in the industry in 2017.</p>
 Regulatory Environment	<p>Changes in Regulatory Environment Inconsistencies in regulatory environment will have a negative impact on operations and profitability of the industry.</p> <p>New Inland Revenue Bill 2017 New Inland Revenue bill 2017 introduced a surplus based income tax for life insurance companies. However, profit share of participating policyholders will be taxed at a temporary concessionary rate of 14% commencing from 1 April 2018.</p> <p>Insurance premium paid to non-residents is to be liable at a 14% WHT subject to Double tax treaty rate.</p> <p>Changes in government fiscal policies.</p> <p>IFRS 17 The new international accounting standard IFRS 17 (effective in 2021) creates a standardised and more transparent approach to measure insurance liabilities. It will likely require significant investment in new data capture, systems and processes.</p>	<p>UA maintains good relations with the Insurance Regulatory Commission of Sri Lanka (IRCSL). We work closely with 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 safeguarding policyholders interests.</p> <p>UA will focus on non-participating insurance solutions considering the negative tax impact on participating products. Currently participating products contribute 8% to the GWP.</p> <p>We have informed our reinsurers regarding the future change in regulation and discussions are in progress.</p>
 Social Environment	<p>Increased Urbanization Ongoing housing market boom and low unemployment rate are catalysts for urban living, creating opportunities for industry growth as the need to have a life insurance policy increases with more urbanization.</p> <p>Demographic Changes Demographic changes are conducive for Life insurance business. Sri Lanka's population is one of the oldest and fastest ageing in the world. SL's population aged 65+, surpasses most of the South Asian regional peers.</p>	<p>We offer best in class insurance products and services that meet customers' needs.</p> <p>Please refer to our product portfolio given in pages 68 and 69.</p> <p>Refer trend of urbanisation in Sri Lanka and forecast for</p> <p>UA offers suitable products to this segment. Union Pension Advantage and Union 60 plus are two such products.</p>

Operating Environment	Factor	UA Response
 <p>Social Environment</p>	<p>The population over 65 years is expected to increase up to 17% by 2041 and people are expected to set aside more money for health risks that they would potentially be exposed to.</p> <p>NCDs have shown an increasing trend with 71% of all annual deaths attributing to chronic NCDs. Compared to the past, people have become more aware of the risks of NCDs and thereby looking for life / health covers which will augur well for industry growth.</p>	<p>UA product development initiatives are centred on demographic changes.</p>
 <p>Technology</p>	<p>Internet of Things (IoT) and Big Data</p> <p>Internet of Things (IoT) and Big Data will change the type of data that insurers use to assess risk, the way in which information is analysed and ultimately the size of the actual risk pools.</p> <p>Disruptive Business Model</p> <p>Traditional insurers will be threatened by new entrants with disruptive business models.</p>	<p>UA has established a data analytics team constituting members of different disciplines to provide valuable management information for decision making.</p> <p>UA continues to focus on innovation, superior customer service and developing a unique brand to overcome this challenge.</p>
	<p>Low penetration</p> <p>Life insurance industry still remains underpenetrated compared to regional peers as Sri Lanka is a country largely characterized by collectivism and dependency where the need for a life insurance policy is yet to be realized.</p> <p>Protection gap</p> <p>There is a sizable and expanding mortality protection gap within Sri Lanka. Swiss Re estimates that "Every dollar spent on prevention saves society between US\$5 and US\$10 in losses. The situation looks very different if the loss is insured. The first hit is lower, the rebound much stronger – and the cumulative effect can even be positive, up to 2.4% of GDP." (Martyn Parker, Swiss Re's Chairman Global Partnerships).</p>	<p>Low penetration indicates strong upside potential for the industry. UA will drive long term strategies to take full advantage of this opportunity.</p> <p>UA will drive long term strategies to reduce this gap.</p>
 <p>Competitive landscape</p>	<p>Bancassurance penetration</p> <p>Sri Lanka has a higher banking penetration (69% of adults has bank accounts in 2012, Source: IFC Mobile Money Scoping Country Report: Sri Lanka). However, bancassurance penetration in Sri Lanka is low compared to regional markets, indicating a higher upside growth potential for this channel.</p> <p>Sales force</p> <p>Recruitment and retention of talent specifically for distribution related activities are challenging.</p> <p>Market share</p> <p>Increasing market share in the light of increasing competition and managing margins due to upward pressure on the cost base.</p>	<p>UA is developing relationships with banks and focuses on developing complementary products to drive the growth in this potential channel.</p> <p>UA has implemented several initiatives to attract high quality candidates and offers a variety of training and development programmes to enhance their quality and productivity. Compensation / benefits and rewards and recognition schemes have also been updated to align individual and organisation objectives. Defined career path and performance management system have been established to improve the retention.</p> <p>UA relies on its culture of customer-centricity and innovativeness, its well-established brand and technical expertise to maintain and grow revenue and margins. Cost efficiencies and improvements are key focus areas and is managed through the annual budgeting and monthly operating performance reviews and reporting processes. Key strategies are formulated to improve case size, productivity and persistency to drive the market share.</p>



CAPITAL MANAGEMENT REVIEW

Capital Management Review analyses how we add value to our partners, in terms of the organisations six capitals. The review includes the following.

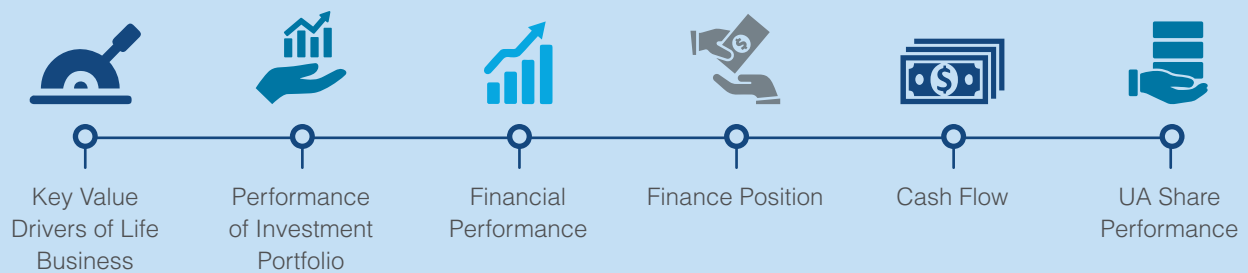




FINANCIAL CAPITAL

Management Approach

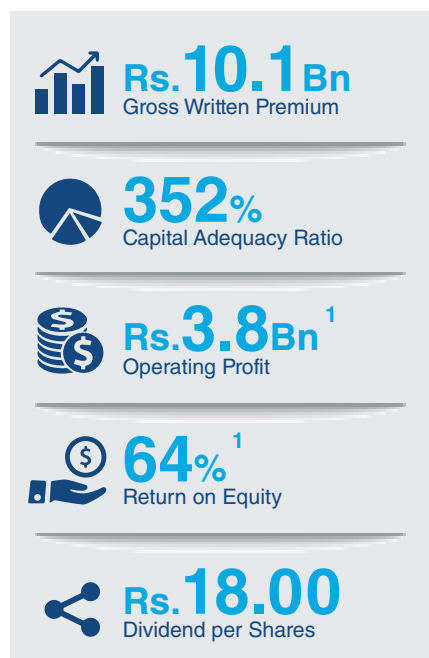
We are in the life insurance industry and seek to create long term sustainable value to our shareholders while protecting the interests of our policyholders. Therefore, financial stability and profitability are key facets of our financial strategy.



CAPITAL MANAGEMENT REVIEW

FINANCIAL CAPITAL

Key Performance Measures



2017 Objectives and Achievements



¹ Excluding one - off surplus transfer of Rs. 3.4 billion in 2017

Objectives - 2018 and Beyond

Objectives	Year
Achieve GWP of Rs. 12.5 Bn	2018
Maintain CAR in excess of 160%	2018
Return on equity above 20%	2018 and beyond
Achieve 15% increase in life fund	2018

Challenges

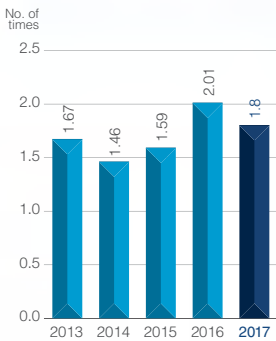
- ▶ Increasing market share amidst intense competition Pages 46 and 47
- ▶ Generating higher ROE with increasing cost structure Pages 39 and 40
- ▶ Inconsistent economic policies Page 48

Key Value Drivers of Life Business

We consider the following key value drivers important in achieving our strategic objectives. Improving all value drivers at a given time is a challenging task.

Productivity Ratio

Productivity Ratio



Commentary

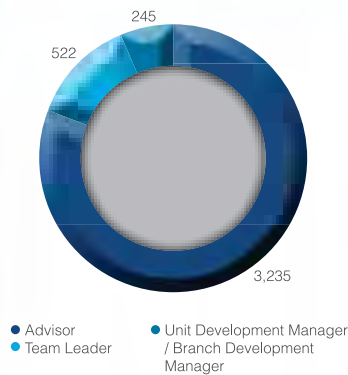
Productivity ratio has dropped mainly due to change in our strategy and aligning compensation structures to focus on persistency and higher premium values.

Outlook

We will continue to improve the productivity since it is one of the key levers to achieving our long term objectives.

Composition of Insurance Representatives

Composition of Insurance Representatives



Commentary

We have implemented several initiatives to attract high quality candidates and offer a variety of training and development programmes to enhance their quality and productivity.

Company launched the e-Consultant initiative to encourage housewives, university students and students of other institutes to join the life insurance industry.

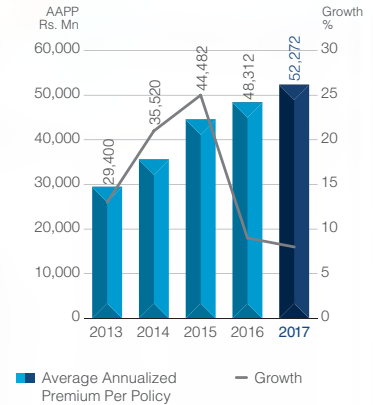
Compensation and rewards schemes have been made dynamic to drive individual and organisation objectives.

Outlook

We believe our people will deliver our objectives therefore we continue to invest in attracting high quality sales staff.

Annual Average Premium Per Policy (AAPP)

Annual Average Premium Per Policy (AAPP)



Commentary

Rising income levels of customers as a result of economic growth and priority for high value cases and introducing a minimum average premium resulted in growth in AAPP.

Outlook

We continue to improve AAPP since it will enable us to achieve higher GWP. Political uncertainty and slow down of economic activities are key challenges in this regard.

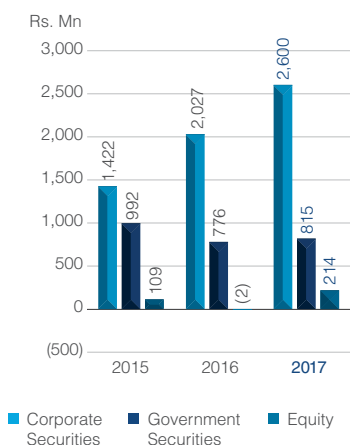
CAPITAL MANAGEMENT REVIEW

FINANCIAL CAPITAL

Performance of Investment Portfolio

A snapshot of the performance of strategic investment assets is given below;

Interest Income Received



Investment in Government Securities

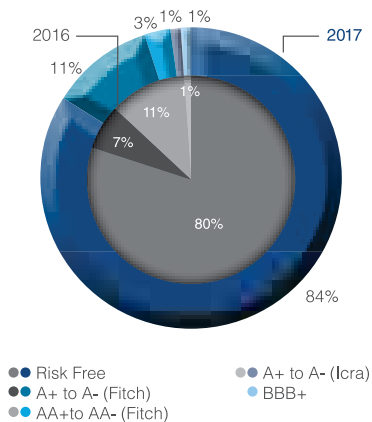
In 2017 UA invested Rs 6.5 Bn in treasury securities which accounted for 81% of total funds available for investments during the year. With treasury yields declining in 2017, UA executed suitable investment strategies to capture the double digit yields that prevailed during the year. At the end of 2017 investment in treasury securities accounted for 70% of the life investment portfolio (66% in 2016) 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.

There were less corporate debentures issues in 2017 and UA invested Rs. 410 Mn in 2017 which was 5% of total funds available for investment.

As government securities returns were relatively attractive to other corporate fixed income assets, UA did not invest in other types of corporate fixed income securities other than corporate debentures. As a risk control measure UA only invested in investment grade corporate securities.

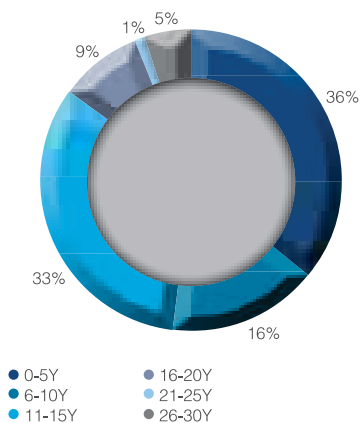
Investment in Corporate Fixed Income Assets

Credit Ratings



Since we are in the life insurance business, our liabilities are long term in nature in comparison to our assets. Assets are relatively short term. Maturity profile analysis plays a pivotal role in strategic asset allocation due to the asset and liability tenure miss match.

Fixed Income Maturity Profile

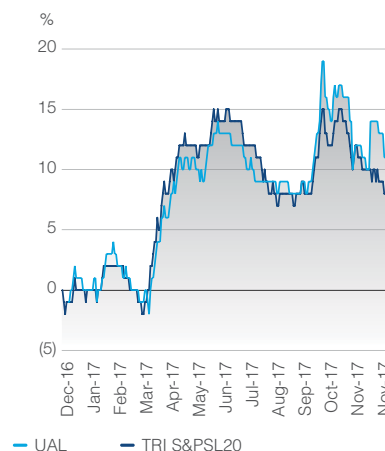


Equity Portfolio

Given the attractive valuation in equities, UA Life fund invested fresh cash of Rs. 524 Mn in listed equities in 2017. As a strategic measure UA exited from one stock during 2017 and increased exposure to eight stocks in 2017. Subscription to rights issues totalled to a considerable amount, Rs. 154 Mn which was 29% of fresh investments made in equities.

UA Life funds equity portfolio outperformed the total return index of S&PSL20 by +3.56% in 2017.

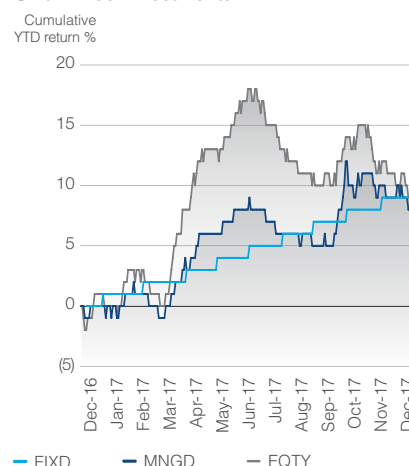
Life Equities vs TRI S&PSL20



Unit Linked Investments

UA's Unit linked investments related to Unit Linked Insurance products fared well during 2017. UA managed three unit linked funds namely the Fixed income (FIXD), Managed (MNGD) and Equity (EQTY) fund. The Unit Linked Equity fund is outsourced to an external fund management company. The FIXD fund invests only in fixed income instruments while EQTY fund invests at least 90% in equity and MNGD fund maintains a balance between debt and equity. In terms of unit prices growth, the FIXD, MNGD and EQTY funds improved by 9.70%, 8.44% and 9.03% respectively.

Unit Linked Investments



Financial Performance

Year 2017 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 escalating costs. Despite these challenges, our strong fundamentals and strategy guided us to achieve strong growth in Gross Written Premium and operating profits. Our healthy Capital Adequacy Ratio and dividend payout ratio indicate financial stability and quality of our earnings. These fundamentals will deliver sustainable value to all our partners in short term as well as long term.

Income Statement

Element	Rs. Mn	5 year performance and Commentary	
Gross written premiums (GWP)	10,118	<p>Gross Written Premiums (GWP)</p>	GWP has increased by 22% to Rs. 10.1 Bn as a result of reforms in the agency leadership, focused changes in compensation structures, distribution channel transformation initiatives and product development initiatives.
Premium Ceded to reinsurers	498	<p>Premium Ceded to Reinsurers</p>	Premium ceded to reinsurers has increased in line with the GWP growth. Maintaining approximately 5% cession rate over the years indicate consistency in our underwriting practices.
Investment and other income	4,033	<p>Investment and Other Income</p>	Investment and other income has increased by 38% YoY due to increase in interest income received from government securities and debentures, unrealised gain from equity shares and unrealised gain from forward treasury bond purchases. Increase in interest rates of government securities in the first half of the year and portfolio rebalancing contributed to this growth. The Life fund was able to provide a weighted average return of 12.48% and the shareholders' funds weighted average return for the year stood at 10.95%.

CAPITAL MANAGEMENT REVIEW

FINANCIAL CAPITAL

Element	Rs. Mn	5 year performance and Commentary																									
Net insurance benefits and claims	2,679	<p>Net Insurance Benefits and Claims</p> <p>Rs. Mn</p> <p>%</p> <p>■ Rs. Mn</p> <p>— % from NWP</p> <table border="1"> <thead> <tr> <th>Objectives</th> <th>2017</th> <th>2016</th> <th>Growth</th> </tr> </thead> <tbody> <tr> <td>Maturities</td> <td>1,882,229</td> <td>1,016,155</td> <td>85%</td> </tr> <tr> <td>Policy Surrenders</td> <td>509,552</td> <td>363,818</td> <td>39%</td> </tr> <tr> <td>Death Disability and Hospitalisation</td> <td>273,888</td> <td>213,221</td> <td>28%</td> </tr> <tr> <td>Annuity Payments</td> <td>13,366</td> <td>2,191</td> <td>510%</td> </tr> <tr> <td>Total Net Claims and Benefits</td> <td>2,679,035</td> <td>1,595,385</td> <td>68%</td> </tr> </tbody> </table>	Objectives	2017	2016	Growth	Maturities	1,882,229	1,016,155	85%	Policy Surrenders	509,552	363,818	39%	Death Disability and Hospitalisation	273,888	213,221	28%	Annuity Payments	13,366	2,191	510%	Total Net Claims and Benefits	2,679,035	1,595,385	68%	<p>Net insurance benefits and claims has increased by 68% YoY mainly due to increase in maturity payouts and policy surrenders.</p> <p>Maturity payout increased in line with policy payout dates and surrenders increased due to the challenging economic environment.</p> <p>Net claims as a percentage of net written premium has increased to 28% (2016 -19%) with the increase of maturity payments.</p>
Objectives	2017	2016	Growth																								
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Annuity Payments	13,366	2,191	510%																								
Total Net Claims and Benefits	2,679,035	1,595,385	68%																								
Underwriting and net acquisition costs	1,841	<p>Underwriting and Net Acquisition Costs</p> <p>Rs. Mn</p> <p>%</p> <p>■ Rs. Mn</p> <p>— % from NWP</p> <p>New Business Premium as a % of Net Acquisition Cost</p> <p>Rs. Mn</p> <p>%</p> <p>■ Acquisition Cost</p> <p>■ New Business Premium Earned</p> <p>— Contribution</p>	<p>Underwriting and net acquisition costs has increased by 28% due to growth in GWP and change in the incentive structure.</p> <p>In addition, acquisition cost accounts for 61% of the new business premium earned.</p>																								
Operating, administration and other expenses	2,609	<p>Operating, Administration and Other Expenses</p> <p>Rs. Mn</p> <p>%</p> <p>■ Expense</p> <p>— As a % of NWP</p>	<p>Operating, administration and other expenses increased by 20% to support the growth in GWP.</p>																								

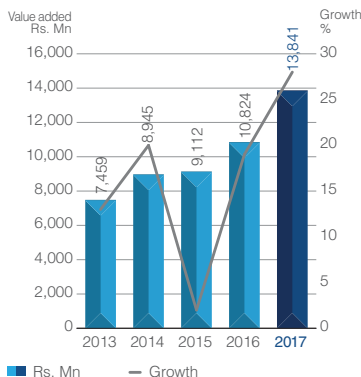


Element	Rs. Mn	5 year performance and Commentary	
Operating profits (Recurrent)	3,814	<p>Operating Profit</p> <p>Rs. Mn</p> <p>%</p> <p>■ Profit for the Year — Growth</p>	<p>Operating profits have increased by 190% mainly due to surplus transfer of Rs. 3,642 million in 2017 and higher interest income received from treasury bonds due to increase in life shareholder investments as a result of the surplus transferred in 2016.</p> <p>(Excluding one - off surplus transfer of Rs. 3.4 billion in 2017).</p>
Return on Assets (ROA)	10.2%	<p>ROE and ROA</p> <p>%</p> <p>— ROA — ROE</p>	<p>The Company recorded ROA and ROE of 10.2% and 64% against 3.7% and 36% in 2016 respectively. Increase in both ratios was a result of growth in profits.</p> <p>(Excluding one - off surplus transfer of Rs. 3.4 billion in 2017).</p>
Return on Equity (ROE) (Recurrent)	64%		

Economic Value Statement

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. 13,841 million. The total value addition has increased by 28% compared to the preceding year and recorded a compounded average growth of 16% over the previous 5 years.

Economic Value Added



Rs. Mn	2017	2016	2015	2014	2013
Direct economic value generated					
Net written premium	9,620	7,847	6,600	5,617	5,234
Other revenue	4,033	2,917	2,454	3,328	2,225
Share of results of equity accounted investee	188	60	58	-	-
	13,841	10,824	9,112	8,945	7,459
Economic value distributed					
as operating costs	1,631	1,302	1,008	997	999
to employees as salaries and other benefits	816	772	659	634	638
to life policyholders as benefits and claims paid	2,679	1,595	1,473	1,333	1,042
to intermediaries as commissions	1,841	1,442	1,289	1,116	968
to Government as taxes	57	51	36	23	23
to shareholders as dividends	619	501	557	362	248
	7,643	5,663	5,022	4,465	3,918
Economic value retained					
as depreciation	72	81	89	65	45
as amortisation	33	30	31	28	19
as profit after dividends	3,383	812	569	519	543
as increase in Life fund	2,710	4,238	3,401	3,868	2,934
	6,198	5,161	4,090	4,480	3,541

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Other Comprehensive Income

Other comprehensive income includes revaluation gains of Rs. 539 Mn arising from revaluation of Head Office and Kurunegala properties. Valuation gain arising from the Available For Sales financial instruments amounts to Rs. 790 Mn as a result of decrease in interest rates.

Statement of Financial Position

Ratio	Rs. Mn	5 year performance and Commentary																																						
Total assets	43,067	<p>Total Assets</p> <table border="1"> <caption>Total Assets (Rs. Mn)</caption> <thead> <tr> <th>Year</th> <th>Value</th> <th>Growth (%)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>30,319</td> <td>-</td> </tr> <tr> <td>2014</td> <td>35,604</td> <td>17.4</td> </tr> <tr> <td>2015</td> <td>31,014</td> <td>-14.3</td> </tr> <tr> <td>2016</td> <td>35,693</td> <td>15.1</td> </tr> <tr> <td>2017</td> <td>43,067</td> <td>20.7</td> </tr> </tbody> </table>	Year	Value	Growth (%)	2013	30,319	-	2014	35,604	17.4	2015	31,014	-14.3	2016	35,693	15.1	2017	43,067	20.7	<p>Total Assets of the Company has increased by 21% mainly due to the increase in financial investments.</p>																			
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Financial investments	36,793	<p>Financial Investment</p> <table border="1"> <caption>Financial Investment (Rs. Mn)</caption> <thead> <tr> <th>Year</th> <th>Value</th> <th>Growth (%)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>24,297</td> <td>-</td> </tr> <tr> <td>2014</td> <td>24,039</td> <td>-1.1</td> </tr> <tr> <td>2015</td> <td>26,541</td> <td>10.4</td> </tr> <tr> <td>2016</td> <td>30,847</td> <td>16.2</td> </tr> <tr> <td>2017</td> <td>36,793</td> <td>19.3</td> </tr> </tbody> </table>	Year	Value	Growth (%)	2013	24,297	-	2014	24,039	-1.1	2015	26,541	10.4	2016	30,847	16.2	2017	36,793	19.3	<p>Investment in Government Securities - Life Fund</p> <table border="1"> <caption>Investment in Government Securities - Life Fund (Rs. Mn)</caption> <thead> <tr> <th>Year</th> <th>Value</th> <th>Growth (%)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>19,325</td> <td>-</td> </tr> <tr> <td>2014</td> <td>23,054</td> <td>19.3</td> </tr> <tr> <td>2015</td> <td>26,272</td> <td>14.0</td> </tr> <tr> <td>2016</td> <td>30,267</td> <td>15.2</td> </tr> <tr> <td>2017</td> <td>29,071</td> <td>-4.0</td> </tr> </tbody> </table>	Year	Value	Growth (%)	2013	19,325	-	2014	23,054	19.3	2015	26,272	14.0	2016	30,267	15.2	2017	29,071	-4.0	<p>Financial investments have increased due to the inflow of Rs. 6,248 million policyholder funds into the investment portfolio.</p> <p>Financial investment in Government Securities increased in order to safe guard the policyholder interest as per the IRCSL guidelines.</p>
Year	Value	Growth (%)																																						
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Intangible assets	213	<p>Intangible Assets and Property, Plant & Equipment</p> <table border="1"> <caption>Intangible Assets and Property, Plant & Equipment (Rs. Mn)</caption> <thead> <tr> <th>Year</th> <th>Value</th> <th>Growth (%)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>1,300</td> <td>-</td> </tr> <tr> <td>2014</td> <td>1,200</td> <td>-7.7</td> </tr> <tr> <td>2015</td> <td>1,500</td> <td>25.0</td> </tr> <tr> <td>2016</td> <td>1,600</td> <td>6.7</td> </tr> <tr> <td>2017</td> <td>2,000</td> <td>25.0</td> </tr> </tbody> </table>	Year	Value	Growth (%)	2013	1,300	-	2014	1,200	-7.7	2015	1,500	25.0	2016	1,600	6.7	2017	2,000	25.0	<p>Intangible assets have increased due to the investment in the new core IT platform (Policy Administration System).</p>																			
Year	Value		Growth (%)																																					
2013	1,300	-																																						
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2015	1,500	25.0																																						
2016	1,600	6.7																																						
2017	2,000	25.0																																						
Property plant and equipment	2,001	<p>Property, plant and equipment value has increased mainly due to revaluation of Head Office and Kurunegala properties.</p>																																						

Ratio	Rs. Mn	5 year performance and Commentary	
Insurance contract liabilities	29,071	<p>Insurance Contract Liabilities</p>	<p>Life insurance contract liabilities refer to the reserves set aside to meet future claims and maturities of life insurance policyholders. There is a 4% decrease in insurance contract liabilities mainly due to one - off surplus transfer of Rs. 3.4 billion in 2017.</p>
Shareholders' funds	11,965	<p>Shareholder's Funds</p>	<p>UA is a fully equity funded company and retained earnings is the main source of capital for future strategic investments. Shareholder fund has increased by 209% due to current year profits of Rs. 7.4 billion.</p> <p>Current year profit includes normal surplus transfer of Rs. 3.6 billion and one - off surplus transfer of Rs. 3.4 billion.</p>
Capital Adequacy Ratio (CAR)	352%	<p>Capital Adequacy Ratio</p>	<p>CAR under the Risk Based Capital (RBC) regime measures adequacy of the Total Available Capital (TAC) as against the Risk Capital Required (RCR). Healthy CAR of UA reflects the financial stability of the Company.</p>

Cash Flow

Cash Flow Based on Activities	Commentary
<p>Cash Flow Generated Based on Activities</p>	<p>Cash in hand & at banks and short term deposits, net of bank overdraft balance stood at Rs. 417 million as at 31 December 2017 compared to Rs. 239 million of previous year.</p> <p>During the year under review net cash generated from operating activities was Rs. 5,301 million. The majority of these funds were from insurance premiums. Cash flow management is key to UA since it has assets with short term tenures, and liabilities with long term tenures. The investment team, actuarial team and the Investment Committee of UA regularly reviews the maturity profiles of assets and liabilities and necessary action is taken to minimise the impact of asset liability cashflow mismatches.</p> <p>Significant outflow in investing activities mainly reflects the investment of net fund inflow from the life business.</p>

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UA Share Performance

The detailed analysis of UA's share is discussed below.

Local Share Market Review

In 2017 the CSE returned bullish and produced positive returns against the negative trend displayed in 2016. The ASPI improved by +2.26% while the S&PSL20 improved by +5.01%. During the first quarter of 2017 the ASPI declined to the lowest at 5,974.94 (-4.07% YTD) however reverting back thereafter, to reach the highest at 6,766.14 (+8.64% YTD) in July. Subsequently, the market declined resulting a net return of +.2.26 for the year. The S&PSL20 in 2017 reached the highest at 3,933.51 (+12.50% YTD) and lowest at 3,398.17 (-2.81% YTD).

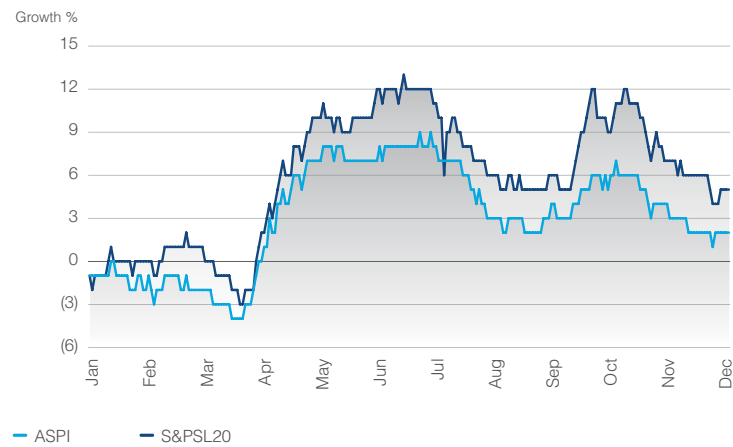
The overall market capitalization as at the end of 2017 amounted to Rs. 2.89 trillion which is +5.61% higher than previous year. The Price to Earnings (PE) and price to book value (PBV) ratios further deteriorated in 2017. The PE and PBV stood at 10.60X and 1.31X respectively indicating the low valuation when compared with the regional peers.

CSE saw net inflows of foreign investments amounting to Rs. 17 Bn which was higher than last year's Rs. 384 Mn. A significant amount of net foreign investments were seen from March to July resulting in high daily volumes and high returns during this period.

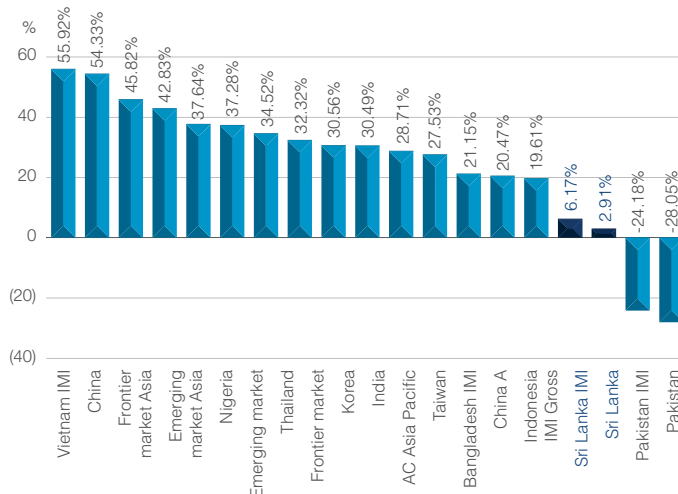
Favourable macro related factors such as passing of the new Inland Revenue Act, the Foreign Exchange Act, the completion of the Hambantota port sale, prudent action by the CBSL, Fitch Ratings assigning B+ with a stable outlook, and decline in local bond rates supported the positive performance of the CSE. Extreme weather conditions, slowdown in consumption, upward inflation, and increase in taxes for certain sectors had a negative bearing on equities in 2017.

When compared with peer market's CSE has underperformed in terms of YTD return against most markets.

CSE Performance

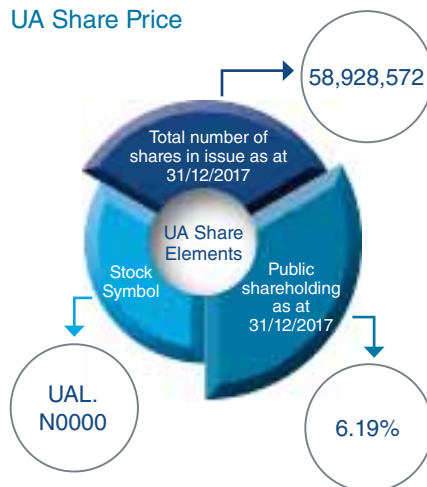


Regional Equity Market Returns



Source: MSCI Index for each Market

UA Share Price



Issued Share Capital

The number of shares in issue by the Company remained as previous year at 58,928,572 shares.

UA Share Performance vs Market Performance

During the year, UA share declined by 5.6% to close at Rs. 135.00 by end of 2017. UA share traded between a low of Rs. 134.00 (-6.29% YTD on 07 December) and high of Rs. 165.00 (+15.38% YTD on 10 March) during 2017. The negative return could be partially attributed to the higher taxes on the life insurance sector. Adequate corporate

disclosures are provided to the financial community by UA in order to allow optimum pricing of UA securities. The share's beta values against ASPI stood at 0.73 as of third quarter of 2017.

Dividends Yield

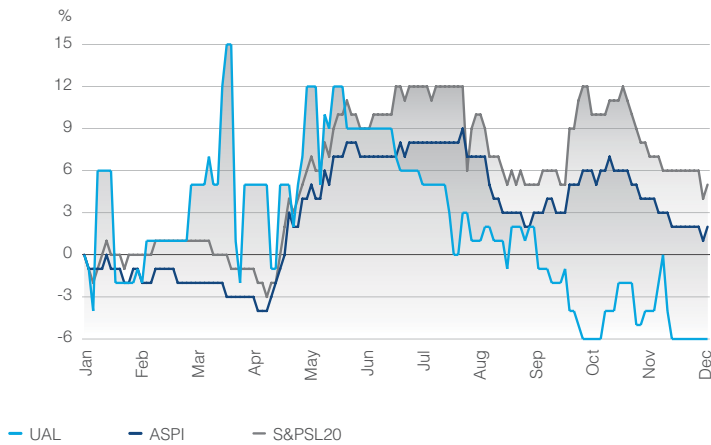
The dividend policy of UA seeks to ensure a dividend payout which correlates with the growth in profits, while ensuring that the Company retains adequate funds to meet the risk based capital requirements

Rs.18.00

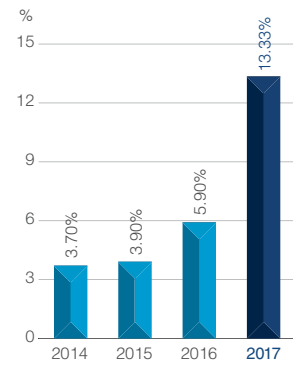
Dividend per Share

[2016: Rs.10.50]

UA Share Performance vs Market Performance



Dividends Yield



EPS vs Retention Per Share

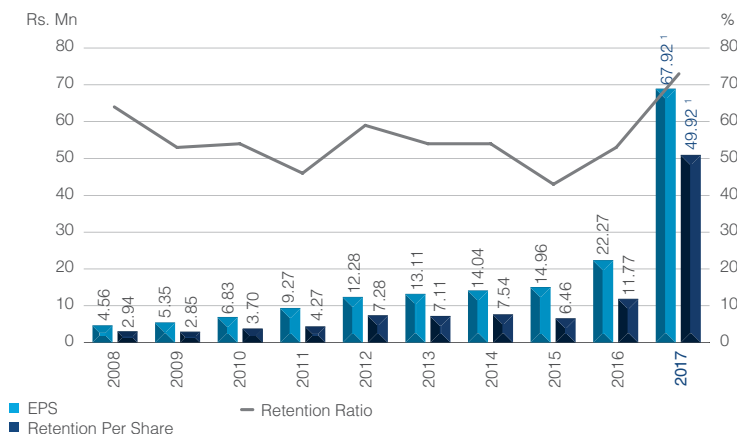
The solid improvement in GWP (22% YoY) and other revenue (38% YoY) outweighed benefits, claims and expenses (11% YoY) that resulted in EPS of Rs. 67.92, growth of +205% YoY. The items contributing to profits are discussed in depth in the financial performance section.

as stipulated by the Insurance Regulatory Commission of Sri Lanka (IRCSL) in the short, medium and long term. The Board of Directors declared a first and final dividend of Rs. 18.00 per share, based on the profits of 2017. Accordingly, the gross dividend payable out of the profits for the year ended 31 December 2017 will be Rs. 1,061 million, compared to the dividend of Rs. 619 million in the previous year.

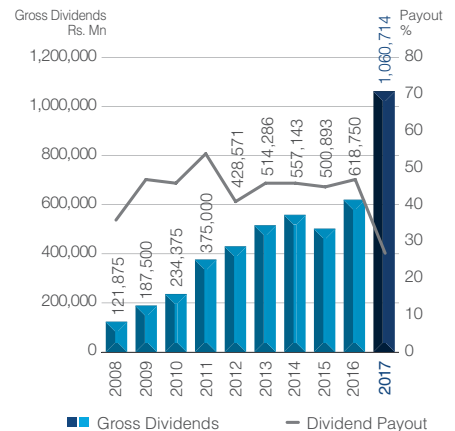
Gross Dividend vs Dividend Payout

After considering the dividend of Rs. 1,061 million, the capital adequacy ratio (CAR) of the Company is 352%. This is significantly above the minimum CAR required under RBC requirements of 120%.

EPS vs Retention Per Share



Gross Dividend vs Dividend Payout



Total Shareholder Return

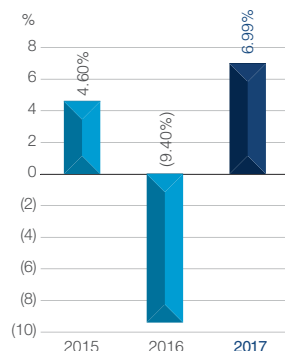
Total return to shareholders amounted to 6.99% that was mainly driven by the dividend return. Even though UA's share declined by 5.59% the dividend yield of 12.59% (against the opening price in 2017) resulted in a total return of 6.99%.

¹ Excluding one-off surplus transfer of Rs. 3.4 billion in 2017

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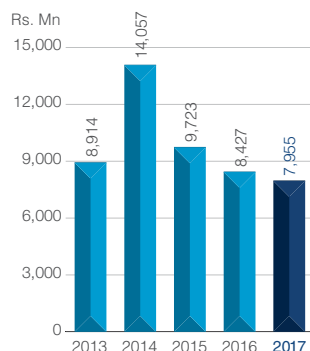
Total Shareholder Return



Market Capitalisation

Due to the decline UA share price, the market capitalisation of the company decreased by 5.6%YoY to Rs. 7.96 billion as at 31 December 2017. At the financial year end, UA represented 0.3% of the total market capitalisation of the Colombo Stock Exchange.

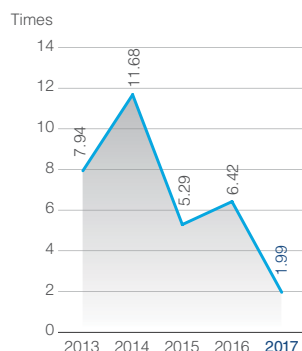
Market Capitalisation



Price Earning Ratio (PER)

PER of UA share was 1.99 times as at 31 December 2017 excluding one - off surplus transfer of Rs. 3.4 billion in 2017 compared to 6.42 times recorded in the previous financial year. The noticeable low PE is due to the consolidated impact from improved EPS and decline in UA's stock price. When considering the Market PE of 10.60x, UA is trading at a significant discount.

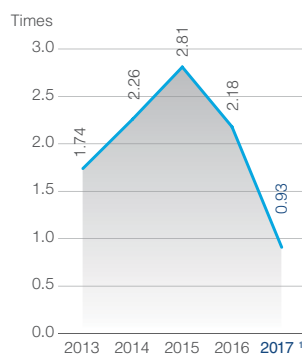
Price Earnings Ratio (PER)



Price to Book Ratio

The price to book ratio of the Company as at 31 December 2017 was 0.93 times, a decrease of 57% YoY from 2.18 times recorded in the previous financial year. The ratio decreased due to the increase in the net assets value per share to Rs. 145.65 and the decrease in UA share price as discussed above.

Price to Book Ratio



¹ Excluding one - off surplus transfer of Rs. 3.4 billion in 2017

1.99

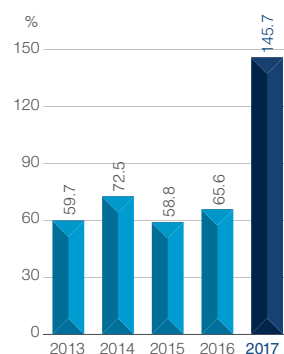
Price Earnings Ratio (PER)

[2016: 6.42]

Net Assets Per Share (NPS)

NPS has increased by 122% due to increase in net assets as a result of current year profits and consistent number of shares in issue.

Net Assets Per Share (NPS)



¹ Excluding one - off surplus transfer of Rs. 3.4 billion in 2017

Liquidity

During the financial year, 341,956 shares changed hands over 800 transactions compared to 134,090 shares changing hands over 500 transactions in the previous financial year. The average daily turnover of the UA shares was Rs. 350,603 during 2017 in comparison to Rs. 173,963 recorded last year.

Trading Statistics	2017	2016
Number of transactions	819	509
Number of shares traded	341,965	134,090
Value of shares traded (Rs.)	49,785,678	20,527,634
Shares traded as a percentage of total shares in issue (%)	0.6	0.2
Market capitalisation (Rs.)	7,955,357,220	8,426,785,796
Percentage of market capitalisation (%)	0.3	0.3
Gross dividends (Rs.Mn)	1,061	619

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 increased from 1,326 as at 31 December 2016 to 1,333 as at 31 December 2017. The number of public shareholders and

percentage of shares held by the public as at 31 December 2017 was 1,330 and 6.19% respectively (31 December 2016 - 1,323 and 6.07%). On 31 December 2017, UA had 1,239 registered individual shareholders, representing 93% of the shareholders; 72% 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 95% of UA's ordinary share capital.

The top twenty shareholders hold 96.95% of UA's shares. The Directors of UA held 0.01% of the total outstanding shares in their individual capacity as of 31 December 2017.

Composition of Shareholders

	31 December 17				31 December 16			
	No of shareholders	%	No of shares	%	No of shareholders	%	No of shares	%
Directors & spouses:	1	0.08	8,562	0.01	1	0.08	8,562	0.01
RESIDENT								
Individuals	1,226	91.96	2,739,864	4.65	1,217	91.78	2,151,832	3.65
Institutions	90	6.75	5,104,258	8.66	94	7.09	5,754,382	9.77
NON-RESIDENT:								
Individuals	12	0.9	62,409	0.11	11	0.83	25,258	0.04
Institutions	3	0.23	31,941	0.06	2	0.15	7,000	0.01
Shareholders holding more than 10%:	1	0.08	50,981,538	86.51	1	0.08	50,981,538	86.51
Total	1,333	100	58,928,572	100	1,326	100	58,928,572	100

Distribution of Shareholders

Range of shareholders	31 December 17				31 December 16			
	No of shareholders	%	No of shares	%	No of shareholders	%	No of shares	%
Less than 1,000	954	71.57	243,856	0.41	938	70.74	241,401	0.41
1,001 to 10,000	327	24.53	1,046,141	1.78	334	25.19	1,063,873	1.81
10,001 to 100,000	44	3.30	1,111,376	1.89	47	3.54	1,144,962	1.94
100,001 to 1,000,000	6	0.45	1,253,401	2.12	5	0.38	1,134,026	1.92
Over 1,000,001	2	0.15	55,273,798	93.80	2	0.15	55,344,310	93.92
Total	1,333	100	58,928,572	100	1,326	100	58,928,572	100

Market Information of Ordinary Share of the Company

Market value	2017		2016	
Highest price (Rs.)	165.00	(10 March 2017)	167.90	(26 February 2016)
Lowest price (RS.)	134.00	(07 December 2017)	127.00	(28 December 2016)
Closing price (Rs.)	135.00		143.00	

Directors' Shareholders

No. of shares as at	31.12.2017	31.12.2016
Mr. Ajit D. Gunewardene (Chairman) [Resigned w.e.f. 31.12.2017]	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

CAPITAL MANAGEMENT REVIEW

FINANCIAL CAPITAL

CEO's Shareholding

No. of shares as at	31.12.2017	31.12.2016
Mr. A. D. Pereira	Nil	Nil

Twenty Largest Shareholders

	Name of Shareholder	As at December 2017		As at December 2016	
		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	4,292,260	7.28%	4,362,772	7.40%
3	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	People's Leasing & Finance PLC / Hi - Line Trading (Pvt) Ltd	146,360	0.25%	146,360	0.25%
6	People's Leasing & Finance PLC / Mr. L.P. Hapangama	137,210	0.23%	118,255	0.20%
7	Dr. (Mrs.) V. Bandaranayake	120,038	0.20%	120,038	0.20%
8	Mr. D.F.G. Dalpethado	100,420	0.17%		
9	People's Leasing & Finance PLC / Mr. L.H.L.M.P Haradasa	88,392	0.15%	88,392	0.15%
10	People's Leasing & Finance PLC / Dr. H.S.D. Soysa & Mrs. G.Soyasa	82,701	0.14%	60,066	0.10%
11	Mr. H.A.D. Ratnapala	56,250	0.10%	56,250	0.10%
12	Mr. J.W. Nanayakkara	56,250	0.10%	56,250	0.10%
13	Mrs. R.Z. Wikramanayake (Deceased)	53,585	0.09%	53,585	0.09%
14	Dr. N.I. Wikramanayake	53,059	0.09%	53,059	0.09%
15	Mr. V.S. Vikas	44,200	0.08%		
16	Mr. H.A. Rehmanjee	40,000	0.07%	40,000	0.07%
17	Mr. N.D. Kurukulasuriya	39,000	0.07%	39,000	0.07%
18	Mrs. L. Amaradasa	33,750	0.06%	33,750	0.06%
19	Mr. S. Vasudevan	28,800	0.05%	28,800	0.05%
20	Mrs. M. R. Wijetunga	28,124	0.05%	28,124	0.05%
	Others	1,797,262	3.04%	1,912,960	3.24%
	Total	58,928,572	100.00%	58,928,572	100.00%

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)
			58,928,572	1,000,000,000



SOCIAL AND RELATIONSHIP CAPITAL

Management Approach

Our successful journey of 30 years is built on our commitment to maintain strong and sustainable relationships that differentiate us from competition. We are committed to provide a superior customer experience through unique insurance propositions and services to our customers. Our CSR initiatives aim to achieve healthy Sri Lankan communities and we endeavour to be a fair and transparent business partner to our suppliers.



Customers



Community









Business Partners

CAPITAL MANAGEMENT REVIEW

SOCIAL AND RELATIONSHIP CAPITAL

Key Performance Measures

- 
25%
Expansion of Protection
 Rs. 3 billion of New Business Growth in Lives Covered
- 
3
Meeting Emerging Customer Needs
 New propositions for Retirement, Investment & Savings and Health needs
- 
79%
Customer Satisfaction
 467 Complaints Settled by the year end
- 
Rs. 2.7 Bn
Benefits and Claims Paid
- 
900,000+
Lives Touched
 Through Dengue, Thalassaemia and Diabetes awareness campaigns
- 
Rs. 2.3 Bn
Supplier Relations
 On time supplier settlements

2017 Objectives and Achievements

- Develop a new Customer Feedback System

Completed in February 2018
- Enhanced solution selection process for customers

'Chatbot' has been launched with product recommendation features.
- Improve persistency

12 months persistency improved from 76% to 83% by the year end
- Use CSR platforms to achieve CSR objectives for the year 2017.

208 programmes carried out during the year
- Lean initiatives to optimise life operation processes for better customer service




Training conducted for customer service staff and revised performance criteria – Ongoing.
- Enable gainful employment for working mothers and part time job seekers

23 number of e-Consultants recruited and the project is progressing well. 66 number of permanent staff signed up to work from home or work with flexi work arrangement.

Objectives - 2018 and Beyond

Objectives	Year
Drive direct customer engagement	2018
Improve persistency	2018 and beyond
Reduce operating costs	2018 and beyond
Use CSR platform (dengue, thalassaemia and diabetes awareness campaigns) to improve health of the community	2018 and beyond
Better supply chain management to provide superior customer service	2018 and beyond
Develop products beyond protection and engage a whole ecosystem	2018 and beyond

Challenges

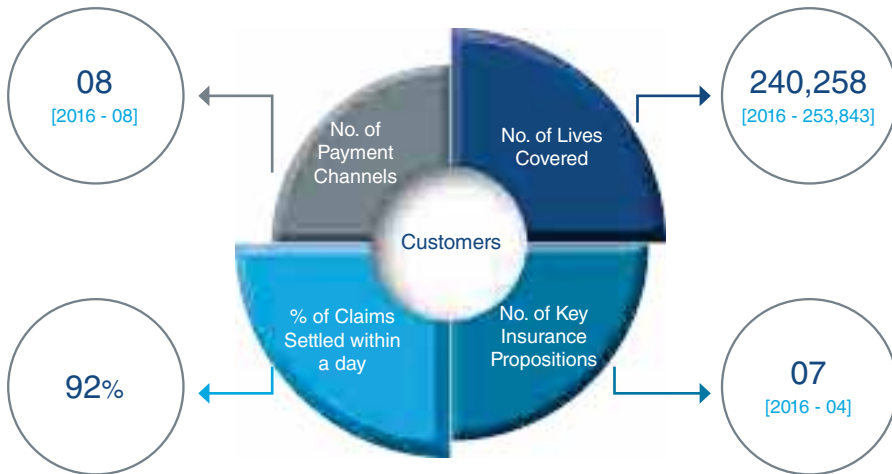
- ▶ Intense market competition  Pages 43 to 47
- ▶ Change in customer needs  Pages 41 to 43
- ▶ Digitisation and disruptive innovation  Pages 42 and 43



Customers

Customers are the reason for the existence of the Company. With the wide geographic presence consisting of 97 branches and 4,002 Agency force, UA offers a spectrum of products to suit the diverse protection, retirement, health, investment and saving needs of our customer base.

Key Performance Measures

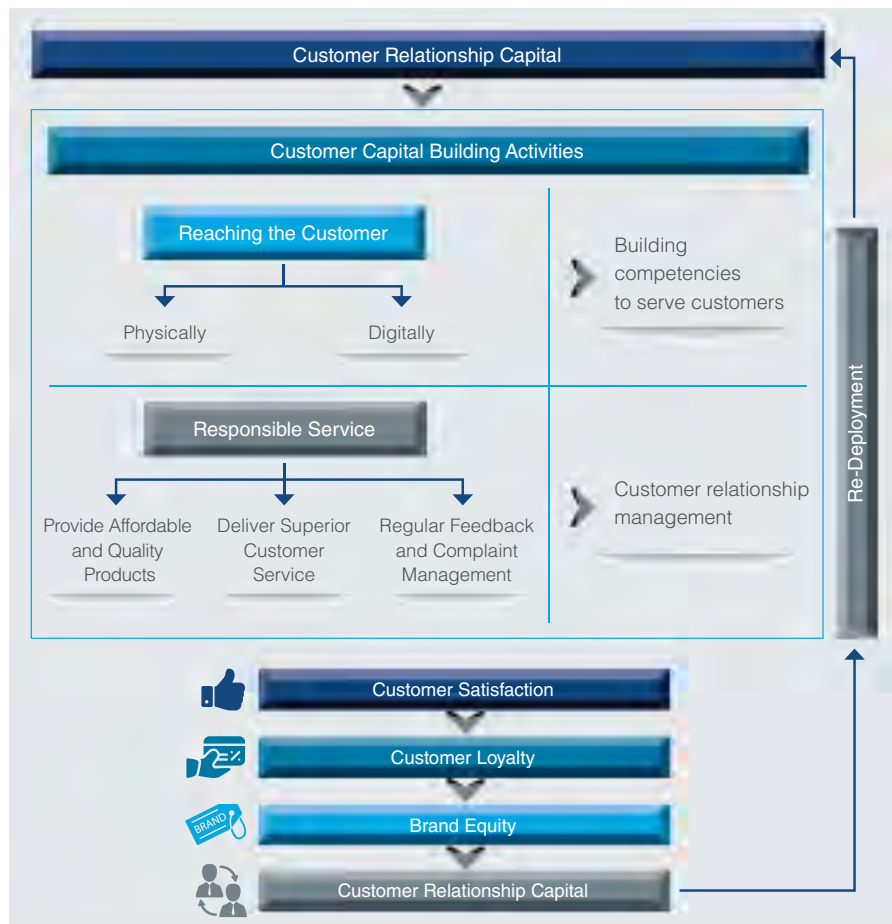


Reaching Our Customers

We connect with our customers genuinely, thoughtfully and frequently, because we believe that this dialogue is vital in creating the level of brand equity we seek. Customer contact takes place over multiple platforms in ways that are convenient and relevant to each individual whether face to face, online, or over the phone. Our branch network enables us to reach customers in all corners of the country and provide them with insurance solutions most suited to their needs, making premium payments, administering changes in line with their requirements, or processing claims.

Refer page 6 for our operating footprint.

Customer Capital Building Model



Responsible Service

Our focus is to provide affordable and quality products, deliver superior customer service and settle claims fairly and speedily in line with UA's philosophy of overall corporate responsibility; giving our customers the assurance of integrity across the value creation. Responsible customer care enables the Company to mitigate risks, which may otherwise lead to loss of credibility and reputation.

We continually seek to develop innovative insurance solutions and have brought two new plans to market during the year. At UA we have a comprehensive portfolio of products from savings and investments, to protection, family healthcare and retirement, covering all life stages. These are supported by a comprehensive range of riders covering, for example, accidental death, disability, critical illness, funeral expenses, hospital cash and family income benefits.

CAPITAL MANAGEMENT REVIEW

SOCIAL AND RELATIONSHIP CAPITAL



GRI 102-2

Our Unique Life Insurance Propositions

Customer Segment / Product Name	Customer Need	Key Features
 <p>Retail Customers</p> <p>Union Advantage with additional benefits / covers</p>	<p>Protection</p> 	<ul style="list-style-type: none"> ▶ Base plan provides flexibility to add combination of protection covers to ensure tailor-made protection; <ul style="list-style-type: none"> ▶ An additional life cover can be added up to 5 times the basic sum assured for a minimal premium. ▶ Double accidental death benefit for a higher protection against accidental deaths. ▶ Family income benefit enables dependents to continue to enjoy the quality of life. ▶ Disability benefit to provide protection against permanent disabilities. ▶ Protection benefits can be extended to cover the spouse.
<p>Union Advantage with additional covers to provide a tailor - made health solution</p>	<p>Family Healthcare</p> 	<ul style="list-style-type: none"> ▶ Range of health benefits available to complement the base plan and to provide a comprehensive health solution; <ul style="list-style-type: none"> ▶ Union Smart Health is a comprehensive medical expenses reimbursement rider benefit which can be added to the Advantage Plan. The benefit also provides a "cashless card" for hassle free hospital bill payment and treatments within Sri Lanka, India, Thailand, Singapore and Malaysia. ▶ The benefit can be taken as a "family cover" or "individual cover" ▶ Hospital cash benefit is available for the whole family, where a fixed per day benefit is payable for each day hospitalised. ▶ Critical Illness covers against 24 predefined critical illnesses.
<p>Union Advantage Universal life product with long-term premium payment to build an investment for savings need</p> <p>Union Super Investor: Universal life product with short-term premium payment to boost an investment for savings need</p> <p>Union Single Premium Advantage: Universal life product allowing customers to deposit a lump sum for higher investment benefits.</p>	<p>Savings & Investments with Protection</p> 	<ul style="list-style-type: none"> ▶ Funds invested is professionally managed with a track record of attractive returns. ▶ 100% of distributable investment yield of the life fund credited as dividend to customers' individual "investment account." ▶ Individual investment account accumulates monthly with dividends to enhance returns and this fund value will be paid at maturity. ▶ Guaranteed minimum dividend declared at the beginning of each calendar year. ▶ In the event of an unfortunate demise of the policyholder, the value of the investment account or the sum assured, whichever is higher will be paid to the nominees.



GRI 102-2

Customer Segment / Product Name	Customer Need	Key Features
 <p>Retail Customers</p> <p>Pension Advantage Universal life product that builds a fund for retirement with regular premium remittances up to desired retirement age.</p>	<p>Retirement</p> 	<ul style="list-style-type: none"> ▶ A monthly pension starting from the chosen retirement age (i.e. 55/ 60/ 65) for a fixed period. ▶ In the event of a total permanent disability, future premium payments will be waived off and the policy will be continued to ensure the intended pension payment. ▶ An additional cover is available to ensure continuous payment of premiums in the event of an untimely death of the policyholder.
<p>GOYO Personal health advisor</p>	<p>Wellness Solution</p> 	<ul style="list-style-type: none"> ▶ A wearable device linked to an "App" which works as a "personal health advisor". ▶ This motivates users to achieve personal fitness targets by offering rewards and benefits from a host of local and international partners.
 <p>Loan Customers</p> <p>Union Loan Protection Decreasing term assurance policy to cover all loan types</p>	<p>Protection Against Loan Repayment</p> 	<ul style="list-style-type: none"> ▶ Single premium policy ▶ Sum assured decreases periodically with loan repayments. ▶ Provides cover against death or total permanent disability of the policyholder. ▶ Simplified underwriting for hassle free administration. ▶ Ability to provide group cover covering all Housing loans, Loans against property, Business loans against security up to 10 million without any underwriting. ▶ Minimum underwriting requirements with very high non-medical limits for loans falling outside the above category.
 <p>Corporate Customers</p> <p>Union Protect Employee benefit scheme to provide a comprehensive protection solution</p>	<p>Employee Welfare</p> 	<ul style="list-style-type: none"> ▶ Group life policy ensuring simple administration ▶ Simplified underwriting requirements ▶ Flexible solution customised to suit the financial objectives and needs of employees. ▶ Able to include additional protection benefits to cover critical illness, hospitalisation, disability etc.

CAPITAL MANAGEMENT REVIEW

SOCIAL AND RELATIONSHIP CAPITAL

GRI 102-2

Deliver Superior Customer Service

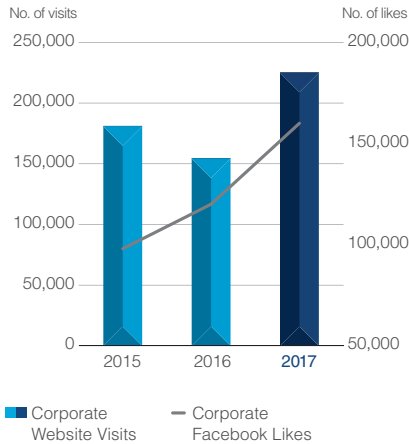
In our business, customer service is of high importance. From initiation of a policy to the event of a claim or maturity, we strive to provide customers with best in class service. We firmly believe that price is not a long term differentiator, but that consumers will look to partner with an insurance company which offers them convenience and transparency and provide greater value to them in every customer engagement.

Customer Connectivity

Online

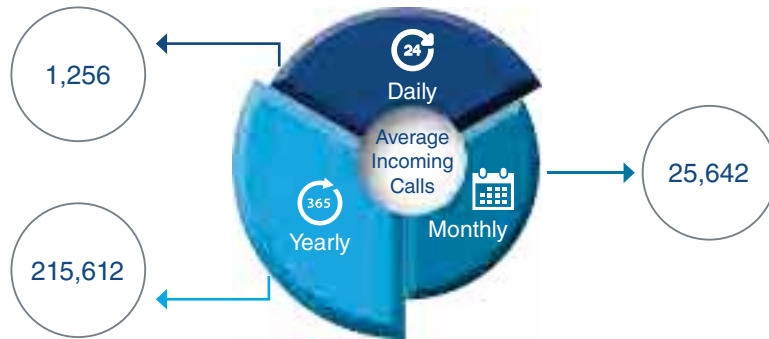
UA website is dynamic with increasing traffic. We continuously receive product inquiries via our web page. We also interact with our customers via Facebook, which saw strong engagement during the year.

Number of Corporate Website Visits and Corporate Facebook Likes



UA 24/7 Call Centre

Customers can access our call centre 24/7 to make claim inquiries, product inquiries or provide feedback. This personalised interaction helps us to develop real and enduring relationships with our customers. Our call centre statistics as follows;



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 15% in agency and 25% in bancassurance channel. These payment modes are convenient and also improve persistency enabling their insurance policies to continue undisrupted.

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

Channel	Partner Logos
1 Standing Order	Commercial Bank, Citibank
2 Internet Banking	Commercial Bank, Citibank
3 ATM	Commercial Bank, Citibank, Union Bank
4 Tele Banking	Commercial Bank, Citibank, HSBC, Lanka Post
5 Over the Counter	HNB, BOC, Commercial Bank, Citibank, Lanka Post
6 Credit Card	Commercial Bank, Citibank
7 Mobile Cash	Commercial Bank, Citibank, Abans
8 Pay Easy	Nations Trust Bank, Sampath Bank

The number indicates each payment channel

Customer Portal

The online customer portal enables access to most insurance needs at the click of a button. The portal is accessible to all life insurance policyholders with an array of personalised services.

Maintained Service Standards through the Customer Service Unit (CSU)

To provide best in class service, pre-agreed service standards are constantly monitored via a workflow system which is integrated with the core life insurance system. A summary of the performance during 2017 is provided below.



Regular Feedback and Complaint Management

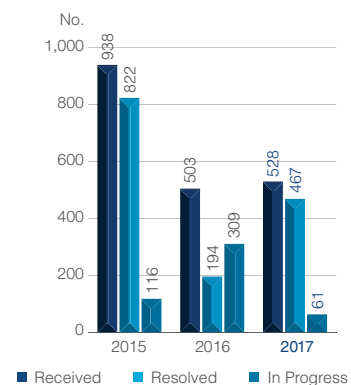
At UA, we have consistently improved the quality of our customer service and strive to be the benchmark of the industry. In our commitment to deliver superior customer service we place high importance to all customer complaints that we receive. Customers are able to send their feedback / complaints in 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 bi monthly CFS committee meetings with the participation of senior management and necessary action is taken. The committee physically met 12 times during the year to discuss and address customer complaints.

Statistics related to complaints received over the past 3 years are indicated in the graph provided next.

Status of Customer Complaints



CAPITAL MANAGEMENT REVIEW

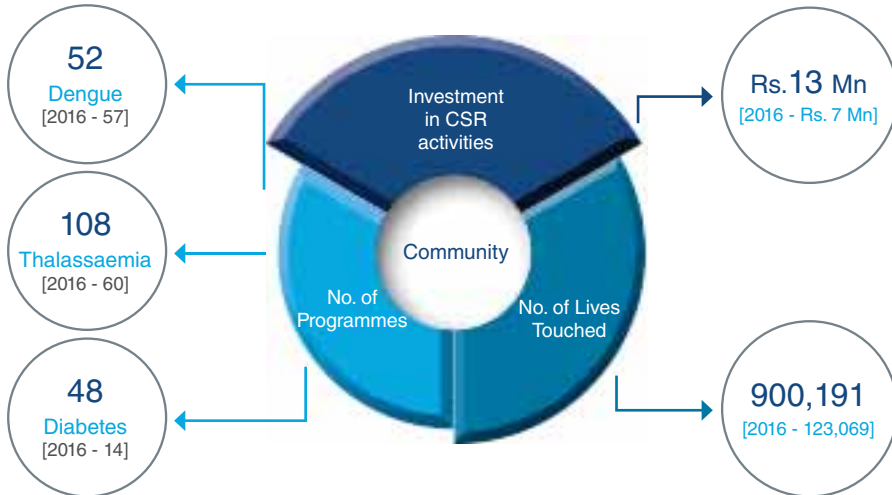


GRI 203-1 | 203-2 | 413-1

SOCIAL AND RELATIONSHIP CAPITAL

Community

Key Performance Measures



At Union Assurance, we believe that the society we operate is the bedrock of the Company. As a responsible organisation we seek to improve the health and safety of the society that we serve. For the year 2017 the Company has invested Rs. 13 million, 1% of 2016 net profit after tax, for betterment of society.

Volunteerism

Employees are encouraged to participate in volunteering activities in line with the CSR plan.

2016	2017
140	210
No. of volunteer activities	
2,014	942
No. of employees engaged	
8,056	3,768
No. of Volunteer hours	

Health Awareness Platform

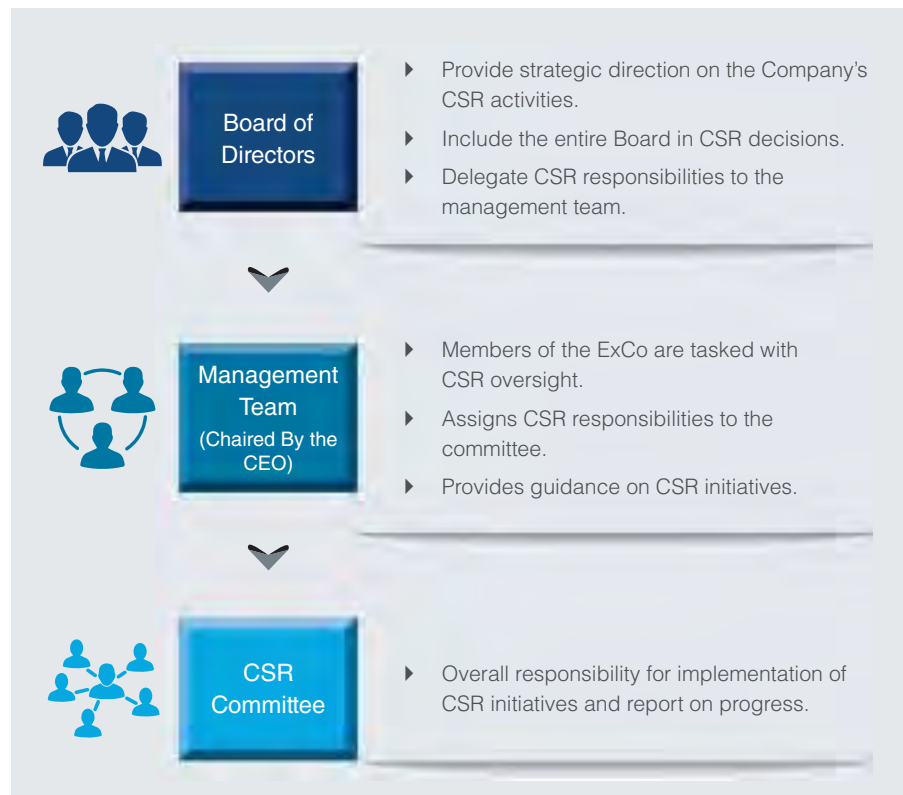
The 'Health Awareness' platform was selected due to the direct relationship with business operations. UA works together with the Ministry of Health to create awareness regarding the critical and burning issues of the nation.

Objectives of Health Awareness Programmes

- ▶ 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.

CSR Committee

The following table demonstrates our approach on addressing key material issues applicable to the community.



Initiatives under the Health Awareness Platform

- ▶ Prevention of epidemic diseases – e.g: dengue awareness programmes 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 2017 concludes, Union Manushyathwaya CSR activities achieved several milestones that positively impacted multiple communities.

Progress During the Year 2017

Awareness on Dengue

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.

Major Programmes held in 2017

1. Islandwide dengue campaign held on 11th February 2017
2. Worked with the dengue control unit and Prime Minister's office and supported their 3 month awareness sticker campaign

Category	No. of Programmes	No. of Lives Touched
No. of Programmes	47	-
No. of Lives Touched	-	600,000

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.

Major Programmes held in 2017

1. Conducted 30 programmes with the Life Guidance Centre Kandy
2. Conducted 78 blood screening programmes with the National Thalassaemia Centre and Hemal's Thalassaemia Care Unit

Category	No. of Programmes	No. of Lives Touched
No. of Programmes	30	-
No. of Lives Touched	-	17,172

Awareness on Diabetes Prevention

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

Major Programmes held in 2017

1. Conducted 42 pre-screening programmes Island wide.
2. Live life healthy campaign was completed in 50 locations
3. Other programmes are given in graph below

Category	No. of Programmes	No. of Lives Touched
No. of Programmes	39	-
No. of Lives Touched	-	164,100

CAPITAL MANAGEMENT REVIEW

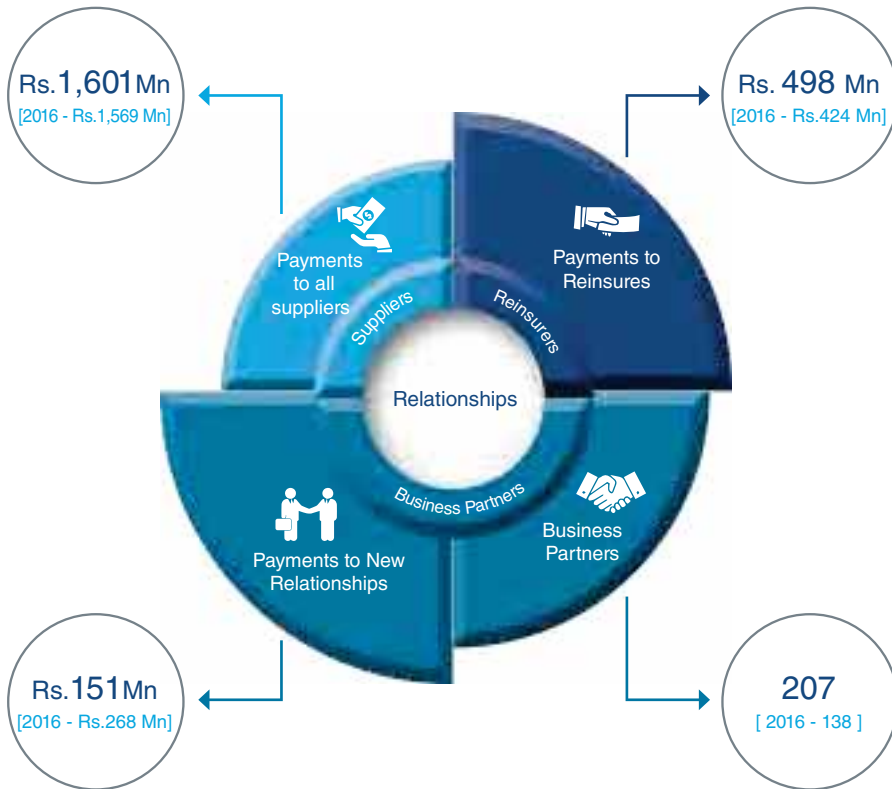
SOCIAL AND RELATIONSHIP CAPITAL



GRI 414-1

Business Partners

Key Performance Measures



UA's business partnerships lie at the heart of our value creation process and therefore, we consider this a capital that requires careful management.

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

- ▶ Suppliers and Banks
- ▶ Reinsurers

Business Partner Capital Building Model

Recognising the benefits of collaborative relationships within and beyond UA, our appreciation of supply chain management has steadily increased over the years. Our partners 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 partners, right through to our people, including activities, information, and resources involved in designing, developing and delivering our products to our customers. Therefore, partners are a critical link in our supply chain. The following diagram illustrates our approach to address key material issues of our partners.



Supplier Meeting





GRI 102-9

Business Partner Evaluation and Strategic Fit

It is important to us that our business partners share our core values. While profitability is always an important factor in any transaction, we believe that a congruence of business philosophies and a meeting of corporate minds makes the best business sense. When we commence a partnership, we conduct an initial evaluation followed by annual reviews to ensure that our partners are strategically aligned with us and will remain so over a long period of time.

Relationship Building

Strong business relationships take time and effort. We strive to build trust by identifying our business partner expectations, delivering on these expectations, maintaining transparency and practicing conflict resolution. We set the ground rules for a good relationship at the start, by defining and agreeing on our primary expectations.

Fair and Unbiased Selection

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.

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 to Suppliers

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).

Reinsurers

Our reinsurance partners play a crucial role in our operations as they allow us to transfer part of the risk that exceeds our 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 IRCSL. Details of our reinsurance panel including their ratings are given below.

Reinsurer	Financial Strength Rating	Credit Rating	Rating Agency
	AA	AA	Fitch
	AA-	AA-	Standard & Poor's
	A+	A+	Standard & Poor's
	A+	A+	Fitch

CAPITAL MANAGEMENT REVIEW

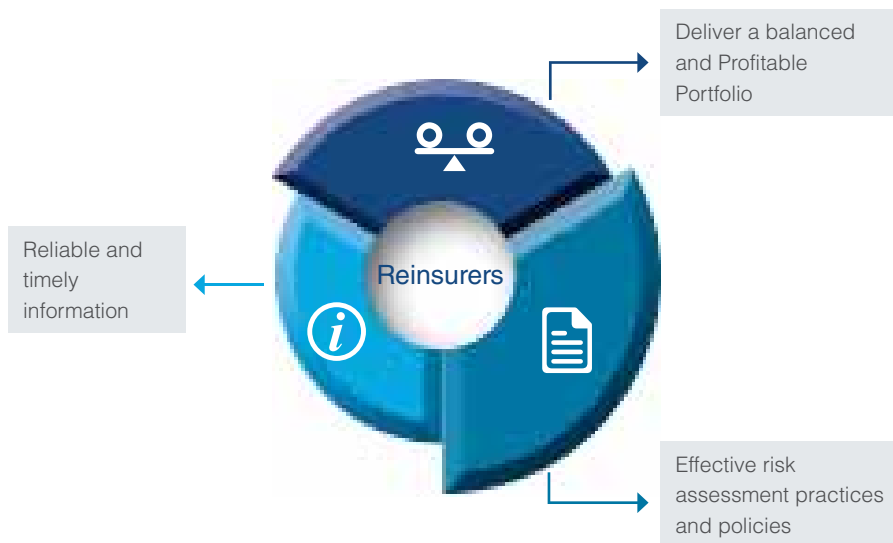
SOCIAL AND RELATIONSHIP CAPITAL

In view of protecting both customers and the Company, the additional risk taken by reinsurers can have a significant impact on 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.

Effective Risk Assessment Practices and Policies

These provide a mechanism to identify which risks represent opportunities and which represent potential pitfalls for both parties. The right risk assessment provides

The profile and longevity of our partnerships demonstrate that we possess strong relationships required to make our strategy work. The processes and efforts we direct at nurturing these relationships and establishing new relationships give us the confidence that this capital will provide inputs in the required quality and quantity.



Deliver a Balanced and Profitable Portfolio

UA has a balanced insurance portfolio with diversified risks. Therefore, losses can be balanced collectively enabling us to better negotiate with our reinsurers. UA is equipped with a well experienced and 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

Exchange of right information at the right time with our reinsurers helps us 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.

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 risks. A robust risk assessment process, applied consistently throughout the underwriting process, empowers UA underwriting staff to better identify, evaluate and exploit the right risks.

Outlook

Successful business partnerships remain at the heart of our success and in line with our strategy of differentiation, UA continues to seek value creating relationships through collaboration with our customers, community and business partners.



HUMAN CAPITAL

Management Approach

We are mindful that the key to sustained success is the quality and commitment of our people. The company has continuously invested in developing the 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.



Employees



Field Staff

CAPITAL MANAGEMENT REVIEW



GRI 404-1

HUMAN CAPITAL

Key Performance Measures

GREAT PLACE TO WORK
5th Consecutive year
 Great Place to Work
 Attracted 430 talented new permanent staff

33%
 Productivity
 Growth in higher advisor income category

19.92%
 Attrition
 Consistent customer contacts and enhanced staff morale

54 MDRT Members
 Million Dollar Round Table Members

9,996 Hours
 Training and Development
 Providing continuous training by dedicated trainers

2017 Objectives and Achievements

Continue to work on improvement areas identified through the GPTW survey	Several initiatives were taken - On going
Work life balance initiatives	2 initiatives launched
Align learning and development activities to transform the sales force	On going
Continue and enhance leadership development programmes and technical training interventions	118 training programmes conducted
Revamp rewards and recognition schemes	Completed
Develop e-Consultant sales force	Launched e-consultant project – Ongoing
Transform the sales force for higher income category	Higher income category increased from 18% to 25%.
Define career development opportunities for all staff	On going

Objectives - 2018 and Beyond

Objectives	Year
Transform the sales force to achieve higher income levels	2018 and beyond
New recruitment strategies for sales force recruitments	2018 and beyond
Redefining the HRIS Solution and e-Learning platform to drive digitised HR interventions	2018 and beyond
Competency development through talent management	2018 and beyond
Grow e-Consultant sales force	2018 and beyond
Positioning UA as an 'Employer of choice, exciting place to work'	2018

Challenges

- ▶ Employee attrition Pages 81 and 82
- ▶ Performance focused training Pages 83 and 84
- ▶ Retention of key staff Page 81



GRI 405-2

At UA, we recognise that the human capital we possess is fundamental to creating sustainable value to all partners. 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 strive to be the preferred employer for existing and potential employees. 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.

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

1. Employees
2. Field Staff

Facets of our strategy to attract, develop and retain employees' is presented below.



Employee Diversity

We respect diversity and inclusivity 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 2017 was 4,808, comprising 529 employees, 277 fixed term contract (FTC) employees and, 4,002 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 is appreciated,
- ▶ Stand for equal treatment and work opportunities and work closely together recognising 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 diagrams indicated in next two pages.

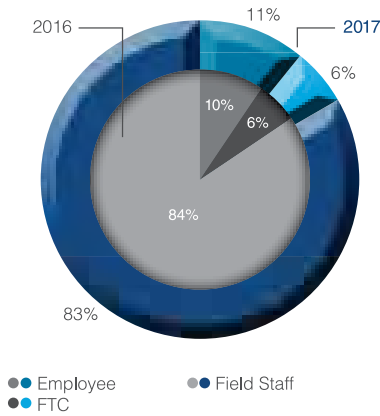
CAPITAL MANAGEMENT REVIEW

HUMAN CAPITAL

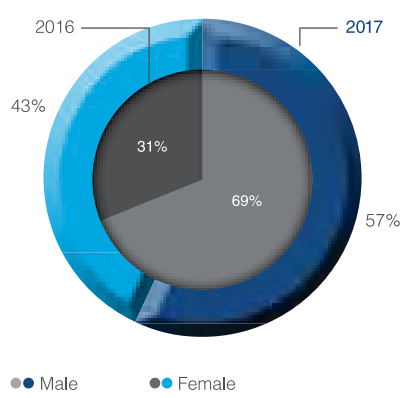


GRI 102-8 | 405-1

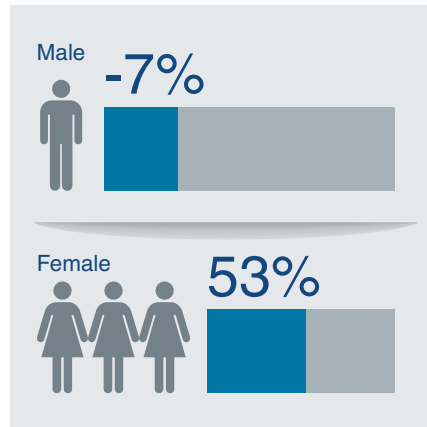
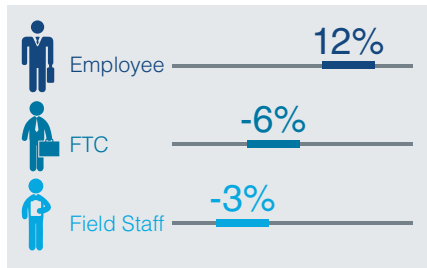
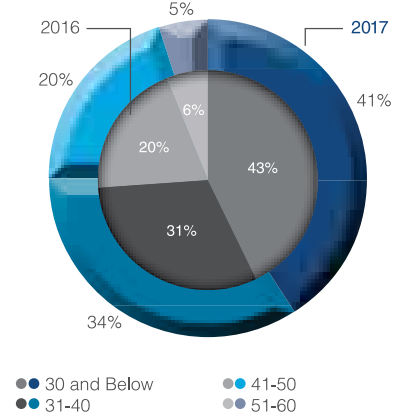
Workforce by Type of Employment



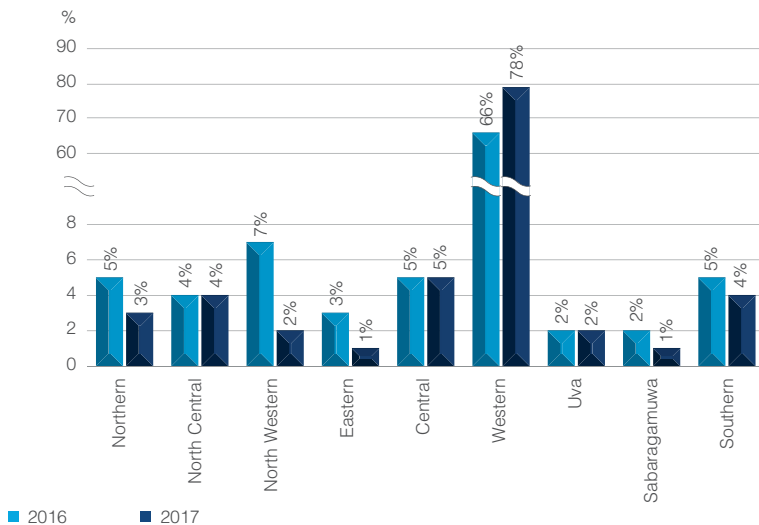
Employees by Gender



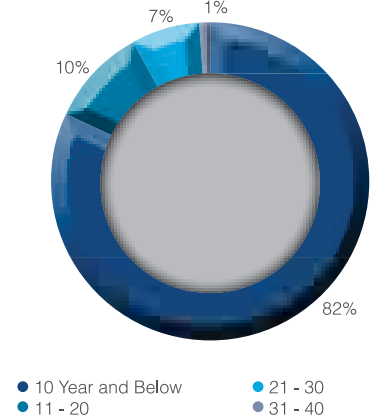
Employees by Age



Employees by Province



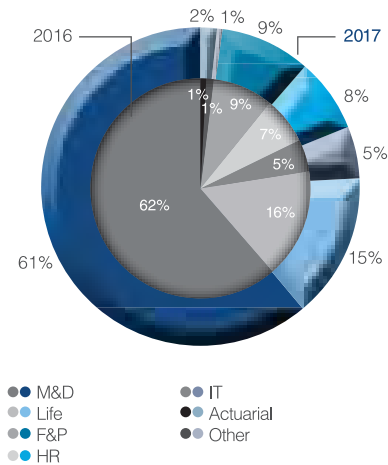
Service Analysis of Employees



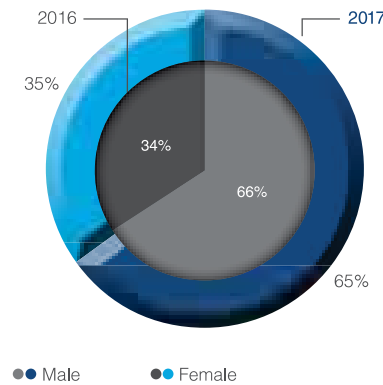


GRI 102-8 | 401-1

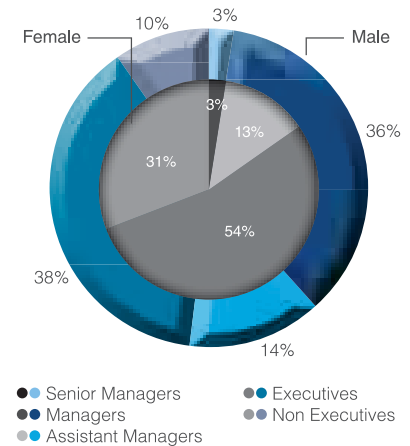
Total Employees Division Wise



New Hires Gender Wise



New Hires by Employment Category




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 Great Place to Work (GPTW) which allows employees to rate the company's performance on key attributes such as credibility, caring, fairness, pride and camaraderie.

The Company attrition rate (for executive and non-executive) and new hire attrition rates were 19.92% and 12% 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. 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 enabled the Company to take appropriate action to retain employees of this age group.

A new development platform in the form of an internal mentoring programme has been introduced as part of the talent development strategy of UA. The overarching objectives are to enable the Executive Committee and other identified Assistant General Managers to interact / engage with identified talent covering executive to senior manager level employees and share their knowledge relating to a predefined set of management disciplines. The mentoring sessions take the form of knowledge sharing fora where the management team members share their tacit and explicit knowledge in an engaging manner.



19.92%

Current Year Attrition Rate



14.93%

Previous Year Attrition Rate

Action Carried Out

- ▶ Permanent cadre vehicle loan scheme was enhanced
- ▶ Number of months bonus distribution was increased
- ▶ Implemented a more relaxed / flexi working environment (Flexi hours extended, work from home policy introduced, dress code relaxed)
- ▶ Celebrating success (Treats for staff celebrating company achievements)

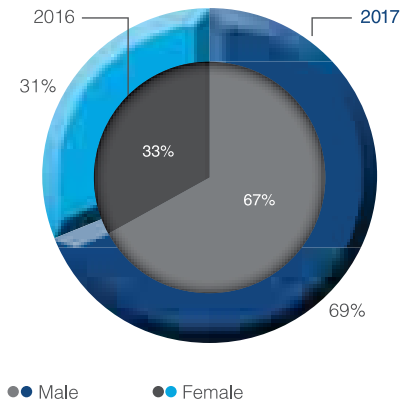
CAPITAL MANAGEMENT REVIEW



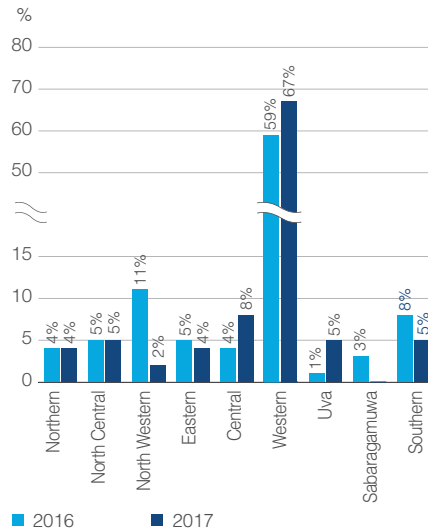
GRI 404-3

HUMAN CAPITAL

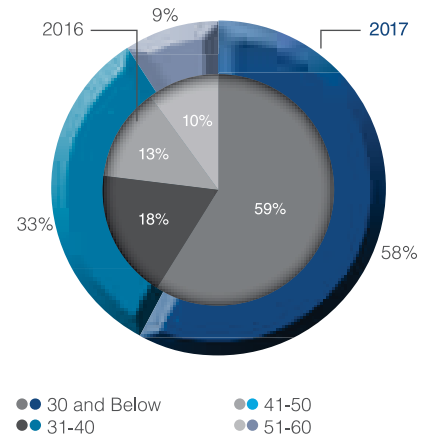
Attrition by Gender



Attrition by Province



Attrition by Age



Performance Appraisal

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

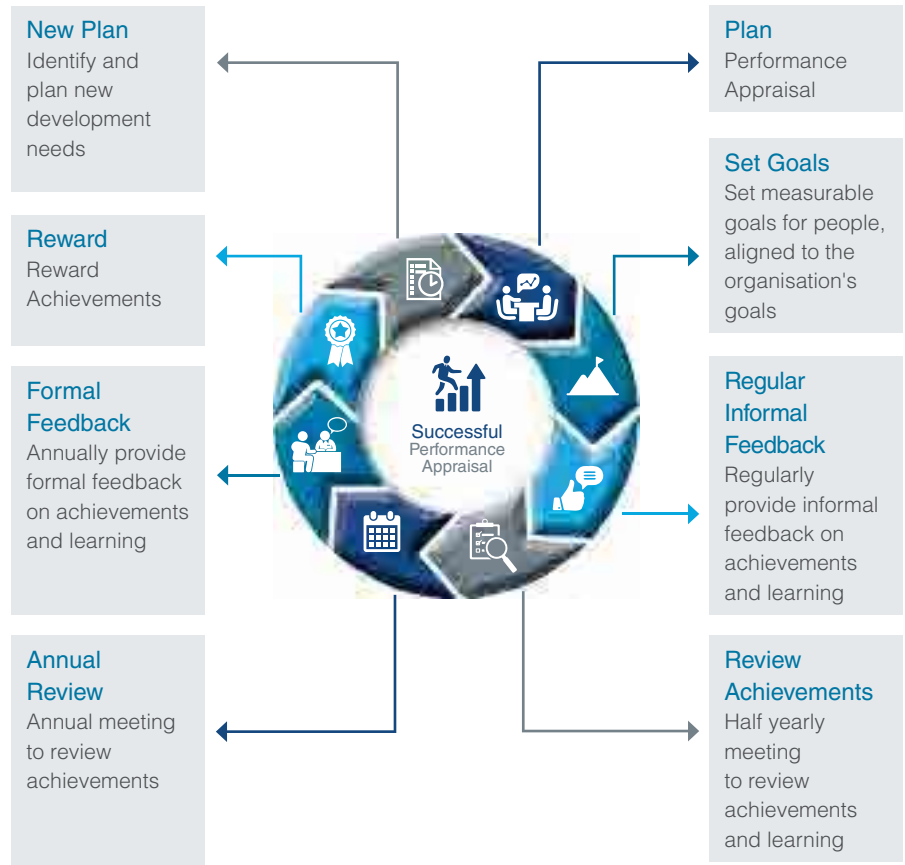
Employees' performance against the set objectives is first self-assessed, then assessed by his / her immediate supervisor and recommendations provided. A 360 degree feedback from peers and subordinates is also obtained for all managers at UA.

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

The performance feedback process is an ongoing activity between management and employees. The exchange of information involves both performance expected and performance exhibited.

Subsequently, individual feedback sessions are held to communicate the final performance rating and career committee feedback to staff members. The full cycle of object setting to performance appraisal is depicted below;





GRI 404-1 | 404-2

Appeals Process

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

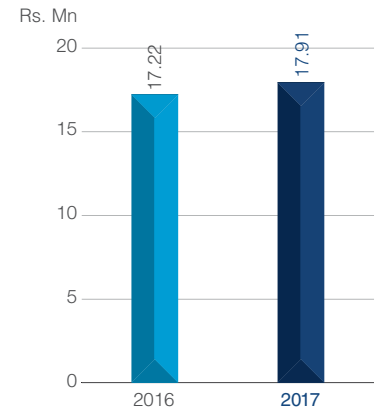
Training and Development

The company's training and development programmes are key policy components of talent retention and ensuring a sustainable competitive advantage. Hence, UA invests heavily in learning and development

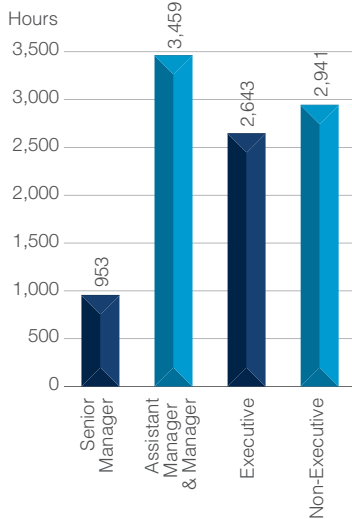
initiatives. Our approach covers a range of technical, functional, language, information technology and general management skills with a wide range of resources and programmes established for learning and development (L&D) purposes.

In 2017, we conducted 43 in-house training programmes and 75 external programmes including 31 overseas programmes. Our unique training programmes are created based on the existing talent management process. It is designed to build capacities of employees, in all categories.

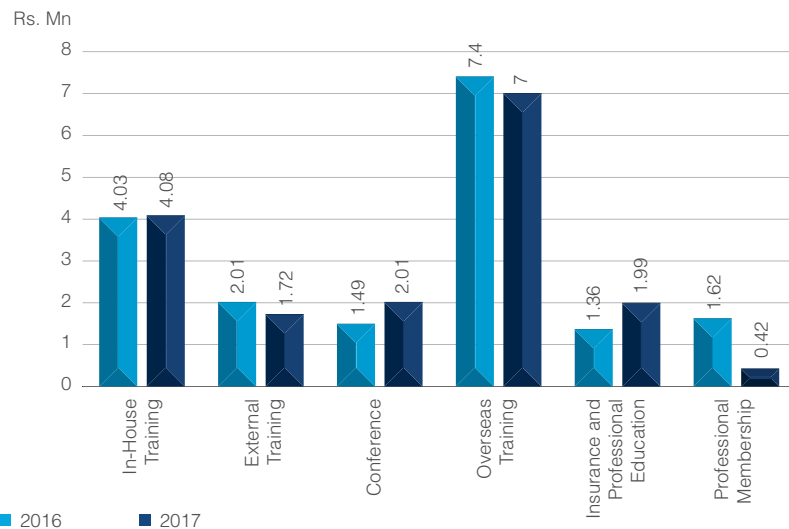
Investment in Learning and Development



Total Training Hours



Areas of Learning and Development Spend



UA's main training programmes are as follows;

	Manager par excellence	Guides Managers and Assistant Managers towards professional development.
	Executive development programme	Designed to provide executives with the knowledge and tools to enhance their managerial skills to face corporate challenges.
	The ladder project	A four month learning endeavour for non-executives covering a wider range of professional concepts.
	Overseas training	For enhancing technical knowledge as it is an essential element for the business.
	Technical and sales training	Initiatives to enhance skills of regional managers in the technical aspects of the business.
	Digitalisation and learning interventions	L&D activities have been digitalised to provide 24 x 7 access via an online platform, branded as, 'Learn easy'.

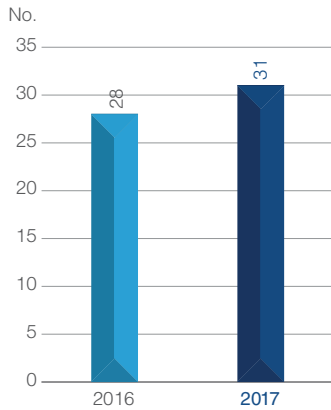
CAPITAL MANAGEMENT REVIEW

HUMAN CAPITAL

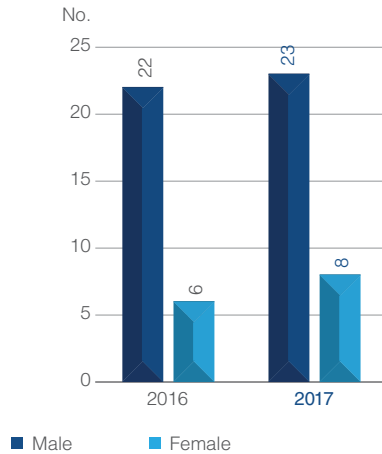


GRI 403-1

No. of International Training Programmes



Overseas Training by Gender



Fire Safety Training

Toastmasters Achievements

The Union Assurance Toastmasters Club, (UATMC) has won numerous accolades in the recent past. They achieved 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 33 active members.



Toastmaster Achievements

Health and Safety

Caring is one of our core values and we believe it is a vital part in fostering a great place to work. As a preferred employer of choice within the insurance industry, we have adopted a unique culture that strives to provide a healthy workplace for staff.

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.

Union Health Camp

A health camp was conducted for all employees at head office. Further UA conducts selective programmes to educate and create awareness on serious diseases such as HIV / AIDS. UA has also engaged an institute to provide confidential counselling support should any employee require this service.

My Doctor

UA partnering with Mydoctor, a mobile App which enables employees to access general practitioners via their mobile phones. Utilising modern technology, MyDoctor brings medical solutions to the fingertips of our employees.



A Toastmaster Club Session

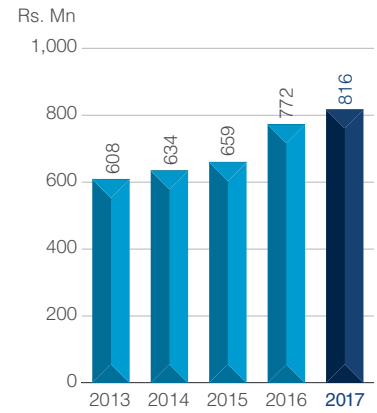


GRI 201-3



Members from the Maintenance Crew

Employee Compensation and Benefits



My Doctor Mobile App

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. 14 million while the total contribution made to the provident fund was Rs. 55 million. Employees are also entitled to retirement gratuity. The employee benefit liability as at 31 December 2017 was Rs. 123 million.

Work Life Balance

As a responsible employer we have incorporated into our work procedures, the necessary means for employees to choose a comfortable balance between their duties at work, their lifestyle and social undertakings.

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

Flexi Hours



A flexi-hours arrangement is in place for employees to best manage their personal commitments without impacting service standards or official responsibilities.

UA Recreation Club



UA's Recreation club organised several events to foster camaraderie among staff. The recreation club contracted several leading establishments to provide goods and services at special rates and easy payment terms to our staff.

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.

Work from Home



UA has implemented a 'work from home' policy for permanent cadre staff effective from 5 December 2017.

CAPITAL MANAGEMENT REVIEW



GRI 402-1

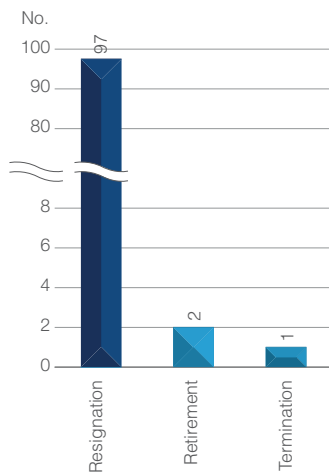
HUMAN CAPITAL

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.

Employee Turnover by Reason



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

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.

Grievance Management Process

UA has a very effective grievance handling process in place. Our grievance handling procedure 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.

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 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.

Employee Engagement

We have developed several communication channels and fora 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.



A practice session for an Employee engagement event

Values Walkway

UA believes that core values are central to the long term success of the organisation. 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 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.

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. During the year, the programme was expanded to discuss ideas / suggestions of employees who recently joined UA.

Rewards and Recognition

UA has implemented multiple rewards and recognition programmes 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.

Awards / Certifications

UA's HR practices has received many accolades in the recent past. A summary of these achievements and certifications is listed below.

<p>The Great Place to Work®</p>	<p>Best Employer Brand Award</p>	<p>The SLITAD People Development Awards</p>	<p>the Asia Banking, Finance Services & Insurance Excellence Awards</p>
			
<p>The Great Place to Work® (GPTW) Institute recognised UA for the fifth consecutive year as a work place that is conducive to growth and personal development.</p>	<p>UA HR practices were recognised with two prestigious awards at Sri Lanka Best Employer Brand Awards organised by the World HRD Congress. UA achieved the prestigious title 'Best Employer Brand Award' along with the 'Dream Employer of the Year' award.</p>	<p>UA won the platinum award for people development at the SLITAD people development awards 2017, organised by Sri Lanka Institute of Training and Development (SLITAD). UA is the only company to win the platinum award for two consecutive years.</p>	<p>UA HR Practices were recognised with the "Best HR Practice in Finance Sector" award at the Asia Banking, Finance Services & Insurance Excellence Awards organised by CMO Asia.</p>

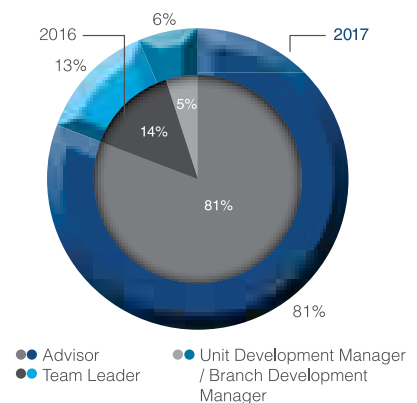


Service champions, employees / teams of the year 2017

Field Staff

Our field staff members are an integral part of the Union family. Currently 90 % of the company GWP is contributed by field staff. Facets of our goal of providing a rewarding career to field staff are provided overleaf.

Composition of Field Staff



CAPITAL MANAGEMENT REVIEW

HUMAN CAPITAL

1. UA incorporated 'new business based' incentives into R&R criteria
2. UA held its first offshore Annual Awards Ceremony in Kuala Lumpur, Malaysia. 33 categories of Awards including the pinnacle award, 'Champion of Champions Award' were given away
3. Best performers were rewarded with overseas tours
4. Brilliant starter recognition awards handed over to high performing new comers
5. Brilliant Starter Leader / coach recognition awards handed over to Development Officers who supported new comers to achieve Brilliant Starter status
6. Certification programmes for Advisors and Unit Leaders who completed specified training modules and maintained consistent business performance
7. Produced 30 International Award for Productivity (IAP) winners
8. Produced 9 LIMRA International Quality Award (IQA) winners
9. Produced 54 Million Dollar Round Table (MDRT) Award winners (2016 – 29)
10. Infinity club member rewards were enhanced

UA provides a transparent career path 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 programmes.

During the year under review, following key initiatives were carried out:

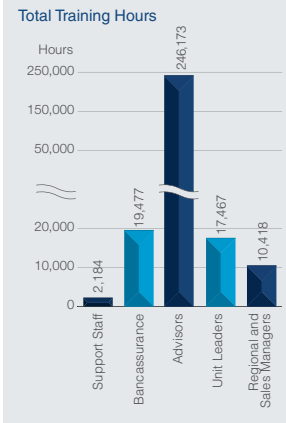
1. Specialised training for top advisors to enable them to sell more
2. Focused training for low performing advisors to improve quality, productivity and persistency
3. Key value drivers / Key result areas of trainers aligned to set of KPIs to drive sales productivity
4. Training resources aligned with distribution structure, thus providing everyone easy and quick access to L&D interventions
5. Introduced training programs focused on technical, soft skills, motivational and professional coaching
6. Conducted product training as well as special refresher sessions to improve product knowledge
7. Conducted programs to enhance selling skills



We are focused on developing a smaller but more productive advisor force. Key initiatives carried out during the year include;

1. Employment opportunities created for housewives, university students and students of other institutes branded 'e-Consultant insurance'
2. Implemented a centralised worksite model within the 'Group Life' channel
3. Established a separate elite advisor channel in the Western region.
4. Centralised team leader and unit development manager recruitment process

Performance is managed in a transparent manner via web enabled sales force management system (FAME).



Outlook

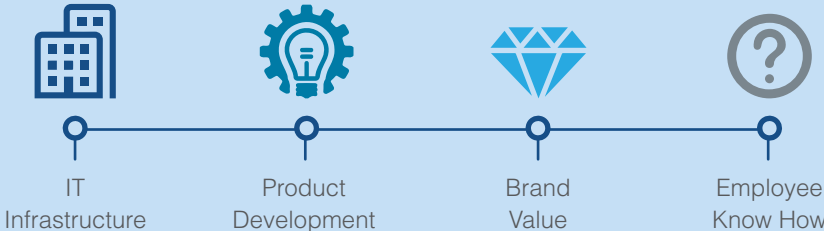
In Sri Lanka life insurance business primarily takes place as a face to face sale. We believe this trend will continue. We want to be the life insurance company of choice for employees and field staff. Therefore, we continue to invest in our people to enable them to stand out amongst peers.



INTELLECTUAL CAPITAL

Management Approach


We believe that our Intellectual capital is a vital source of competitive advantage which 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 evolving and emerging customers. We are committed to develop our intellectual capital in terms of brand value, technology, new product development and employee know how.




CAPITAL MANAGEMENT REVIEW

INTELLECTUAL CAPITAL


Key Performance Measures




Beyond protection
With an eco system of partners promoting healthier lifestyles




161,123+
Social media presence
Largest FB fan base in the industry



Rs. 1.8Bn
Brand value created
value created over 30 years of trusted service



87%
Life insurance proposals received digitally
33% reduction in conversion time



91%
Automated underwriting of proposals without human intervention
3 times faster processing


2017 Objectives and Achievements

85% digital submission of proposals	87% achieved by year end
Migrate core system to modern platform	In progress and planned go - live in July 2018
Develop products which cater to health needs of customers	Launched Union Smart Health in 2018
Enhance information security awareness	20 e-mail campaigns and 1 presentation to staff, and on going
Set up a centralised data analytics unit to provide business insights	Unit was established
Availability of automated policy issuance, in order to manage increase in volumes and achieve economies of scale	91% of policies are auto underwritten


Objectives - 2018 and Beyond

Objectives	Year
Implement comprehensive CRM solution	2018
Migrate core system to modern platform	In progress and completion by 2018
Redefine brand positioning beyond trust	2018
Availability of automated policy issuance, in order to manage increase in volumes and achieve economies of scale	2018 and beyond
100% digital submission of proposals	2018
Drive digital first agenda	2018 / 2019

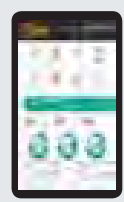
Challenges

- ▶ Growing the brand value  Page 94
- ▶ Information security threat  Page 164
- ▶ Disruption through digitisation  Pages 42 and 43

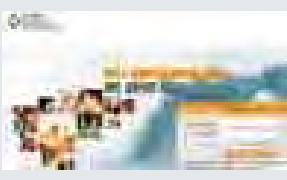
- ▶ Tablet and web enabled Financial Need Analysis, quotation and proposal through the Digital Advisor Toolkit
- ▶ Tablet and web enabled MIS (via dashboards) for advisors and managers




Auto policy issuance (straight through processing) for standard life products




The portal is accessible to all life insurance policyholders with an array of personalised services.




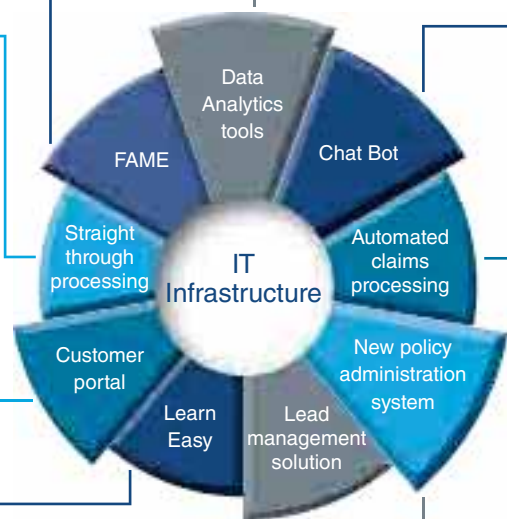
Tablet and web based knowledge centre for advisors



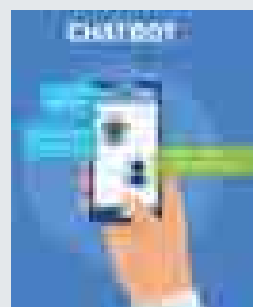
Lead management solution



- ▶ Data Analytics tools to derive business insights from the large amounts of data collected in the company.
- ▶ Forensic analytics tools for real time outlier alerts for vendor payments, claims payments, etc; with embedded artificial intelligence technology.

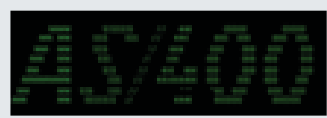
- ▶ Driving its digital-first initiatives UA launched the first ever, Facebook messenger based artificial intelligence insurance assistant – ‘Ask from Amanda’ to provide collaborative services to potential customers.
- ▶ Key objective of launching a project of this calibre is to craft and embed the services provided by an insurance assistant in to a mostly used, emerging chat platform provided by Facebook - Messenger App within a digital environment leveraging the human-like nature to introduce a new level of user experience.
- ▶ Customers can make policy inquiries and submit claim documents via this Chatbot.



Currently, we are making a once in a generation back end upgrade. In line with our strategic objectives. We have committed to invest over Rs. 800 million to deploy the latest digital platform which will enable us to bring world class best practices to the market in a modular, flexible and customisable manner.



Automated claims processing for faster settlement of claims.

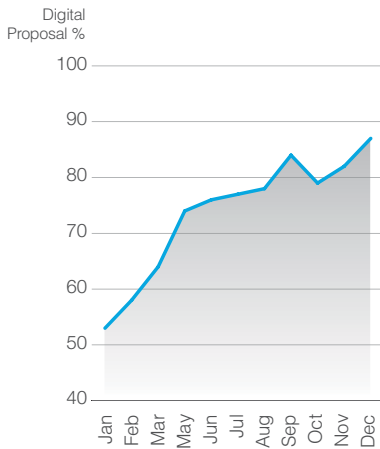


CAPITAL MANAGEMENT REVIEW

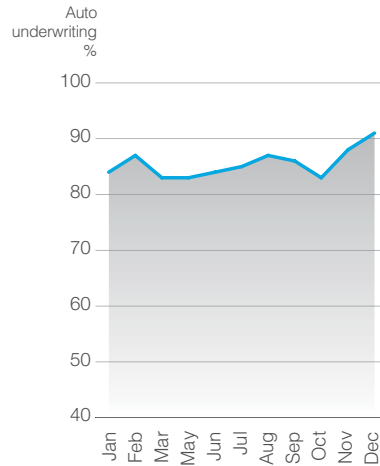
INTELLECTUAL CAPITAL

The Company's ambition is to ensure 100% digital proposal submissions and auto underwriting for non complex cases. The latest statistics in this regard are as follows:

Proposals Received Digitally



Auto Underwriting



Digital proposals have reduced proposal conversion time by 33%.

Auto underwriting is 3 times faster than the manual process. This enables us to deliver insurance policies faster to customers.

Awards / Certifications

UA's best in class technology has received many accolades in the recent past. A summary of these achievements and certifications is listed below.

Chairman's Award	SLT Zero One Award	Sri Lanka Insurance Industry Award	Celent Award
			
Digital Advisor Toolkit (DAT) won the JKH Chairman's Award 2017	Digital Advisor Toolkit (DAT) was shortlisted for Best Digital Enabled Product / Service in the Financial Sector at SLT Zero One Awards 2017	Industry Technology Leader at the inaugural Sri Lanka Insurance Industry Awards 2015 ceremony	Won the prestigious Celent Award in 2013, 2014 and 2015

Cyber Security

Given the recent incidents, the company has also implemented the following activities to enhance cyber security.



Union Assurance is amongst the few BFSI companies with ISO 27001:2005 certification in Sri Lanka, which assures

security of information assets i.e. business information, customer data, financial information, intellectual property, employee details and information entrusted by third parties. Given the escalation in cyber risk, Union Assurance has established a Cyber security policy in line with the JKH Group and is in the process of implementing IBM's managed Security Operations Centre (SOC)

and security intelligence platform to further strengthen cyber resilience.

Product Development

Considering the demographic changes, retirement, investment and savings needs of customers, UA launched three products during the year.

Customer Need	Product Name	Key Features
Investment and savings	<p>Union Single Premium Advantage:</p> <p>Universal life product allowing customers to deposit a lump sum to generate higher investment benefits.</p>	 <ul style="list-style-type: none"> ▶ In the event of an unfortunate demise of the policyholder, the value of the investment account or the sum assured, whichever is higher will be paid to the nominees.
Retirement	<p>Pension Advantage:</p> <p>Universal life product that builds a fund for retirement with regular premium remittances up to desired retirement age.</p>	 <ul style="list-style-type: none"> ▶ A monthly pension starting from the chosen retirement age (i.e. 55/ 60/ 65) for a fixed period ▶ In the event of a total permanent disability, future premium payments will be waived off and the policy will be continued to ensure the intended pension payment. ▶ An additional cover is available to ensure continuous payment of premiums in the event of an untimely death of the policyholder, so that the pension payment to dependents is unaffected.

GOYO

In addition to traditional insurance solutions, UA launched a wellness solution i.e. GOYO to motivate people to lead an active lifestyle. The product includes a wearable device linked to an “App” which works as a “personal health advisor” motivating users to achieve personal fitness targets by offering rewards and benefits from a host of local and international partners, thus encouraging people to lead an active lifestyle.

GOYO as the nation’s first homegrown fitness App with an attractive eco partner wellness platform promoting a localised sustainable shift towards a healthier and fulfilling lifestyle. Unlike other fitness trackers and wellness platform products available in the local market, the GOYO wearable fitness device operates in sync with the

App, designed with distinctive features for the everyday Sri Lankan. The App functions as a personal health advisor monitoring customer’s sleep patterns and their different phases of sleep, calculates average resting

heart rate, measures calories burnt, distance walked and step count, all on a periodic basis helping the user track and monitor their progress.



CAPITAL MANAGEMENT REVIEW

INTELLECTUAL CAPITAL

Fintelekt Insurance Industry Award



Union Smart Health won the Best product innovation award at the Fintelekt Insurance Industry Awards 2017.

Brand Value

The UA brand is also positioned on the platform of trust, and strives to deliver this promise by providing convenience to customers, being transparent in our dealings and being respectful to all stakeholders. The UA brand was ranked 47th in the LMD list of most valuable brands 2017 (3rd most valuable brand in the life insurance industry).

UA was also recognised as the most respected entity in the insurance industry in the LMD ranking of Most Respected Entities 2017. Union Assurance was the only insurance company ranked within the top 50.



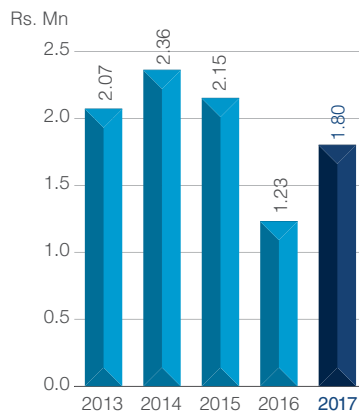
Most respected entities 2017

The UA brand was valued at Rs. 1.8 Bn in 2017. The 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.

UA brand value increased by Rs. 574 Mn in 2017 compared to 2016. The brand was ranked at 43 (2016 - 47) and rated AA- (2016 - AA-).

It is noteworthy to mention that the 2017 and 2016 values are based only on the performance of the life business since the segregation of the non life and life businesses in 2015.

Brand Value



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

UA brand has been redefined as 'life changing partnerships' which go beyond trust, using results of recent research with existing / potential customers, life advisors and lapsed policy customers.

Employee Know How

At UA, employees at all levels 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 programmes to sharpen their knowledge.

Details of the training programmes conducted by the company are provided in the Human Capital section of the report.

Outlook

Intellectual capital provides a competitive advantage for UA. We pursue a digital first agenda since technology will change the life insurance industry significantly. We continue to build our brand and it provides us a key differentiator among our peers. We are in the process of reviewing options to transition the brand positioning beyond trust.

Our product development will be focused on demographic changes, and the new IT platform will enable us to develop and launch new products across multiple distribution channels in a speedy and cost effective manner.



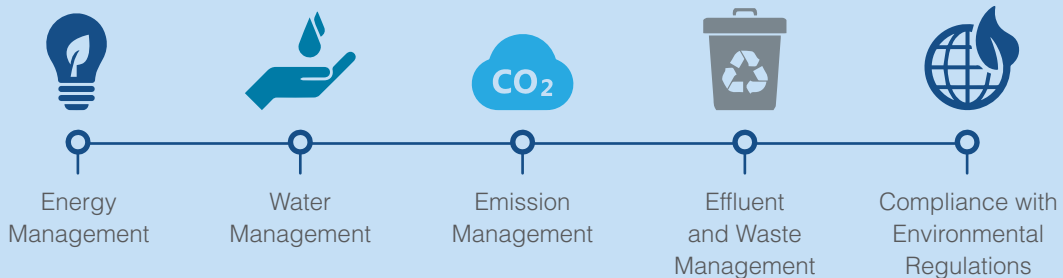
Brand change awareness session



NATURAL CAPITAL

Management Approach

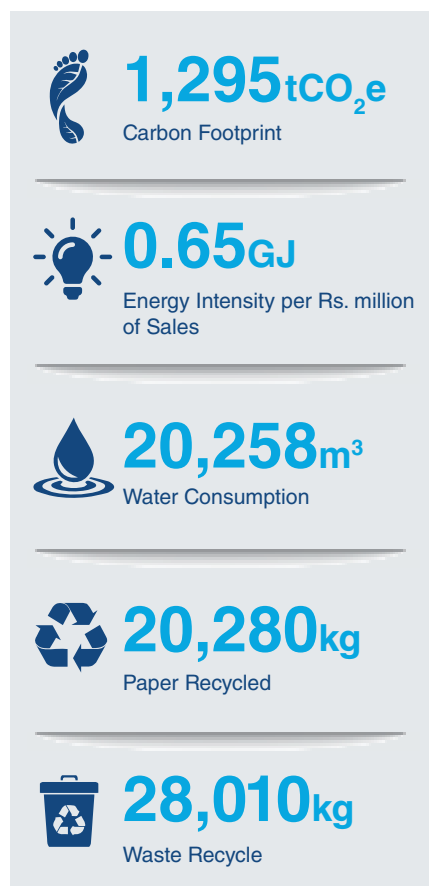
We are mindful of the future generations and committed to promoting sound environmental practices when conducting our business operations. Our environmental management framework play an important role in managing effort.



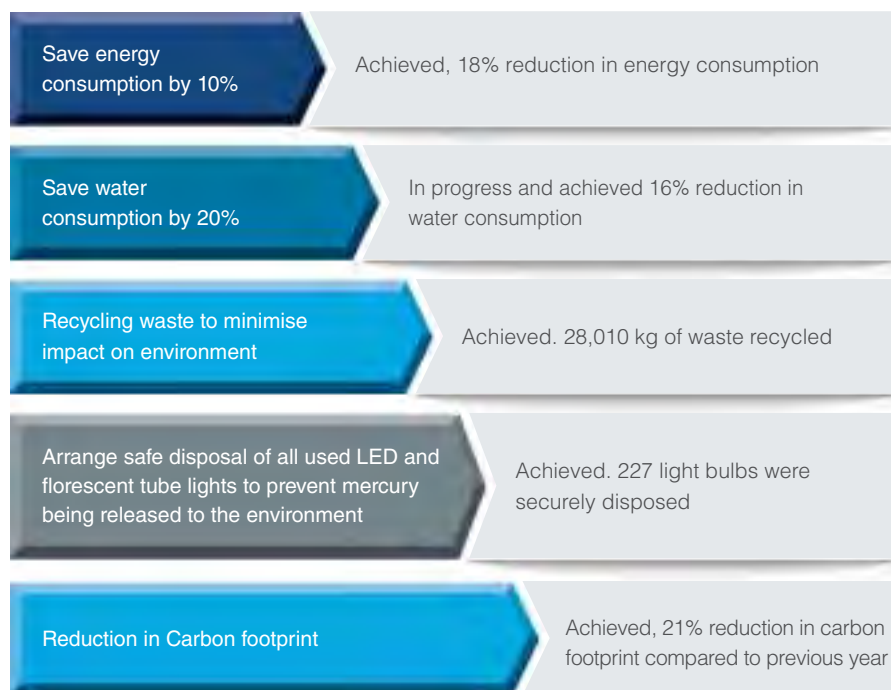
CAPITAL MANAGEMENT REVIEW

NATURAL CAPITAL

Key Performance Measures



2017 Objectives and Achievements



Objectives - 2018 and Beyond

Objectives	Year
Recycling of 20,000kgs of paper	2018
Recycling of 125 used bulbs	2018
Save water consumption by 1,800 units	2018
Save energy consumption by 195,000 Kwh	2018
Promote usage of renewable energy in the branch network	2018 and beyond

Challenges

- ▶ Managing significant initial investment required in implementing natural capital management projects.
- ▶ Getting employees to contribute towards sustainability initiatives.

We take measures to monitor the long term and short term impacts on the environment as a result of the strategies we implement. Considering our natural capital management framework, it mainly includes the elements of material, energy, water, emissions, bio diversity, effluents and waste. However, based on materiality we have not considered material and bio diversity for reporting.



GRI 302-1 | 302-2 | 302-3
302-4 | 302-5

Our environmental management framework that helps us to manage environmental impacts is indicated in a diagram below;



Our Sustainability partners;

1. Think Green (Pvt) Limited
2. Neptune Papers (Pvt) Limited
3. Ewis Peripherals

Energy Management

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

We use petroleum fuel for energy consumption outside 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 marketing promotion purposes. During the year under review, we consumed 37,520 litres of fuel for such purposes.

The energy consumption ratios during the year is shown as follows;

Energy Consumption	2017	2016
Total (GJ)	6,474	7,874
Cost per Rs. 1 million of revenue (Rs.)	46.0	45.5
Per full time employee (GJ)	1.35	1.61
Per Branch (GJ)	67	74
Per Area (GJ)	0.02	0.03

Energy Consumption by Type

Energy Type	2017 GJ	2016 GJ
Diesel	0.002	0.002
Petrol	0.002	0.003
Electricity	6,474	7,874

Solutions to Monitor and Control Energy Consumption

As almost all UA business activities involve consumption of energy, there are various initiatives we have undertaken at head office and at branch level to minimise the impact this creates. We have enhanced internal communications to raise employee awareness on environmental protection, and encourage them to save energy at head office and branches. Also, we have invested in information technology applications, making online transactions possible thereby conserving energy usage.

As we operate across a wide geographical area, conserving energy at branch level has been considered important. The initiatives we have taken to conserve energy across the company is given below;

53,520Kwh Saved Per Annum

Effective Power Saving Solution

Continued with the initiative of installing AC timer switches to split type air conditioners in all branches, which were designed, built, tested and installed by our own technical team.

Air Conditioning System

12,492Kwh Saved Per Annum

Effective Power Saving Solution

Continued with the initiative of maintaining master key switches at all floors of the Head Office building to control wastage of electricity after working hours.

Power Management System

4,234Kwh Saved Per Annum

Effective Power Saving Solution

Continued with the initiative of installing LED lights in all our common premises such as passages, stairway and wash rooms at the head office building and branches, enabling significant saving.

Lighting System

CAPITAL MANAGEMENT REVIEW



GRI 303-1 | 303-2 | 303-3
305-1 | 305-2 | 305-3 | 305-4

NATURAL CAPITAL

The above initiatives have caused a significant reduction in energy consumption within the organisation as reflected.

Water Management

Fresh clean water is a limited resource and should be managed wisely in order to eliminate future shortages. Hence, we have taken measures to ensure effective management of this resource. Our water consumption is limited to drinking, washing

of pool vehicles and for sanitary purpose. However, considering the nature of the business we have a significant staff cadre engaged in business operations. As a result, drinking water consumption is significant. At head office and branch level we mainly withdraw pipe-borne water provided by the National Water Supply and Drainage Board and drinking water provided by third party vendors. Withdrawal of water during the year amounted to 20,258 m³.

As a result of our water withdrawal for consumption, surface water and inland ground water has been affected. Water intensity data can be indicated as follows;

Water Consumption	2017	2016
Total company volume (m ³)	20,258	24,116
Cost Rs. million	4.5	4.4
Per employee (m ³)	4.2	4.9
Per Branch (m ³)	209	225

Over the years we have taken following initiatives to ensure effective management of water;

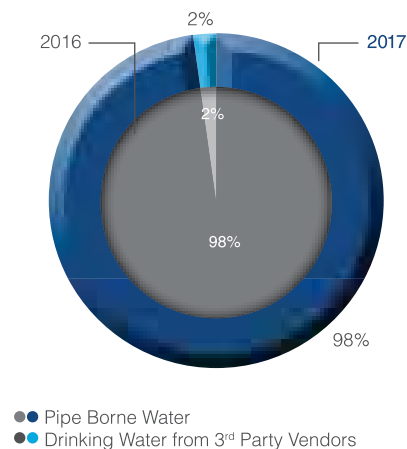
Water Cistern Improvisation
Company has implemented the initiative of water cistern improvisation by using vacuum type Syphon set. This has enabled a saving of 2,529 m³ of water.

Effective Water Solution
Continued with the initiative of reusing water discharged by the cooling system of air conditioning units. We currently use the discharged water to wash company vehicles and for other cleaning requirements. A total of approximately 132,000 litres per annum is reused through this initiative.

Management of Water Usage

Reuse of Waste Water

Water Consumption



Emission Management

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 sixth 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. This mainly includes fuel used for on - site power generation which is a negligible amount.

Scope 2 - Indirect emission associated from the generation of imported energy. This includes total electricity purchased by the company.

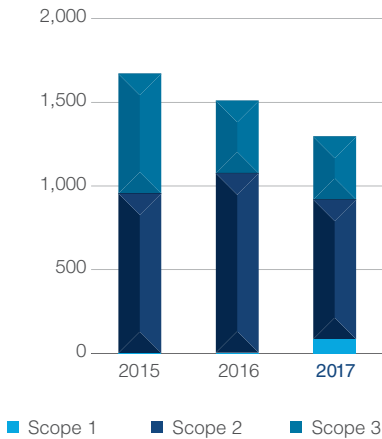
Scope 3 - All other indirect emissions that are not released from sources mentioned under scope 2. At UA this mainly includes employee commuting, waste disposal and business travel.

Scope	Emissions (tCO ₂ e) 2017	%	Emissions (tCO ₂ e) 2016	%
Scope 1 - Direct GHG emissions	85.35	6.59	3.95	0.24
Scope 2 - Energy indirect GHG emissions	833.23	64.36	1,071.47	65.24
Scope 3 - Other indirect GHG emissions	376.11	29.05	566.81	34.51
Total Carbon Footprint	1,294.69	100	1,642.22	100
Emission per employee	1.59		2.14	
Carbon footprint (tCO ₂ e) per Rs. 1 million of revenue	0.13		0.20	(0.35)



GRI 305-5 | 306-2

Our Green House Gas (GHG) emission has reduced gradually from 2015 to 2017 as indicated below;




We witnessed an overall reduction in the carbon footprint from 2015 to 2017 by 30% mainly due to number of energy and waste management initiatives we have undertaken over the years. According to current year carbon footprint calculation, total carbon footprint is 1,294.69 tCO₂e which is a 21% drop from 2016. The main contributor to the carbon emission reduction is Scope 2 category reduction in purchased electricity.

Effluent and Waste Management

We make every effort to minimise waste through recycling and reusing of materials. The effective management of waste has been considered as a material aspect based on the impact created on the environment. Given the nature of the business we don't generate any hazardous waste. However, used paper, e - waste, food and waste water has been generated through business operations. In addition to the measures highlighted in environmental management framework, we have taken 3R approach in managing waste. The information on weight of waste type is given below;

Waste Type	2017	2016
Paper (kgs)	20,280	17,602
E-waste (kgs)	1,330	171
Printer Cartridges (No.)	423	142

In our attempt to ensure the effective management of waste, as mentioned previously we have taken number of initiatives as given below in partnership with external parties.



Effective Waste Management

We continued the partnership with Neptune Papers (Private) Limited, to recycle used paper. This helped UA to make a positive contribution to the environment as presented below.

Recycle and reuse of paper

Partnership with Ewis Peripherals to recycle printer cartridges continued in 2017. The company bought back 423 toner cartridges manufactured from used cartridges (142 in 2016).

Waste Water Management

Installation and commissioning of waste water treatment tank at Kurunegala branch. This has ensured that only treated water is released to the drainage system. During the year 5,280 m³ of water was treated before releasing.

Releasing treated water to the environment

Food Waste Management

All food waste collected at Head Office is dispatched to a piggery on a daily basis. During the year 6,400 kgs was disposed.

Effective disposal of food waste

Total Savings from Waste Management Initiatives	2017	2016
---	------	------

Neptune Papers (Pvt) Ltd

Trees (No.)	345	299
Oil (Litres)	35,591	30,892
Electricity (Kwh)	81,120	70,408
Water (Litres)	644,498	559,392
Land fill (m ³)	61	53
GHG Emission saving (Carbon Equivalent) (Kg)	20,280	17,602

Think Green (Pvt) Ltd

Land filling (Kg)	1,330	171
Carbon Emission (lbs)	10,023	1,928
Trees (No.)	523	95

CAPITAL MANAGEMENT REVIEW

NATURAL CAPITAL

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. Various campaigns were launched to improve awareness on environmental compliance.

In line with a JKH group initiative all UA staff have taken a pledge to reduce plastic pollution in Sri Lanka



Outlook

We will continue to use renewable energy sources to conduct our business operations. Our paperless approach will add more value to natural capital. We will also continue to reduce our carbon footprint through various energy saving and emission management initiatives.



MANUFACTURED CAPITAL

Management Approach

The company is committed to provide better customer experience and reach, through its branch network. The Company's manufactured capital consists of physical infrastructure that is available for use in the provision of services. We target cost reduction initiatives while improving our branch outlook, customer experience and ensuring quality through better supply chain management practices.



Investment in
Manufactured Capital



Branch Network



Work from Home

CAPITAL MANAGEMENT REVIEW

MANUFACTURED CAPITAL

Key Performance Measures



2017 Objectives and Achievements



Objectives - 2018 and Beyond

Objectives	Year
Consolidate BDOs in accordance with long term business plan	2018 and beyond
Upgrade and categorise branches in accordance with long term business plan	2018 and beyond
Use energy efficient equipment and renewable energy for branches	2018 and beyond

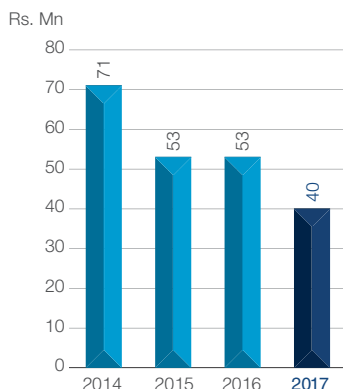
Challenges

- ▶ Cost implications of branch upgrading and relocations
- ▶ Finding strategic locations

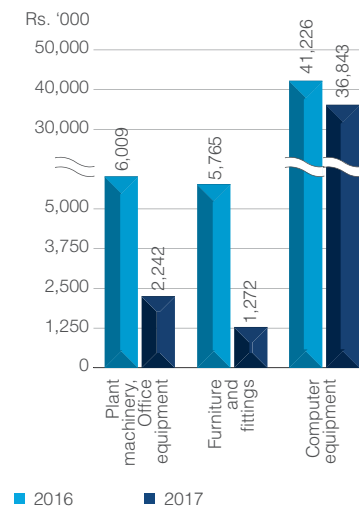
Investment in Manufactured Capital

When investing in infrastructure relating to manufactured capital, we take a long term view. ROI and qualitative factors are considered when evaluating an investment decision.

Investment in Manufactured Capital



Investment in PPE Category



Branch Network

90% of the Company's GWP is generated through the agency channel which reaches every corner of Sri Lanka through our branch network. The Company invested in expanding, repositioning and upgrading existing branches to optimise geographical reach while enhancing customer convenience.

Branch and BDO Expansions / Consolidation

2016	2017
2	1
New Branches / BDOs	
6	3
Upgrades	
6	4
Strategic Relocations	
1	7
Closed Down / Consolidated	

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

Enhancing Performance of Branches

The process of enhancing the performance of our branches is shown below. The company top line and other key targets have been cascaded down to branches. The company targets are determined based on economic outlook, industry outlook and company long term business strategy. Each branch is given a GWP, first year premium and persistency target. The Learning and Development division carries out various programmes to improve the skills of the advisor cadre to enable them to sell more. Each branch cost base is monitored against the budget and corrective action taken

for budget overruns. Branch ambience is regularly reviewed by head office and zonal managers. Branch layouts and appearance are changed 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.

Work from Home for Permanent Staff

As part of our commitment towards maintaining work-life balance philosophy which reflects a 'Great Place to Work,' UA has initiated the "Work from Home" facility for permanent cadre staff effective, 5th December 2017. This provides an alternative option for efficient utilisation of office space.



Interaction Between Capitals



Outlook

As a part of our business expansion strategies, we will upgrade our branch network to provide superior customer experience and create an exciting working environment to our sales force.



CORPORATE GOVERNANCE

“ For over 30 years we have maintained a flawless reputation for trustworthiness, governance and integrity in all we do. Corporate Governance is the corner stone of our operations which protects the long term interests of our partners. ”

106	Board of Directors
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CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Susantha Ratnayake

Chairman / Non-Executive Director

(Member of the Board Since January 2018)

Board Committees: Chairman, Remuneration Committee

Skills and Experience: Member of the John Keells Holdings PLC Board since 1992 / 1993 and has 39 years of management experience, all of which is within the John Keells Group. He is a past Chairman of the Sri Lanka Tea Board, Ceylon Chamber of Commerce, and the Employers' Federation of Ceylon.

Other Current Appointments:

Listed Companies: He is the Chairman and CEO of John Keells Holdings PLC and Chairman of many listed companies in the John Keells Group.

Others: He is the Chairman of many unlisted companies in the John Keells Group.

Gerald De Saram

Independent Non-Executive Director

(Member of the Board Since April 2009)

Board Committees: Member, Remuneration Committee

Skills and Experience: He was 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 as 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. Gerald holds a BSc. Honours degree from the University of London and 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

Others: He has been the Managing Director of Alpha Omega Holdings Private Limited since May 2017.

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: Ashan de Zoysa counts more than 30 years of experience in the field of Information & Communication Technology including several years of overseas exposure, in the fields of IT and derivative / commodity trading in Australia. Ashan holds a Bachelor of Commerce Degree from the University of New South Wales. He has 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. He is a managing director of A. E. C. Properties Private Ltd.

Suresh Rajendra

Non-Executive Director

(Member of the Board since August 2011)

Board Committees: Member, Audit and Compliance Committee

Skills and Experience: Suresh has over 25 years of experience in the fields of finance, property and real estate, 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 and Services in Sydney, Australia, Director / General Manager of Aitken Spence Hotel Managements (Private) Limited, and also served on the Boards of the hotel companies of the Aitken Spence Group. Suresh is a Fellow member of the Chartered Institute of Management Accountants, UK.

Other Current Appointments:

Listed Companies: He is a member of the Group Executive Committee and the President of property group of John Keells Holdings PLC, also serves as a Director of Asian Hotels and Properties PLC.

Others: He is a 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 26 years and is a law graduate and a holder of a Master's Degree in Law. She is also a member of the Group Executive Committee of John Keells Holdings PLC, President with overall responsibility for Human Resources, Legal and Secretarial, Corporate Communications, Sustainability and Enterprise Risk Management, and Group Initiatives functions of the Group.

Other Current Appointments:

Listed Companies: Member of the Group Executive Committee of John Keells Holdings PLC, the President with overall responsibility for Human Resources, Legal and Secretarial, Corporate Communications, Sustainability and Enterprise Risk Management, and Group Initiatives functions of the Group.

Others: Dilani is a Director of several unlisted companies within the John Keells Group. Currently, she is the Chairperson of the Legislation Sub Committee of the Ceylon Chamber of Commerce, member of the National Labour Advisory Committee, and a Council member of the Sri Lanka Institute of Directors.

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: Harin De Silva Wijeyeratne is an Associate member of the Institute of Chartered Accountants of Sri Lanka and Fellow member of the Chartered Institute of Management Accountants of UK. He counts over 28 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

Others: Chief Executive Officer of the Sri Lanka Institute of Nanotechnology (Pvt) Limited (SLINTEC). In addition, he is currently, a Board Member of the Gamini Corea Trust, the SLINTEC Academy and a Trustee of the SLINTEC Endowment Trust Fund.

Dirk Pereira Executive Director / Chief Executive Officer

(Member of the Board since May 2014)

Skills and Experience: Dirk Pereira has functioned as CEO of Union Assurance PLC since 2010. He is a Fellow member of the Chartered Institute of Management Accountants, UK and the Institute of Chartered Accountants of Sri Lanka. He also holds an MBA from the University of Sri Jayewardenepura.

Other Current Appointments

Listed Companies: None

Others: Serves on the Board of Fairfirst Insurance Limited as a Non-Executive Director.

Note: Mr. Ajit D Gunewardene resigned from the Board w.e.f. 31 December 2017.

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 14 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 a Fellow 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 and left the company in 2005 to pursue higher studies. She subsequently rejoined the company in 2008 in a senior capacity where she rapidly rose to the position of General Manager, Life Operations.

Iroshini is a Chartered Insurer and is an Associate of the Chartered Insurance Institute, UK. She also holds a BA (Hons) Degree in Business Management.

Dharshana Amarasiynghe

General Manager, Marketing and Distribution

Dharshana joined Union Assurance in September 2005. He counts for more than 20 years of management experience in sales, marketing and human resources in the fields of insurance, pharmaceuticals and consumer products in Sri Lanka and overseas.

He is a Chartered Marketer, CIM (UK) and also holds a Post Graduate Diploma in Marketing, CIM (UK). 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. He has been with the John Keells Group for 5 years serving in the capacity of Vice President - Human Resources, Retail Sector. Suresh has more than 16 years experience in HR Management and Operations, having worked at leadership positions at Dialog Axiata PLC, Carsons Cumberbatch and Lion Brewery PLC.

Suresh 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. He currently serves as Chairperson of the HR Sub Committee of the Insurance Association of Sri Lanka.

Nimesha Liyanage

General Manager, Actuarial

Nimesha joined Union Assurance in September 2016. She also served the company previously in a senior management position from 2008 to 2013.

Nimesha left the company in 2013 to join AIA Insurance PLC as a Senior Manager, Actuarial. She was responsible for the 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 post of the Treasurer in 2015 - 2016.

Harsha Senanayake

General Manager, Information Technology

Harsha joined Union Assurance in October 2016. He has been with the John Keells Group for more than 14 years where he gained experience in IT and management. During his tenure at JKH he was instrumental in the implementation SAP and also promoting it as an ERP solution to many leading organisations in Sri Lanka. Harsha also plays a key role in the Groups digitization initiatives and in driving technology innovation to all areas of business.

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.

THE CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE REPORT

Dear Valued Stakeholders,

On behalf of the Board of Union Assurance PLC (UA), I am pleased to present our Corporate Governance Statement for the financial year ended 31st December 2017. At UA, we believe good corporate governance is key to maintaining the trust that our investors and customers have placed in us. We believe good corporate governance is a cornerstone of a successful and sustainable Company. 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

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 authority and responsibility within the organisation.

Governance Structure and Leadership

The Company operates within a clearly defined governance structure enabling the Board to provide strategic guidance and risk oversight whilst adhering to regulatory requirements. The structure also provides for delegation of authority while retaining effective control. The Board delegates authority to the relevant Board sub committees and the Executive committee with clearly defined mandates and authority levels whilst maintaining its accountability.

We are mindful that it is important for the Board to be composed of personnel that are best placed to provide guidance on UA's strategic direction with a diverse range of skills and experiences which collectively are both complementary and directly relevant to the Company strategy. Therefore, an appraisal of the Board's performance is conducted annually.

We also work closely with all relevant regulators to ensure that our internal governance standards meet their increasing expectations.

Accountability and Risk

The Board periodically discusses the risk management process and the principal risks facing the Company. The Board Audit and Compliance Committee has played an important role in monitoring the Company risk and assurance systems, including in relation to strategically important projects such as the implementation of a new core IT platform. The BACC reviews the reporting framework for controls being used by the Company.

Engagement with Stakeholders

The process of stakeholder identification and engagement is well established to identify challenges and concerns and systematically address them while balancing multiple interests. This process also forms a key input in the Company's strategy formulation to ensure responsible and sustainable growth.

Future Direction

The Board's priorities for 2018 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.

Statement of 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.



Susantha Ratnayake
Chairman

29 March 2018

CORPORATE GOVERNANCE

Corporate Governance Commentary

Key Actions Taken in 2017 to Enhance UA's Corporate Governance



Cyber Security

UA established a Cyber security policy in line with the JKH Group and is in the process of implementing IBM's managed Security Operations Centre (SOC) and security intelligence platform to further strengthen cyber resilience.

Conducted an end to end review of Investment Functions

The overall objective of the review was to determine whether the investment policy, procedures and controls were adequate to meet current requirements, effective in mitigating investment risks and compliant with all regulatory guidelines. The review was conducted by Messrs. PricewaterhouseCoopers.

Strengthening internal controls by applying Forestpin, a forensic data analytics tool

The Forestpin Data Analytics tool was implemented to identify outliers and exceptions with regard to vendor payments and claims and trigger alerts for management to take relevant actions.

Business continuity and disaster recovery testing

Two business continuity and disaster recovery tests were carried out for all critical business processes.

Highlights of the 30th Annual General Meeting Held on 31 March 2017



1. Mr. Anthony Dirk Pereira who retired in terms of Article 84 of the Articles of Association of the Company was re - elected Director of the Company.
2. Mrs. Dilani Champika Alagaratnam 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 176.

Refer table below for the mandatory and voluntary adoption of codes of governance and compliance by the Company.

Summary of Requirements	Adoption	Reference
Code of best practice on Corporate Governances as per section 7.10 of the listing rules of the CSE	Mandatory	Page 152
Code of best practice on Related Party Transactions (RPT) published by the SEC	Mandatory	Pages 126 and 254
Content of the Annual Report as per section 168 of the Companies Act No. 7 of 2007	Mandatory	Page 155
Content of the Annual Report as per section 7.6 of the listing rules of the CSE	Mandatory	Page 151
Code of best practice on corporate governance issued jointly by the SEC and the ICASL. (The revised version issued on 13 December 2017 will be adopted w.e.f. 1 January 2018)	Voluntary	Page 138
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



GRI 102-18

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 instil 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. The Board 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 controls (including risk controls, compliance, and internal audit) is organised.

Summary of the elements of the internal governance structure and assurance are highlighted in the Company's' 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.

Our Integrated Governance Framework



CORPORATE GOVERNANCE

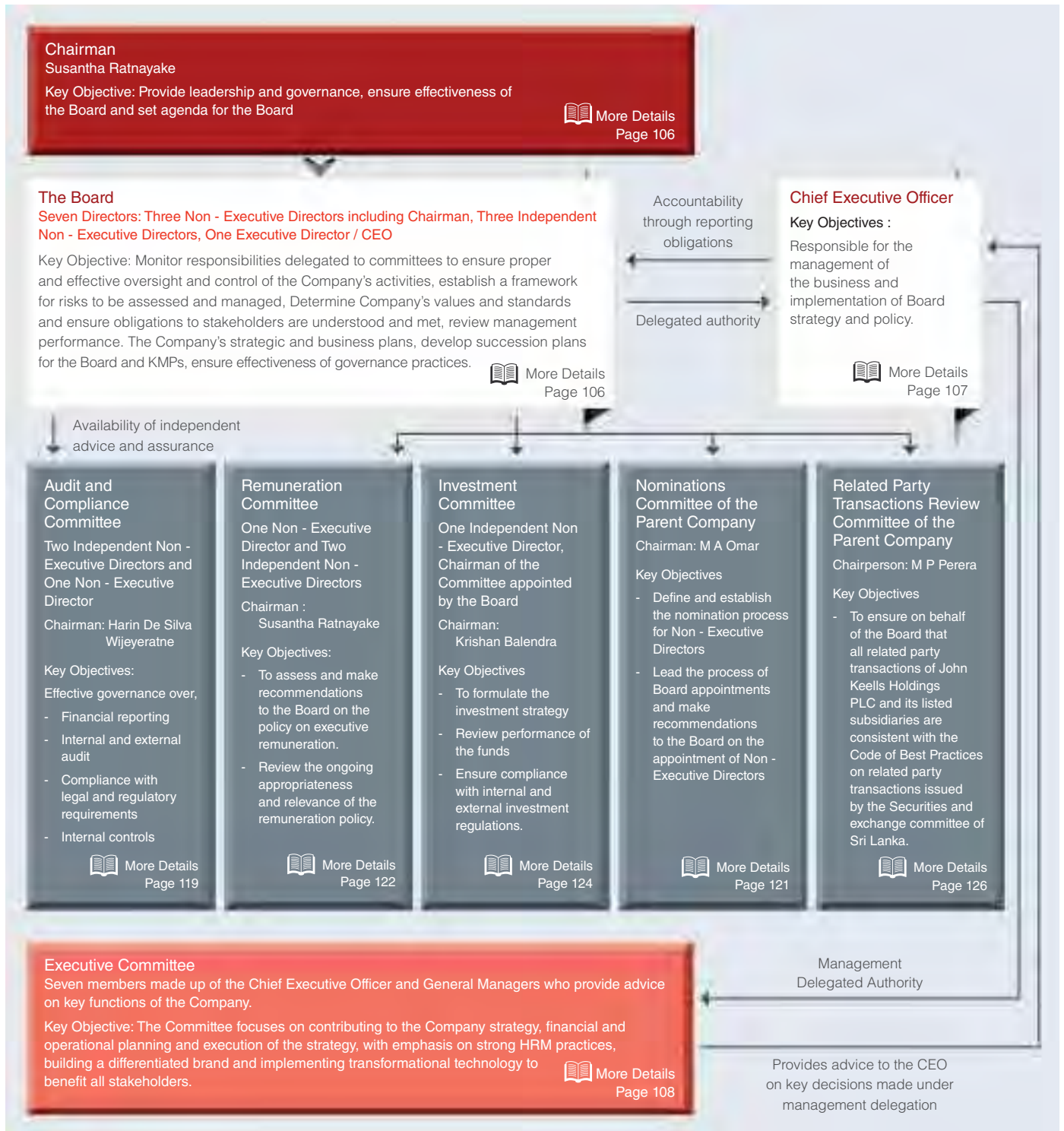


GRI 102-18

Internal Governance Structure

(A) Effective Culture of Good Governance

Stewardship



The performance and execution mechanism of the governance framework is depicted below;



the share capital requirements set by the Insurance Regulatory Commission of Sri Lanka (IRCSL) for a Life insurance company.

1. The Board

1.1 UA 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

The Board consist 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 business and the Non - Executive Independent Directors bringing in experience, objectivity and independent oversight. Brief profiles of the current Board members are given in page 106 and 107 of this report.

The Current Board Composition



Independent Non - Executive



Period of Service to the Board



Our 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 130 of this report. The Company's management structure is depicted in the Executive Committee's span of control on page 108.

Shareholding Structure

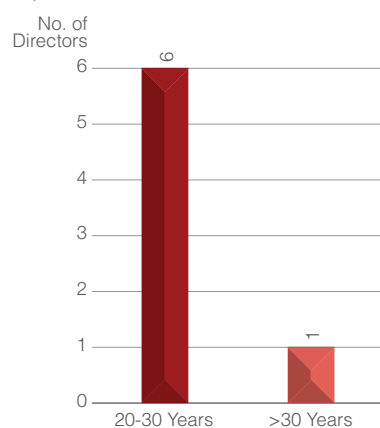
The John Keells Group continued to be the largest shareholder, with a 93.9% stake (93.9% in 2016).

Capital Structure

As at 31 December 2017, the Company's stated capital of Rs. 1,000 million meets

CORPORATE GOVERNANCE

Experience



Gender Diversity

1:6

1.3 The Chairman

The Chairman is responsible for leadership and governance of the Board while ensuring its effectiveness. 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

The Board's key responsibilities include:

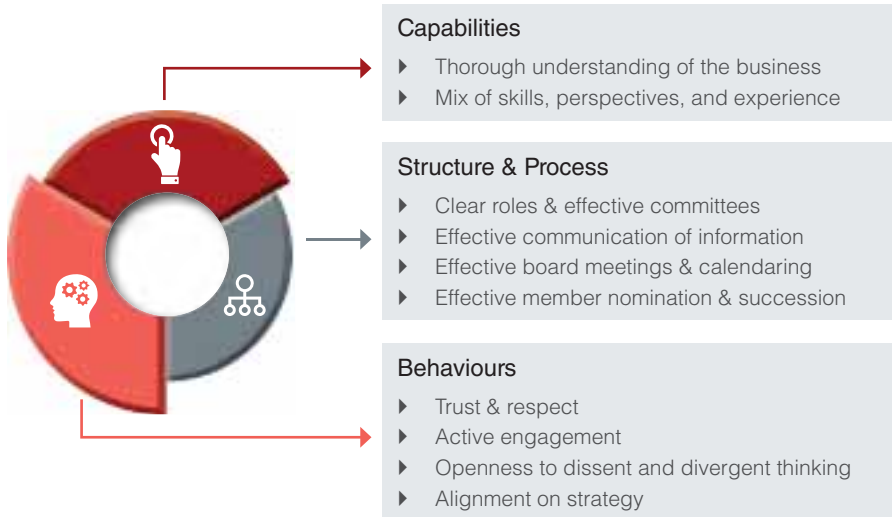
- ▶ Providing direction and guidance to the Company in the formulation of medium and long term strategies which are aimed at promoting sustainable long-term success of the Company.
- ▶ Reviewing and approving Company's annual plan and business strategies and tracking performance against same.
- ▶ Appointing the CEO and reviewing the performance of the CEO, 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 119 to 126.

1.6 Board Skills and Experience

Collectively, the Board brings in a wealth of diverse exposure in the fields of management, business, finance, economics, legal, banking, marketing, and human resources, which facilitates constructive and challenging discussions in the Board room. All directors of UA possess the necessary skills and knowledge complemented with a high sense of integrity and independent judgement. Following diagram illustrates the key skills, experience & personal attributes of the directors of UA.



Further details of their qualifications and experience are provided under the Board profiles section of this 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 121.

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

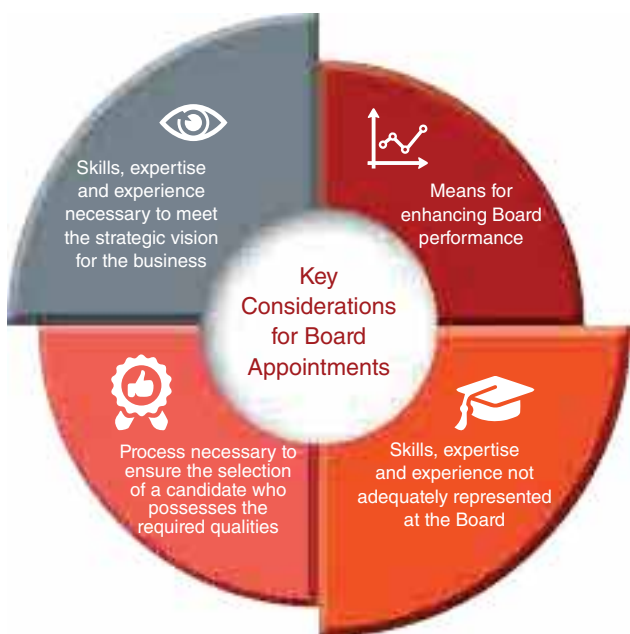
responsibilities and business associations to the Nominations Committee, which will examine the facts and circumstances and make recommendations to the Board.

1.8 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. Further, the Board ensures that no related party benefits from favourable treatment. All related party transactions as defined in Sri Lanka Accounting Standard LKAS - 24 Related Party Transactions, are disclosed in Note 43 to the Financial Statements.

To avoid potential conflicts or bias, Directors adhere to a process where review takes place as follows;

Key Considerations for Board Appointments



Prior to Appointment	Once Appointed	During Board Meetings
Nominees are requested to make known their various interests	Directors obtain Board clearance prior to: <ul style="list-style-type: none"> ▶ 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	Directors who have an interest in a matter under discussion: <ul style="list-style-type: none"> ▶ Excuse themselves from deliberation on the subject matter ▶ Abstain from voting on the subject matter (abstentions from decisions are duly minuted)

CORPORATE GOVERNANCE

Compliance of Independent Non - Executive Directors in terms of their interest in business is as follows;

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 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 Board of Directors on page 106 and 107 of this report.

1.9 Re-Election

In accordance with the Articles of Association of the Company, one third of the total number of 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.

1.10 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.

1.11 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

1.12 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, performance against targets, risk management, investment proposals, new system implementation, life fund valuation, reinsurance arrangement for 2017 and embedded value assignment, and other relevant information as necessary. The Directors continue to have independent contact with the senior management of the Company.

1.13 Board Evaluation

Board evaluation to assess the effectiveness of the Board is done each year and the 2016 evaluation was done in January 2017 using a questionnaire covering the operations of the Board and each of its principal committees. The Board evaluation for the year 2017 was conducted and the findings were tabled and discussed at the board meeting held on 30 November 2017.

1.14 Board Meetings

Board meetings are usually held once every two months, unless the business exigencies demand the convening of additional meetings. During the year, there were 6 meetings of the Board. 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. There is, formal schedule of matters reserved for the Board's consideration, which is regularly reviewed. Preparation of the Agenda for Board meetings has been delegated to the Company Secretaries and it is reviewed and approved by the Chairman, where necessary, in consultation with the CEO and members of the Board.

The general time allocation of the Board during 2017 was as illustrated below.

Board Activities During 2017



1.15 2017 Board Topics




The Board met six times during 2017. 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.
- ▶ System migration project progress update
- ▶ GOYO strategy review
- ▶ Long term business plan progress review
- ▶ Review minutes and reports from the Board Sub Committees.
- ▶ Review of brand value, positioning and competitor analysis.
- ▶ 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.
- ▶ Review and approval of variable bonus scheme for staff.

The following were also addressed by the Board during 2017 in line with the Company objectives.

Area of Focus	Action by the Board
 Strategy	<ul style="list-style-type: none"> ▶ The 2018 - 2022 five year strategy review was conducted in October 2017.
 Finance	<ul style="list-style-type: none"> ▶ 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 including performance of the Life Insurance Fund, detailed analysis of the expenses, the key performance indicators and key value drivers against the plan and previous year, regulatory compliance report, Capital Adequacy Ratio and approved assets status, financial review of the associate entity and performance of investments. ▶ All financial reports released to the market which included the interim financial statements and the annual report were reviewed. ▶ Financial budget 2018 was reviewed and approved in October 2017.

CORPORATE GOVERNANCE

Area of Focus	Action by the Board
 Operational Performance	<ul style="list-style-type: none"> 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. 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 usages and waste generated.
 HR	<ul style="list-style-type: none"> Regular review of HR matrices, review of succession plans and diversity and inclusion practices across the Company. Review progress on the action items to be implemented stemming from the Great Place to Work (GPTW) survey conducted in 2017.
 Risk & Governance	<ul style="list-style-type: none"> Review of quarterly company risk grid. Review of the minutes of Board sub committee meetings. Presentation and approval for services rendered by Strategic Group IT (JKH) division to UA and related costs.

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 meeting of the Board in 2017 and attendance is given below.

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. Recommendations of these Committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings.

The extent of the adherence by these committees to the Code of Best Practice on Corporate Governance issued jointly by the ICASL and the SEC of Sri Lanka is given on pages 138 to 151.

The Board Sub committees are as follows;

1. Board Audit and Compliance Committee
2. Board Nominations Committee
3. Remuneration Committee
4. Investment Committee, and
5. Related Party Transaction Review Committee

Board Sub Committees comprised predominantly of Independent Non - Executive Directors. The Board Sub Committee reports together with their composition is as follows;

Name of Director	Date Of Appointment to The Board	30.01.2017	27.03.2017	30.05.2017	28.07.2017	18.10.2017	30.11.2017	Eligible to Attend	Attended
Non-Executive									
Susantha Ratnayake	01.01.2018	-	-	-	-	-	-	0	0
Ajit D. Gunewardene (Resigned w.e.f. 31.12.2017)	24.02.2004	●	●	●	●	●	●	6	6
Suresh Rajendra	16.08.2011	●	●	●	●	●	●	6	6
Dilani Alagaratnam	16.08.2011	●	●	●	●	●	●	6	6
Independent NED									
Ashan De Zoysa	01.04.2009	●	●	●	●	●	●	6	5
Harin A. J. De Silva Wijeyeratne	07.09.2011	●	●	●	●	●	●	6	6
Gerald De Saram	01.04.2009	●	●	●	●	●	●	6	4
Executive									
Dirk Pereira	28.05.2014	●	●	●	●	●	●	6	6

● Attended ● Not Attended

REPORT OF THE BOARD AUDIT AND COMPLIANCE COMMITTEE

Composition

The Board Audit and Compliance Committee (Committee) comprised of the following members as at the end of the year.

- ▶ Harin De Silva Wijeyeratne – Committee Chairman / Independent Non-Executive Director
- ▶ Ashan De Zoysa - Independent Non-Executive Director
- ▶ Suresh 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 pages 106 and 107 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 of John Keells Holdings PLC, External Auditors and Internal Auditors participate as invitees at the Committee meetings.

Terms of Reference

The Committee operates pursuant to an audit committee charter which is formally approved by the Board. The role of the Committee 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 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 Committee 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 judgements 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 five meetings during the year under review which were attended by the external auditors and internal auditors as required. These meetings were attended by the CEO, CFO and General Managers responsible for underwriting, marketing and distribution, actuarial and IT by invitation.

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 including the implementation of the new policy administration system which will enhance the efficiency of the operations.

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 prepared for disclosure, and the significant financial reporting judgements contained therein. In reviewing the financial statements prior to their release, the Committee focuses particularly on:

- (i) major judgmental areas
- (ii) any changes in accounting policies and practices
- (iii) significant adjustments arising from the audit
- (iv) the going concern assumption, and
- (v) the compliance with relevant accounting standards and other legal requirements

The Committee also assesses the Company's compliance with financial reporting requirements as per the Companies Act, Insurance Industry Act and other relevant financial reporting related regulations and requirements.

Internal Audit

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 Committee monitored and reviewed the scope, extent and

CORPORATE GOVERNANCE

REPORT OF THE BOARD AUDIT AND COMPLIANCE COMMITTEE

effectiveness of the activity of the Internal Auditors. This included reviewing of updates on audit activities and achievements against the audit plan and advising corporate management to take corrective 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 40 internal audit reports covering the operations of 36 branch locations and several head office functions including underwriting, claims, reinsurance, finance, investments and information technology. During the year, the Committee reviewed the findings of the special end to end process review of the investment division and ensured that most of the recommendations have been implemented in 2017 with a few being carried forward to 2018.

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 reviewed and monitored 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 Committee met the internal auditors without the presence of the management during the year.

External Auditors

Messrs. KPMG was re - appointed as the external auditors at the Annual General Meeting held on 31 March 2017.

The Committee reviewed the external audit plan, audit findings as well as the management letters and any issues raised were followed up. The Committee met the

external auditors without the presence of the management during the year.

Independence and Objectivity of the External Auditors

The Committee has policies in place aimed at safeguarding and supporting the independence and objectivity of the external auditors. The Committee 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 in a manner 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 both the internal auditors and the external auditors closely scrutinizes the compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such requirements.

Changes in Contractual Liability – Transfer of one off surplus

Based on the directions issued by the IRCSL dated 20 March 2018 and subsequent approval, the Company has transferred Rs. 3,382 million attributable to non - participating business from life policyholder fund to life shareholder fund (SHF) through Income Statement and is held as part of the Restricted Regulatory Reserve under Equity in the statement of Financial Position. The distribution of this one - off surplus is subject to meeting governance requirements stipulated by the IRCSL and can only be

released upon receiving approval from the IRCSL. For further details, please refer Note 38.

Corporate Governance

IT Risk and Control Assessment

The Committee 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 Committee 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 Committee received written representations from the independent external actuary, summarising the observations and comments with regard to the work performed.

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 the importance of upholding ethical values by all staff members. In this regard, a Code of Ethics and Whistle-Blowers Charter is in place and all members of staff are encouraged 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 whistle blowers.

Evaluation of the Committee

The Committee conducts a self-evaluation exercise once a year with input by each member of the Committee and in addition by the external and internal auditors, CEO, CFO and the Secretary of the Committee. The results were presented to the Board and it was determined that the Committee was effective.

Re - Appointment of the External Auditors

The Committee has recommended to the Board that Messrs. KPMG be re-appointed as auditors for the financial year ending 31 December 2018, subject to approval by the shareholders at the next Annual General Meeting. The Committee recommends the

fees payable to the statutory auditors for approval by the Board.

Conclusion

The Committee is satisfied that internal controls have been operating as designed and the Company's assets have been adequately safeguarded during the period under review. The Committee 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 Wijeyeratne

Chairman

Board Audit and Compliance Committee

29 March 2018

The calendar of meetings of the Committee in 2017 and attendance is given below.

Name	Year of Appointment to the Committee	27.01.2017	24.03.2017	09.05.2017	09.08.2017	09.11.2017	Eligible to Attend	Attended
Chairman								
Harin A J De Silva Wijeyeratne	26.09.2011	●	●	●	●	●	5	5
Independent NED								
Ashan De Zoysa	01.04.2009	●	●	●	●	●	5	5
NED								
Suresh Rajendra	26.09.2011	●	●	●	●	●	5	4

● Attended

● Not Attended

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

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 (Dr.), Non-Executive Director of JKH

Terms of Reference

Define and establish nomination process for Non-Executive Directors (NEDs), lead the process of Board appointments and make recommendations to the Board on the appointment of Non-Executive Directors

- (i) Assess skills required on the Board given the needs of the business
- (ii) From time to time assess the extent to which required skills are represented on the Board
- (iii) Prepare a clear description of the role and capabilities required for a particular appointment
- (iv) Identify and recommend suitable candidates for appointment to the Board.

- (v) Ensure, on appointment to Board, NEDs receive a formal letter of appointment specifying clearly

- ▶ Expectation in terms of time commitment
- ▶ Involvement outside of formal board meetings
- ▶ Participation in committees

The appointment of Chairperson and Executive Directors is a collective decision of the Board.

Recommendation was made to appoint Mr. S. C. Ratnayake to the Board of Union Assurance PLC as the Chairman with effect from 1 January 2018.

CORPORATE GOVERNANCE

REPORT OF THE BOARD REMUNERATION COMMITTEE

Composition

The Board Remuneration Committee comprised of the following members.

- ▶ S C Ratnayake - Chairman of the Committee / Non - Executive Director (Appointed to the Committee w.e.f. 1 February 2018)
- ▶ A D Gunewardene - Chairman of the Committee / Non - Executive Director (Resigned w.e.f. 31 December 2017)
- ▶ G F C De Saram - Independent Non - Executive Director
- ▶ H A J De S Wijeyeratne - Independent Non - Executive Director

The Chief Executive Officer (CEO) and the EVP / CFO - Financial Services Industry Group, John Keells Holdings PLC, Mr. Suran Wijesinghe attends the meetings of the Committee by invitation. Other Executive Committee members are 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

The responsibilities of the 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
- ▶ Developing 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.
- ▶ 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.

Meetings

The 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;

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 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 21. 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

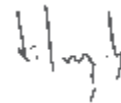
The Company does not have a share options scheme for Directors.

Directors' Shareholding

The shareholdings of Directors are provided on page 63.

Personal Loans to Directors

None of the Directors have taken loans from the Company



Susantha Ratnayake

Chairman

Board Remuneration Committee

29 March 2018

The calendar of meetings of the Committee in 2017 and attendance is given below.

Name	Year of Appointment to the Committee	27.03.2017	Eligible to Attend	Attended
Chairman				
Susantha Ratnayake	01.02.2018	-	0	0
Ajit D. Gunewardene (Resigned w.e.f. 31.12.2017)	25.03.2008	●	1	1
Independent Non-Executive Director				
Harin A. J. De Silva Wijeyeratne	26.09.2011	●	1	1
Gerald De Saram	26.05.2009	●	1	0

● Attended ● Not Attended

CORPORATE GOVERNANCE

REPORT OF THE INVESTMENT COMMITTEE

Composition

The Investment Committee comprised of the following members as at the end of the year.

Krishan Balendra – Chairman

A S De Zoysa – Independent Non-Executive Director

The Head of Investments acts as the Secretary to the Committee.

Group Finance Director, John Keells Holdings PLC, Mr. Gihan Cooray and EVP / CFO Financial Services Industry Group, John Keells Holdings PLC, Mr. Suran Wijesinghe attended meetings of the Committee by invitation. The CEO, GM Finance and Planning (CFO) and GM Actuarial participated 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 the Deputy Chairman of John Keells Holdings PLC and the 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 his profile can be found on page 106.

The Committee solicits the services of economists and other experts in related fields to aid in the decision-making process.

Terms of Reference

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. Within this framework, the Committee performs the following duties.

- ▶ Advice on the formulation of the 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 Committee 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 Committee's policies and procedures remain flexible, in order to best react to changing conditions and to ensure that the management of the Funds are performed to the highest standards possible and in accordance with all internal and external regulations. During the year, the Committee reviewed and updated the investment policies and procedures to reflect changes to applicable regulatory requirements and market conditions.

Meetings

The Committee met ten 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 at 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 the 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 Regulatory Commission of Sri Lanka (IRCSL), 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 IPS. 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 were obtained for necessary realignment 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 IRCSL regulations related to solvency and approved assets.
- ▶ The Committee also ensured that the agreed investment strategies and asset allocations for the year were implemented.
- ▶ The Committee monitors the performance of the unit linked equity fund monthly and the outsourced party meets with the Committee each quarter for a detailed review.

The core principles of asset management that were adopted:

1. An effective and efficient governance structure
- ▶ UA's investment function is governed by the Investment Committee which comprises of Board members, specialists in the field of fund management and members of the senior management team.

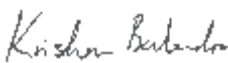
- ▶ Solicit external expertise to advice on the economic climate and any other specialised areas.
 - ▶ Review investment performance on a monthly basis, appraise investment proposals submitted by the management and set investment strategy.
2. Develop an investment strategy and implement policies and procedures to execute the strategy at the operational level.
 - ▶ Document Investment Policies for each of the Funds.
 3. UA has an in-house investment division 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 to manage its investment portfolio. The Committee is provided with 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 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 and follows the guidelines set by the Parent Company's related party transactions review committee.

4. Establish internal control mechanisms specifically with respect to investment activities.
 - ▶ Processes streamlined to ensure the integrity of the investment activities. A back office and front office segregation is in place and 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
Chairman
Investment Committee

29 March 2018

The calendar of meetings of the Investment Committee in 2017 and attendance is given below.

Name	Year of Appointment to the Committee	19.01.2017	20.02.2017	31.03.2017	27.04.2017	24.05.2017	23.06.2017	21.09.2017	24.10.2017	23.11.2017	14.12.2017	Eligible to Attend	Attended
Chairman													
Krishan Balendra	23.04.2009	●	●	●	●	●	●	●	●	●	●	10	10
Independent NED													
Ashan De Zoysa	30.03.2010	●	●	●	●	●	●	●	●	●	●	10	9

● Attended ● Not Attended

CORPORATE GOVERNANCE

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

On the basis that the Parent company is also a listed company, the securities and Exchange Commission of Sri Lanka (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 of the following members as at the end of the year.

- ▶ 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

Head of Group Business Process Review Mr. Hisham Nazeem served as the Secretary to

the Committee during the year. In addition, the former Group Finance Director of John Keells Holdings PLC, Mr. Ronnie Peiris (resigned w.e.f. 31 December 2017) and the Group Finance Director Mr. Gihan Cooray attended meetings by invitation.

Objective

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 (RPTs) as issued by the SEC ("The Code") and with the Listing Rules of the Colombo Stock Exchange (CSE). The Committee has also adopted best practices as recommended by the ICASL and the 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 Committee in 2017 and attendance is given below.

Name	Year of Appointment to the Committee	25/01/2017	25/05/2017	26/07/2017	01/11/2017	Eligible to Attend	Attended
Non-Executive Directors (JKH)							
P Perera	24.07.2014	●	●	●	●	4	4
N Fonseka	01.04.2014	●	●	●	●	4	4
A Cabraal	01.04.2014	●	●	●	●	4	4
Executive Director (JKH)							
S Ratnayake	01.04.2014	●	●	●	●	4	4

● Attended ● Not Attended

REPORT OF THE INFORMATION TECHNOLOGY COMMITTEE

Composition

The Committee comprised of the following members as at the end of the year

- ▶ A 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 107 to 108 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

Meetings

The committee meets as and when required in addition to monthly meetings to review the progress of ongoing initiatives.

Significant Progress Made During the Year

- ▶ Commenced the implementation of the new policy administration system, eBao and distribution management system, Herald Logic. Both projects on track to go-live mid 2018.
- ▶ Launched a Chat Bot for policy inquiries and submission of claims documents. Key objective of launching a project

of this calibre was to craft and embed the services provided by an insurance assistant in to a popular chat platform provided by Facebook - Messenger App.

- ▶ Successfully tested and implemented “e-consultant insurance”, leveraging technology to enable under employed segments of society to promote life insurance solutions via social networks and other digital channels.
- ▶ Revamped the recruitment process using ‘blue link’ technology, improving the effectiveness and efficiency of the recruitment process.

Further in our commitment to ensure data integrity and data security of the Data Centre Management System, the ISO 27001:2005 accreditation was maintained.

Conclusion

The Committee confirms that the Company has made satisfactory progress in relation to the implementation of the strategic plans of 2017.



A D Pereira
Chairman
Information Technology Committee

29 March 2018

CORPORATE GOVERNANCE

4. Directors' 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 Board Remuneration Committee (RC) 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 RC 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 ICASL and the SEC 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 below.

Pages 138 to 151 of this report discloses the extent to which the Company has complied with the Code of Best Practice and rules on Corporate Governance.

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.

DIRECTORS' STATEMENT ON INTERNAL CONTROLS

The following statement fulfils the requirement to publish the Directors' statement on Internal Controls as per the Code of Corporate Governance issued jointly by the ICASL and the SEC 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 119 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 40 audit reports 4 of which covered several Head Office processes while 36 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.
- ▶ During the year under review the BACC reviewed the findings of the end to end process review of investment functions. Most of the recommendation made by the internal auditors have been implemented during the year with a few carried forward to be implemented in 2018.
- ▶ 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
 - ▶ In addition to the year - end system review, the external auditors performed a follow up on all critical IT applications / systems reviewed during the previous year.
- ▶ The Company continued to implement the bottom up enterprise risk management (ERM) process. This is an on going process 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 risks is updated on a risk grid and reported to the BACC on a quarterly basis. The quarterly updates also include new risks, mitigating actions and changes of risk

status of earlier identified risks. 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 on going basis
- ▶ BACC continued to monitor the progress of the bottom up compliance sign off process which strengthened the control environment and provide comfort to 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

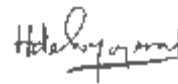
in accordance with applicable accounting standards, requirements of the Company's Act No.7 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments and the listing rules of the Colombo Stock Exchange.



Susantha Ratnayake
Chairman



A S De Zoysa
Director



H A J De Silva Wijeyeratne
Chairman
Board Audit and Compliance Committee

29 March 2018

CORPORATE GOVERNANCE

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 (EGM): When regulation requires, the Company calls for Extraordinary General Meetings 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 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 30.

7. The CEO and Executive Committee (ExCo) Composition

Committee members as at 31 December 2017 comprises of D Pereira – Director / Chief Executive Officer as Chairman and the Executive Committee as provided on page 108 of this report.

Role and Structure

Led by Dirk Pereira, the ExCo drives the Company strategy and operationalises the Company policies. The ExCo forms the

senior management of the Company and is responsible for the day to day operational management of the business.

The ExCo met 10 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
- ▶ Long term business plan and status of its progress
- ▶ Short briefings by individual General Managers on the state of the respective business areas, update on key initiatives and industry developments
- ▶ Substantial business developments, projects, risks and opportunities
- ▶ Talent and related matters
- ▶ Presentations from various functional heads
- ▶ Competitor analysis and strategy

This year, the committee, together with the Chief Executive, conducted a five year strategy review with high level strategic direction from the Chairman and inputs from industry experts. As a result, a five year strategy themed 'Mission One' was formulated and launched in December 2017. 2018 objectives of 'Mission One' is discussed under each capital in the Management Discussion and Analysis session of this report.



CEO and the Executive Committee span of control

(B) Integrity of Operations

Audit and Assurance

1. Three Levels of Assurance

The Company has a three - level assurance structure to ensure integrity of its operations.

- ▶ Process control at corporate management level
- ▶ Internal assurance - internal auditors
- ▶ External assurance - external auditors

1.1 Process Control at Corporate Management Level

The corporate management with the guidance of the BACC periodically reviews the adequacy of 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
- ▶ Resource management
- ▶ IT governance
- ▶ Fraud and risk assessment

Decision Making Process

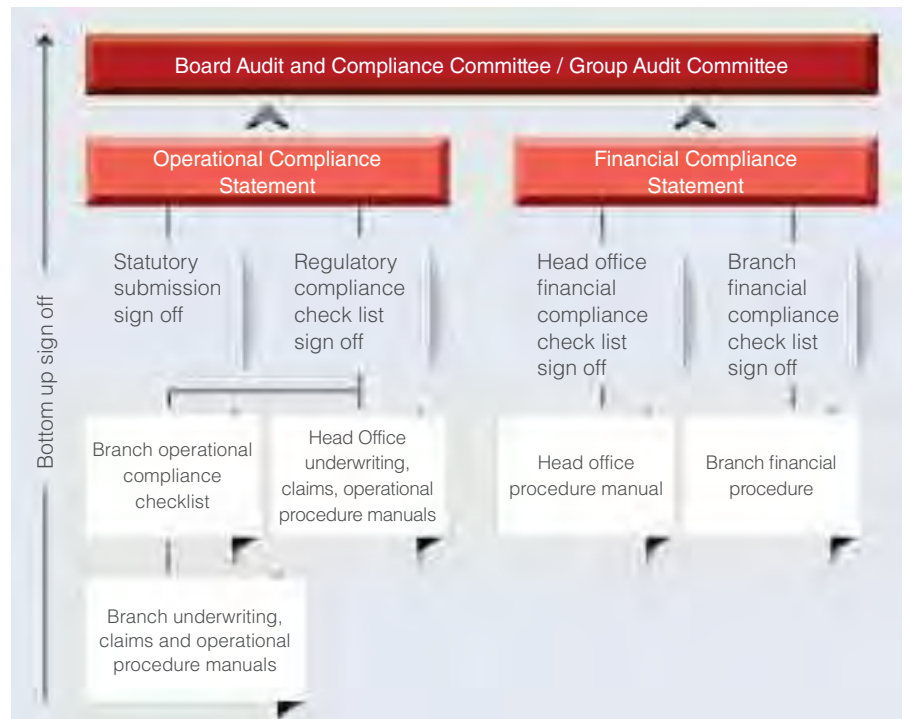
The deliberations and decision making of the ExCo broadly takes the following process:



Compliance Assurance

To conduct business in accordance with prevalent laws and regulations in the country, UA has established a monitoring process to assess compliance with laws, regulations, regulatory guidelines, internal controls and approved policies

on all areas of business operations. This mechanism is adopted 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

CORPORATE GOVERNANCE

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 in the previous page summarises the process adopted by the Company;

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 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 evaluation
- ▶ Employee surveys
- ▶ Monthly staff meetings
- ▶ Focus group discussions
- ▶ Coffee with CEO
- ▶ Continuously reiterating the 'Open Door' policy
- ▶ Ladies forum

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"> ▶ CEO (Chair) ▶ GM - Finance and Planning ▶ GM - HR ▶ GM - Life Operations ▶ GM of the division for which the item is required (without voting rights)
 IT Steering Committee	Review and rationalise IT related capital and revenue expenditure in order to: <ul style="list-style-type: none"> ▶ Improve overall productivity, efficiency and effectiveness across distribution and service functions ▶ Improve quality of management information ▶ Provide secured and uninterrupted IT facilities ▶ Ensure IT resource readiness for future advancements, while optimising the usage of existing IT resources 	<ul style="list-style-type: none"> ▶ CEO (Chair) ▶ GM - Information Technology ▶ GM - Finance and Planning ▶ GM - Life Operations

Resource Management Committee	Objectives and Functions	Composition
 Supplies Committee	<ul style="list-style-type: none"> ▶ Transparent supplier registration ▶ Optimise purchases and ensure quality, reliability and value for money 	<ul style="list-style-type: none"> ▶ GM - Finance and Planning (Chair) ▶ GM - Marketing and Distribution ▶ GM - HR ▶ AGM - Logistics
 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 any organisational requirements outside this cycle	<ul style="list-style-type: none"> ▶ GM - HR (Chair) ▶ All other GMs

IT Governance

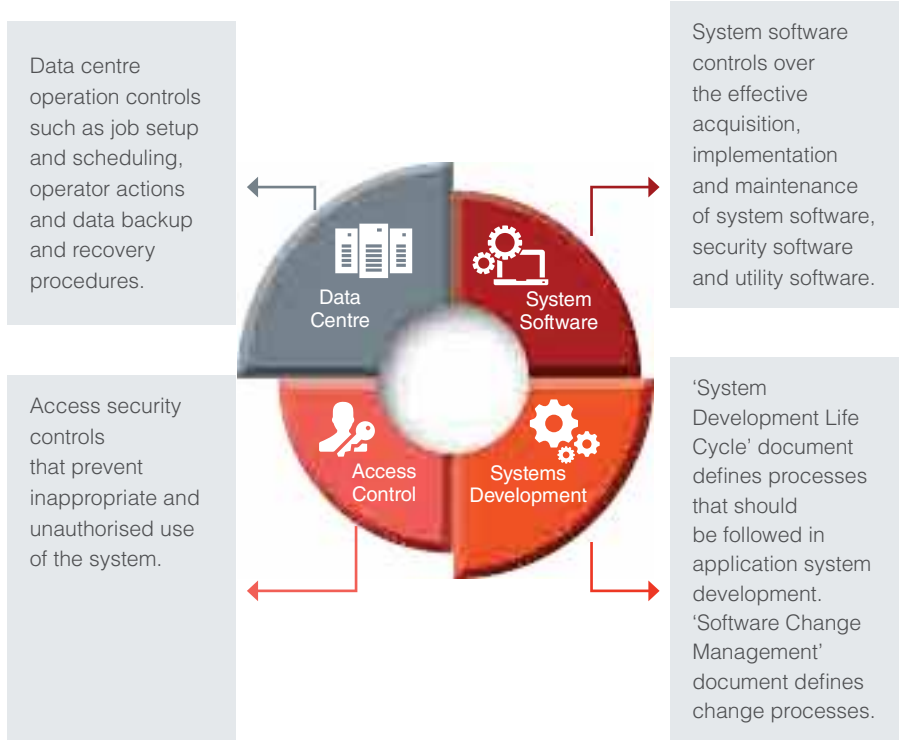
IT Governance plays a critical role in assuring integrity, confidentiality and continuity of information management within the Company. The core areas of IT governance at UA are as follows;

	Alignment with 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 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.

CORPORATE GOVERNANCE

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.



“ The Company adopts a zero - tolerance policy in cases of fraud and misappropriation. ”

1.2 Assurance by the Internal Auditors

The internal audit function of the Company has been outsourced to PricewaterhouseCoopers. 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 BACC and the Board. These are also reported to the Group Finance Director and reviewed by the Group Audit Committee.

During the year, 40 reports covering several Head Office processes and 36 branch locations were issues by the internal auditors.

Fraud Risk Assessment

The Company has set up a committee to manage customer complaints channelled through the Customer Feedback System (CFS). These include premium misappropriation complaints, wrong selling, etc. 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 resolution status of each is reported to the BACC each quarter.

The susceptibility of business processes to misappropriation and fraud is reviewed as part of the internal audit program. 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.



Internal Assurance Framework

Assurance by the External Auditors

KPMG, the Company's external auditors 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. UA, the Board of Directors and Management do not have any relationship with KPMG, apart from latter's engagement as the Independent External Auditor of the Company.

2. Other Internal Governance Practices

Governance of Ethics

The Board while assuming ultimate responsibility for the Company's ethical performance, 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 programme and employee induction handbook
- ▶ Performance evaluation programme
- ▶ Supplier code of conduct

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 (SLFRSs / LKASs) issued by the ICASL and the requirements of the CSE and other applicable authorities. Information contained in the financial statements of this 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.

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 the formal online sign-off 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

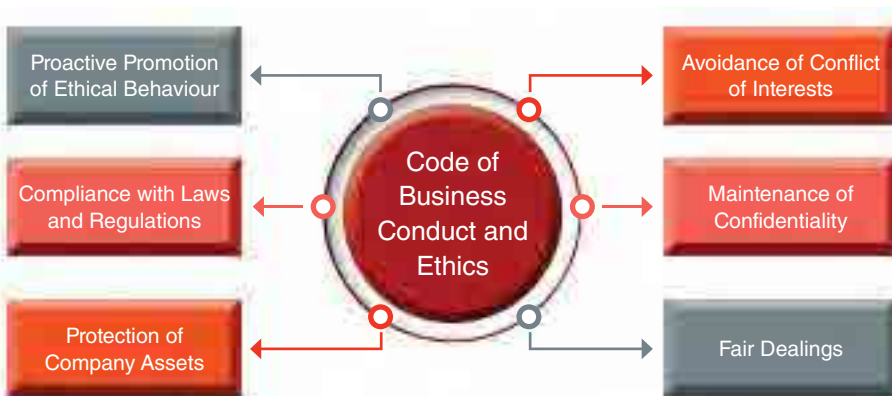
(C) Sustainable Business Model Enterprise Risk Management

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.



Code of Business Conduct and Ethics

CORPORATE GOVERNANCE

The risk grids prepared by the departments are summarised at a corporate level and reviewed by the senior management and the BACC. The review is done and presented to the BACC on a quarterly basis. A detailed report on risk management is provided on pages 156 to 165.

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 BCP 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.
- ▶ Thirteen core business processes and five 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 2017 are provided in the Stakeholder Relationships and Materiality sections on pages 30 to 35.

External Governance Structure

(E) Compliance With Regulatory Requirements

Regulatory Framework

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 Regulatory Commission of Sri Lanka (IRC SL)

In accordance with the determinations issued by the IRC SL, the Company provides Compliance Certificate (A) and (B) to IRC SL 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 (RII) Act No.43 of 2000, rules, regulations, determinations, directions issued by IRC SL; Complied with all orders made by the Ministry of Finance and Planning under the RII Act, No. 43 of 2000,
- ▶ Complied with terms and conditions pertaining to reinsurance placements issued by IRC SL in terms of section 31(1) of the RII Act, No. 43 of 2000,
- ▶ Complied with conditions pertaining to co - insurance issued by IRC SL and
- ▶ Complied with all applicable circulars issued by IRC SL.

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 IRC SL.

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.

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 CAR as of 31 December 2017 is 352%. The minimum regulatory requirement is 120%.

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 175.

Reinsurance Arrangements

The IRC SL 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 75, 100% of our reinsurance placements are with reinsurance companies that have been assigned at the minimum, an 'A+' rating by an international rating agency

Capital Structure

As at 31 December 2017 the Company's stated capital of Rs. 1,000 million, exceeds the minimum share capital requirement set by the IRC SL for a life insurance company of Rs. 500 million.

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 deviations 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 and 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 below;

Compliance Requirement 2017	No of Submissions
Inland Revenue	61
IRCSL Directives and RII Act	38
National Insurance Trust Fund	4
Employees' Provident Fund	12
Employees' Trust Fund	12
Colombo Stock Exchange	7
SLAAS Monitoring Board	1
Central Bank of Sri Lanka	12
Municipal Council	4
Total Compliance 2017	151
Total Non Compliance 2017	Nil

Codes of Best Practice on Corporate Governance and Compliance by the Company

The extent of Company's adherence with the Code of Best Practices on Corporate Governance (the Code) issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) is given in the pages that follow.

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



CORPORATE GOVERNANCE

1. Codes of Best Practice on Corporate Governance issued jointly by the ICASL and the SEC of Sri Lanka and Compliance by the Company

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
Section 1 – The Company			
A. Directors			
A.1 Effective Board To Direct And Control The Company			
A.1.1	Need for the Board to meet regularly	Complied	During 2017 the Board met 6 times. For more details of Board meetings, please refer page 118.
A.1.2	Responsibilities of the Board	Complied	For details of responsibilities and duties of the Board, please refer page 114.
	Ensure formulation and implementation of a sound business strategy	Complied	The 5 year strategy and business plan 2018 - 2022 was debated, reviewed and approved in October 2017. Please refer pages 24 to 26 for a summary of the Company strategy.
	Ensure CEO and the management team possess the necessary skills, experience and knowledge for effective implementation of the strategy.	Complied	Adequacy of the skills of the management team to meet changing needs of the business is continuously monitored by the Board through the performance evaluation process For details of profiles of CEO and Executive Committee, please refer pages 107 and 108.
	Adopt effective CEO and senior management succession strategy	Complied	The Company's structured succession planning process is part of the annual performance appraisal cycle and uses a grid for critical positions which marks the readiness of the second in command to take over within 1 year, 2 years and >3 years. Training plans for skills gap are designed based on this grid. Identified skills gap were addressed by providing the required people management, technical and / or soft skills training and development. The succession plan was updated twice during the year. Five manager and above positions were filled internally during the year.
	Ensure effective systems to secure integrity of information, internal controls, business continuity and risk management	Complied	The Board has delegated this responsibility to the Board Audit and Compliance Committee (BACC). Each year the BACC reviews the adequacy of the systems to secure integrity of information, internal controls and risk management. Activities performed by the BACC during the year are disclosed in their report on pages 119 to 121.
Compliance with laws, regulations and ethical standards	Complied	Details of compliance with applicable laws and regulations in 2017 are provided on page 110. More details of processes in place to ensure compliance are provided in pages 138 to 155. Details of the Code of Conduct are provided on page 135.	

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
	Ensure that all stakeholder interests are considered in corporate decisions	Complied	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. The Company aligned itself with the GRI Standards and the process helped in streamlining this further.
	Recognise sustainable business development in corporate strategy, decisions and activities	Complied	The Board recognises the importance of sustainable business development in the corporate strategy, decisions and activities of the Company. The Board has debated and reviewed the 5 year business plan in terms of economic viability, environmental responsibility and social accountability.
	Ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations	Complied	The Company continues to keep up to date with all developments in relation to changes in accounting standards and have reviewed the accounting policies in place during the year under review. For more details on Financial Reporting, Regulatory and accounting benchmarks, please refer page 135.
	Fulfilling other Board functions as are vital, given the scale, nature and complexity of the organisation.	Complied	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. 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.
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	During the year, professional advice was sought on various matters including the following <ul style="list-style-type: none"> ▶ Actuarial valuation of the life liabilities and retirement benefit obligations ▶ Legal, tax and accounting aspects ▶ Economic and Investment advice ▶ 5 year business plan Procedures to obtain independent professional advice is detailed in page 116.
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	All Directors have the opportunity to obtain advice and services of the Company Secretaries, Keells Consultants (Private) Limited which is responsible for ensuring follow up of Board procedures, compliance with relevant rules and regulations, directions and statutes, keeping and maintaining Minutes and relevant records of the Company.
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	Composition of the Board and Compliance of Independence of Non - Executive Directors are given in page 116. None of the Non - Executive Directors have held Executive roles during the year

CORPORATE GOVERNANCE

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
A.1.6	Obligation of the Directors to dedicate adequate time and effort to matters of the Board and the Company	Complied	All meetings are scheduled in advance and relevant papers circulated prior to the meeting to ensure sufficient time to review them and call for additional information or clarifications, if required. Details of the Board meetings and attendance of Directors are given in page 118.
A.1.7	Need for every Director to receive appropriate training when first appointed to the Board and subsequently as necessary	Complied	For detail of Board induction and training, please refer page 116. The Directors are constantly updated on the latest trends and issues facing the Company and the local and global insurance industry in general. During the year, the Board obtained advice from external foreign consultants on 5 year business plan and execution, new product development, actuarial practices, bancassurance channel strategy, implementation of data analytics and digital initiatives.
A.2 Division of Responsibilities Between Chairman and CEO			
A.2.1	Justification and disclosure of the decision to combine the posts of Chairman and CEO in one person	Complied	The posts of Chairman and the CEO are held separately by Mr. Susantha Ratnayake and Mr. Dirk Pereira respectively thereby, ensuring the balance of power and authority. Mr. Ajit D Gunawardene was the Chairman until 31 December 2017.
A.3 Chairman's Role			
A.3.1	Responsibility of the Chairman to conduct Board proceedings in a proper manner	Complied	Role of Chairman, please refer page 114.
A.4 Financial Acumen			
A.4	Availability of financial acumen and knowledge to offer guidance on matters of finance.	Complied	The following Directors provide the Board with the necessary degree of financial acumen and knowledge: <ul style="list-style-type: none"> ▶ Mr. H. A. J. De Silva Wijeyeratne ▶ Mr. S. Rajendra ▶ Mr. A. D. Pereira In addition, all members of the Board have extensive experience in various aspects of financial management. Their profiles are provided on pages 106 and 107 of this report.
A.5 Board Balance			
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	Refer page 113 for the composition of the Board and pages 106 and 107 for their profiles.
A.5.2	Need for two or one third of Non - Executive Directors appointed to the Board, whichever is higher, to be 'independent'	Complied	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 2017.

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
A.5.3	Need for Independent Directors to be independent of management and free of any business or other relationship	Complied	Managing Conflicts of Interests and summary of the Non - Executive / Independent Directors' interests is given on pages 115 and 116 of this report.
A.5.4	Need for Non-Executive Directors to submit an annual declaration of his / her independence or non independence	Complied	Annual self declaration of independence or non - independence have been submitted by each Non Executive Director for 2017.
A.5.5	Determination of the independence and Non-Independence of each Non-Executive Directors annually	Complied	The Board has reviewed the declarations submitted by the Non - Executive Directors, and determined their independence. The following Directors qualify to be Independent Directors: Mr. A. S. De Zoysa Mr. G. F. C. De Saram Mr. H. A. J. De Silva Wijeyeratne
A.5.6	Need for alternate directors appointed by an Independent Director to meet the criteria of independence	Complied	No alternate Directors were appointed during the year 2017.
A.5.7	Need to appoint a "Senior Independent Director" if the Chairman and CEO is the same person	Complied	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. Hence, no 'Senior Independent Director' was appointed during the year 2017.
A.5.8	The Senior independent Director should make himself available for confidential discussion with other Directors who may have concerns	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	When deemed necessary, Chairman holds meetings without the Executive Director / CEO being present.
A.5.10	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved.	Complied	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.
A.6 Supply of Information			
A.6.1	Management should provide timely information to the Board and the Chairman should ensure all Directors are properly briefed on issues arising at Board meetings.	Complied	Timely supply of information, please refer pages 116 and 117.
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	Timely supply of information, please refer pages 116 and 117.

CORPORATE GOVERNANCE

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
A.7 Appointments 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>Details and composition of the Nominations Committee are provided on page 121 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>During the year, recommendation was made to appoint Mr. S. C. Ratnayake to the Board of Union Assurance PLC as Non - Executive Director and the Chairman with effect from 1 January 2018.</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>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	Disclosure of information to shareholders upon appointment of new Directors	Complied	There were no new appointments during the year 2017.
A.8 Re-Election			
A.8.1	Need for the Non - Executive Directors to be appointed subject to re-election and the provisions in the Companies Act relating to their removal	Complied	<p>Re - election, please refer page 116.</p> <p>Mr. A D Pereira and Mrs. D C Alagaratnam were re-elected to the Board at the last Annual General Meeting.</p> <p>Mr. H A J De Silva Wijeyeratne and Mr. Suresh Rajendra retire in terms of article 84 of the Articles of Association of the Company and are eligible for re - election at the next AGM.</p> <p>Mr. S C Ratnayake retire in terms of article 90 of the Articles of Association of the Company and is eligible for re - election at the next AGM.</p>
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, including 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>With the resignation of Mr. Ajit D Gunewardene w.e.f. 31 December 2017, Mr. S C Ratnayake was appointed as a Non - Executive Director and the Chairman w.e.f 1 January 2018. Mr. S C Ratnayake retire in terms of Article 90 of the Articles of Association of the Company and is eligible for re - election at the next AGM.</p>

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
A.9 Appraisal of Board Performance			
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities	Complied	Board evaluations, please refer page 117.
A.9.2	Need for the Board to undertake an annual self-evaluation of its own performance and that of its Committees.		
A.9.3	Need for the Board to disclose in the Annual Report how performance evaluations have been conducted		
A.10 Disclosure of Information in Respect of Directors			
A.10.1	<p>Annual Report to disclose specified information regarding Directors</p> <ol style="list-style-type: none"> Name, qualification and a brief profile Nature of his / her expertise in relevant function Immediate family and / or material business relationships with other Directors of the Company Whether Executive, Non-Executive and / or Independent Director Names of listed companies in Sri Lanka in which the Director concerned serves as a Director Names of other companies or companies in a Group in Sri Lanka in which the Director concerned serves as a Director Board meetings attended The total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an executive or non-executive capacity Board committees served as Chairman / member Committee meetings attended 	Complied	<p>Information in relation to each Director required by the Code of Best Practice on Corporate Governance is disclosed in the Annual Report as follows;.</p> <ol style="list-style-type: none"> Pages 106 and 107 Pages 106 and 107 Note 43 to the Financial Statements Pages 106 and 107 Pages 106 and 107 Pages 106 and 107 Page 118 Pages 106 and 107 Pages 106 and 107 Refer respective committee reports on pages 119 to 126.

CORPORATE GOVERNANCE

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
A.11 Appraisal of the Chief Executive Officer (CEO)			
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>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>Summarised objectives / action plans set by the Board for 2017:</p> <ul style="list-style-type: none"> ▶ Achievement of GWP, profitability and embedded value of the Company ▶ Maintaining a cost effective distribution model ▶ Transform sales force via L&D intervention and revamp rewards and recognition schemes ▶ New / improved products to match needs of the market ▶ Service related aspects including improvement of policy retention ▶ Technology to increase efficiency, reliability and faster decision making ▶ Brand rating improvement initiatives ▶ Sustainability aspects and CSR initiatives ▶ Audit and control environment aspects
A.11.2	Need for the Board to evaluate the performance of the CEO at the end of each fiscal year	Complied	As per the annual performance appraisal cycle, CEO's performance for 2017 will be reviewed in March 2018.
B. Directors' Remuneration			
B.1 Remuneration Procedure			
B.1.1	Appointment of a Remuneration Committee (RC)	Complied	Refer RC Report on pages 122 and 123.
B.1.2	Need for the RC to consist exclusively of Non-Executive Directors	Complied	Refer RC Report on pages 122 and 123.
B.1.3	Requirement to list the Chairman and members of the RC in the Annual Report	Complied	Refer RC Report on pages 122 and 123.
B.1.4	The Board should determine the remuneration of Non-Executive Directors, including members of the RC	Complied	<p>No changes were made to the Remuneration of the Non - Executive Directors in 2017.</p> <p>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 RC to consult the Chairman and / or CEO on proposals relating to the remuneration of other Executive Directors	Complied	<p>Remuneration of Executive Directors is determined by the Board RC.</p> <p>During the year, as done each year, the Committee reviewed the information provided by UA's team of HR professionals to determine market and industry trends with regard to remuneration and perquisites.</p>

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
B.2 The Level and Make Up of Remuneration			
B.2.1	Need for the RC to provide competitive packages needed to attract, retain and motivate Executive Directors of the quality required	Complied	<p>Board is aware that the remuneration of Executive and Non - Executive Directors should reflect the market expectations and be sufficient enough to attract and retain the quality of personnel needed to run the Company.</p> <p>During the year, the Board approved payment to the Executive Director of the Company, Mr. A. D. Pereira, remuneration as recommended by the Board Remuneration Committee in keeping with the Company's remuneration policy comprising of a fixed element and a variable element in the form of short term incentive which is based inter alia, on the individual performance and the organisation performance.</p>
B.2.2	Need for the RC to judge where to position levels of remuneration of the Company, relative to other companies	Complied	<p>Refer RC report on pages 122 and 123 for the remuneration policy principles and methodology used in setting remuneration structure.</p> <p>No changes were made to the remuneration of the Non - Executive Directors during the year.</p>
B.2.3	Need for the RC to be sensitive to remuneration and employment conditions elsewhere in the Company	Complied	<p>The RC reviews the annual increments provided to companies within the John Keells Group, when deciding on increments for UA staff.</p>
B.2.4	Performance - related elements of remuneration of Executive Directors should be designed to align their interests with 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. It is believed that these measures best align the interests of the Company and main stakeholders.</p> <p>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) of John Keells Holdings PLC.</p> <p>Further details are provided in Note 36 of the financial statements.</p>
B.2.6	Need for the RC 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"> ▶ 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. ▶ In terms of long term incentive schemes, the senior management is entitled to participate in the share options scheme (ESOP) of John Keells Holdings PLC. ▶ The consequences of pension and associated costs are considered when determining salary increases. ▶ Performance related remuneration schemes are not applied retrospectively. ▶ Annual bonuses are not pensionable. ▶ Non - Executive Directors are not eligible for performance based remuneration schemes. <p>UA continued to adopt the same schemes during the year under review.</p>

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Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
B.2.7 & B.2.8	Compensation commitments in the event of early termination.	Complied	There are no terminal compensation commitments other than gratuity in the company's contracts of service. No changes were made to the policy during the year.
B.2.9	Need for the levels of remuneration for Non-Executive Directors to reflect the time commitment and responsibilities of their role	Complied	Non - Executive Directors are paid only a fee that reflects the time commitment and responsibilities of their role Non - Executive Directors are remunerated in line with market practices.
B.3 Disclosure of Remuneration			
B.3.1	Requirement to disclose the Remuneration Policy and details of remuneration of the Board in the Annual Report	Complied	<ul style="list-style-type: none"> ▶ Refer page 128 for details on Directors' remuneration. ▶ Details of the RC are provided on pages 122 and 123. ▶ The information in Note 21 to the financial statements provides the remuneration paid to Executive and Non - Executive Directors. ▶ The Board RC ensured that the CEOs / Executive Directors' remuneration is set objectively.
C. Relations with Shareholders			
C.1 Constructive Use of the Annual General Meeting (AGM) and Conduct of General Meetings			
C.1.1	Need to count all proxy votes lodged	Complied	All proxy votes and the votes at the AGM were considered for all resolutions passed at the 30 th AGM held on 31 March 2017.
C.1.2	Need to propose separate resolutions for each substantially separate issue and adoption of annual report and accounts	Complied	The following separate resolutions were passed at the 30 th AGM held on 31 March 2017 <ul style="list-style-type: none"> ▶ Receive and consider the Annual Report and financial statements of the Company for the year ended 31 December 2016 with the report of auditors. ▶ Re - election of Mr. Dirk Pereira and Mrs. Dilani Alagaratnam to the Board, who retired in terms of Article 84 of the Articles of Association of the Company. ▶ Re - appointment of the retiring auditors KPMG, Chartered Accountants, and authorise Directors to determine their remuneration.
C.1.3	Need for necessary arrangement by the Chairman of the Board that all Chairmen of Sub-committees be available at the AGM.	Complied	The Chairmen of the Board sub committees were present at the AGM held on 31 March 2017
C.1.4	Need for Circulation of Notice of AGM and related documents to shareholders	Complied	Notice of the AGM and related documents were circulated to the shareholders 15 working days prior to the AGM held in 2017
C.1.5	Need to circulate a summary of procedures governing voting at General Meetings with the Notice of Meeting	Complied	Please refer page 284 for the notice of meeting and pages 285 and 286 for the proxy form for the 31 st AGM to be held on the 9 May 2018.

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
C.2 Communication with Shareholder			
C.2.1	Need to have a channel to reach all shareholders to disseminate timely information.	Complied	<p>UA used the following channels to disseminate timely information during the year;</p> <ul style="list-style-type: none"> ▶ Shareholders meetings ▶ Financial and other notices as and when required through the Colombo Stock Exchange ▶ Corporate website ▶ Press notices
C.2.2	Need to disclose policy and methodology for communication with shareholders	Complied	Please refer 'Relations with Shareholders' provided on page 130 for details of the policy and methodology adopted for communication.
C.2.3	Need to disclose Implementation of the communication policy and methodology.	Complied	Please refer 'Relations with Shareholders' provided on page 130 for details of how the policy and methodology adopted are being implemented.
C.2.4 & C.2.6	Need to identify and disclose a Contact person in relation to shareholder matters.	Complied	<p>The Company has appointed the Company Secretaries as the person to be contacted on shareholder matters or in his / her absence, the Director / CEO.</p> <p>The Company Secretaries 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"> ▶ Director / CEO, at Union Assurance PLC, Union Assurance Centre, 20, St. Michael's Road, Colombo 3, Sri Lanka or on 011 - 2990701. ▶ The Chairman of the Company on 011 - 2306111. ▶ Investor relations Hotline on 011 - 2990314 or email to investorrelations@ualink.lk ▶ UA also provides a host of investor information through its website www.unionassurance.lk.
C.2.5	Need for a process to make Directors aware of major issues and concerns of shareholders	Complied	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 C.2.7 below.
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>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 Secretaries. 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>

CORPORATE GOVERNANCE

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation																
C.3 Major and Material Transactions																			
C.3.1	Need to disclose Major transactions.	Complied	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																
D. Accountability and Audit																			
D.1 Financial Reporting																			
D.1.1	Responsibility of the Board for statutory and regulatory reporting	Complied	<p>The following disclosures as required by the Code are included in this Report:</p> <ul style="list-style-type: none"> ▶ Financial reporting - page 128 ▶ Financial calendar - page 168 ▶ Regulatory reports were filed by the due dates. Summary of compliances - page 137. ▶ Price sensitive information was also disclosed to the Colombo Stock Exchange on a timely basis. ▶ A summary of the interim accounts - page 274 																
D.1.2	Requirement to include declarations by Directors in the Directors' Report	Complied	The Annual Report of the Board of Directors on the Affairs of the Company disclosed on pages 169 to 173 contains the declarations as required by the Code.																
D.1.3	Responsibilities of the Board for the preparation and presentation of Financial Statements and statement by the Auditors about their reporting responsibilities	Complied	<ul style="list-style-type: none"> ▶ The statement of Directors' responsibility for the preparation and presentation of financial statements is provided on page 176. ▶ Directors' Statement on Internal Control over Financial Reporting is provided on Pages 128 and 129. ▶ Independent Auditors' Report is provided on page 177. 																
D.1.4	Need to Include a Management Discussion & Analysis in the Annual Report	Complied	<p>The Management Discussion and Analysis is provided in pages 39 to 103 and covers the information specified in the Code as given below;</p> <table border="1"> <thead> <tr> <th>Information Required</th> <th>Page</th> </tr> </thead> <tbody> <tr> <td>Industry structure and developments</td> <td>43 to 47</td> </tr> <tr> <td>Opportunities and threats, risks and concerns</td> <td>48 and 49</td> </tr> <tr> <td>Internal control systems and their adequacy</td> <td>156 to 165</td> </tr> <tr> <td>Social and environmental protection activities carried out by the Company</td> <td>65 to 76 and 95 to 100</td> </tr> <tr> <td>Financial performance</td> <td>51 to 64</td> </tr> <tr> <td>Material developments in human resources / industrial relations</td> <td>77 to 88</td> </tr> <tr> <td>Prospects for the future</td> <td>20</td> </tr> </tbody> </table>	Information Required	Page	Industry structure and developments	43 to 47	Opportunities and threats, risks and concerns	48 and 49	Internal control systems and their adequacy	156 to 165	Social and environmental protection activities carried out by the Company	65 to 76 and 95 to 100	Financial performance	51 to 64	Material developments in human resources / industrial relations	77 to 88	Prospects for the future	20
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D.1.5	Need to include a declaration by the Board on the going concern of the Business	Complied	This information is provided in the Annual Report of the Board of Directors on the affairs of the Company on page 173.																
D.1.6	Requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss of capital	Complied	This situation has not arisen during the year 2017 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.																
D.1.7	Requirement to disclosure Related Party Transactions in the Annual Report.	Complied	<ul style="list-style-type: none"> ▶ Refer Financial Statements on Pages 254 to 257 for details on related party transactions during 2017. ▶ Refer page 126 for details on the Related Party Transactions Review Committee. 																

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
D.2 Internal Control			
D.2.1	Need to Maintain a sound system of internal control to safeguard shareholders' investments and the company assets	Complied	Refer Board Audit and Compliance Committee Report on pages 119 to 121. Directors Report on Internal Controls on pages 128 and 129.
D.2.2	Need for an internal audit function	Complied	PricewaterhouseCoopers – a leading firm of Chartered Accountants who was appointed as the internal auditors in September 2010 continued to be internal auditors in 2017. For more details refer Board Audit and Compliance Committee Report on pages 119 to 121.
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. <ul style="list-style-type: none"> ▶ Internal auditors may also carry out any additional tasks they deem necessary to effectively discharge their duties. ▶ The BACC reviewed the internal controls and procedures at the meetings held during 2017. Refer pages 119 to 121 for the BACC report for 2017. ▶ The minutes of the BACC meetings were tabled at the meetings of the Board of Directors. ▶ Please refer pages 128 and 129 for 'Directors Statement on Internal Controls' for further details.
D.3 Audit Committee			
D.3.1	Need for the Audit Committee to be comprised 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 Refer page 119 for the composition of the Audit Committee.
D.3.2	Review of External Audit function and relationship with External Auditors	Complied	Please refer pages 119 to 121 of the BACC report.
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. Please refer Board Audit and Compliance Committee Report from pages 119 to 121 for further details.

CORPORATE GOVERNANCE

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
D.4 Code of Business Conduct and Ethics			
D.4.1	Need to make a disclosure on the presence of a Code of Business Conduct & Ethics	Complied	<ul style="list-style-type: none"> ▶ A summary of the Company's 'Code of Conduct' is provided on page 135 of this report. ▶ There have been no violations of the Code of Ethics during 2017 by any of the Directors or any member of the Executive Committee.
D.4.2	Affirmation by the Chairman that there is no violation of the Code of Business Conduct & Ethics	Complied	Please refer Chairman's report on corporate governance on page 109.
D.5 Corporate Governance Disclosure			
D.5.1	Need for inclusion of a Corporate Governance Report in the Annual Report	Complied	Corporate Governance Report from Pages 106 to 155 sets out the manner in and the extent to which the Company has complied with the Code.
Section 2 – Shareholders			
E. Institutional Investors			
E.1 Shareholders Voting			
E.1.1	Need to conduct Regular and structured dialogue with Shareholders	Complied	All Shareholders are encouraged to participate at AGM and cast their votes. Investor relations hotline / email is open for any Investor to reach out to the CEO / Director if required. 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 Evaluating The Governance Disclosure			
E.2	Need to Encourage institutional investors to give due weight to relevant governance arrangements	Complied	<p>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.</p> <p>This report sets out the Company's governance arrangements.</p>
F. Other Investors			
F.1 Investing / Divesting Decisions			
F.1	Encourage individual shareholders to seek independent advice in investing or divesting decisions	Complied	<p>The Annual Report together with the interim financial statements published each quarter, provide sufficient information to enable retail investors / any potential investors to carryout their own analysis and make informed judgements regarding the performance of the Company.</p> <p>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;</p> <ul style="list-style-type: none"> ▶ Chairman's Message, refer pages 14 and 15. ▶ CEO's Review, refer pages 16 to 20. ▶ Management Discussion and Analysis, refer pages 38 to 103. ▶ Audited Financial statements, refer pages 169 to 258.

Reference	Corporate Governance Rule	Status	UA Compliance and Implementation
F.2 Shareholder Voting			
F.2	Encourage individual shareholders to participate in General Meetings and exercise voting rights	Complied	To achieve this purpose, the notices of meetings are dispatched to all shareholders within the prescribed time periods. Proxy forms are sent with the Annual Report to shareholders who are unable to be physically present at the AGM to cast their vote
G. Sustainability Reporting			
G.1 Principles of Sustainability Reporting			
G.1.1	Reporting of Economic sustainability	Complied	The contribution to the national economy from life insurance business and economic value addition to other stakeholders is illustrated on page 57.
G.1.2	Reporting on the Environment	Complied	Please refer Natural Capital report on pages 95 to 100.
G.1.3	Reporting on labour practices.	Complied	Please refer remuneration committee report on pages 122 and 123 and Human Capital report on pages 77 to 88 for further details.
G.1.4	Reporting on society	Complied	Please refer Social and Relationship Capital report on pages 65 to 76.
G.1.5	Reporting on Product Responsibility	Complied	Please refer Social and Relationship Capital report on pages 65 to 76.
G.1.6	Reporting on stakeholders identification, engagement and effective communication	Complied	Please refer Stakeholder Relationship on pages 30 to 33.
G.1.7	Formalising sustainable reporting as part of Company's reporting process	Complied	UA has aligned itself to the GRI Standards in its sustainability reporting. Please refer details on pages 264 to 270.

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) is as follows.

(a) Compliance with requirements on the content of the Annual Report as per rule 7.6 of the Listing Rules

Rule	Requirement	Status of Compliance	UA Action and Reference
7.6 (i)	Names of persons who during the financial year were directors of the Entity	Compliant	Mr. Ajit D Gunewardene (Resigned w.e.f 31 December 2017) Refer details on page 106 and 107.
7.6 (ii)	Principal activities of the entity and its subsidiaries during the year and any changes therein.	Compliant	Please refer Accounting policy 'Principal Activities' on page 186.
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	Refer details on page 64.
7.6 (iv)	The public holding percentage.	Compliant	Refer details on page 63.
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	Refer details on page 63.
7.6 (vi)	Information pertaining to material foreseeable risk factors of the entity.	Compliant	Please refer the risk management section from pages 156 to 165 and Note 7 to the Financial Statements.
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the entity.	Compliant	Please refer Human Capital Report on pages 77 to 88 for details.

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Rule	Requirement	Status of Compliance	UA Action and Reference
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 26 on pages 226 to 230.
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 percentage of their total holdings in the given categories:	Compliant	Refer details on page 63.
7.6 (xi)	List of Ratios and market price information	Compliant	Please refer the shareholder information section on pages 60 to 62.
7.6 (xii)	Significant changes in the entity's or its subsidiaries' 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 26 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 2017 in such manner.
7.6 (xiv)	Employee share Option Schemes and Employee Share Purchase Scheme.	Compliant	Please refer 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	Please refer following for details. Rule 7.10.3 on page 153 Rule 7.10.5 C on page 153 Rule 7.10.6 C on page 154
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	Requirement	Status of Compliance	UA Action and Reference
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 110.
7.10.1 Non - Executive Directors (NED)			
7.10.1(a)	The Board of directors of a Listed Entity shall include at least, <ul style="list-style-type: none"> ▶ two NEDs; or ▶ such number of NEDs equivalent to one third of the total number of directors whichever is higher. 	Compliant	Six out of the seven Directors on UA's Board are NEDs 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 Annual General Meeting.	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.

Rule	Requirement	Status of Compliance	UA Action and Reference
7.10.2 Independent Directors			
7.10.2 (a)	Two or one third of NEDs, whichever is higher, should be independent.	Compliant	The Board has determined that three Directors out of six NEDs are Independent.
7.10.2 (b)	The Board shall require each NED to submit signed declaration of independence / non-independence annually	Compliant	All Directors have submitted annual declarations in respect of the year under review.
7.10.3 Disclosures Relating to Directors			
7.10.3 (a)	Names of Independent Directors should be disclosed in the Annual Report.	Compliant	Please refer pages 106 and 107 of the Annual Report.
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	Please refer page 106 and 107 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	Compliant	A brief resume of Mr. Susantha Ratnayake who has been appointed to the Board with effect from 1 January 2018, has been provided to the CSE on 2 January 2018.
7.10.4 Criteria for Defining Independence			
7.10.4 (a to h)	Requirements for meeting the criteria to be an Independent Director	Compliant	The Company's independent NEDs meet the required criteria. Refer Note 43 to the financial statements and page 116 for a summary of Non - Executive / Independent Directors' interests.
7.10.5 Remuneration Committee (RC)			
7.10.5	A Listed Entity shall have a remuneration committee	Compliant	The Company has its own Remuneration committee
7.10.5 (a)	The RC shall comprise a minimum of two Independent NEDs or a majority of Independent NEDs, whichever is higher One NED shall be appointed as Chairman of the committee by the Board	Compliant	Please refer report of the RC on pages 122 and 123 of the Annual Report.
7.10.5 (b)	Functions of the RC shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Compliant	Please refer report of the RC on pages 122 and 123 of the Annual Report.
7.10.5 (c)	The Annual Report shall set out: The names of the Directors that comprise the RC. A Statement of Remuneration Policy. Aggregate remuneration paid to Executive and Non - Executive Directors	Compliant Compliant Compliant	Please refer report of the RC on pages 122 and 123 of the Annual Report. Please refer report of the RC on pages 122 and 123 of the Annual Report. Please refer Note 21 to the Financial Statements.

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Rule	Requirement	Status of Compliance	UA Action and Reference
7.10.6 (A) Audit Committee – Composition			
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 (a)	The Audit Committee shall comprise a minimum of two Independent NEDs, or a majority of Independent NEDs, whichever is higher	Complaint	Please refer report of the BACC on pages 119 to 121 of the Annual Report.
	One NED shall be appointed as Chairman of the Audit Committee by the Board	Complaint	Please refer report of the BACC on pages 119 to 121 of the Annual Report.
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings	Complaint	The CEO and CFO attended all BACC meetings.
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body	Complaint	Two out of the three members of the BACC are members of professional accounting bodies.
7.10.6 (B) Audit Committee – Functions			
7.10.6 (b)	<p>The functions of the Audit Committee shall include;</p> <ul style="list-style-type: none"> ▶ Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards, ▶ Overseeing the compliance with financial reporting and information requirements as per laws and regulations, ▶ Ensuring the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards, ▶ Assessing of the independence and performance of the external auditors, and ▶ 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. 	Complaint	Please refer report of the BACC on pages 119 to 121 of the Annual Report.
7.10.6 (c)	The Annual Report shall set out; the names of the Directors who comprise the Audit Committee.	Complaint	Please refer report of the BACC on pages 119 to 121 of the Annual Report.
	The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.	Complaint	Please refer report of the BACC on pages 119 to 121 of the Annual Report.
	A report by the Audit Committee setting-out the manner of compliance of the functions set out in above, during the period to which the annual report relates.	Complaint	Please refer report of the BACC on pages 119 to 121 of the Annual Report.

3. As per the requirements set out in Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report for the year under review

Reference to the Companies Act	Information required to be disclosed as per the Companies Act No. 07 of 2007	Level of compliance by the Company
Section 168 (1) (a)	The nature of the business of the Company	Refer 'Principal Business Activities, Nature of Operations and Ownership by the Company and its Associates' on page 186.
Section 168 (1) (b)	Signed Financial Statements of the Company for the accounting period under review	The Financial Statements of the Company for the year ended 31 December 2017 which were duly certified by the Chief Financial Officer and were approved by two members of the Board as appearing on pages 169 to 258 of this Report.
Section 168 (1) (c)	Auditors' Report on Financial Statements of the Company	Refer page 177 for the "Independent Auditors' Report"
Section 168 (1) (d)	Changes in Accounting Policies during the accounting period	Significant Accounting Policies adopted in the preparation of the Financial Statements of the Company are given on pages 186 to 258. There were no changes to the Accounting Policies used by the Company during the year.
Section 168 (1) (e)	Particulars of entries in the Interests Register made during the accounting period	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 the Directors during the accounting period	Refer Note 21 to the Financial Statements on page 219.
Section 168 (1) (g)	Total amount of donations made by the Company during the accounting period	Refer Note 21 to the Financial Statements on page 219.
Section 168 (1) (h)	Information on Directorate of the Company at the end of the accounting period	Refer Board of Directors brief profiles on pages 106 and 107.
Section 168 (1) (i)	Amounts payable to the Auditor as audit fees and fees for other services rendered during the accounting period as a separate disclosure	Refer Note 21 to the Financial Statements on page 219.
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 Associate. Refer page 177.
Section 168 (1) (k)	Annual Report of the Board of Directors on the affairs of the Company to be signed on behalf of the Board by two Directors and the Company Secretary	Refer the Statement of Directors Responsibility on page 176.



ENTERPRISE RISK MANAGEMENT

Enterprise risk management is a key element of our Corporate Governance process and stems from our stewardship commitment towards our partners to ensure the sustainability of our business.



“ 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. ”

 **352%**
Capital Adequacy Ratio

 **Rs. 5,172Mn**
Admissible Assets Over Liabilities

 **4.9%**
Cession Rate

'A' or above credit rating from International rating agencies Reinsurers

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 risk management objectives are to:

- ▶ Protect the capital base by monitoring that risks and ensuring 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 the 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

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 a team 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

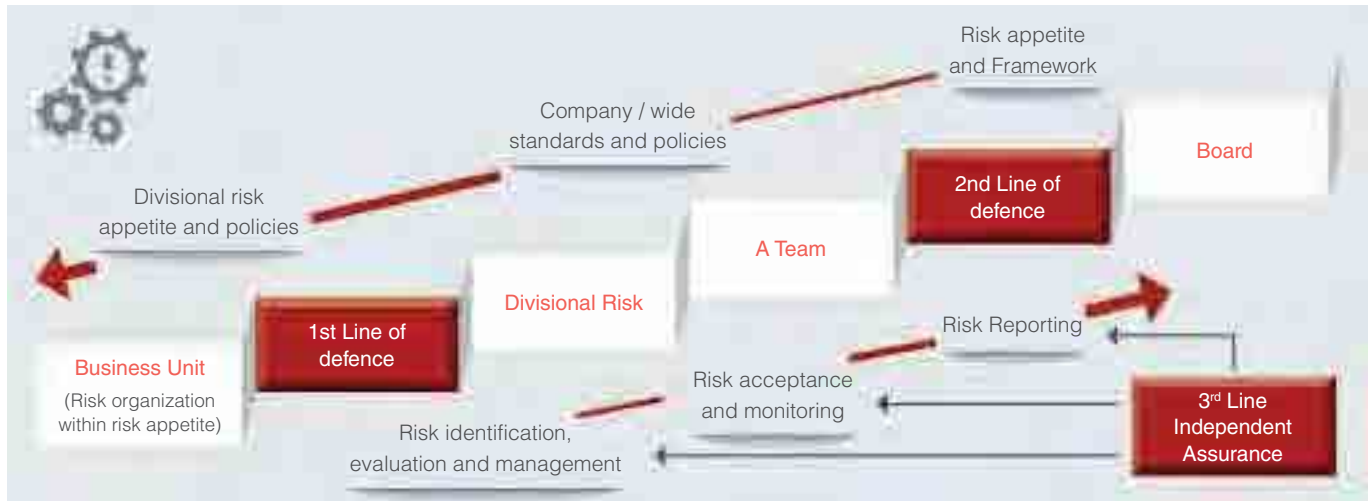
ENTERPRISE RISK MANAGEMENT



GRI 102-11

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 BACC.



1st Line of Defense

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 in identified risks and their status, and any new and potential risks are escalated to the BACC.

2nd Line of Defense

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 Defense

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

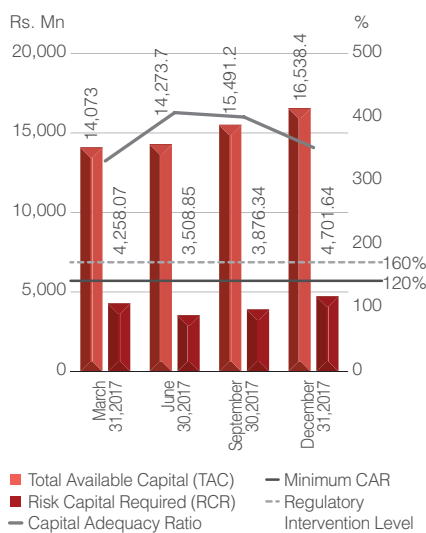
Key Elements of Risk Management

Capital Adequacy Ratio (CAR)

The CAR under the Risk Based Capital Regime measures adequacy of the Total Available Capital (TAC) as against the Risk Capital Required (RCR). As per regulations, the minimum CAR should be consistently maintained in excess of 120%, with a significant margin (that is above 160%) to avoid any regulatory interventions. In addition, the Insurance Regulatory Commission of Sri Lanka (IRCSL) stipulates a minimum Total Available Capital of Rs. 500 million.

UA maintained a CAR in excess of 120% with a significant margin on a consistent basis.

Capital Adequacy Ratio



“ The management ensures continuous and regular measurement of risks, and reports the Company's risk performance to the BACC. ”

The table below shows the estimated impact on the company's CAR of one percentage increase / decrease in yield curve. The sensitivities are considered as separate scenarios.



GRI 102-11

Solvency	Base case Rs '000	Sensitivities	
		1 % increase in yield curve Rs'000	1 % decrease in yield curve Rs'000
Total Available Capital (TAC)	16,538,376	16,980,711	16,063,197
Formula Risk-based Capital Required (FRCR)	4,701,641	5,103,931	4,319,576
Surrender Value Capital Charge (SVCC)	-	-	-
Risk Based Capital requirement (RCR)	4,701,641	5,103,931	4,319,576

	%	%	%
Risk-based Capital Adequacy Ratio (CAR)	352	333	372

In addition to the sensitivities shown above, the company also evaluates certain stress scenarios on the 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 below, lapse risk represents the company's largest life insurance specific risk- 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

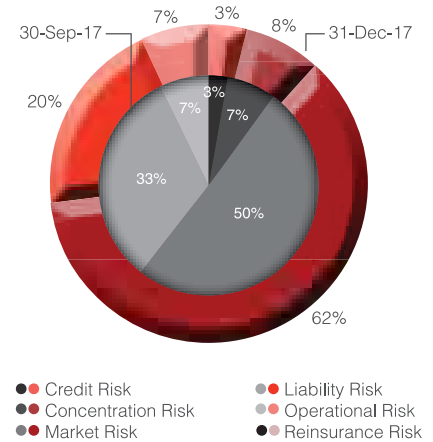
Objectives	Base case Rs '000	3 % increase in yield curve with 50% Lapse rates for all future years
		Rs'000
TAC	16,538,376	16,734,545
FRCR	4,701,641	2,556,474
SVCC	-	-
RCR	4,701,641	2,556,474

	%	%
CAR	352	655

Risk Capital required by Risk Type Risk Based Capital (RBC)

The chart below shows UA's risk capital required by type of risk as of 31 December 2017 and 31 December 2016 respectively. As of 31 December 2017, the largest proportion of UA risk capital required arose from market risk which comprised 62% of the total. Liability risk was the second largest, comprising 20%.

Risk Capital Required by Type of Risk



Determination 1

Excess in Admissible 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 Regulation of Insurance Industry Act, No 43 of 2000 and also known as Insurance Provision Life] in certain types of investments (Admissible assets) subject to limitations stipulated therein: The approved assets have higher credit profiles which ensure that the life fund is secured

UA has maintained a significant excess in approved assets over the quarters.

Excess in Approved Assets



ENTERPRISE RISK MANAGEMENT

Analysis by Risk Type

UA Risk Categories

The diagram below shows UA's risk categories. The 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 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 increased 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 such as spread of contagious diseases are being periodically evaluated. Sufficient excess of Loss (XOL) reinsurance covers have been purchased. UA has retained the XOL limits per annum as well as per event relating to catastrophes.

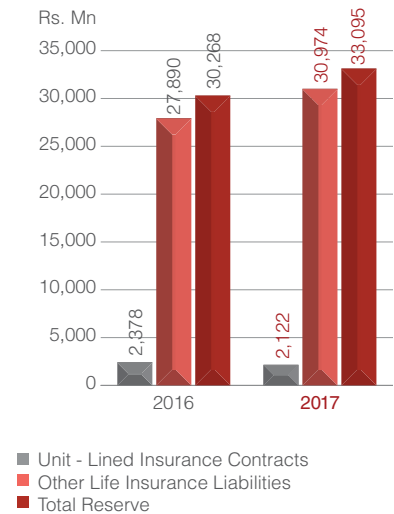
Concentration Risk

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 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

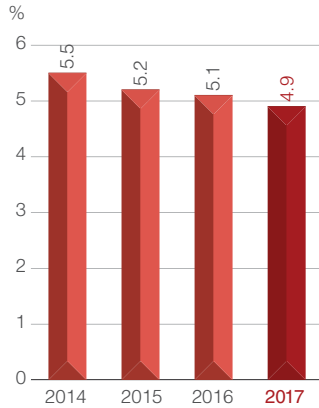


Reinsurance

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 4.9% and 5.1% as of December 31, 2017 and December 31, 2016, respectively.

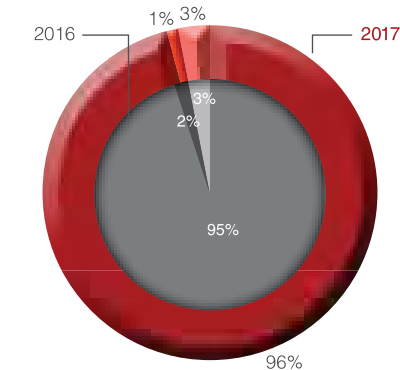
ENTERPRISE RISK MANAGEMENT

Cession Rate



Increased diversity in product portfolio helped decrease in cession ratio

Corporate Debt Securities



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

96% of UA corporate debt securities represent investments in the banking, finance and insurance sector. This is mainly due to credit quality and stability in the banking, finance and insurance sector.

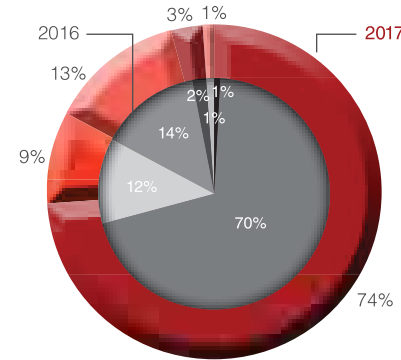
74%

Quoted Equities - Banking, Finance and Insurance

[2016: 70%]

Quoted Equities – Concentration Risk by Industry

Quoted Equity

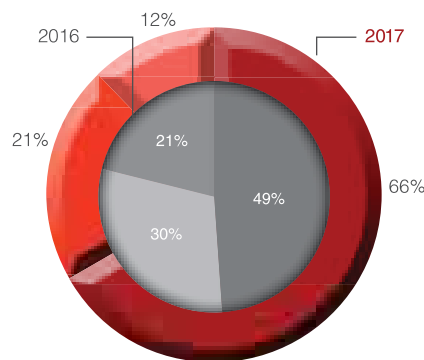


- Banking, Finance and Insurance
- Diversified Holdings
- Manufacturing
- Construction and Engineering
- Motors
- Hotels and Travels

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

Market Risk

Component of Market Risk



- Interest Risk
- Property Risk
- Equity Risk

As of 31 December 2017, 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 21%. Compared with the 31 December 2016, as

at 31 December 2017 the composition of market risk has not 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

UA 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 as by how much asset 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

UA is exposed to risks from price fluctuations on equity securities 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. 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 market.

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

Under Unit linked business, UA 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. UA 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. UA 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

“ 96% of UA corporate debt securities represent investments in the banking, finance and insurance sector. This is mainly due to credit quality and stability in the banking, finance and insurance sector. ”

of defaults, expected losses in cases of defaults of issuers, the uncertainty of default probabilities and losses, as well as actual defaults of issuers.

Credit Risk

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

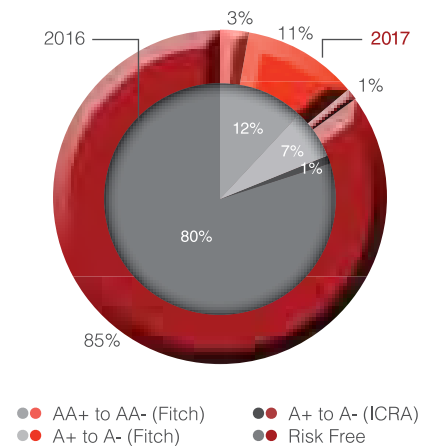
- ▶ Investment portfolio
- ▶ Reinsurance assets, and
- ▶ Receivables

The Company's objective in managing credit risk exposures is to maintain them within parameters that reflect UA'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, UA 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.

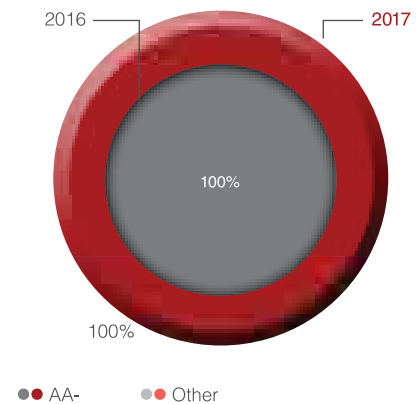
Credit Risk Concentration

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, 2017 or December 31, 2016.

Investment Portfolio



Reinsurance



Policyholder Loans

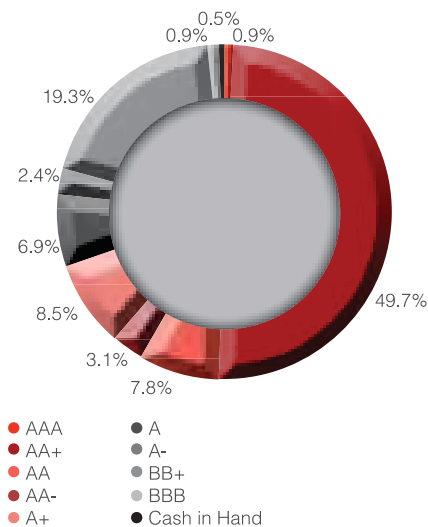
Age Analysis	31.12.17 Rs. Mn	31.12.16 Rs. Mn
Past due not impaired	77	52
61 - 90 days	31	23
91-180 days	82	65
181 days +	812	726
	1,002	867
Surrender value of the life policies	1,693	1,471

ENTERPRISE RISK MANAGEMENT

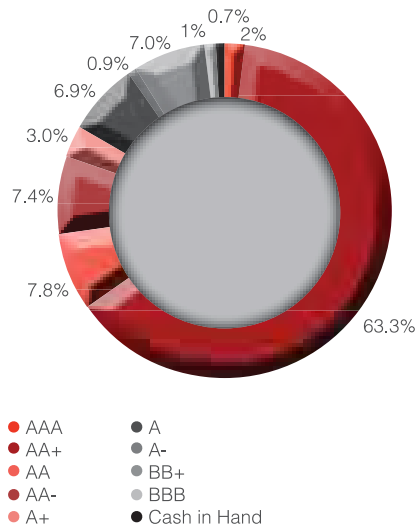
Premiums Receivables

Age Analysis	31.12.17 Rs. Mn	31.12.16 Rs. Mn
0 - 30 days	269	247
Over 30 days	Nil	Nil

Cash & Bank - 2017



Cash & Bank - 2016



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 of 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.

UA 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.

Given the escalation in cyber risk, UA has established a Cyber security policy in line with the JKH Group and is in the process of implementing IBM's managed Security Operations Centre (SOC) and security intelligence platform to further strengthen cyber resilience.

3rd Party Supplier Risk

UA 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.

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 Alert Tools

During the year Forestpin, an analytical and risk alert tool was implemented for claim and customer complaint settlement processes to identify outliers in a timely manner. Currently forestpin covers payment, claim and customer complaint settlement processes.

The outliers need to be investigated and cleared by designated employees who are not involved with the process. Senior Management approval is required to close risk alerts.

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. UA's internal control system increases the reliability of its 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 may result in not being 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. Significant risks and mitigation actions are reported regularly to the BACC.

The details of UA's internal audit function and external audit are given in pages 119 and 120.

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 cashflow 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, UA 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.

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.

The maturity profile of the Company is given on pages 191 to 204.

Strategic Risk

Strategic risk refers 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 2017, the Executive Committee assessed the key strategic risk scenarios, looking at 2017 and beyond. UA assessed risks in executing the company's transformation programs for agency, bancassurance and operations, 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.

Risk 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. UA 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.



FINANCIAL INFORMATION

“ The pages that follow record excellent bottom line growth for your company. Our strong fundamentals will deliver sustainable value to all our partners in short term as well as long term. ”

169	Annual Report of the Board of Directors on the Affairs of the Company
174	Chief Executive Officer's and Chief Financial Officer's Responsibility Statement
175	Actuaries' Report
176	Statement of Directors' Responsibility
177	Independent Auditors' Report
178	Table of Contents
179	Income Statement
180	Statement of Profit or Loss and Other Comprehensive Income
181	Statement of Financial Position
182	Statement of Changes in Equity
184	Statement of Cash Flows
186	Notes to the Financial Statements



Financial Calendar	2017	2018
31 st Annual General Meeting to be held on	N/A	9-May-18
30 th Annual General Meeting held on	31-Mar-17	N/A
The first and final dividends for the year 2017 paid on	N/A	20-Mar-18
The first and final dividends for the year 2016 paid on	17-Mar-17	N/A
Audited financial statements of preceding year authorised on	27-Feb-17	29-Mar-18
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-17	15-May-18
Interim results for the three months ended 30 June (Unaudited)	14-Aug-17	15-Aug-18
Interim results for the three months ended 30 September (Unaudited)	14-Nov-17	15-Nov-18
Interim results for the three months ended 31 December (Unaudited)	27-Feb-18	28-Feb-19

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 2017.

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 24 of this report. In achieving its vision and mission, the Company has ensured that all Directors and employees conduct their activities in compliance 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 2017 was Rs. 10,118 million (2016 – Rs. 8,271 million).

Financial Results and Appropriations

The net profit after tax of the Company was Rs.7,384 million for the year (2016 - Rs.1,313 million).

A synopsis of the performance is presented below;

For the year ended 31 December Union Assurance PLC	2017 Rs. '000	2016 Rs. '000
Profit after tax	7,384,128	1,312,628
Balance brought forward from previous year	2,049,189	1,232,035
Profit available for appropriation	9,433,317	2,544,663
Appropriations		
Dividend paid for previous year	(618,750)	(500,893)
Transfer of one - off surplus to restricted regulatory reserve	(3,381,934)	-
Transfer from revaluation reserve	5,419	5,419
Un - appropriated profit carried forward	5,438,052	2,049,189

Financial Statements and Auditors' Report

The financial statements for the year ended 31st December 2017 has been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs / LKASs) issued by the Institute of Chartered Accountants of Sri Lanka. The financial statements duly signed by the Directors are provided on pages 179 to 258 and the Auditors' Report on the financial statements is provided on page 177 of this Annual Report.

Accounting Policies

Details of accounting policies are presented on Pages 186 to 258 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 2017, the Company prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLFRSs / LKASs) which have materially converged with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Dividends

The Board of Directors has approved a first and final dividend of Rs. 18.00 per share for the year 2017 (2016 - Rs. 10.50). 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.

The dividend is paid partly out of dividends received and partly out of taxable profits of the Company. The dividend paid out of profits will be subject to withholding tax.

Provision for Taxation

The Company is liable to income tax at 28% (2016 - 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 22 to the financial statements on page 219.

Property, Plant and Equipment

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 40 million. The carrying value of property, plant and equipment as at 31st December 2017 was Rs. 2,001 million. The details of property, plant and equipment are shown in Note 26 to the financial statements on page 226.

Intangible Assets

During the financial year, the Company acquired intangible assets to the aggregate value of Rs. 151 million. The carrying value of intangible assets was Rs. 213 million as at the reporting date. The details of intangible assets are shown in Note 25 to the financial statements on page 225.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

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 2017 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 26 to the financial statements on page 226.

Investments

Details of investments held by the Company are disclosed in Note 28 to the financial statements on page 234.

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 31st December 2017 was Rs. 1,000 million (2016 - Rs. 1,000 million) and the total capital and reserves was Rs. 11,965 million (2016 - Rs. 3,866 million).

As explained in Note 38.4 (c) on page 250, based on the directions issued by IRCSL dated 20 March 2018 and subsequent approval, Company has transferred the one - off surplus of Rs. 3,382 million attributable to non-participating and non unit fund of unit linked business from life policyholder fund to life shareholder fund (SHF) through Income Statement. The distribution of this one - off surplus to shareholders, held as part of the Restricted Regulatory Reserve, is subject to meeting governance requirements stipulated by the IRCSL and can only be released upon receiving approval from the IRCSL. The one - off surplus in the SHF is invested in government debt securities as per the directions of the IRCSL.

Share Information

Information relating to earnings, dividends, net assets and market value per share is given in the UA share performance on pages 60 to 64 of this report.

Share Holdings

There were 1,333 registered shareholders, holding ordinary voting shares as at 31st December 2017 (2016 - 1,326). The distribution of shareholding including the percentage held by the public is given on page 63 of this report.

Equitable Treatment to All Shareholders

The Company has made every endeavour to ensure the equitable treatment of all shareholders and adopted adequate measures to prevent information asymmetry.

Substantial Shareholdings

The list of top twenty shareholders as at 31st December 2017 is given on page 64 of this report, together with comparative shareholding as at 31st December 2016.

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

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 106 to 165.

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
- 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)

Board Audit and Compliance Committee

The composition of the Board Audit and Compliance Committee comprising of Non - Executive Directors is provided on page 119. 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 119 to 121 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 Enterprise Risk Management report in the Corporate Governance section on page 156.

The Board of Directors

As at 31st December 2017 the Board of Directors of Union Assurance PLC consisted of Directors with diverse knowledge and experience. Brief profiles of the Directors are given in the Corporate Governance section on pages 106 and 107.

Resignation and Appointment of Directors

Mr. A. D. Gunewardene resigned from the Board of Directors of the Company with effect from 31st December 2017 upon his retirement as an employee of John Keells Holdings PLC.

Mr. S. C. Ratnayake was appointed to the Board as a Non Independent Non Executive Director and Chairman of the Company with effect from 01st January 2018.

Retirement and Re - election / Re - appointment of Directors

In terms of Article 84 of the Articles of Association of the Company, Mr. H. A. J. De Silva Wijeyeratne and Mr. S. Rajendra retire by rotation and are eligible for re - election. A brief profile of the said Directors are given on pages 106 and 107.

In terms of Article 90 of the Articles of Association of the Company, Mr. S.C. Ratnayake is eligible for re - election. A brief profile of Mr. S.C. Ratnayake is given on page 106.

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 on page 114.

Review of Performance of the Board

The performance of the Board has been appraised through a formalised process, where each individual Director anonymously comments on the dynamics of the Board.

Board Sub Committees

The Board while assuming the overall responsibility and accountability in the management of the Company has also appointed Board sub committees to ensure control over certain affairs of the Company.

Details of the sub committees, their mandate and composition are provided in the Corporate Governance section on pages 118 to 127.

Directors' Interests Register

The Company, in compliance with the requirements of the Companies Act No. 07 of 2007 maintains an Interests Register.

The particulars of the Company's interest register are given below.

a) 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 provided in Note 43 on page 254 to the financial statements, under related party transactions.

b) Directors' Interests in Shares

The Directors' individual shareholdings in the Company is provided on page 63 of the Annual Report.

c) Share Dealings

There have been no share dealings by the Directors during the year.

d) Indemnities and 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 21 of the financial statements.

The Board approved payment to the Executive Director of the Company, Mr. A. D. Pereira, remuneration as recommended by the Board Remuneration Committee in keeping with the Company's remuneration policy comprising of a fixed element and a variable element in the form of short term incentive which is based inter alia, on the individual performance and the organisation performance.

Directors' Meetings

Details of Board meetings and Board sub committee meetings are presented on pages 118 to 127 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 (SLFRSs / LKASs) 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 to the

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

financial statements and have complied with Colombo Stock Exchange Listing Rule 9.3.2 and Code of Best Practice on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13 (C) of the Securities Exchange Commission Act.

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 programmes towards its stakeholders in order to bring about sustainable development in all areas of business. The CSR initiatives are detailed in the Social and Relationship Capital section on pages 66 to 76.

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 110 for a statement of compliances.

Risk Based Capital Requirement (RBC)

With effect from 1st January 2016 all insurance companies were required to maintain a capital amount as computed under the risk based capital framework introduced by the IRCSL or Rs. 500 million whichever is higher. From the first quarter of 2016 onwards, the Company reported RBC requirements on a quarterly basis within

the reporting time lines. Refer page 159 for details on RBC of the Company.

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 integrated Annual Report, combining financial information with sustainability information aims to provide its stakeholders a more holistic set of 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 Standards. 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 optimize 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 on page 77. The number of persons employed by the Company as at 31st December 2017 was 529 (2016 - 474).

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 standards of conduct from its Directors and employees in the performance of their official duties and in situations that could affect the Company's image. The Company has 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 on page 95. 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 2017, the other payments of the Company amounted to Rs. 1,564 million (2016 - Rs. 1,166 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 to the financial statements, relating to contingent liabilities.

Capital Commitments

No significant capital commitments exist as at 31st December 2017 other than those disclosed in Note 44 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.

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 ICASL and the SEC 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 external auditors during the period under review were Messrs. KPMG. The fee amount paid / payable for the services provided to the Company during the year 2017 and 2016 is presented below.

Rs:'000	2017	2016
Audit and audit related fees	4,355	4,271
Non audit fees	1,332	1,208

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.

Auditors' Report

Auditors' Report on the financial statements is given on page 177 of this annual report.

Approval of Financial Statements

The audited financial statements were approved by the Board of Directors on 29 March 2018. 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 Wednesday, 9th May 2018 at 9.00 a.m. The notice of the meeting relating to the thirty first Annual General Meeting is given on page 284.

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

S. C. Ratnayake
Chairman

A. S. De Zoysa
Director

Keells Consultants (Private) Limited
Secretaries

29 March 2018

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The financial statements of Union Assurance PLC as at 31st December 2017 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 (RII) 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 SLFRSs / LKASs and related interpretations applicable for the year ended 31st December 2017, together with the comparative data as at and for the year ended 31st December 2016, 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 Fairfirst Insurance Limited, the associate company of Union Assurance PLC have been disclosed separately in Note 27 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 Insurance Regulatory Commission of Sri Lanka (IRCSL) requirements;

- ▶ All provisions in the RII Act No. 43 of 2000, and subsequent amendments there to, and all rules, regulations, determinations, directions issued by IRCSL; complied with all orders made by the Ministry of Finance and Planning under the RII Act, No. 43 of 2000
- ▶ Terms and conditions pertaining to reinsurance placements issued by IRCSL in terms of section 31(1) of the RII Act, No. 43 of 2000
- ▶ Conditions pertaining to co - insurance issued by IRCSL
- ▶ All applicable circulars issued by IRCSL
- ▶ All provisions in the Financial Transactions Reporting Act, No. 06 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. 06 of 2006
- ▶ Guidelines on Anti Money Laundering Programme for Insurers issued by IRCSL



Dirk Pereira
Chief Executive Officer



Sherin Cader
Chief Financial Officer

29 March 2018

ACTUARY'S REPORT



Private and Confidential

29 March 2018

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 2017

In accordance with the engagement letter dated 9 September 2015, Willis Towers Watson India Private Limited ("Willis Towers Watson", "we", "our" or "us"), formerly called Towers Watson India Private Limited 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 2017.

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 2017, 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 LKR24,932 million. The value of assets held in respect of conventional life business is LKR 26,265 million. Therefore, surplus in respect of the conventional life business after making an allowance for a shareholder transfer of LKR 6,832 million is LKR 1,334 million. The surplus in respect of the conventional business before shareholder transfer is LKR 8,166 million.
4. The total long term insurance provisions within the life fund for the non-unit liabilities in respect of unit-linked business is LKR9 million. The value of assets (other than assets backing unit-linked liabilities) held in respect of this business is LKR26 million. Therefore, surplus in respect of the unit-linked business after making an allowance for a shareholder transfer of LKR 192 million is LKR 18 million. The surplus in respect of the unit-linked business before shareholder transfer is LKR 209 million.
5. The shareholder transfers mentioned above includes transfer of the one-off surplus in respect of other than participating business of LKR 3,382 million. However, it should be noted that the distribution of the one-off surplus to shareholders is subject to meeting governance requirements stipulated by the IRCSL and can only be released upon receiving approval from the IRCSL.
6. The risk based capital required under the Regulation of Insurance Industry Act No. 43 of 2000 is LKR 4,702 million, and company's CAR (after allowing for the LKR 7,024 million shareholder transfer) is 352%, compared to the regulatory minimum requirement of 120%.
7. 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 2017 is in excess of the liabilities computed in the above mentioned manner.



Vivek Jalan, FIA, FIAI
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Willis Towers Watson

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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 177. 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 (SLFRSs / LKASs) 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. 7 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. 18.00 per share for the year ended 31st December 2017, paid on 20th March 2018.

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

29 March 2018

INDEPENDENT AUDITORS' REPORT



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(Chartered Accountants)
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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 31 December 2017, 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 179 to 258 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 31 December 2017, 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 Regulatory Commission of Sri Lanka (formally known as 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

29 March 2018

KPMG, a Sri Lanka partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M. R. M. H. J. F. C. A. S. M. S. Perera FCA G. P. Jayatilaka FCA
T. J. S. Rajapaksa FCA W. W. J. C. Perera FCA M. S. Joseph FCA
V. S. M. B. Jayasinghe FCA W. K. D. C. Abeyaratne FCA S. T. L. Perera FCA
G. A. U. Karunaratne FCA R. M. D. B. Rajapakse FCA M. S. R. L. N. Rodrigo FCA
P. H. Rajapaksa
Principals - S. R. L. Perera FCA/UK, I. B. Attorney-at-Law, H. S. Chandrasekera FCA
M. C. T. N. Perera FCA

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INCOME STATEMENT

For the year ended 31 December			2017	2016	Change
	Note	Page	Rs. '000	Rs. '000	%
Gross written premium	10	212	10,117,630	8,270,751	22
Premium ceded to reinsurers	11	213	(497,612)	(423,857)	17
Net written premium			9,620,018	7,846,894	23
Other revenue					
Net investment income	12	214	3,636,008	3,025,094	20
Net realised gains / (losses)	13	215	75,591	(131,948)	157
Net fair value gains / (losses)	14	216	258,360	(34,751)	843
Other income	15	216	63,176	58,653	8
Total other revenue			4,033,135	2,917,048	38
Total net revenue			13,653,153	10,763,942	27
Benefits, claims and expenses					
Net insurance benefits and claims paid	16	216	(2,673,733)	(1,524,310)	75
Net change in insurance claims outstanding	17	217	(5,302)	(71,075)	(93)
Change in contract liabilities - Life Fund	18	218	(2,709,661)	(4,238,265)	(36)
Change in contract liability due to transfer of one off surplus	35 / 38	245 / 248	3,381,934	-	100
Underwriting and net acquisition costs (net of reinsurance)	19	218	(1,841,151)	(1,441,617)	28
Other operating, administrative and selling expenses	20	218	(2,504,333)	(2,064,793)	21
Depreciation and amortisation	25 / 26	225 / 226	(104,623)	(110,890)	(6)
Total benefits, claims and expenses			(6,456,869)	(9,450,950)	(32)
Profit from operations			7,196,284	1,312,992	448
Share of results of equity accounted investee, net of tax	27	230	187,844	60,315	211
Profit before tax	21	219	7,384,128	1,373,307	438
Income tax expense	22	219	-	(60,679)	(100)
Profit for the year			7,384,128	1,312,628	463
Earnings per share					
Basic (Rs.)	23	224	125.31	22.27	463
Diluted (Rs.)	23	224	125.31	22.27	463

The notes to the financial statements as set out on pages 186 to 258 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December			2017	2016	Change
	Note	Page	Rs. '000	Rs. '000	%
Profit for the year			7,384,128	1,312,628	463
Other comprehensive income					
Items that will never be reclassified to profit or loss					
Net gains on revaluation of land and buildings	26.8 / 36.1 (b)	229 / 245	539,365	-	
Share of net change in actuarial gains / (losses) on defined benefit plan of equity accounted investee, net of tax	36.2 (b)	246	(2,291)	4,348	
Actuarial losses on defined benefit plan	36.2 (b) / 40.3	246 / 253	(4,271)	(4,861)	
Related tax	36.1 (b) / 36.2 (b)	245 / 246	-	2,878	
			532,803	2,365	22,429
Items that are or may be reclassified to profit or loss					
Fair value reserve (available for sale financial assets)					
Net change in fair value of available for sale financial assets			80,850	(24,749)	
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	36.2 (a)	246	32,823	(23,533)	
Net change in fair value of available for sale financial assets transferred to the income statement			-	-	
Related tax			-	6,930	
			113,673	(41,352)	375
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets			652,979	(431,771)	
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the income statement	36.2 (a)	246	23,666	(48)	
Related tax			-	50,871	
			676,645	(380,948)	278
			790,318	(422,300)	287
Other comprehensive income, net of tax			1,323,121	(419,935)	415
Total comprehensive income for the year, net of tax			8,707,249	892,693	875

The notes to the financial statements as set out on pages 186 to 258 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	2017 Rs. '000	2016 Rs. '000
Assets				
Intangible assets	25	225	212,817	94,647
Property, plant and equipment	26	226	2,000,716	1,493,040
Investment in equity accounted investee	27	230	995,722	777,346
Financial investments, including derivatives	28	234	36,792,921	30,847,256
Loans to life policyholders	29	241	1,001,538	867,177
Reinsurance receivable	30	242	267,417	178,181
Premiums receivable	31	243	268,511	246,800
Receivables and other assets	32	243	947,239	809,784
Cash in hand and at bank	33	244	580,126	379,232
Total assets			43,067,007	35,693,463
Equity and liabilities				
Equity				
Stated capital	34	245	1,000,000	1,000,000
Restricted regulatory reserve	35	245	3,381,934	-
Reserves	36	245	2,144,728	817,003
Retained earnings	37	247	5,438,052	2,049,189
Total equity			11,964,714	3,866,192
Liabilities				
Insurance contract liabilities	38	248	26,949,613	27,889,682
Insurance contract liabilities - Unit Linked	39	252	2,121,609	2,377,707
Employee benefit liabilities	40	252	122,588	107,963
Reinsurance payables	41	253	345,146	208,742
Other liabilities	42	254	1,368,031	1,092,871
Bank overdraft	33	244	195,306	150,306
Total liabilities			31,102,293	31,827,271
Total equity and liabilities			43,067,007	35,693,463

The notes to the financial statements as set out on pages 186 to 258 form an integral part of these financial statements.

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



S. 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:



S. C. Ratnayake
Chairman



H. A. J. De Silva Wijeyeratne
Director

Colombo
29 March 2018

STATEMENT OF CHANGES IN EQUITY

Rs. '000	Note	Reserves					Retained earnings	Total	
		Stated capital	Restricted regulatory reserve	Revaluation reserve	Reserve on merger	Other reserves			
						Available for sale reserve			Other capital reserves
Balance as at 1 January 2016		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
Other comprehensive income for the year, net of tax									
Net change in fair value of available for sale financial assets		-	-	-	-	(24,749)	-	-	(24,749)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets		-	-	-	-	(431,819)	-	-	(431,819)
Actuarial loss on defined benefit plan	36.2 (b) / 40.3	-	-	-	-	-	(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
Total other comprehensive income		-	-	1,517	-	(422,300)	848	-	(419,935)
Total comprehensive income for the year		-	-	1,517	-	(422,300)	848	1,312,628	892,693
Transactions with owners, transfers, recorded directly in equity									
Contributions and distributions									
First and final dividend 2015	24.2	-	-	-	-	-	-	(500,893)	(500,893)
Share based payments	36.3	-	-	-	-	-	9,464	-	9,464
Transfer from revaluation reserve to retained earnings	26.10 / 36.1 (b)	-	-	(5,419)	-	-	-	5,419	-
Total contributions and distributions		-	-	(5,419)	-	-	9,464	(495,474)	(491,429)
Balance as at 31 December 2016		1,000,000	-	1,154,363	16,752	(376,875)	22,763	2,049,189	3,866,192

Rs. '000	Note	Reserves						Retained earnings	Total
		Stated capital	Restricted regulatory reserve	Revaluation reserve	Reserve on merger	Other reserves			
						Available for sale reserve	Other capital reserves		
Balance as at 1 January 2017		1,000,000	-	1,154,363	16,752	(376,875)	22,763	2,049,189	3,866,192
Profit for the year		-	-	-	-	-	-	7,384,128	7,384,128
Other comprehensive income for the year, net of tax									
Net change in fair value of available for sale financial assets		-	-	-	-	80,850	-	-	80,850
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets		-	-	-	-	676,645	-	-	676,645
Revaluation gains on land and buildings	26.8 / 36.1 (b)	-	-	539,365	-	-	-	-	539,365
Actuarial loss on defined benefit plan	36.2 (b) / 40.3	-	-	-	-	-	(4,271)	-	(4,271)
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	36.2 (a)	-	-	-	-	32,823	-	-	32,823
Share of net change in actuarial losses on defined benefit plan of equity accounted investee, net of tax	36.2 (b)	-	-	-	-	-	(2,291)	-	(2,291)
Tax on other comprehensive income	36.1 (b) / 36.2 (a) / 36.2 (b)	-	-	-	-	-	-	-	-
Total other comprehensive income		-	-	539,365	-	790,318	(6,562)	-	1,323,121
Total comprehensive income for the year		-	-	539,365	-	790,318	(6,562)	7,384,128	8,707,249
Transactions with owners, transfers, recorded directly in equity									
Contributions and distributions									
First and final dividend 2016	24.2	-	-	-	-	-	-	(618,750)	(618,750)
Share based payments	36.3	-	-	-	-	-	10,023	-	10,023
Transfer of one - off surplus	35 / 38.6	-	3,381,934	-	-	-	-	(3,381,934)	-
Transfer from revaluation reserve to retained earnings	26.10 / 36.1 (b)	-	-	(5,419)	-	-	-	5,419	-
Total contributions and distributions		-	3,381,934	(5,419)	-	-	10,023	(3,995,265)	(608,727)
Balance as at 31 December 2017		1,000,000	3,381,934	1,688,309	16,752	413,443	26,224	5,438,052	11,964,714

The notes to the financial statements as set out on pages 186 to 258 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	Page	2017 Rs. '000	2016 Rs. '000
Cash flows from operations				
Insurance premiums received			10,095,919	8,227,672
Reinsurance premiums paid			(361,208)	(428,970)
Insurance benefits and claims paid	16	216	(2,828,188)	(1,682,170)
Reinsurance claims received	16	216	154,455	157,860
Payments to intermediaries to acquire insurance contracts			(1,793,544)	(1,430,821)
Cash paid to and on behalf of employees			(925,873)	(841,087)
Interest received			2,990,027	2,324,369
Dividends received			121,026	102,922
Other operating cash flows			(2,139,507)	(1,401,971)
Cash generated from operating activities	A	185	5,313,107	5,027,804
Cash flows used in investing activities				
Retiring gratuity paid	40.3	253	(12,408)	(20,430)
Retiring gratuity transfer	40.3	253	-	2,385
Interest paid on obligation to repurchase securities			-	(6,750)
Net cash flow from operating activities			5,300,699	5,003,009
Cash flows used in investing activities				
Acquisition of investments			(30,401,850)	(48,477,502)
Maturity proceeds of investments			24,067,766	42,013,532
Proceeds from sale of investments			1,986,068	2,075,057
Acquisition of property, plant and equipment	26.1	228	(40,357)	(53,000)
Acquisition of intangible assets	25.1	225	(151,196)	(65,397)
Proceeds on sale of property, plant and equipment			36	156
Net cash used in investing activities			(4,539,533)	(4,507,154)
Net cash inflow before financing activities			761,166	495,855
Cash flows used in financing activities				
Dividends paid to equity holders of the company			(559,272)	(453,197)
Dividend tax paid			(23,699)	(10,659)
Net cash used in financing activities			(582,971)	(463,856)
Net increase in cash and cash equivalents			178,195	31,999
Cash and cash equivalents at the beginning of the year			239,059	207,060
Cash and cash equivalents at the end of the year	B / 33.2	185 / 244	417,254	239,059

The notes to the financial statements as set out on pages 186 to 258 form an integral part of these financial statements.

For the year ended 31 December			2017	2016
	Note	Page	Rs. '000	Rs. '000
NOTE A.				
Reconciliation of profit before taxation with cash from operating activities				
Profit before tax			7,384,128	1,373,307
Non - cash items included in profit before tax				
Depreciation and amortisation	25.1 / 26.1	225 / 228	104,623	110,890
Provision for employee benefits	40.3	253	22,762	20,948
Provision for doubtful debts	32.1 (a) / 32.2 (a)	244	541	732
Net realised (gains) / losses	13	215	(75,591)	131,948
Net fair value (gains) / losses	14	216	(258,360)	34,751
(Gain) / losses on sale of property, plant and equipment	15	216	413	(83)
Amortisation of financial investments			(310,000)	(319,623)
Scrip dividend income			(24,499)	(26,531)
Share of results of equity accounted investee	27.1	233	(187,844)	(60,315)
Interest expense on obligation to repurchase securities			-	6,750
Share based payment expenses	36.3	247	10,023	9,464
Profit before working capital changes			6,666,196	1,282,238
Net change in operational assets				
Net change in reinsurance assets / liabilities			47,168	(33,522)
Net change in premiums receivable			(21,711)	(43,078)
Net change in receivables and other assets			(443,034)	(404,595)
Net change in operational liabilities				
Net change in life insurance contract liabilities			(1,196,167)	3,994,928
Net change in other liabilities			260,655	231,833
Cash generated from operating activities			5,313,107	5,027,804
NOTE B.				
Cash and cash equivalents at the end of the year				
Cash in hand and at bank	33.1	244	580,126	379,232
Bank overdraft	33.2	244	(195,306)	(150,306)
Short term deposits	33.2	244	32,434	10,133
Cash and cash equivalents	33.2	244	417,254	239,059

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

The notes to the financial statements as set out on pages 186 to 258 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Corporate Information

Reporting Entity

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

For further information please refer page 283 of this Annual Report.

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.

Principal Activities and Nature of Operations

The Company

Union Assurance PLC is in the Life insurance business providing Life insurance solutions for both Individual and corporate customers. There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

Associate Company

Union Assurance General Limited (UAGL) and Fairfirst Insurance Limited (FIL) were amalgamated on 28 February 2017. Consequent to the above amalgamation, UAGL ceased to exist as a legal entity, and FIL was recognised as the continuing entity.

Accordingly, the Company's shareholding in UAGL was transferred to the amalgamated entity, Fairfirst Insurance Limited, and remains unchanged at 22% (2016 - 22%).

Fairfirst Insurance Limited is in the non - life insurance business and there were no significant change in the nature of the principal activity of the associate during the year.

Number of Employees

The staff strength of the Company as at 31 December 2017 is 529 (2016 - 474).

Financial Statements

The financial statements for the year ended 31 December 2017, comprise of the Company and the results of the

equity accounted investee. The results of equity accounted investee of the Company, Fairfirst Insurance Limited has been presented in the financial statements in accordance with LKAS 27.

Approval of Financial Statements

The financial statements for the year ended 31 December 2017 were authorised for issue by the Directors on 29 March 2018.

Responsibility for Financial Statements

The responsibility of the Board of Directors in relation to the financial statements is set out 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 (SLFRSs / LKASs) as issued by the Institute of Chartered Accountants of Sri Lanka (ICASL), the requirements of the Companies Act No. 07 of 2007, Regulation of Insurance Industry (RII) Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.

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 179 and 180)
- ▶ a Statement of Financial Position providing information on the financial position of the Company as at the year end; (Refer page 181)
- ▶ a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Company; (Refer pages 182 and 183)
- ▶ 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 184 and 185)
- ▶ Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 186 to 258).

The Company has opted to defer full application of SLFRS 9 - Financial Instruments, until the earlier of 2021 or adopting the SLFRS 17 - Insurance Contracts, exercising the temporary exemption (Refer Note 5.1).

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	Page
Non - derivative financial assets at fair value through profit or loss	Fair value	9.1	208
Derivative financial instruments	Fair value	9.1	208
Available for sale financial assets	Fair value	9.1	208
Financial assets - Unit linked	Fair value	9.1	208
Freehold land and buildings	Fair value	26.6	229
Insurance contract liabilities	Actuarially valued in line with the guidelines issued by the Insurance Regulatory Commission of Sri Lanka (IRC SL)	38	248
Net defined benefit liabilities	Actuarially valued and recognised at present value	40	252

No adjustments have been made for inflationary factors affecting the financial statements.

Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees (LKR), which is the primary economic environment in which the Company operates and is also the Functional Currency.

There was no change in the Company's Presentation and Functional Currency during the year under review.

All values 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 - 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 275 to 279, continuing the past practice which is a requirement of the Statement of Recommended Practice (SoRP) for insurance contracts then applicable, adopted by the ICASL.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

- 3.1 Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

Critical Accounting Estimates / Judgements	Note	Page
Impairment of financial assets: assessing whether credit risk on the financial asset has increased significantly with initial recognition	9.1	208
Classification of financial assets	9.1	208
Classification of insurance, reinsurance and investment contracts: assessing whether the contract transfers significant insurance risk and whether an insurance contract contains direct participation features	38.3	248
Revaluation of land and buildings	26.6	229
Measurement of insurance and reinsurance contracts	38.3	248

- 3.2 Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities is included in the following notes:

Critical Accounting Estimates / Judgements	Note	Page
Impairment of financial assets	9.1	208
Determination of the fair value of financial instruments and investments and owner occupied properties with significant unobservable inputs	26.7	229
Measurement of defined benefit obligations: key actuarial assumptions	40.4	253
Recognition and measurement of provisions and contingencies: key assumptions on the likelihood and magnitude of an outflow of resources	46	258
Recognition of deferred tax assets: availability of future taxable profits against which tax losses carried forward can be used	22.11	222
Impairment of non financial assets: key assumptions underlying recoverable amounts	6.1	191
Measuring insurance and reinsurance contracts	38.3	248
Liability Adequacy Test	38.7	251
Measurement of GWP accrual adjustment	10	212
Valuation of derivative financial instruments	9.1	208

4 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) and corporate management to make decisions regarding resource allocation and assess its performance, and for which financial information is available.

5 Standards Issued but Not Yet Effective

The following new standards have been issued and are effective for annual periods beginning after 1 January 2018.

Accordingly, these standards have not been applied to these financial statements.

5.1 SLFRS 9 - Financial Instruments and SLFRS 17 - Insurance Contracts

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

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

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- 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
- its activities are predominantly connected with insurance, as its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date.

Disclosures on Qualifying for the Temporary Exemptions

Based on the proposed SLFRS 17 - Insurance Contracts, the Company is permitted to apply the temporary exemption as the Company meets the following eligibility criteria:

- 1 The Company has not applied SLFRS 9 before; and
- 2 The Company's activities are predominantly connected with insurance as the ratio of its liabilities connected with insurance, including investment contracts measured at fair value through profit or loss, compared with total liabilities is greater than 90%. Accordingly, the Company qualifies as a pure insurance company.

As at 31 December	2017 Rs. '000	2016 Rs. '000
Insurance contract liabilities	26,949,613	27,889,682
Insurance contract liabilities - Unit Linked	2,121,609	2,377,707
Reinsurance payables	345,146	208,742
Liabilities connected with insurance	29,416,368	30,476,131
Total liabilities	31,102,293	31,827,271
Predominance ratio	95%	96%

Disclosures to Provide Comparability

Business Model Assessment

The Company will make an assessment of the objective of the business model when a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

i. Classification - Financial assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, Fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). It replaces the existing four categories under LKAS 39 of held to maturity (HTM), loans and receivables (L&R), fair value through profit or loss (FVTPL) and available for sale (AFS).

The table below provides an initial assessment made by the Company on its financial assets portfolio:

Financial assets that meet the Solely Payment of Principle and Interest (SPPI) Test (excluding the financial assets that meet the definition of held for trading or managed and evaluated on a fair value basis).

Instruments	Current classification	Credit risk grading	Carrying value under LKAS 39 Rs. '000	Fair value Rs. '000	Classification under SLFRS 9
Treasury bonds	HTM	n/a	18,028,394	18,941,981	Amortised cost
Bank deposits	L & R	AA-	647,447	647,447	Amortised cost
Reverse repurchase agreements	L & R	n/a	610,277	610,277	Amortised cost
Debentures	HTM / L & R	Please refer Note 28.3 (a) & 28.4 (a)	4,916,292	5,025,976	Amortised cost

All other financial assets (that meet the definition of held for trading or managed and evaluated on a fair value basis)

Instruments	Current classification	Carrying value under LKAS 39 Rs. '000	Fair value Rs. '000	Classification under SLFRS 9
Equity shares	FVTPL	3,972,950	3,972,950	FVTPL
Treasury bonds	AFS / FVTPL	7,942,899	7,942,899	FVTOCI / FVTPL
Treasury bills	AFS / FVTPL	281,340	281,340	FVTOCI / FVTPL

NOTES TO THE FINANCIAL STATEMENTS

Impact assessment

The standard will affect the classification and measurement of financial assets held, as follows;

- ▶ Trading assets and derivative assets held for risk management, which are classified as held for trading and measured at fair value under LKAS 39, will also be measured at fair value under SLFRS 9.
- ▶ Loans and receivables measured at amortised cost under LKAS 39 will also be measured at amortised cost under SLFRS 9.
- ▶ Held to maturity investment securities measured at amortised cost under LKAS 39 will be in general classified as loans and receivables and measured at amortised cost under SLFRS 9.
- ▶ Debt investment securities that are classified as available for sale under LKAS 39 may, under SLFRS 9, be classified under FVOCI or L&R and measured at fair value / amortised cost depending on the particular circumstance.
- ▶ The majority of the equity investment securities that are classified as available for sale under LKAS 39 will be classified under FVTPL and measured at fair value under SLFRS 9. However, some of these equity investment securities are held for long-term strategic purposes and will be designated as FVTOCI on initial recognition, and measured at fair value.

ii. Impairment - Financial assets, loan commitments and financial guarantee contracts

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with a forward looking 'expected credit loss' model. This will be required considerable judgement over how changes in economic factors affect Expected Credit Loss (ECL), which will be determined on a probability weighted basis.

The new impairment model applies to financial assets that are debt instruments, that are not measured at FVTPL.

SLFRS 9 requires a loss allowance to be recognised at an amount equal to either 12 month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12 month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

5.2 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.

5.3 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 in the process of assessing the potential impact based the operating leases disclosed in Note 44.2

6 Summary of Significant Accounting Policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements. The accounting policies are presented along with the respective notes.

Set out below is an index of the significant policies;

Note	Significant Accounting Policies	Page
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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.

6.1 Impairment on Non Financial Assets

The carrying amounts of the Company's non financial assets (other than insurance and reinsurance contract assets, deferred tax assets and employee benefit assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' 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 recognised 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 generate cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6.2 Foreign Currency Transactions and Balances

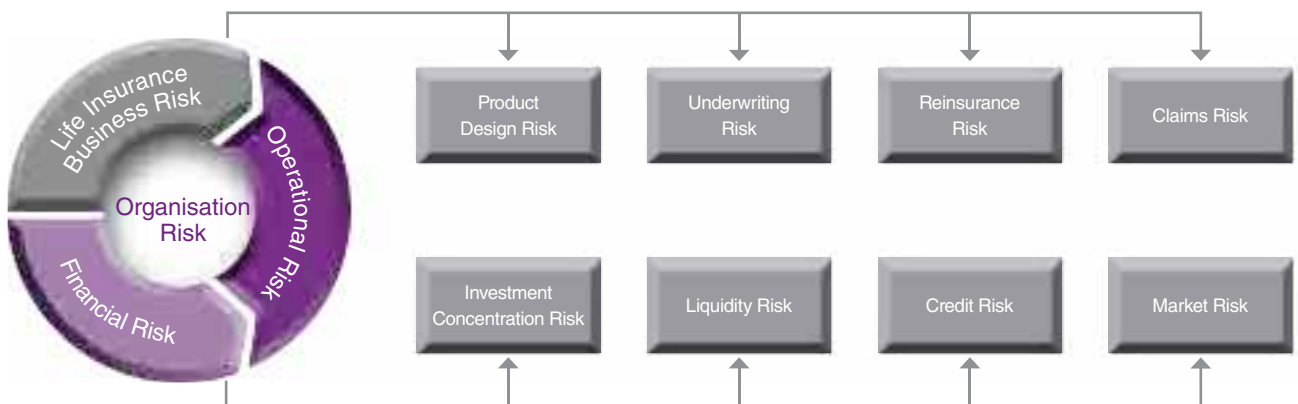
All foreign exchange transactions are converted to functional currency, at the rates of exchange prevailing at the time the transactions are effected.

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.

7 Financial Risk Management

The following 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.



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.

Details of our risk management framework, objectives and regulatory framework is provided under Corporate Governance and Enterprise Risk Management section.

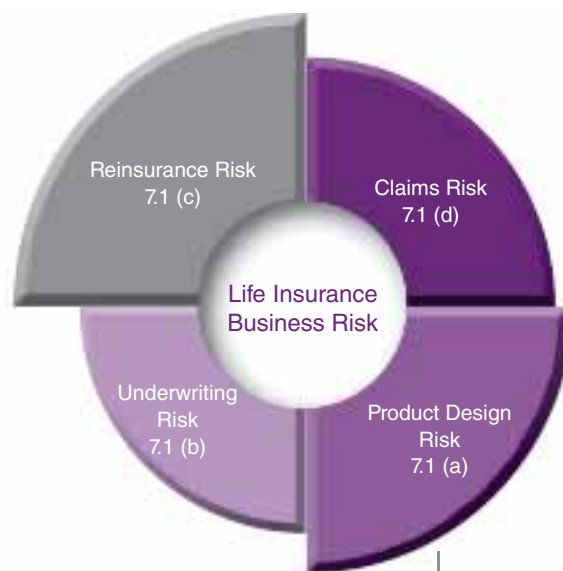


Regulatory Framework

The Insurance Regulatory Commission of Sri Lanka (IRCSL) 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 IRCSL. The Company has adequate Total Available Capital (TAC) in policyholder's 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. 7 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 spread.
- ▶ 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 191 to 205.

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 reinsurance risk.

7.1 (a) Product Design Risk

Life insurance product design largely depends on futuristic hypothetical assumptions. Accordingly there is a risk of introducing unprofitable products to the market due to inappropriate use of assumptions or judgements. 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 with adjustments to reflect the Company's mortality experience.
Morbidity risk	Risk of loss arising due to policyholders health experience being different from expected	Assumptions are based on reinsurance 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 expense 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	Lapse and surrender rates are projected according to the Company's past experience.
Longevity risk	Risk of loss arising due to the annuitant living longer than expected	Terms and conditions included in insurance applications have been designed to address non standard and unpredictable risks.
Concentration risk	Risk of losses due to not maintaining a balanced product portfolio	Developing a proper product mix in line with Company strategy.

NOTES TO THE FINANCIAL STATEMENTS

Overall Risk Mitigation Approach in Traditional Life Insurance

Product	Key risks	Risk mitigation
Traditional participating	<ul style="list-style-type: none"> ▶ Market risk: Investment return on underlying items falling below guaranteed minimum rates ▶ Policyholder behaviour risk 	<ul style="list-style-type: none"> ▶ Management discretion to determine amount and timing of policyholder bonuses (within limits) ▶ Surrender penalties
Non Participating	<ul style="list-style-type: none"> ▶ Market risk: Insufficient fees to cover cost of guarantees and expenses ▶ Policyholder behaviour risk 	<ul style="list-style-type: none"> ▶ Derivative hedging programme ▶ Surrender penalties
Universal life	<ul style="list-style-type: none"> ▶ Interest rate risk: Differences in duration and yield of assets and liabilities ▶ Investment credit risk 	<ul style="list-style-type: none"> ▶ Matching of asset and liability cash flows ▶ Investing in investment grade assets
Unit linked product	<ul style="list-style-type: none"> ▶ Market risk: Insufficient fees to cover expenses ▶ Policyholder behaviour risk 	<ul style="list-style-type: none"> ▶ Surrender penalties

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.

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	2017		2016	
	Rs. '000	%	Rs. '000	%
Participating	10,427,564	39	9,529,656	34
Non Participating	16,484,493	61	18,173,754	66
Total traditional	26,912,057	100	27,703,410	100
Non unit fund of linked insurance	37,556		186,272	
Total value of insurance liabilities	26,949,613		27,889,682	

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 2017 or 2016, based on the results of the liability adequacy test.

Assumption	Change %	Impact on liabilities %		Impact on liabilities Rs. '000	
		2017	2016	2017	2016
Mortality	+ 10	0.34	0.64	60,092	79,891
	- 10	(0.34)	(0.64)	(60,237)	(160,073)
Discount rate	+ 1	(1.56)	(4.80)	(348,476)	(823,669)
	- 1	1.67	(2.22)	373,811	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 advisors.
- ▶ Use of common pricing policy.

7.1 (c) Reinsurance Risk

Notwithstanding the advantages reinsurance provide, 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 based on the guidelines issued by the IRCSL.
- ▶ Management assesses the credit worthiness of reinsurers on a regular basis to update the reinsurance strategy and ascertain the suitable allowance for impairment of reinsurance assets.

The Company reinsures approximately 5% of gross written premium.

For the year ended 31 December	2017		2016	
	Rs. '000	%	Rs. '000	%
Gross Written premium	10,117,630		8,270,751	
Reinsurance	(497,612)	5	(423,857)	5
Net Written Premium	9,620,018		7,846,894	

Company has recovered approximately 5% of gross claims from reinsurers during the period under review.

For the year ended 31 December	2017		2016	
	Rs. '000	%	Rs. '000	%
Gross claims paid	2,828,188		1,682,170	
Claims recovered from reinsurers	(154,455)	5	(157,860)	9
Net claims	2,673,733		1,524,310	

7.1 (d) Claims 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.

7.2 Financial Risk

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 risks through financial assets and financial liabilities.

Financial risks can be categorised as follows;



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 over exposure to one investment, asset class, risk factor, etc.

NOTES TO THE FINANCIAL STATEMENTS

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.
- ▶ The IC 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	2017		2016	
	Rs. '000	%	Rs. '000	%
Government securities and related institutions	26,704,668	77	20,768,546	73
Corporate debt securities	4,916,292	14	5,407,765	19
Fixed deposits	647,447	2	584,609	2
Investment in quoted equity	2,344,572	7	1,706,751	6
Derivative financial instruments	50,737	-	-	-
Total	34,663,716	100	28,467,671	100

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 sectors for which the Company believes, the credit risk and market risk is low.

As at 31 December	2017		2016	
	Rs. '000	%	Rs. '000	%
Banking, Finance and Insurance	4,723,242	96	5,158,049	95
Beverage, Food and Tobacco	46,743	1	82,545	2
Diversified Holdings	146,307	3	144,445	3
Manufacturing	-	-	22,726	-
Total	4,916,292	100	5,407,765	100

Fixed Deposits

This includes investments made in fixed deposits issued by DFCC Bank PLC.

Investment in Quoted Equity

Considering the market return and risk, the Company has predominantly invested in Banking, Finance and Insurance sectors and regularly reviews market risk of the portfolio to assess adequacy of diversification.

As at 31 December Sector	2017		2016	
	Rs. '000	%	Rs. '000	%
Banking, Finance and Insurance	1,729,058	74	1,195,167	70
Diversified Holdings	218,137	9	202,606	12
Manufacturing	306,107	13	238,125	14
Construction and Engineering	69,695	3	42,308	2
Motors	10,810	1	12,818	1
Hotels and Travels	10,765	-	15,727	1
Total	2,344,572	100	1,706,751	100

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 investments to accommodate expected obligations and commitments of the Company.

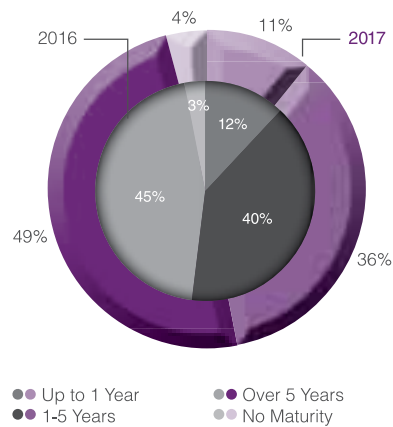
Excess liquidity position of the Company excluding insurance contract liabilities is given below;

As at 31 December	2017		2016	
	Rs. '000	%	Rs. '000	%
Up to one year	7,229,190	11	6,211,090	12
1 - 5 Years	23,303,309	36	21,734,927	40
Over 5 years	31,707,547	49	24,226,229	45
No maturity	2,344,572	4	1,706,751	3
	64,584,618	100	53,878,997	100

Excess Liquidity Position



Composition of Excess Liquidity Position



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 summarises the maturity profiles of non derivative financial assets and financial liabilities based on remaining undiscounted contractual obligations, including interest payable and receivable.

As at 31 December 2017 Rs. '000	Carrying amount	No fixed tenure	Up to one year	1 - 5 years	Over 5 years	Total
Financial assets						
Held to maturity	18,319,379	-	4,068,090	11,037,738	26,124,171	41,229,999
Loans and receivables	5,883,031	-	1,715,672	5,086,501	-	6,802,173
Available for sale	8,065,997	-	1,182,908	6,718,074	4,892,838	12,793,820
Fair value through profit or loss	2,395,309	2,344,572	50,737	-	-	2,395,309
Other financial assets	361,181	-	135,110	195,971	94,837	425,918
Loans to life policyholders	1,001,538	-	140,812	265,025	595,701	1,001,538
Reinsurance receivable	267,417	-	267,417	-	-	267,417
Premiums receivable	268,511	-	268,511	-	-	268,511
Cash in hand and at bank	580,126	-	580,126	-	-	580,126
Total undiscounted assets	37,142,489	2,344,572	8,409,383	23,303,309	31,707,547	65,764,811
Financial liabilities						
Reinsurance payables	345,146	-	345,146	-	-	345,146
Other financial liabilities	639,741	-	639,741	-	-	639,741
Bank overdraft	195,306	-	195,306	-	-	195,306
Total undiscounted liabilities	1,180,193	-	1,180,193	-	-	1,180,193
Total excess liquidity	35,962,296	2,344,572	7,229,190	23,303,309	31,707,547	64,584,618

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016 Rs. '000	Carrying amount	No fixed tenure	Up to one year	1 - 5 years	Over 5 years	Total
Financial assets						
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
Loans to life policyholders	867,177	-	258,445	463,095	145,637	867,177
Reinsurance receivable	178,181	-	178,181	-	-	178,181
Premiums receivable	246,800	-	246,800	-	-	246,800
Cash in hand and at bank	379,232	-	379,232	-	-	379,232
Total undiscounted assets	30,543,959	1,706,751	7,143,284	21,734,927	24,226,229	54,811,191
Financial liabilities						
Reinsurance payables	208,742	-	208,742	-	-	208,742
Other financial liabilities	573,146	-	573,146	-	-	573,146
Bank overdraft	150,306	-	150,306	-	-	150,306
Total undiscounted liabilities	932,194	-	932,194	-	-	932,194
Total excess liquidity	29,611,765	1,706,751	6,211,090	21,734,927	24,226,229	53,878,997

The table below sets out the availability of the Company's financial assets to support future funding.

As at 31 December Unencumbered Rs.'000	2017			2016		
	Restricted as collateral	Available as collateral	Total	Restricted as collateral	Available as collateral	Total
Held to maturity	17,727,184	592,195	18,319,379	15,396,036	-	15,396,036
Loans and receivables	5,806,251	76,780	5,883,031	5,380,958	28,895	5,409,853
Available for sale	6,538,609	1,527,388	8,065,997	4,632,489	1,322,542	5,955,031
Fair value through profit or loss	4,524,514	-	4,524,514	4,086,336	-	4,086,336
Loans to life policyholders	1,001,538	-	1,001,538	867,177	-	867,177
Reinsurance receivable	267,417	-	267,417	178,181	-	178,181
Premiums receivable	268,511	-	268,511	246,800	-	246,800
Other financial assets	125,230	235,951	361,181	193,021	211,877	404,898
Cash in hand and at bank	580,120	6	580,126	379,182	50	379,232
Total	36,839,374	2,432,320	39,271,694	31,360,180	1,563,364	32,923,544

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 as at 31 December 2017.

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.

The Company's exposure to credit risk is derived from the following main categories of assets and the analysis of maximum credit exposure is given below.

As at 31 December Risk element	2017		2016	
	Rs. '000	%	Rs. '000	%
Financial investments	32,268,407	92	26,760,920	93
Loans to life policyholders and staff / agents	1,305,579	4	1,146,740	4
Amounts due from related parties	11,954	-	100,988	-
Reinsurance receivable	267,417	1	178,181	1
Premiums receivable	268,511	1	246,800	1
Cash in hand and at bank	580,126	2	379,232	1
Total	34,701,994	100	28,812,861	100

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 implemented when the Company identifies investments that are expected to be downgraded.

- ▶ The Company identifies and selectively reduces unsecured and subordinated credit exposure issued by 3rd parties 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 and credit quality of financial investments are shown below.

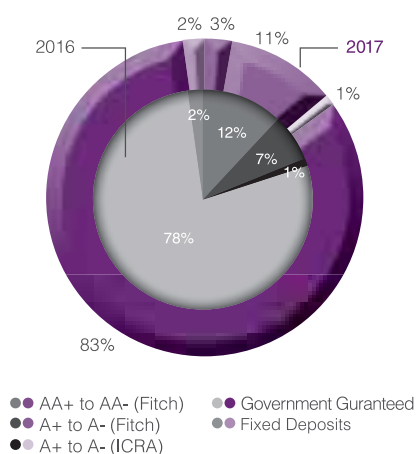
As at 31 December 2017 Rs. '000	Held to maturity financial assets		Available for sale financial assets		Financial assets at fair value through profit or loss		Total	%
	Loans and receivables		Loans and receivables					
Maximum exposure to credit risk, carrying amount	18,319,379	5,883,031	8,065,997	-	-	-	32,268,407	
Government securities and related institutions								
Treasury bonds	18,028,394	-	7,900,165	-	-	-	25,928,559	80
Treasury bills	-	-	165,832	-	-	-	165,832	1
Reverse repo	-	610,277	-	-	-	-	610,277	2
Corporate debt securities								
AA+ to AA- (Fitch)	74,395	863,559	-	-	-	-	937,954	3
A+ to A- (Fitch)	216,590	3,329,240	-	-	-	-	3,545,830	11
A+ to A- (ICRA)	-	255,821	-	-	-	-	255,821	1
BBB+ to BBB- (Fitch)	-	176,687	-	-	-	-	176,687	-
Fixed deposits								
Deposit with licensed commercial banks	-	647,447	-	-	-	-	647,447	2
Total	18,319,379	5,883,031	8,065,997	-	-	-	32,268,407	100
Past due but not impaired	Nil	Nil	Nil	Nil	Nil	Nil	Nil	
Impaired	Nil	Nil	Nil	Nil	Nil	Nil	Nil	

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2016

Rs. '000	Held to maturity financial assets	Loans and receivables	Available for sale financial assets	Financial assets at fair value through profit or loss	Total	%
Maximum exposure to credit risk, carrying amount	15,396,036	5,409,853	5,955,031	-	26,760,920	
Government securities and related institutions						
Treasury bonds	14,542,076	-	5,822,216	-	20,364,292	77
Treasury bills	-	-	132,815	-	132,815	-
Reverse repo	-	271,439	-	-	271,439	1
Corporate debt securities						
AA+ to AA - (Fitch)	798,245	2,462,665	-	-	3,260,910	12
A+ to A- (Fitch)	55,715	1,817,164	-	-	1,872,879	7
A+ to A- (ICRA)	-	203,144	-	-	203,144	1
BBB+ to BBB- (Fitch)	-	70,832	-	-	70,832	-
Fixed deposits						
Deposit with licensed commercial banks		584,609	-	-	584,609	2
Total	15,396,036	5,409,853	5,955,031	-	26,760,920	100
Past due but not impaired	Nil	Nil	Nil	Nil	Nil	
Impaired	Nil	Nil	Nil	Nil	Nil	

Exposure to Credit Risk Rating Class Wise



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 690 million as collateral for reverse repo investments amounting to Rs. 610 million.

Credit Risk Related to Policy Loans and Others

Financial losses could arise due to non settlement of loans obtained by policyholders.

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 reaches 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	2017 Rs. '000	2016 Rs. '000
Neither past due nor impaired		
Past due but not impaired	76,593	51,610
61- 90 days	31,396	23,047
91-180 days	81,571	65,705
181 days +	811,978	726,815
Total	1,001,538	867,177
Impaired	Nil	Nil
Total - Maximum exposure to credit risk	1,001,538	867,177

The Company considers the surrender value of the life policy as collateral for loans issued. As at the reporting date, the value of policy loans granted amounted to Rs. 1,002 million (2016 - 867 million) and its related surrender value is Rs. 1,693 million (2016 - 1,471 million).

Credit Risk Related to Amounts Due From Related Parties

Financial losses could arise due to non settlement of amounts due from related parties.

Risk Response

- ▶ Related party transaction are settled within pre agreed specific duration according to the Company policy.

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 credit worthiness of reinsurers.

As at 31 December	2017		2016	
	Rs. '000	%	Rs. '000	%
Reinsurance receivables on outstanding claims	135,657	51	85,306	48
Reinsurance receivables on settled claims	131,760	49	92,875	52
Total reinsurance receivables / Maximum exposure to credit risk	267,417	100	178,181	100

As at 31 December 2017, 100% (2016 - 100%) of our reinsurance receivables was due from reinsurers with a rating of A+ and above. There were no collateral against reinsurance receivables as at reporting date.

As at 31 December			2017		2016	
Reinsurer	Rating Agency	Rating	Reinsurance receivables	%	Reinsurance receivables	%
Munich	Fitch	AA	217,717	81	157,240	88
Hannover	Standard & Poor's	AA-	48,341	18	13,101	8
RGA	Fitch	A+	1,359	1	7,840	4
Total			267,417	100	178,181	100

Credit Risk Related to Premiums Receivable

Premiums receivable consist of premiums 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 premiums receivable as at 31 December 2017 is Rs. 269 million (2016 - Rs. 247 million).

As at 31 December	2017 Rs. '000	2016 Rs. '000
Neither past due nor impaired		
0 - 30 days	268,511	246,800
Pass due but not impaired	Nil	Nil
Total - Maximum exposure to credit risk	268,511	246,800

NOTES TO THE FINANCIAL STATEMENTS

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 below. Majority i.e 57% of funds are deposited in banking institutions backed by government of Sri Lanka.

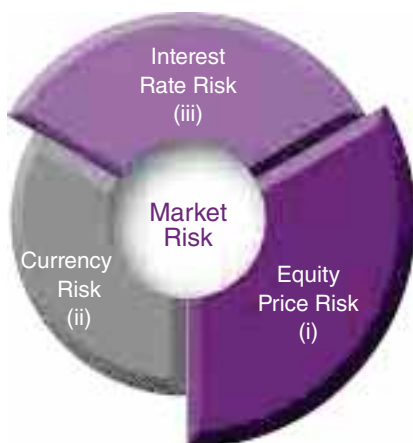
As at 31 December	2017		2016	
	Amount Rs. '000	%	Amount Rs. '000	%
Bank				
Bank of Ceylon	270,979	47.0	204,114	54.3
Commercial Bank of Ceylon PLC	45,529	7.9	22,152	5.9
Deutsche Bank AG	6,103	1.1	-	-
DFCC Bank PLC	450	0.1	185	-
HDFC Bank of Sri Lanka	5,094	0.9	3,794	1.0
Hatton National Bank PLC	17,313	3.0	13,182	3.5
National Development Bank PLC	31,958	5.5	14,627	3.9
National Savings Bank	5,246	0.9	7,566	2.0
Nations Trust Bank PLC	40,057	6.9	26,014	6.9
People's Bank	17,117	3.0	35,860	9.5
Sampath Bank PLC	10,340	1.7	11,421	3.0
Standard Chartered Bank	6,985	1.2	7,237	1.9
Seylan Bank PLC	7,967	1.4	3,579	1.0
Union Bank of Colombo PLC	111,890	19.4	26,683	7.1
Total cash at banks	577,028	100	376,414	100
Cash in hand	3,098		2,818	
Total cash in hand	3,098		2,818	
Total cash in hand and at bank	580,126		379,232	

The Company held cash in hand and at bank of Rs. 580 million as at 31 December 2017 (2016 - Rs. 379 million). The cash at bank are held with banks and financial institutional counterparties, which are rated BB+ or better as at 31 December 2017.

As at 31 December	2017		2016	
	Amount Rs. '000	%	Amount Rs. '000	%
Rating				
AAA	5,246	0.9	7,566	2.0
AA+	288,096	49.7	239,974	63.4
AA	45,529	7.8	29,389	7.7
AA-	17,763	3.1	27,994	7.4
A+	49,283	8.5	11,421	3.0
A	40,057	6.9	26,014	6.9
A-	14,070	2.4	3,579	0.9
BBB	5,094	0.9	3,794	1.0
BB+	111,890	19.3	26,683	7.0
Cash in hand	3,098	0.5	2,818	0.7
Total	580,126	100	379,232	100

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 three main categories;



(i) 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.

Risk Response

- ▶ Equity investment decisions are based on fundamentals rather than on speculation.
- ▶ 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.

As at 31 December 2017, the Company has invested 7% in equity as shown in the table below.

As at 31 December	2017		2016	
	Value	% of allocation	Value	% of allocation
Rs.'000				
Banking, Finance and Insurance	1,729,058	5	1,195,167	4
Diversified Holdings	218,137	1	202,606	1
Manufacturing	306,107	1	238,125	1
Construction and Engineering	69,695	-	42,308	-
Motors	10,810	-	12,818	-
Hotels and Travels	10,765	-	15,727	-
Total value of equity	2,344,572	7	1,706,751	6
Total value of investments	34,663,716		28,467,671	

The following shows the estimated impact from a 10% change in the stock market prices on the portfolio with indicative comparatives.

Sensitivity of Fund Inflow to Change in Equity Prices

As at 31 December	2017		2016	
	Impact on fund inflow	Impact on equity investments	Impact on fund inflow	Impact on equity investments
Rs.'000				
10% increase in equity prices	234,457	234,457	170,675	170,675
10% decrease in equity prices	(234,457)	(234,457)	(170,675)	(170,675)

NOTES TO THE FINANCIAL STATEMENTS

(ii) 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 and software vendors who operates outside the country.

Risk Response

Company does not carry foreign currency dominated assets or liabilities and any such foreign payment is promptly processed.

(iii) 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.

Floating rate instruments expose the Company to cash flow fluctuations, whereas fixed interest rate instruments expose the Company to changes in fair values.

Risk Response

- ▶ The Investment Committee keeps a regular track of macroeconomic scenarios and their likely impact on interest rates.
- ▶ Initial recognition of investments is closely monitored.
- ▶ Proactively evaluate and execute forward purchases to lock in future cash flows at favourable interest rates.

The following provides details of the quantum of investment exposed to fluctuations in fair values. No instrument is exposed to fluctuations in cash flows as the Company does not hold any instruments with variable interest rates.

As at 31 December Instruments Rs.'000	2017			2016		
	Fixed Interest Rate	Variable Interest Rate	Non-Interest bearing	Fixed Interest Rate	Variable Interest Rate	Non-Interest bearing
Government securities	26,704,668	-	-	20,768,546	-	-
Corporate debts	4,916,292	-	-	5,407,765	-	-
Fixed deposits	647,447	-	-	584,609	-	-
Equity instruments	-	-	2,344,572	-	-	1,706,751
Derivative financial instruments	-	-	50,737	-	-	-
Total	32,268,407	-	2,395,309	26,760,920	-	1,706,751

7.3 Operational Risk

Risk is 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 risk owners and managers who are responsible for the development and implementation of controls to address operational risks. This responsibility is supported by the development of overall company standards for the management of operational risks in the following areas:

- ▶ Segregation of duties, including the independent authorisation of transactions.
- ▶ Reconciliation and monitoring of transactions.
- ▶ Compliance with regulatory and other legal requirements.
- ▶ Documentation of controls and procedures.
- ▶ Periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- ▶ 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 standards, 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 Executive 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, share price appreciation, 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. 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 capital, the Company engages in 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 benefits and claims assured

The Company has adequate Total Available Capital (TAC) to support the Risk Based Capital Required (RCR).

As at 31 December	2017 Rs. '000	2016 Rs. '000
Total Available Capital (TAC)	16,538,376	14,346,884
Formula Risk based Capital Required (FRCR)	4,701,641	3,492,978
Surrender Value Capital Charge (SVCC)	-	-
Risk based Capital requirement (RCR)	4,701,641	3,492,978
Risk based Capital Adequacy Ratio (CAR)	352%	411%

8 Fair Value Measurement and Related Fair Value Disclosures

Financial instruments and non financial assets disclosed at fair value or that are measured at fair value are given 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	Note 26
Financial instruments (Including those carried at amortised cost)	Note 28

'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 buildings.

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 prices 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.

NOTES TO THE FINANCIAL STATEMENTS

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 instruments 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 judgement 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.

Following note explains the methodology for valuing our financial assets and provides an analysis of these according to the 'fair value hierarchy'.

Instrument Category	Fair value basis	Fair value hierarchy
Government Securities		
Treasury Bonds	Valued using the market yield	Level 1
Treasury Bills	Valued using the market yield	Level 1
Investment in Shares		
Investment in Listed Shares	Closing market prices	Level 1
Corporate Debt		
Listed	Published market prices	Level 1 / Level 2*
Fixed and Term Deposits		
Deposits over one year	Discounted Cash Flow (DCF) Method Using Treasury Bond rates for similar maturity plus a risk premium. The risk premium is determined based on the upgrade / downgrade of the credit rating of the institution.	Level 2

* Listed corporate debts which have been traded during the period have been classified under Level 1 and others under level 2.

Use of Judgements 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 judgement is required in establishing fair values. The judgements 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 SLFRSs / LKASs.

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 AFS portfolios. Market price data is generally obtained from dealer markets.

As at 31 December Rs.'000	Note	Fair value hierarchy							
		2017				2016			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL									
Financial assets held for trading:									
Equity securities	28.6	2,344,572	-	-	2,344,572	1,706,751	-	-	1,706,751
Derivative financial instruments	28.6	-	50,737	-	50,737	-	-	-	-
Designated at FVTPL									
Investments for the benefit of Life insurance policyholders who bear the investment risk									
Equity securities	28.6	1,628,378	-	-	1,628,378	1,814,977	-	-	1,814,977
Debt securities	28.6	-	86,790	-	86,790	-	56,283	-	56,283
Government securities	28.6	158,242	223,361	-	381,603	259,630	202,959	-	462,589
Fixed deposits	28.6	-	32,434	-	32,434	-	45,736	-	45,736
		4,131,192	393,322	-	4,524,514	3,781,358	304,978	-	4,086,336
AFS financial assets:									
Treasury bonds	28.5	7,900,165	-	-	7,900,165	5,822,216	-	-	5,822,216
Treasury bills	28.5	165,832	-	-	165,832	132,815	-	-	132,815
		8,065,997	-	-	8,065,997	5,955,031	-	-	5,955,031
Total of fair values of financial assets carried at fair value		12,197,189	393,322	-	12,590,511	9,736,389	304,978	-	10,041,367

8.3 Transfer between levels

There were no transfers in 2017. (2016 - Nil)

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.

As at 31 December	2017 Rs. '000	2016 Rs. '000
Financial Assets		
Reinsurance receivable	267,417	178,181
Premiums receivable	268,511	246,800
Receivables and other assets	361,181	404,898
Cash in hand and at bank	580,126	379,232
Financial Liabilities		
Reinsurance payables	345,146	208,742
Other financial liabilities	639,741	573,146
Bank overdraft	195,306	105,306

The fair value of policyholder loans are equals to its carrying value as those are given at competitive market rates.

NOTES TO THE FINANCIAL STATEMENTS

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	Rs.'000	Note	Fair value hierarchy									
			2017					2016				
			Amortised cost	Level 1	Level 2	Level 3	Total	Amortised cost	Level 1	Level 2	Level 3	Total
HTM financial assets												
Quoted debentures	28.3		290,985	75,475	255,014	-	330,489	853,960	56,534	818,971	-	875,505
Treasury bonds	28.3		18,028,394	18,941,981	-	-	18,941,981	14,542,076	13,720,452	-	-	13,720,452
			18,319,379	19,017,456	255,014	-	19,272,470	15,396,036	13,776,986	818,971	-	14,595,957
L & R financial assets												
Bank deposits	28.4		647,447	-	647,484	-	647,484	584,609	-	591,372	-	591,372
Quoted debentures	28.4		4,625,307	2,153,269	2,542,218	-	4,695,487	4,553,805	1,788,347	2,765,458	-	4,553,805
Reverse repurchase agreements	28.4		610,277	-	610,277	-	610,277	271,439	-	271,439	-	271,439
			5,883,031	2,153,269	3,799,979	-	5,953,248	5,409,853	1,788,347	3,628,269	-	5,416,616
Total of fair values of financial investments not measured at fair value			24,202,410	21,170,725	4,054,993	-	25,225,718	20,805,889	15,565,333	4,447,240	-	20,012,573

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.

Income and expenses are presented on a net basis only when permitted under SLFRSs / LKASs, or for gains and losses arising from a group of similar transactions such as the Company's trading activity.

Depending on the intention and ability to hold the invested assets, the financial assets category and their classification categories are shown in the table below.

Held To Maturity (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.

Loans and Receivables (L&R)

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

Available For Sale (AFS)

Financial assets that are designated as AFS and that are not classified in any of the previous categories.

AFS financial investments include equity and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVTPL. 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.

Fair Value Through Profit or Loss (FVTPL)

Financial assets held for trading and those designated upon initial recognition at FVTPL and investments typically bought with the intention to sell in the near future.

For investments designated at FVTPL, the following criteria must be met;

- ▶ The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, Or
- ▶ The assets and liabilities are part of a Company's financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with the Company's' investment strategy.

Subsequent Measurement**Fair Value Through Profit or Loss (FVTPL)**

Financial assets at fair value through profit or 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 at fair value through profit or loss comprises of financial assets of the unit linked fund, equity instruments and derivative financial instruments of the life fund.

Held to Maturity Financial Assets (HTM)

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.

Held to maturity financial assets comprise of quoted debentures and treasury bonds.

Loans and Receivables (L&R)

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 quoted debentures, reverse repurchase agreements, policy loans and other loans, reinsurance receivable, premiums receivable and cash at bank and in hand.

Available for Sale Financial Assets (AFS)

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.

AFS financial assets comprise of treasury bills and bonds.

Company's non derivative financial assets and their classifications are summarised as follows;

Financial Asset	Category			
	HTM	AFS	L&R	FVTPL
Treasury bonds	✓	✓	-	-
Treasury bills	-	✓	-	✓
Reverse repurchase agreements	-	-	✓	✓
Quoted shares	-	-	-	✓
Corporate debts	✓	-	✓	✓
Policy loans	-	-	✓	-
Staff and advisor loans	-	-	✓	-
Term deposits	-	-	✓	✓
Cash in hand and at bank	-	-	✓	-
Reinsurance receivables	-	-	✓	-
Premiums receivable	-	-	✓	-
Other receivables	-	-	✓	-

NOTES TO THE FINANCIAL STATEMENTS

Impairment of 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 a 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.

Objective evidence that financial assets (including equity securities) are impaired may include;

- ▶ Significant financial difficulty of the borrower or user,
- ▶ Default or delinquency by debtor,
- ▶ It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization,
- ▶ Adverse change in the payment status of issuers or debtors in the Company, or
- ▶ In the case of equity a significant or prolonged decline in its fair value below its cost.

Impairment Losses on Financial Assets Carried at Amortised Cost

The Company considers evidence of impairment for financial assets measured at amortised cost (L&R and HTM 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 against L&R or HTM 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 AFS Financial Assets

Impairment losses on AFS 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 AFS 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.

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;

- (a) the Company has transferred substantially all the risks and rewards of the asset, or
- (b) 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;

- (a) the consideration received (including any new asset obtained less any new liability assumed) and
- (b) In case of AFS financial investments, 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.

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 overdraft.

Derecognition

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

9.3 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 the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

9.4 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.

9.5 Reclassification of Financial Assets and Liabilities

The Company reclassifies non derivative financial assets out of the held for trading category and into the AFS, L&R, or HTM categories as permitted by the Sri Lanka Accounting Standard LKAS 39 - Financial Instruments: Recognition and Measurement, Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the AFS category and into the L&R category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. 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 with a fixed maturity reclassified out of the AFS category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset 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.

In the case of a financial asset that does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss.

The Company may reclassify a non derivative trading asset out of the 'held for trading' category and into the 'L&R' category, if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of the management and is determined on an instrument by instrument basis.

The Company does not reclassify any financial instrument into the FVTPL category after initial recognition. Further, the Company does not reclassify any financial instrument out of the FVTPL category if upon initial recognition it was designated as fair value through profit or loss.

9.6 Derivatives Held for Risk Management Purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

Other Non Trading Derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS

Financial Assets and Liabilities by Category

As at 31 December Rs'000	Note	L&R		FVTPL	
		2017	2016	2017	2016
Financial Assets					
Financial investments	28	5,883,031	5,409,853	4,524,514	4,086,336
Loans to life policyholders	29	1,001,538	867,177	-	-
Reinsurance receivable	30	267,417	178,181	-	-
Premiums receivable	31	268,511	246,800	-	-
Receivables and other assets	32	361,181	404,898	-	-
Cash in hand and at bank	33	580,126	379,232	-	-
Total financial assets		8,361,804	7,486,141	4,524,514	4,086,336
Financial Liabilities					
Reinsurance payables	41	-	-	-	-
Other financial liabilities	42	-	-	-	-
Bank overdraft	33	-	-	-	-
Total financial liabilities		-	-	-	-

10 Gross Written Premium (GWP)

Accounting Policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

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.

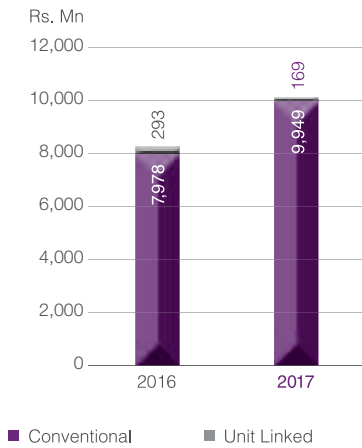
Premiums received in advance are not recorded as revenue and recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as income. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Conventional	9,948,845	7,978,191
Unit linked	168,785	292,560
Total gross written premium	10,117,630	8,270,751

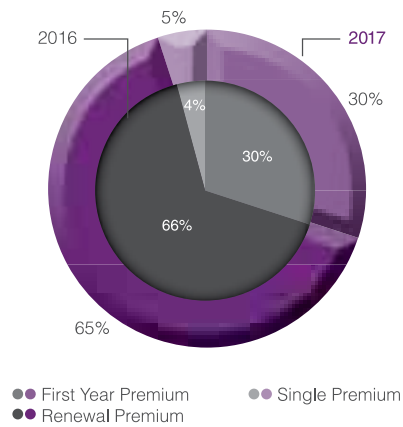
For the year ended 31 December Rs.'000	2017			2016		
	Conventional	Unit linked	Total	Conventional	Unit linked	Total
Individual policies						
First year premium	3,033,613	12,842	3,046,455	2,397,493	46,098	2,443,591
Renewal premium	6,262,164	153,893	6,416,057	5,189,512	242,103	5,431,615
Single premium	528,356	2,050	530,406	283,477	4,359	287,836
	9,824,133	168,785	9,992,918	7,870,482	292,560	8,163,042
Corporate policies						
New business premium	34,583	-	34,583	22,943	-	22,943
Renewal premium	90,129	-	90,129	84,766	-	84,766
	124,712	-	124,712	107,709	-	107,709
Total gross written premium	9,948,845	168,785	10,117,630	7,978,191	292,560	8,270,751

	AFS		HTM		Other financial liabilities		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	8,065,997	5,955,031	18,319,379	15,396,036	-	-	36,792,921	30,847,256
	-	-	-	-	-	-	1,001,538	867,177
	-	-	-	-	-	-	267,417	178,181
	-	-	-	-	-	-	268,511	246,800
	-	-	-	-	-	-	361,181	404,898
	-	-	-	-	-	-	580,126	379,232
	8,065,997	5,955,031	18,319,379	15,396,036	-	-	39,271,694	32,923,544
	-	-	-	-	345,146	208,742	345,146	208,742
	-	-	-	-	639,741	573,146	639,741	573,146
	-	-	-	-	195,306	150,306	195,306	150,306
	-	-	-	-	1,180,193	932,194	1,180,193	932,194

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. Value of the premiums are decided on the rates agreed with reinsurers and accounted on an accrual basis.

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Conventional	496,641	422,742
Unit linked	971	1,115
Total premium ceded to reinsurers	497,612	423,857

NOTES TO THE FINANCIAL STATEMENTS

12 Net Investment Income

Accounting Policy

Investment income comprises interest income on funds invested (including AFS financial assets) and dividend income.

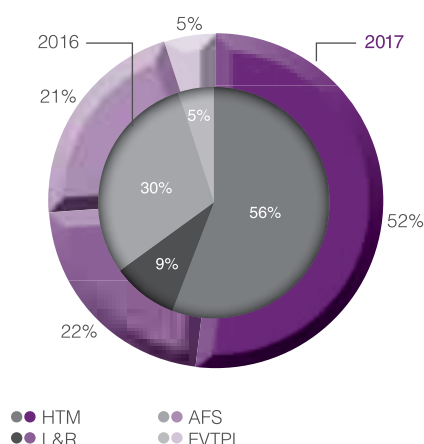
Interest income is recognised in the income statement as it accrues and is calculated by using the Effective Interest Rate method (EIR). The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the EIR, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the EIR includes all transaction costs and fees that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. 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 EIR 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.

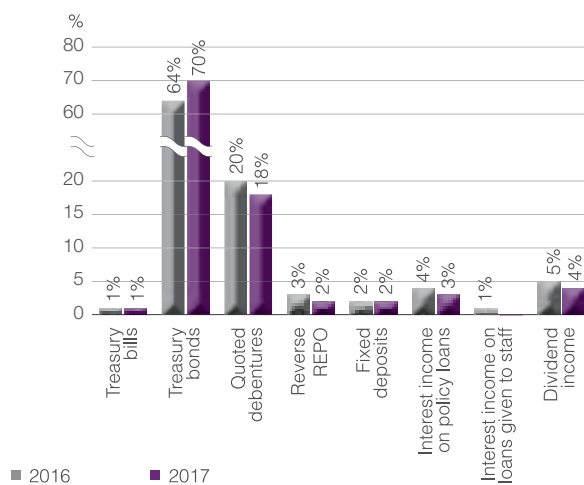
Dividends on equity investments are recognised in the income statement when the right to receive payment is established which is on the date at which the investment is priced 'ex dividend'.

For the year ended 31 December	Note	2017 Rs. '000	2016 Rs. '000
Investment income from;			
Held to maturity financial assets	12.1	1,928,009	1,697,817
Loans and receivables	12.2	802,686	274,111
Available for sale financial assets	12.3	776,659	914,416
Financial assets at fair value through profit or loss	12.4	190,026	177,921
Investment related expenses		(61,372)	(39,171)
Total net investment income		3,636,008	3,025,094

Investment Income - Reporting Category Wise



Composition of Investment Income



12.1 Investment Income from Held to Maturity Financial Assets

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Interest income		
Quoted debentures	123,686	178,857
Treasury bonds	1,804,323	1,518,960
	1,928,009	1,697,817

12.2 Investment Income from Loans and Receivables

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Interest income		
Interest income on policy loans	127,924	112,928
Reverse repurchase agreements	41,118	73,212
Fixed deposits	68,507	61,350
Interest income on loans given to staff and agents	16,440	18,495
Unquoted debentures	-	6,520
Quoted debentures	540,277	-
Savings account interest	7,376	1,344
Call deposits	1,044	262
	802,686	274,111

12.3 Investment Income from Available for Sale Financial Assets

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Interest income		
Quoted debentures	-	428,898
Treasury bonds	764,464	475,632
Treasury bills	12,195	9,886
	776,659	914,416

12.4 Investment Income from Fair Value Through Profit or Loss

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Interest income		
Treasury bills	15,403	19,951
Treasury bonds	3,553	2,648
Quoted debentures	7,139	4,010
Reverse repurchase agreements	17,262	19,642
Fixed deposits	8,413	871
Commercial paper	-	683
	51,770	47,805
Dividend income		
Held for trading - Conventional	74,255	60,982
Held for trading - Unit linked	64,001	69,134
	138,256	130,116
	190,026	177,921

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 AFS, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement.

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Realised gains	117,564	48
Realised losses	(41,973)	(131,996)
Total net realised gains / (losses)	75,591	(131,948)

For the year ended 31 December	2017			2016		
	Realised gains	Realised losses	Net realised gains / (losses)	Realised gains	Realised losses	Net realised gains / (losses)
Rs.'000						
Available for sale financial assets						
Debentures	-	-	-	25	-	25
Treasury bonds	-	(23)	(23)	23	-	23
	-	(23)	(23)	48	-	48
Fair value through profit or loss financial assets						
Quoted equity securities	117,564	(41,950)	75,614	-	(131,996)	(131,996)
	117,564	(41,950)	75,614	-	(131,996)	(131,996)
	117,564	(41,973)	75,591	48	(131,996)	(131,948)

NOTES TO THE FINANCIAL STATEMENTS

14 Net Fair Value Gains / (Losses)

Accounting Policy

Fair value gains and losses recorded in the income statement on investments include fair value gains / losses on financial assets at FVTPL and unrealised gain on derivative financial instruments.

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Fair value through profit or loss financial assets		
Quoted equity securities	204,767	(32,858)
Treasury bonds	2,118	(1,233)
Treasury bills	384	734
Debentures	354	(1,394)
Unrealised gain on derivative financial instruments	50,737	-
Total net fair value gains / (losses)	258,360	(34,751)

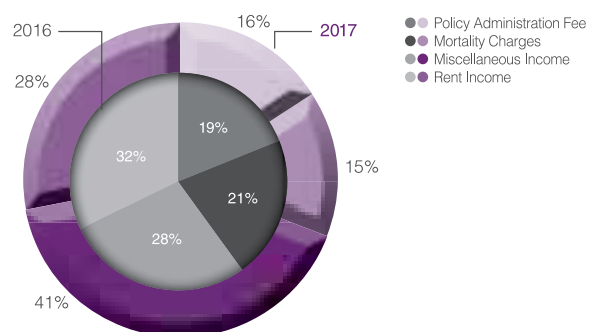
15 Other Income

Accounting Policy

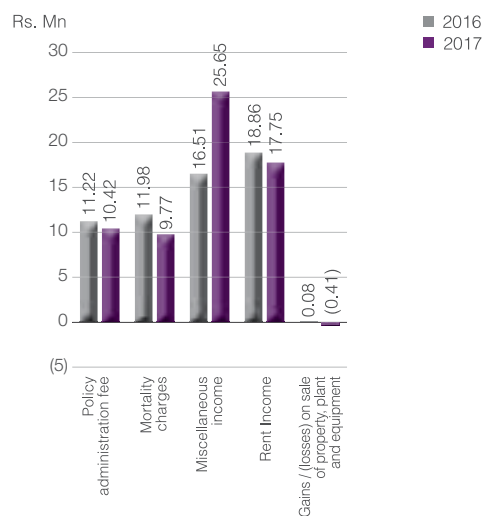
Other income comprises fees charged for policy administration services, disposal gains / losses on property, plant and equipment, mortality charges, rent income and miscellaneous income.

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Policy administration fee	10,418	11,216
Mortality charges	9,774	11,978
Miscellaneous income	25,646	16,512
Rent income	17,751	18,864
Gains / (losses) on sale of property, plant and equipment	(413)	83
Total other income	63,176	58,653

Composition of Other Income



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	2017			2016		
	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	428,391	(154,455)	273,936	365,914	(157,860)	208,054
Surrenders	506,382	-	506,382	363,764	-	363,764
Annuity payments	13,366	-	13,366	2,191	-	2,191
Policy maturities	1,880,049	-	1,880,049	950,301	-	950,301
Total net insurance benefits and claims paid	2,828,188	(154,455)	2,673,733	1,682,170	(157,860)	1,524,310

17 Net Change in Insurance Claims Outstanding

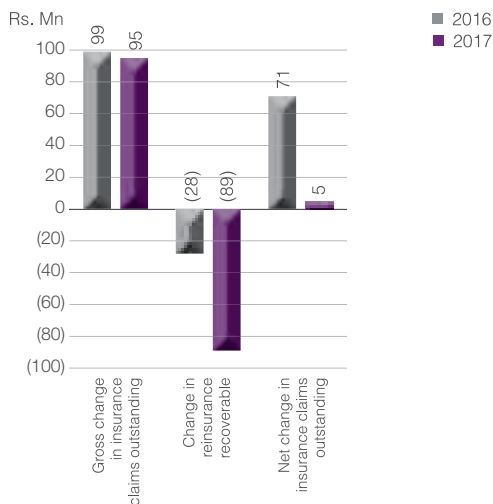
Accounting Policy

Reinsurance claims recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

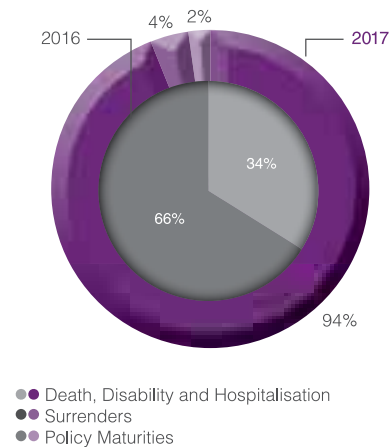
Differences between the estimated cost and subsequent settlement of claims or re-estimated costs are recognised in the income statement in the year in which they are settled or in which the insurance contract liabilities are re-estimated. Net change in insurance claims outstanding is recognised in the income statement.

For the year ended 31 December	2017			2016		
	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	89,187	(89,235)	(48)	33,577	(28,410)	5,167
Surrenders	3,170	-	3,170	54	-	54
Policy maturities	2,180	-	2,180	65,854	-	65,854
Total net change in insurance claims outstanding	94,537	(89,235)	5,302	99,485	(28,410)	71,075

Changes in Insurance Claims Outstanding



Composition of Gross Change In Insurance Claims Outstanding



17.1 Net Insurance Benefits and Claims Expense

For the year ended 31 December	Note	2017	2016
		Rs. '000	Rs. '000
Net insurance benefits and claims paid	16	2,673,733	1,524,310
Net change in insurance claims outstanding	17	5,302	71,075
Total net insurance benefits and claims expense		2,679,035	1,595,385

NOTES TO THE FINANCIAL STATEMENTS

18 Change in Contract Liabilities - Life Fund

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		2017			2016		
		Gross	Reinsurance	Net	Gross	Reinsurance	Net
Rs.'000	Note						
Premiums written	10 / 11	10,117,630	(497,612)	9,620,018	8,270,751	(423,857)	7,846,894
Insurance benefits and claims incurred	17.1	(2,922,725)	243,690	(2,679,035)	(1,781,655)	186,270	(1,595,385)
Underwriting and net acquisition costs (including reinsurance)	19	(1,902,872)	61,721	(1,841,151)	(1,528,721)	87,104	(1,441,617)
Other operating, selling and administrative expenses attributable to policyholders		(2,570,396)	-	(2,570,396)	(2,157,253)	-	(2,157,253)
Investment and other income attributable to policyholders		3,822,225	-	3,822,225	2,746,305	-	2,746,305
Income tax (expense) / reversal		-	-	-	(60,679)	-	(60,679)
Surplus from life insurance fund transferred to Life shareholder's fund	38.5 (a)	(3,642,000)	-	(3,642,000)	(1,100,000)	-	(1,100,000)
Change in contract liabilities - Life Fund		2,901,862	(192,201)	2,709,661	4,388,748	(150,483)	4,238,265

19 Underwriting and Net Acquisition Costs (Net of Reinsurance)

Accounting Policy

All acquisition costs are recognised as an expense when incurred. Reinsurance commission income on outward reinsurance contracts is recognised when receivable.

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Acquisition cost	1,902,872	1,528,721
Reinsurance commission including profit commission	(61,721)	(87,104)
Total underwriting and net acquisition costs	1,841,151	1,441,617

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	2017 Rs. '000	2016 Rs. '000
Employee benefits expenses	20.1	815,989	771,604
Administration and establishment expenses		1,102,577	857,656
Selling expenses		585,767	435,533
Total other operating, administrative and selling expenses		2,504,333	2,064,793

20.1 Employee Benefits Expenses

Refer Note 40 for the Accounting Policy.

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.

For the year ended 31 December	Note	2017 Rs. '000	2016 Rs. '000
Short Term Employee Benefits			
Staff remuneration		634,547	606,639
Defined contribution plan cost - EPF		55,238	52,086
Defined contribution plan cost - ETF		13,810	13,021
Staff welfare		36,363	30,989
Training expenses		32,439	23,817
Other costs		10,807	14,640
		<u>783,204</u>	<u>741,192</u>
Long Term Employee Benefits			
Defined benefit plan cost	40.3	22,762	20,948
Share based payment expense	36.3	10,023	9,464
		<u>32,785</u>	<u>30,412</u>
Total employee benefits expenses		<u>815,989</u>	<u>771,604</u>

21 Profit Before Tax

Profit before tax is stated after charging all expenses including the following;

For the year ended 31 December	Note	2017 Rs. '000	2016 Rs. '000
Directors fees and emoluments		44,559	34,711
Auditors remuneration			
- Statutory audit and audit related services		4,355	4,271
- Non audit related services		1,332	1,208
Legal fees		1,328	2,551
Depreciation	26.1	71,597	80,524
Amortisation	25.1	33,026	30,366
Defined contribution plan			
- EPF	20.1	55,238	52,086
- ETF	20.1	13,810	13,021
Defined benefit plan cost	40.3	22,762	20,948
Research and development costs		465	1,488
CSR expenses		12,681	8,719
Provision for impairment of			
- Staff loans	32.1 (a)	-	358
- Agent loans	32.2 (a)	541	374

22 Income Tax Expense

Accounting Policy

Income tax expense comprises current and deferred tax. Current tax and deferred tax relating to items recognised directly in equity or OCI is recognised in equity or OCI and not in the income statement. Current tax assets and liabilities are offset only if certain criteria are met.

22.1 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.

22.2 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 judgements about future events. New information may become available that causes the Company to change its judgement 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.

22.3 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

22.4 Crop Insurance Levy

The Crop Insurance Levy was introduced under the provisions of 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.

22.5 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.

NOTES TO THE FINANCIAL STATEMENTS

22.6 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, the taxation authority is included as a part of receivables or payables in the statement of financial position.

22.7 Deferred Tax Assets

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.

22.8 Tax Expenses / Reversal

22.8 (a) Amount Recognised in the Profit or Loss

For the year ended 31 December	Note	2017 Rs. '000	2016 Rs. '000
Current tax expense			
Current tax expense for the year		-	-
Deferred tax expense			
Origination of deferred tax assets	22.11 (a)	-	4,557
Origination of deferred tax liabilities	22.11 (a)	-	(65,236)
Net deferred tax expense recognised in the profit or loss		-	(60,679)
Income tax expense recognised in the profit or loss		-	(60,679)

Union Assurance PLC is liable to income tax at 28% in 2017 (2016 - 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.

Income tax expenses excludes the Company's share of income tax (expenses) / reversal of equity accounted investee of Rs. 6.9 million [2016 - Rs. (48.8 million)], which has been included in share of profit of equity accounted investee, net of tax.

22.8 (b) Amount Recognised in Other Comprehensive Income (OCI)

For the year ended 31 December	Note	2017 Rs. '000	2016 Rs. '000
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of property plant and equipment		-	1,517
Reassessment of defined benefit obligations		-	1,361
Items that may be reclassified subsequently to profit or loss			
Available for sale investment securities		-	57,801
Deferred tax expense recognised in OCI	22.11 (a)	-	60,679

22.8 (c) Impact of the Inland Revenue Act No 24 of 2017

Based on Inland Revenue Act No 24 of 2017, which has been legislated and is expected to become effective from 1 April 2018, the gains and profits liable to tax from the business of Life Assurance, whether mutual or proprietary, is the aggregate of the following, subject to the deduction of any unrelieved loss from business specified in the Act.

- ▶ The surplus distributed to shareholders from the life

22.8 (d) Reconciliation of Effective Tax Rate

A reconciliation between tax expense and the product of accounting profit.

For the year ended 31 December	2017 Rs. '000		2016 Rs. '000	
Profit from continuing operations	7,384,128		1,312,628	
Income tax expense	-		60,679	
Profit before tax from continuing operations	7,384,128		1,373,307	
Tax using the Company's domestic tax rate	28%	2,067,556	28%	384,526
Share of profit of equity accounted investee reported net of tax	1%	52,596	1%	16,888
Aggregate disallowable expenses	8%	573,453	71%	981,503
Tax - exempt income	(36%)	(2,693,605)	(104%)	(1,425,696)
Current year losses for which no deferred tax asset is recognised	-	-	3%	42,779
Deferred tax expense	-	-	(4%)	(60,679)
Total income tax expense	-	-	(4%)	(60,679)

insurance policyholders fund, as certified by the Appointed Actuary, and

- ▶ The investment income of the shareholders fund less any expenses incurred in the production of such income.

The surplus distributed to a life insurance policyholder who shares the profits of a person engaged in life insurance business shall be deemed as profits from business of that person and be liable to tax accordingly.

Temporary concession has been granted via a reduced rate of tax of 14% on the surplus distributed to life insurance policyholders who shares profits, for three years of assessment from the commencement of the Act.

This amendment to the existing tax law will change the tax base for the Company and accordingly, the re-measurement of deferred tax assets and liabilities of the Company. In the absence of transitional provisions relating to recognition of tax losses carried forward and tax relating to sale of land and building (business assets) held on behalf of the policyholders, no adjustments have been made to the basis on which the Company has been recognising deferred tax assets / liabilities so far, and no entries have been passed in the current year for deferred tax asset / liability computation.

NOTES TO THE FINANCIAL STATEMENTS

22.9 Tax Loss Analysis

The tax loss carried forward as at the reporting date is Rs. 5,472 million (2016 - Rs.3,950 million) which is made up as follows;

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	3,949,822	3,767,271
Utilised during the year	-	-
	3,949,822	3,767,271
Loss incurred in the business of life insurance	944,597	152,783
Unrecognised tax losses from previous year	577,769	29,768
Balance as at 31 December	5,472,188	3,949,822

22.10 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.

As per the Inland Revenue Act No 24 of 2017, the notional taxes (withholding tax) on the interest of government securities have been withdrawn. However, IRD has not

issued transition provisions on brought forward notional tax credits. The Company has not recognised notional tax credit in the past but has made required disclosures. Accordingly, no adjustments are made in the financial statements.

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	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	1,426,127	1,206,274
Tax credit for the year	295,369	219,853
Balance as at 31 December	1,721,496	1,426,127

22.11 Deferred Tax

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Deferred tax assets	(105,390)	(105,390)
Deferred tax liabilities	105,390	105,390
Net tax liabilities / (assets)	-	-

As discussed in note 22.8 (c), due to change in future tax base and unavailability of transitional provisions relating to brought forward tax losses and capital gains relating to land and building held on behalf of the policyholders, no adjustments have been made to existing deferred tax assets / liabilities. Deferred tax assets / liabilities remain the same as reported as at 31 December 2016.

22.11 (a) Movement in Deferred Tax Balances

For the year ended 31 December	2017					
	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Rs.'000						
Deferred tax liabilities						
Property, plant and equipment	98,713	-	-	98,713	-	98,713
Intangible assets	6,677	-	-	6,677	-	6,677
	105,390	-	-	105,390	-	105,390
Deferred tax assets						
Employee benefits	(30,231)	-	-	(30,231)	(30,231)	-
Staff bonus provisions	(39,200)	-	-	(39,200)	(39,200)	-
Reserve for AFS financial assets	(35,959)	-	-	(35,959)	(35,959)	-
	(105,390)	-	-	(105,390)	(105,390)	-
Net tax liabilities / (assets)	-	-	-	-	(105,390)	105,390

For the year ended 31 December	2016					
	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
Rs.'000						
Deferred tax liabilities						
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 AFS financial assets	21,842	-	(21,842)	-	-	-
	133,306	(4,557)	(23,359)	105,390	-	105,390
Deferred tax assets						
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 AFS financial assets	-	-	(35,959)	(35,959)	(35,959)	-
	(133,306)	65,236	(37,320)	(105,390)	(105,390)	-
Net tax liabilities / (assets)	-	60,679	(60,679)	-	(105,390)	105,390

22.11 (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	2017		2016	
	Temporary Difference	Tax effect	Temporary Difference	Tax effect
Rs.'000				
Deferred tax assets				
Employee benefits	(107,963)	(30,231)	(107,963)	(30,231)
Staff bonus provisions	(140,000)	(39,200)	(140,000)	(39,200)
Reserve for AFS financial assets	(128,425)	(35,959)	(128,425)	(35,959)
	(376,388)	(105,390)	(376,388)	(105,390)
Deferred tax liabilities				
Property, plant and equipment	352,543	98,713	352,543	98,713
Intangible assets	23,845	6,677	23,845	6,677
	376,388	105,390	376,388	105,390
Net recognised deferred tax assets / liabilities	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

22.11 (c) Unrecognised Deferred Tax Assets / Liabilities

As at 31 December	2017		2016	
	Temporary Difference	Tax effect	Temporary Difference	Tax effect
Rs.'000				
Deferred tax assets				
Carry forward tax losses	(5,472,128)	(1,532,196)	(3,949,822)	(1,105,950)
AFS financial assets	507,359	142,060	(250,138)	(70,039)
Unrecognised deferred tax assets	(4,964,769)	(1,390,136)	(4,199,960)	(1,175,989)

22.11 (d) Carry Forward Tax Losses

Tax losses as at the reporting date was Rs. 5,472 million (2016 - Rs. 3,950 million) which gave rise to deferred tax assets of Rs. 1,532 million (2016 - Rs. 1,106 million). The deferred tax asset has not been recognised as discussed in Note 22.8 (c).

23 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 year.

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.

23.1 Basic Earnings per Share

For the year ended 31 December	2017	2016
Profit after tax (Rs. '000)	7,384,128	1,312,628
Weighted average number of ordinary shares ('000)	58,929	58,929
Basic earnings per share (Rs.)	125.31	22.27

23.2 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 23.1.

24 Dividends per Share

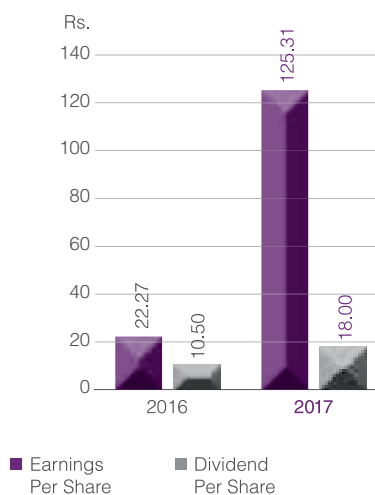
Accounting Policy

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. 18.00 per share (2016 - Rs. 10.50 per share) for the financial year ended 31 December 2017.

For the year ended 31 December	2017	2016
Dividend declared (Rs. '000)	1,060,722	618,750
Number of ordinary shares ('000)	58,929	58,929
Dividend per share (Rs.)	18.00	10.50

EPS vs DPS



24.1 Compliance With Section 56 and 57 of the Companies Act No. 07 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 2018 has been audited by Messrs. KPMG.

24.2 Dividend Paid During the Year

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
First and final dividend for 2016 - Rs. 10.50 per share (2015 - Rs. 8.50 per share)	618,750	500,893

25 Intangible Assets

Accounting Policy

Recognition and Measurement

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 - Intangible Assets.

Software

Software 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

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.

Useful Economic Life and Amortisation

Amortisation is calculated to write off the cost of intangible assets over their estimated useful lives and is generally recognised in profit or loss. None of the intangible assets are assumed to have a residual value.

The estimated useful lives of intangible assets and the amortisation methods for the current and comparative periods are as follows;

Software	3 -10 years using the straight line method from the date the software is available for use
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Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

De - Recognition

An Intangible Asset is de - recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de - recognition of such Intangible Assets is included in income statement.

25.1 Reconciliation of Carrying Amounts of Intangible Assets - Software

As at 31 December Rs.'000	2017			2016
	Licensed	Purchased	Total	Total
Cost				
Balance as at 1 January	39,063	237,420	276,483	211,086
Acquisitions during the year - separately acquired	-	151,196	151,196	65,397
Balance as at 31 December	39,063	388,616	427,679	276,483
Accumulated amortisation and impairment losses				
Balance as at 1 January	31,961	149,875	181,836	151,470
Amortisation	6,370	26,656	33,026	30,366
Balance as at 31 December	38,331	176,531	214,862	181,836
Carrying value				
As at 31 December 2017	732	212,085	212,817	
As at 31 December 2016	7,102	87,545		94,647

NOTES TO THE FINANCIAL STATEMENTS

25.2 Assessment of Impairment of Intangible Assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2017. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

25.3 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.

25.4 Acquisition of Intangible Assets During the Year

During the financial year, the Company acquired intangible assets to the aggregate value of Rs. 151 million (2016 - Rs. 65 million). Cash payments amounting to Rs. 151 million (2016 - Rs. 65 million) were made during the year for purchase of intangible assets.

25.5 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of intangible assets during the year (2016 - Nil).

25.6 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. 161 million (2016 - Rs. 103 million).

26 Property, Plant and Equipment

Accounting Policy

Recognition and Measurement

The Company applies the requirements of the Sri Lanka Accounting Standard LKAS 16 - 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

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

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

Freehold 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 the 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.

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
Freehold 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, if there are impairment indicators 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.

Capital Work in Progress

Capital work in progress is stated at cost. These are expenses of a capital nature directly incurred in property, plant and equipment, awaiting for capitalisation.

Leased Assets – Lessee

The determination of whether an arrangement is a lease or contains a lease is based on the substance of the arrangement at the inception date.

Finance Leases

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the Income Statement. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

NOTES TO THE FINANCIAL STATEMENTS

Operating Leases

Leases that do not transfer to the company, substantially all the risks and benefits incidental to ownership of the leased items, are operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

26.1 Reconciliation of Carrying Amounts of Property, Plant and Equipment

As at 31 December								
Rs. '000	Freehold Land	Freehold Buildings	Plant machinery and Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	2017 Total	2016 Total
Cost / Revaluation								
Balance as at 1 January	1,049,000	303,500	148,204	171,849	448,744	80	2,121,377	2,134,761
Additions during the year	-	-	2,242	1,272	36,843	-	40,357	53,000
Revaluation	522,000	17,365	-	-	-	-	539,365	-
Transfer of accumulated depreciation on assets revalued	-	(18,865)	-	-	-	-	(18,865)	-
Disposals during the year	-	-	(534)	(1,133)	(3,018)	-	(4,685)	(66,384)
Balance as at 31 December	1,571,000	302,000	149,912	171,988	482,569	80	2,677,549	2,121,377
Accumulated depreciation and impairment losses								
Balance as at 1 January	-	9,433	121,439	155,754	341,652	59	628,337	611,085
Depreciation for the year	-	9,432	12,519	6,829	42,801	16	71,597	80,524
Transfer of accumulated depreciation on assets revalued	-	(18,865)	-	-	-	-	(18,865)	-
Accumulated depreciation on disposals during the year	-	-	(534)	(1,133)	(2,569)	-	(4,236)	(63,272)
Balance as at 31 December	-	-	133,424	161,450	381,884	75	676,833	628,337
Carrying value								
As at 31 December 2017	1,571,000	302,000	16,488	10,538	100,685	5	2,000,716	
As at 31 December 2016	1,049,000	294,067	26,765	16,095	107,092	21		1,493,040

26.2 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.

26.3 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. 40 million (2016 - Rs. 53 million). Cash payments amounting to Rs. 40 million (2016 - Rs. 53 million) were made during the year for purchase of property plant and equipment.

26.4 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2016 - Nil).

26.5 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.

26.6 The details of Freehold Land and Buildings which are stated at Valuation

Property owned by Union Assurance PLC	Extent		Method of valuation	Date of valuation	Valuer	Rs.'000			Carrying value %
	Land Perches	Building Square feet				Revalued amount		Carrying value after revaluation	
						Land	Building		
Land and building situated at No. 20, St. Michael's Road, Colombo 3	93.4	57,916	Market comparable method	31 December 2017	Mr. P. B. Kalugalagedera and Associates Chartered valuation surveyor	1,401,000	199,000	1,600,000	85
Land and building situated at No. 6, Rajapihilla Road, Kurunegala	32.3	27,904	Market comparable method	31 December 2017		170,000	103,000	273,000	15
						1,571,000	302,000	1,873,000	100

26.7 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 2017.

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	Land - Price per perch	Rs 15,000,000	Price per perch for land increases, decreases
		Building - Price per square foot	Rs 500 - Rs 4,250	Price per square foot for building increases, decreases
Kurunegala No. 6, Rajapihilla Road, Kurunegala	Market comparable method	Land - Price per perch	Rs 6,000,000	Price per perch for land increases, decreases
		Building - Price per square foot	Rs 2,500 - Rs 4,400	Price per square foot for building increases, decreases

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.

26.8 Revaluation Surplus

Rs.'000	2017		
	Land	Buildings	Total
Revalued amount	1,571,000	302,000	1,873,000
Carrying value (prior to revaluation)	(1,049,000)	(284,635)	(1,333,635)
Revaluation surplus for the year ended 31 December	522,000	17,365	539,365

As explained in note 22.8 (c), no provision has been made for deferred tax liability for future taxes that could be incurred on disposal of business assets (Freehold Land). In the absence of transitional provisions, the Company has not made any adjustments to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

26.9 If Land and Buildings were stated at Historical Cost, the Amounts would have been as follows;

As at 31 December	2017 Rs. '000	2016 Rs. '000
Cost	251,124	251,124
Accumulated depreciation	(81,603)	(77,589)
Carrying value	169,521	173,535

26.10 The Effect of Revaluation of Freehold Buildings on the Statement of Income during the year was as follows;

As at 31 December	2017 Rs. '000	2016 Rs. '000
Depreciation charge per annum after revaluation	9,433	9,433
Depreciation charge per annum prior to revaluation	(4,014)	(4,014)
Decrease in profit in subsequent period	5,419	5,419

26.11 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 Management has assessed the potential impairment loss of property, plant and equipment as at 31 December 2017. 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.

26.12 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	2017 Rs. '000	2016 Rs. '000
Computer equipment	272,676	240,270
Office equipment	94,148	66,846
Furniture and fittings	143,225	124,016
Total	510,049	431,132

26.13 Property, Plant and Equipment pledged as Security

None of the property, plant or equipment have been pledged as security as at the reporting date.

26.14 Permanent Fall in Value of Property, Plant and Equipment

There has been no permanent fall in value of PPE which require an impairment provision in the Financial Statements.

26.15 Temporarily Idle Property, Plant and Equipment

There are no temporarily idle property, plant or equipment as at the reporting date.

26.16 Compensation from Third Parties for Items of Property, Plant and Equipment

There were no compensation received / receivable from third parties for items of property, plant or equipment that were impaired, lost or given up.

27 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 - Investments in Associates and Joint ventures.

The Company's investment in its associate is accounted for using the equity method and reported as a separate line item in the Statement of Financial Position. 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. 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.

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					2017		2016	
	Place of incorporation and operation	Proportion of ownership interest	Number of Shares	Cost Rs. '000	Directors valuation / Carrying market value		Directors valuation / Carrying market value	
					Rs. '000	Rs. '000	Rs. '000	Rs. '000
Unquoted								
Fairfirst Insurance Limited	Sri Lanka	22%	68,902,870	689,029	995,722	995,722	777,346	777,346

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. 07 of 2007 (as amended) (the "Companies Act"), the Board of Directors and shareholders of Fairfirst Insurance Limited ("Fairfirst"), approved the amalgamation with its parent company Union Assurance General Limited. Subsequent to obtaining relevant regulatory approvals, Union Assurance General Limited (UAGL) and Fairfirst Insurance Limited (FIL) were amalgamated on 28th February 2017.

Consequent to the above amalgamation, UAGL ceased to exist as a legal entity, and FIL was recognised as the continuing entity. Accordingly, the Company's shareholding in UAGL was transferred to the amalgamated entity, Fairfirst Insurance Limited, and remains unchanged at 22%.

Significant Accounting Policies That are Specific to the Business of Equity Accounted Investee - Fairfirst Insurance 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 (UPR)

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.

NOTES TO THE FINANCIAL STATEMENTS

Reinsurance Premiums

Reinsurance premiums written comprise the total premiums payable for the whole cover by contracts entered during the period, and are generally recognised on the date on which the policy incepts.

Unearned Reinsurance Premiums

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.

Acquisition Cost

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.

Reinsurance Commission Income

Reinsurance commission income on outwards reinsurance contracts are recognised as revenue when receivable.

Subsequent to initial recognition, reinsurance commission income on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

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 settling 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 of the associate 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.

Reinsurance Claims Recoveries

Reinsurance claims recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. This includes reinsurance exposure of IBNR.

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 reinsurers share of DAC is amortised in the same manner as the UPR 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 off.

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.

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.

27.1 Summarised Financial Information in respect of Associate is set out below

Share of Results of Associate Income Statement

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Net earned premium	8,438,680	5,611,558
Finance and other income	955,974	754,816
Benefits, claims and expenses	(8,572,095)	(5,870,377)
Profit before tax	822,559	495,997
Income tax (expense) / reversal	31,276	(221,838)
Profit from continuing operations, net of tax	853,835	274,159
Percentage ownership interest	22%	22%
Company's share of profit from investment in associate, net of tax	187,844	60,315
Other Comprehensive Income		
Other comprehensive income, net of tax	138,783	(87,205)
Company's share of other comprehensive income, net of tax	30,532	(19,185)
Total comprehensive income	992,618	186,954
Share of results of equity accounted investee recognised in statement of profit or loss and other comprehensive income, net of tax	218,376	41,130

27.1 (a) Company's share of other comprehensive income, net of tax

For the year ended 31 December	Note	2017 Rs. '000	2016 Rs. '000
Share of gains / (losses) on AFS assets	36.2 (a)	32,823	(23,533)
Share of actuarial gains / (losses) on defined benefit plans	36.2 (b)	(2,291)	4,348
		30,532	(19,185)

NOTES TO THE FINANCIAL STATEMENTS

Statement of Financial Position

As at 31 December	2017 Rs. '000	2016 Rs. '000
Total Assets	15,432,894	17,854,733
Total Liabilities	(10,906,883)	(14,321,344)
Net assets	4,526,011	3,533,389
Percentage ownership interest	22%	22%
Company's share of net assets	995,722	777,346
Less unrealised profits	-	-
Carrying amount of interest in associate	995,722	777,346

27.2 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	2017 Rs. '000	2016 Rs. '000
Value of investment in equity accounted investee as at 1 January	777,346	736,216
Add		
Net profit for the period recognised in income statement	187,844	60,315
Other comprehensive income	30,532	(19,185)
Dividend received	-	-
Company share of (net of tax) equity accounted investee for the year ended 31 December	218,376	41,130
Value of investment in equity accounted investee as at 31 December	995,722	777,346
Contingent liabilities of equity accounted investee	Nil	Nil
Capital and other commitments of equity accounted investee	Nil	Nil

27.3 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.

27.4 The Company has neither contingent liabilities nor capital and other commitments towards its associate company.

28 Financial Investments (Including Derivatives)

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.

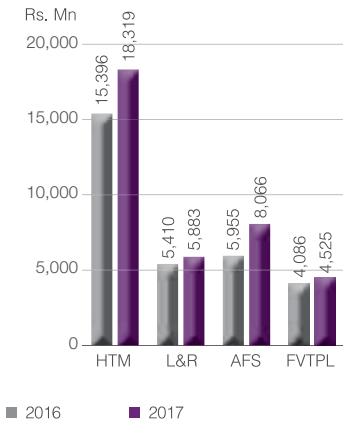
28.1 Financial Investments pledged as Security

None of the financial investments have been pledged as security as at the reporting date.

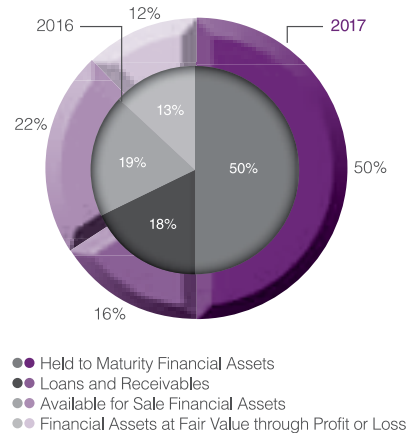
28.2 The Company's financial instruments are summarised as follows:

As at 31 December		2017		2016	
		Carrying value	Fair Value	Carrying value	Fair Value
Rs.'000	Note				
Held to maturity financial assets (HTM)	28.3	18,319,379	19,272,470	15,396,036	14,595,957
Loans and receivables (L&R)	28.4	5,883,031	5,953,248	5,409,853	5,416,616
Available for sale financial assets (AFS)	28.5	8,065,997	8,065,997	5,955,031	5,955,031
Financial assets at fair value through profit or loss (FVTPL)	28.6	4,524,514	4,524,514	4,086,336	4,086,336
Total financial investments		36,792,921	37,816,229	30,847,256	30,053,940

Investments - Reporting Category Wise



Composition of Investments



28.2 (a) Investments Supporting Restricted Regulatory Reserve

Based on the direction issued by the IRCSL dated 20 March 2018 on one - off surplus transfer, following investments have been marked to support the Restricted Regulatory Reserve of the Company.

As at 31 December	2017 Rs. '000
Treasury bonds	
Held to maturity financial investments	1,304,224
Available for sale financial investments	2,099,503
	3,403,727

28.3 Held to Maturity Financial Assets (HTM)

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Amortised cost			
Quoted debentures	28.3 (a)	290,985	853,960
Treasury bonds		18,028,394	14,542,076
Total HTM financial investments		18,319,379	15,396,036

28.3 (a) Quoted Debentures - Diversified Holdings

As at 31 December	2017					
	Credit rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Peoples' Leasing & Finance PLC	AA -	26/03/2018	686,300	74,395	75,475	16.75
Hatton National Bank PLC	A+	31/07/2022	2,000,000	216,590	255,014	16.75
				290,985	330,489	

As at 31 December	2016					
	Credit rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Bank of Ceylon	AA	30/11/2017	5,000,000	506,995	523,945	16.00
Sampath Bank PLC	A	12/10/2017	476,900	55,715	56,534	16.50
Peoples' Leasing & Finance PLC	AA-	26/03/2018	686,300	74,408	78,184	16.75
Hatton National Bank PLC	A+	31/07/2022	2,000,000	216,842	216,842	16.75
				853,960	875,505	

28.3 (b) Impairment of Held to Maturity Financial Investments

At the reporting date, there were no HTM financial investments that were overdue and impaired.

NOTES TO THE FINANCIAL STATEMENTS

28.4 Loans and Receivables (L&R)

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Amortised cost			
Bank deposits		647,447	584,609
Quoted debentures	28.4 (a)	4,625,307	4,553,805
Reverse repurchase agreements		610,277	271,439
Total L&R financial investments		5,883,031	5,409,853
The effective interest rates on non current portion of portfolio		15.90%	13.58%

28.4 (a) Quoted Debentures

As at 31 December	2017					
	Credit rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Issuer						
Peoples' Leasing & Finance PLC	AA-	26/03/2018	595,000	65,282	65,376	16.75
Peoples' Leasing & Finance PLC	AA-	26/03/2018	120,000	14,346	14,248	17.00
Merchant Bank of Sri Lanka PLC	A	28/03/2018	469,300	57,379	55,955	17.50
Hatton National Bank PLC	A+	13/06/2018	2,533,733	274,291	276,741	14.00
Central Finance Company PLC	A+	17/06/2018	1,552,000	162,480	164,376	14.75
Lion Brewery (Ceylon) PLC	A+	17/06/2018	448,000	46,743	47,231	14.00
Peoples' Leasing & Finance PLC	AA-	23/09/2018	309,900	33,456	33,875	9.625
Sampath Bank PLC	A	04/12/2018	1,114,800	119,454	116,556	13.00
Sampath Bank PLC	A	04/12/2018	1,114,800	127,042	129,306	13.40
Central Finance Company PLC	A+	12/12/2018	446,900	47,999	47,834	13.50
Central Finance Company PLC	A+	12/12/2018	710,500	81,700	88,876	13.95
Nations Trust Bank PLC	A-	19/12/2018	2,881,300	306,887	313,466	13.00
Hemas Holdings PLC	AA-	29/04/2019	1,452,900	146,308	150,423	11.00
Merchant Bank of Sri Lanka PLC	A	12/11/2019	500,000	50,889	52,673	9.00
Lanka Orix Leasing Company PLC	A-	24/11/2019	1,000,000	94,827	98,240	9.00
Sampath Bank PLC	A	15/12/2019	3,000,000	297,496	310,799	8.25
Seylan Bank PLC	A-	23/12/2019	2,000,000	183,816	191,415	8.60
Siyapatha Finance Limited	BBB+	24/12/2019	250,000	25,277	26,122	8.90
Central Finance Company PLC	A+	01/06/2020	400,000	40,866	42,594	9.52
National Development Bank PLC	A	24/06/2020	4,279,000	368,046	331,484	9.40
Senkadagala Finance PLC	BBB+	10/11/2020	500,000	50,575	50,979	13.75
Commercial Bank of Ceylon PLC	AA-	09/03/2021	250,000	26,071	25,826	10.75
Seylan Bank PLC	A-	15/07/2021	950,400	101,609	104,534	13.00
Siyapatha Finance Limited	A-	20/09/2021	102,400	10,468	11,179	13.50
Bank of Ceylon	AA	24/10/2021	242,499	25,280	26,718	13.25
Nations Trust Bank PLC	A-	08/11/2021	3,000,000	305,584	315,140	12.65
People's Leasing & Finance Company PLC	AA-	16/11/2021	2,000,000	203,102	203,027	12.60
Bank of Ceylon	AA	29/12/2021	2,000,000	203,642	200,145	13.25
Lanka Orix Leasing Company PLC	A	31/07/2022	500,000	52,726	52,785	13.00
LB Finance PLC	A-	11/12/2022	1,000,000	100,714	100,734	12.75
LB Finance PLC	BBB+	11/12/2022	1,000,000	100,836	100,856	13.25
Sampath Bank PLC	A	21/12/2022	1,600,000	160,587	160,603	12.50
Hatton National Bank PLC	AA-	30/08/2023	1,204,706	98,415	108,658	8.00
Bank of Ceylon	AA	25/10/2023	452,300	47,656	47,067	13.75
Hatton National Bank PLC	A+	01/11/2023	724,000	73,937	73,973	13.00
National Development Bank PLC	A	19/12/2023	4,500,000	519,521	555,673	13.90
				4,625,307	4,695,487	

As at 31 December	2016					
	Credit rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Senkadagala Finance PLC	BBB+	28/05/2017	185,014	20,358	20,358	17.25
Lion Brewery (Ceylon) PLC	AA-	17/06/2017	33,600	35,134	35,134	13.75
DFCC Bank PLC	AA-	18/08/2017	3,000,000	304,166	304,166	8.50
Singer Sri Lanka PLC	A-	23/12/2017	216,700	22,727	22,727	8.25
Peoples' Leasing & Finance PLC	AA-	26/03/2018	595,000	67,783	67,783	16.75
Peoples' Leasing & Finance PLC	AA-	26/03/2018	120,000	14,951	14,951	17.00
Merchant Bank of Sri Lanka PLC	AA-	28/03/2018	469,300	62,267	62,267	17.50
Hatton National Bank PLC	A+	13/06/2018	2,533,733	277,637	277,637	14.00
Lion Brewery (Ceylon) PLC	AA-	17/06/2018	44,800	47,411	47,411	14.00
Central Finance Company PLC	A+	17/06/2018	155,200	165,509	165,509	14.75
Peoples' Leasing & Finance PLC	AA-	23/09/2018	309,900	32,750	32,750	9.63
Sampath Bank PLC	A	04/12/2018	1,114,800	119,982	119,982	13.00
Sampath Bank PLC	A	04/12/2018	1,114,800	127,391	127,391	13.40
Central Finance Company PLC	A+	12/12/2018	446,900	48,212	48,212	13.50
Central Finance Company PLC	A+	12/12/2018	710,500	82,249	82,249	13.95
Nations Trust Bank PLC	A-	19/12/2018	2,881,300	306,514	306,514	13.00
Hemas Holdings PLC	AA-	29/04/2019	1,452,900	144,445	144,445	11.00
Merchant Bank of Sri Lanka PLC	AA-	12/11/2019	500,000	49,265	49,265	9.00
Lanka Orix Leasing Company PLC	A-	24/11/2019	1,000,000	91,612	91,612	9.00
Sampath Bank PLC	A	15/12/2019	3,000,000	285,750	285,750	8.25
Seylan Bank PLC	BBB+	23/12/2019	2,000,000	176,753	176,753	8.60
Siyapatha Finance PLC	BBB+	24/12/2019	250,000	24,442	24,442	8.90
Central Finance Company PLC	A+	01/06/2020	400,000	39,884	39,884	9.52
National Development Bank PLC	A	24/06/2020	1,850,000	342,858	342,858	9.40
Senkadagala Finance PLC	BBB+	10/11/2020	500,000	50,472	50,472	13.75
Commercial Bank of Ceylon PLC	AA-	09/03/2021	250,000	26,136	26,136	10.75
Seylan Bank PLC	BBB+	15/07/2021	950,400	101,698	101,698	13.00
Siyapatha Finance PLC	BBB+	20/09/2021	102,400	10,456	10,456	13.50
Bank of Ceylon	AA	24/10/2021	242,499	25,270	25,270	13.25
Nations Trust Bank PLC	A-	08/11/2021	3,000,000	305,599	305,599	12.65
Peoples' Leasing & Finance PLC	AA-	16/11/2021	2,000,000	203,167	203,167	12.60
Bank of Ceylon	AA	29/12/2021	2,000,000	204,028	204,028	13.25
Hatton National Bank PLC	AA-	30/08/2023	1,204,706	95,697	95,697	8.00
Bank of Ceylon	AA	25/10/2023	452,300	47,827	47,827	13.75
Hatton National Bank PLC	A+	01/11/2023	724,000	73,969	73,969	13.00
National Development Bank PLC	A	19/12/2023	4,500,000	519,436	519,436	13.90
				4,553,805	4,553,805	

28.4 (b) Impairment of L&R Financial Investments

At the reporting date, there were no L&R financial investments that were overdue and impaired.

28.5 Available for Sale Financial Assets (AFS)

As at 31 December	2017 Rs. '000	2016 Rs. '000
Fair value		
Treasury bonds	7,900,165	5,822,216
Treasury bills	165,832	132,815
Total AFS financial investments	8,065,997	5,955,031

NOTES TO THE FINANCIAL STATEMENTS

28.5 (a) Impairment of AFS Financial Investments

At the reporting date, there were no AFS financial investments that were overdue and impaired.

28.6 Financial Assets at Fair Value Through Profit or Loss (FVTPL)

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Fair value			
Quoted equities	28.6 (a)	2,344,572	1,706,751
Derivative financial instruments		50,737	-
		2,395,309	1,706,751
Investments in unit linked fund			
Quoted equities	28.6 (b)	1,628,378	1,814,977
Reverse repurchase agreements		223,361	202,959
Treasury bills		115,508	228,781
Treasury bonds		42,734	30,849
Bank deposits		32,434	45,736
Quoted debentures		86,790	56,283
		2,129,205	2,379,585
Total FVTPL financial investments		4,524,514	4,086,336

28.6 (a) Quoted Equities - Other than Unit Linked Investments

As at 31 December	2017			2016		
	No of shares	Cost Rs. '000	Carrying Value Rs. '000	No of shares	Cost Rs. '000	Carrying Value Rs. '000
Banks, Finance and Insurance						
Commercial Bank PLC (non - voting)	649,979	45,779	68,248	581,706	40,414	66,896
Commercial Bank PLC	395,992	40,195	53,776	355,515	36,106	51,550
Hatton National Bank PLC	2,952,546	485,564	654,084	2,088,232	303,670	430,251
Sampath Bank PLC	1,866,391	436,555	589,220	1,264,695	286,696	329,327
HNB Assurance PLC	336,266	23,645	24,379	336,266	23,645	19,772
Central Finance Company PLC	429,269	39,522	39,622	429,269	39,522	42,927
DFCC Bank PLC	391,520	65,599	48,079	391,520	65,599	47,961
National Development Bank PLC	886,800	160,675	120,960	854,220	160,675	133,258
People's Leasing & Finance PLC	3,821,672	67,308	64,968	3,821,672	67,308	65,733
People's Insurance Limited	394,300	5,915	9,069	394,300	5,915	7,492
Seylan Bank PLC	819,383	60,816	56,653	-	-	-
		1,431,573	1,729,058		1,029,550	1,195,167
Diversified Holdings						
Hemas Holdings PLC	536,638	18,644	67,616	536,638	18,644	52,591
Melstacorp Limited	2,529,764	145,110	150,521	2,529,764	145,110	150,015
		163,754	218,137		163,754	202,606
Construction and Engineering						
Access Engineering PLC	2,965,739	74,852	69,695	950,570	25,547	23,574
Colombo Dockyard PLC	-	-	-	238,350	50,507	18,734
		74,852	69,695		76,054	42,308

As at 31 December	2017			2016		
	No of shares	Cost Rs. '000	Carrying Value Rs. '000	No of shares	Cost Rs. '000	Carrying Value Rs. '000
Manufacturing						
Chevron Lubricants Lanka PLC	244,400	16,129	29,084	244,400	16,129	38,395
Tokyo Cement Company (Lanka) PLC (voting)	768,932	7,817	50,750	640,777	7,817	37,934
Tokyo Cement Company (Lanka) PLC (non - voting)	1,729,956	36,938	102,065	1,658,150	42,486	85,395
Piramal Glass PLC	5,103,984	36,422	29,603	1,874,100	16,585	9,933
Textured Jersey Lanka PLC	2,782,495	74,831	94,605	1,553,000	25,384	66,468
		172,137	306,107		108,401	238,125
Motors						
Diesel and Motor Engineering PLC	22,062	33,340	10,810	22,062	33,340	12,818
		33,340	10,810		33,340	12,818
Hotels and Travel						
Aitken Spence Hotel Holdings PLC	364,900	25,931	10,765	364,900	25,931	15,727
		25,931	10,765		25,931	15,727
		1,901,587	2,344,572		1,437,030	1,706,751

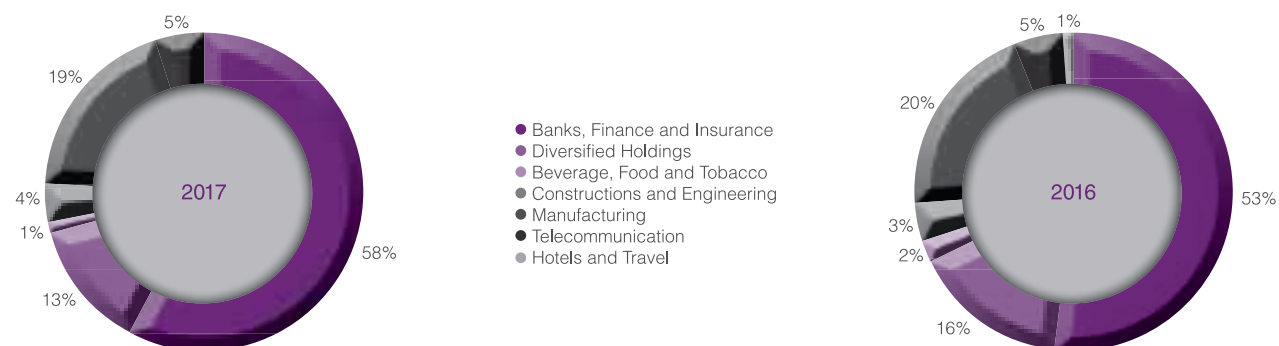
28.6 (b) Quoted Equities - Unit Linked Investments

As at 31 December	2017			2016		
	No of shares	Cost Rs. '000	Carrying Value Rs. '000	No of shares	Cost Rs. '000	Carrying Value Rs. '000
Banking, Finance and Insurance						
Hatton National Bank PLC	1,262,271	228,615	255,169	1,254,131	227,243	263,192
Sampath Bank PLC	569,454	119,296	179,777	455,992	85,653	118,740
Commercial Bank of Ceylon PLC	52,089	5,532	7,074	46,765	4,995	6,781
Commercial Bank of Ceylon PLC - (non - voting)	92,953	7,999	9,760	83,190	7,231	9,567
Central Finance Company PLC	161,531	14,923	14,909	161,531	14,923	16,153
DFCC Bank PLC	70,960	12,500	8,714	90,552	15,951	11,093
National Development Bank PLC	158,782	29,521	21,658	193,756	37,397	30,226
People's Leasing & Finance PLC	694,444	11,798	11,806	694,444	11,798	11,944
People's Insurance PLC	3,277,953	62,120	75,393	88,200	1,323	1,676
People's Leasing & Finance PLC	-	-	-	1,617,917	38,844	27,828
Hatton National Bank PLC	-	-	-	272,441	43,046	57,535
Sampath Bank PLC	-	-	-	192,813	40,912	50,209
Ceylinco Insurance PLC	-	-	-	25,532	36,672	38,043
People's Insurance Limited PLC	-	-	-	971,451	18,082	18,458
		492,304	584,260		584,070	661,445
Beverage, Food and Tobacco						
Nestle Lanka PLC	13,000	21,125	21,138	-	-	-
The Lion Brewery Ceylon PLC	24,327	13,037	13,137	-	-	-
Ceylon Cold Stores Plc	-	-	-	77,356	36,390	58,048
		34,162	34,275		36,390	58,048

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	2017			2016		
	No of shares	Cost Rs. '000	Carrying Value Rs. '000	No of shares	Cost Rs. '000	Carrying Value Rs. '000
Construction and Engineering						
Access Engineering PLC	3,055,072	79,961	71,794	3,055,072	79,961	75,766
Colombo Dockyard PLC	-	-	-	43,365	9,993	3,408
		79,961	71,794		89,954	79,174
Diversified Holdings						
Melstacorp PLC	1,565,004	79,094	93,118	1,845,000	89,278	109,408
Hemas Holdings PLC	1,516,925	150,686	191,133	942,512	76,164	92,366
John Keells Holdings PLC	-	-	-	1,060,182	165,365	153,726
Aitken Spence PLC	-	-	-	201,633	23,838	13,106
		229,780	284,251		354,645	368,606
Hotels and Travel						
Aitken Spence Hotel Holdings PLC	125,493	9,003	3,702	125,493	9,003	5,409
		9,003	3,702		9,003	5,409
Manufacturing						
Tokyo Cement Company Lanka PLC - (non - voting)	388,112	8,378	22,899	281,745	6,373	14,510
Alumex PLC	1,457,962	29,100	26,972	2,950,705	58,986	59,604
Hayleys Fabric PLC	7,074,329	116,808	95,503	-	-	-
Piramal Glass Ceylon PLC	17,673,950	101,248	102,509	8,833,613	48,404	46,818
Textured Jersey Lanka PLC	5,806,742	226,473	197,429	2,181,931	93,749	93,387
Chevron Lubricants Lanka PLC	-	-	-	468,714	64,972	73,635
Piramal Glass Ceylon PLC	-	-	-	806,000	4,917	4,272
Textured Jersey Lanka PLC	-	-	-	388,200	6,150	16,615
Chevron Lubricants Lanka PLC	-	-	-	49,200	4,322	7,729
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
		482,007	445,312		445,347	476,890
Telecommunication						
Dialog Axiata PLC	15,752,754	167,142	204,784	15,752,754	167,142	165,405
		167,142	204,784		167,142	165,405
		1,494,359	1,628,378		1,686,551	1,814,977

Composition of FVTPL Equity Investments



28.6 (c) The Company uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to interest rates. The instrument used is an interest rate swaps.

28.6 (d) 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.

28.7 Movement of Financial Investments

Rs.'000	Held to maturity	Loans and receivables	Available for sale	Fair value through profit or loss	Total
As at 1 January 2016	13,600,906	1,888,987	7,041,021	4,010,020	26,540,934
Purchases	2,248,325	23,825,333	4,894,324	17,519,653	48,487,635
Maturities	(748,148)	(24,909,132)	(537,596)	(15,818,656)	(42,013,532)
Disposals	-	-	(569,522)	(1,637,483)	(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 losses recorded in OCI	-	-	(456,568)	-	(456,568)
Amortisation	276,097	-	24,120	19,406	319,623
Net change in accrued Interest	18,856	50,860	113,057	1,616	184,389
Reclassification of financial investment from AFS to L & R	-	4,553,805	(4,553,805)	-	-
As at 31 December 2016	15,396,036	5,409,853	5,955,031	4,086,336	30,847,256
As at 1 January 2017	15,396,036	5,409,853	5,955,031	4,086,336	30,847,256
Purchases	5,060,281	17,445,081	1,495,854	6,433,068	30,434,284
Maturities	(2,426,619)	(17,075,538)	(190,209)	(4,385,533)	(24,077,899)
Disposals	-	-	-	(1,910,477)	(1,910,477)
Scrip Dividend	-	-	-	24,499	24,499
Fair value gains recorded in statement of income (excluding net realised gains) classified as held for trading	-	-	-	258,360	258,360
Fair value gains recorded in OCI	-	-	733,852	-	733,852
Amortisation	246,226	43,559	29,026	14,832	333,643
Net change in accrued Interest	43,455	60,076	42,443	3,429	149,403
As at 31 December 2017	18,319,379	5,883,031	8,065,997	4,524,514	36,792,921

29 Loans to Life Policyholders

Policyholder loans are granted up to 90% of the surrender value of a life insurance policy at a rate equivalent to market rate. Policyholder loans are initially measured at fair value and subsequently measured at the amortised cost. If the policyholder dies before the full repayment of the loan, the loan balance is deducted from the death benefit.

As at 31 December	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	646,645	558,757
Loans granted during the year	394,376	315,723
Repayments during the year	(289,975)	(227,835)
	751,046	646,645
Interest receivables on loans to life policyholders	250,492	220,532
Balance as at 31 December	1,001,538	867,177

NOTES TO THE FINANCIAL STATEMENTS

29.1 Collateral Details

As at 31 December 2017 surrender value of policyholder loans amounted to Rs.1,693 million (2016 - Rs. 1,471 million).

If the total receivable of the loan, including interest due and accrued exceeds the cash surrender value, the policy terminates and becomes void.

The Company has a first lien on all policies which are subject to policy loans. This mitigates the Company's credit exposure on policy loans.

29.2 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.

29.3 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.

29.4 Impairment of Loans to Life Policyholders

Policyholder Loans are reviewed for impairment at each reporting date. As of 31 December 2017, there were no impaired loss recorded on policyholder loans (2016 - Nil).

29.5 Number of Policy Loans

Number of policy loans due as at 31 December 2017 was 15,983 (2016 - 15,221).

30 Reinsurance Receivable

Accounting Policy

The Company cedes insurance risk in the normal course of business for all of its Insurance Contracts. 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	2017 Rs. '000	2016 Rs. '000
Reinsurance receivable on outstanding claims	135,657	85,306
Reinsurance receivable on settled claims	131,760	92,875
Total reinsurance receivables	267,417	178,181

30.1 Impairment of Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of reinsurance receivables as at 31 December 2017. Based on the assessment, there was no impairment loss on reinsurance receivables.

30.2 Fair Value of Reinsurance Receivables

The carrying values disclosed above approximate the fair value at the reporting date.

30.3 The Ageing of Reinsurance Receivables on Paid Claims

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Less than 60 days		33,628	39,493
More than 60 days	30.4	98,132	53,382
		131,760	92,875

30.4 Reinsurance Receivable Past Due but Not Impaired (On Paid Claims)

As at 31 December 2017, reinsurance receivable of Rs. 98 million (2016 - Rs. 53 million) were past due but not impaired. These relate to parties where there were no recent history of default.

30.5 Collateral Details

The Company does not hold any collateral as security against potential default by reinsurance counter parties.

30.6 Reinsurance Receivable on Outstanding Claims

This includes reinsurance reserves on claims that has not been paid and the reinsurance receivable has not been received.

30.7 Risk Management

Refer Note 7 to the financial statements for risk management initiatives relating to reinsurance.

31 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 recoverable amount. The impairment losses are recognised in the income statement.

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	2017 Rs. '000	2016 Rs. '000
Premiums receivable from;		
Policyholders	132,713	102,193
Intermediaries (Including collections in transit)	135,798	144,607
Total premiums receivable	268,511	246,800

31.1 Fair Value of Premiums Receivable

The carrying amount disclosed above approximates the fair value at the reporting date.

31.2 Impairment of Premiums Receivable

The Management has assessed potential impairment loss of premiums receivable as at 31 December 2017. Based on the assessment, there was no impairment loss on premiums receivable (2016 - Nil).

31.3 Collateral Details

The Company does not hold any collateral as security against potential default by policyholders or intermediaries.

31.4 Risk Management Initiatives Relating to Premiums Receivable

Refer Note 7 to the financial statements for risk management initiatives relating to premiums receivable.

32 Receivables and Other Assets

Accounting Policy

Staff / Agent Loans

Refer note 9 for accounting policy.

Inventories

Inventories are measured at the lower of cost or net realisable value. Cost is generally determined by reference to weighted average cost. Net realisable value is the estimated market price in the ordinary course of business less any estimated expense to sell.

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Financial Assets			
Staff loans*	32.1	235,951	211,877
Agent / advisor loans	32.2	68,090	67,686
Refundable deposits		8,090	7,550
Amounts due from Fairfirst Insurance Limited		11,954	100,988
Other receivables		37,096	16,797
		361,181	404,898
Non Financial Assets			
Taxes recoverable	32.4	218,350	218,469
Prepayments		138,080	114,884
Inventories		21,521	14,177
Advance payments		155,553	17,948
Other receivables		52,554	39,408
		586,058	404,886
Total receivables and other assets		947,239	809,784

*No loans have been granted to Directors of the Company.

32.1 Staff Loans

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January		212,235	207,981
Loans provided during the year		200,619	94,865
Payments / settlements during the year		(148,070)	(85,839)
Fair value adjustment during the year		(28,475)	(4,772)
		236,309	212,235
Provision for impairment	32.1 (a)	(358)	(358)
Balance as at 31 December		235,951	211,877

NOTES TO THE FINANCIAL STATEMENTS

32.1 (a) Provision for Impairment

As at 31 December	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	358	-
Charge for the year	-	358
Balance as at 31 December	358	358

32.2 Agent Loans

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January		72,455	81,855
Loans provided during the year		46,494	45,860
Payments / settlements during the year		(45,549)	(55,260)
		73,400	72,455
Provision for impairment	32.2 (a)	(5,310)	(4,769)
Balance as at 31 December		68,090	67,686

32.2 (a) Provision for Impairment

As at 31 December	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	4,769	4,395
Charge for the year	541	374
Balance as at 31 December	5,310	4,769

32.3 Impairment of Staff and Agent Loans

The Management has assessed potential impairment loss of staff and agent loans as at 31 December 2017. 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 32.1 (a) and 32.2 (a)

32.4 Taxes Recoverable

As at 31 December	2017 Rs. '000	2016 Rs. '000
ACT recoverable	92,296	92,296
WHT recoverable	107,391	112,723
ESC receivable	18,663	13,450
	218,350	218,469

32.5 Fair Value

The fair value of staff loans are based on discounted cash flows. Discount rate is equal to AWPLR plus appropriate risk margin. The fair values of agent / advisor loans are equal to the carrying amount as they are granted at competitive market rates.

32.6 Refer Note 7 to the financial statements for risk management policies / initiatives relating to other financial assets.

33 Cash in Hand and at Bank

Accounting Policy

Cash and cash equivalents comprise cash in hand & at bank and short term investments net of bank overdrafts that are repayable on demand.

33.1 Cash in Hand and at Bank

As at 31 December	2017 Rs. '000	2016 Rs. '000
Cash at Bank	536,971	350,400
Cash at Bank with related parties - Nations Trust Bank PLC	40,057	26,014
Cash in hand	3,098	2,818
Total cash in hand and at bank	580,126	379,232

33.2 Cash and Cash Equivalent in the Statement of Cash Flows

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Cash in hand and at bank	33.1	580,126	379,232
Bank overdraft used for cash management purposes		(195,306)	(150,306)
Short term investments (included under investments)		32,434	10,133
Cash and cash equivalent in the statement of cash flows		417,254	239,059

33.3 Fair Value of Cash in Hand and at Bank

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

33.4 Risk Management Initiatives Relating to Cash in Hand and at Bank

Please refer Note 7 to the financial statements.

34 Stated Capital

Accounting Policy

Ordinary Shares

The Company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

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.

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.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

As at 31 December	2017		2016	
	No. of shares	Rs. '000	No. of shares	Rs. '000
Ordinary voting shares	58,928,572	1,000,000	58,928,572	1,000,000
	58,928,572	1,000,000	58,928,572	1,000,000

35 Restricted Regulatory Reserve

Based on the direction issued by the IRCSL dated 20 March 2018, the Company has transferred Rs. 3,382 million attributable to non - participating and non unit fund of unit linked business from life policyholder fund to life shareholder fund (SHF). The distribution of one - off surplus to shareholders, held as part of the Restricted Regulatory Reserve, is subject to meeting governance requirements stipulated by the IRCSL and can only be released upon receiving approval from the IRCSL. The one - off surplus in the SHF is represented by government debt securities as per the direction of the IRCSL [Note 28.2 (a)].

As at 31 December	2017 Rs. '000	2016 Rs. '000
Transfer of one - off surplus from non participating fund	3,393,900	-
Transfer from shareholder fund for the one - off deficit created in the non unit fund of unit linked life insurance contracts	(11,966)	-
	3,381,934	

36 Reserves

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Capital reserves	36.1	1,705,061	1,171,115
Other reserves	36.2	439,667	(354,112)
Total reserves		2,144,728	817,003

36.1 Capital Reserves

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Revaluation Reserve			
Unrealised gain reserve	36.1 (a)	475,860	475,860
Life policy holders' revaluation reserve, net of tax	36.1 (b)	1,212,449	678,503
		1,688,309	1,154,363
Reserve on merger with Cornhill (Private) Limited	36.1 (c)	16,752	16,752
		1,705,061	1,171,115

36.1 (a) Unrealised Gain Reserve

Unrealised gain reserve comprises of the gain from transferring the investment of Cornhill (Private) Limited to life policyholders in 2007, and the gain on transferring the land and building at 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	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	678,503	682,405
Revaluation surplus during the year	539,365	-
Adjustment for deferred tax	-	1,517
Net gain on revaluation of land and buildings	1,217,868	683,922
Depreciation transfer during the year	(5,419)	(5,419)
Balance as at 31 December	1,212,449	678,503

The revaluation relates to land and building as indicated in Note 26.6.

NOTES TO THE FINANCIAL STATEMENTS

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 policyholders' statement of financial position.

36.2 Other Reserves

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Reserve for AFS financial instruments	36.2 (a)	413,443	(376,875)
Other Capital Reserves			
Reserves on retirement benefit obligation	36.2 (b)	(8,356)	(1,794)
Employee share based option	36.3	34,580	24,557
		26,224	22,763
		439,667	(354,112)

36.2 (a) Reserve for Available for Sale (AFS) Financial Instruments

As at 31 December	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	(376,875)	45,425
Unrealised gains / (losses) on AFS assets	733,829	(456,520)
Share of gains / (losses) on AFS assets of equity accounted investee	32,823	(23,533)
Transferred to the statement of income	23,666	(48)
Related tax	-	57,801
Balance as at 31 December	413,443	(376,875)

36.2 (b) Reserves on Retirement Benefit Obligation

Refer Note 40 for Accounting Policies.

As at 31 December	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	(1,794)	(2,642)
Actuarial loss on defined benefit plan	(4,271)	(4,861)
Share of actuarial gains / (losses) on defined benefit plan of equity accounted investee	(2,291)	4,348
Related tax	-	1,361
Balance as at 31 December	(8,356)	(1,794)

36.2 (c) Other Capital Reserves

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.

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. All options are to be settled by shares and there are no cash settlement alternatives.

The Directors confirm that the Company has not granted any funding to employees to exercise options.

The terms and conditions of the grants are as follows;

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. Senior executives of the company with more than 12 months of service as at the respective reporting date.	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.

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	2017 No.	2017 WAEP (Rs.)	2016 No.	2016 WAEP (Rs.)
Outstanding at 1 January	764,241	220.29	409,932	221.06
Granted during the year	234,515	142.83	181,610	142.83
Adjustment for 7:8 sub - division	-	-	66,425	173.02
Transferred to UA	-	-	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
Outstanding at 31 December	998,756	202.10	764,241	220.29
Exercisable at 31 December	508,186	172.36	336,405	177.62

There were no options exercised during the year ended 31 December 2017.

36.3 Employee Expenses for Share Based Payment Transactions

The expense recognised for employee services received during the year is as follows.

As at 31 December	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	24,557	15,093
Expense arising from equity settled share based payment transactions	10,023	9,464
Balance as at 31 December	34,580	24,557

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.

36.4 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.

37 Retained Earnings

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January		2,049,189	1,232,035
Profit for the year		7,384,128	1,312,628
Transfer of one-off surplus		(3,381,934)	-
Transfer from revaluation reserve to retained earnings, net of tax		5,419	5,419
First and final dividends			
2016 / 2015	24.2	(618,750)	(500,893)
Balance as at 31 December		5,438,052	2,049,189

NOTES TO THE FINANCIAL STATEMENTS

38 Insurance Contract Liabilities

Accounting Policy

38.1 Life Insurance Contract Liabilities

Life insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

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 discount 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.

38.3 Use of Judgements 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.

IRCSL 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	Note	2017			2016		
		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Rs. '000							
Insurance contract liabilities		25,570,643	(1,764,806)	23,805,837	22,880,158	(1,421,649)	21,458,509
Reversal of one - off surplus after changes made to NPV and GPV computation		2,050,764	-	2,050,764	-	-	-
Adjusted insurance contract liabilities	38.4 (a)	27,621,407	(1,764,806)	25,856,601	22,880,158	(1,421,649)	21,458,509
Surplus created due to changes in valuation method from NPV to GPV	38.4 (c)	5,867,744	-	5,867,744	5,867,744	-	5,867,744
Reversal of one - off surplus after changes made to NPV and GPV computation	38.4 (d)	(2,050,764)	-	(2,050,764)	-	-	-
Adjusted surplus created due to changes in valuation method from NPV to GPV		3,816,980	-	3,816,980	5,867,744	-	5,867,744
Transfer of one - off surplus attributable to non - participating and non unit fund of unit linked business from policyholder fund to shareholder fund	35 / 38.5	(3,381,934)	-	(3,381,934)	-	-	-
	38.4 (c)	435,046	-	435,046	5,867,744	-	5,867,744
Unclaimed benefits		657,966	-	657,966	563,429	-	563,429
Total insurance contract liabilities	38.5	28,714,419	(1,764,806)	26,949,613	29,311,331	(1,421,649)	27,889,682

38.4 (a) Insurance Contract Liabilities

As at 31 December	Note	2017			2016		
		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Rs. '000							
Balance as at 1 January - NPV Basis		28,747,902	(1,421,649)	27,326,253	24,422,947	(1,155,652)	23,267,295
Surplus created due to changes in valuation method from NPV to GPV		(3,816,980)	-	(3,816,980)	(5,867,744)	-	(5,867,744)
Balance as at 1 January - GPV / NPV Basis		24,930,922	(1,421,649)	23,509,273	18,555,203	(1,155,652)	17,399,551
Premium income / Reinsurance expenses	10 / 11	10,117,630	(497,612)	9,620,018	8,270,751	(423,857)	7,846,894
Liabilities paid for death, maturities, surrenders, benefits and claims	16	(2,828,188)	154,455	(2,673,733)	(1,682,170)	157,860	(1,524,310)
Benefits and claims experience variation		(3,796,420)	-	(3,796,420)	(1,421,540)	-	(1,421,540)
Investment return		3,609,010	-	3,609,010	2,817,463	-	2,817,463
Expenses		(4,411,547)	-	(4,411,547)	(3,598,870)	-	(3,598,870)
Income tax expenses	22.8 (a)	-	-	-	(60,679)	-	(60,679)
Balance as at 31 December		27,621,407	(1,764,806)	25,856,601	22,880,158	(1,421,649)	21,458,509

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 IRCSL 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 IRCSL.
- ▶ 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 2017 was carried out by Mr. Vivek Jalan FIA, FIAI of Willis Towers Watson India Private Limited and a sum of Rs. 3,438 million was transferred from the conventional life insurance fund to the shareholders fund for the year 2017. Subsequent to the transfer the conventional life fund stood at Rs. 26,912 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 India Private Limited and a sum of Rs. 204 million was transferred from the non unit fund to the shareholders fund for the year 2017. Subsequent to the transfer the non unit fund stood at Rs. 38 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 2017 is adequate to cover the liabilities of the funds.

Disclosures required in the Financial Statements as per Identification and Treatment of One - Off Surplus: Direction #16 - 20.03.2016 issued, under Section 96A of the Regulation of Insurance Industry Act No 43 of 2000

Disclosure in Financial Statements	Compliance with the Requirement	Page
i Equity and statement of changes in equity to include a new line item called 'Restricted Regulatory Reserve' with value equal to one - off surplus for other than participating business. Adequate disclosure to be made with regards to 'Restricted Regulatory Reserve'.	Complied [Note 35]	181, 183 and 245
ii The transfer of one - off surplus to be treated as a release permitted by the IRCSL during the relevant period and accounted through Income Statement.	Complied [Note 38.4 (c) and Note 45.1]	249, 250 and 258
iii Income Statement to carry a new line item 'change in contract liability due to transfer of one - off surplus'.	Complied	179
iv Disclosure stating 'distribution of one - off surplus to shareholders', held as 'Restricted Regulatory Reserve', is subject to meeting governance requirements stipulated by the IRCSL and can only be released upon approval from the IRCSL.	Complied [Note 35]	245
v The basis of computation of one - off surplus. Any deviation from the direction in respect of determining the 'minimum one - off surplus'.	Complied [Note 38.4 (c)]	250
vi One-off surplus relating to participating and other than participating should be disclosed separately.	Complied [Note 38.4]	249
vii Financial ratios should be determined in accordance with SLASs. Additional financial ratios, excluding the impact of transfer of one - off surplus may be disclosed separately.	Complied	12
viii Disclosure on composition of investments supporting the Restricted Regulatory Reserve.	Complied [Note 28.2 (a)]	235

38.4 (c) One - Off Surplus Arising from Change in Policy Liability Valuation

Based on the letter issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL) (previously known as IBSL) dated 30 December 2016, all insurance companies were instructed to maintain the one - off surplus arising from change in policy liability valuation, separately within the long-term insurance fund / insurance contract liabilities. Accordingly, the one - off surplus was identified separately within the insurance contract liabilities as "Surplus created due to changes in valuation method from NPV to GPV".

The amount reported as the one-off surplus of Rs. 5,868 million in the 2016 financial statements was based on the internal actuarial valuation. Subsequently as directed by the IRCSL, the Company obtained an independent actuarial valuation certification from Willis Towers Watson India Private Limited who confirmed it as Rs. 4,636 million. The one off surplus has been further reduced to Rs. 3,817 million in line with the "Minimum One - off Surplus" calculation basis provided in the IRCSL guidelines. As the adjustments of Rs. 2,050 million were due to estimate changes, the difference has been adjusted in the current year to reflect the above accordingly [Note 38.4 (d)].

The one off surplus comprises of Rs. 432.5 million attributable to participating business and Rs. 2.5 million attributable to unit linked fund and Rs. 3,382 million attributable to non participating and non unit fund of unit linked business.

Based on the directions issued by the IRCSL dated 20 March 2018 and subsequent approval, the Company has transferred Rs. 3,382 million attributable to non - participating and non unit fund of unit linked business from life policyholder fund through Income Statement to life shareholder fund and held as part of the Restricted Regulatory Reserve under equity in the statement of financial position.

One - off Surplus was determined as the difference between the NPV solvency basis liability and the GPV distribution basis liability as of 31 December 2015. This is calculated for Participating and other than participating funds, separately. Above basis is in line with the 'Minimum One - off Surplus' calculation basis provided in the IRCSL guideline.

38.4 (d) Reversal of One - Off Surplus After Changes Made to NPV and GPV Computation

Based on the instructions received from the IRCSL, the Company has obtained new valuations of life fund under both NPV and GPV method as at 1 January 2016 from Wills Towers Watson.

The following changes were made to the NPV and GPV computations.

As at 1 January	2016 Rs. '000
Changes made to GPV due to changes made on non - economic assumptions	(2,050,764)
Changes made to NPV (netted off against contingency reserves)	-
Net impact to one off surplus	(2,050,764)

As difference arose due to changes in assumption to the GPV valuation (resulting in an estimate change) as at 1 January 2016, the difference was transferred to life fund during the current year. The prior year numbers were not restated / readjusted.

38.5 Movement in Insurance Contract Liabilities

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Conventional life insurance fund			
Balance as at 1 January		27,703,410	23,581,967
Increase in life insurance fund before surplus transfer to shareholders		5,950,069	5,123,562
Transfer to shareholders	38.5 (a)	(3,438,283)	(1,100,000)
Transfer of one - off surplus from non participating fund	38.6	(3,393,900)	-
Net change in unclaimed benefits		90,761	97,881
Balance as at 31 December - Conventional Life insurance		26,912,057	27,703,410
Non Unit Fund of Linked Life Insurance Contracts			
Balance as at 1 January		186,272	149,271
Increase in non unit fund of linked life insurance before surplus transfer to shareholders		39,259	35,396
Transfer from shareholders fund for the one - off deficit created in the non unit fund	38.6	11,966	-
Transfer to shareholders	38.5 (a)	(203,717)	-
Net change in unclaimed benefits		3,776	1,605
Balance as at 31 December - Non unit fund of linked Life insurance		37,556	186,272
		26,949,613	27,889,682

38.5 (a) Surplus from Life Insurance Fund Transferred to Life Shareholder Fund

As at 31 December	2017 Rs. '000	2016 Rs. '000
Conventional life insurance fund	3,438,283	1,100,000
Non unit fund of linked Life insurance	203,717	-
	3,642,000	1,100,000

38.6 One - Off Surplus Transfer

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Transfer of one - off surplus from non participating fund		(3,393,900)	-
Transfer from shareholders fund for the one - off deficit created in the non unit fund		11,966	-
		(3,381,934)	-

38.7 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 India Private Limited and concluded that, the liability value is sufficient to meet future benefits and expenses. Hence, no provision was required to be made for any premium deficiency.

NOTES TO THE FINANCIAL STATEMENTS

39 Insurance Contract Liabilities - Unit Linked

Accounting Policy

Unit linked contracts are those that do not meet the definition of insurance contract or investment contract 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	2017 Rs. '000	2016 Rs. '000
Liability of Fund investment		1,684,920	2,154,233
Liability of Fund income	39.1	436,689	223,474
Total insurance contract liabilities		2,121,609	2,377,707

39.1 Movement in Liability of Fund Income

As at 31 December	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	223,474	294,631
Net investment income	93,240	94,860
Net realised gains / (losses)	72,742	(131,996)
Net fair value gains	80,963	830
Management fee expense	(33,730)	(34,851)
Balance as at 31 December	436,689	223,474

Fair value of the financial investments backing unit linked contracts are as follows.

As at 31 December	2017 Rs. '000	2016 Rs. '000
Government securities	381,603	462,589
Equity instruments	1,628,378	1,814,977
Corporate debt instruments	86,790	56,283
Fixed deposits	32,434	45,736
	2,129,205	2,379,585
Other financial investments and assets	1,762	3,625
Other unit linked liabilities	(9,358)	(5,503)
Insurance contract liabilities - Unit Linked	2,121,609	2,377,707

40 Employee Benefits 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 each month at the rate of 3% of the salaries of each employee, to the Employees' Trust Fund administrated 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	2017 Rs. '000	2016 Rs. '000
Employees' Provident Fund (EPF)		
Employers' contribution (12%)	55,238	52,086
Employees' contribution (8%)	36,825	34,724
Employees' Trust Fund (ETF)		
Employers' contribution (3%)	13,810	13,021

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.

As per LKAS 19 - Employee Benefits, 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	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	107,963	100,199
Included in Profit or Loss:		
Current service cost	11,966	10,690
Interest cost	10,796	10,258
	22,762	20,948
Included in OCI:		
Net actuarial loss on obligation	4,271	4,861
Other		
Payments during the year	(12,408)	(20,430)
Gratuity transfer	-	2,385
Balance as at 31 December	122,588	107,963

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.

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	Change in employee defined benefit liability Rs'000	Estimated employee defined benefit liability Rs'000
+1%	-	(4,600)	117,988
-1%	-	4,979	127,567
-	+1%	5,673	128,261
-	-1%	(5,322)	117,266

41 Reinsurance Payables

Accounting Policy

Reinsurance payables represent balances due to reinsurance companies. Amounts payable are recognised when due and measured on initial recognition at the fair value less directly attributable transaction costs 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.

Assumption	2017	2016
Discount rate	10.5%	11.0%
Staff turnover rate - early withdrawal through resignations		
- i) Less than 5 years	14.3%	13%
- ii) More than 5 years	5%	2%
Salary increase	8%	8%
Retirement age	55 years	55 years

Assumptions regarding future mortality are based on the A1967/70 for Staff / Executive and A1949/52 for Worker, issued by the Institute of Actuaries, London.

40.5 Maturity Analysis of the Payments

The following payments are expected on employee benefit liabilities in future years

As at 31 December	2017 Rs. '000	2016 Rs. '000
Within the next 12 months	3,362	6,874
Between 1 and 2 years	2,721	5,772
Between 2 and 5 years	15,192	52,151
Over 5 years	101,313	43,166
Total expected payments	122,588	107,963

As at 31 December	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	208,742	213,855
Arising during the year	497,612	423,857
Utilised during the year	(361,208)	(428,970)
Balance as at 31 December	345,146	208,742

NOTES TO THE FINANCIAL STATEMENTS

42 Other Liabilities

As at 31 December	2017 Rs. '000	2016 Rs. '000
Other Financial Liabilities		
Agency commission payable	189,244	141,696
Other staff related provisions	158,389	140,000
Premiums in suspense	292,108	284,922
Amounts due to related parties	-	6,528
	639,741	573,146
Other Non Financial Liabilities		
Government levies	38,145	11,406
Other liabilities and accruals	542,974	375,074
Premium received in advance	147,171	133,245
	728,290	519,725
Total other liabilities	1,368,031	1,092,871

Maturity schedule of other financial liabilities as of 31 December 2017 and 2016 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 2017 audited financial statements, which required additional disclosures in the 2017 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 2017 audited financial statements, which required additional disclosures in the 2017 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.

43.4 Transactions with Related Entities

The Directors of the company as at 31 December 2017 was 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 93.79% 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		

Company	Name of Director	Position	Relationship	Details of financial dealings
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 7.28% shares of Union Assurance PLC and Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Whittal Boustead (Pvt) Ltd
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
Fairfirst Insurance Limited.	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
InfoMate Private Limited	D. C. Alagaratnam	Director	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with InfoMate Private Limited

Note: Mr. Ajit D. Gunewardene resigned w.e.f 31 December 2017.

43.4 (a) Transactions with the Parent and Ultimate Controlling Party

As at 31 December	2017 Rs. '000	2016 Rs. '000
Statement of financial position		
Assets		
Intangible assets	24,970	-
	24,970	-
Liabilities		
Other liabilities	(6,954)	(2,621)
	(6,954)	(2,621)

Transacted amounts for the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Gross written premium	2,187	2,314
Net benefits and claims	(400)	(120)
Other operating and administrative expenses	(48,930)	(20,513)

NOTES TO THE FINANCIAL STATEMENTS

43.4 (b) Transactions with / Between Subsidiary Companies and Associates of the Parent Company and Other Related Entities

As at 31 December Company	Relationship with Parent Company	Investment / Nature of transaction	2017 Rs. '000	2016 Rs. '000
Statement of financial position				
Assets				
Property, plant and equipment				
John Keells Office Automation (Pvt) Ltd	Subsidiary	Acquisition of property plant,	15,032	12,359
John Keells Computer Services (Pvt) Ltd	Subsidiary	and equipment	159	1,119
			15,191	13,478
Financial investments				
Nations Trust Bank PLC	Associate	Debentures	627,996	602,675
Nations Trust Bank PLC	Associate	Cash at Bank	40,057	26,014
			668,053	628,689
Other liabilities				
Other subsidiaries and associates		Payment for shared services	(3,902)	(673)
			(3,902)	(673)

For the year ended 31 December Company	Relationship with Parent Company	Investment / Nature of transaction	2017 Rs. '000	2016 Rs. '000
Income Statement				
Gross written premium				
Other subsidiaries and associates			2,665	3,050
			2,665	3,050
Net benefits and claims				
Other subsidiaries and associates			(2,100)	(1,600)
			(2,100)	(1,600)
Investment income				
Nations Trust Bank PLC	Associate	Debentures	77,338	57,466
			77,338	57,466
Other operating and administrative expenses				
Other subsidiaries and associates			(129,465)	(61,466)
			(129,465)	(61,466)

43.4 (c) Transactions with / Between Associate of the Company - Fairfirst Insurance Ltd

Income Statement

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Gross written premium	2,579	1,660
Net benefits and claims	(1,000)	-
Rent Income	12,379	12,224
Other operating and administrative expenses	(36,340)	(42,409)

Statement of Financial Position

As at 31 December	2017 Rs. '000	2016 Rs. '000
Other receivables	13,793	100,988
Other liabilities	(1,839)	(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	2017 Rs. '000	2016 Rs. '000
Short term employment benefits	44,559	34,711
Post employment benefits	21,177	17,204
Share based benefits	-	-
Total	65,736	51,915

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	2017 Rs. '000	2016 Rs. '000
Insurance premium	2,643	543

The Directors of the Company and their immediate relatives do not have substantial shareholdings in the Company as at 31 December 2017.

43.5 (c) Share Based Benefits to KMP and CFM

As at 31 December	2017	2016
Number of ordinary shares held	8,562	8,562
Dividends paid (in Rs. 000)	90	73

44 Commitments

44.1 Capital Commitments

There were no significant capital commitments as at the reporting date other than the following (2016 - Nil).

As at 31 December	2017 Rs. Mn	2016 Rs. Mn
Capital commitment contracted	241	Nil

44.2 Operating Lease

The Company has leased a number of branches under operating leases. These leases have an average tenure 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	2017 Rs. '000	2016 Rs. '000
Lease expenses	82,088	70,679
Contingent rent expenses	Nil	Nil

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;

NOTES TO THE FINANCIAL STATEMENTS

45.1 Adjusting Events After Reporting Date

As disclosed in Note 38.4 (C), the Company has transferred Rs. 3,382 million to a 'Restricted Regulatory Reserve' through Income Statement, based on the direction issued by the IRCSL on 20 March 2018 and subsequent approval. In accordance with LKAS 10 - Events After Reporting Periods, this has been treated as an adjusting event. Accordingly, these Financial Statements have been adjusted.

45.2 Non Adjusting Events After Reporting Date

45.2 (a) The Board of Directors of the Company has declared a first and final dividend of Rs. 18.00 per share for the financial year ended 31 December 2017.

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 2018 has been audited by Messrs. KPMG.

In accordance with the LKAS 10, Events after the reporting period, the first and final dividend has not been recognised as a liability in the financial statements as at 31 December 2017.

45.2 (b) Mr. S.C. Ratnayake has been appointed to the Board of Directors of the Company with effect from 1 January 2018 as Chairman and Non - Executive Director.

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 the 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 Judgement and Estimates

The Company receives legal claims against it in the normal course of business. Management has made judgement 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 2017, relates to the following;

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

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2010 / 11, 2011 / 12 and 2012 / 13, assessing the Life insurance business to pay income tax liabilities of Rs. 13 million, Rs. 132 million and Rs. 411 million together with a Rs. 233 million penalty totalling to Rs. 644 million respectively. The Company has lodged valid appeals against the said assessments with the Tax Appeals Commission.

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2013 / 14 and 2014 / 15, 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 Rs. 862 million along with a 50% penalty totalling to Rs. 1,294 million respectively. The Company has lodged valid appeals with the Commissioner General of Inland Revenue against the said assessments.

Directors are of the view that it has followed due process and acted in accordance with the prevailing laws in its tax submissions for years of assessment 2010 / 11, 2011/ 12, 2012 / 13, 2013 / 14 and 2014 / 15 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 176 for the Statement of Directors' Responsibility.



SUPPLEMENTARY INFORMATION



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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)

DECADE AT A GLANCE

Income Statement	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Rs'000										
Gross written premium	10,117,630	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
Net written premium	9,620,018	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
Investment and other income	3,822,225	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
Net benefits and claims	(5,388,696)	(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)
Change in contract liability due to transfer of one off surplus	3,381,934	-	-	-	-	-	-	-	-	-
Underwriting and net acquisition costs (including reinsurance)	(1,841,151)	(1,441,617)	(1,289,437)	(1,115,834)	(968,181)	(890,536)	(819,076)	(675,673)	(503,150)	(457,431)
Other operating and administrative expenses	(2,570,396)	(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)
Income tax reversal / (charge)	-	(60,679)	28,275	-	-	-	-	-	-	-
Surplus from life insurance fund	7,023,934*	1,100,000	800,000	750,000	612,000	525,000	429,000	325,000	235,000	185,000
Investment and other income not attributable to policyholders	236,290	179,432	1,530,851	167,623	207,074	23,161	-	-	-	-
Expenses not attributable to policyholders	(63,940)	(27,119)	(42,205)	(36,883)	(28,110)	(15,342)	(12,826)	-	-	-
Share of net result of equity accounted investee	187,844	60,315	57,990	-	-	-	-	-	-	-
Profit for the year	7,384,128*	1,312,628	2,346,636	880,740	790,964	532,819	416,174	325,000	235,000	185,000
Statement of financial position										
Rs'000										
Assets										
Intangible assets	212,817	94,647	59,616	66,766	117,475	-	-	-	49,500	49,500
Property, plant and equipment	2,000,716	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
Investment in subsidiary	-	-	-	-	-	-	-	-	-	183,200
Investment in equity accounted investee	995,722	777,346	736,216	-	-	-	-	-	-	-
Financial investments including derivatives	36,792,921	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
Loans to life policyholders	1,001,538	867,177	741,852	660,744	515,735	385,688	246,674	232,618	224,325	189,274
Reinsurance receivable	267,417	178,181	149,772	67,536	502,571	400,627	545,774	619,228	900,800	836,708
Premiums receivable	268,511	246,800	203,722	159,117	1,844,831	1,459,440	1,236,299	1,237,594	845,756	724,748
Receivables and other assets	947,239	809,784	732,017	816,718	1,087,585	1,055,006	1,795,727	1,552,089	1,329,848	1,164,821
Deferred acquisition cost	-	-	-	-	149,145	146,097	147,495	139,176	130,445	115,019
Cash in hand and at bank	580,126	379,232	326,012	196,429	466,402	315,634	373,413	390,138	313,855	272,080
Assets held for sale	-	-	-	8,393,314	-	-	-	-	-	-
Total Assets	43,067,007	35,693,463	31,013,817	35,603,536	30,318,740	25,883,026	22,222,856	19,617,426	16,775,675	13,278,394

* Includes the restricted one - off surplus transfer of Rs. 3.4 billion in 2017.

Statement of Financial Position Rs'000	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Equity										
Stated capital	1,000,000	1,000,000	1,138,433	1,138,433	1,138,433	1,133,305	388,433	388,433	388,433	388,433
Restricted regulatory reserve	3,381,934	-	-	-	-	-	-	-	-	-
Other reserves	2,144,728	817,003	1,232,893	1,228,722	829,094	720,830	955,194	1,340,970	584,359	47,958
Retained earnings	5,438,052	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
Total Equity	11,964,714	3,866,192	3,464,928	6,210,859	5,117,293	4,309,058	3,247,214	3,168,512	2,305,151	1,487,468
Liabilities										
Insurance contract liabilities - Life	26,949,613	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
- Unit Linked	2,121,609	2,377,707	2,541,221	2,618,007	1,807,137	1,143,546	555,541	165,835	-	-
- Non Life	-	-	-	-	3,440,249	3,200,838	3,050,976	2,813,250	2,689,394	2,371,342
Employee benefit liabilities	122,588	107,963	100,199	90,437	186,078	163,572	89,467	83,032	77,823	68,620
Deferred revenue	-	-	-	-	109,402	96,904	154,702	132,422	95,955	83,811
Reinsurance payables	345,146	208,742	213,855	150,784	764,977	415,394	441,567	405,764	327,196	344,991
Other liabilities	1,368,031	1,092,871	843,424	770,187	1,336,864	1,172,899	1,212,557	1,050,194	1,474,237	788,122
Bank overdraft	195,306	150,306	118,952	66,017	38,724	24,475	30,373	29,109	22,243	-
Liabilities held for sale	-	-	-	5,261,366	-	-	-	-	-	-
Total Liabilities	31,102,293	31,827,271	27,548,889	29,392,674	25,201,447	21,573,968	18,975,642	16,448,914	14,470,524	11,790,926
Total equity and liabilities	43,067,007	35,693,463	31,013,817	35,603,536	30,318,740	25,883,026	22,222,856	19,617,426	16,775,675	13,278,394
Investor Information										
Return on Net Assets (%)*	61.72	33.95	67.70	19.39	21.95	21.38	21.41	16.16	17.39	23.00
Earnings Per Share (Rs.)*	125.31	22.27	31.20	14.04	13.11	12.28	9.27	6.83	5.35	4.56
Dividend Per Share (Rs.)	18.00	10.50	8.50	6.50	6.00	5.00	5.00	3.13	2.50	1.63
Net Assets Per Share (Rs.)	203.04	65.61	58.80	72.46	59.70	50.27	43.30	84.49	61.47	39.67
Market Price Per Share (Rs.)	135.00	143.00	165.00	164.00	104.00	83.00	108.10	122.10	90.75	49.75
Market Capitalisation (Rs. Mn.)	7,955.0	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
Price Earnings Ratio (Times)	1.08	6.42	5.29	11.68	7.94	6.76	11.66	8.94	8.49	5.45
Other Information										
Number of employees	529	474	450	445	1,157	1,088	1,009	989	949	902
No. of Shares ('000)	58,929	58,929	58,929	85,714	85,714	85,714	75,000	37,500	37,500	37,500

* 2008 to 2014 figures include profits of the non life insurance business.

INDEPENDENT ASSURANCE REPORT ON NON-FINANCIAL REPORTING



GRI 102-56



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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 December 31, 2017. The Sustainability Indicators are included in the Union Assurance PLC's Integrated Annual Report for the year ended December 31, 2017 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators	Integrated Annual Report Page
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The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report Page

Sustainability performance indicators:

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Information provided on following stakeholder groups:

▶ Shareholders - Financial capital and Share Information	51 - 64
▶ Customers - Manufactured capital, Social and Relationship Capital and Intellectual Capital	101 - 103, 65 - 76 and 89 - 94
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▶ Employees - Human capital	77 - 88
▶ Suppliers - Social and Relationship capital	65 - 76
▶ Community - Social and Relationship capital	65 - 76

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 December 31, 2017 are, in all material respects, prepared and presented in accordance with the GRI Standards.

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 December 31, 2017, have not in all material respects, been prepared and presented in accordance with the GRI Standards.

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 Standards.

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



GRI 102-56

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 Standards, 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.

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 Standards 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
29 March 2018

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. H. Mahajan FCA
T. J. S. Rajapakse FCA
Ms. S. M. B. Jayasinghe FCA
G. A. U. Karunaratne FCA
P. H. Rajapakse FCA
Principals: S. R. L. Perera FCA/CA/UK, I. B. Attorneys-at-Law, H. S. Sumanaratne ACA
Ms. G. T. N. Perera FCA
S. N. S. Perera FCA
W. W. J. C. Perera FCA
W. K. D. C. Abeyaratne FCA
R. M. D. B. Rajapakse FCA
C. P. Jayatilaka FCA
Ms. S. Joseph FCA
S. T. L. Perera FCA
Ms. S. R. L. I. N. Rodrigo FCA

GRI CONTENT INDEX



GRI 102-55



This report has been prepared in accordance with the GRI Standards: Core option

GRI Standard	Disclosure	Page Number	Reason for Omission
GRI 101: Foundation 2016			
GRI 102: General Disclosures 2016			
Organizational profile			
102-1	Name of the organisation	283	
102-2	Activities, brands, products, and services	67 to 70	
102-3	Location of headquarters	283	
102-4	Location of operations	6	
102-5	Ownership and legal form	283	
102-6	Markets served	18	
102-7	Scale of the organisation	12 and 13	
102-8	Information on employees and other workers	80 and 81	
102-9	Supply chain	75	
102-10	Significant changes to the organization and its supply chain	No significant change in the supply chain	
102-11	Precautionary Principle or approach	158 and 159	
102-12	External initiatives	2	
102-13	Membership of associations	259	
Strategy			
102-14	Statement from senior decision-maker	16 to 20	
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	24	
Governance			
102-18	Governance structure	111 and 112	
Stakeholder engagement			
102-40	List of stakeholder groups	30	
102-41	Collective bargaining agreements	No collective bargaining agreements	
102-42	Identifying and selecting stakeholders	30	
102-43	Approach to stakeholder engagement	31	
102-44	Key topics and concerns raised	32 and 33	
Reporting practice			
102-45	Entities included in the consolidated financial statements	2	
102-46	Defining report content and topic Boundaries	2	
102-47	List of material topics	34 and 35	
102-48	Restatements of information	35	
102-49	Changes in reporting	35	
102-50	Reporting period	2	



GRI 102-55

GRI Standard	Disclosure	Page Number	Reason for Omission
102-51	Date of most recent report	31 December 2016	
102-52	Reporting cycle	Annual	
102-53	Contact point for questions regarding the report	Nadee Perera (nadeep@ualink.lk)	
102-54	Claims of reporting in accordance with the GRI Standards	2	
102-55	GRI content index	264 to 270	
102-56	External assurance	262 and 263	

Topic-specific Standards- Material Topics

GRI 200: Economic Standard Series

GRI 201: Economic Performance 2016

Management Approach			
103-1	Explanation of the material topic and its Boundary Create long term value to shareholders while protecting the interest of our policyholders.		
103-2	The management approach and its components	52	
103-3	Evaluation of the management approach	52	
201-1	Direct economic value generated and distributed	57	
201-2	Financial implications and other risks and opportunities due to climate change	No major impact due to climate change	
201-3	Defined benefit plan obligations and other retirement plans	13 and 85	
201-4	Financial assistance received from government	None	

GRI 203: Indirect Economic Impacts 2016

Management Approach			
103-1	Explanation of the material topic and its Boundary Be accountable and implement strategies that would transmit change through the social and economic parameters of the business operations		
103-2	The management approach and its components	66	
103-3	Evaluation of the management approach	66	
203-1	Infrastructure investments and services supported	13 and 72 to 73	
203-2	Significant indirect economic impacts	57 and 72 to 73	

GRI 300: Environment Standard Series

GRI 302: Energy 2016

Management Approach			
103-1	Explanation of the material topic and its Boundary Implement various energy conservation initiatives at head office and branch level to minimise the impact create on the environment and use of non-renewable energy		
103-2	The management approach and its components	96	
103-3	Evaluation of the management approach	96	
302-1	Energy consumption within the organisation	97	
302-2	Energy consumption outside of the organisation	97	
302-3	Energy intensity	97	
302-4	Reduction of energy consumption	97	
302-5	Reduction in energy requirements of products and services	97	

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GRI 102-55

GRI Standard	Disclosure	Page Number	Reason for Omission
GRI 303: Water 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Implement various water conservation initiatives at head office and branch level to ensure effective utilization of water		
103-2	The management approach and its components	98	
103-3	Evaluation of the management approach	98	
303-1	Water withdrawal by source	98	
303-2	Water sources significantly affected by withdrawal of water	98	
303-3	Water recycled and reused	13 and 98	
GRI 305: Emissions 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Measure and reduce what has been discharged to atmosphere and adherence to all globally accepted measurement parameters with regard to emission management		
103-2	The management approach and its components	98	
103-3	Evaluation of the management approach	99	
305-1	Direct (Scope 1) GHG emissions	98 and 271	
305-2	Energy indirect (Scope 2) GHG emissions	98 and 271	
305-3	Other indirect (Scope 3) GHG emissions	98 and 271	
305-4	GHG emissions intensity	98	
305-5	Reduction of GHG emissions	99	
305-6	Emissions of ozone-depleting substances (ODS)	Not tracked	
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	Not tracked	
GRI 306: Effluents and Waste 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Re-use and Recycle of materials including paper, e-waste, food and waste water to minimise the impact created on the environment		
103-2	The management approach and its components	99	
103-3	Evaluation of the management approach	99	
306-1	Water discharge by quality and destination	Not tracked	
306-2	Waste by type and disposal method	99	
306-3	Significant spills	No significant spills reported during the year	
306-4	Transport of hazardous waste	Business does not involve transport to hazardous waste	
306-5	Water bodies affected by water discharges and / or runoff	No major water bodies affected by water discharge	



GRI 102-55

GRI Standard	Disclosure	Page Number	Reason for Omission
GRI 307: Environmental compliance 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Compliance with all the environmental regulations applicable to branch expansion and business operations		
103-2	The management approach and its components	100	
103-3	Evaluation of the management approach	100	
307-1	Non-compliance with environmental laws and regulations	No non-compliance reported	
GRI 400: Social Standard Series			
GRI 401: Employment 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Continuously invest in developing skills and competencies of the team, to meet current as well as future business opportunities and challenges. Committed to be a "Great Place to Work" and to be an equal opportunity employer.		
103-2	The management approach and its components	77 and 78	
103-3	Evaluation of the management approach	78	
401-1	New employee hires and employee turnover	81	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Benefits vary based on the terms of employment and not based on locational operation	
401-3	Parental leave	Not tracked but have not noticed any significant drop out	
GRI 402: Labour/Management relations 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Maintaining healthy relationship by implementing number of employee engagement initiatives		
103-2	The management approach and its components	86	
103-3	Evaluation of the management approach	86	
402-1	Minimum notice periods regarding operational changes	86	
GRI 403: Occupational Health and Safety 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Adopting unique culture that drives to provide a healthy workplace for staff		
103-2	The management approach and its components	84	
103-3	Evaluation of the management approach	84	
403-1	Workers representation in formal joint management-worker health and safety committees	13 and 84	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	13	

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GRI 102-55

GRI Standard	Disclosure	Page Number	Reason for Omission
403-3	Workers with high incidence or high risk of diseases related to their occupation	No such workers	
403-4	Health and safety topics covered in formal agreements with trade unions	No trade union	

GRI 404: Training and Education 2016

Management Approach			
103-1	Explanation of the material topic and its Boundary Developing an learning environment and ensure people development, talent retention and sustainable competitive advantage		
103-2	The management approach and its components	83	
103-3	Evaluation of the management approach	83	
404-1	Average hours of training per year per employee	83	
404-2	Programs for upgrading employee skills and transition assistance programs	83 and 84	
404-3	Percentage of employees receiving regular performance and career development reviews	13 and 82	

GRI 405: Diversity and equal opportunity 2016

Management Approach			
103-1	Explanation of the material topic and its Boundary Taking extensive measures to ensure the attitudes of openness and inclusivity are embedded in the every part of the organisation		
103-2	The management approach and its components	79	
103-3	Evaluation of the management approach	79	
405-1	Diversity of governance bodies and employees	80 and 81	
405-2	Ratio of basic salary and remuneration of women to men	79	

GRI 406: Non-Discrimination 2016

Management Approach			
103-1	Explanation of the material topic and its Boundary Avoid discrimination when recruiting, promoting and granting recognitions.		
103-2	The management approach and its components	86	
103-3	Evaluation of the management approach	86	
406-1	Incidents of discrimination and corrective actions taken	No incidents reported	

GRI 407: Freedom of association and collective bargaining 2016

Management Approach			
103-1	Explanation of the material topic and its Boundary Integrate human right policies into everyday governance and business practices		
103-2	The management approach and its components	86	
103-3	Evaluation of the management approach	86	
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	No such operation has been recognised	



GRI 102-55

GRI Standard	Disclosure	Page Number	Reason for Omission
GRI 410: Security practices 2016			
	Management Approach		
103-1	Explanation of the material topic and its Boundary Providing training to security personnel ensure work place safety and positively contributes to security of employees, customers, community.		
103-2	The management approach and its components	74	
103-3	Evaluation of the management approach	74	
410-1	Security personnel trained in human rights policies or procedures	100% training provided	
GRI 413: Local communities 2016			
	Management Approach		
103-1	Explanation of the material topic and its Boundary Identifying and addressing key material issues applicable to community through CSR committee		
103-2	The management approach and its components	72	
103-3	Evaluation of the management approach	72	
413-1	Operations with local community engagement, impact assessments, and development programs	13 and 72 to 73	
413-2	Operations with significant actual and potential negative impacts on local communities	No such operations reported	
GRI 414: Supplier social assessment 2016			
	Management Approach		
103-1	Explanation of the material topic and its Boundary Implementation of proper supplier selection criteria when recruiting and maintaining suppliers relationships		
103-2	The management approach and its components	74	
103-3	Evaluation of the management approach	74	
414-1	New suppliers that were screened using social criteria	13 and 74 to 75	
414-2	Negative social impacts in the supply chain and actions taken	No negative social impacts reported	
GRI 415: Public policy 2016			
	Management Approach		
103-1	Explanation of the material topic and its Boundary Providing positive contribution towards various policy initiatives implemented by government		
103-2	The management approach and its components	72 and 73	
103-3	Evaluation of the management approach	72 and 73	
415-1	Political contributions	No political contribution made	

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GRI 102-55

GRI Standard	Disclosure	Page Number	Reason for Omission
GRI 416: Customer health and safety 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Developing and providing insurance products that ensure health and safety of the customers		
103-2	The management approach and its components	67 to 70	
103-3	Evaluation of the management approach	67 to 70	
416-1	Assessment of the health and safety impacts of product and service categories	67 to 70	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	No non-compliance reported	
GRI 417: Marketing and Labelling 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Providing insurance solutions, fair and responsible marketing communications as well as access to information about the composition of products.		
103-2	The management approach and its components	67 to 70	
103-3	Evaluation of the management approach	67 to 70	
417-1	Requirements for product and service information and labelling	67 to 70	
417-2	Incidents of non-compliance concerning product and service information and labelling	Zero incidents	
417-3	Incidents of non-compliance concerning marketing communications	Zero incidents	
GRI 418: Customer privacy 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Taking reasonable measures to ensure the security of personal data collected		
103-2	The management approach and its components	70	
103-3	Evaluation of the management approach	70	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Zero incidents	
GRI 419: Socioeconomic Compliance 2016			
Management Approach			
103-1	Explanation of the material topic and its Boundary Compliance with socioeconomic regulations applicable to the organisations		
103-2	The management approach and its components	71	
103-3	Evaluation of the management approach	71	
419-1	Non-compliance with laws and regulations in the social and economic area	13 Zero non-compliance	



CERTIFICATE OF CARBON FOOTPRINT



Carbon Consulting Company (Private) Limited
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05th February 2018

Certificate of Assessment – Greenhouse Gas Emissions Inventory

This is to certify that The Carbon Consulting Company (CCC) has conducted an Organisational Greenhouse Gas (GHG) Assessment for the operations of Union Assurance PLC using data provided by the client for stipulated emissions sources and activities as described in the table below. Following the assessment, CCC can confirm that the Carbon Footprint of Union Assurance PLC's operations for the calendar year 2017 is **1,294.69 tonnes of Carbon Dioxide Equivalents (tCO₂e)**.

Reporting Scope	Emissions Source	Emissions Activity	Emissions Total (tCO ₂ e)
Scope 1 – Direct Emissions	Stationary Combustion	Generator Fuel	0.34
	Mobile Combustion	Long-term Leased Vehicles (Operations)	85.03
SCOPE 1 TOTAL EMISSIONS			85.35
Scope 2 – Indirect Emissions	Purchased Electricity	Electricity Consumption	833.23
SCOPE 2 TOTAL EMISSIONS			833.23
Scope 3 – Indirect Emissions	Purchased Electricity	Electricity Transmission and Distribution Losses	95.32
	Waste Transportation	Third-Party Outbound Waste Transportation	0.11
	Waste Disposal	Waste Disposal	0.44
	Employee Commuting	Employee Commuting to and from Work	280.25
SCOPE 3 TOTAL EMISSIONS			376.11
TOTAL SCOPE 1, 2 & 3 CARBON FOOTPRINT OF UNION ASSURANCE PLC			1,294.69

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 GHG Assessment (*data has not been independently verified*).

Yours faithfully,

Authorized Signature

GLOSSARY OF INSURANCE TERMS

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

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

Actuary - 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.

Administrative expenses - Costs of an administrative nature including those arising from premium collection portfolio administration, handling of bonuses and rebates and inward and outward reinsurance, including staff costs and depreciation provisions in respect of property, plant and equipment.

Admissible assets - Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000.

Annuity - A series of regular payments. Annuities include annuities certain, where payments are made at definite times, and life annuities, where payments depend on the survival of an annuitant.

A life annuity is a contract that provides a regular payment typically monthly during the lifetime of the policyholder or a fixed period if less. If the payments start at the outset of the contract, it is an immediate annuity. If they start at some point in the future, it is a deferred annuity.

Bancassurance - An arrangement whereby insurer sells insurance and investment products to bank customers.

Beneficiary - A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

Benefits and claims experience variation - The difference between the expected and the actual benefit payout

Cedent - Client of a reinsurance company (also see primary insurers).

Claims - The amount payable under a contract of insurance arising from the occurrence of an insured event.

Claims incurred - A claim is incurred when the event giving rise to the claim occurs. Claims incurred include paid claims and movements in outstanding claims.

Claims outstanding - Life insurance business - The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have been notified by the reporting date being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

Commissions - A payment made to a broker or a sales agent in return for selling and servicing an insurer's products.

Capital Adequacy Ratio (CAR) - Measures adequacy of the Total Available Capital (TAC) as against the Risk Capital Required (RCR) under the Risk Based Capital Regime.

Discretionary participating features (DPF) - A contractual right given to a policyholder to receive, as a supplement to guaranteed benefits, additional benefits;

- ▶ That are likely to be a significant portion of the total contractual benefits;
- ▶ Whose amount or timing is contractually at the discretion of the issuer;
- ▶ That are contractually based on;
- ▶ The performance of a specified pool of contracts or a specified type of contract;
- ▶ The 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.

Endowment - 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.

Financial risk - 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.

Global Reporting initiative (GRI) - 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.

Healthcare - An insurance contract which provides medical coverage to a policyholder.

Insurance contract - 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.

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

Insurance provision – Life - The fund or funds maintained by an insurer in respect of its life insurance business in accordance with the Regulation of Insurance Industry Act No. 43 of 2000.

Investment contract - A contract, which contains significant financial risk and may contain insignificant insurance risk, but does not meet the definition of insurance.

Investment management services - The management of an investment contract on behalf of a policyholder, for which an investment management service fee is charged.

Lapsed Policy - A policy terminated at the end of the grace period because of non payment of premiums.

Liability adequacy test (LAT) - An annual assessment of the sufficiency of insurance and / or investment contract with DPF liabilities, to cover future insurance obligations.

Life surplus - The excess of the assets over the liabilities as determined by the actuary and after the distribution of dividends to policyholders

Life insurance business - Insurance (including reinsurance) business falling within the classes of insurance specified as long term insurance business under the Regulation of Insurance Industry Act No. 43 of 2000.

Longevity - The insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.

Loss ratio - Percentage ratio of claims expenses to earned premiums.

Mortality - 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.

Net asset value - The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

Net expenses for claims and benefits - 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.

Non-participating business - Life insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

Non-proportional reinsurance - 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.

Outstanding claims provision - Comprises claims incurred by the policyholder and reported to the insurance company, and IBNR claims.

Participating business - Life insurance business where the policyholders are contractually entitled to share in the surplus of the relevant life fund.

Policyholders' bonuses - 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.

Policy loans - A loan from the insurer to a policyholder on the security of the surrender value of a life insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

Premiums - The instalments paid by the customers.

Primary insurers - Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

Proportional reinsurance - 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.

Provision for outstanding claims - 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.

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.

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).

Technical provisions - Uncertain liabilities directly connected with non-life insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

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.

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.

Written premium - Life insurance business - Premiums to which the insurer is contractually entitled and received in the accounting period.

QUARTERLY ANALYSIS 2017

	2017					2016				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
	January - March	April - June	July - September	October - December		January - March	April - June	July - September	October - December	
R's'000										
Gross written premium	2,286,033	2,312,753	2,625,792	2,893,052	10,117,630	1,932,647	1,934,987	2,144,249	2,258,868	8,270,751
Premium ceded to reinsurers	(117,961)	(121,648)	(128,535)	(129,468)	(497,612)	(99,549)	(105,472)	(108,046)	(110,790)	(423,857)
Net written premium	2,168,072	2,191,105	2,497,257	2,763,584	9,620,018	1,833,098	1,829,515	2,036,203	2,148,078	7,846,894
Other revenue										
Net investment income	888,163	893,176	912,847	941,822	3,636,008	679,063	732,714	764,032	849,285	3,025,094
Net realised gains / (losses)	2,887	32,965	45,311	(5,572)	75,591	(100,323)	(15,235)	26,222	(42,612)	(131,948)
Net fair value gains / (losses)	(50,593)	510,802	(210,123)	8,274	258,360	(374,883)	105,014	320,615	(85,497)	(34,751)
Other income	13,901	14,784	16,075	18,416	63,176	11,189	11,074	10,635	25,755	58,653
Total other revenue	854,358	1,451,727	764,110	962,940	4,033,135	215,046	833,567	1,121,504	746,931	2,917,048
Total net revenue	3,022,430	3,642,832	3,261,367	3,726,524	13,653,153	2,048,144	2,663,082	3,157,707	2,895,009	10,763,942
Benefits, claims and expenses										
Net insurance benefits and claims paid	(512,190)	(420,926)	(745,002)	(995,615)	(2,673,733)	(318,749)	(352,012)	(437,001)	(416,548)	(1,524,310)
Net change in insurance claims outstanding	60,923	(13,528)	21,742	(74,439)	(5,302)	(54,300)	(18,040)	5,140	(3,875)	(71,075)
Change in contract liabilities - Life Fund	(1,584,760)	(2,223,989)	(1,403,462)	2,502,550	(2,709,661)	(953,737)	1,412,508)	1,783,400)	(88,620)	(4,238,265)
Change in contract liability due to transfer of one off surplus	-	-	-	3,381,934	3,381,934	-	-	-	-	-
Underwriting and net acquisition costs (including reinsurance)	(410,939)	(395,520)	(479,344)	(555,348)	(1,841,151)	(263,239)	(347,620)	(392,244)	(438,514)	(1,441,617)
Other operating, administrative and selling expenses	(493,651)	(515,415)	(580,647)	(914,620)	(2,504,333)	(398,415)	(471,861)	(484,031)	(710,486)	(2,064,793)
Depreciation and amortisation	(27,543)	(26,566)	(25,950)	(24,564)	(104,623)	(27,219)	(26,909)	(28,420)	(28,342)	(110,890)
Total benefits, claims and expenses	(2,968,160)	(3,595,944)	(3,212,663)	3,319,898	(6,456,869)	(2,015,659)	(2,628,950)	(3,119,956)	(1,686,385)	(9,450,950)
Profit from operations	54,270	46,888	48,704	7,046,422	7,196,284	32,485	34,132	37,751	1,208,624	1,312,992
Share of results of equity accounted investee, net of tax	54,003	20,006	42,727	71,108	187,844	28,804	23,614	33,046	(25,149)	60,315
Profit before tax	108,273	66,894	91,431	7,117,530	7,384,128	61,289	57,746	70,797	1,183,475	1,373,307
Income tax expense	-	-	-	-	-	-	-	-	(60,679)	(60,679)
Profit for the year	108,273	66,894	91,431	7,117,530	7,384,128	61,289	57,746	70,797	1,122,796	1,312,628

LIFE INSURANCE FUND INSURANCE REVENUE ACCOUNT

For the year ended 31 December	2017 Rs. '000	2016 Rs. '000
Gross written premium	10,117,630	8,270,751
Premium ceded to reinsurers	(497,612)	(423,857)
Net written premium	9,620,018	7,846,894
Policy administration fee	10,418	11,215
Net insurance benefits and claims paid	(2,673,733)	(1,524,310)
Net change in insurance claims outstanding	(5,302)	(71,075)
Underwriting and net acquisition costs (net of reinsurance)	(1,841,151)	(1,441,617)
Other operating, selling and administrative expenses	(2,570,396)	(2,157,253)
Underwriting surplus	2,539,854	2,663,854
Investment and other income	3,811,807	2,735,090
Change in contract liabilities - Life fund	(2,709,661)	(4,238,265)
Change in contract liability due to transfer of one off surplus	3,381,934	-
Income tax reversal	-	(60,679)
Surplus from life insurance fund	7,023,934	1,100,000
Investment and other income not attributable to policyholders	236,290	179,432
Expenses not attributable to policyholders	(63,940)	(27,119)
Share of results of equity accounted investee, net of tax	187,844	60,315
Profit from shareholders' fund	360,194	212,628
Profit for the year attributable to equity holders of the company	7,384,128	1,312,628

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	2017 Rs. '000	2016 Rs. '000
Assets				
Intangible assets	25	225	212,817	94,647
Property, plant and equipment	26	226	2,000,716	1,493,040
Financial investments including derivatives	1	278	34,596,558	29,495,819
Loans to life policyholders	29	241	1,001,538	867,177
Reinsurance receivable	30	242	267,417	178,181
Premiums receivable	31	243	268,511	246,800
Receivables and other assets	2	279	616,905	527,943
Cash in hand and at bank	3	279	580,120	379,182
Total assets			39,544,582	33,282,789
Reserves and liabilities				
Reserves				
Other reserves	4	279	1,585,223	378,902
Total reserves			1,585,223	378,902
Liabilities				
Insurance contract liabilities	38	248	26,949,613	27,889,682
Insurance contract liabilities - Unit Linked	39	252	2,121,609	2,377,707
Employee benefit liabilities	40	252	122,588	107,963
Reinsurance payables	41	253	345,146	208,742
Other liabilities	5	279	8,225,097	2,169,487
Bank overdraft	33	244	195,306	150,306
Total liabilities			37,959,359	32,903,887
Total reserves and liabilities			39,544,582	33,282,789

LIFE INSURANCE FUND

STATEMENT OF CASH FLOWS

For the year ended 31 December			2017	2016
	Note	Page	Rs. '000	Rs. '000
Cash flows from operations				
Insurance premiums received			10,095,919	8,227,672
Reinsurance premiums paid			(361,208)	(428,970)
Insurance benefits and claims paid	16	216	(2,828,188)	(1,682,170)
Reinsurance claims received	16	216	154,455	157,860
Payments to intermediaries to acquire insurance contracts			(1,793,544)	(1,430,821)
Cash paid to and on behalf of employees			(918,381)	(834,098)
Interest received			2,822,525	2,200,471
Dividends received			121,026	102,922
Other operating cash flows			(2,176,618)	(1,129,946)
Cash paid to life shareholder fund			(1,100,000)	(800,000)
Cash generated from operating activities - (Note A)			4,015,986	4,382,920
Retiring gratuity paid	40.3	253	(12,408)	(20,430)
Retiring gratuity transfer	40.3	253	-	2,385
Interest paid on obligation to repurchase securities			-	(6,750)
Net cash from operating activities			4,003,578	4,358,125
Cash flows from investing activities				
Acquisition of investments			(29,154,576)	(45,290,918)
Maturity proceeds of investments			23,534,686	40,720,703
Proceeds from sale of investments			1,986,068	371,885
Acquisition of property, plant and equipment	26.1	228	(40,357)	(53,000)
Acquisition of intangible assets	25.1	225	(151,196)	(65,397)
Proceeds on sale of property, plant and equipment			36	156
Net cash used in investing activities			(3,825,339)	(4,316,571)
Net cash inflow before financing activities			178,239	41,554
Net cash from financing activities			-	-
Net increase in cash and cash equivalents	Note B	277	178,239	41,554
Cash and cash equivalents at the beginning of the year			239,009	197,455
Cash and cash equivalent at the end of the year			417,248	239,009

For the year ended 31 December			2017	2016
	Note	Page	Rs. '000	Rs. '000
A. Reconciliation of surplus from life insurance fund before tax with cash from operating activities				
Surplus from life insurance fund before tax			7,023,934	1,160,679
Non - cash items included in profit before tax				
Depreciation and amortisation	25.1 / 26.1	225 / 228	104,623	110,890
Provision for employee benefits	40.3	253	22,762	20,948
Provision for doubtful staff debtors	32.1 (a) / 32.2 (a)	244	541	732
Net realised (gains) / losses	13	215	(75,591)	131,948
Net fair value (gains) / losses	14	216	(258,360)	34,751
(Gains) / losses on sale of property, plant and equipment	15	216	413	(83)
Amortisation of financial investment			(281,164)	(314,551)
Scrip dividend income			(24,499)	(26,531)
Interest expense on obligation to repurchase securities			-	6,750
Profit before working capital changes			6,512,659	1,125,533
Net change in operational assets				
Net change in reinsurance assets / liabilities			47,168	(33,522)
Net change in premiums receivable			(21,711)	(43,078)
Net change in receivables and other assets			(389,759)	(485,417)
Net change in operational liabilities				
Net change in life insurance contract liabilities			(1,196,167)	3,994,928
Net change in other liabilities			(936,204)	(175,524)
Cash generated from operating activities			4,015,986	4,382,920
B. Cash and cash equivalents at the end of the year				
Cash in hand and at bank			580,120	379,182
Bank overdraft			(195,306)	(150,306)
Short term deposits			32,434	10,133
Cash and cash equivalents			417,248	239,009
Net cash in hand and at bank for the previous year			239,009	197,455
Increase in cash and cash equivalents			178,239	41,554

LIFE INSURANCE FUND

NOTES TO THE STATEMENT OF FINANCIAL POSITION

1 Financial Investments

Refer Note 9 for the accounting policy

As at 31 December	Rs. '000	Note	2017		2016	
			Carrying Value	Fair Value	Carrying Value	Fair Value
Held to maturity financial assets (HTM)		1.1	17,727,184	18,667,584	15,396,036	14,595,957
Loans and receivables (L&R)		1.2	5,806,251	5,876,468	5,380,958	5,387,721
Available for sale financial assets (AFS)		1.3	6,538,609	6,538,609	4,632,489	4,632,489
Financial assets at fair value through profit or loss (FVTPL)		1.4	4,524,514	4,524,514	4,086,336	4,086,336
Total financial investments			34,596,558	35,607,175	29,495,819	28,702,503

1.1 Held to Maturity Financial Assets (HTM)

As at 31 December			2017	2016
	Note	Page	Rs. '000	Rs. '000
Amortised cost				
Quoted				
debentures	28.3 (a)	235	290,985	853,960
Treasury bonds			17,436,199	14,542,076
Total HTM financial investments			17,727,184	15,396,036

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.

1.2 Loans and Receivables (L&R)

As at 31 December			2017	2016
	Note	Page	Rs. '000	Rs. '000
Amortised cost				
Bank deposits			630,563	572,372
Quoted debentures	28.4 (a)	236	4,625,307	4,553,805
Reverse repurchase agreements			550,381	254,781
Total L&R financial investments			5,806,251	5,380,958

1.3 Available for Sale Financial Assets (AFS)

As at 31 December	2017	2016
	Rs. '000	Rs. '000
Fair value		
Treasury bonds	6,485,756	4,546,644
Treasury bills	52,853	85,845
Total AFS financial investments	6,538,609	4,632,489

1.4 Financial Assets at Fair Value Through Profit or Loss (FVTPL)

As at 31 December			2017	2016
	Note	Page	Rs. '000	Rs. '000
Fair value				
Quoted equities	28.6 (a)	238	2,344,572	1,706,751
Derivative financial instruments			50,737	-
			2,395,309	1,706,751
Investments in unit linked funds				
Quoted equities	28.6 (b)	239	1,628,378	1,814,977
Reverse repurchase agreements			223,361	202,959
Treasury bills			115,508	228,781
Treasury bonds			42,734	30,849
Bank deposits			32,434	45,736
Debentures			86,790	56,283
			2,129,205	2,379,585
Total FVTPL investments			4,524,514	4,086,336

2 Receivables and Other Assets

Refer Note 9 for the accounting policy.

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Financial assets			
Agent / advisor loans		68,090	67,686
Refundable deposits		8,090	7,550
Amount due from Fairfirst Insurance Limited		11,954	100,988
Other receivables		37,096	16,797
		125,230	193,021
Non financial assets			
Taxes recoverables	2.1	203,292	203,702
Prepayments		58,755	59,687
Inventories		21,521	14,177
Advance payments		155,553	17,948
Other receivables		52,554	39,408
		491,675	334,922
Total receivables and other assets		616,905	527,943

2.1 Taxes Recoverables

As at 31 December	2017 Rs. '000	2016 Rs. '000
ACT recoverable	92,296	92,296
WHT receivable	93,265	98,588
ESC receivable	17,731	12,818
	203,292	203,702

3 Cash in Hand and at Bank

As at 31 December	2017 Rs. '000	2016 Rs. '000
Cash at bank	576,950	376,286
Cash at bank - Unit Linked	72	78
Cash in hand	3,098	2,818
Total	580,120	379,182

4 Other Reserves

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Capital reserves	4.1	1,229,201	695,255
Reserve for AFS financial instruments		366,370	(310,274)
Reserve on retirement benefit obligation		(10,348)	(6,079)
Total other reserves		1,585,223	378,902

4.1 Capital Reserves

As at 31 December	Note	2017 Rs. '000	2016 Rs. '000
Revaluation reserve	4.1 (a)	1,212,449	678,503
Reserve on Cornhill merger	4.1 (b)	16,752	16,752
		1,229,201	695,255

4.1 (a) Revaluation Reserve

As at 31 December	2017 Rs. '000	2016 Rs. '000
Balance as at 1 January	678,503	682,405
Revaluation surplus during the year	539,365	-
Adjustment for deferred tax	-	1,517
Transfer to retained earnings	(5,419)	(5,419)
Balance as at 31 December	1,212,449	678,503

4.1 (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 policyholders.

5 Other Liabilities

As at 31 December	2017 Rs. '000	2016 Rs. '000
Financial liabilities		
Agency commission payable	189,244	141,696
Other staff related provisions	158,389	140,000
Premiums in suspense	292,108	284,922
Amount due to related parties	-	6,528
	639,741	573,146
Non financial liabilities		
Government levies	10,103	8,599
Premium received in advance	147,171	133,245
Other liabilities	7,428,082	1,454,497
	7,585,356	1,596,341
Total other liabilities	8,225,097	2,169,487

UNDERSTANDING OUR FINANCIALS

Statement of Income

Gross Written Premium (GWP)

The main source of income consisting premiums paid by customers for the risk/s which they transfer to the company or the money charged for a certain amount of insurance coverage is called the Gross Written Premium (GWP). It's comparable with the 'turnover' of a trading or manufacturing organisation.

Premium Ceded to Reinsurers

The portion of risk that a primary insurer passes to a reinsurer. This allows the company to reduce its risk exposure and the accepting company receives a premium for taking on the risk.

Net Written Premium

Refers to the portion of premium which is applicable for the financial year and earned by the insurer 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

Net realised gains / losses resulting from selling of financial investments at a price higher or lower than the book value.

Net Fair Value Gains

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 Paid

Refers 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 (e.g. surrenders, policy maturities, annuities and interim payments). This also includes the balance transferred to the life fund.

Underwriting and Net Acquisition Costs

Net acquisition expenses consists of the following;

Commission / Franchise Fees

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 and Administrative and Selling Expenses

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 Fairfirst Insurance Limited attributable to the company.

Statement of Financial Position

Industry specific items are selected and explained below

Investment in Equity Accounted Investee

Refers to carrying value of 22% stake in Fairfirst Insurance Limited.

Financial Investments

Invested money received from policyholders to pay benefits 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.

Loans to Life Policyholders

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.

Reinsurance Receivables

Includes amounts due from the company's reinsurers on current claims and estimates of amounts that will be due on future claims.

Premium Receivables

Consist of premium related balances due from policyholders.

Insurance Contract Liabilities – Life

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 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 is transferred as shareholders' funds in the financial statements.

Insurance Contract Liabilities - Unit Linked

Same meaning as above, however it related to the unit linked operation.

Reinsurance Payables

Represent payables to reinsurers for risk portion undertaken by them.

DISTRIBUTION NETWORK

Location	Address	Contact Number / s
Akuressa	No. 38 & No. 6A, D.C. Wanigasekara Mawatha, Akuressa	Tel: 041 228 3393 / Fax: 041 228 3493
Aluthgama	No. 51 1/1, Galle Road, Kalutara Modara Aluthgama	Tel: 034 313 5922
Ambalangoda	No. 20 New Road, Ambalangoda	Tel: 091 225 8862 / Fax: 091 225 5882
Ambalantota	Dulmini Traders, No.46/1/1, Main Street, Ambalantota	Tel: 047 222 3370 / Fax: 047 222 5500
Ampara	No. 60 & 60/1, 'Indrawansha Building', D.S.Senanayaka Street, Ampara	Tel: 063 222 4668/ 063 222 4401/063 222 3669/ 011 248 2308 / Fax: 063 222 4001
Avissawella	No. 15 1/2, Kudagama Road, Avissawella	Tel: 036 223 1349 / Fax: 036 223 3575
Badulla	No. 226/4/ 1/09-14, Lower Street, Badulla.	Tel: 055 222 9536 / 011 242 8281 / Fax: 055 222 4373
Bandarawela	No. 340/1, Badulla Road, Bandarawela	Tel: 057 222 3396 / 057 222 3239 / Fax: 057 222 3397
Batticaloa	No. 217, Trincomalee Road, Batticaloa.	Tel: 065 222 4574 / 065 222 9876 / Fax: 065 222 8167
Chilaw	No. 87, Puttalam Road, Chilaw	Tel: 032 222 2104 / Fax: 032 222 4824
Chunnaakam	No.160, Sir Pon Ramanathan Road, Chunnakam	Tel: 021 224 2097
City Office	No. 305, R. A. De Mel Mawatha, Colombo 03	Tel: 011 257 7129 / Fax: 011 257 7126
Dambulla	No. 755, Anuradhapura Road, Dambulla	Tel: 066 228 4628 / Fax: 066 228 4647
Embilipitiya	No. 62, Sampath Bank Building, Main Road, Embilipitiya	Tel: 045 223 0463 / Fax: 047 226 1946
Galle	No. 16, 16 A, China Garden Cross Road, Galle	Tel: 091 224 3948 / Fax: 091 222 3759
Gampaha	No. 55 Yakkala Road, Gampaha.	Tel: 033 222 2802/ 033 222 6441/ Ext: 8252/ 8253 / Fax: 033 222 8430
Gampola	No. 10 B, Nidahas Mawatha, keerapana, Gampola	Tel: 081 235 2915/081 235 2256 / Fax: 081 235 0127
Hingurakgoda	No. 02, Airport Road, Hingurakgoda.	Tel: 027-224 6581 / Fax: 027- 224 5299
Homagama	No. 119/2/1, 119/3/1, Katuwana Road, Homagama	Tel: 011-289 2802 – 3 / Fax: 011-289 2804
Horana	No. 161, Ratnapura Road, Horana.	Tel: 034-226 4182 / Fax: 034-226 4182
Ja-ela	No. 71/A2/1, Negombo Road, Ja Ela.	Tel: 011-224 3633 / Fax: 011 223 1661
Jaffna	No. 139, Stanley Road, Jaffna.	Tel: 021-222 3753 / Fax: 021 222 0018
Kadawatha	No. 1158 2/1, Kandy Road, Kadawatha	Tel: 011-292 7252/3 / Fax: 011 292 7254
Kalawana	No. 46/1/1, Mathugama Road, Kalawana.	Tel: 045-225 5772
Kalmunai	No. 212, Batticaloa Road, Kalmunai.	Tel: 067-222 2636, 067-222 2633 / Fax: 067-222 2320
Kalutara	No. 338/1/2, Main Street, Kalutara	Tel: 034-2228964, 034-2223132 / Fax: 034-2228963
Kandy	No. 28, Hill Street, Kandy.	Tel: 081-222 7443, 081- 223 2731 / Fax: 081-223 3291
Katugastota	No. 185/4, Galagedara Road, Katugastota.	Tel: 081-250 0286
Kegalle	No. 134, Kalugalla Mawatha, Kegalle.	Tel: 035-223 2829 Fax: 035-223 0363
Kilinochchi	No. 83 and 85, Kandy Road, Killinochchi.	Tel: 021 228 0117-8 / Fax: 021 228 0119
Kotte	No: 656 A2/1, E.W Perera Mawatha, Pitakotte, Kotte.	Tel: 077 3422814
Kuliyapitiya	No. 93, Madampe Road, Kuliyapitiya.	Tel/ Fax: 037-228 1904
Kurunegala	Union Assurance Centre, No. 6, Rajapihilla Road, Kurunegala.	Tel: 037-222 4252, 037-222 2474, 037-222 2282 Fax: 037-222 7585
Maharagama	No. 272/B/21, Avissawella Road, Maharagama.	Tel: 011-289 6474
Mahawa	No. 272, Moragollagama Road, Mahawa.	Tel: 071 7137353
Mahiyangana	No. 44D, Miyugunagama, Mahiyangana.	Tel: 055-225 8244, 055-225 8255 / Fax: 055-225 8200
Mannar	No. 43, Ward No.2, Pallimuni Street, Mannar	Tel/Fax: 023-323 8255
Matale	No. 553/F1/2, Trincomalee Street, Matale.	Tel/ Fax: 066-223 1536
Matara	No. 13, Station Road, Matara.	Tel: 041-222 3024, 041-222 2953 / Fax: 041-222 3026
Mathugama	No. 94/2, Agalawatta Road, Mathugama.	Tel/Fax: 034-394 4339
Madirigiriya	No. 417, Main Street, Madirigiriya.	Tel: 027-224 8310
Monaragala	No. 112, Wellawaya Road, Monaragala.	Tel/ Fax: 055-227 6290
Moratuwa	No. 494, De Soysa Road, Rawathawatta, Moratuwa	Tel: 011-264 1666, 011- 264 1800 / Fax: 011-264 1811
Mullaitivu	Union Assurance PLC, First Floor, P.W.D. Road, Mullathive Town, Mullathivu	Tel: 077 3422722
Negombo	No. 147, St.Joseph's Street, Negombo.	Tel: 031-223 5042-3, 031-222 4264 / Fax: 031-222 4243

DISTRIBUTION NETWORK

Location	Address	Contact Number / s
Nikaweratiya	No. 65, Puttalam Road, Nikaweratiya.	Tel/ Fax: 037-226 0367
Nugegoda	No. 376, High Level Road, Gangodawila, Nugegoda.	Tel: 011-281 5511-3 / Fax: 011-281 5515
Nuwara Eliya	No. 36, Park Road, Nuwara Eliya.	Tel/ Fax: 052-222 3017
Padawiya	No. 2, New Town, Padawiya.	Tel/Fax: 025-377 0758
Panadura	No. 571/3, Galle Road, Panadura.	Tel: 038-224 4790 / Fax: 038-224 4630
Pettah	No. 3, Sea Street, Colombo 11.	Tel: 077 2990329
Piliyandala	No. 226, Horana Road, Piliyandala.	Tel: 011-261 9550
Point Pedro	No. 357, Main Street, Point Pedro.	Tel / Fax: 011-315 8153
Polonnaruwa	No. 5, Batticaloa Road, Polonnaruwa.	Tel/ Fax: 027-222 6611
Puttalam	No. 97 B, 2 nd Floor, Cargills Food City Building, Kurunegala Road, Puttalam.	Tel/ Fax: 032-226 5980
Ratnapura	No. 567 1/1, Senevirathna Building, Colombo Road, Ratnapura.	Tel: 045-223 0739 / Fax: 045-222 3525
Ruwanwella	No. 185 1/2, Avissawella Road, Ruwanwella.	Tel: 036-226 6631 / Fax: 036-226 8747
Tangalle	No. 61, Beach Road, Tangalle.	Tel: 047-224 1545
Thalawathugoda	No. 123, Kaduwela Road, Battaramulla.	Tel: 011-207 4450-4
Thambuttegama	No. 148, Thammannagama, Thambuttegama	Tel: 025-227 5594 / 025-227 6211 / Fax: 025-227 6060
Tissamaharama	No. 118, Hambantota Road, Tissamaharama.	Tel: 047-223 7711 / Fax: 047 223 9644
Trincomalee	No. 170, Abeyapura, Kandy Road, Trincomalee.	Tel: 026-222 7530
Valaichchenai	Union Assurance PLC, Main Street, Valachchenai.	Tel: 065-225 8555 / 065-225 8557 / Fax: 065-225 8556
Vavuniya	No. 113, Kandy Road, Vavuniya.	Tel: 024-222 3138
Warakapola	No. 198 B1/1, 'Willara Complex', Main Street, Warakapola	Tel: 035-226 7441 / Fax: 035-226 7039
Wariyapola	No. 203/A, Kurunegala Road, Wariyapola.	Tel: 037-226 7206
Wattala	No. 250/2/2, Negombo Road, Wattala.	Tel: 011-293 2153 / Fax: 011-293 2030
Wellawaya	No. 210, Moneragala Road, Wellawaya,	Tel: 055-360 0031 / 055-227 4380 / Fax: 055-227 4218
Wennappuwa	No. 6, Colombo Road, Wennappuwa.	Tel: 031-225 5844 / Fax: 031-225 3892
Wellawatta	No. 57 2/1, High Level Road, Kirillapone, Colombo 6.	Tel: 011-251 3361



CORPORATE INFORMATION

Name of Company

Union Assurance PLC

Legal Form

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

Company Registration Number

PQ 12

Tax Payer Identification Number (TIN)

134001372

VAT Registration Number

134001372 7000

Directors

S. C. Ratnayake - 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

S. C. Ratnayake - Chairman
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 (RPTC) of John Keells Holdings PLC (the Parent) represents the RPTC of the Company

Board Audit and Compliance Committee

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

Investment Committee

K. N. J. Balendra - Chairman
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

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

Lawyers

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

Bankers

Bank of Ceylon
Commercial Bank of Ceylon PLC
Deutsche Bank AG
DFCC Bank PLC
Hatton National Bank PLC
Housing Development Finance Corporation
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 Re
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

NOTICE OF MEETING

Notice is hereby given that the 31st Annual General Meeting of Union Assurance PLC, will be held on Wednesday 9th May 2018 at 9.00 a.m. at the Auditorium of Union Assurance PLC, No. 20, St. Michael's Road, Colombo 3 for the following purposes;

1. To read the Notice convening the meeting.
2. To receive and consider the Annual Report and Financial Statements of the Company for the year ended 31st December 2017 with the report of Auditors thereon.
3. To re-elect as Director, Mr. Suresh Rajendra who retires in terms of Article 84 of the Articles of Association of the Company. A brief profile of Mr. Suresh Rajendra is contained in the Board of Directors section of the Annual Report.
4. To re-elect as Director, Mr. Harin Amendra Joseph De Silva Wijeyeratne who retires in terms of Article 84 of the Articles of Association of the Company. A brief profile of Mr. Harin Amendra Joseph De Silva Wijeyeratne is contained in the Board of Directors section of the Annual Report.
5. To re-elect as Director, Mr. Susantha Chaminda Ratnayake who retires in terms of Article 90 of the Articles of Association of the Company. A brief profile of Mr. Susantha Chaminda Ratnayake is contained in the Board of Directors section of the Annual Report.
6. To re-appoint as Auditors, Messrs. KPMG, Chartered Accountants and authorise the Directors to determine their remuneration.
7. To consider any other business of which due notice has been given in terms of the relevant laws and regulations.

By Order of the Board
Union Assurance PLC



Keells Consultants (Private) Limited
Secretaries

29 March 2018

Notes:

- a. A member unable to attend is entitled to appoint a Proxy to attend and vote in his/her place.
- b. A proxy need not be a member of the Company.
- c. A member wishing to vote by Proxy at the meeting may use the Proxy form enclosed.
- d. In order to be valid, the completed proxy form must be lodged at the registered office of the Company not less than 48 hours before the meeting.
- e. If a poll is demanded, a vote can be taken on a show of hand or by a poll. Each share is entitled to one vote. Votes can be cast in person, by proxy or corporate representatives. In the event an individual shareholder and his/her proxy holder are both present at the meeting, only the shareholder's vote is counted. If the proxy holder's appointor has indicated the manner of voting, only the appointor's indication of the manner to vote will be used.

PROXY FORM

I/Weof
being a member/s of Union Assurance PLC hereby appoint
ofor failing him/her

- | | |
|---|----------------|
| Mr. Susantha Chaminda Ratnayake | 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 31st Annual General Meeting of the Company to be held on Wednesday, 9th May 2018 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
1. To re-elect as Director, Mr. Suresh Rajendra who retires in terms of Article 84 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect as Director, Mr. Harin Amendra Joseph De Silva Wijeyeratne who retires in terms of Article 84 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect as Director, Mr. Susantha Chaminda Ratnayake who retires in terms of Article 90 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint as Auditors, Messrs. KPMG, Chartered Accountants and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed on thisday of Two Thousand and Eighteen.

.....
 Signature / s of Shareholder / s

Note:

Instructions as to completion of the Proxy Form are noted on the reverse.

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.:	

